The banking landscape is shifting as never before. One in three people believe their bank will be branchless by 2020 as bank branches decline and smartphone banking increases. Non-bank providers of financial services continue to grow, as innovation in the sector is increasingly driven by the digital players. Customer appetite for innovation appears to be insatiable, with concerns about security overridden by the attraction of new digital services.

Banks still hold a healthy hand of trump cards. But do they understand them and can they play them well?

**Challenges coming from all sides**

New consumer research by Ipsos Loyalty shows people believe how they experience banking is set to change. Over a third of people in the UK believe that their bank will be branchless within 5 years (Ipsos Future of Money 2016). Perceptions of 'the bank's' role is changing and a bank's primacy in consumers' financial lives can no longer be taken for granted.

Banks themselves began the move towards less personal interaction, encouraging customers to self-serve, first from branch to phone, then from phone to online, now to mobile. Now contact is primarily digital, not physical. These measures have been driven by a desire to cut costs and are in-line with wider customer service trends. The number of branches operated by the major banking groups in the UK has halved in the last 20 years[1], again reflecting the wider migration from bricks to clicks.

While customers may have had reservations about some of the early digital alternatives, they have become the preferred norm now that they work well and deliver real benefits. As of 2015, mobile apps overtook internet, telephone, branch as the most popular way for British consumers to interact with their banks[2].

Our Future of Money research shows that more people (43%) bank on their smartphones, than use them to shop (31%). This increases among those aged 16-24 (to 55%). However, for the banks there is another perspective to consider. Without branch interactions people are less likely to feel they know their 'bank manager' or anyone at 'their' bank. This can make it far harder for a bank to engage with its customers beyond everyday transactions.

In this changed landscape, consumers have become accustomed to using financial products and services from non-traditional providers. Supermarkets are now a well-established competitor to traditional banks; 8.6 million customers have bank accounts with Tesco and Sainsbury's bank[3]. PayPal is synonymous with on-line payments for many and digital smartphone wallets like ApplePay and the recently launched AndroidPay are blurring the

[1] http://uk.reuters.com/article/uk-britain-banks-branches-idUKKCN0X31OH
[2] https://www.bba.org.uk/news/press-releases/mobile-phone-apps-become-the-uks-number-one-way-to-bank/#.VuK2IX2LSUk
[3] http://www.bbc.co.uk/news/uk-scotland-scotland-business-32413044 and http://www.mirror.co.uk/money/city-news/sainsburys-bank-set-grow-grocery-5526771

lines further. Consumers are increasingly willing to consider newer entrants and open minded about who manages their finances. Our new data found that just under 40% of UK consumers would be confident using banking services from a well-known digital brand like Google, Facebook, Twitter, or WhatsApp.

What's more, non-bank innovators are now filling some niches the traditional banks aren't. Recent research into attitudes to data sharing, conducted for Barclays, showed that openness to innovation in consumers' finances trumps almost every other consideration (even claimed security concerns). If it looks appealing and useful, consumers will often ignore potential risks[4].

Smaller, agile fin-tech start-ups can find it easy to stay one step ahead of the banks in terms of new innovation. They tend to be able to design, test, iterate, and retest quicker than the banks, getting innovations to market quicker. For example, EE & Vodafone, and later Apple were first to offer physical mobile payment product. Payments is an area in which the banks are facing fierce competition, with a range of new digital providers; in the US for example you can use Snapchat or Facebook to repay the $10 you owe a friend for lunch.

In lending too non-traditional players are challenging the banks. While the payday loan explosion was partly about the credit squeeze and the banks' appetite for risk following the 2008 crash, Wonga et al had more flexibility and different business models and were able to fill a gap, offering money at the pace people wanted it. PayPal now offer commercial working capital loans, perhaps consumer lending will come next. And new tech continues to re-invent how banking is delivered – for example, Atom has launched an app only bank account.

**The banks are fighting back**

Banks are responding to the challenges, and ramping up the pace of innovation. Many are already setting up their own in-house fin-tech partnerships and innovation incubators to ensure they keep up with the pace of change[5]. But can they adapt quickly enough to cement and retain their unique relationships with their customers?

Banks retain a level of underlying trust in their security and ability to deliver financial products which other players don't have. Despite a broader range of financial choices, banks can still provide a depth of reassurance to consumers not replicated elsewhere. While it's true that utility trumps security concerns, in a scenario where consumers were asked what they'd do if, after allowing a non-bank 3rd party access to their account, it was 'hacked', they would expect their bank to be a big part of the solution[6].

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4 https://www.ipsos-mori.com/Assets/Docs/Publications/marketing-open-api-barclays-2015.pdf
5 http://www.theguardian.com/media-network/2015/jun/30/fintech-startups-incubators-banks
6 https://www.ipsos-mori.com/Assets/Docs/Publications/marketing-open-api-barclays-2015.pdf

Banks also retain the strongest position on non-digital opportunities to innovate, for example, in customer financial management and advisory services. This could counter competition on self-serve transactional services and advice robots. Ipsos' Future of Money research[7] highlighted that some customer segments don't want more choice and flexibility, but rather help and support navigating the choices they do have. This might help "nudge" them towards better money management. Banks that meet this need can inspire greater customer loyalty. And they have an advantage over new entrants in understanding the history and needs of these customers.

So banks retain market share, an established high street presence and a credibility that comes from established expertise.  While they do, they hold some trump cards. The question is how well will they play them, as the one option they don't appear to have is to do nothing.

[7] https://www.thefsforum.co.uk/knowledge-centre/debate/finding-hidden-purse-strings/