PwC Australia's Customer Banking Survey 2021

Transforming banking for a digital-first future

What banks can learn from customers to drive change

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Executive Summary

Customer behaviour and expectations have evolved and accelerated since the beginning of COVID-19. Today's customers want easier, more intuitive digital banking experiences, backed up with personal assistance when things get complicated.

Banks have known for some time that they must rethink how they deliver their services or risk seeing their markets eroded by digital-first businesses and big technology companies. Yet even institutions that have started down this path can lack a sense of urgency.

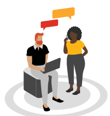
PwC Australia sees an opportunity for banks to leverage the strengthening loyalty most customers feel towards their primary banks to fend off these newcomers by exceeding customer expectations with enabling technology and seamless customer experience.

Drawing on insights from PwC Australia's Customer Banking Survey 2021, this report looks at customers' preferences, how behaviour has changed as a result of COVID-19, and the degree of trust and openness customers have towards banking with technology companies.

It also explores what banks must do to deliver greater value to customers at the point where human meets digital.

This includes:

- Being honest about customer pain points



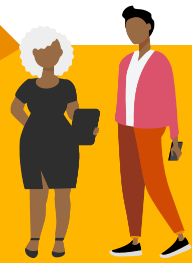
- Really getting to know customers, instead of relying on historic knowledge or accepted norms about customer behaviour

- Building digital skills organisation-wide and implementing new ways of working

- Unwinding complexity that's build up over many years and is affecting customers and employees

- Examining what has driven trust as a result of COVID-19 and engineering projects to deliver this systematically and profitably

While there is no-one-size-fits-all solution for how banks must reprioritise and reconfigure their organisations to serve customers better in this new banking environment, PwC Australia hopes this report will be a wake-up call to banks.



About PwC Australia's Customer Banking Survey 2021

PwC's Australia's Customer Banking Survey 2021 is a nationally representative online survey of 503 Australian banking customers and 104 small business owners and operators.

The survey provides current insights on what customers value most, how behaviours have changed in the past 12 months, and degrees of trust and openness to banking with technology companies.

The data for this report was captured 15-22 February 2021 and summarises the key findings for the general sample of Australian banking customers.

PwC Australia's Customer Banking Survey 2021

Today's banking customer

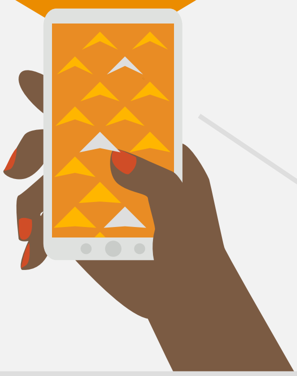
PwC Australia surveyed a nationally representative sample of Australian banking customers to better understand what customers value most, how behaviours have changed in the past 12 months, and degrees of trust and openness to banking with technology companies.

Customer loyalty to their primary bank increased for many

18% I feel **more** loyal to my bank than I did a year ago

73% I feel about the **same level** of loyalty to my bank as I did a year ago

8% I feel **less** loyal to my bank than I did a year ago

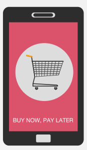


COVID-19 has accelerated the use of digital banking channels

% of total customers using each channel 'more than pre-COVID-19'

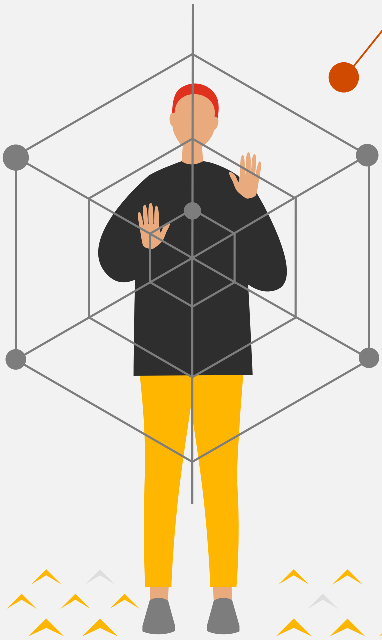
29% Bank mobile app

29% Digital payment platforms e.g. PayPal, PayID,digital wallet



26% Buy now, pay later servies e.g. Afterpay, ZIP

21% Bank website including email and chat



Connecting human and digital experiences is more important than ever

72% agree that "it is important for companies to connect their digital and in-person experiences"

60% agree "most companies do a great job of connecting their digital experience with their in-person experience"

"Fast vs slow" will continue to be a true differentiator for banks in the future as technology influences customer's evolving expectations

Respondents listed these **top 5 attributes** as "more important" in five years time when making purchase decisions for financial products and services compared to now:

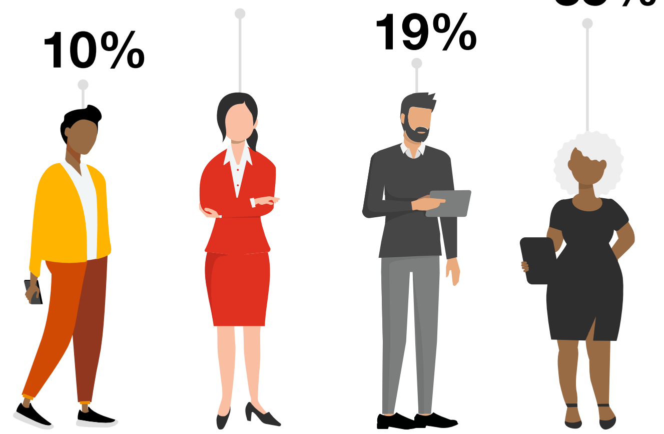
- Competitive interest rate
- Low fees and charges
- Most up-to-date technology
- Speed and efficiency of problem handling
- Speed and efficiency of transactions

Banks risk erosion of millennial customers by digital first businesses and big technology companies

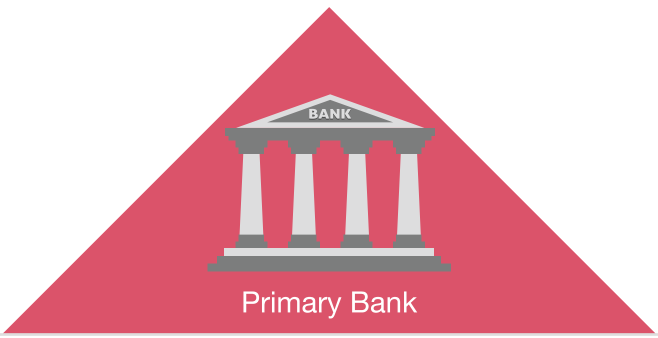
Overall **74%** of banking customers trust the 'Big 4' banks to keep customers' money safe while only **40%** feel the same about digital or neo banks and **45%** of technology companies. Trust in both digital-first banks and tech companies is significantly higher amongst millenials - **55%** and **58%** respectively.

Overall, intent of respondents to switch a primary bank or other financial service product is low at ~**15%**, but this almost doubles among millennial customers to **27%**.

Total N=503 Australians 18+ years with national representation across age, gender region, income and types of primary Bank



39%	45%	16%
Income <$60k	Income $60k - < $150k	Income $150k plus



64%	20%	7%	7%	2%
Big 4 Bank	Major or regional Bank	Mutual Bank/Credit Union	Foreign owned bank	Digital or Neo Bank

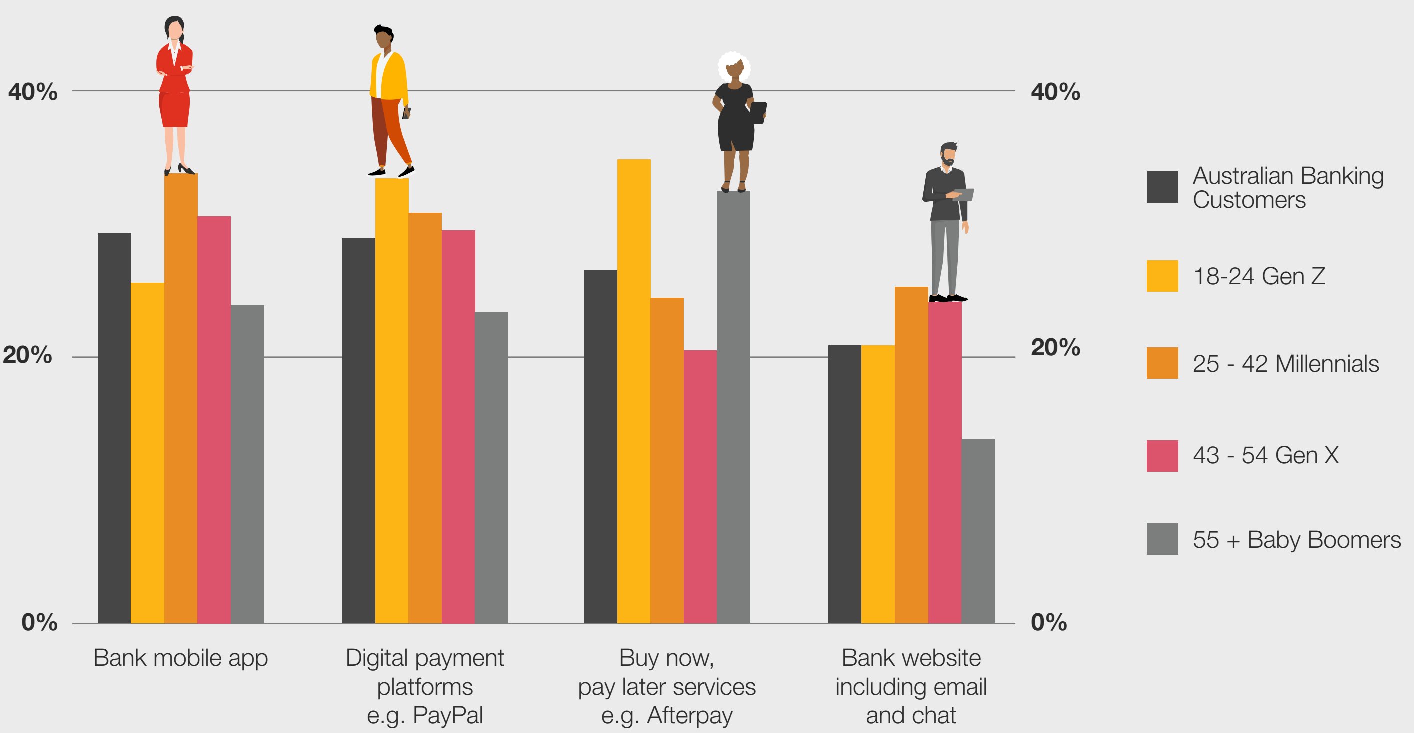
The new banking landscape

For most bank customers today, going into a branch to speak with a banker is a rare event. As digital banking services have become more accessible and simpler to use, Australians of all ages have embraced online banking and apps for most of their banking needs.

This is especially true since the emergence of COVID-19, which has seen demand for digital services accelerate with people spending more time at home.

According to PwC Australia's Customer Banking Survey 2021, which looks at bank customers' preferences and behaviours in the wake of COVID-19, use of bank mobile apps; bank websites; buy now, pay later services; and digital payment platforms such as PayPal have increased for many customers and the trend is consistent across all age groups. Meanwhile, visits to bank branches and the use of cash have decreased the most compared to other channels and this is also consistent across age groups.

Figure 1. % Use more than pre-COVID-19



Expectations are evolving too. Advances in banking technology have increased customers' expectations of receiving fast, seamless service. Expectations are also being shaped by interactions with organisations outside the banking industry. Customers increasingly want the type and quality of service they receive from organisations like Amazon and Netflix, which have invested in an engaging and frictionless customer experience.

For a significant majority of customers across all age groups this aligns with a desire for easy mobile and web experiences (78% agree it's important or very important), as well as fast and efficient transactions (85% agree it's important or very important).

Furthermore, 40% of Australians say having easy mobile or website experiences will be more important to their purchasing decisions about banking products and services in five years' time than they are now.

Unfortunately, these heightened expectations can quickly lead to frustration when customers feel their needs aren't being met. This means the risk of customers defecting to another bank due to unmet technology needs is very real.

Yet, despite the growing importance of technology, PwC Australia's survey suggests most people (72%) continue to want a human connection for at least some of their banking needs. For instance, 39% of customers prefer to deal with complex banking tasks in person.

The survey also found that older Australians (those aged 55 and above) are most likely to equate face-to-face interactions with a great customer experience.

This may be because older customers tend to have more complex or legacy banking needs and are therefore more likely to require expert assistance to resolve their problems. Younger customers often also want personal assistance when faced with things they aren't confident about, such as buying their first home.

While customers value dealing with people, it doesn't have to be face-to-face. Most banking customers said they prefer to interact remotely – for example, by phone, text or email – rather than in a bank branch. Almost three-quarters of survey respondents also believe that connecting personal and digital experiences seamlessly is essential. However, only 60% think banks do it well.

72%

of Australians agree they will always want to **interact with a real person for at least some** of their banking needs.

Change is inevitable but banks are slow to respond

While these insights are unlikely to come as a surprise to anyone in the banking sector, most banks either don't know how to optimise their digital capabilities to meet customers' evolving expectations, or they simply aren't doing it fast enough.

Even banks that have invested heavily in digital teams and capabilities are still running slow. Part of the reason for this is that banks are wrestling with the balance between developing the next generation of digital products and services, and business as usual. Unfortunately, while our survey shows that 'business as usual' generally meets customer expectations, it does not provide a distinct experience or opportunity for banks to gain market share through attraction and retention.

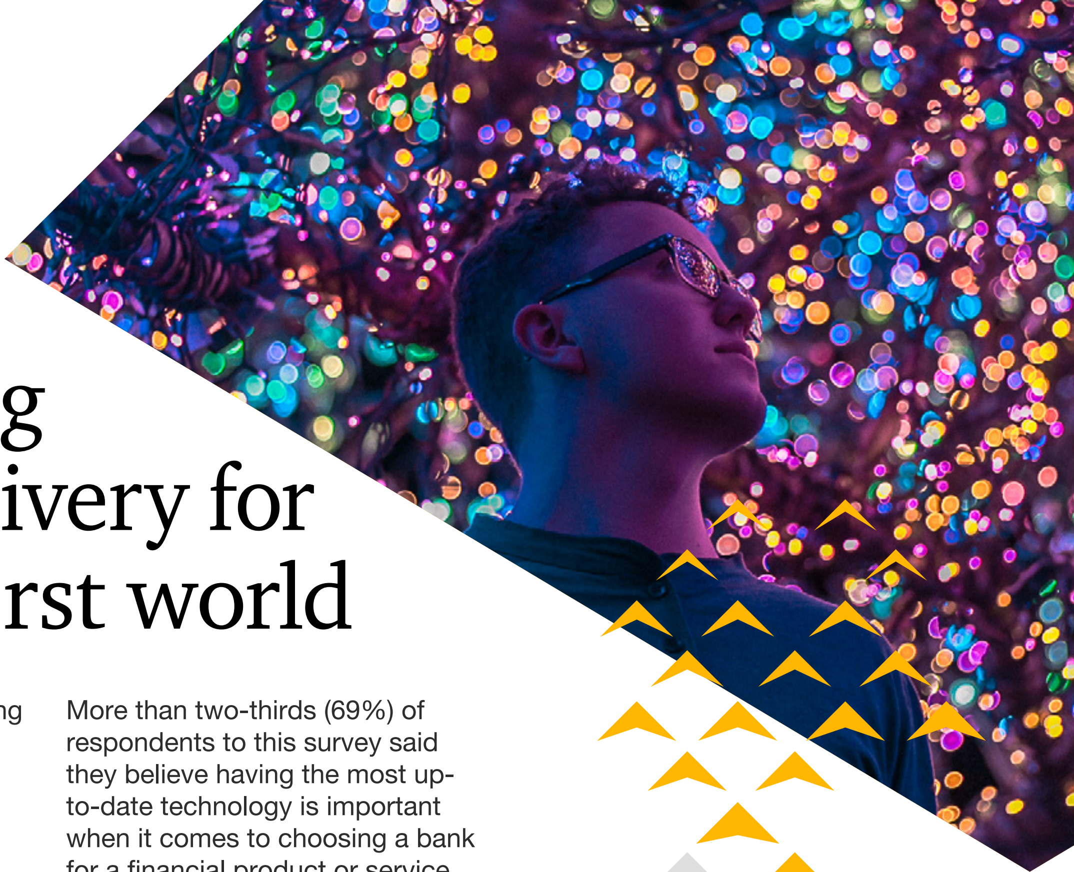
Inertia caused by a focus on 'business as usual' has cleared the way for a new generation of technology based financial services companies (fintechs) such as Afterpay and Zip to chip away at the banks' core markets. Afterpay, for instance, made $519 million profit in the 2020 financial year by offering customers a product that is essentially an alternative to credit cards that addresses a need previously met by credit cards but more up-to-date in meeting an attitude to debt.

Also joining the tussle are big technology companies such as Apple, Google, Amazon and Facebook, which offer customers conveniently bundled products and services easily accessible via their smartphone or smartwatch. According to Commonwealth Bank figures, for example, monthly digital wallet transactions by their customers have increased by 90% between March 2020 and March 2021, with the number of transactions rising from 36 million to 68 million.

Given the accelerating pace of change - particularly since COVID-19 - the banks' lack of urgency to progress digitising their businesses is hard to explain. While it might be an unintended consequence of the intense focus on remediation in the wake of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, it could also be because banks are incredibly big, complex, risk-averse organisations. Or it could be because banks' existing business models continue to be profitable, so there's less impetus for change.

In this new banking environment, we believe size is no longer the key differentiator between organisations. It is the speed with which organisations are innovating. This means the focus is no longer on big banks versus smaller competitors; it's between banks that are fast to innovate meaningfully and those that are trailing behind.

But, with the overriding conversation about the sector's future now shifting from the outcomes and recommendations of the royal commission to growth and customer-led transformation, banks must act or risk being left behind.



Rethinking service delivery for a digital-first world

Improving digital access to banking services across multiple channels gives customers greater control of their personal finances. It also improves access to accounts and customer support, and makes banking easier and more efficient.

For those accustomed to the exceptional customer experience they have in dealing with digital businesses, technology is a key factor when choosing a bank.

69%

of Australians say that when it comes to choosing a bank for a financial product or service that **'having the most up-to-date technology is important'.**

More than two-thirds (69%) of respondents to this survey said they believe having the most up-to-date technology is important when it comes to choosing a bank for a financial product or service. And 45% said having the most up-to-date technology will be more important in five years' time.

However, many of the digital banking products currently available don't have the ease of use and functionality customers are looking for. User interfaces and forms are often unnecessarily complicated, leading customers to make errors that are time-consuming to fix. In other instances, features are only accessible on a bank's website, rather than via its mobile app. Less than two-thirds (64%) of customers, for example, agree that their primary bank's mobile banking service lets them do everything they need. This demonstrates a clear opportunity for banks to rethink how they deliver digital banking services.

With banking customers demanding value, faster service delivery and seamless experiences via a range of preferred channels, banks are under pressure to continually innovate products and services, and the way they interact with their customers.

This means providing digital banking channels that are easier to use, with intuitive processes and greater automation.

And it means creating empathetic 'in-person-like' experiences that are delivered remotely – it's in these moments that distinct experiences are created and the relationship between a bank and its customers is strengthened.

However, the answer may not be the omni-channel investments of the past. Instead, banks should be aiming to help the customer do what they want to do quickly in their preferred channel. They should also be educating customers on what is available to make their banking easier.

In the future, customers are not going to be engaging with their banks on a day-to-day basis – instead, it will all be happening seamlessly in the background.

The new switching behaviour in financial services

Another challenge for banks that haven't yet started down this path is that as customer expectations of banks grow customers' patience is starting to wear thin. This is leading to a greater willingness to switch banks.

Overall intent to switch a primary bank or any financial product or service is low: 16% of Australian banking customers. But this almost doubles for the valuable millennial customer group aged 25 to 42. Almost half (42%) of this age group said they are likely to explore new products and services in the next 12 months.

Switching doesn't necessarily mean a customer will move all their accounts to another bank - 'switching' is more likely to mean shifting a proportion of wallet or using a non-bank service for a greater proportion of finance needs.

This type of switching is more difficult for banks to detect. It requires analysis of customer behaviour, not the traditional view of the number of accounts or analysis of dormancy.

42%

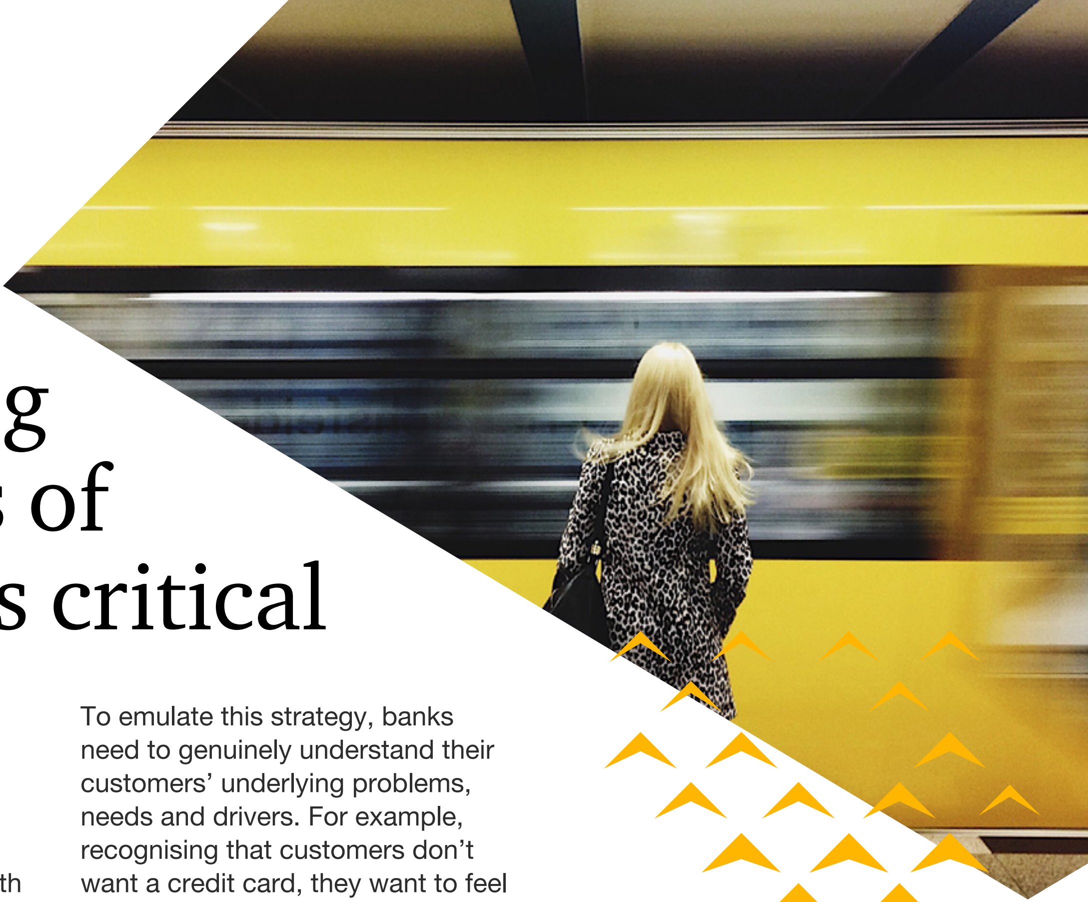
of millennials aged 25-42 are **likely to explore new banking products and services in the next 12 months.**

The risk of this type of switching will continue to grow as the adoption of Open Banking - which allows customers of the big four banks to request and securely share their banking data with other accredited banks and fintech organisations - increases and new financial service providers emerge.

The combination of increased risk and harder to detect behaviours creates the imperative for banks to invest in capabilities and practices to stay close to their customers.

In this new environment, we believe major banks have an opportunity to use the loyalty of their existing customers to fend off new entrants to the market, and to do it they need to meet and anticipate increasing customer expectations with up-to-date services, insight analytics and seamless customer experiences.

Embracing new ways of working is critical



There's no doubt fintechs have the potential to disrupt the banking sector. In 2020, the Australian fintech sector grew to more than 730 local companies and attracted US$1.4 billion worth of investments.

These new entrants to the market are stripping away complexity from banking products and putting customers at the heart of their operations. This is helping to set customer expectations of banking products and taking market share from established banks.

Despite the threat this thriving sector poses to banks, there is a lot that banks can learn from how fintechs are reinventing business models and building digital capabilities.

While the term 'fintech' covers a range of different business types, most fintechs fall into two categories: those that offer 'full-service' banking and those that deliver a particular service based on an insight about a customers' needs. Increasingly, these service-based companies are disrupting the market more than start-up banks.

Afterpay's insight, for example, is that younger customers are becoming less willing to take on debt. This makes a repayment plan attractive to them.

To emulate this strategy, banks need to genuinely understand their customers' underlying problems, needs and drivers. For example, recognising that customers don't want a credit card, they want to feel more in control of their finances. They must also accept that these problems, needs and drivers can change quickly and frequently. This means relying on outdated research or internal biases to inform new product development is a bad idea.

Service companies are also more focused on specific needs within specific customer segments. These segments are defined behaviourally and attitudinally.

A final key difference is that service companies tend to be more agile than banks. This allows them to try new ideas, learn from their mistakes and quickly move on. While legacy technology and processes make this hard for banks to achieve, we know from what many banks achieved during COVID-19 that they can move swiftly to make things happen when they need to. In an increasingly digital world, this needs to become banks' default way of doing things.

Until now, banks have responded to successful fintechs by trying to copy them quickly, but this means they are continually playing catch-up. Instead they should be developing the internal capabilities needed for them to lead the way, and working with fintechs when it makes sense to do so.

Banks must act now or risk being left behind.

Five steps for getting started

PwC believes there are **five key steps** that will enable banks to step up to the challenge of meeting evolving customer expectations and expanding their digital capabilities.

one

Adopt a digital goal and vision which is relevant to customers and clearly articulated for staff

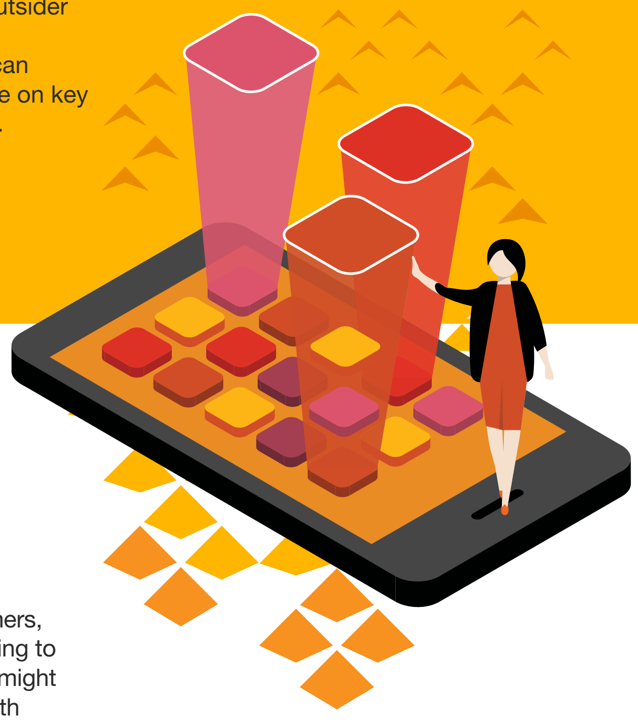
Digital innovation often involves significant investments of time and money, but there's no need to tackle everything at once. These days, even the best-resourced organisations are more likely to deliver digital transformation projects in small 'agile' phases that produce results quickly, before moving onto the next phase.

When considering where to start – or what to do next – banks need to first consider what their customers' pain points are.

From there, they need to identify the changes and projects that both address those pain points and contribute to achieving the organisation's long-term digital goals.

As this is likely to be a significant task, seeking advice from an external consultant can be helpful. An outsider who isn't subject to the same internal pressures and politics can provide an objective perspective on key issues and priorities for change.

From there, banks will be able to map out a roadmap of next steps for re-engaging customers through technology, shoring up profitability and identifying opportunities for growth.



two

Get to know your customers better, instead of relying on historic knowledge

Customers' needs and expectations have changed and banks must too. To create a more customer-focused organisation and develop new digital products that meet customers' evolving needs, banks must first refresh what they think they know about their customers.

This means getting to know customers as individuals rather than as a group of ID numbers for different banking products they might have. It also means understanding customers' underlying needs, goals and drivers, and not assuming they already know what these are. Or that research completed two years ago is still relevant. As COVID-19 proved, the world can move on incredibly quickly.

To truly understand their customers, banks need to spend time listening to them on an ongoing basis. This might be by canvassing their views with customer surveys, monitoring what is said about their brand on social media, or, preferably, through ethnographic research – drawing insights about customers from their behaviour.

Banks must also get better at harnessing the mountains of structured and unstructured information they have on their customers. This includes data from traditional sources such as credit scores and customer surveys and from non-traditional sources, such as social media, voice audio and cross-channel bank customer interaction data.

Despite the increased accessibility of data, banks continue to struggle to translate data into actionable insights due to poor data quality routines, complex processes, cultural rigidity and underpowered analytic capability.

Ultimately, data plays a significant role in understanding how customers behave and interact with banks. But even banks that have invested heavily in data infrastructure in recent years need to take their data usage to the next level and apply the use cases that allow them to get maximum value out of that investment.

Understanding customers' behavior through data better also allows organisations to identify and reduce friction points for customers across the bank, update customer segmentation, and ensure that the right methods of engagement are available to different segments.

three

Unwind complexity that's built up over years

To remain competitive, especially if interest rates remain low, banks will need to use technology to operate more efficiently and reduce costs. Unfortunately, many banks are missing out on the productivity gains that technology offers.

While changing the back-end technology required to enable digital innovation is relatively easy, banks often struggle with simplifying and digitising existing processes. This is due to layers of legacy policy, process and technology built over many decades, and banks' underlying aversion to risk.

This means banks are often unable to capitalise on labour-saving technologies used by newer entrants to the financial services market, such as screen scraping – extracting data from another platform – to enable faster account-opening processes. Banks need to find a way to balance their underlying risk aversion with innovation.

four

Build digital skills organisation-wide and implement new ways of working

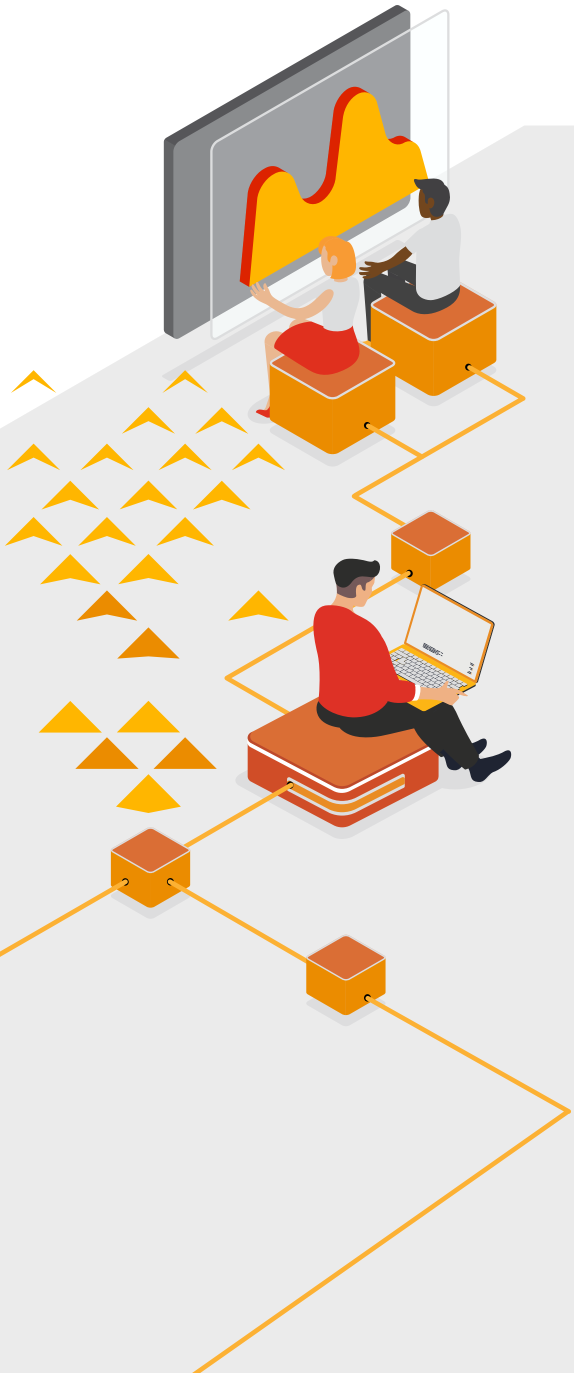
To boost digital capabilities in the long term, banks need to start investing in building digital skills now. However, ongoing digital skills shortages and current restrictions on skilled workers entering Australia mean this is easier said than done.

To fill the gap, banks need to think about how they can build existing employees' skills.

Having the right digital skills in place will allow banks to boost their digital offering on an ongoing basis, giving customers new digital channels through which to interact with the bank.

Banks must also consider how they become more agile in their governance, decision making and financial management to support rapid delivery of projects. This also means having the frameworks in place to enable this to happen. If legacy processes mean it takes six weeks or 15 signatures to approve the budget for a project, even the most agile team i s going to struggle to deliver it quickly.

Banks should also consider how to optimise their branch network and rethink how they use the space to engage with customers.



five

Examine what has driven trust in the last 18 months

Trust is a valuable commodity in the financial services sector, particularly in the wake of the revelations of the banking royal commission.

The good news for banks is that the past 12 months have gone a long way to restoring trust in mainstream banks, with almost one in 10 surveyed for PwC Australia's Customer Banking Survey 2021 (8%) saying their bank 'exceeded expectations' by delivering crisis support during the pandemic and serving their needs with compassion.

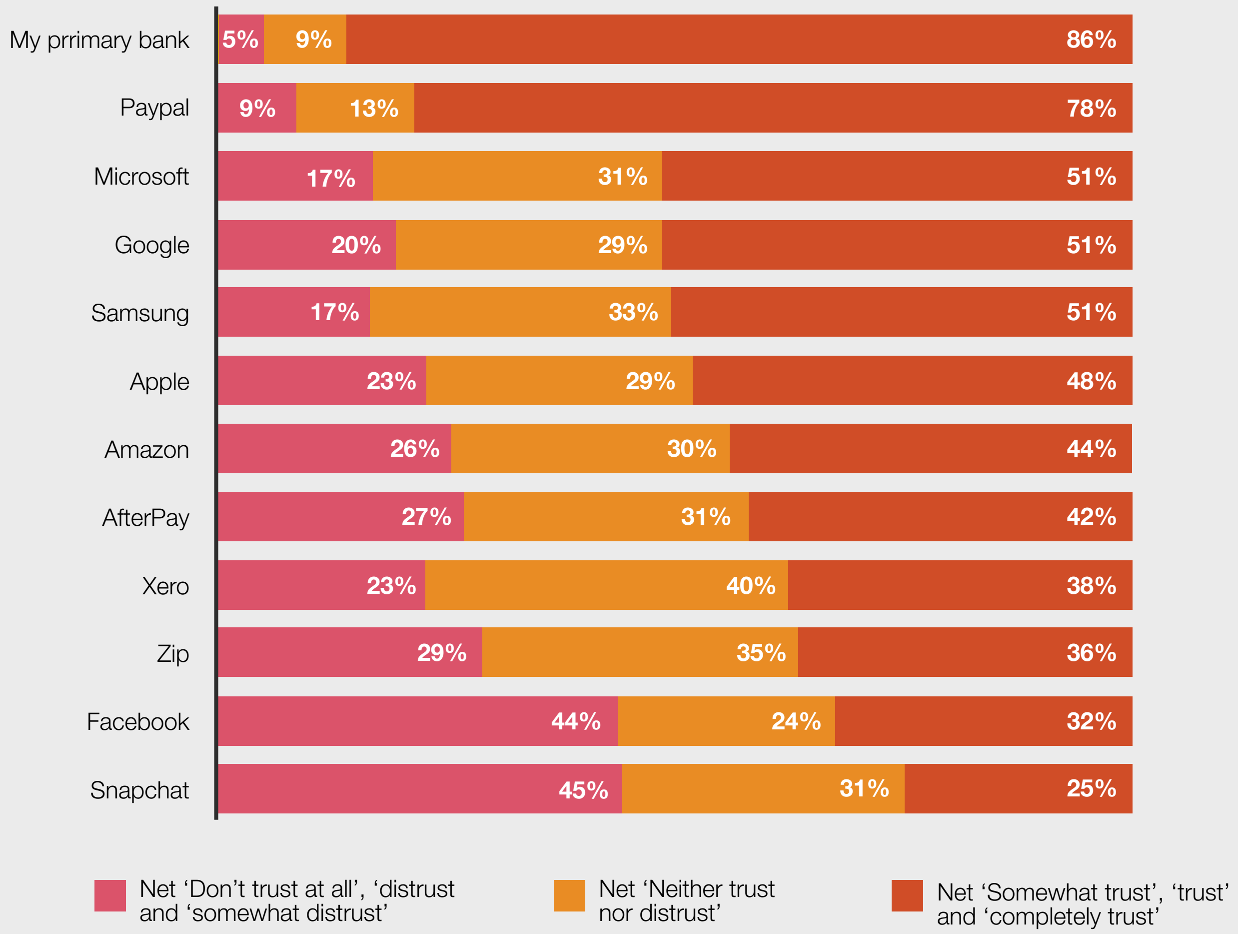
Furthermore, three-quarters of survey respondents trust the big 4 banks to keep their money safe, with 69 % extending this trust to personal data. On the other hand, only 40% trust digital or neobanks to keep their money secure.

However, with trust in technology companies such as Apple, Google and PayPal relatively high due to their familiarity, scale and reach – and many younger people open to banking with them – banks can't afford to be complacent.

For example, 65% of generation Z, aged between 18 to 24, said they trusted Afterpay to keep their money safe. This is significant because Afterpay has announced that it will offer a 1% savings rate from October 2021, after striking a deal with Westpac.

To fend off technology companies, banks must examine what has driven trust in the past 18 months and engineer technology projects to deliver this systemically and profitably. They must also leverage the trust they already have by continually reviewing the ultimate value they offer customers, and developing new pricing models that encourage loyalty.

Figure 2. Proportion of people who trust these technology companies to keep your money safe



Get in touch

To have a discussion about these insights and how they can help your organisation please reach out.

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