THE CALM BEFORE THE STORM

THE NEW MOBILE IMPERATIVE IN RETAIL BANKING.

THE APP BUSINESS + incite

Why read this report

For many within retail banking, mobile is widely recognised as an increasingly important channel that has seen impressive uptake amongst customers. It's a seemingly well established part of most banks' channel mix and it's not surprising, therefore, that the majority of retail banks have mobile apps which appear – at least on the surface – to be successful.

But is that really the case? Have retail banks truly seized the mobile opportunity, and are customers actually satisfied with what their mobile banking currently delivers?

In this report, The App Business and Incite Marketing Planning join forces to rethink mobile in the context of the dramatic shifts and changes that are beginning to make themselves felt in retail banking. Together, we unravel many of the assumptions about mobile banking today.

Essential reading for any banking pro involved in customer experience, innovation or product management, this report combines user research with design thinking and rapid prototyping to highlight the critical need for a new approach to mobile-led customer experiences – *before* the storm of disruption truly hits the industry.

Key Takeaways

There is a storm on the horizon.
Retail banks are on the brink of unprecedented change: a point of no return driven by customers' shifting expectations, and radically reshaped by technological and regulatory change.

On the surface, things look calm.
Interactions between banks and customers are increasing, and mobile banking appears to be booming – becoming the primary interface for many of a bank's most valuable customers.

Look underneath, and customer ambivalence reveals real risk.
Despite high usage levels, customers are ambivalent toward their bank's digital offering: their usage is driven a lack of alternative, and necessity. Customers remain radically underserved, their experience watered down by a one-size-fits-all approach to mobile.

Alternatives are emerging – fast.
A tranche of banking licenses for companies like Monzo, Atom and Tandem are already evidence that alternatives, focused on a frictionless customer experience, are beginning to emerge. The regulatory upheaval caused by initiatives like Open Banking will mean more will follow.

Today, retail banks have a narrow window of opportunity.
The majority of customers would prefer their own banks to improve their mobile offering over moving to an alternative provider. But banks need to act fast – before alternatives become reliable and mainstream.

To win, retail banks need a higher definition picture of their customers.
This goes beyond traditional typologies or demographics: customers attitudes to mobile banking propositions are much more strongly defined by their money mindset.

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Retail banks and the point of no return

By Brett Thornton, *Strategy Lead* (The App Business)

Retail banking is set to change more in the latter half of this decade than in the past 50 years. Increased capital requirements, combined with challenging economic conditions, have put financial institutions on the backfoot. Meanwhile, new competitors – both big and small – have been emboldened by the impending regulatory opening-up of financial services across Europe. They are using disruptive technologies that threaten to unpick and unbundle, then destroy, the core business model of the industry. It's a familiar doomsday scenario that has faced many other industries and it goes by a name often used, and poorly understood: disruption.

Despite the challenging landscape, at The App Business (TAB), we also see extraordinary opportunity: the flipside of the disruption coin. We believe this short period of flux presents a critical opportunity to rewrite the usual narrative of disruption. For any retail bank prepared to throw out a century of assumptions and act decisively, we stand at the beginning of a revolution in how people save, manage, borrow, and spend money – and everything is up for grabs.

History tells us that the winners will be those who are able to develop a superior understanding of the outcomes their customers want to achieve. The winners will use that understanding to focus their organisation on designing, delivering, and iterating services that leverage the technology of the mobile era and beyond to help customers achieve their desired outcomes in radically faster, or easier, ways.

With these thoughts in mind, we set out to develop a deeper understanding of customers, to better equip our partners in financial services. Partnering with strategic insight consultancy, Incite Marketing Planning, we set out to dig deep into how UK banking customers perceive the mobile offerings of retail banks today, and how their expectations are changing. We also asked them to evaluate the appeal of a number of new mobile concepts and propositions that their banks don't provide today.

Inside, we explore our findings in more detail, and take a closer look at strategies to survive and prosper amid the winds of change.

Foreword

Unlocking the Opportunity of Open Banking

By Derek McInnes, *Head of Financial Services* (Incite Marketing Planning)

There's a buzz around fintech. It's the younger, cooler sibling of financial services, where the City meets Silicon Valley. With this buzz has come investment - more and more digital first/digital only businesses are emerging to pick off the customers and profitable services of retail banks. And this will only be accelerated by impending regulatory changes, such as Open Banking.

Disruptive challengers in financial services can work to a different paradigm. They can prioritise mass adoption over monetisation, create value through scale and reach, rather than revenue and cash flow. They have no quarterly earnings reporting, fiduciary duties to shareholders, back book transitions or legacy system overhauls to constrain their innovation. The challenge incumbent retail banks are facing is potentially existential.

At Incite Marketing Planning, our priority was to cut through the buzz around emergent fintech in order to identify the implications for traditional retail banks. Are they doomed to inexorably lose profitable business and a meaningful place in their customers' lives, or is there opportunity within the radically changing landscape? And more importantly, what should they do? How can they start meeting these challenges to unlock those opportunities?

Our starting point was customers. Surveying 1,400 UK bank customers, we examined customers' banking and digital behaviours, their attitudes to banks and finances. Partnering with full service, mobile technology specialist The App Business (TAB), we additionally looked at their reactions to some of the products and services the new world of fintech *could* offer up.

Inside, we explore our findings in more detail, and take a closer look at the challenges facing retail banks, the urgency of the situation and strategies to unlock the opportunities which exist.

The Significance of Retail Banking Apps to Customers

Established retail banks play an important role in customers' lives, with mobile increasingly becoming the primary interface.

In the UK, we are past the tipping point where mobile replaces web as the primary banking interface. The surge in mobile banking adoption is well-documented, and supported year-on-year, by strong statistics.

Our own research highlighted that 23% of customers use their main bank's mobile app daily, and 48% use it at least once a week. Meanwhile, Ofcom data shows UK customers spend twice as much time on mobile and tablets in comparison to PCs and laptops.

Annual reports from the UK's major retail banks make the rise in mobile usage even clearer. Lloyds (2016), for example, reported over 8m active app users, out of 12.5m 'online' users; Barclays (2016) have 5.7m registered app users, averaging 31 app sessions a month; and RBS (2016), meanwhile, have 4.2m active users and claimed a fifth of their customers only use mobile or web to interact with them.

> **"...We have had something like a 300% explosion in people's use of mobile banking. We have said many times, our busiest branch is now the commuter train from Reading to Paddington."**
>
> Sir Philip Hampton, former RBS Chairman (Baird and Bews, 2015)

Recent BBA research data is also revealing. This showed that while the overall number of customer interactions with banks is rising, from 2.3 to 3.5 interactions per month since 2011, there is a steep decline in branch interactions. These physical interactions fell from 476 million to 278 million in the five years up to 2016. In 2015 and 2016, 1032 UK bank branches disappeared from our high street. Furthermore, branch visits are expected to decline, with average branch visits dropping from 71 in 2016 to just 51 visits per day over the next five years (BBA, 2016).

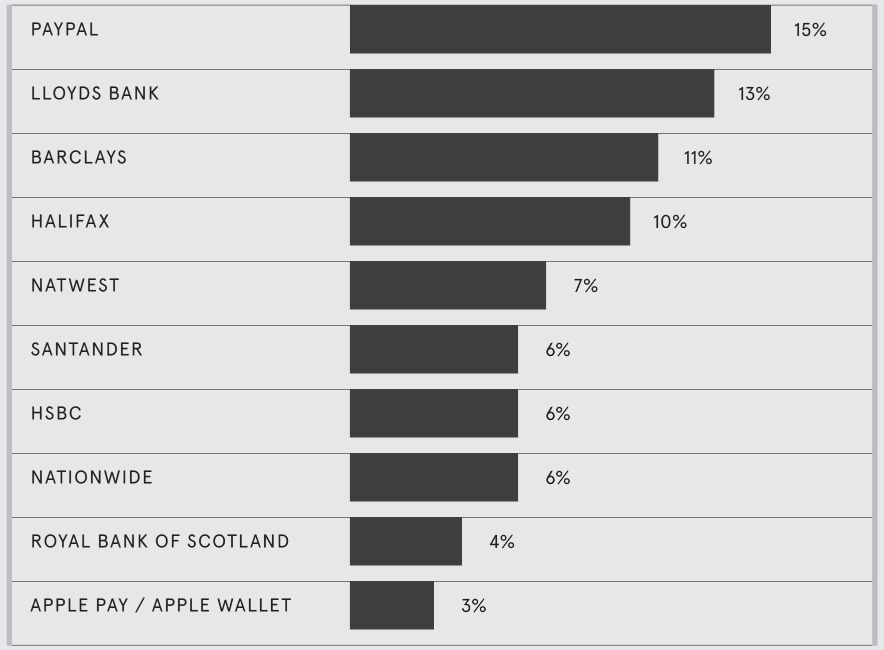
Such data isn't a surprise to many banking professionals. The branch in our pockets provides a better way of getting vital tasks done – rated higher today than banking via the web. Customers value the superior speed and ease with which they can perform high frequency tasks directly from their most personal device – from checking a balance, to making transfers and payments. With features like biometric login, such as Apple's Touch ID, becoming more reliable and widely available, the ease and speed of mobile banking is only increasing.

Our research reaffirms the importance of mobile banking. However, what is perhaps most significant is that it also stresses the privileged position incumbent retail banking apps currently occupy within customers' daily lives.

Look at a list of financial apps that customers use, and it's clearly dominated by familiar names. Despite the buzz surrounding them, it isn't dominated by the innovative FinTech startups that grab the headlines – at least, not yet. →1

These apps also command the customer relationship: an app provided by a customer's primary bank is the financial services app a customer they will use most. Across 11 other categories, retail banking apps were ranked number one by respondents for having reshaped the way they do daily tasks, and for everyday necessity. Banking apps also occupy prime screen estate: ranked second by respondents for most likely to be kept on their homescreen.

1 THE REIGN OF RETAIL BANKING APPS
Incumbent retail banks still dominate the category. When asked about the financial apps they most use, customers named incumbent retail banks - not the hungry startups stealing the headlines. At least for now.



Understanding Customer Necessity Versus Customer Preference

Despite high usage, people are surprisingly ambivalent about their bank's digital offer.

On the surface, things look calm. You might think this privileged position in customers' lives would mean a growing sense of value in a bank's services and digital products. Perhaps even that people love the convenience and ease of their bank's current mobile app. In reality, it doesn't – and they don't.

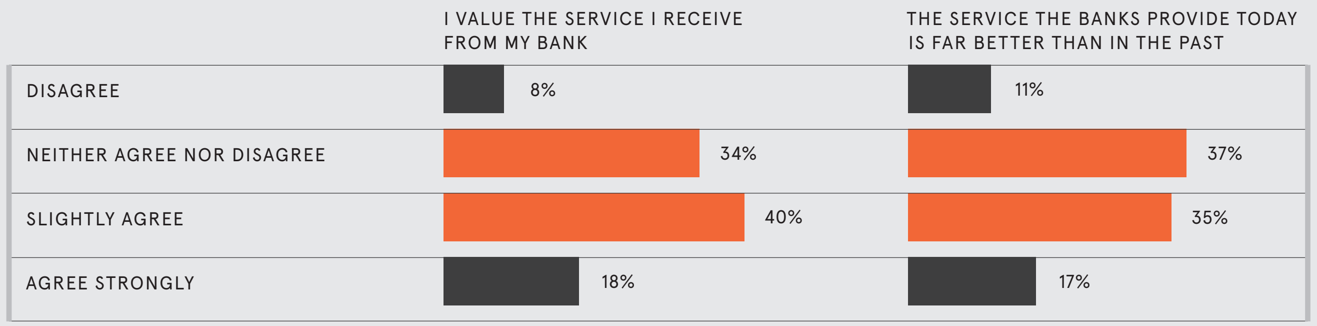
Unpicking these assumptions, our research highlighted that what customers feel most is ambivalence toward their bank's digital services. When asked whether they value the service from their bank – almost three quarters neither agreed nor disagreed, or only slightly agreed. → 2

This reflects the fact that while incumbent banks currently play an essential role in customers' lives, and their apps aren't creating significant pain points, no major incumbent bank has yet excelled in the mobile era, either.

On the one hand, the idea that banks have yet to excel in a mobile-led world seems contradictory. After all, in the previous section, we highlighted the dominant position major incumbent banks' apps occupy in their customers' lives – so, surely, banks have been successful with mobile?

The reality, however, is that when it comes to giving customers a view of their finances, the proposition for most banks hasn't fundamentally changed for 50 years. Regardless of the uptake in mobile banking, today's mobile offering is still heavily legacy-driven: it is primarily built around a shrunken web version of the original paper statement. These statements in turn were designed for an era when it was reasonable for banks to require customers to store, manage and navigate reams of utilitarian transaction lists. This story is remarkably familiar: it's the story of every industry before disruption hits.

Incumbents across industries who have a firm regulatory and structural control on supply can drive customers to use products out



2 INDICATORS OF CUSTOMER AMBIVALENCE
Enthusiasm amongst customers for banks' digital offerings is limited – bordering on ambivalence.

of necessity – and not choice. But what happens when regulation inevitably opens up access to an industry?

An equivalent dynamic has – and is – playing out in media, transport and retail. In those industries, new players have been able to significantly bypass or marginalise incumbents. Where the grip on supply has weakened, new entrants have focused on first winning the customer experience, aggregating high value customers, and then growing their focused offerings into more efficient, large scale competitive threats – consider Netflix, Uber, Amazon and Just Eat.

For retail banks this regulatory change is on the horizon, with the arrival of Open Banking. This poses an urgent question: how will open banking reshape the future of retail banking? And will new entrants be primed to seize a large slice of the pie?

WHAT IS OPEN BANKING?
Open Banking refers to two pieces of financial regulation, the CMA's 'Open Banking Remedy' in the UK and the EU's Payment Services Directive 2, often referred to as PSD2. Both are targeted at creating more competition in financial services, and improving the quality of services on offer to customers.

WHY DOES IT MATTER?
The changes are intended to increase standardisation and interoperability of card, internet and mobile payments. Initially, this means making it possible for people to allow third-parties to read customer, balance, and transaction data. However, it is intended to eventually give permission to third-parties to write data and initiate payments directly from a customer's account.

Once these standards are in place, a range of operators can offer services that require this access. For example, aggregating all your accounts in one place, providing deeper analysis or monitoring on your accounts. It could also mean product recommendations based on your financial history, or making payments directly from bank accounts.

There is a risk for banks that the primary customer interface and relationship moves away from them to a third party, who provides key services sitting on top of the bank account. Conversely, however, there is also a significant opportunity for banks to use the change to radically improve customer experience and use their trusted position to play a high-value role – orchestrating things at the heart of a marketplace of products.

HOW DOES IT WORK?
Open Banking will be enabled by technology called APIs, or Application Programming Interfaces. These are a set of routines, protocols and tools for building software applications. They specify standard interfaces for how software components, applications or even organisations interact. The details of these interfaces are being defined in the UK by the Open Banking Development Group.

Progress is slow and some providers, nervous about opening up access to their customers, have allegedly been holding up the process. However, the latest UK timelines suggest transaction data will start to become available in 2017, with full write access appearing closer to 2019 or 2020.

For more information visit the *Open Data Institute* (https://theodi.org/open-banking-standard).

Suddenly, the customer ambivalence toward existing retail banking apps highlighted in our research ceases to be unimportant: it becomes mission critical. When it comes to their mobile banking experience, open banking will mean customers will be confronted by more choice and differentiation than ever before.

The wider implication, too, is that the opportunity to own the primary financial interface – either by inserting an aggregation layer or entering as a wholesale, modern replacement – will be ripe for the taking.

The precise shape of retail banking in the years to come is impossible to predict. However, in order to understand the scale of the threat, our research set out to understand what matters most to customers, what could trigger them to move to new providers – and which groups are most at risk.

NOTE: We expect formal switching figures to be a lagging indicator of this change, since most early evidence suggests customers aren't initially switching wholesale to a new provider. Instead, they are trying out new services with the safety net of returning to their old providers.

Identifying High Value, High Risk Mobile Customers

What matters most to customers is driven by their money mindset, not demography or lifestage.

We surveyed a representative cross section of 1,400 UK banking customers who owned a smartphone. We asked how they felt about their bank and their mobile experience, and we also asked them to evaluate a range of new mobile banking product propositions.

Traditionally, banks – like many organisations – segment their customers along demographic lines. Traditional typologies look at variables like age, gender, affluence and geography. In this context, our survey population broke down across the following three high-level – and undoubtedly familiar – groups:

TRADITIONAL BANKING TYPOLOGIES

YOUNG URBANITES
These customers are typically in the early part of their careers and living in large cities. Their needs are more transactional, and they are yet to establish more permanent asset and wealth goals.

ACTIVE AFFLUENT
These individuals are a combination of asset and income wealthy: they are financially very active, with a wide range of brand relationships and experience.

MAINSTREAM LAGGARDS
These customers are more geographically and demographically spread. While not affluent, they have a mix of needs to support their home and family life.

Segmenting Customers

Alone, however, these traditional typologies fail to accurately capture the increasingly sophisticated and nuanced needs of connected customers – which are not defined by demography, but more accurately by the way individuals think about using technology to achieve their banking outcomes. This outcome-led perspective highlighted, at a high level, three distinct mindsets that cut across traditional typologies to build a higher definition picture of customer behaviour.

MOBILE BANKING MINDSETS:
IDENTIFYING HIGH RISK GROUPS

ENGAGED ORGANISERS
Motivated by a desire to keep in control and on top of finances, these customers make the most of the mobile banking services that exist and make effective use of their primary bank's mobile app.

FRICTION AVOIDERS
Uninspired by financial management, and often not on top of their finances, these customers lack oversight of their financial health. They believe financial services apps don't make managing money easy.

DIGITAL REJECTORS
Behaviourally – not attitudinally – loyal, these customers may manage money well but are less engaged with banks, and avoid digital channels. They believe service was better in the past.

Across all of these mindsets, mobile expectations are rising – driven by the mobile-native products and services that sit alongside banks on the home screen. Notably, the only legacy organisations succeeding are those retaining some exclusivity over supply. →3

Customers with a Friction Avoider or Engaged Organiser mindset were the most engaged with mobile overall, displaying the highest usage and preference for modern mobile services outside of financial services.

Ambivalence toward today's existing mobile banking services was highest amongst customers who demonstrated the Friction Avoider mindset. Less than a fifth of this mindset display strong feeling toward their bank's current mobile offering - in either direction.

Engaged Organisers were slightly more attracted to the new concepts we shared, likely owing to their greater awareness and engagement with financial products overall. Predictably, customers from both the Friction Avoider and Engaged Organiser mindsets showed over three times the interest in the new concepts presented than the Digital Rejector mindset.

As a result, it is these two core mindsets – Friction Avoiders and Engaged Organisers – that can be considered the highest risk to incumbent banks: customers displaying these two mindsets, when presented with greater choice and differentiation in mobile banking services, are the ones more likely to show interest in, trial and switch to services not provided by their primary bank.

The next key question is do these engaged, high risk mindsets really matter? What do banks stand to lose if such customers do, in fact, switch?

When we evaluated the mindsets further against traditional typologies, what was clear is those typologies that represent the largest return for retail banks – the Active Affluent and Younger Urbanites – align closely to the high risk Friction Avoider and Engaged Organiser mindsets. → 4

The Active Affluent are easily recognisable as asset-rich accumulators. Their wealth means they have greater access to, and need for, financial services; they are a bank's most valuable customers and an attractive switching target. Many are clearly Engaged Organisers, as their needs creates a greater incentive for engagement in their own portfolio of products and providers. However, it is not a simple as that: many more hold the Friction Avoider mindset.

Young Urbanites have a different set of needs, and are not as wealthy. They are at earlier stages of accumulation: they can be seen as the potential, or future value creators, to a bank. However, their mix of city and young family lives will involve a lot of spend and transactional activity that will also be profitable now. Like the Active Affluent, they are digitally engaged. However, they have a far stronger bias towards the Friction Avoider mindset, which reflects the effort they want to invest in banks relative to the importance it has in their lives. → 4

While banks maintain their traditional hold on supply, the risk of these high value customers switching is relatively low – but with the arrival of new entrants and Open Banking, that hold will weaken. Building services that meet – and exceed – the outcomes of these high value, high risk customers is critical if retail banks are to remain both relevant and prosperous.

3 HOMESCREEN REAL ESTATE
When asked 'What's on your homescreen?', these are the most popular apps by category that commonly sit alongside retail banking apps on customer homescreens. The majority are mobile-native – they represent the best-in-class experiences customers compare their mobile banking to. The only legacy organisations succeeding, notably media, are those that retain an exclusive hold over access to data and content.

4 MAPPING HIGH VALUE CUSTOMERS
Traditional typologies representing the largest return for retail banks - Young Urbanites and the Active Affluent - made up 59% of our survey population. This high value group maps closely to those mindsets most interested and engaged by digital services like mobile (see chart, right).

	YOUNGER URBANITIES	ACTIVE AFFLUENT	MAINSTREAM LAGGARDS
FRICTION AVOIDERS	20%	22%	8%
ENGAGED ORGANISERS	5%	12%	1%
DIGITAL REJECTORS	3%	23%	5%

5 MAPPING CUSTOMER AMBIVALENCE IN HIGH VALUE, HIGH RISK GROUPS.
The higher the score shown here, the less likely the customer segment values their bank, or recognises positive change in services.

	YOUNGER URBANITIES	ACTIVE AFFLUENT	MAINSTREAM LAGGARDS
FRICTION AVOIDERS	133	121	124
ENGAGED ORGANISERS	64	58	62
DIGITAL REJECTORS	94	108	106

Apps are unbundling within and across devices – the mobile experience for customers can now extend far beyond the smartphone, to wearables, cars and even our homes. It's critical, therefore, to design for an ambient ecosystem of interactions that help customers achieve their desired outcomes, whatever context they are in.

The Need For Greater Personalisation

The apps and services that appeal to each mindset differ significantly, but current retail banking apps make no distinctions.

If these mindsets reveal customers that are both high value and at higher risk of switching, a logical question is to consider how banks are currently tailoring more personalised services to retain these critical customers.

In reality, what we see is that the majority of incumbent retail banks continue to simply present customers with a one-size-fits-all tool – reinforcing a key point made at the very beginning of this paper: no retail bank is currently excelling in the mobile era.

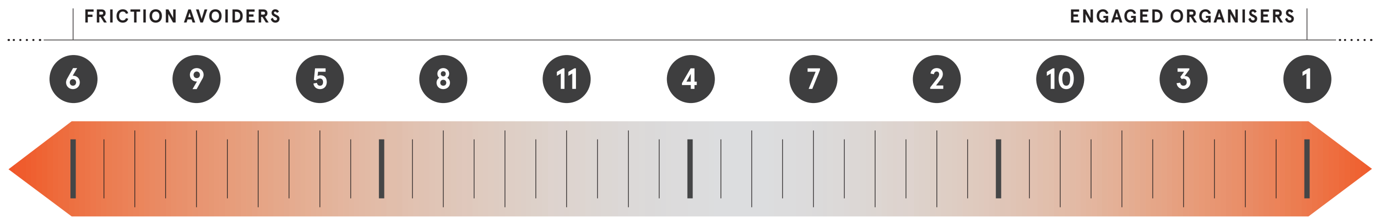
Today, whether your mindset is Engaged Organiser and you prefer an in-depth view, filters and detailed preferences, or Friction Avoider, and you just want everything done for you, your bank simply presents the same information – in exactly the same way – regardless of your preference or need.

Understanding how differently respondents across these mindsets valued the set of new concept propositions serves as a powerful reminder that a one-size-fits-all approach fails to deliver mobile product excellence.

NEW CONCEPT PROPOSITIONS

We asked respondents to rate the appeal of the following features that were not currently offered by their banking app.

1. Displays how much you have available to spend before your next payday
2. Makes it easy to move money and make payments between all of your accounts and cards
3. Keep track of where you spend your money across all your accounts and cards
4. Allows you to access and manage all of your accounts, cards, insurance, loans, investment portfolio
5. Allows you to compare and switch banking, insurance, loans and investments products all in one place
6. Makes it easy to book an appointment at your bank's branch
7. Lets you text or video chat with a customer service agent or a financial advisor
8. Automatically and proactively invests an agreed amount based on your saving goals and ambitions
9. Lets you transfer money from one of your accounts to someone close by
10. Lets you monitor and control your children's accounts and spending from your own bank app
11. Enables you to find out information and do other basic banking transactions using our phone's virtual assistant



i 1–3

FRICTION AVOIDERS

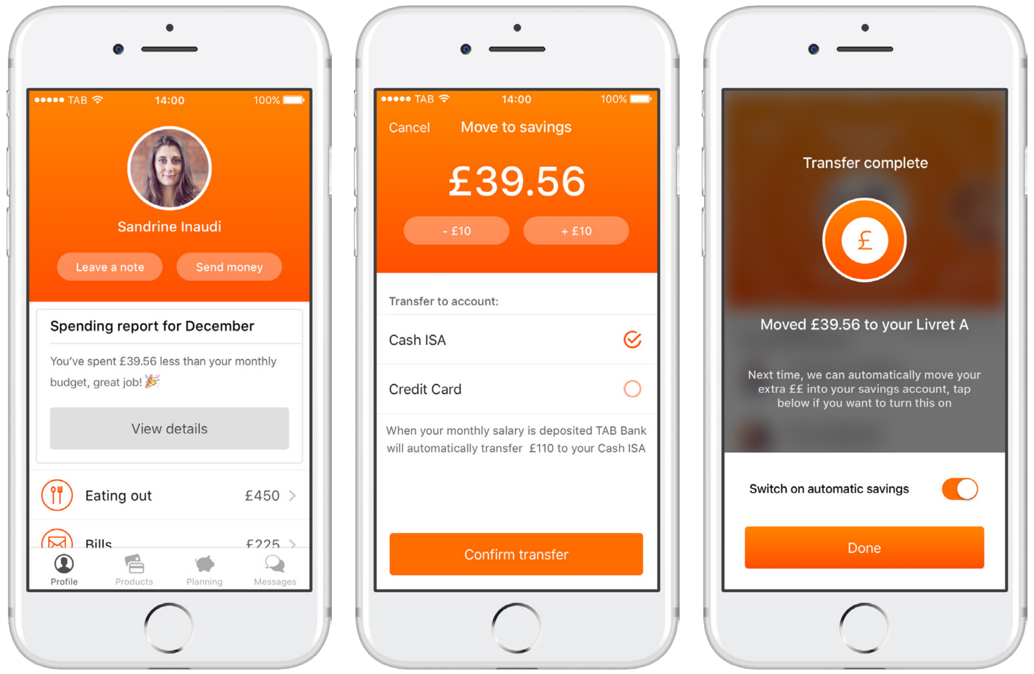
Friction Avoiders prioritise convenience. Here, Andrei wants to pay a nearby friend - Iain - a share of a meal bill using the proximity pay option in his app banking app (screen 1).

Andrei can easily specify the amount he wishes to transfer to Iain. He can then quickly and easily authenticate the payment with Touch ID (screen 2).

When the transfer is completed, Iain receives a notification to confirm payment has been made, and Iain's balance is instantly updated (screen 3).

1 2 3

4 5 6



i 4–6

ENGAGED ORGANISERS

For Engaged Organisers like Sandrine, keeping on top of their financial health is key. Here, The home screen of the app shows a monthly report is now accessible (screen 4).

Sandrine's bank alerts her to the fact she has spent less than average. This prompts her to move the amount saved this month to her savings account (screen 5).

In one simple action (screen 6), Sandrine can quickly authenticate and authorise a transaction to move the amount saved this month to one of her savings accounts.

For example, customers with the Friction Avoider mindset see money as an enabler to their lifestyles – and not something they focus on unless they have to. As such, it was unsurprising that transactional features like easy person-to-person payments to those nearby were appealing. Concepts that removed day-to-day banking chores, like being able to pay friends and family easily, were also attractive. → i 1–3

However, when these customers have a particular need (often triggered by a particular life-moment or change in circumstances) they accept that they will need to engage with their bank for help or guidance. To this end, they move beyond everyday banking chores and seek more convenient ways to arrange human interactions to help them quickly solve their needs.

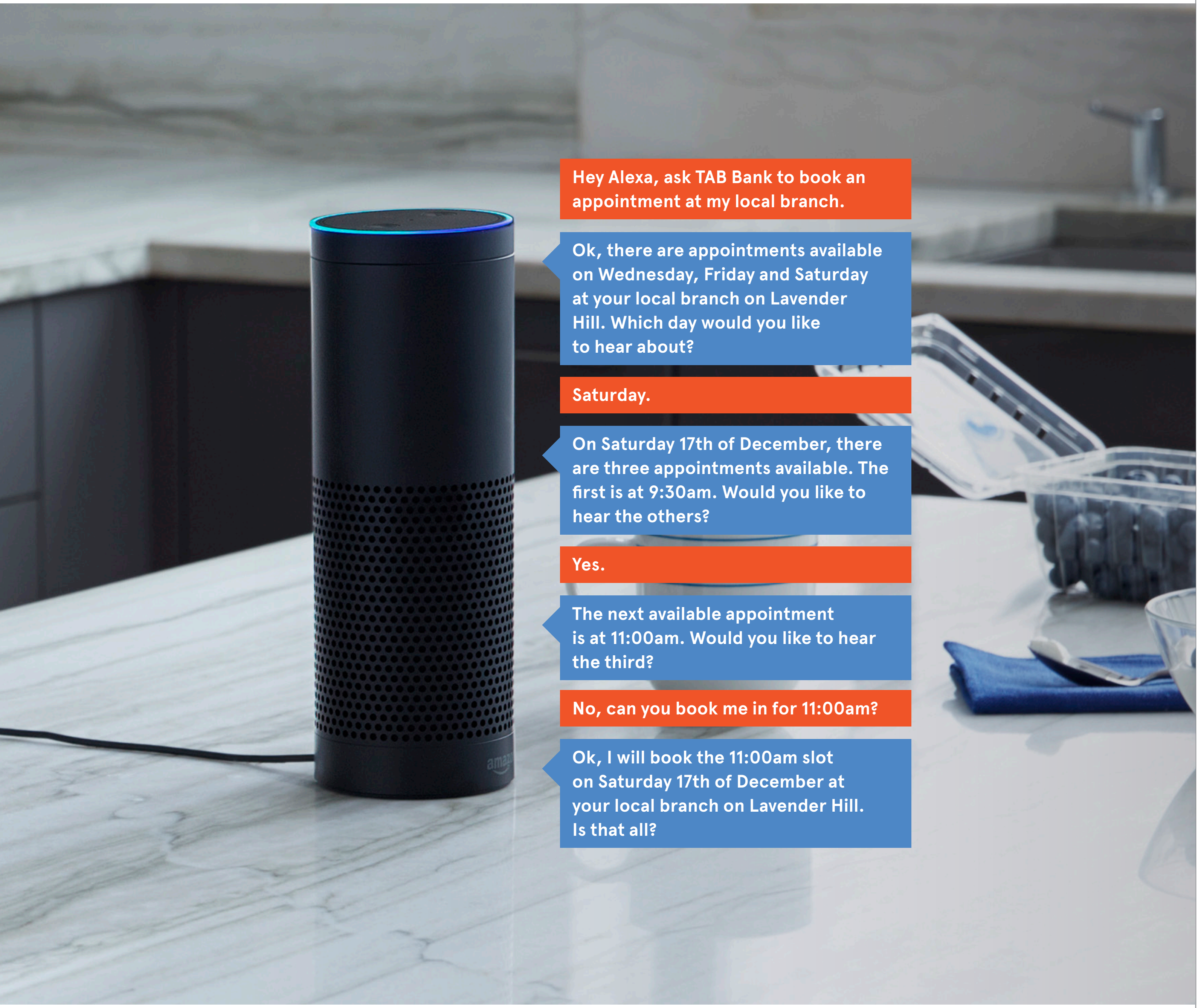
Live but asynchronous chat with service staff, and booking appointments in branch via their bank's mobile app rated strongly with Friction Avoiders, and offers them a way to engage on their own terms.

This mindset also showed interest in automating investments, with an app that automatically and proactively invests an agreed amount based on saving goals and ambitions.

Customers with the Engaged Organiser mindset, meanwhile, prioritised concepts that empowered them with new and powerful ways to track, control and grow their money. These customers showed greater interest in mobile services that help them keep track of their financial status, with an aggregated view of financial products across providers, as well as simpler ways to move money between accounts. → i 4–6

This mindset also showed particular interest in having a clear view of funds available in the short-term, with upcoming outgoings already removed.

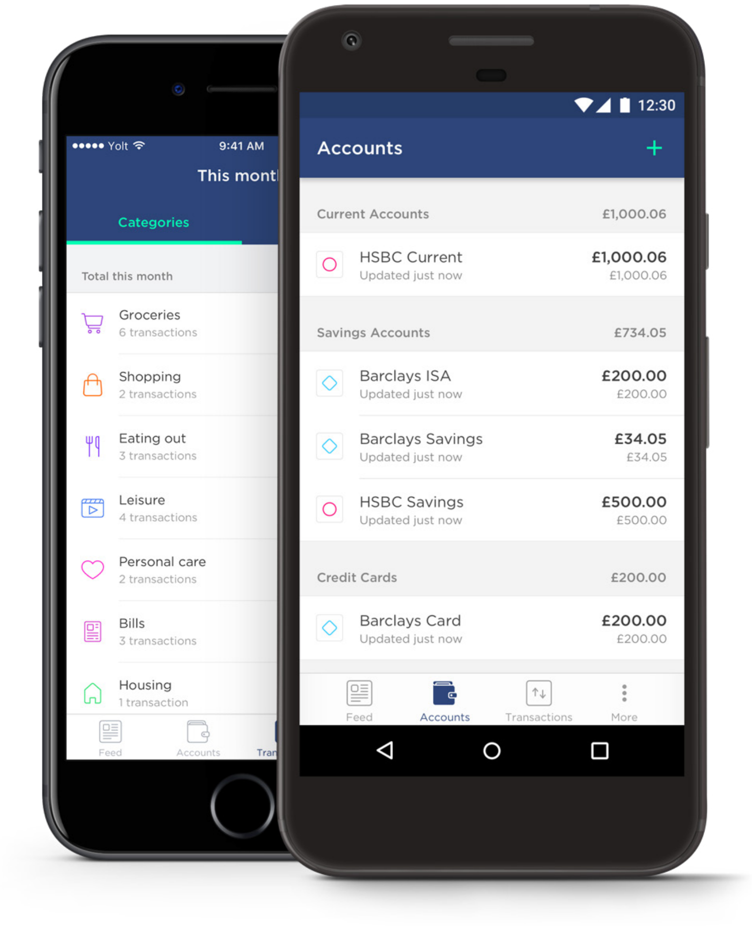
Retail banks must addess these different needs and underserved outcomes - whether in different apps and touch points, or through increased personalisation within existing products. If incumbent providers don't act decisively to better serve their customers through their most used and personal touchpoint – mobile - the gap between current mobile banking services and appealing alternatives will only widen. Until eventually, it exceeds a tolerable point for high value customers.



Conversational UX, represented here by a indicative dialogue with Amazon's voice activated service, Alexa, opens up new opportunities for retail banks to personalise the customer experience from within the heart of the home.

Capitalising On Trusted Relationships

Customer preference for our new concepts increased – *if* provided by the respondent's existing bank.



Across the spectrum of mindsets, customers show appetite for new ways to achieve their banking goals. Crucially, this appeal actually increased if new propositions were offered by a customer's current bank.

Across the population, this appeal increases by 8% on average. This is even more pronounced for the Engaged Organiser mindset, with an uplift of 10.7%, versus 6.5% for the Friction Avoiders group. This reflects the fact that Engaged Organisers are more actively engaged with their finances, and so are more engaged in the active relationships they have across financial providers.

We believe this presents a special window of opportunity. Retail banks can move from simply providing a generic mobile product to excelling in the delivery of a personal, contextual mobile experience – before the wave of disruption facing retail banking truly breaks, and customers don't yet have a strong incentive to switch.

Deferring a decision on how to respond to this context isn't an option: Open Banking aside, the popularity of Apple Pay and PayPal show that new entrants don't need permission if they execute on the opportunities presented by mobile well.

Recognising the rare window of opportunity available, ING partnered with TAB to create Yolt – a highly innovative new product that is one of the first to captialise on more open banking. For more information, head to: → www.yolt.com

Four Ways to Refocus and Win

Where to sweat the detail, and the core areas to concentrate on.

Armed with this insight, the next question is where retail banks should get started. Below, we highlight four key areas of focus.

1. Organise for success.

Develop a mobile-first approach, infrastructure, capabilities and organisation structures.

There is one clear certainty from our research: retail banks have a narrow window of opportunity to capitalise on their own position within customers' daily lives.

While mobile will only increase in importance as it ingrains itself within all other customer interactions, whether purely digital or via digitally enabled staff and environments, the window of opportunity to build on their early category dominance will not remain open for long. Equipping your organisation now with the capabilities, partner ecosystem and infrastructure to prosper within this mobile-led context will be critical for any successful business over the coming years.

This change requires a mindset shift at the very top of the organisation, which is often driven by a more fundamental structural change designed to increase collaboration and prevent siloes. Product and service strategies should be mobile-first from conception, or for the courageous – mobile-only.

Technical and physical infrastructure for most will need extensive reworking, using emerging technology enablers to support the quality, scalability and flexibility necessary to deliver great experiences – on mobile and beyond. New capabilities need to be developed or acquired. This isn't just within the teams delivering products, but also within those developing and modelling the business, and those closest to customers in branches and contact centres.

2. Be biased toward action.

Don't overplan: get started – experiment, test and learn alongside your customers.

Debating where the industry or particular players within it will end up (and what they might look like) is worthwhile, but ultimately academic. Beginning to experiment, test and learn around precise hypotheses, concepts and strategic forks is the only way to really sink your organisation's teeth into the issue and win ground from the competition – old and new.

Incumbents doing this successfully, such as ING Group, are radically increasing their proximity to customers, developing their strategy based on real market feedback to new product propositions. They are also making it easy for emergent solutions to appear from anywhere within the organisation, often from those closest to the customer need – by creating conditions that enable anyone to sense and surface a customer need to the people who can go about testing a solution.

Our initial concept tests give an early indication of the appeal of groups of ideas, but we believe strongly in the power of learning by putting working software in the hands of real customers. Creating prototypes that can validate, iterate and improve propositions is the path toward really understanding what customers value and ultimately how best to succeed in our connected, mobile era.

3. Act on mindsets, not segments.
Reorientate your business to uncover a higher definition picture of your customer.

The mindsets identified here as part of our research are high level: they only begin to scratch the surface of the variation in the UK population's financial thoughts and preferences.

One-size-fits all banking made sense in the 20th Century. Low-fidelity customer data and paper processes gave rise to the utilitarian service design that still persists today. Our findings make it clear this is an increasingly unwelcome arrangement for customers. Accepted with growing ambivalence by many, in high value groups this is fostering a willingness to look beyond established banking brands for something altogether better.

We expect the liberation of personal data that will follow Open Banking to unbalance this uneasy equilibrium. Customers will expect a richer, more personal, proactive and contextual return on the data they provide to those whom they entrust with their money.

To win, retail banks must demonstrate mobile product excellence – and that relies on a higher-definition picture of customers and prospects. Refresh your view of what your customers are trying to achieve, where they are (both literally and figuratively) and how they like to do things, and embed this knowledge throughout your organisation – so that product, service and marketing can be delivered with a granularity that matches the expectations of customers today.

4. Identify your moats.
Target new, defensible positions within the emergent digital finance ecosystem.

Remember that the wave of change is unpredictable. With uncertainty around impending industry changes, the precise model of what tomorrow's retail banks will look like should be treated as guesstimates. Beware predictions that claim one model is more certain than another.

More likely is that there will be a proliferation of new niches, specialisms and platform types – many of which are already being explored within the FinTech space. They include aggregators (e.g. Yolt, Cleo), specialists who offer new takes in focused, often high-margin areas (e.g. TransferWise, Nutmeg, Zopa and countless others), customer group specialists (Monzo, Tide, Osper) and orchestrators who offer core services and partner to connect customers to others (Monzo, Bud).

How incumbents that survive will present themselves to the world when these diverse roles and niches are filled is hard to foresee. Banks that do well across a number of areas are perhaps more likely to move toward constellations of interrelated services or even distinct sub-brands, rather than the more traditional monolithic approach to banking services that we see today.

If predictions are, by their very nature, unreliable, what will be decisive is the ability to use your newly heightened customer understanding to assess how well your products and services perform, compared to alternatives in the market. With this knowledge, you can amplify your strengths and reshape or recreate your weakest product propositions to better meet customer needs – regularly reassessing your progress.

Appendix

About The Authors

About The App Business
Founded in 2009, The App Business (TAB) is an award-winning, full service mobile technology partner built to help ambitious organisations win in a connected world. TAB creates consumer-facing and enterprise-level applications, strategies and solutions with over 140 specialists located under one roof, in the heart of King's Cross, London. TAB's comprehensive in-house offer spans the full suite of services necessary for mobile success - including strategy, design and engineering.

→ www.theappbusiness.com

Brett Thornton
Lead Strategist
Brett leads TAB's dedicated strategy team, and has played an influential role in growing both mobile product and business strategy as a core TAB service. Brett works closely with senior stakeholders to ensure clients maximise the full breadth and scope of the mobile opportunity - today, and in the future. Currently, Brett is partnering with Visa to develop a framework that enables Visa's clients to accelerate innovation, and is advising Tesco on the future role of mobile. He has also recently worked with BP to develop an in-depth strategic assessment of the ways technology will reshape the organisation's brick and mortar retail estate.

George Proudfoot
Senior Strategist
Since joining TAB, George has led the development of strategic new propositions for finance clients such as ING and Visa, as well as supporting longer-term mobile programmes with Home Retail Group, Met Office, Kingfisher and Unilever. Outside of project work, George is focused on pushing our strategic approach forward for specific industries like finance and retail, while also working to help improve and grow our toolkit of techniques.

About Incite
Incite is a strategic research consultancy focused on unearthing and interpreting insights about brands and business that help companies think more clearly, plan more effectively, and create real, lasting change. Incite's purpose is to unlock opportunity. A team of experienced practitioners using a systematic approach, Incite attracts the best in the industry – people who love a challenge: inquisitive, open-minded and determined to get to the root of an issue.

→ www.incite.ws

Derek McInnes
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Marketing Planning
Derek has worked internationally in research and strategy for over 20 years across many sectors, but especially in financial services and technology, telecoms and media. As the lead Director in the financial services practice at Incite, he works closely with several blue chip financial clients in areas such as: global card payments, retail banking, wealth and investment. His role is focussed on uncovering and harnessing consumer insight to identify commercial opportunities and ultimately creating plans with client teams to realise it.

Ben Steer
Principal
Ben has eighteen years of research experience primarily covering financial services and technology, media and telco sectors. He has worked with financial services clients on international, domestic, wealth and business banking challenges, while his TM&T experience is weighted strongly towards digital services and publishing. At Incite, Ben continues to work across these two broad sectors.

Supplemental material

Research methodology

The study was conducted online among a representative sample of 1400 UK smartphone owners aged 18-60 in September 2016. The survey tested reactions to concepts that would be possible post PSD2. The also covered current financial behaviours and attitudes as well as digital service usage.

Endnotes

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