THE GROWTH OF DIGITAL BANKING REPORT

The continued rise of mobile banking and the changing savings market
2019 Update
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INTRODUCTION

2019 is a landmark year.

For the first time, there are more people in the UK managing their bank accounts on mobile apps than there are managing them through internet banking. 25 million customers – half the country – are now banking on mobile.

The growth will continue. CACI predicts that by 2021, mobile banking will become the biggest channel in terms of users – overtaking high street branches to claim the number one spot.

Mobile banking’s growth is fuelled by increasing adoption and migration by older demographics, in particular wealthier older families and the pre-retired. And given the overlap of this demographic with the “traditional saver”, our attention has turned to the growth in digital savings.

The growth in mobile and app banking to manage savings accounts has mimicked that of current accounts (as discussed in detail in CACI’s 2018 paper, “The Future of Digital Banking”). We also demonstrate in this paper the seismic channel shift of new savings products – in five years’ time, more than three-quarters of new accounts will be opened in digital channels.

The continued rise of digital savings leads us to talk about peer-to-peer lending, and how digital-only challenger banks may tackle the savings market. For the first time, we link CACI’s financial services classification, Fresco, with Hitwise’s online audience panel. This allows us to investigate and discuss who is researching and seeking out these alternatives, and what disruption might mean for the traditional high street banks.
Fresco is CACI's individual level, financial services segmentation. Fresco segments the UK’s population into 12 segments, 45 sub-segments and 134 micro-segments, which can be used by organisations to provide a universal vocabulary to describe its customers, prospects and the market. To view a short description of the 12 segments, go to page 17.

Hitwise helps global brands and agencies understand how consumers think, search, book and buy online. Through the platform and data services, clients can discover new segments to acquire, grow loyalty among existing consumers and win back lost audiences.
The advances in mobile banking over the last few years are dramatically changing the way consumers are interacting with their bank accounts. Back in 2014, when CACI first began collating this research, about one in six customers used mobile banking apps in one way or another. This placed mobile banking in fourth place (just behind telephone banking) in terms of channel preference in the UK.

But in the years since, adoption of mobile technology and migration to banking apps has sky-rocketed – to the point where there are now 25 million users. That means today, in 2019, half of current account holders are using apps to manage their account. Each day there are more than five million mobile log-ins – a number that is almost four times greater than five years ago. And already there are more customers using mobile banking apps than there are using traditional internet banking.

So what do the next few years have in store? Through Channel Impact, CACI has modelled the latest Financial Research Survey data onto the UK population and forecast projected trends. Mobile banking shows no signs of slowing down. The meteoric growth in app users is set to continue to rise, and by 2021 there will be more customers managing their bank accounts on mobile than there are visiting their branch.

Channel Impact is CACI’s five-year view of changing customer behaviour in banking. It contains preferences for multiple products across a number of channels – for both managing existing accounts and taking out new products. It is available by demographic Fresco segment, aggregated to geographic area, or even tagged onto individual customer records.
The proportion of customers using app banking will continue to rise over the next four years, reaching 71% by 2024. Meanwhile, the proportion of branch users will steadily decline to 55%.

The mainstream media may well be full of stories surrounding the death of the high street and the branch as a channel, but this data says two things. Firstly, the decline of branch visitors is modest (just 1-1.5% per year) and even in five years’ time, more than half of customers will still be visiting branches. And secondly, the data tells us that digital channels are not replacing the branch, but are in fact supplementing it. The majority of customers are demonstrating multi-channel behaviour and will be demanding different transactions and experiences from different channels that they use.

Want to read more on the high street’s role in a multi-channel world?

Read CACI’s The Changing Face of Retail
SAVINGS: SHOWING ALL SAME HALLMARKS AS CURRENT ACCOUNTS

The factors behind the growth of mobile banking were discussed in CACI’s 2018 paper. Convenience, accessibility and functionality were cited as three driving influences. The current estimate for smartphone ownership has grown three percentage points in the last year alone, and now stands at 68% – so more people than ever have the option of using mobile banking apps. The increased awareness of open banking – which has been helped by added functionality within the banks’ own apps, as well as the arrival of cheque imaging – has offered customers an improved experience and even more choice.

Last year with Fresco we demonstrated that mobile channel adoption varied amongst different groups of the population. We showed this data through the channels used to manage current accounts. This year we use savings accounts to demonstrate that the phenomenon is very similar – regardless of the product in question.

However, if we were to consider mobile users as a proportion of the population (as we did for current accounts), then the picture would become distorted. Whilst 97% of UK adults hold a current account, just 57% of the population has a savings product. And this proportion differs across demographics, with savers tending to be older and more affluent. For example, just 49% of those classified as “Starting Out” have a savings account, compared to 83% of “Asset-Rich Greys”.

Plotting mobile users as a proportion of savers within each demographic shows that mobile adoption and usage falls into three very distinct groups, similar to the current account migration patterns. The youngest are the early adopters, quickly joined by above-average income and young family groups.

The second wave of digital adoption is now occurring amongst “Mid-Life Social Renters”, “Asset-Rich Greys” and “Road to Retirement” – all typically aged 50+ – which is where we will see the strongest growth over the next five years. This generation is becoming more and more comfortable with technology and furthermore contains the types of individuals most likely to hold high value savings products. The convenience of transferring money into a savings account in-app is rapidly moving transactions away from counters in branches – and to some extent away from internet banking via a computer.

The third distinct group consists solely of the “Low Income Elderly”, who are likely to remain adrift of the digital revolution. A sizeable group of savers (two-thirds have savings accounts), they prefer the traditional transaction channels of branch and telephone. Although some will migrate, the majority will never turn to digital, and in fact a large portion are constrained by legacy passbook and postal accounts. It is important that banks and building societies don’t leave this group of customers behind, making sure that they continue to enjoy choice in terms of how to access their savings.
DIGITAL CHANNELS DOMINATE NEW SAVINGS PRODUCTS

Moving a step back from managing savings, the data also demonstrates large shifts in the channels in which savings accounts are opened.

Five years ago, 41% of savings products were taken out in branch (or via another face-to-face interaction). This has reduced to around one quarter today, with just 27% of accounts being opened in branch. Other traditional channels (telephone and post) have seen similar declines.

The significant growth has occurred within digital channels. Today, more than half of savings accounts are opened via websites and in-app (56%, up from 39% in 2014) and a further 6% of new savings accounts are generated through price comparison sites and other aggregators.

This digital trend is set to grow, with more than three quarters of new savings accounts expected to come from online channels by 2024. This growth is not limited to younger generations. Much as we’ve seen with account management, older customers are becoming more comfortable with technology and the industry is continuing to make it easier for consumers to research and compare products. A large proportion of digital growth for these new products is the result of “second-wave adopters”.

In five years’ time, 8% of “Asset-Rich Greys” will open a saving product online – a surprisingly high proportion compared to 10% of the much younger and digitally-engaged “Starting Out” group. It is these wealthier pre-retired and retired groups that banks and building societies must focus on to grow online acquisition in the savings market.

NEW SAVINGS ACCOUNTS OPENED BY CHANNEL
PEER-TO-PEER LENDING AS AN ALTERNATIVE TO ONLINE SAVINGS

The definition of “savings” has been blurred over the years. Many high street banks offer market-beating rates on current account balances, and this has proved a very successful (if expensive) way of growing and retaining a banking customer base. But the growth and popularity of digital has created new opportunities for customers willing to do their research and take on a little risk.

Whilst technically it’s an investment product, peer-to-peer lending looks remarkably like a savings account. There are products that offer near-instant access and a fixed interest rate, and you don’t have to look hard for returns of at least 5%, as long as you are willing to forgo the FSCS guarantee. A simple internet search or a visit to an aggregator quickly offers up dozens of facilitators for individuals willing to lend their money directly to small business and individuals, without having to rely on a traditional bank.

So, how has peer-to-peer lending affected the savings market? Has it attracted new demographics to the market, or has it offered more choice to those already saving? By overlaying CACI’s Fresco segments onto Hitwise’s audience platform, and by looking at search behaviour and web traffic to three of the larger lenders, we see an interesting picture.

Searches involving term “peer to peer lending”

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<td>6. Home-Owning Families</td>
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<td>7. High Income Professionals</td>
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<td>8. Older Working Families</td>
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<td>9. Mid-Life Social Renters</td>
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<td>10. Asset-Rich Greys</td>
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<td>11. Road To Retirement</td>
<td>101</td>
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<td>12. Low Income Elderly</td>
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Visitors to Zopa, Funding Circle, RateSetter websites

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Hitwise online audience, Dec 30th 2018 - Mar 30th 2019. Figures represented as an index (average=100) against the profile of the online audience. An index of 80 means 20% below average, 150 means 50% above average.
In the first three months of 2019, there were around 16,000 users conducting web searches involving the term “peer to peer lending”. 36% of these searches came from the four youngest Fresco segments, those with a relatively low likelihood to have savings. This suggests that peer-to-peer may well be attracting new audiences to the savings market. It is certainly raising awareness amongst younger, perhaps more risk-averse individuals – those who are tempted by returns higher than traditional savings products, without being deterred by the risk involved.

The same could be said for “High Income Professionals”, the wealthiest Fresco segment. They are most likely to search for “peer to peer lending” – two and a half times more likely than the typical internet user. However, looking at the volumes of visitors to the largest peer-to-peer sites, High Income Professionals are the most under-indexed – 15% less likely to visit than average. Whilst it is possible that these wealthy individuals don’t feel the need to visit peer-to-peer websites once their account is live, it is much more likely that High Income Professionals are less prone to converting. Having researched and reviewed peer-to-peer lending, they decide to chase better returns (alongside even higher risk) in more traditional investments, or else fall back on the FSCS-guaranteed savings market.

The traditional savers – Asset-Rich Greys, Working Singles and Couples, Home-Owning Families – are all reasonably well-represented among peer-to-peer website visitors, in line with the online audience. This suggests that there is sizeable opportunity within these demographics, especially as many of these groups are expected to drive the forecasted growth in digital banking.

Aside from realising this potential generated by second-wave adopters, the biggest challenges facing peer-to-peer lending, as well as other digital disruptors in the savings market, are twofold. Firstly the “low-hanging fruit” of younger, digitally engaged savers may be easier to convert, but they aren’t typically able to invest large amounts and generate high lifetime value. So maximising and nurturing these individuals through their customer journey is key. Secondly, the highest value individuals are much more difficult to convert. They are aware of and searching for peer-to-peer lending, but need careful messaging to convince them to make that final step of opening an account.
THE SAVINGS CHALLENGE FACING THE CHALLENGERS

It’s fair to say that digital-only challenger banks (or “neo-banks” in recently coined terminology) have established a foothold in the UK current account market. The growth of digital banking, and in particular app-based banking, has allowed names such as Monzo, Starling, Revolut and Atom to acquire large volumes of customers rapidly. Monzo and Revolut alone are reporting five million accounts between them.

These larger names have so far gained sizeable bases of current account holders. They have successfully attracted largely younger and digitally-engaged consumers, disenfranchised with the traditional high street organisations. Recent research suggests a quarter of Millennials and Gen-Z (roughly the under-35s) have an account with a digital-only challenger bank. This demographic profile tallies with that seen through the Hitwise online audience tool – albeit for web traffic as opposed to app log-ons.

The visitor profile for the four named brands is clearly skewed towards younger Fresco segments, with “Still at Home” 29% more likely to visit. There are also relatively higher proportions of the more affluent family segments.
However, when looking at individual brands within this profile there are distinct differences. Monzo and Revolut have much younger profiles, whilst Atom’s two most over-indexed groups are “High Income Professionals” and “Asset-Rich Greys” – the two most valuable segments. This can be partially explained by the fact that Atom has established fixed savings products offering competitive returns. Savers, even those that are not traditionally digital bankers, provide Atom with a much broader demographic profile. It’s also a much more valuable profile – these segments are typically worth two or three times as much as a typical customer in terms of savings value.

Building a savings base is a problem that these challenger banks face. It’s all very well having a large number of current account holders, but many aren’t primary relationships, and fee-free bank accounts don’t generate income on their own. Atom may have managed to grow savings by attracting some of the wealthier pre-retired and retired – the demographic currently shows the largest mobile growth. However, this is quickly becoming a congested and competitive market, especially as these demographics are more financially sophisticated and likely to shop around for the best rates.

An alternative strategy is to launch a savings product that aims to appeal directly to existing customers. Those are disproportionately the “Still at Home” and “Starting Out” segments, which Fresco tells us are much less likely to be savers than a typical customer – around half have no savings at all. And when they do save, holdings are lower in value – typically less than £2,500. They are much less likely to save regularly, for example by standing order; but more likely to want to save for a specific purpose.
Therefore, a digital savings proposition should not require long-term or significant commitment. Younger savers want to be able to make both frequent and small deposits, so “jam jar” accounts and functions that round up card payments would both work well. And given that this new breed of savers is less risk-averse than older and wealthier savers, banks should bear in mind that they are competing with the higher returns of peer-to-peer lending – and so it may be appropriate to emphasise the FSCS guarantee. Offering all this within the same seamless, tech-driven user experience will ensure the best opportunities for savings cross-sell.

The most-over represented segments amongst the challenger web visitors, “Still at Home” and “Starting Out”, may be worth less than half a typical customer, but these two groups still hold £22 billion worth of savings. And tap into the “High Income Professionals” – already digitally engaged and visiting these banks’ websites – and the twice-average value per customer translates to a UK savings balance of £53 billion. Get this digital acquisition right, and the potential rewards are very high indeed.

Monzo has taken action, recently creating a cash ISA product (a venture with OakNorth), whilst for some time Atom has offered a range of short-term fixed accounts (as low as a three-month term). The savings market is evolving, and traditional banks must ensure they don’t get caught out. With the typical savings customer being precisely the demographic that is most quickly adopting digital banking, there is a growing risk of these valuable customers migrating elsewhere. And alongside retention of older, higher-value demographics, high street banks need to persuade younger customers that they too can offer the customer experience, ease of account set-up, and innovative products that the digital challengers are known for.
ABOUT THE AUTHOR

Jamie Morawiec | Associate Partner

Jamie is part of the Data Science team at CACI – turning data into practical and actionable solutions for the financial services and insurance sector. He is responsible for major proprietary banking products including Channel Impact and Financial Footprint – CACI’s catchment model that describes customers’ banking patterns across the country, and which is used by the majority of the UK’s retail banks.

He joined CACI in 2007, initially working alongside retailers on spatial analysis and store optimisation programmes, before focussing on consumer behaviour and interaction with brand and channel. Jamie has worked alongside many of the leading high street brands, both in the UK and Europe.

Jamie and his team use a wide variety of modelling techniques to quantify, benchmark and forecast. In all instances, data is at the heart of the analysis. Typical projects might involve sizing the market opportunity, analysing performance and producing monthly dashboards, or modelling consumer traits onto the population, right through to a full network and distribution strategy review.

HOW CAN CACI HELP?

With a long history of working with UK banks and building societies on both branch planning and digital engagement, CACI is the UK’s leading distribution strategy consultancy. Alongside our rich data on the UK population and attributes describing individuals’ lifestyle, attitudes and digital behaviour, we are perfectly placed to help organisations win, engage and retain customers – across all channels.

We have developed a range of financial services data that includes Channel Impact (our five-year channel usage forecasts on which this paper was largely based), Fresco (our financial services segmentation) and Financial Footprint (our model of how consumers engage with financial centres). This toolbox places CACI in a position to offer unrivalled strategic consultancy, which is underpinned by robust data and unique industry expertise.

We work with the UK’s largest banks and building societies – including Santander, RBS and HSBC – as well as several regionals. Recent projects have focused on enabling brands to optimise how they access local market opportunities using a number of channels, and on segmenting the branch estate to ensure local resources meet the changing needs of local markets.

Get in touch to find out more.
ABOUT HITWISE

Hitwise is an online intelligence provider for global brands and agencies. For over 20 years, Hitwise has delivered long-lasting improvements to clients’ marketing and sales performance.

Powered by leading data transformation technologies, Hitwise data is audience-first, actionable, globally compliant and unmatched in terms of granularity and frequency. This allows them to provide a 360° view of how online consumers behave - from search to purchase, at any moment in time, across any device.

CACI and Hitwise have partnered to bring Fresco demographics onto the online audience platform, enabling clients to explore the digital behaviours of different segments in granular detail.
Fresco is a consumer segmentation built by combining the richness of Ipsos’ Financial Research Survey with CACI’s wealth of data on the UK population.

Each adult in the UK is grouped into one of 12 segments. These are arranged into a broad life stage hierarchy, with younger adults in lower-numbered segments and older adults in higher-numbered segments. Aspects of wealth, income, behaviour and attitude are used to define these segments further.

A brief description of each of the twelve segments is given below:

1. **Still At Home**
   Relatively well-off young adults still living with their parents.

2. **Starting Out**
   Young, single flat-sharers learning to stand on their own feet.

3. **Rising Metropolitans**
   Affluent, young professionals living in urban locations.

4. **Poorer Parents**
   Single parents struggling to make ends meet.

5. **Working Singles & Couples**
   Home-owning singles and couples, planning for the future.

6. **Home-Owning Families**
   Younger families with a mortgage, coping financially.

7. **High Income Professionals**
   High earning executives living a comfortable lifestyle.

8. **Older Working Families**
   Couples over 35 with older children and a national average wage.

9. **Mid-Life Social Renters**
   Struggling singles, living in social housing.

10. **Asset-Rich Greys**
    Financially sophisticated older couples, with high-value assets.

11. **Road To Retirement**
    Older couples owning their homes outright, planning for retirement.

12. **Low Income Elderly**
    Elderly pensioners in down-sized accommodation, using traditional methods to manage their finances.