Balancing Bricks & Clicks

Understanding how consumers manage their money

Katie Evans

Social Market Foundation

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ABOUT THE AUTHORS

KATIE EVANS

Katie Evans is an Economist at the Social Market Foundation. Her research interests include financial service, competition in consumer markets and innovation. Her recent publications have looked at the financial wellbeing of Britain's workforce, competition in the current account market, household savings and corporate culture in the financial services sector.

Katie previously worked at the Centre for Economics and Business Research, where she led the global economics team. She has also undertaken economic research for a wide range of companies and public sector organisations.

She has a BA in Philosophy, Politics and Economics from the University of Oxford and an MSc in International Political Economy (Research) from the London School of Economics.

FOREWORD BY NICK KENNETT, GROUP DIRECTOR FINANCIAL SERVICES, POST OFFICE LTD

As technology revolutionises the way we manage our lives, it is important to understand how it is changing the way we manage our financial needs and how different segments of society are responding to these changes.

This research and report provides a valuable insight as to how consumers are responding to new technology in managing their banking needs - some are already happy to do their banking entirely digitally, while others still look to physical branches to carry out both simple and complex transactions. Many, probably the majority at the moment, mix physical and digital at different times and for differing services. Understanding this balance - how it varies today and how it will evolve in the future - is critical to ensure that all sections of society continue to benefit from the latest banking services.

With 11,500 branches, the Post Office is at the heart of communities across the UK. An extensive modernisation programme has already transformed over 5,000 branches delivering an extra 150,000 opening hours a week (with 3,000 now open on Sundays). This largest UK retail network is well positioned to support consumers and small businesses manage their financial affairs, in particular undertaking banking transactions locally where bank branches may not be available. Post Office is committed to ensure that consumers have local access across the UK to basic banking services for those who seek it, as technology continues to develop alternative digital solutions.

This report looks at the interplay between digital and physical – how the former will continue to disrupt and how the latter could become a competitive advantage in the future. It considers the implications of these changes: innovation for customers, stronger competition, changing provision of financial advice and potential threats to financial inclusion. This report is critical for industry and policymakers alike to ensure that the financial needs of all parts of society are understood and continue to be met.

EXECUTIVE SUMMARY

The way we manage our money has been transformed by technology. We have a growing range of ways to spend our money, from traditional cash through contactless cards to wristbands, watches and our smartphones. And through this mobile technology, we're increasingly able to communicate with our banks on the go. This growing choice in how consumers interact with their financial services providers is strengthening competition, but has also made it difficult for some banks to sustain the costs of high street branches, leading to consolidation and closures.

But, in financial services as in other markets, we continue to rely on a mix of 'bricks' – physical buildings – and 'clicks' – online and mobile communications. This report considers how we manage our money; how this has changed; and what financial services are likely to look like in future. We examine how far we have moved towards managing our finances online, and ask whether there's a continued role for physical financial services. We focus on consumer financial services, though it is important to realise that this is only part of the story and access to physical financial services is also vital for many small- and medium-sized enterprises (SMEs).

MANAGING MONEY ONLINE

Most consumers (70%) are happy to carry out simple, day-to-day tasks like checking their balance or paying bills online. A majority are also willing to apply for and manage familiar financial products, like credit cards and insurance, online. But when it comes to big financial decisions, like taking out a mortgage (47%) or seeking financial advice (51%), half the population still prefer to visit a branch.

- Older people are most likely to carry out all their financial tasks through branches, but physical financial services aren't out of fashion yet. Younger people are particularly keen on the support they find in branches when they're faced with big decisions.

- Four in ten (38%) UK consumers now carry out all of their financial transactions online – from simple day-to-day balance checks to applying for mortgages or seeking financial advice.
- But more than half (56%) of the population still use a range of different ways of contacting their financial services providers, depending on the task at hand.
- Nearly two-thirds of consumers (63%) would prefer to talk to someone face-to-face when making a big decision, and nearly half (47%) of all those who visited a branch in the last 12 months said this was for reassurance and support with complicated transactions.
- Only a third (32%) of UK consumers would consider using a bank which had no branches as their main financial services provider and more than a third (37%) couldn't think of anything that would stop them from using branches to manage their money.
- While many consumers have downloaded mobile banking apps, evidence suggests that although they're completely changing the way a small number of people manage their money, helping them to log in and check their finances every day, most people don't make much use of them yet.

Our findings show that new technologies are complimentary to, rather than a substitute for, face-to-face contact. Consumers use mobile apps, online banking and branches for different tasks.

WHAT DO THE FINANCIAL SERVICES OF THE FUTURE LOOK LIKE?

Having assessed how consumers are managing their money today, we look ahead and anticipate how the balance between online, mobile and in-person banking may change in future.

We think in the coming years financial services providers are likely to develop specialist apps for particular transactions, which may try to mimic some parts of the in branch experience using functions like live or video chat.

While mobile-first and online-only providers will grow slowly, we can expect one of these providers to gain a significant market share by 2020. We're also likely to see the emergence of aggregator platforms which help consumers manage products held at different providers and budget thoroughly. For consumers, this should mean stronger competition in financial services, bringing innovation and better value.

Branches will become places we go to have conversations, rather than undertake transactions, and will be redesigned to make consumers feel comfortable. The higher overheads of this model, which would require skilled staff on the floor of branches, spending more time with each customer, means the trend towards branch closures is likely to continue.

If most of us use branches less frequently, we may be willing to travel further to reach them. But the proximity and ease of access to physical financial services will remain important for some time to come as we continue to use cash. Rather than branches, these transactions could take place in community settings like supermarkets and Post Offices.

Security will remain a concern, because in the online world we have only limited control. Financial services firms will continue to develop the security features of their online tools, but branches will remain important as a way of ensuring security.

POLICY RECOMMENDATIONS

Stronger competition should encourage innovation; but we need to ensure incumbents aren't able to block new models they find threatening, particularly around account aggregation. The Post Office could increasingly act as a physical aggregator, building on its current partner banking model to ensure that consumers who prefer to manage their money in person are able to access a variety of financial services from a wide range of providers even as branch numbers fall.

Regulation of advice needs to be revised to ensure that high street financial services providers are able to offer the type of support that consumers desire on a flexible basis, although consumer interests must continue to be safeguarded. Financial services providers should also work more closely with third-sector financial capability organisations to ensure that consumers are signposted to relevant services when purchasing products, in the same way they are currently directed to debt charities in troubled times.

Access to physical financial services is likely to become the main barrier to financial inclusion, as the less affluent, those with only basic (GCSE-level or lower) qualifications and the unemployed are particularly likely to rely on branches to manage their money. We will need to consider alternative ways that these consumers can be provided with access to financial services and appropriate guidance.

CHAPTER 1 – BRANCHING OUT

First online, then mobile banking are reshaping the way most UK consumers communicate with their financial services providers and how we manage our money. These technologies allow us to check account balances, set up routine transactions, apply for new products and settle bills in the comfort of our own homes, the café in town, while gazing at that new coat in the department store, or from the 07:25 to London Paddington, reducing our reliance on bank branches. Consumers have gained choice in where, when and how they manage their money: in addition to traditional branches we can now keep in touch with our financial services providers elsewhere on the high street, in supermarkets and Post Offices, and through the gadgets in our pockets. How is this growing choice of communication channels changing the way we manage our money; what further changes are on the horizon; and what is the likely combination of 'clicks' and 'bricks' by which we will access financial services in the future?

This report considers how we manage our money; how this has changed; and what banking is likely to look like in future.

In this first chapter, we will quickly describe the recent changes in banking. The next chapter presents analysis of new opinion research on how we as consumers say we want to – and actually do – access financial services. On the basis of that, in the final chapter, we will forecast some future changes in banking – focusing in particular on how online and mobile banking will interact with the banking that we do in branches. We use that term – buildings, or indeed bricks - quite deliberately because will be looking at more than just traditional bank branches in this closing chapter; and will include the presence of financial services providers in other places such as workplaces and supermarkets.

Before that though, what changes have we already seen in the way we access financial services?

The way we manage our money has been transformed by technology. We have a growing range of ways to spend our money, from traditional cash through contactless cards to wristbands, watches and our smartphones. And through those phones, we're increasingly able to communicate with our banks on the go.

The way that we manage our money has been changing for over 50 years, beginning with the introduction of ATMs in the late 1960s, and strengthening through the decline in cash payments. Although the British public remain attached to paper money, with coins and notes still the most popular payment methods by volume, the proportion of transactions carried out using a debit card, credit card or contactless technology continues to rise. Cards now account for more than half of all payments by value.[1] This is largely the result of a shift towards contactless cards for the low-value payments (under £5) which traditionally accounted for most cash transactions. While the Bank of England's Chief Cashier has suggested she can't envisage the end of cash in the foreseeable future, the proportion of consumer payments made in cash is expected to fall to a third within the next decade.[2] The combination of a growing number of ATMs and the decline in the use of cash means that one of the previously vital roles of the bank branch - as a place to acquire or dispose of physical money – has diminished.

This move to cash-less spending reflects the shift to managing other parts of our lives through technology too. In the first quarter of 2015, 86% of adults were recent users of the internet. Just one in ten adults have never used the internet; a proportion which continues to fall. Among young adults aged 16-34, internet use is almost universal – 99% of people in this age group used the internet in the first three months of 2015. Usage is also high among adults aged 35-64 years, though declines among older age groups, with just a third of people aged 75 and over making use of the web.[3] According to Ofcom, 61% of consumers managed their bills or banked online in 2014.[4]

Smartphones have accelerated the pace of this shift. Two-thirds of households now have at least one smartphone, and these are now the most important device for connecting to the internet. Banking apps have now been downloaded 22.9 million times, and the number of banking app log-ins each day exceeds the number of online banking log-ins.[5] 4G technology also appears to have driven a step change in mobile banking – more than half (55%) of consumers with 4G access bank on their smartphones, compared to a third (33%) of 3G users. Just over a third (37%) of all mobile internet users bank online with their phone at least once a month.[6]

The proportion of mobile internet users actively using banking apps hasn't grown over the past 12 months[7], however, despite the increase in banking app downloads. This suggests that although lots of us have downloaded banking apps, we're not always making use of them. But those customers who have made the jump to using bank apps quickly come to rely on them and make very frequent use of them – most people who bank through an app use it at least once a week and a third (30%) use it every day. By contrast, the median consumer uses a branch once every two or three months.[8] It might not be catching on quite as quickly as headline download figures suggest, but smartphone technology is changing how we bank and integrating our finances more closely into our daily lives.

These changes in the ways we manage our money open new opportunities in financial services. Customers will increasingly seek the same sort of relationship with their financial services providers as they have with other online platforms – a personalised, 24/7 experience. This provides an opportunity to non-traditional providers, particularly tech firms like PayPal, Apple and Google which have existing relationships with consumers through their mobile technology. With these businesses already acting as payments services providers and having a much stronger rapport with consumers than most financial services firms, they pose a serious threat to the sector's traditional business models. Specialist online financial services firms are also chipping away at banks' traditional business lines. Using sophisticated software to strip out the intermediation traditionally provided by banks, specialist peer-to-peer providers can offer more attractive interest rates to both savers and borrowers, and are slowly eroding banks' market share. In 2014 Peer-to-Peer (P2P) platforms provided over £1.2 billion of credit to UK consumers and businesses, and the sector is expected to continue growing rapidly.[9] Equally, platforms like Money Dashboard and OnTrees are acting as aggregators, helping consumers collate all their financial services data in one place in real time and relegating traditional financial services providers to the backroom.

> This growing choice in how consumers interact with their financial services providers is strengthening competition, but has also made it difficult for some banks to sustain the costs of high street branches, leading to consolidation and closures.

By doing away with the traditional costly infrastructure of incumbents and bringing in new, efficient back-office technology, these providers can be very competitive. Small challenger banks have an average cost to income ratio of 53% compared to 64% for the UK's 'Big Five'[10] and although they make up a small part of the market at present, they are growing fast. According to Accenture, 30% of bank revenues are at risk by 2020 due to strengthening competition and trends away from traditional providers.[11]

Although headlines focus on the lamentable lack of switching in the personal current account market, evidence suggests that technology-savvy customers are already shopping around and playing the market to get the best banking deals – recent SMF research found that those who use multiple financial services providers are likely to prefer banking online.[12] The availability of information about financial services online is helping these financially confident consumers to shop around and find the best value financial products, pushing banks to offer better incentives to current account holders. A recent report from the Competition and Markets Authority – the provisional findings of the review into personal current accounts, business current accounts and small business lending – concluded that the competitive pressure that can be created by providing more information to customers on costs and alternatives in a timely and convenient way is a more promising remedy than, for example, breaking up the big banks into smaller providers.[13]

However, whatever other benefits these technology-driven changes in our banking behaviour may bring, they have also led banks to close branches, as growing competitive pressures make the costs of staff, security and high street locations untenable. Between 1989 and 2012, more than 40% of all UK bank branches closed[14] with many of these closures concentrated in the least affluent areas of the UK.[15] After slowing post 2008, the rate of branch closures accelerated again in 2014[16], and according to the Campaign for Community Banking Services 650 branches are expected to close in 2015 – a further 6% decline in branch numbers.

There is an upside to these changes too, though. The cost savings unlocked by removing the need to offer a branch network can make it easier for new providers to enter the market, increasing choice and strengthening competition for consumers. And the signs of the change are growing. While First Direct has successfully offered a telephone and online only bank for many years, they will shortly be joined by several others, including Atom Bank and Starling, which have a similar non-branch business model.

Yet a physical banking presence remains important to most consumers. The SMF's last piece of work on this topic, in early 2014, found that six in 10 people still preferred to visit a branch to access banking services[17], and TSB suggest that branches remain their most-used service channel.[18] And, despite the rise of online and mobile banking, the number of branch transactions is falling only slowly; over 2014, transactions in branches fell by just 6%.[19] It appears that our new online relationships with our banks are complimenting, rather than replacing, more traditional modes of interaction.

The tension between the need to reduce costs and meet customer needs for face-to-face financial services means banks have to get creative about branches. Nationwide, for example, having introduced a video-call service which allows customers to talk in real time to the specialist advisors they might previously have had to travel to meet, allowing expensive specialist staff to serve several branches and more customers, and reducing the need for time-consuming travel. Meanwhile Barclays is trialling a presence inside supermarkets as a complement to its branch network. Equally, both major banks and new players are taking advantage of the Post Office's large network of branches – bigger than the total number of high street bank branches[20] – allowing customers access a number of banking services including withdrawals, balance enquiries and paying in cheques. Some new entrants even lead with their own branch offering: Handelsbanken highlights its offer of personal contact in branch, while Metro Bank's cheerful, convenient 'stores' are a key differentiating point for the brand.

In financial services as in other markets, we continue to rely on a mix of 'bricks' – physical buildings – and 'clicks' – online and mobile communications.

In other words, what we were seeing in banking is a change that has taken place in other retail sectors too – the combination of a 'clicks' and 'bricks' experience. While most major retailers now offer online shopping, this is usually alongside a physical presence. For example, while pioneering online grocery shopping, the UK's major supermarkets have continued to expand their physical estate through smaller convenience stores on Britain's high streets. Clothes retailers and department stores offer the opportunity to order online and collect in store. Some retail brands which began life online have begun to establish a physical presence too, such as made.com and the Cambridge Satchel Company. Even internet giants Amazon and Apple recognise the value of physical stores – Amazon have begun placing 'lockers' in public places like supermarkets to help consumers access their deliveries and have even opened a physical bookshop, while Apple has nudged customers buying its new smartwatch to try it on in store.

If that is how other retailers have looked to combine the two shopping experiences, what might financial services providers need to consider? In the following chapter, we present new consumer data exploring how consumers manage their money. We dive below headline figures about numbers of app downloads or online banking logins to investigate which methods are used for which transactions, and why people undertake different financial services activities through different platforms. This analysis is based on brand new consumer polling of 2,003 adults (over 18) across the UK, weighted to be nationally representative.[21] This data helps us understand what the financial services of the future need to look like to ensure everyone has access to the services they need.

CHAPTER 2 – HOW WE MANAGE OUR MONEY

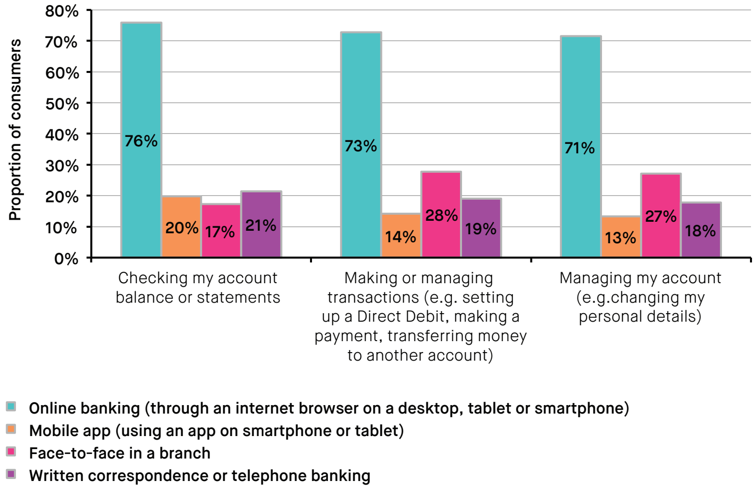
Our analysis shows that the channels consumers use to manage their money depend on the type of transaction they're undertaking. While there has been a substantial move to online banking (and mobile to a lesser extent), when it comes to more complex transactions consumers still prefer to deal with someone face-to-face in a branch. In this chapter, we will flesh out what people told us in our opinion research, starting with this difference between simple and complex services.

SIMPLE MONEY MANAGEMENT

Most consumers (70%) are happy to carry out simple, day-to-day tasks like checking their balance or paying bills online.

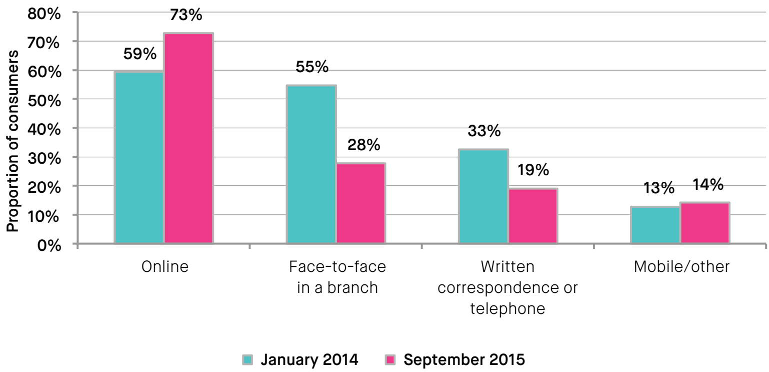
Over 70% of UK adults now manage their money online, using the internet to check their account balance or statements. When we exclude those who say they don't check their balance, this rises to more than three quarters (76%) as shown in Figure 1. A similar proportion (73%) of consumers who make or manage transactions– for example, setting up a direct debit or a standing order - use online banking to do so. And more than seven in ten consumers who had to manage their accounts in the last 12 months, for example keeping contact details up to date, did so through online banking. But, while many consumers have downloaded mobile banking apps, relatively few report that they're using them: just one in five (21%) use a mobile app to check their balance. When it comes to managing accounts or transactions, more people go in branch than manage their money on the move, as shown in Figure 1. More than a quarter (28%) of consumers who managed a transaction in the last 12 months report that they visited a branch to do so, while just 19% did so through a mobile device. This reflects the discrepancy identified in the industry figures reviewed in Chapter 1 – while many people have downloaded mobile banking apps, there is some evidence to suggest that at the moment they're being used intensively by a small group of people who are logging on frequently, while most people are just dabbling and not making regular use of this new technology.

Figure 1: Proportion of consumers using each channel to undertake simple money management tasks



Source: Opinium/SMF, September 2015. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%. Those consumers who have not undertaken the task specified are excluded.

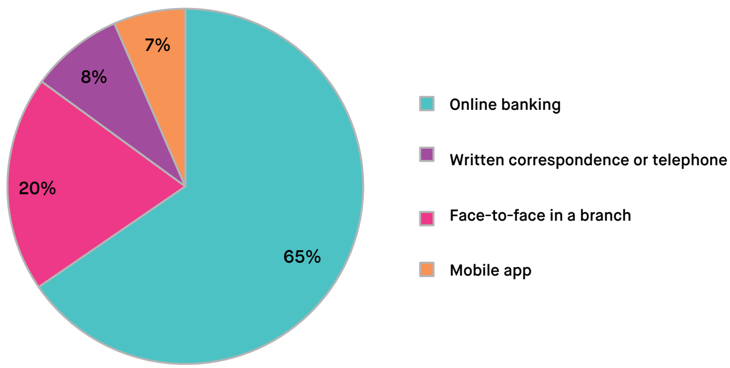
Figure 2: Change in ways consumers make and manage financial transactions (set up Direct Debits, make payments and transfer money to other accounts), January 2014 to September 2015



Source: September 2015: Opinium/SMF, January 2014: ComRes/SMF. Earlier survey data did not ask specifically about mobile banking; consumers with this preference in January 2014 are likely to have selected online banking or "other" (here displayed in the same column as mobile from the 2015 survey). We exclude consumers who report that they have not managed a transaction in the past 12 months. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%.

When we look at these simple transactions, there has been a sharp drop off in the number of people undertaking these tasks in branches over the past 18 months, as Figure 2 illustrates. When we look at people making or managing simple transactions, the proportion who did so in a branch fell from just over half (55%) in January 2014 to 28% in September 2015. Over this time period we have seen an increase in the number of people managing these transactions online instead, with nearly three-quarters (73%) of those who undertake this task using this method. Telephone and written correspondence with banks, however, continues to decline as a way of managing everyday transactions, as consumers move towards quicker ways of managing their money.

Figure 3: Preferred channels for consumers managing transactions (e.g. setting up a direct debit, making a payment, transferring money)



Source: Opinium/SMF, September 2015. Respondents who had managed a transaction (set up a direct debit, made a payment or transferred money) in the last 12 months were asked for their single preferred method to undertake that activity. Answers sum to 100%.

Two-thirds of the consumers who manage simple financial transactions or direct debits (65%) now prefer to do so online. The difference between these preferences, illustrated in Figure 3 and actual behaviours represented in Figure 1 and Figure 2, demonstrates a growing desire to avoid face-to-face, written or telephone communication when carrying out these simple tasks. More consumers report that they are using these methods (28% for face-to-face transactions and 19% for written or telephone communication) than would prefer to use them. This could be because, although we appreciate the benefits of new technology, it is taking slightly longer for habits to adjust, or it could be that technology doesn't yet let us do everything we want online, and in some cases consumers are being forced to revert to old methods. In line with this persistence of more traditional communications channels, there is limited appetite for doing more through mobile apps – just 7% of consumers say this is their preferred channel for making or managing transactions.

When we look specifically at simple, everyday banking transactions, therefore, it's clear that consumers increasingly want to carry these out digitally. However the decline in use of branches for these purposes is much steeper than the overall decline in branch transactions (just 6% in 2014 according to the BBA),[22] We might not want to carry out simple, everyday transactions in branches, but we are clearly still using them for something – so what? Next, we consider a series of more complex transactions.

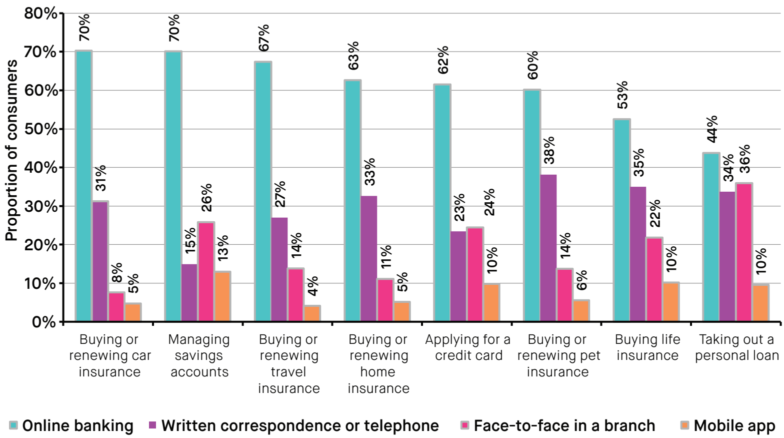
FAMILIAR PRODUCTS AND REPEATED PURCHASES

Most people are also willing to apply for and manage familiar financial products, like credit cards and insurance, online.

As well as carrying out simple transactions online, there are some financial products consumers are apparently happy to buy without visiting a branch – though a significant proportion of these consumers will seek some personal contact by phone or through written correspondence rather than just buying online as illustrated in Figure 4.

Consumers seem to be relatively comfortable buying insurance online – seven in ten people (70%) buy or renew car insurance online, as do two-third of those buying travel (67%) or home (62%) insurance, as illustrated in Figure 4. But in each of these product markets, at least a quarter of customers seek help by telephone or in writing from a provider before making their purchase. Six in ten (62%) people who apply for a credit card do so online, but nearly half (48%) still seek personal advice either face-to-face in a branch or through telephone or written correspondence, either. With more emotive decisions – life insurance and personal loans, which might involve considering your mortality, or making a sizeable purchase like a car or home improvements – the proportion applying online falls to 52% and 44% respectively. Seven in ten consumers (70%) seek personal contact, either face-to-face in a branch, in writing or over the phone when taking out a loan, as do more than half (57%) of life insurance customers.

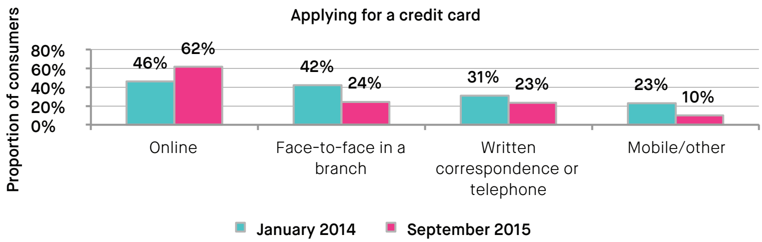
Figure 4: Channels used by consumers who purchased or applied for common financial products in the last 12 months

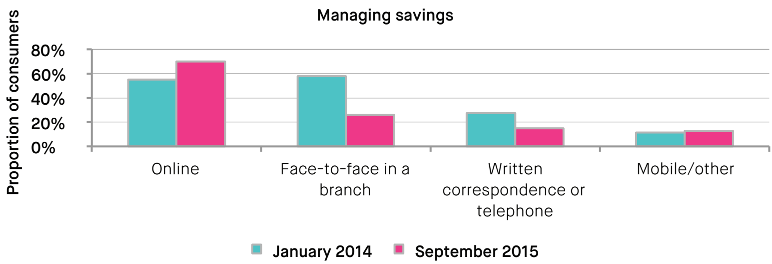


Source: Opinium/SMF, September 2015. We exclude consumers who have not purchased a particular product in the past 12 months. Base size for each product is presented in Appendix A. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%.

As with simple transactions, there has been a move to managing these products online, largely at the expense of applications in branch over the past 12 months, illustrated in Figure 5. As with the simple transactions discussed above, consumers have moved away from applying for and managing these products in store, and have instead moved towards online tools. As with the everyday financial management there has also been a decisive shift away from telephone and written communication – the proportion of consumers managing their savings in writing or over the phone has nearly halved from 28% to 15%, while the proportion managing them online has grown from 55% to 70%. These figures show that the shift to digital management of these tasks was clearly well underway by January 2014 but consolidated further over the subsequent 18 months.

Figure 5: Change in channels used to undertake a selection of familiar, repeated financial transactions, January 2014 - September 2015

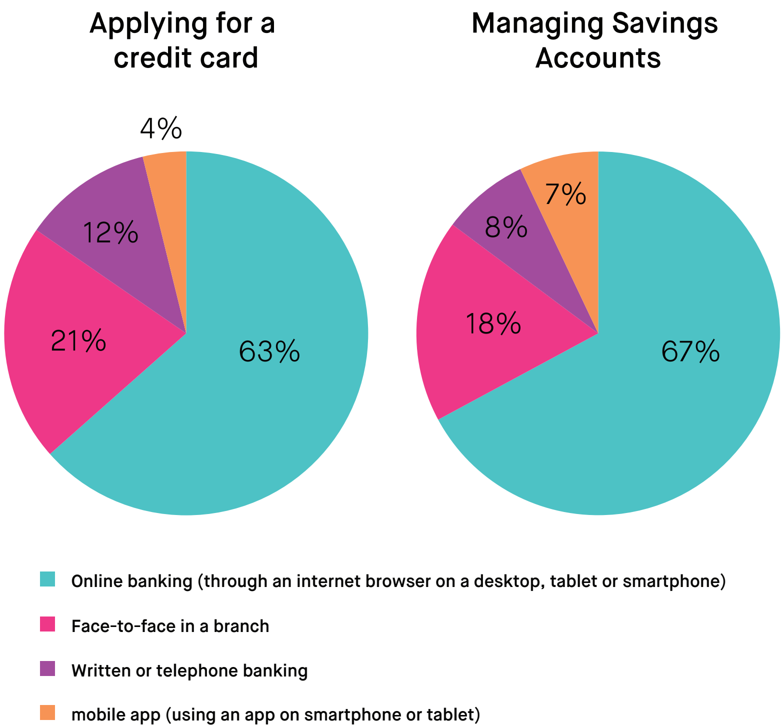




Source: September 2015: Opinium/SMF, January 2014: ComRes/SMF. Earlier survey data did not ask specifically about mobile banking; consumers with this preference at in January 2014 are likely to have selected online banking or "other" (here displayed in the same column as mobile from the 2015 survey). We exclude consumers who have not purchased a particular product in the past 12 months. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%.

Further evidence of a shift to managing these familiar products online is provided by reported preferences for managing savings and applying for credit cards. When asked to pick a single method for these tasks – the way they would ideally carry out all related transactions, if possible - a significant majority of users chose online. This implies that, as with simple, everyday transactions, some users who are managing their savings face-to-face or through written or telephone communication would prefer to switch to a purely digital format, demonstrated by the fact that the proportion of consumers who prefer these methods, shown in Figure 6 is smaller than the proportion of consumers using them illustrated in Figure 4 and Figure 5.

Figure 6: Preferred channels for consumers undertaking familiar, repeated financial management or purchases



Source: September 2015: Opinium/SMF. Respondents who had completed a given type of transaction in the last 12 months were asked for their single preferred method to undertake that activity. Answers sum to 100%.

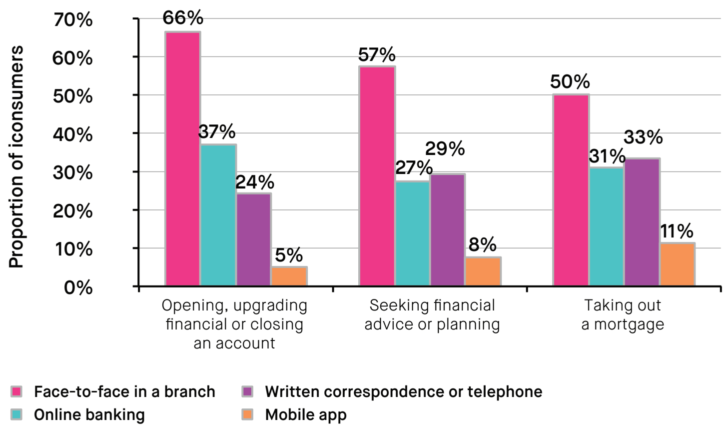
COMPLEX PRODUCTS: SEEKING REASSURANCE

This evidence suggests that over the past 18 months there has been a clear shift towards online money management. When it comes to simple transactions or repeated and familiar purchases like credit and insurance products, consumers are happy to manage their money online. When we look at more complex, long-term products, however, this pattern begins to change.

> When it comes to big financial decisions, like taking out a mortgage (47%) or seeking financial advice (51%), most people prefer to visit a branch.

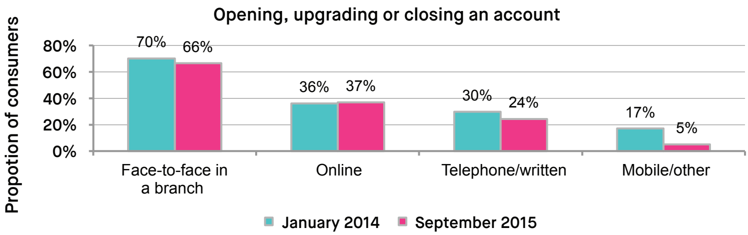
For big financial decisions, the continued consumer preference for face-to-face interaction is clear. Half of consumers who take out a mortgage (50%) do so in store, and more than half (57%) of those seeking financial advice go into a branch. Most people also choose to go in branch to open an account (66%), as illustrated in Figure 7. That's not to say that nobody is doing these things online, but digital channels are less important when it comes to these products, in stark contrast to the simple transactions and more familiar products considered above.

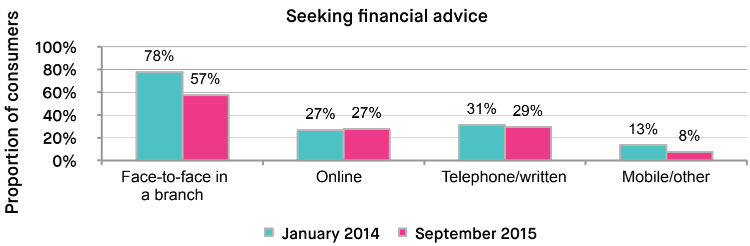
Figure 7: Channels used by consumers to take long-term or more complex financial decisions



Source: Opinium/SMF, September 2015. We exclude consumers who have not purchased a particular product in the past 12 months. Base size for each product is presented in Appendix A. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%.

Figure 8: Change in channels used by consumers to open, upgrade or close accounts and seek financial advice, January 2014 - September 2015



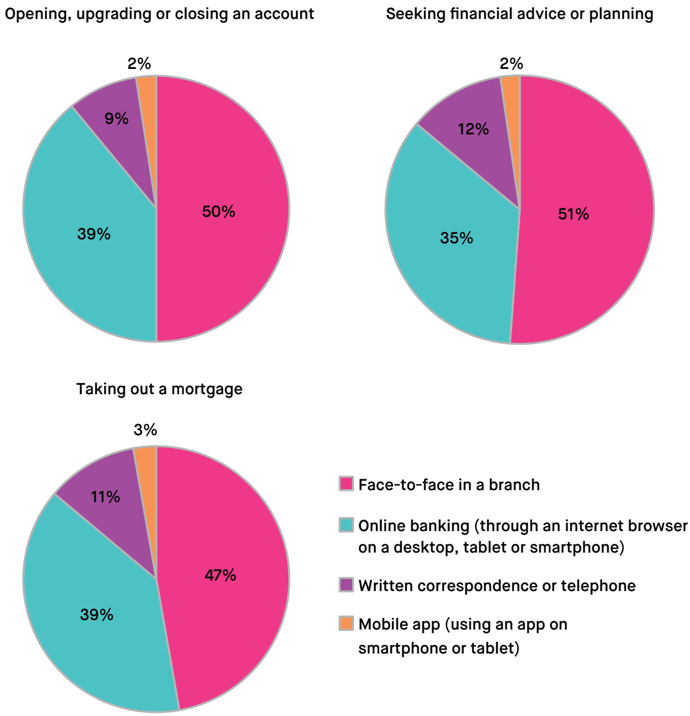


Source: September 2015: Opinium/SMF, January 2014: ComRes/SMF. Earlier survey data did not ask specifically about mobile banking; consumers with this preference in January 2014 are likely to have selected online banking or "other" (here displayed in the same column as mobile from the 2015 survey). We exclude consumers who have not purchased a particular product in the past 12 months. Consumers were asked to select all of the ways they had undertaken a particular transaction in the past 12 months. As a result, columns may sum to more than 100%.

There is a possibility that, in some cases, consumers are forced to undertake these more complex transactions in branches, rather than online – for example, because identity checks need to be carried out. However, in sharp contrast to the patterns seen in Figure 2 and Figure 5, there has been only a very marginal increase in the proportion of consumers carrying out these complex financial tasks online over the 18 months to September 2015, shown in Figure 8. The decrease in the share of consumers carrying these tasks out face-to-face is also smaller compared to less complex tasks illustrated in Figures 2 and 5.

Furthermore, when we ask consumers to pick a single preferred channel for these more complicated transactions, many opt for a face-to-face conversation in a branch, as illustrated in Figure 9. A majority of consumers would prefer to seek financial advice in a branch (51%) and open or close accounts in this way (50%). Although a higher proportion of consumers would prefer to carry out these tasks online than do so at present, the persistence of the preference for face-to-face conversations in striking. Consumers continue to value access to branch services when managing the more complex aspects of their finances, but those who are using other forms of remote communication with a branch – written correspondence or by telephone – would often prefer for this to be online. The confluence of reported behaviour and preferences in the most recent survey data - the similarities between reported behaviour in Figure 7 and preferences in Figure 9 - suggests that we might have reached the point where those consumers who are happy to undertake more complicated financial transactions online are already doing so, while branches remain important for the rest of the population.

Figure 9: Preferred channels for consumers undertaking complex financial transactions or those with long-term consequences



Source: September 2015: Opinium/SMF. Respondents who had completed a given type of transaction in the last 12 months were asked for their single preferred method to undertake that activity. Answers sum to 100%.

WHO IS MANAGING THEIR MONEY ONLINE – AND WHO STILL USES BRANCHES?

Given our results about the continued importance of branches to UK consumers, we tracked the patterns in how different groups of consumers balance online and offline experiences in banking[23] to understand who is using which channels and why.

This analysis established four main types of financial behaviours, described in Figure 10. Together, these patterns of behaviour describe how 67% of the UK adult population access financial services. The remaining 34%[24] combine online, face-to-face, written and telephone communications with their financial services providers in a wide variety of ways, with no clear patterns according to the complexity or simplicity of transactions. Mobile app use is combined with other online communication in this analysis as the base size of mobile users within the sample is too small to make further analysis meaningful.

Figure 10: Patterns of consumer behaviour in financial services

1. Everything online	2. Face-to-face only
This group carry out all financial transactions online, regardless of complexity. **38% of the population.**	**This group carry out all transactions, no matter how simple, in branches.** **7% of the population.**
More likely to: • Be male • Be slightly older • Be in full-time work or retired • Be Scottish • Have a relatively high income • Have a degree-level qualification	More likely to: • Be female • Be unemployed or otherwise not working (e.g. looking after family) • Be a Londoner • Be older • Have only low-level qualifications (GCSE or less) • Have incomes significantly below the average • Have a relatively low level of financial sophistication – they have experience of fewer financial products than other groups.

3. Mostly online, complex in person	**4. Simple online, but seek help for other tasks**
This group are happy to undertake simple transactions, or repeated, familiar purchases online. But when it comes to big financial decisions and more complex matters, they seek help in a branch. **17% of the population.**	**This group are happy to undertake simple, day-to-day transactions online. But when it comes to purchasing products they seek personal reassurance – sometimes in branch, sometimes in writing or by phone.** **4% of the population.**
More likely to: • Be female • Work full-time or be a full-time student • Be under 40 • Have a relatively high income • Be relatively financially sophisticated – they have experience of a range of financial products, but don't use the most complex products like investments.	More likely to: • Be significantly older (over 60) • Have a relatively low income • Be retired • Have lower levels of experience with financial services products, on average.

Source: SMF analysis of Opinium/SMF Balancing Bricks & Clicks survey, September 2015

Four in ten (38%) UK consumers now carry out all their financial management online.

Men are more likely to manage all their financial transactions online. Perhaps surprisingly older consumers are more likely than average to manage their money completely online, while fewer younger consumers behave in this way than we might expect. People in full-time work are slightly over-represented in this group – but so are retirees. Of all regions, Scotland has made the largest jump towards this model, perhaps a reflection of the benefits that online connectivity can bring to the most remote areas. Those who manage their money exclusively online have, on average, relatively high incomes, and are slightly more likely to have a degree-level qualification.

Women are substantially more likely to manage all their finances face-to-face. The unemployed and others who aren't working (for example stay-at-home parents) are slightly more likely to rely completely on branches. Those who bank face-to-face are notably older than average too. Incomes among those who only manage their money in person are, on average, relatively low, reflecting relatively low levels of qualifications across this group.

While older people are most likely to carry out all their financial tasks through branches, younger people are keen on the support they receive in a branch when making big decisions.

Women are more likely to seek reassurance in person when attempting complex financial tasks – they make up 55% of the group who will complete simple money management tasks and repeated financial purchases online, but go in branch when making a major decision. This group is relatively young, with full-time workers and students are over-represented– making use of online and mobile financial services where they can, but heading to a branch to make big decisions. As a result, average income in this group is slightly higher than across the population as a whole. Retirees are under-represented: it seems that older people are either comfortable completely managing their money online, or fall into the fourth group – they would rather seek help in writing or over the phone.

The final group – those who are willing to complete day-to-day transactions online, but seek help either in branch, by phone or in writing for anything more complex, is smaller, but still large enough to represent a distinctive type of behaviour. Women are again over-represented in this group, making up 60%. Students are under-represented – while they're likely to want help with complicated transactions they're much more likely to seek this in branch than through other forms of remote communication. This group is older than average, perhaps reflecting the reliance of older generations on phone contact rather than the internet.

> The majority of people (56%) still use a range of different ways of contacting their financial services provider, depending on the task at hand.[25]

Beyond these groups, a third of the population (34%) combine online, remote and in-person methods of communication with their financial services providers in a much less predictable way. These consumers tend to be more affluent than average, and to have higher qualifications. They're also relatively financially sophisticated.

This analysis illustrates that even relatively affluent, highly qualified and financially sophisticated consumers still prefer to carry out some financial transactions in branches. As well as providing an important point of access to financial services for older and less affluent consumers, branches are a critical source of support in financial decision-making to a significant proportion of the population.

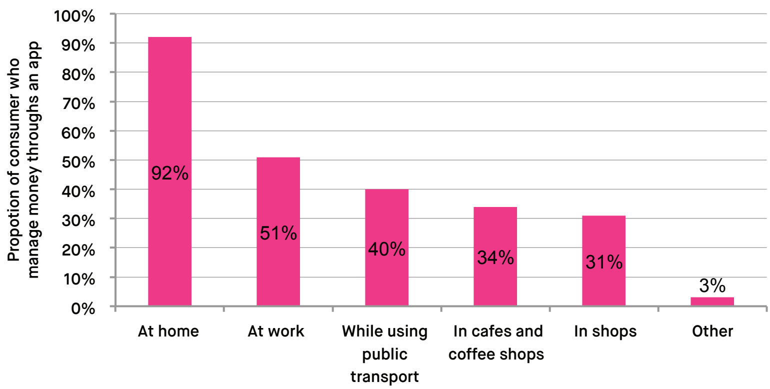
WHAT MOTIVATES OUR CHOICE OF COMMUNICATIONS CHANNEL?

We know that most consumers prefer to interact with their bank in a number of different ways, depending on the task at hand. And there are some general preferences – for example, to undertake more simple tasks online and take more complicated decisions in branch. What reasons do we have for choosing these channels? Understanding what motivates this preference will help us to make sure consumers' needs are met today and in future.

Unsurprisingly, convenience is king when it comes to online banking. Over 80% of those who manage transactions (86%) or check their balance and statements on a mobile (86%) say convenience is a key factor. Speed is also important for those who choose to manage their money on the go, cited by more than half of those who check their balance (59%) or manage their account (53%) through a mobile app. The final factor in favour of mobile money management for most consumers is the ability to choose a time that suits them. More than half of those who check their balance or make and manage transactions on a mobile app say this is why. Mobile wins out slightly over online banking in terms of convenience and speed, but both are still major determinants for those who prefer to do things online.

When it comes to mobile, however, it seems it's the omnipresence of our devices rather than the do-it-anywhere nature which is the key attraction – 92% of those who use a mobile app to manage their money do so while they're at home. Only a third of consumers who use mobile banking apps report that they use their apps to manage their money in public places like cafes (34%) or shops (31%), as illustrated in Figure 11. But this might grow over time, as younger groups show a more relaxed attitude towards dealing with their finances in public. Nearly half (45%) of 18-29 year olds would use their mobile banking app on public transport, compared to just a quarter (24%) of over 50s.

Figure 11: Where do consumers use their mobile banking apps?



Source: SMF/ Opinium, September 2015. Base: all consumers who report that they carry out at least one financial transaction through an app.

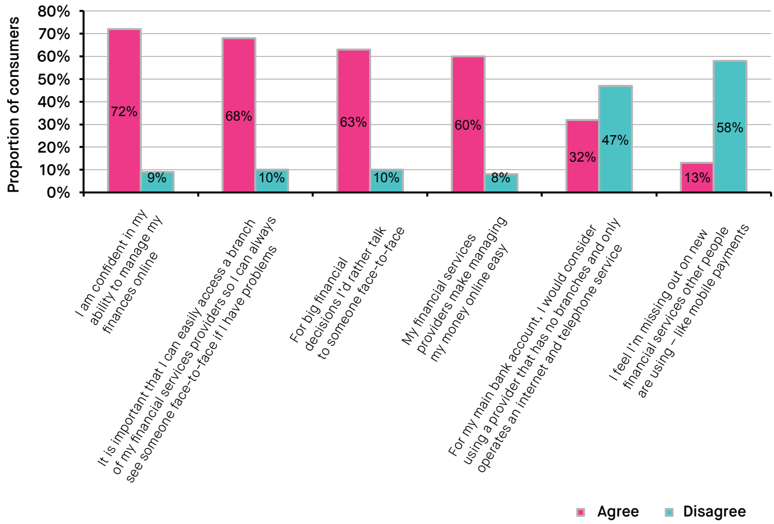
When it comes to complex transactions, many consumers choose to carry these out in branch because things are 'less likely to go wrong'. More than half (51%) of all consumers who opened, upgraded or closed an account in branch said this was a factor, as did 42% of those who took out a mortgage in branch. The level of support received when making more complicated decisions in branch is also appreciated by consumers, and cited as a reason for preferring this channel by 43% of those who sought financial advice in a store.

The different reasons consumers give for using different channels to communicate with financial services providers, much like the way different channels are used for different tasks, suggests that branches and online services are complimentary, rather than competing.

WHAT ROLE DO BRANCHES HAVE TO PLAY?

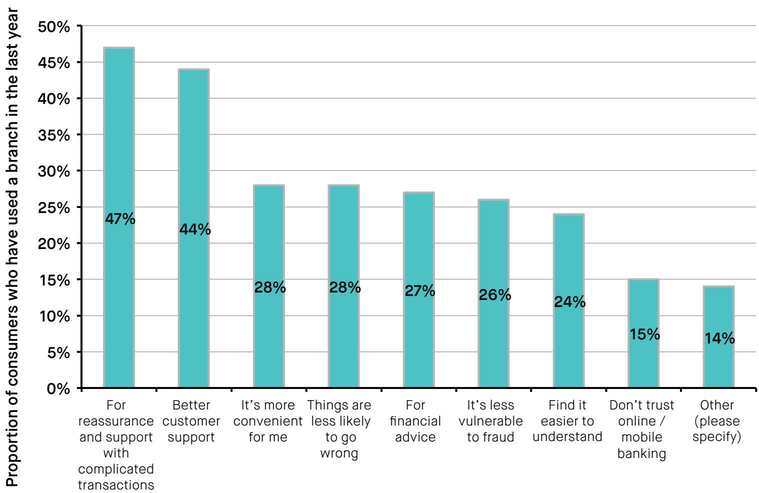
Consumers use branches when they want reassurance or support, often with a more complex transaction. This is further illustrated by the attitudinal data in Figure 12. Nearly two-thirds (63%) of consumers agree that they would rather talk to someone face-to-face when making a big financial decision, and nearly seven in 10 (68%) think that it's important to have access to a branch of financial services providers so you can always solve problems face-to-face. Although most consumers (72%) are confident in their ability to manage their finances online, nearly half of people who used a bank branch in the last 12 months did so for reassurance (47%) or better customer support (44%), as shown in Figure 12. A quarter of those who visited a branch in the last 12 months did so for financial advice – despite recent regulatory changes which have limited the ability of financial services providers to offer advice, consumers still see high streets as a crucial source of guidance.

Figure 12: Consumer views on accessing financial services



Source: Opinium/SMF, September 2015.

Figure 13: Consumers' reasons for visiting branches



Source: SMF/ Opinium, September 2015. Excludes consumers who have not visited a branch in the last year.

> Nearly two-thirds of consumers (63%) would prefer to talk to someone face-to-face when making a big decision, and nearly half (47%) of all those who visited a branch in the last 12 months said this was for reassurance and support with complicated transactions.

Moreover, this preference for heading to a branch when attempting something tricky holds across age groups and regardless of self-perceived financial confidence. Even those consumers who feel confident in their ability to manage their finances prefer to talk to someone face-to-face when making a big decision. And, contrary to what we might first expect, younger generations have stronger preferences for undertaking complex transactions in branch than older generations, suggesting that the reassurance and support offered by branches is most important for 'first-time' buyers – three-quarters (72%) of under 30s would want to seek face-to-face advice when making a big decision, compared to 61% of over 50s. Branches will continue to play an important role in providing guidance around big decisions, helping consumers through their financial journeys as they gain capability and confidence.

Branches could also play a significant role in helping those who feel locked out of innovation in the sector – particularly the 14% of consumers who aren't regular internet users.[26] Those who are less financially confident are also less likely to agree that their providers make managing money online easier and less likely to feel confident managing their finances online. As these people are also more likely to be unemployed, on lower incomes and with lower qualifications, suggesting there is a role for branches to play in educating consumers about online financial services boosting their confidence and helping to build financial resilience.

Given the importance of branches in providing reassurance, it isn't surprising that only a third of UK adults (32%) would consider using a bank without branches. The proportion of people who are willing to think about using a bank without physical locations is thus smaller than the number of consumers who already prefer to manage all their financial transactions online (37%). Over a third (37%) of consumers couldn't think of anything that would stop them from using branches to manage their money and nearly half (47%) wouldn't consider using a bank without branches.

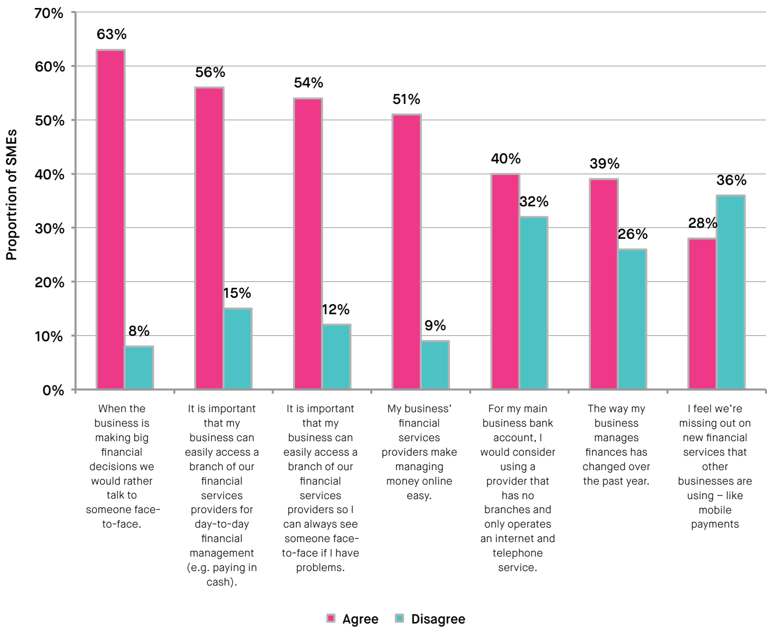
This might suggest that we've already reached a point of balance in the way we manage our finances – while those who currently manage some of their finances online might move across to mobile, as younger people have done, most consumers don't see themselves giving up branches. This may also be reflected in the fact that although a quarter (26%) of consumers have changed the way they bank in the past 12 months, this appears to be driven by younger people moving from online to mobile banking, rather than consumers abandoning branches. Our evidence suggests online and mobile access to our finances doesn't substitute for branch banking, but complements it.

THE BUSINESS CASE

This report has focused on consumer use of financial services. However when talking about physical financial services, it is also important to recognise that many small or medium enterprises (SMEs) rely on access to a bank branch, as illustrated in Figure 14. This data, drawn from a survey of 1,041 SME decision-makers, shows that like consumers, small businesses have made significant progress towards adopting digital financial services technology, but access to physical financial services remains important. Nearly two-thirds of SME decision-makers (63%), like consumers, prefer to talk to someone face-to-face when making a big financial decision. More than half (56%) of SMEs also need access to physical financial services for day-to-day management of the business. But, like consumers, over half (51%) of SME decision-makers think their financial services providers make managing money online easy. And, demonstrating the diversity of small businesses in the UK, four in ten small or medium businesses (40%) say they would be willing to use a provider with no branches and only online or phone service as their main bank – higher than the 32% of consumers who agreed with the same proposition in Figure 12.

Like the consumer survey data, this SME attitudinal data shows that businesses are increasingly managing their money online on a day-to-day basis, but still want to be able to access physical financial services when things go wrong, or when there's a big decision to make. Separately, access to services for processing physical cash remain important to a small majority of SMEs, and although this may decline in the coming years as digital payments become even more common, in line with the trend discussed in Chapter 1, it's important that through this transition period suitable arrangements are put in place.

Figure 14: Small- and medium-sized enterprises' (SMEs') views on accessing financial services

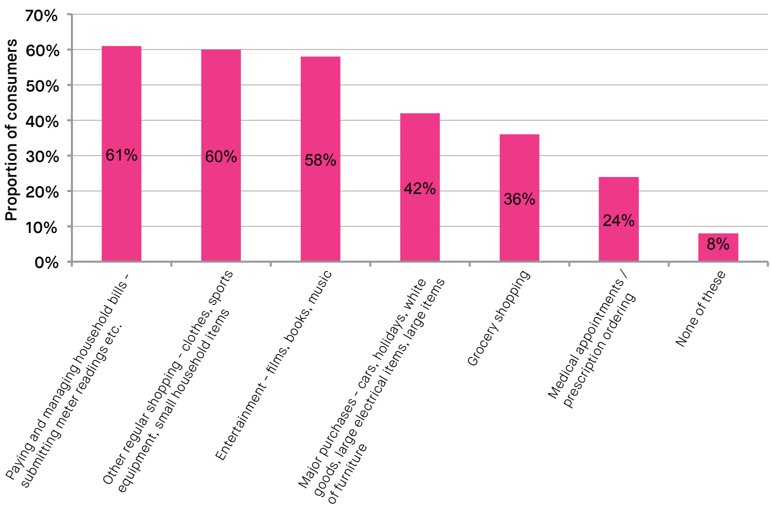


Source: Opinium/SMF, Business Banking survey, December 2015

STRIKING A BALANCE

On the basis of our analysis, financial services appears to be evolving in the same way as other consumer-facing businesses in the internet age – with a role for both physical and digital services. As Figure 15 shows, although a majority of consumers now buy some goods – notably clothes, small household items and entertainment – and manage their utility bills online, we have been less quick to move to managing other areas of our lives in this way. Only just over third (36%) of consumers, for example, have taken to online grocery shopping, although this service has been offered for over a decade, and only one in four manage medical matters, like booking appointments and ordering prescriptions, online. And once again, patterns of behaviour don't follow clear age lines – while under-30s are the most likely to buy clothes and entertainment online, over 60s are most likely to be using the internet to manage their household bills and organise medical needs. It seems like we are choosing to interact with different services in different ways, just as we interact with different types of financial services through different channels.

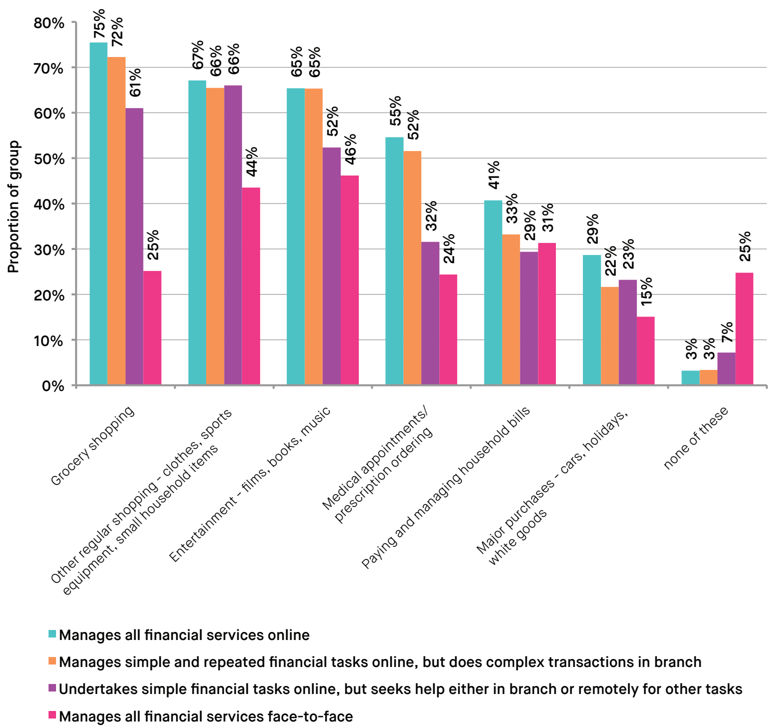
Figure 15: Proportion of consumers who shop online across markets



Source: Opinium/SMF, September 2015

There also appear to be parallels between consumer behaviour in financial markets and other online tasks, as illustrated in Figure 16. Here we can see that those consumers who always manage financial services online are also more likely to manage other areas of their lives online, while those who prefer to bank face-to-face are less likely to shop online too. But, more importantly, that significant group of consumers who carry out most of their money management online, but rely on branches for complex transactions, are almost as likely as those who bank only online to manage other aspect of their lives on the internet. This suggests that, as in grocery shopping and healthcare, demand for bank branches when making complex choices is likely to persist.

Figure 16: Comparing behaviour in financial services and other markets



Source: Opinium/SMF September 2015, SMF analysis

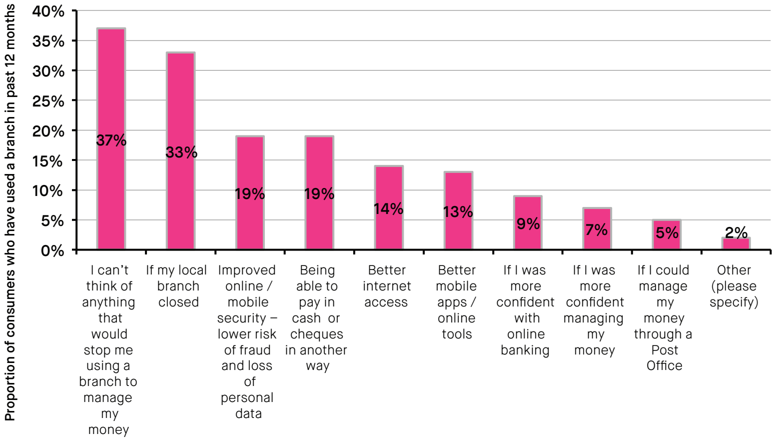
FINANCIAL SERVICES IN THE FUTURE

Although convenience has already led most consumers to manage at least simple financial services tasks online, fear of fraud and errors remain barriers for some.

> Only a third (32%) of UK consumers would consider using a bank which had no branches as their main financial services provider and more than a third (37%) couldn't think of anything that would stop them from using branches to manage their money.

More than a quarter of those who use branches do so because they believe things are less likely to go wrong (28%), and because they're less vulnerable to fraud (26%). A substantial number of consumers also mentioned the continuing need to visit branches to deposit cash and cheques in our survey. Improvements in fraud detection and prevention, along with better public education about the risks and benefits of online banking could help to overcome some of this reluctance, which is also likely to fall further over time as technologies become more deeply embedded in our daily lives – in the same way we see higher willingness to use mobile banking apps, and to do so in public, among younger people. However only one in five branch users (19%) think that better security or another way to pay in cash and cheques would make them abandon branches completely, as illustrated in Figure 17.

Figure 17: What would stop customers using branches?



Source: Opinium/SMF September 2015. Base: all consumers who have used a branch in the last 12 months

On the basis of current trends, it seems likely that in the near future the use of online and mobile tools to complete simple transactions may grow – for example, as consumers gain the ability to scan and cash cheques using their smartphones. It seems unlikely, however, that demand for bank branches as a source of reassurance and support will disappear from the frontline of financial services. But branches are expensive – high street locations, staff salaries and security costs quickly mount up. Financial services providers will have to think flexibly about how they can meet consumer needs while maintaining a competitive cost profile.

CHAPTER 3 – BALANCING CLICKS AND BRICKS IN BANKING

This closing chapter will look ahead to the future, building on our description of the current state of financial services and, using our consumer insights, consider what may happen over the next period.

The core of this chapter is a set of hypotheses – or predictions of leading trends - about how we might bank in the UK in 2020. We will go on to discuss what these trends might mean for: the provision of financial advice; competition in the sector; and financial inclusion.

WHAT CHANGES MIGHT BE COMING

Let's go back to where we began – mobile banking. We observed at the outset of this report that first online and then mobile banking had driven recent changes in how financial services are provided. So what are the next steps for mobile banking? Whereas financial services so far have been translated to the format of the mobile, primarily to reduce cost for providers and improve convenience of access for consumers, what we are likely to see next is a shift to mobile-first design in financial services. This would see tools designed specifically for mobiles, as opposed to scaled down versions of full internet sites, allowing providers to make better use of the closer proximity to the consumer and greater frequency of contact they enjoy with mobile apps.

This could go in a couple of different directions. The first is that we may see some 'unbundling' of financial services. We typically use, for example, different apps to look at news and weather. Equally sports news is often accessed through a different set of apps from other news. And major sporting events – whether that is Wimbledon or the Rugby World Cup – have their own apps. This unbundling allows the user to get more quickly to the content they want to see at that particular moment; to go deeper; and to customise the experience.

Thinking about this in the context of financial services, the link is to more complex transactions. As our analysis of consumer attitudes demonstrated, we look for more reassurance and support on these as compared to simple daily money management tasks. For the moment, the branch provides this extra level of customer care. But mobile-first design in financial services could replicate that. For example, a tailored mortgage or insurance app – with customer support built into it, in the form of information videos, a chat function or the option of connecting by video to an adviser – would provide customers with an experience very much like the one they currently receive in a branch. In other words, what we might see is that, over time, your financial services provider occupies more space on your smartphone rather than less, branching out from a single, generic app to several bespoke ones in the pursuit of a higher quality consumer experience.

Mobile banking is likely to develop specialist apps for particular transactions, which may try to mimic some parts of the in branch experience using functions like live or video chat.

The second trend in mobile banking could be the ongoing disruption to traditional financial services providers by established technology firms. What is striking for the moment is that the move to mobile banking has not created a whole new set of market leaders in financial services, whereas the move to mobile in other retail sectors certainly has done so – just think of the emergence of Amazon in book retailing or Spotify in music. The barriers to entry though are falling and the opportunities around aggregating consumer data to deliver value are very significant. While financial services for the moment looks like the exception to the rule in the 'new mobile marketplaces', this exceptional status is likely to change. Certainly by 2020 what we might see is that at least one of the presently small online-only financial services firms has grown to be a scale challenger through partnership with – or acquisition by – a technology firm.

While mobile-first and online-only providers will grow only slowly, we can expect one to achieve scale by 2020. We're also likely to see the emergence of aggregator platforms which help consumers manage products held at different providers and budget thoroughly.

Aggregator services, which collect information from all the different financial services providers a customer uses and presents the information in a single interface, have yet to gain significant ground in the UK thanks to concerns about security and fraud protection. But they have taken off in the US, with many consumers using a platform like Mint, Quicken or You Need a Budget to keep track of their spending across different accounts and credit cards, manage their budget and receive reminders of upcoming bills. Mint now has over 10 million users in the US.[27] Most of these services 'screen-scrape' data from a consumer's online banking services to provide a single picture of all their debts and assets. With tech companies like Apple already expanding into payments and allowing consumers to use multiple cards through a single platform, there is significant potential for them to develop or acquire aggregation capabilities. Banks have a tremendous amount of data about consumer habits, which could be used to help them find better deals, understand their own behaviour and improve financial insight. Providing access to and making use of this data through aggregation is likely to be a major trend for banks over the next decade.

Now that might seem interesting to an industry analyst but what is it likely to mean for consumers? One possible advantage of this heightened competition may be a much stronger focus by everyone in the market on winning but - perhaps most of all – on retaining customers. Some of this focus will be on price, i.e. on reducing the cost to consumers of financial services, or increasing the reward from savings products; but equally some of it will be on the quality of service.

For consumers, this should mean stronger competition in financial services, bringing innovation and better value.

If we assume that the technology-first firms will have a stronger offer on innovation, then the competitive advantage for others will be in deploying their branch network – the anchor for trust and reassurance for the large group of consumers who use them and want to continue using them – most effectively.

We can observe this change already – banks have invested in their branch network, not only to modernise branches but to make them more pleasant places for 'shopping'. Counter-intuitively, while there may be a smaller number of branches in future, and we may go to them less often, when we are there, we may be there for longer. As cash transactions continue to fall, we gain the ability to pay cheques in remotely and the older generations who continue to rely most on doing simple things in branches age, branches will become spaces for conversations, rather than straightforward transactions. More branches are likely to follow the existing trends of bringing staff out from behind glass counters and instead, customer services is likely to become increasingly relaxed and personalised – with customers offered tea and coffee, for example. Given that bank branches are increasingly focused on complex transactions, these changes will be designed to help customers relax, avoiding the formality of old-style branches and the stress many associate with making big financial decisions.

Branches will become places we go to have conversations, rather than undertake transactions, and will be redesigned to make consumers feel comfortable.

With cash likely to persist for the medium term at least, however, convenient access to facilities for processing it will remain a dimension of competition for certain consumers, and certainly for small businesses. With branches competing against specialist apps, in the consumers' hands 24/7, financial services providers will have to consider how they can make physical financial services accessible in a way that suits customers too. This may be mean considering locations away from the high-street, given the decline of high-street shopping. Some providers may focus on larger centre-of-town branches, while others may establish presence in other community hubs, like supermarkets and Post Offices. Accessibility of expert guidance around major life events or when problems arise will be crucial, but the cost of this model compared to digital-first services will mean that providers have to think carefully about how they manage these costs.

If most of us use branches less frequently, we may be willing to travel further to reach them. But the proximity and ease of access to physical financial services will remain important for some time to come as we continue to use cash. Rather than branches, these transactions could take place in community settings like supermarkets and Post Offices.

Together, the growth of mobile apps and changes to branches point towards a deeper relationship between consumers and financial services providers. Consumers are likely to check their finances more often as this becomes easier, but also to see their bank as a source of advice when making big decisions.

Finally, it seems likely that the present concern that consumers have with security – as picked up in our research - will persist. With recent scandals highlighting the vulnerability of consumer data in some of the UK's largest firms, this is likely to become both a strength of branch provision and an area of focus in mobile development.

Security will remain a concern, because in the online world we have only limited control. Financial services firms will continue to develop the security features of their online tools, but branches will remain important as a way of ensuring security.

Often online security is treated as a technical problem that can – and will – be solved, given time with better encryption and data security. But this is to misunderstand the nature of our concern about security. We care about security because we want to have control over our data and that is not a technical problem to be resolved – it is a fundamental aspiration.

Equally, for just as long as there is a financial gain for some person or organisation in compromising the security of our data and our money, then there will be people trying to do it – and succeeding. Despite more complex online security, the cost of online banking fraud to the industry rose by 48% in 2014, to £60.4 million.[28] The persistence of this crime will reinforce the demand the rest of us have for the provision of security. Mobile financial services can provide security this, and there will be a big focus in the coming years on enhancing the protection and authentication of identity that can be delivered via a smartphone, through tools like face recognition and pulse tracking. Nevertheless, branches – and face-to-face dealings with another person more broadly – will always out-compete a device in terms of meeting our desire for security by providing simple visual confirmation that we're dealing with our financial services providers, not someone pretending to be them through a mirrored website. We might well tap in with our phones when we go to the bank branch of the future, to enable quick identification and customisation, and we might even authenticate our identity at first through an electronic signature or a touch ID, much as we would do online, but then the branch will also be able to provide added security – and an added sense of security – that gives it the advantage.

POLICY IMPLICATIONS

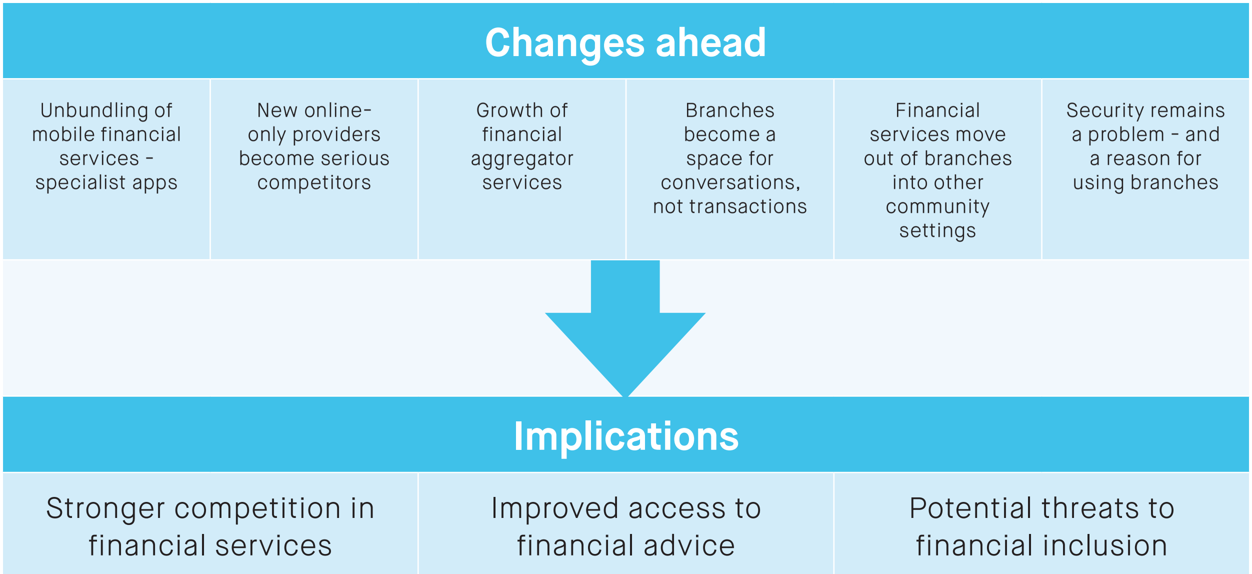
Mobile banking provides the possibility for financial services providers to deepen their relationships with consumers; to integrate more fully into our lives and use the data they hold about us to offer a wider range of services. But as these innovations come at a time of growing consumer choice and competition, there's a need to make sure consumers are adequately protected in this particularly complex market.

The current direction of UK public policy is towards strengthening competition among financial services providers. Recent reforms, for example, the removal of income tax on the first £1,000 of savings interest and 'freedom and choice' in pensions aim to boost competition, allow consumers to manage their money as they see fit. At the same time, policy is moving to increase financial resilience among families, and to encourage individuals to take responsibility for their own financial wellbeing, for example through the introduction of auto-enrolment which encourages private pension savings and increasingly generous ISA allowances. With further consolidation of public spending expected over the course of this parliament, families are increasingly being expected to support themselves through difficult periods.

These policies encouraging stronger competition, personal choice and household financial resilience, however, are likely to have limited success in a climate where many UK consumers struggle to manage their money. Financial capability is a significant problem across the UK. One in five UK consumers struggle to identify the balance on a bank statement; 21 million people don't have savings of £500 to cover a car breaking down or a washing machine needing replacing; around eight million consumers have debt problems but only one in six are seeking help.[29] For financial services providers and policymakers alike, ensuring consumers have the skills and support necessary to successfully manage their money is a priority, demonstrated by the recent publication of the Financial Capability Strategy for the UK, a decade-long plan to help consumers navigate markets, and the review of financial advice markets initiated by the Financial Conduct Authority (FCA) and HM Treasury amid fears of a growing 'advice gap'.[30] Our survey evidence suggests that branches are an important vehicle for improving financial capacity, as a place consumers go to seek guidance when making big decisions.

The policy implications of the behaviour we observe among consumers and the broader policy-making context fall into three areas - competition in financial services; access to financial advice; and financial inclusion – as illustrated in Figure 18.

Figure 18: Changes ahead and their implications



Source: Social Market Foundation

COMPETITION IN FINANCIAL SERVICES

Our survey data suggests that consumers are still keen to talk big decisions through face-to-face, which suggests that financial services providers with a branch network are likely to have a competitive advantage – and that the costs of establishing branches could make it difficult for new entrants to compete. While some of the new online-first players may be able to capture customers on the basis of innovative current account and budgeting offers, they may struggle to cross-sell more complex (and profitable products) and compete with incumbents across the full range of products.

But this is how competition goes. New entrants have cost advantages in other areas – for example, they're not saddled with legacy IT systems. And a lack of branches should encourage them to innovate and find alternative ways of providing customers with the support they desire, or to tailor their strategy towards those consumers who are happy managing their finances online.

It is important, however, that the big banks which dominate the market aren't allowed to create artificial barriers to innovation by competitors, and at present, the behaviour of some providers towards online financial aggregators could be described as such. Most banks in the UK consider providing an aggregator with your online banking login details – even if that aggregator uses the same data platform as the bank itself, and has the same level of online security – as a violation of terms and conditions, which can leave a customer facing the bill for any fraudulent activity on the account. These days we're all aware of the need to be vigilant about our online security, particularly with financial services. But aggregators are read-only services: even if someone else accesses a consumer's aggregator profile, they can't actually move any money. And although aggregators do have to hold the consumer's login details, most have the same security processes in place as banks themselves – indeed, in most cases they use exactly the same data platforms as mainstream financial services providers.

Elsewhere in the world, financial services providers have been much more relaxed about consumers using third party services like aggregators – explaining the much greater take up of services like Mint in North America. Aggregators can pose a competitive threat to banks, as they use the information about a consumer's financial services they gain in the provision of their platform to advertise other suitable products to them, on a commission basis. For the customer's primary bank, the use of the third party platform means they're losing the ability to cross-sell to their own products – and in some cases this has been enough to spur banks to create their own budgeting apps and provide this additional service to their customers. There's the potential to create a virtuous circle of innovation and competition, improving service quality for all consumers. As such, and given the limited truth in the current stance of UK banks that aggregator services represent a security threat, there is the possibility that UK financial services providers are blocking access to aggregators as a way of reducing competition.

Financial services providers and intermediaries like aggregators need to work in tandem through industries bodies to establish API protocols which satisfy security requirements and ensure consumers have access to innovative services. While some providers are already working with government to create a framework for open data sharing through the Open Banking Working Group, the government should retain the option to take action, including imposing fines, if providers drag their feet in implementing these standards, given their value in helping consumers to budget on the go, and their potential to improve the financial health of households. The Competition and Markets Authority (CMA) could also help to advance this agenda, by considering in its ongoing review of Personal Current Account provision whether the stance major financial services providers have adopted towards aggregator services is impeding competition in the UK. While the implementation of recent EU legislation, the Payment Services Directive II (PSDII), should remedy some of these issues within the next two years, we would argue that this is already significantly reducing consumer value and that the CMA should push for more prompt action to ensure consumers have access to aggregator services.

There is also the potential for the Post Office to act as a physical aggregator, providing customers with access to products held at a wide range of financial services providers through its partner banking model. At present this model allows customers of most major banks to carry out simple current account transactions in their local Post Office, and in doing so offers customers access to a range of financial services providers who may not have their own branches in the vicinity, increasing choice. Over time, and in partnership with other providers, this service could be expanded to allow consumers to carry out other simple transactions like moving money between accounts, paying credit card bills or into savings accounts. By allowing consumers who are less comfortable with online finance to manage a wider range of products from a variety of providers in one place this too could help to boost competition.

Stronger competition should encourage innovation; but we need to ensure the biggest incumbent banks and building societies aren't able to block new models they find threatening, particularly around account aggregation. The Post Office could increasingly act as a physical aggregator ensuring consumers who prefer to manage their money in person are able to access services from a wide range of providers.

ACCESS TO FINANCIAL ADVICE

Regulatory changes in recent years have tried to ensure that consumers have access to appropriate advice, with adequate protection and transparency over how that advice is paid for. First the Retail Distribution Review (RDR), implemented in late 2012, set new rules to ensure that those advising consumers on investment options were adequately qualified, would state if they were only able to recommend certain products and providers, and were clear about how and how much consumers were paying for advice rather than relying on commission. The Mortgage Market Review, implemented in 2014, made sure that mortgage providers were responsible for assessing the affordability of mortgages, and that most mortgage purchases would be advised.

These regulatory interventions were well-intentioned, with the aim of protecting consumers from poor advice and unsuitable products. But there have been suggestions that tighter regulation of financial advice in recent years has made it more difficult for high street financial services providers to offer advice to their consumers and created several problems. Most prominently, there are concerns that charging upfront for financial advice has created an 'advice gap', where the market price for advice is too high to be justified for all but the most affluent consumers. Other problems include a tendency for mortgage sales to follow a very formulaic path which is insufficiently flexible to the needs of individual consumers; it seems that in interpreting new regulations some providers have tended towards a tick-box approach.[31] By contrast, good advice involves listening to the needs of customers – something the FCA has highlighted in their work on vulnerable customers.[32] As we all have the potential to be made vulnerable by circumstances such as illness or bereavement, it's vital that financial services providers aren't distracted by regulation designed around a 'typical' customer to the point where they become inflexible to individual needs. Citizens Advice has also identified a gap around the awareness of free advice and guidance services, which could include as many as 10 million consumers.[33] While consumers' interests must be safeguarded against mis-selling, it is arguable that at present regulation has swung too far in this direction and is preventing consumers from accessing the advice they want and need.

In our new Opinium/SMF survey consumers clearly expressed a desire to receive support with financial decision making in branches from their financial services providers, and given the UK's financial capability needs it's important that this is made available. Two policy recommendations follow from this.

Firstly, the regulation of financial guidance and advice needs to be proportional to the potential harm the consumer faces from poor advice, or failing to receive any guidance at all. In the ongoing Financial Advice Market Review, it will be important to recognise the importance of proportional regulation of advice provision, so that providers don't have to put all consumers through the same system when it may not be relevant, and instead can adapt their processes to the customer's needs. This, in turn, will help to manage the cost of advice provision by allowing unnecessary steps to be cut out for more engaged consumers – for example, from our research, older, more affluent consumers, and should make it easier for high street financial services providers to offer their customers appropriate support.

Secondly, where it is not appropriate for financial services providers to offer advice in branch, we need to make sure consumers are signposted to alternatives. This may mean closer co-operation between financial services providers and government-commissioned services like the Money Advice Service, or third-sector organisations like Citizens Advice. While we have already seen some progress in developing these relationships to ensure consumers with problem debt are adequately supported[34], our survey evidence suggests there is a further gap at the point where consumers are choosing which product to take out. As earlier regulatory interventions recognised, advice at the point of a customer's purchase can avoid problems later on – so it's crucial that we make sure the financial advice sector and the UK's financial services providers are working in tandem.

Regulation of advice needs to be revised to ensure that high street financial services providers are able to offer the type of support that consumers desire on a flexible basis. Financial services providers should also work more closely with third-sector financial capability organisations to ensure that consumers are signposted to relevant services when purchasing products, in the same way they are currently directed to debt charities in troubled times.

FINANCIAL INCLUSION

Discussions around financial inclusion used to refer largely to access to basic bank accounts. But significant progress has been made on this front, with the introduction of fee-free basic bank accounts for those unable to obtain any other accounts. Our research suggests that access to physical financial services could be the next frontier for financial inclusion.

Our evidence suggests that the less affluent, those qualified only to GCSE level or lower, and the unemployed are particularly likely to rely on branches to manage their money on a day-to-day basis. Given the higher costs associated with the more intensive service consumers need with complex transactions, we may expect the current trend for branch closures to continue. Branches may become increasing consolidated in town centres as they become places most people visit only when making big decisions. Those who rely on branches for everyday banking might be left behind, as the costs of serving this relatively small group make it inefficient for banks to keep local branches open. Concurrently, some public policy changes, like the introduction of Universal Credit and plan to encourage households to become more responsible for the way they spend their benefits mean that access to appropriate financial services (including a physical branch) will become increasingly important.

We can't force banks to keep branches open. Instead, we need to think about alterative access routes for vulnerable consumers to ensure they receive the support they need. Community settings like Post Offices, credit unions and supermarkets could play an important role in ensuring this advice is still accessible, working in partnership to reduce overheads, making it cost-effective for banks to serve consumers who rely on physical financial services and ensuring these customers retain some choice of provider. Most consumers can already access the transactional services they would want to carry out in a bank branch, like paying in cheques, checking their balance and withdrawing cash, through a local Post Office. Expanding the range of services that customers of major banks can manage through Post Offices and other third party providers would help to boost the range of products these customers can access, for example, ensuring they can access savings and credit products from a range of providers. But given the vulnerabilities of these customers, it's important to ensure that they continue to receive adequate support with these more complex transactions.

As banks explore partnerships with the Post Office and other potential providers of physical access to their products, they must ensure than these consumers continue to receive the support they need, in a form that suits them. Counter staff must be able to direct consumers to other sources of advice where necessary, and that some of these services need to be face-to-face, in line with the preferences of these customers, who might shy away from dialling a phone number. That could mean signposting to local advice services like Citizens Advice Bureau or credit unions – who are already working in partnership with the Post Office in some areas.[35] The provision of advice and support to vulnerable customers is likely to be most effective when banks, Post Offices and the third sector work in partnership to identify the specific vulnerabilities of the local population and ensure adequate provision is available.

Access to physical financial services is likely to become the main barrier to financial inclusion, as the less affluent, those with basic qualifications and the unemployed are particularly likely to rely on branches to manage their money. We will need to consider alternative ways that these consumers can be provided with access to financial services and appropriate guidance and support.

APPENDIX A - BASE SIZES OF PRODUCT GROUPS

Product	Number of consumers who have undertaken transaction in last 12 months (weighted base size)
Managing savings account	1,377
Applying for a credit card	712
Taking out a personal loan	448
Buying or renewing home insurance	1,151
Buying or renewing travel insurance	825
Buying or renewing car insurance	1,143
Buying or renewing pet insurance	414
Buying life insurance	394
Opening, upgrading or closing an account	1,250
Taking out a mortgage	413
Seeking financial advice or planning	489

Source: Opinium/SMF September 2015.

APPENDIX B – METHODOLOGY

SURVEY METHODS

The analysis presented in this report is based on an online survey of 2,003 UK adults aged 18+ carried out by Opinium Research from 28 August to 1 September 2015. Results have been weighted to nationally representative criteria. The decision to use online methodology was made on the grounds of obtaining the largest possible sample size, and after running a test question to check that those who did not use online banking would be adequately represented in the results. The survey was designed to provide the broadest information possible about how UK consumers interact with a variety of financial services products and providers.

Elsewhere in the report, we also draw on a telephone survey of 1,008 consumers carried out by ComRes for the SMF in January 2014. This data, originally used in the SMF report Branching Out, was designed to be as inclusive as possible, and was weighted to be representative of British adults over 18.

The two consumer surveys are both weighted to be nationally representative of adults over 18, so their comparison as in Figures 2, 5 and 8 is a valid exercise. However some caution should be exercised in the weight given to these comparisons given the differing methodologies of the two surveys – for example, the online survey may have captured fewer non-internet users and subsequently over-estimate online or mobile banking use relative to the telephone survey.

Unless otherwise specified in the source notes, the base for each chart is all consumers.

We also commissioned an online survey of 1,041 small and medium enterprise decision makers to provide a brief insight into the importance of physical financial service for small businesses. This survey was conducted by Opinium between 27 November and 7 December 2015.

DATA ANALYSIS

To understand how consumers combine different channels of communication with their financial services providers, the new Opinium/SMF survey asked consumers about their actual and preferred methods of communicating with providers when carrying out 14 different financial tasks.

We first examined actual behaviour on each of these tasks, testing the hypothesis that consumers were more likely to carry out simple financial tasks online and complex tasks in store. This hypothesis was disproved; instead, the data showed that consumers were happy to buy most insurance products, find credit cards and personal loans and manage their savings online. Behaviour was notably different for three transactions, however: opening, managing or closing an account, taking out a mortgage, and seeking financial advice, when consumers across the board were more likely to go into a branch.

To understand how consumers combine channels, we used the single answer preference question. Here, for every transaction a consumer had undertaken in the last 12 months they expressed their preferred way of carrying out that action. Transactions were grouped into the day-to-day transactions where we had seen a clear preference for online or mobile communications, more complex but repeated purchases where consumers sought some help more frequently – although often by phone or in writing rather than in person; and complex purchases more commonly carried out in branch. A full breakdown of transaction types is given below:

Simple transactions	More complex, repeated purchases	Complex financial transactions
Making or manging transactions (e.g. setting up a Direct Debit, making a payment, transferring money to another account)	Buying or renewing car insurance	Opening, upgrading or closing an account
Checking my account balance or statements	Buying or renewing travel insurance	Taking out a mortgage
Managing my account (e.g. changing my personal details)	Managing savings accounts	Seeking financial advice or planning
	Buying or renewing home insurance	
	Applying for a credit card	
	Buying or renewing pet insurance	
	Buying life insurance	
	Taking out a personal loan	

We then assessed the consumer's most preferred way of carrying out these transactions across each of these groupings. So, for example, whether a consumer mostly preferred to carry out simple day-to-day financial services transactions online, but preferred to either call or write when dealing with a complex issue. Coding the most preferred method of communication for simple, repeated and complex transactions in this way, we then assessed all possible combinations of these methods, for example: all three online; simple and repeated online, complex in person; simple in person, repeated online, complex over the phone.

In each case the proportion of people using mobile apps was small, so this was combined with online communication. Similarly, the groups using telephone or written communication separately were often small, so these were combined as both represent forms of remote communication with a human representative of a financial services firm (as opposed to an automated online experience).

Using this matrix of all possible patterns of interaction with financial services firms across the full range of products, we found the most common methods. Having identified these, and ascertained that they represented a significant proportion of the population (in this case 67% were captured within our main groupings – which were all those representing over 1% of the population). Each of those groups chosen for further analysis was significantly larger than the remaining possible behavioural combinations, which illustrated the very varied behaviour of some consumers and showed significant fragmentation.

Having identified the most prominent patterns of consumer behaviour, we then compared the demographic make-up of each of these groups, including age, qualifications, employment status, regional concentration, gender, income and financial sophistication. Financial sophistication is proxied here by current and previous exposure to a wide range of financial products – consumers are asked about the financial products they currently use and those they have used in the past, with those who have used a wider range of products presumed to be more financially sophisticated.

Conducting the analysis in this inductive fashion has allowed us to explore the behaviours of consumers and test our own assumptions.

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Balancing Bricks & Clicks
Understanding how consumers manage their money

The way we manage our money is changing fast. With smartphones becoming more powerful and more ubiquitous, innovations allowing us to manage our finances on the go are likely to keep coming. But, despite phenomenal growth in online banking logins and banking app downloads, branch transactions are declining only slowly. In this report, we look deeper into how consumers manage their money today, and will do so in future, using brand new consumer survey data. We find that although consumers are increasingly happy to manage day-to-day financial transactions online, when it comes to big decisions we continue to value the security provided by a bank branch.

What does this balancing act between physical and online financial services mean for competition, the provision of financial advice and financial inclusion?

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