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Q&A

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PwC Financial Services

PwC's 2018 Digital Banking Consumer Survey: Mobile users set the agenda

Consumer banking habits have continued to evolve, and users have many choices for how and where they bank. New devices and digital banking tools give consumers the convenience of banking on the go, but the traditional banking center still has plenty of fans for certain kinds of transactions. In PwC's 2018 Digital Banking Consumer Survey, we look beyond this split to see how firms can serve the needs of today's consumers. One conclusion: banks need to think "mobile first" to win in this market.

We recently surveyed approximately 4,000 consumers regarding how they think and feel about a variety of different banking channels and activities. We compared the results to similar surveys we've conducted over the past six years to see how the landscape is evolving.

We sat down with PwC's David Schiff, Ashish Jain, Scott Evoy, and Greta Lovenheim Capps to discuss our findings—and what they mean for an industry in transition.

Questions and answers

Q. PwC has been asking consumers about their banking habits for several years now. What have you learned from the latest survey?

A. We're following several interesting trends. In some cases, it's not the trend that's surprising, it's the gap between what consumers want and what they're getting from their banks.

In our 2018 survey, we see five big themes:

- Think mobile-first, or else.
- We don't just value convenience.
- Branches aren't going away.
- Many users are becoming less "engaged"—but not all.
- Most financial consumers are goal-oriented—and they need help reaching those goals.

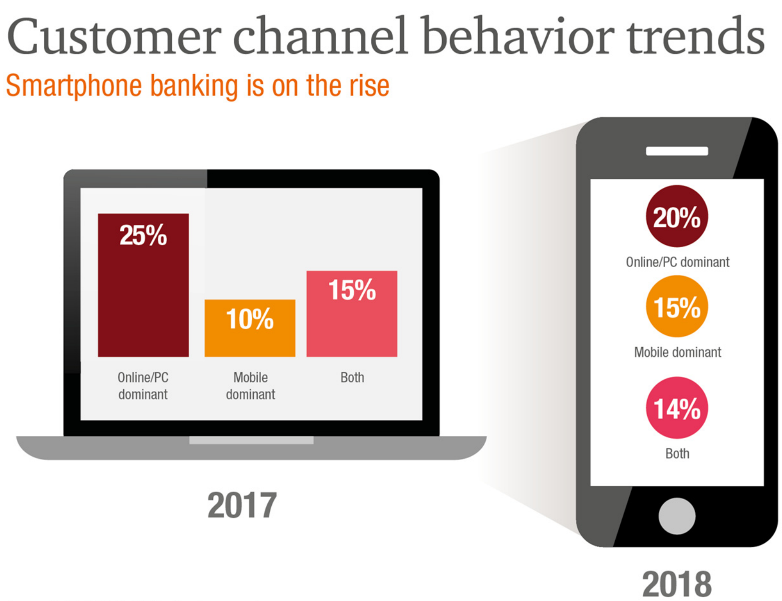
Q. What trends are you seeing this year in terms of channel usage?

A. What we're now seeing is that online-dominant consumers are becoming mobile-dominant consumers—and everyone else is shifting that way, too.

In our 2017 survey, we saw the rise of "omni-digital" consumers: those who prefer to interact with their bank digitally, without a preference for using a laptop, a tablet, or a smartphone. But now, we see that a clear preference *has* been forming, and the smartphone won the contest.

In this year's survey, 15% of customers are now mobile dominant, up sharply from 10% just a year ago (see Figure 1). This reflects a shift from people who primarily banked online through a browser. But we also see smartphone use rising in other categories, even for people who don't walk around with a phone glued to their palm. To a growing number of consumers, banking just *is* a mobile activity. In fact, when developing strategy, we encourage banks to think mobile-first, or else.

Figure 1: Mobile-dominant consumers prefer smartphones for banking.



Source: PwC's 2018 Digital Banking Consumer Survey.

This has design implications for banks. Many firms are focusing on platform convergence. In our view, you'll be better off designing for the mobile experience first, because that's where your most valuable users are headed now. We're not saying you should abandon browser-based tools or branches. But for many firms, the priority is in the wrong place.

Mobile users are loyal. New apps are free, but good apps are sticky; once you get used to an app, it tends to stay on your home screen.

Remember: You're not just porting existing capabilities to a mobile environment. We've all seen what that looks like, and it's not good. You want to really think about *why* people are switching: Where do they log in? What are they trying to do? What else is going on?

There are some broader implications, too. In our conversations with financial institutions of all sizes, it's clear that many just don't have the right resources to handle this kind of flexibility across the technology stack. And not surprisingly, their workforce often isn't up to it, either. It's not just that the technology is different; the user experience has to be different, too. Firms should help their teams get the skills for this new world, or recruit additional support.

Q. What did you learn about how people choose their banks?

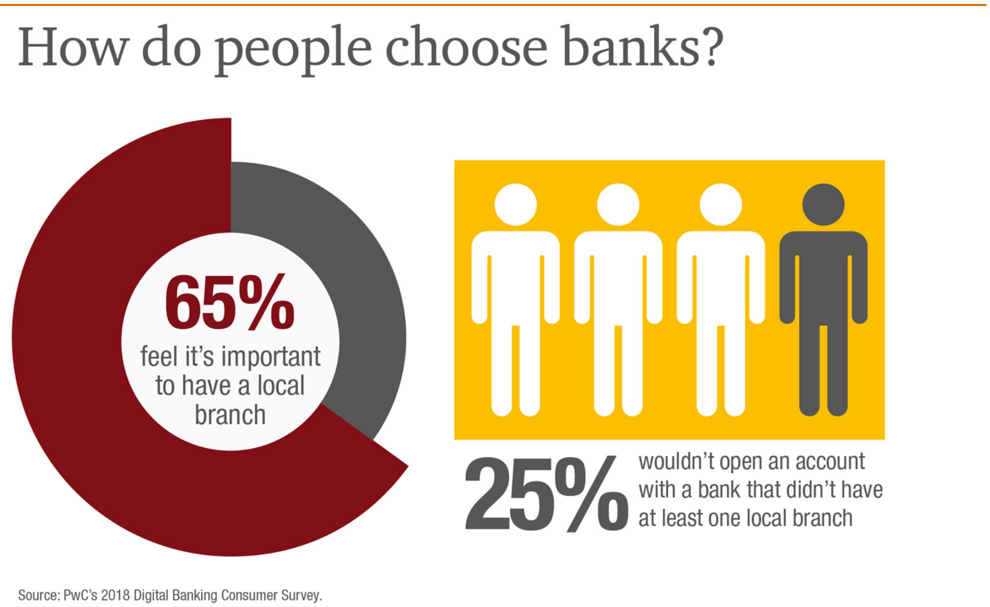
A. Well, let's look at this in two parts, because there's an interesting divide between how people choose their primary bank ("the bank you transact with the most") and where they turn for other financial services. It speaks to what consumers really value—and how banks can still compete even if they have few (or no) branches in the neighborhood.

When picking a primary bank, survey takers across all age groups particularly value attributes like convenient in-person banking, referrals from family or friends, or a positive previous experience. More than 60% of traditional bank primary customers say it's important to have branches in close proximity (see Figure 2). (A majority of consumers define "convenient" as "within five miles.")

Brand familiarity and digital capabilities are also important, especially for millennials. This tends to help the largest banks, which have continued to gain market share.

However, people often turn to *other* banks to buy a growing number of highly profitable products, often for very different reasons.

Figure 2: The majority of consumers want a local branch.



Beyond their primary banks, survey respondents typically hold a variety of loan and investment products, including IRAs and brokerage accounts, mortgages, 529 plans, and student loans. For these offerings, people are attracted by a wider range of criteria: better rates for deposit and non-deposit products, promotional offers, and other benefits. We're also seeing an uptick in consumers who currently have, or would consider opening, accounts at direct banks, for the right offer. In short, we don't just value convenience.

"Better rates" sounds like "compete on price," but providers should tread really carefully here. It's fine to emphasize an appealing offer, but this can be a race to the bottom, especially if you don't have the advantages of scale to lower your costs. As financial services get more commoditized, retaining "hot money" customers won't be a viable strategy for most.

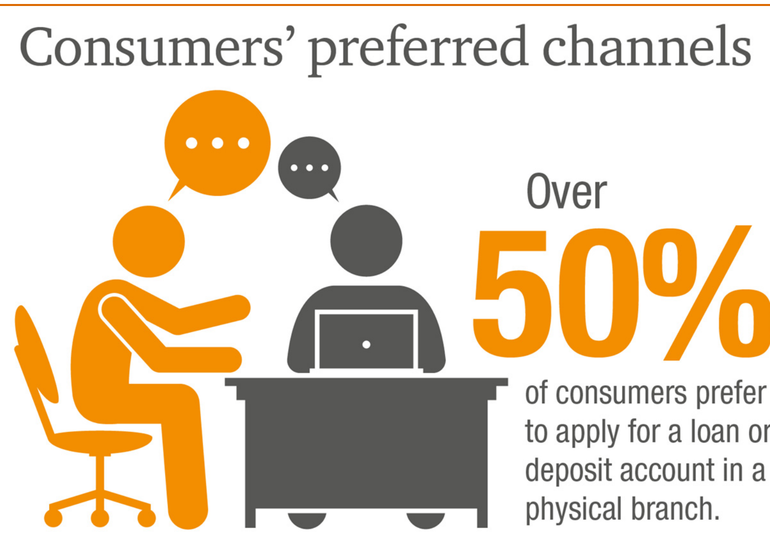
Instead, you should invest in those capabilities that your target customers value most. That means being relentless about driving down costs elsewhere, so you can accelerate your natural advantages. It's a balancing act, but when you get it right, those customers can be passionately loyal.

Q. What types of transactions are people still doing in branches?

We found that a number of transaction types are still "branch dominant": situations where people would rather go to a branch than go online or use a smartphone, contact a call center, etc. Applying for a new loan? Odds are, you'll do this in a branch (59%). Applying for a new checking or savings account? Again, you'll probably turn to a branch (58%) before any other channel (see Figure 3). People also like branches when applying for a new brokerage/ investment account (43%) or using financial advisory services (37%). So, clearly, branches aren't going away.

These transaction types all are, or may *appear* to be, fairly complicated transactions. Consumers still value the ability to ask for help and be guided through the process, if necessary. And sometimes, they have no choice: Some institutions require their customers to go to the branch to complete these transactions. But branches are the most expensive channel by far, and banks have a real incentive to drill into why people prefer branches for certain activities. Is it convenience? Is it a lack of practical alternatives? Or is it something else?

Figure 3: Certain transactions still call for an in-person visit.



Source: PwC's 2018 Digital Banking Consumer Survey.

E-commerce providers have added lockers and expanded their brick-and-mortar footprints. Traditional retailers are adding in-store pickup options and same-day shipping. On the surface, consumers want it all, and they expect you to deliver. Marketers now use the quirky word "phygital" to describe this blend of physical and digital activities.

Many banks still analyze the customer journey within a single channel. But we increasingly live in this phygital world, where the journey is more convoluted. "John scouts options on his laptop, begins filling out an application on his phone, and *then* walks into a branch." Actually, it's not so mysterious; you could *know* that he's doing all this, if you follow the breadcrumbs. (Marketers call them "cross-channel interaction points.")

The most successful firms combine digital advice with face-to-face advice. It's a hybrid approach; not an either/or. That means getting great at handoffs from branches to service centers. It also means tying that advice to digital channels seamlessly, so customers can see how the advice they're getting fits with their goals, and how they're making progress toward those goals.

Q. If consumers "want it all," does this mean they're now paying more attention to financial services?

A. In some ways, the trend seems to be moving in the opposite direction. But it depends heavily on the user and, sometimes, on the financial institution.

Our survey suggests that many users are becoming less "engaged"—but not all. With few exceptions, people report they're interacting less frequently with their banks (see Figure 4).[1] That leads us to ask: "Are users describing their behavior accurately?" and "What would this mean for banks?"

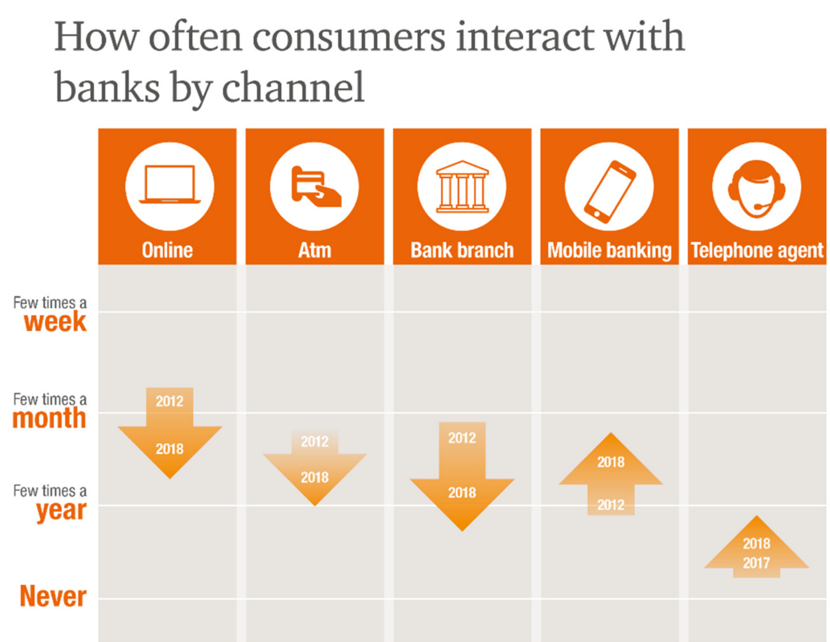
Based on our survey and usage statistics reported by some firms, we believe that usage is increasingly splitting into two camps. Some customers may use a service once a month, without much thought. Others are highly connected, looking at their phone several times a day to check balances and conduct transactions.

Methodology: "customer engagement"

We define engagement as how often people interact with their bank across more than 20 types of financial activities. As a measure of frequency, survey takers are asked to reply on a scale of "never" to "daily."

We look at this by channel (mobile, online, ATM, etc.). We ask about transactions and more; for example, we wanted to understand how a consumer might research a mortgage, use a chat agent to solve a technical issue, send money to a work colleague, or meet with an advisor about investment strategy.

Figure 4: The extent of user engagement varies widely.



Source: PwC's 2018 Digital Banking Consumer Survey.

[1] We assume that a service you sell is 'yours,' even if it's ultimately provided by a third party. Increasingly, banks are turning to FinTech partners and others to round out their offerings, and we think that API links with external providers will grow in importance. Third-party risk management is beyond the scope of this paper, but it's clear that firms can face customer perception issues even when they aren't the ones providing a service.

Either way, engagement is a proxy, because counting the number of times a consumer touches your bank doesn't necessarily show how meaningful the interaction is. If your customer only looks at your bill pay center once a month, because she has set up an effective autopay routine, that's a good thing. If your customer spends too much time on your website trying to figure out how to open an IRA, that's a bad thing—especially if he goes to a competitor after giving up.

Some customers want handholding; others dread being asked "may I help you?" Knowing which customer is in front of you is the key to understanding how to serve them better, and this comes back to breadcrumbs. Often, banks can now track individual preferences, to see how a customer responds to different marketing messages and behaves at different points in the customer journey. In theory, you now have the ability to know where declining engagement is a warning sign, and where it's an indication of customer satisfaction.

Of course, you need to measure the right thing. When conducting a voice-of-the-customer survey, most banks look at a specific point in time ("Did the agent resolve your question?"). Looking at the broader context is far more valuable ("Yes, but it took me six calls to get to this point!").

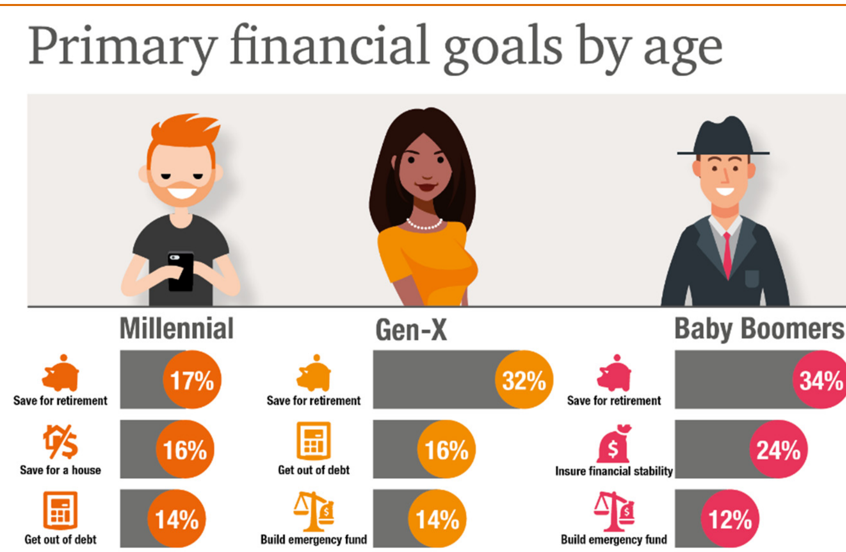
Q. What kind of help do consumers want from their banks?

A. One goal seems to unite everyone we asked: millennials, Gen-Xers and baby boomers. People say they really are focused on the long term, with a desire to save for retirement above all other goals (see Figure 5).

It's not necessarily a surprise. For years, financial planners have followed a "life stages" model when offering advice to their clients. Saving for retirement is the biggest goal of all, and it's reassuring that all age groups identify it as such.

At the same time, it's an uphill climb. Most financial consumers are goal-oriented—and they need help reaching those goals. We asked survey takers what steps they plan to take/continue this year to maintain or establish their financial wellbeing. Across all age groups, people with less than $500,000 in assets were most likely to identify "pay down my debt" as a key priority. Many people struggle with fundamental techniques: developing and sticking to a budget, building up an emergency fund, and saving for retirement. Financial institutions have an opportunity to be seen as a valuable partner.

Figure 5: Consumers' financial goals shift as they age.



Source: PwC's 2018 Digital Banking Consumer Survey.

As we've seen, people often like to use traditional channels to buy many financial products, especially if they're complex. But first, they break out the laptop or mobile device; 73% of our survey population starts by researching investment products online or through apps. It's more cost-effective for everyone.

We think reducing complexity is the key, especially since so many firms talk about products rather than solutions. People know they need help reaching their goals. There's a big opening for firms that can emphasize overall financial wellness, especially where perceived complexity is going to be a turn-off.

Complexity is a problem with service, too. With digital tools, firms have the ability to figure out where the friction points are, and then resolve them, systematically and aggressively.

This is one more reminder about the power of customer relationship management, and why it can't succeed without strong digital capabilities. Financial firms have long understood the need to develop strong risk data capabilities, and they have governance structures in place to make them work. For the most part, banks aren't treating customer data with the same urgency.

As the tools get better, it's now possible to think about tracking and addressing customer needs holistically. Many banks have access to an astonishing amount of information about their customers: What they need, what they want, and what might make them defect to a secondary institution. This is what leading digital competitors in other industries do. If banks don't do this, we believe their competitors will.

Q. Final thoughts? Are there winners or losers here?

A. As with so many platform stories in the digital age, the big firms have shown a real ability to keep growing and consolidating their strength. The largest banks have used scale to drive big advantages in price, convenience, and user experience. This points to some real challenges ahead for many regional and community providers.

A growing group of customers cares more about apps and online offerings than physical branch proximity. Regional and community banks often haven't done enough to offer the full set of features to attract new buyers—or, if they have feature-rich apps, they often haven't marketed them well.

This is all happening quickly, and it's very fluid. Sometimes we forget that smartphones are barely a decade old. And yet, mobile may not be the endgame: for example, we have barely begun to see financial firms explore connecting their platforms to smart speakers, chatbots, and other interfaces.

We're intrigued by the potential in direct banks, though there's an open question about whether they can succeed without really taking out the costs. We're also seeing interesting experiments about what branches could be, searching for an optimal mix between sales and service.

Small and midsize banks still have opportunities to win, but many customers are already firming up their opinions on who is in this for the long haul—and who isn't. They're rewarding the banks that listen, and ignoring the ones that don't.

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