Banking in lockdown: Is the honeymoon over for challengers?

An analysis of how customer sentiment changed over the lockdown period, with research into high street and challenger banks and expert predictions for the future of the industry.

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Introduction

Challenger banks were born of the mistrust in established financial institutions that followed the 2008 financial crisis. Even with a small market share, they shook the industry as they began to change customer expectations, putting pressure on their established rivals to raise the standard of their digital offering.

A decent mobile app is now the minimum that many customers expect, and the UK's lockdown period has only accelerated the inevitable shift towards digital-only banking, and shone a spotlight on any bank that hasn't sorted out its tech. Swathes of customers have had to transact digitally, whether they wanted to or not. And new Finder research shows some banking customers intend never to visit a branch again.

But the lurch to digital has not seen the challengers rising in consumers' esteem, as might have been expected. In fact, analysis has revealed that banks have not had a good lockdown across the board. Working with a specialist in social media monitoring, we've uncovered trends in sentiment about banking brands that will be uncomfortable reading for the industry. It may be the first time that consumer sentiment has dipped across the entire sector since the challengers appeared. And it poses a question about whether they have reached the end of a honeymoon period.

Alongside this, traditional banks have the opportunity, and the resources, to be able to show they care, even, in some cases, phoning customers to offer support.

This report includes original Finder research, exclusive sentiment analysis for major challengers and incumbent banks, and predictions from a range of experts on the future shape of UK banking.

Contents

The rise of digital challengers

The origin of the challengers is the period following the global financial crisis when the UK government opened up the market to allow more competition in banking.

2007-2008
Global financial crisis

2010
Metro Bank launches; the UK's first new high street bank in over 100 years

2013
New framework created by Financial Services Act opens up the market to challenger banks

2014
Starling launches

2015
Revolut launches
Monzo launches

2017
Revolut launches current account
Starling launches beta account

2017
Monzo's banking licence restrictions are lifted

2018
Monzo's prepaid card programme closes; all users moved to a current account

Revolut, Starling and Monzo had a total of **13.9 million downloads** in **2019**.

Source: Statista

The tech is never finished

In a Finder survey of 2,000 consumers in January 2020, the convenience of digital banking was the main reason people chose to open an account with a challenger bank. Loyalty to their existing bank and the ability to visit a branch were key reasons that held back others from switching. But it's likely that both reasons saw some erosion during lockdown, while branches were shut and all customers were forced to go online.

Open Banking could be one of the tools that help incumbent banks adapt to changing customer needs and offer more convenience, including greater personalisation.

Helene Panzarino, associate director at The London Institute of Banking & Finance, suggests that the future of banking isn't more challenger banks, but more innovation using Open Banking to create partnerships with banks that already exist.

"We don't need another bank. You just need to plug in somebody who's on the [Open Banking] register and FCA accredited and approved and they can do it for you," she says.

Apps like Moneybox and Plum plug into users' existing bank accounts via Open Banking to help them build up their savings. Moneybox uses Open Banking to monitor spending and then rounds up each transaction to seamlessly generate a savings pot, while Plum uses Open Banking and AI to work out what a user can afford to put by, and then moves it to a separate account. The budgeting app Cleo uses messaging applications to help users manage their money.

Panzarino believes a key point of difference in challengers is their approach to change; they have built themselves to adapt as technology changes. Challenger banks don't have an end goal or a finish line because they keep moving it. This is perhaps a key lesson for traditional banks to learn if they're to stay relevant.

> We are definitely in a transition. This is not the end of the game
>
> **Helene Panzarino, associate director, The London Institute of Banking & Finance**

According to the latest Current Account Switch Service (CASS) data, Monzo and Starling Bank made net gains of 19,049 and 15,153 customers respectively during the first three months of 2020, while Barclays, Halifax, Lloyds, RBS and Santander all made net losses. This is a familiar pattern.

While HSBC did well, with a net gain of 33,994 customers, it's worth noting that this figure includes customers of its younger upstart First Direct. Nationwide and NatWest both made respectable net gains of 22,993 and 15,681 respectively - but both offered significant switching incentives around this time. Nationwide was running its Recommend a Friend scheme until 6 April, while NatWest was offering a £175 switching bonus to anyone that switched using CASS.

The CASS figures show a 65% drop in total switches during lockdown vs the first three months of 2020, which reflects a decline in the number of switching incentives while banks seemed to focus on their existing customers. But sweeteners appeared back in vogue in August, when Halifax launched an enticing deal, offering £100 to those who switched, with another £5 per month as cashback (or a free cinema ticket).

RBS was next, with a £100 incentive in September, also with £5 a month for logging in and paying direct debits. The bonus is £75 less than the incentive offered earlier this year. It's expected that banks that had switching incentives before lockdown, such as Nationwide and First Direct, will reinstate theirs later in 2020.

UK current account switches, January-March 2020

Bank	Gains	Losses	Net gains
HSBC	74,563	40,569	33,994
Nationwide	43,883	20,890	22,993
Monzo	22,096	3,047	19,049
NatWest	43,883	27,900	15,681
Starling Bank	16,872	1,719	15,153
Barclays	8,818	20,136	-11,318
Lloyds	12,049	23,527	-11,478
RBS	4,047	18,141	-14,094
Halifax	7,841	31,031	-23,189
Santander	12,030	41,222	-29,192

Source: Current Account Switch Service

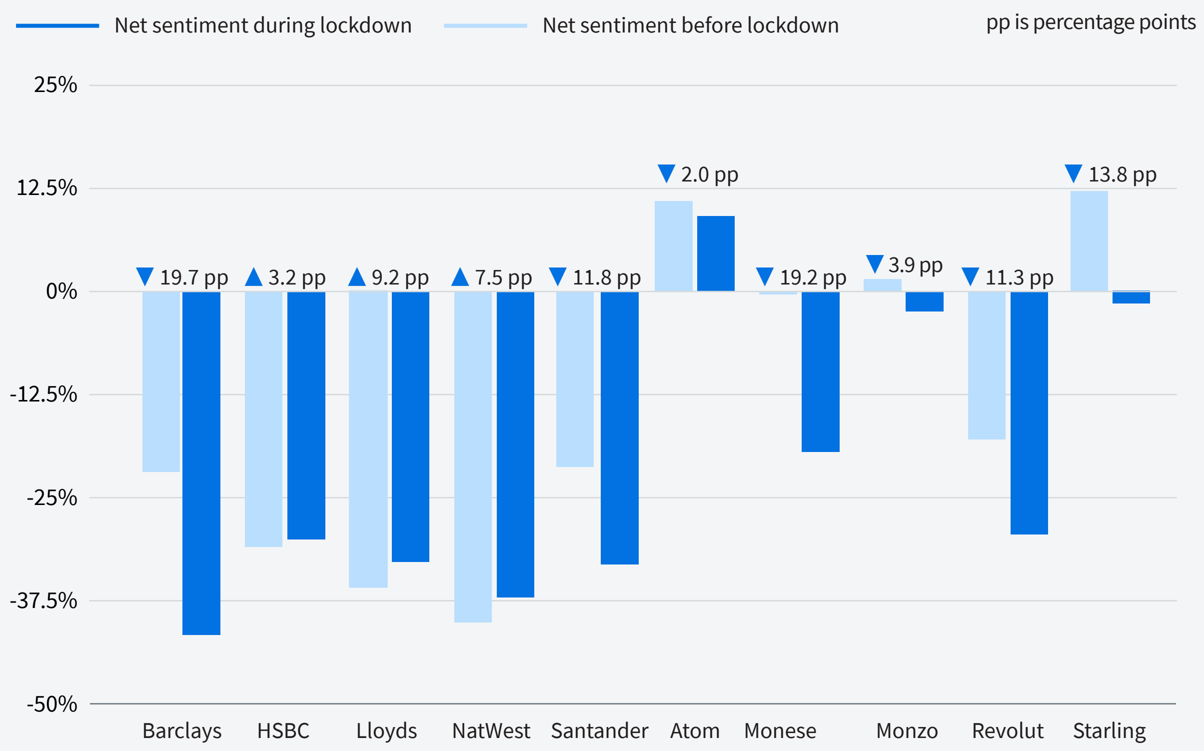
Challengers fall from favour in lockdown

Until spring 2020, challenger banks seemed to be winning hearts and minds with their slick apps and low or no fees for spending and withdrawing cash abroad. Consequently they were attracting customers away from the incumbents at an impressive rate. But during March to July, net sentiment for challenger banks plunged by around 14 percentage points (pp), compared with 5pp for incumbents, according to new analysis.

Finder partnered with social analytics specialist BrandsEye to examine public sentiment on social channels towards 10 banks - 5 challengers and 5 incumbents - before vs during lockdown in the UK. For the study, BrandsEye collected 856,206 social media conversations on Twitter and Facebook and in press sources, and analysed 37,364 using its contributors. Over the 12-month period, Atom Bank and Starling Bank were the top performers. But all of the challengers' net sentiment scores fell in lockdown (March - July 2020) compared with the previous 7 months (August 2019 - February 2020). Some incumbents even had higher net sentiment during lockdown than before it, including HSBC, Lloyds and NatWest.

During lockdown, complaints about incumbents focused on rejections for Bounce Back business loans, app issues and slow resolution times after branch closures put pressure on call centres and digital customer services. For challengers, major pain points were Bounce Back loans, technical issues with apps, transferred funds not showing up in accounts, and slow response times from customer services. And of course, while almost no-one was travelling, the benefits of cheap spending abroad became irrelevant. Despite this, challengers can take comfort from the fact that their overall net sentiment was still higher at -12.5% than the incumbents' -34.8% during lockdown.

All challenger banks' net sentiment fell during lockdown



Source: BrandsEye

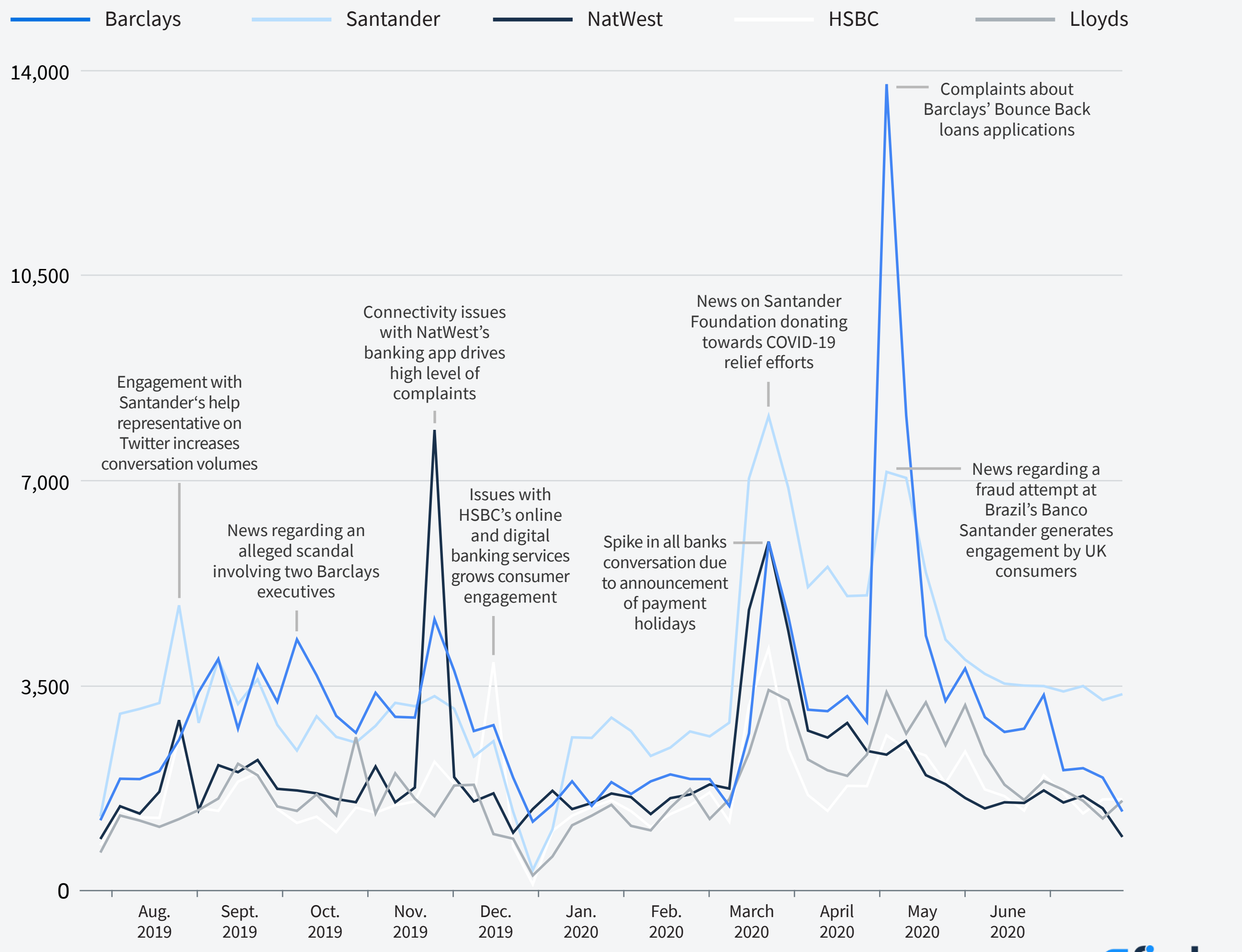
Lockdown talking points

Public sentiment about banks during lockdown was largely negative - across the 10 banks in our study, it fell by 7 percentage points.

The timelines below show several major spikes in social conversations from February to July for incumbents and for challenger banks. Some were driven by positive events - Starling Bank won praise for speedy responses and Santander for donating to relief efforts.

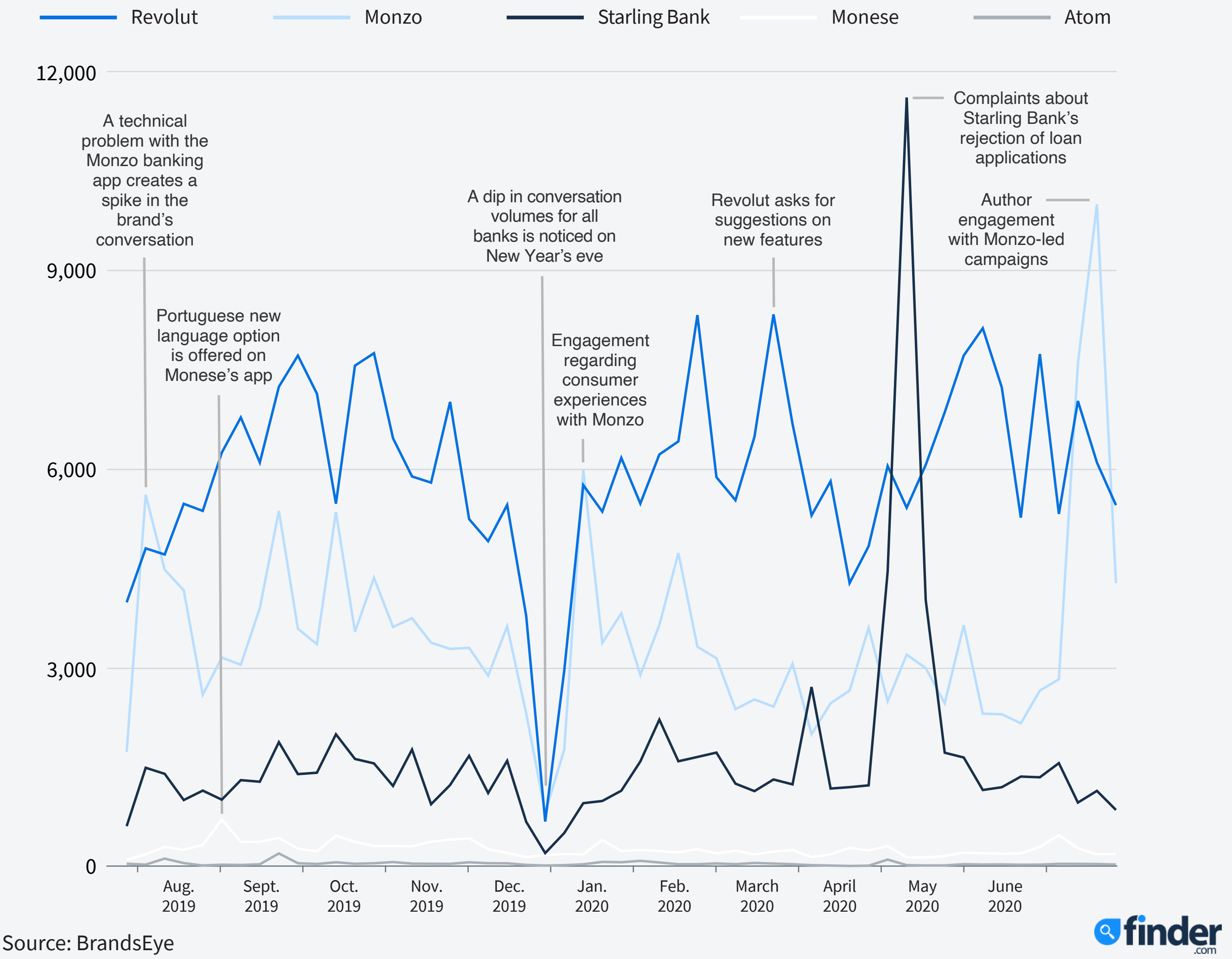
Corporate social responsibility seems to have had cut-through in lockdown; a poll by branding agency Living Brands in June found that "Response to C-19" was the fourth most important factor in driving positivity for retail banking, after good products and services, value for money and trust.

High street banks' social conversations July 2019-July 2020



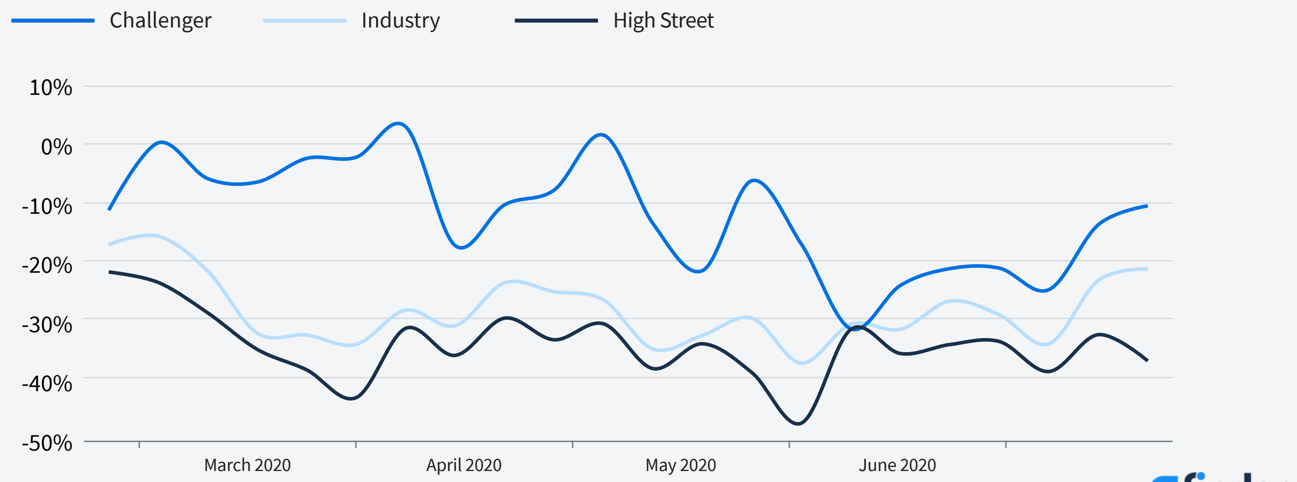
Source: BrandsEye

Challenger banks' social conversations July 2019-July 2020



Source: BrandsEye

Weekly net sentiment comparison



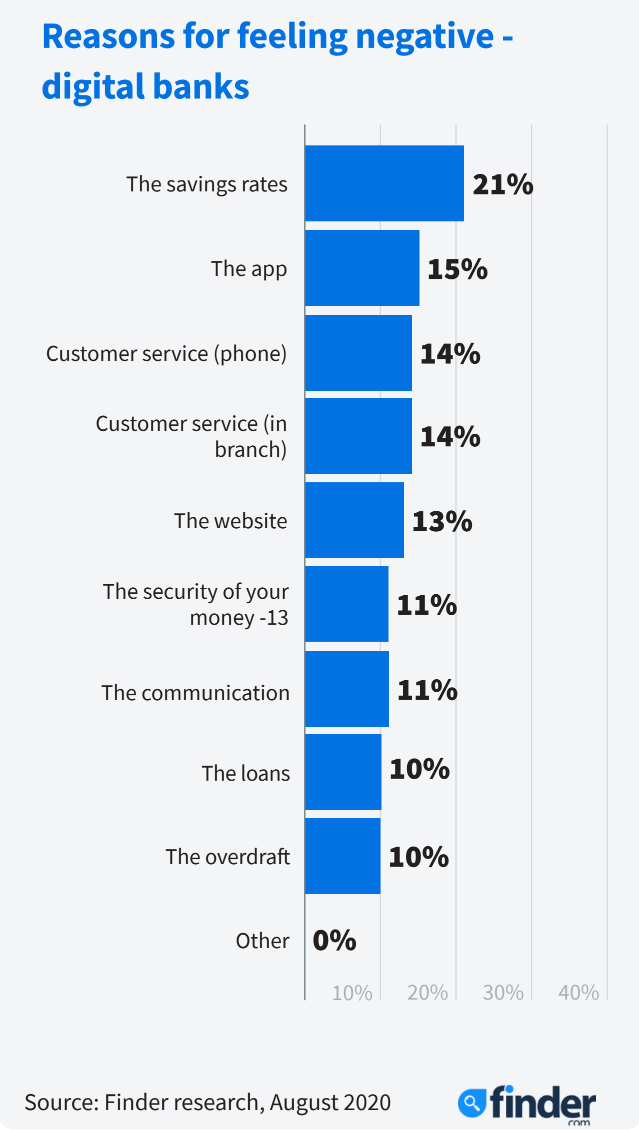
Source: BrandsEye

Savings rates and service drove negative views

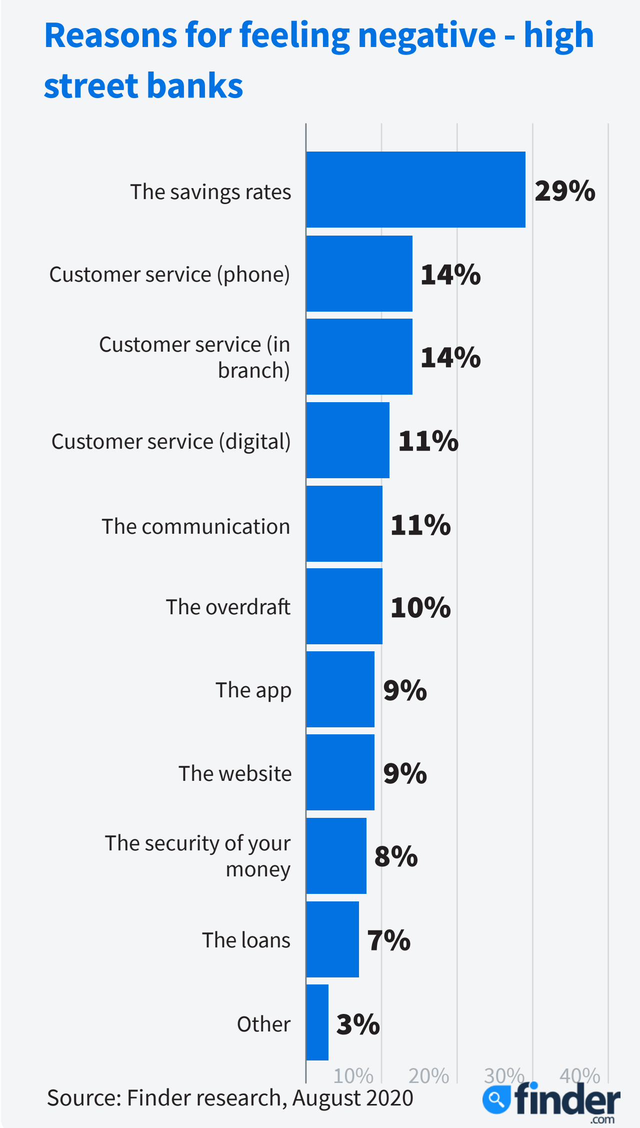
In August, Finder surveyed 2,000 UK adults to drill further into which issues were causing the most frustration for bank customers during lockdown.

More than half the customers of high street banks and digital banks felt negatively towards their provider (52% and 53% respectively). For the high street bank customers, the main reasons were savings rates (in August, Santander dropped the rate for its 123 account, for example) and customer service. For the digital customers, savings rates were also the biggest issue, but the app came next. Although challengers seem to have had fewer outages during the period, customers naturally have higher expectations of a digital bank's app, as so much depends on it.

We received some unprompted comments from customers complaining about access to branches, but it was also clear that the lack of branch access has inevitably speeded up the general shift to digital. While 81% of the high street bank customers intended to return to branches or had already done so, 16% were unsure or had already stopped using them, and 3% would never go back.



Source: Finder research, August 2020



Source: Finder research, August 2020

Many institutions were unprepared when lockdown hit, and it inevitably put pressure on operations that were less digitally capable. It was also a period that saw many credit products pulled from the market. While some of these are short-term issues, there are several perennial challenges for the industry.

Trust

A huge issue following the global financial crisis more than a decade ago, trust still remains a challenge. The Royal Bank of Scotland Group measured the level of trust among customers between 2013 and 2019 for its brands RBS and NatWest and found that, while trust was improving over the years, at the end of 2019 only 39% of RBS customers trusted their bank, while the figure for NatWest customers was 62%. The group decided to rebrand to NatWest Group, in a bid to shed its troubled RBS history, and the change happened in July 2020.

Customer retention

Banks have had to evolve their understanding of loyalty as younger generations have changed the game. Generation Z is regarded as less brand loyal than its predecessors and, according to The Consumer Action Monitor Report from Ombudsman Services, millennials are more likely to leave a company than complain. While switches during lockdown were 65% down on the first quarter of 2020, the level is likely to see an increase as customers and banks become less focused on pandemic issues.

Neither Starling Bank nor Monzo have any switching incentives, yet these two were in the top five for net gains in April-June, which suggests that throwing money at your product rather than your customers may be a more sustainable model. Banks are also turning to less traditional means to find out what their customers want, beyond free cash. Revolut frequently asks its customers on social media platforms what features they're after, while Monzo often makes polls with options and pitches them to its community.

Alternative credit scoring

The UK's mainstream system of credit scoring dates back to 1950, and doesn't cater for a generation of customers that includes those who don't have the means or desire to buy a property. Helene Panzarino suggests that we need another way that measures a customer's creditworthiness that doesn't involve a landline number or a mortgage.

> Alternative credit scoring needs to step up and keep up with what's happening
>
> **Helene Panzarino, associate director, The London Institute of Banking & Finance**

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“[Banks], step up, because if you already have them as customers, just offer them the products and the services that they want at the price they want. I can’t remember the last time they asked me what I wanted...This is that window of opportunity and if they don’t...go through it, I think they are going to struggle. COVID was the wild card that no one was expecting, shoving everybody into the direction that they didn't necessarily want to go, or at the speed that they didn't want to go at.”

Jamie Broadbent, head of digital & innovation at RBS International

“We’ve seen rapid acceleration of probably about two to three years’ worth of adoption within the space of two or three months. What we’ve seen is the best of banks...what we saw through COVID-19 was banks completely changing the game. That’s the opportunity for banks, and the ones that succeed will be the ones that really work out how to hold onto that and make it their core…I think what we will see is a reinvention of what the branch really is. Because the reality is that people still value human interface. And actually, for those really complex first time transactions...Now we can put together chatbots and AI, but we haven't worked out a way to really make that deliver human empathy.”

Nigel Verdon, CEO at Open Banking platform Railsbank

“Deposit accounts, current accounts, faster payments [and] debit cards...are totally undifferentiated products, with no value....there's nothing different except for the logo. And so it's very difficult for an organisation like a bank which doesn't know how to focus on marketing and customer experience. That's what fintech neobanks are phenomenal at. And it's not just banking experience, it’s your financial life experience, because that's where [banks] can differentiate. The smart banks can leverage their brand and their balance sheet. “

Jon Ostler, CEO, Finder UK

“Digital-only banks have enjoyed a golden period but now these challengers are becoming recognised players in the industry, they’re being held to a higher standard. The lockdown has led to many people relying on their bank more than ever and it’s fair to say that some banks have handled the situation better than others. Challenger banks are still comfortably ahead in the sentiment stakes compared to the incumbents but perhaps it was inevitable that the high street banks would claw back some ground. The challengers will be hoping this fall in positive sentiment is just temporary and not the start of a bigger trend.”

Conclusion

Customer sentiment about banks fell sharply in lockdown but it fell three times as much for digital banks as for their high street counterparts (though high street banks started lower). One of the pain points for challengers has been technical issues and it’s likely that their customers have held them to a higher standard on this aspect. It’s now time for banks to take stock and understand what has been driving negative sentiment. It’s clear from BrandsEye's data that when banks ask customers directly what they want, customers are willing to engage. And this could be a key tactic for all banks who are willing to fight to keep their customers.

About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (source: Experian Hitwise).

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About the author

Zoe Stabler is a writer for Finder specialising in investment and banking. Zoe has a BA in English literature and several years of experience in writing about all things personal finance. Before embarking on her journalism career, she worked as a management accountant.