

# As consumers become more sophisticated - can today's banks remain relevant?

The rate of innovation and disruption across the financial services industry continues to challenge banks as they struggle to keep the pace whilst maintaining their current business and meeting ever-increasing supervisory obligations writes COLIN RYAN. The perennial question, he says, is how can banks remain relevant, retain customers and protect future revenue streams?

The rate of change in the financial services industry is something that everyone can recognise and yet it is difficult to tie it down beyond large macro trends - changing consumer behaviours, blurring of industry boundaries, disruptive megatrends and stagnant or declining financial markets. EY's recently launched *Global Consumer Banking Survey* helps bring some colour to the consumer perspective.

We interviewed 55,000 consumers across 32 countries on the role and expectation of retail banks. In Ireland over 1000 consumers were interviewed. From this survey, we have developed a deep understanding of customer preferences and behaviours and the key trends in changing consumers attitudes toward new emerging competitors.

## The role of the traditional bank

Banks have historically played an important part in everyday people's lives. While demand for financial services will continue, it is unclear where traditional banks will be in the new value chain and ecosystem. Seventy-five percent of consumers still consider a traditional bank with branches to be their primary financial services provider; however, 40% of customers express both decreased dependence on their bank and increased excitement about what alternative companies can provide. The implication is clear: the relevance of banks is waning.

## Irish consumers seek digital adoption but still desire the human connection

Ireland has one of the highest rates of adoption and usage of digital banking services in Western Europe, however it is clear that consumers here are willing to drop providers that cannot deliver and evolve the digital services they require. Conversely banks that can offer advice in person are still in high demand.

- Two in five (41%) Irish consumers say they use online banking more than they did 12 months ago
- Under a third (32%) said they use

mobile banking more

Consumers here still expressed a high desire for human contact and some form of physical branch.

- 47% of Irish consumers say they don't trust a bank that doesn't have any branches at all
- Two out of three (59%) people said that while they're happy to research products and transact online, they need to be able to visit a branch or talk to someone over the phone at key times in their lives, such as when they want advice or to avail of a new product
- 54% feel it's important that they can speak to someone at their bank 24 hours a day, 7 days a week either over the phone or in person



Colin Ryan

Our research shows that while consumers value the ability to tailor and control their banking experience by using digital channels, there is still high demand for human contact and the presence of a physical branch. The challenge for financial services providers is therefore how can they deliver cutting-edge digital and online services to enable their customers, whilst at the same time ensure they have the expertise on the ground to advise or support them in person at the right time.

## The loyal consumer is becoming a thing of the past

In recent years, consumer sentiment has fundamentally changed; we all know customers are now expecting more from their traditional service providers, banks included. The concept of long term loyalty is fast eroding. 42% of Irish consumers say that they wouldn't hesitate to change provider if they found one with a better online or digital offering, compared to a European average of 32%. Loyalty to a single banking institution is also no longer commonplace; our research shows that

more than half of Irish consumers have an account with three or more financial services providers.

An interesting point to note is that 45% of Irish consumers said one of the hardest things about having accounts across different banks is getting a consolidated view of their finances. Watch this space...

## Payment Services Directive (PSD2) - an industry game changer

The introduction of the revised Payment Services Directive (PSD2), which all EU member states must implement by January 2018, will enable consumers and businesses to use third party providers to view all of their accounts in one portal, giving them far greater choice in how they manage their finances. This key industry event will be a catalyst for consumers and banks alike to evolve to their relationship and services.

PSD2 is set to be a game changer for Irish retail banks, which will see the links to their customers further eroded by the use of third party providers and the introduction of a variety of choice and innovative new services. Ireland's banking sector is unique in that approximately 4-5 key players service the majority of the population; the advent of PSD2 will challenge the banks to not only ensure they are compliant in the next 14 months, but also to figure out what the new world looks like. It will not be an overnight transformation but new financial and payment solutions will emerge and innovative new partnerships will be forged creating a whole new ecosystem of providers and services.

Traditional banks have a short-term advantage but need to transform their understanding of consumer needs, evolve and innovate their services and find new sources of creating joint value if they are to remain relevant and compete in this new world.

**Colin Ryan is a partner at EY.**

To find out more about the global consumer banking survey visit <http://eyfinancialservicesthoughtgallery.ie>