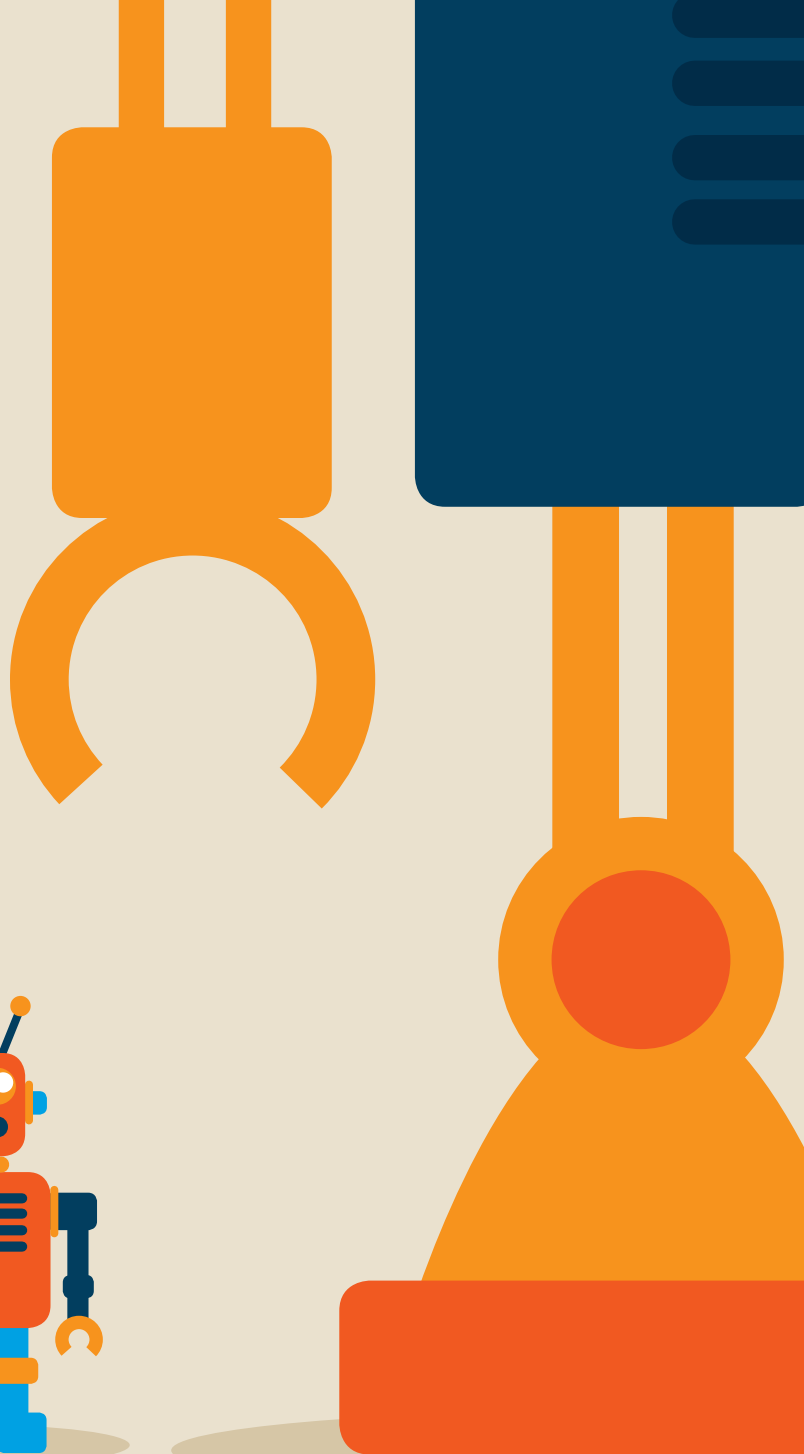



Challenger Banks

Good
but not yet
good enough.





43%

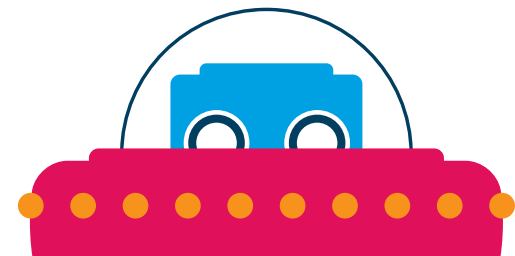
**Millennials interested
in finding out about
Fin Tech Challengers,
vs 29% among Generation Z
and 21% among Generation X**

If you believe all the chatter, traditional banks are doomed, as Millennials increasingly choose challenger banks and apps over traditional banks. As insight specialists, Teamspirit and Chime Insight & Engagement set out to explore if challenger banks are they living up to expectations and could 2018 be the tipping point for mass switching?

The answer in short is no. Our Millennial research reveals that, in reality, the challenger banks are seen as an added extra, that run in parallel with existing banking relationships, and Millennials are not likely to move their major banking relationship any time soon.

Attracted by specific features and services, Millennials appreciate the ease and speed involved. But when it comes to the 'heavy stuff', such as their salary, direct debits and what are perceived as more meaningful amounts of money, Millennials still remain more confident in having a primary relationship with a more established bank. Moreover, the gap between the challengers and established players is reducing, as the established brands continue to deliver their digitally enabled platforms.

Ultimately we have found that although the challenger banks are good, they are currently not good enough – in terms of product or customer experience – to realistically oust the established players. In fact, the days of the challenger bank may be numbered.



A challenging experience

The key benefit of the challengers is their ease of access, anywhere and at any time. Millennials expect immediacy and the challengers meet their requirements. Being able to see balances in one place, save a little, move money immediately and at low or no cost, is hugely appealing.

However the new technology is also leading to massive frustration. For instance, when dealing with the latest biometric security, respondents cite the impossibility of actually getting the apps to work.

“I can’t get into my app for love nor money. They need my voice, face and fingerprint and all three never work at the same time. Even their IT people can’t get me in.”

Atom user, aged 25

The customer service from the new banks is just not good enough. Despite being multi-platform enabled, the new players are taking even longer than traditional banks to get things sorted. Chatbots are seen to provide only the most basic help. When things don't work, Millennials, like the rest of us, want to speak to a human.

On the whole, the challenger bank customer experience remains lacking. This inability to problem-solve is holding the challengers back from being true contenders.



Are they really a bank?

Many feel there is marketplace overclaim by the challengers about being credible banks. Compared against users' current understanding of the range of services provided by banks, challenger banks' self-

promotion as the banks of the future is leaving Millennials cold. The new players are just not seen as credible banks. Yes they offer useful, transactional features and services, but they do not operate as

proper banks. This may evolve over time, with players such as Starling, in particular, being viewed as having the correct set-up to grow and continue to build confidence in users.

“Can I even go onto Monzo on my laptop?”

Monzo user aged 28

The benefit of peer recommendation

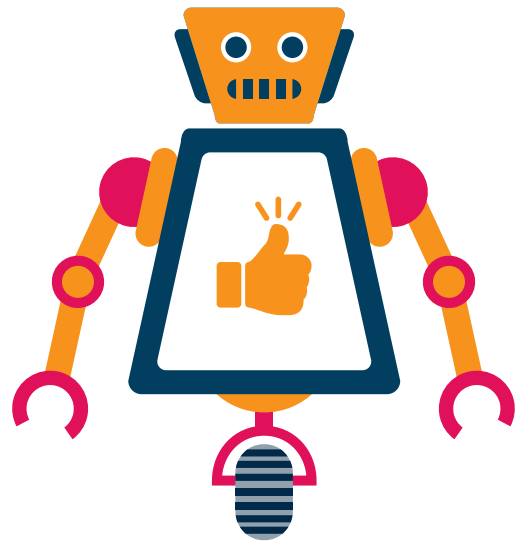
A huge part of Monzo's success is down to word-of-mouth popularity. Quite simply, the more friends and family who have it, the more useful it is.

However Monzo's recent pivot away from its initial role, as a pre-paid card, to extend into being a full current account which

had to be taken up by end of February this year, is having very mixed reactions. While some users are happy to open up another account (to run in parallel with existing ones), many are not. And when asked to extend their relationship beyond that initial attraction, the majority are not keen.

“If all my family are on Monzo it becomes very easy to use.”

Monzo user, aged 32



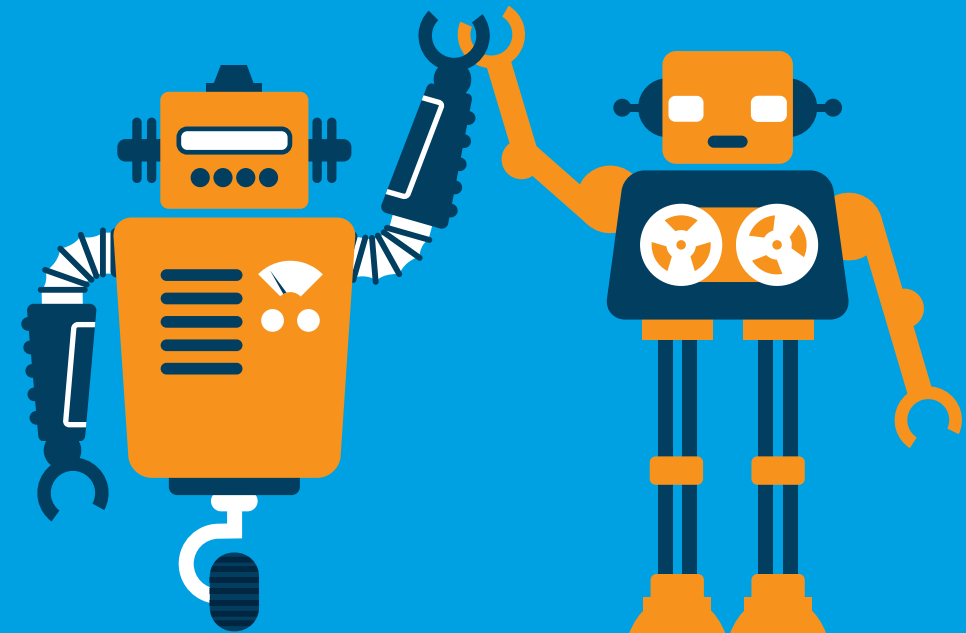
“ That’s why when Monzo has said that I need to upgrade to have a bank account with them, I will decide to stop using them. I don’t need another bank account, I just need them to do what they have already been doing and I think it’s really cheeky for them to suddenly be extending their remit.”

Monzo user aged 30

The power of participation

Monzo's current pivot to increase its role within users' lives has, in the main, been handled well. Users have felt involved in the company's decision-making. Being kept up to speed with clear, regular communication, and being able to give feedback and to vote for their preferences, Monzo users have felt involved.

The result is that Monzo has turned a difficult business strategy change into a likely future Business School case study on the power of harnessing user participation.



Don't treat Millennials as one homogenous mass

Our research groups have busted a few myths about Millennials:

1. #notsotechsavvy

Just because the audience are more tech-literate than other age groups, it would be a mistake to think that they are all tech-happy junkies.

“We're not all tech-savvy just because we're Millennials.”

Revolut user aged 30

2. Hipster un-appeal

Many of the challengers have similar visual identities and cues, often involving circle pictures of the young founders and the six other employees. While the service and technology are young and innovative, Millennials would still prefer to know that the company has a significant workforce and can solve problems.

“Actually I don't want to see all the founders. I want to know there are 10,000 of them and it's a well-oiled machine.”

Atom user aged 35

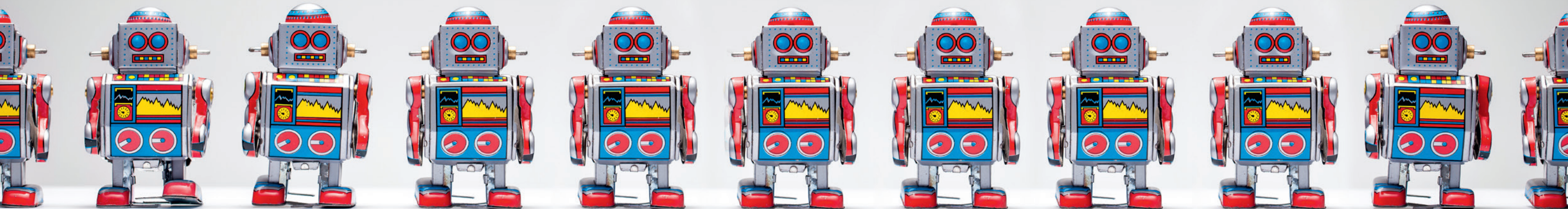
3. Not so social

Interestingly, our Millennial respondents saw social media as a last resort. While respondents reinforced that Twitter is a customer service channel, a few went further, seeing social media as a way to 'shame' an organisation when all attempts to problem-solve through other channels had failed.

On the other hand, there's a concern about being too vocal on social media, because the banks have a power over users because they hold the users' money.

“I don't complain on social. I don't want to p* them off because they've got my money.”**

Monzo user aged 30



Functional attraction

In general, challenger bank users have been attracted to an initial specific service or feature. They are not interested or driven by the traditional current account switching tactics with money off and member get member. Money can't buy the invaluable, genuine, word-of-mouth endorsement that the challengers are achieving with a feature that works for a specific area, eg pre-loaded cards for foreign travel.

“Revolut saved me the hassle of going to a traditional bank and opening a bank account with them.”

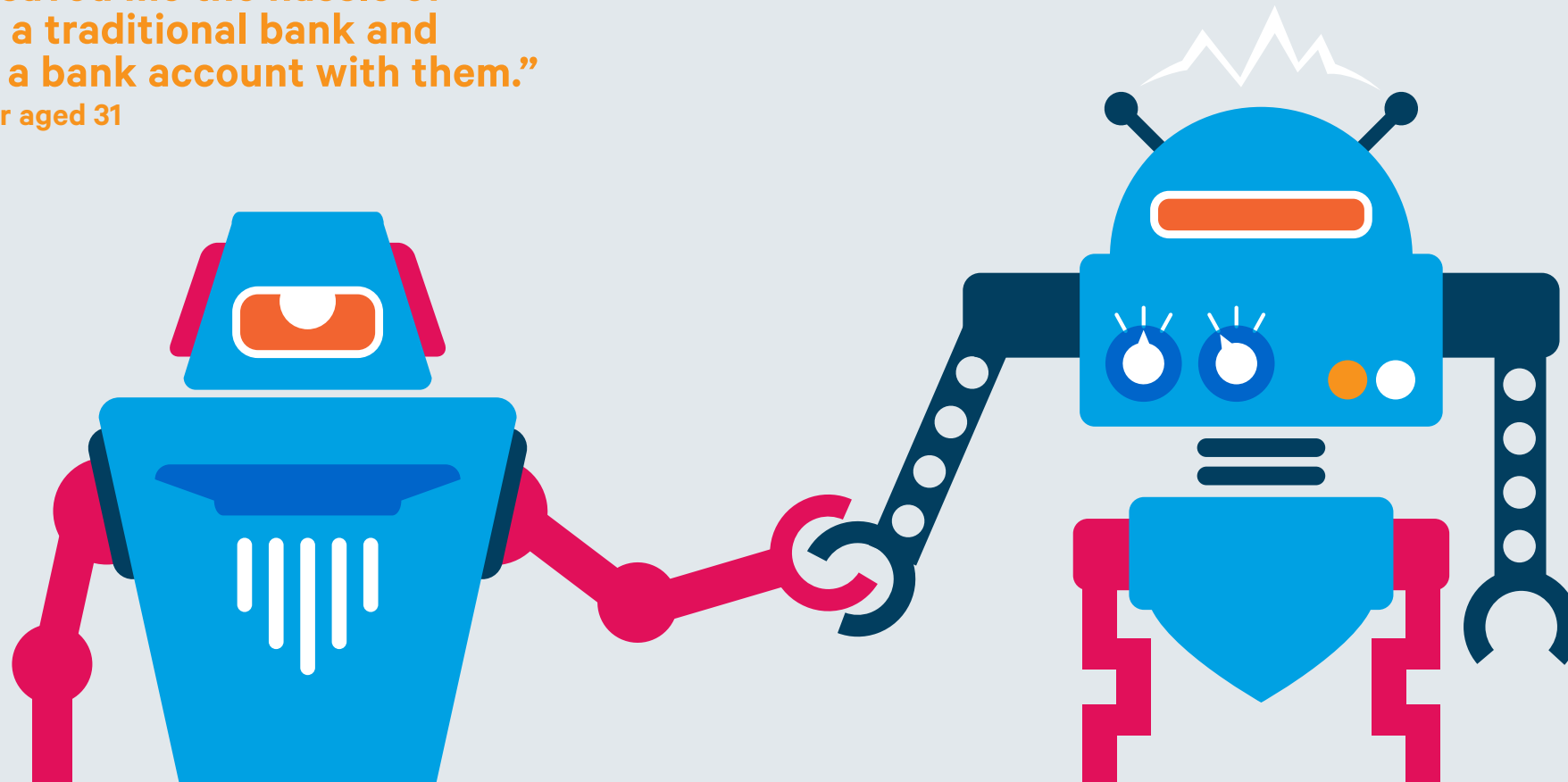
Revolut user aged 31

Building on the functional appeal, Millennials do appear to find both inclusivity and exclusivity appealing. While many of the challengers have launched in beta and half formed, the waiting list has become a rite of passage and the eventual card a badge of pride within the then inclusive peer group 'club'.

“I think Monzo has done really well by word of mouth... they made you join a waiting list... it was like having a golden ticket.”

Monzo user aged 28

But ultimately the challenger hook is a functional one, not based on emotional connection and appeal.



Not fully invested

Despite the claims of being the banks of the future, today, Millennials are very aware that we are not a fully digital or cashless society as yet. Thus having a branch where cheques can be cashed, or problem-solving conversations can be had, still has a key role to play.

Brands such as First Direct and Barclays are seen to be offering the best of both worlds – digitally enabled, with the back-up of real people and branches as and when required. Which brings huge comfort.

“Until we have properly digitalised and we have become cashless then they (Monzo) will be a great bank but until then, a, we’re not cashless, b, they don’t offer things like mortgages and c, they haven’t built up their trust.”

Barclays and Monzo user aged 32

The challengers are also not being trusted with meaningful amounts of money. Millennials are still not trusting the new challengers with the ‘heavy stuff’, such as salaries, direct debits and meaningful savings.

So while Millennials welcome the challenger brands providing speed, efficiency, visibility and transparency, they are not yet trusting them with the heavy stuff, where the security and reliability of the old brands still win.

“I put money on for my tuition fees but it makes me nervous, I take it off the platform asap.”

Revolut user aged 29

Open Banking Implications

It’s fair to say that Millennials are not yet understanding what Open Banking really means to them. Although financial service providers are viewing it as a new dawn, our respondents had a more muted response. While many of our respondents had not heard much about it, those who had view it as a loss of their personal data which may lead to a plethora of unsolicited offers, which has no appeal and feels out of character for a bank’s behaviour.

In exploring potential roles that banks could play in their lives going forward, the upshot is that while the marketplace and user attitudes are on the move, these are evolving and we are nowhere near making giant leaps to where banks become invisible.

“Barclays know too much about me. They know I do some online gambling and means they now won’t approve me for some of their products.”

Barclays user aged 34

The Amazon Bank

In our qualitative groups, we were quite surprised by the vociferous response to banking services coming from the tech giants such as Amazon, Facebook and Google. Our groups felt this was a step too far, in giving even greater dominance to these all-pervasive brands that already play a huge part in their lives. They also recognised the massive risk if one of them were to fail. It suggests greater confidence in the supportive banking system than we might have expected.

“They’re taking over the world, I don’t want four companies running the world and if they started doing banking, that’s what they would be doing.”

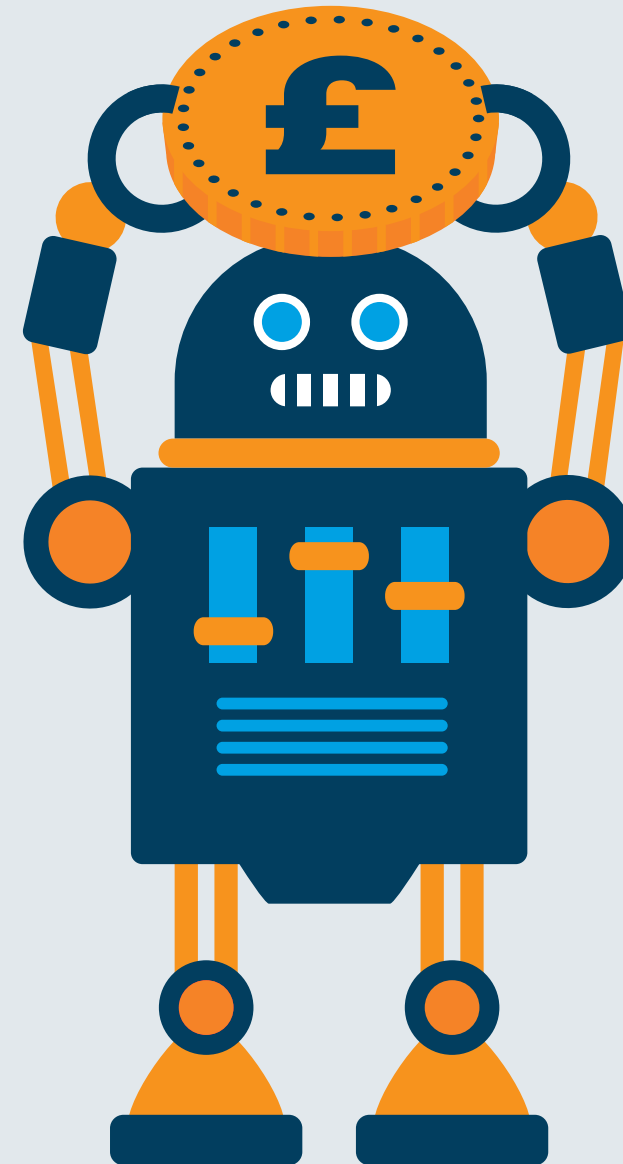
Challenger bank user aged 36

“And if one of them fell, the world would fall into anarchy, if they had the banks too.”

Challenger bank user aged 29

But considering the tech giants as financial services resulted in fear in the system itself. Which is interesting given the recent announcement that Amazon has overtaken Google as the most valuable brand, and Amazon’s desire to relentlessly pursue other sectors. Mass sentiment may well block that ambition.

That’s not to say that Millennials don’t like and embrace innovation from the tech giants such as Apple and Google Pay. These have been adopted as part of the suite of FS services that Millennials utilise daily. But don’t misconstrue that as the start of an FS relationship with the tech giants.



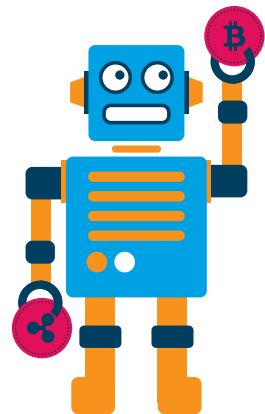
“I don’t mind Apple Pay/Google Pay because that is just linked to somewhere else.”

Challenger bank user aged 25

That said, in our recent online study of 1,000 UK nationally representative interviews, out of all the age cohorts we also found that 69% of Millennials were interested in checking out banking services offered by Google, Apple and Amazon, along with Generation Z at 68%, whereas only 50% of Generation X had interest in this. The key point is that Millennials are open to ‘new’ and any new FS provider is going to have to work exceptionally hard to earn loyalty.

Cryptocurrency

A big surprise was how many of our respondents were dabbling in cryptocurrencies. Some of the challenger bank platforms, in particular Revolut, are making it particularly easy to invest a little here and there across the spectrum. All respondents were aware of the potential risks, but saw it as a way of keeping themselves in the game in a relatively risk-free environment.

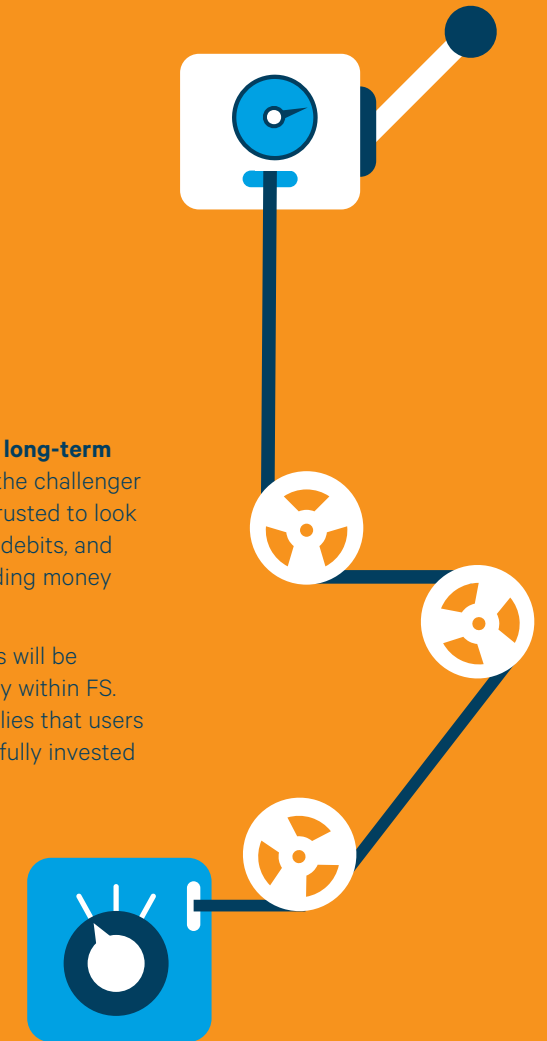


In fact 51% of Millennials are interested in investing in cryptocurrencies now, vs 35% of Generation Z and 26% of Generation X.

Changing habits

Our findings support that **challenger banks are driving long-term change**. The nature of a current account is different for the challenger users, with users differentiating between a bank that is trusted to look after the heavy stuff, such as their salary and vital direct debits, and a challenger service that helps them manage their spending money at home or abroad.

As the Millennials age, having multiple financial providers will be the norm. Which brings into question the nature of loyalty within FS. The direction suggested coming out of our research implies that users are happy to have a few financial flings, but they are not fully invested emotionally or financially.



The narrowing gap

Our research also revealed huge appeal in the old guard and some of their new products. As early adopters of new FS brands, it is perhaps of no surprise that the respondents spontaneously mentioned new products that had come to their attention. Halifax's credit card now has no exchange rate fees, so directly competes with the core raison d'être of Revolut and Monzo.

And some found new apps backed by existing known brands highly convincing, eg Yolt, backed by ING.

"I trust Yolt because it's backed by ING."

Revolut user aged 32

"Halifax credit card has no fees. I just use that."

Monzo user aged 33

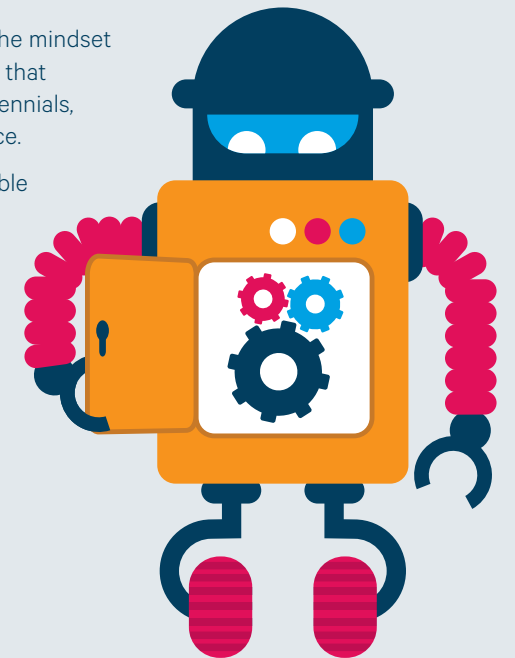


In conclusion

While challenger banks and apps are highly attractive and the mindset of a single FS provider may have gone for ever, the reality is that the established banks still provide huge advantages for Millennials, particularly with confidence in delivery and customer service.

Challenger banks have a long way to go to be seen as credible providers for the 'heavy stuff'. As the established players continue to cascade their digitally enabled products and services, the question becomes: have the challengers got the time to get it right? Can the challengers sort their houses out before the established players catch up?

Because right now, the challengers are good, but not yet good enough.



About us



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