pay.uk

davies hickman

Exploring the future of switching

Foreword

2023 marks the 10th anniversary of the Current Account Switch Service (CASS). With over 8 million completed switches (consumers and small and medium-sized businesses (SMEs)) since launch, CASS continues to provide end users in the UK, with a free, reliable and quick way to switch their current accounts.

Since the launch of CASS in 2013, the UK's banking, payments and wider financial ecosystem have seen major changes and innovations. These namely include the evolution of Open Banking, the growing presence of FinTechs and the move towards digitalisation of banking services. As such, this project has explored both the future of CASS and the future of switching in this rapidly evolving ecosystem.

This report identifies and describes drivers and trends that will influence the future landscape of switching. It further discusses possible issues and potential opportunities that a central switching service may need to address in the next five to ten years. We included a diverse cast of voices in our research, from industry providers to end users, both consumers and SMEs, in order to develop a holistic understanding of the trends likely to influence the future. We invite you to engage with us to explore the future of switching.

John Dentry
CASS Product Owner

Contents

1. Executive summary

Our Current Account Switch Service (CASS) research identifies and describes drivers and trends that will influence the future uptake of switching in current accounts and financial services products. Where there is clarity we indicate the potential impact of each trend on switching, whether it be to increase or decrease switching, or to have an uncertain impact. This is based on the opinion of industry providers we have interviewed, consumer and SME quantitative research, and a review of published sources in our desk research.

Although the future is unknown, we believe these trends should be monitored, developed and applied to business strategies and decisions when thinking about the future of current account switching. Both short-term and long-term decisions about the switching product, process, marketing, and customer experience may be impacted by these trends even if their impact is uncertain.

The full list of trends in our research is set out below.

Trends likely to increase switching:

- Young consumers less loyal to brands
- Tech-savvy consumers find deals
- Digitalisation of finance
- Artificial Intelligence (AI) Virtual Assistants empower customers
- Automated switching services developing
- Omni-channel influence
- Digital ID promises easier customer experiences
- Price comparison websites extend services
- New FinTechs and challenger banks compete
- Big Tech disrupts traditional finance
- Online platforms disrupt
- Regulators promote switching
- Environmental, Social and Corporate Governance (ESG) matters
- Higher interest rates incentivise change
- Inflation drives value purchasing
- Cashless society.

Trends likely to decrease switching:

- Moving to multi-accounts
- Data privacy paradox.

Trends that will impact switching, but their impact is uncertain:

- Better marketing personalisation
- Apps target customer loyalty
- Add-ons and tie-ins change financial products
- Open Banking/Open Finance roll out.

A trend that will have a low impact on switching:

- Digital and cryptocurrency for purchasing.

The trends that will have an uncertain impact should be reviewed and updated as the future unfolds.

2. Introduction

We are at a challenging point in the practice of UK business forecasting as the past few years have witnessed a phase of seismic events including Brexit, the Covid-19 pandemic, the war in Ukraine and the rising cost of living. This permacrisis has unquestionably disrupted business and placed increased importance on forecasting and planning.

Since launching in 2013, Pay.UK's Current Account Switch Service (CASS) has helped millions of individuals, as well as small and medium-sized enterprises (SMEs with under 50 employees and less than £6.5 million turnover), to derive more value from their current accounts. The banking, payments, and wider financial ecosystem of the UK have evolved significantly since the launch of CASS and our research explores the trends that are likely to impact a switching service. Some changes which we see in the market today that could impact this vision are the uptake of Open Banking, new consumer propositions from FinTechs and the trend towards multi-banking (where customers have more than one current account) among consumers and SMEs. In summary, our research explores the future of switching.

Although the future lacks certainty, we maintain two overarching principles as we explore the switching landscape of the future and identify the problems current account switching may need to address in the next five to ten years. Firstly, we advocate the principle of delivering products with an interest in end-user satisfaction and in preserving fairness. Secondly, we endorse the principle of using evidence-based judgement to be smarter and more decisive, and to reduce our exposure to the threats and challenges of the next five to 10 years. At Pay.UK we understand that current account switching by consumers and SMEs is vital to the success of a competitive and regulated market in financial services.

3. Research objective and methodology

Our key research objective is to understand the major drivers and trends that could impact the role of account switching and a switching service in the future. These may include factors such as the changing branch network, digitisation and Open Banking.

We have been careful to avoid making binary forecasts and our research assesses how likely trends will influence switching based on our thinking about the industry, feedback from a range of industry providers, and research with consumers and SMEs. We test known trends to explore the future of switching that can be updated. Future numbers are based on informed estimates from corporates and individuals, containing assumptions and biases. To create our understanding of the future of switching, and to reduce biases, our research has been completed with a wide, diverse group of people. Rather than relying on single voices or the loudest opinion, this approach brings together a broad group of people with diverse expertise to explore a range of evidence concerning the future of switching.

As you read this report we invite you to be a creative participant in the future of switching, keeping your mind open to potential changes and the problems that switching should address in the future.

To explore a range of evidence, Pay.UK worked with Davies Hickman in order to:

- Review published sources for desk research
- Complete 23 in-depth expert interviews with industry leaders and strategists in banks, building societies, EMIs, general, life and health insurers, pension providers, consolidators, fintechs, third-party financial providers, comparison websites. In the report we refer to them as 'providers'
- Complete in-depth interviews with 14 consumers and 4 SME owners. In the case of the consumers this included digitally-sophisticated and excluded respondents
- Conduct a nationally representative survey of 2,000 UK consumers
- Conduct a representative survey of 300 UK SMEs with under 250 employees
- Identify major drivers and trends influencing the future of UK switching
- Analyse data sources, including triangulating the results across the desk research, expert, consumer and SME interviews, and quantitative surveys.

The research was completed between September and November 2022.

The research was carried out independently for Pay.UK by Davies Hickman Partners Ltd. The data and views in this report have been prepared in good faith and neither Pay.UK nor the authors of this report can be held responsible for any actions or otherwise taken by those reading it.

4. The major drivers of change and trends

The research explored the major forces driving change in switching now and in the future. We used a modified political, economic, socio-cultural and technological (PEST) model as a framework to understand the contextual factors affecting switching. This involved context scanning of each driver category to understand the key trends that will shape the future of current account and financial services product switching.

- Changing structure of society
- Technology transformation in data, AI and channel delivery
- Industry competition
- Regulatory and governance initiatives
- Economic uncertainty

The five high-level drivers include detailed trends that will influence consumers' and SMEs' attitudes and behaviours towards financial product uptake and switching in the future. Over 40 trends were identified through desk research, expert interviews and qualitative and quantitative research with consumers and SMEs. These were assessed for validity and similarity and below is the final list of 23 projected trends indicating the opportunities and challenges the switching industry should address in the future.

Drivers

Trends

Young consumers less loyal to brands

Tech-savvy customers find deals

Moving to multi-accounts

Data privacy paradox

Digitalisation of finance

Better marketing personalisation

AI Virtual Assistants empower customers

Automated switching services developing

Omni-channel influence

Digital ID promises easier customer experiences

Price comparison websites extend services

New FinTechs and challenger banks compete

Big Tech disrupts traditional finance

Apps target customer loyalty

Online platforms disrupt

Add-ons and tie-ins change financial products

Regulators promote switching

Open Banking/Open Finance roll out

Environmental, Social and Corporate Governance (ESG) matters

Higher interest rates incentivise change

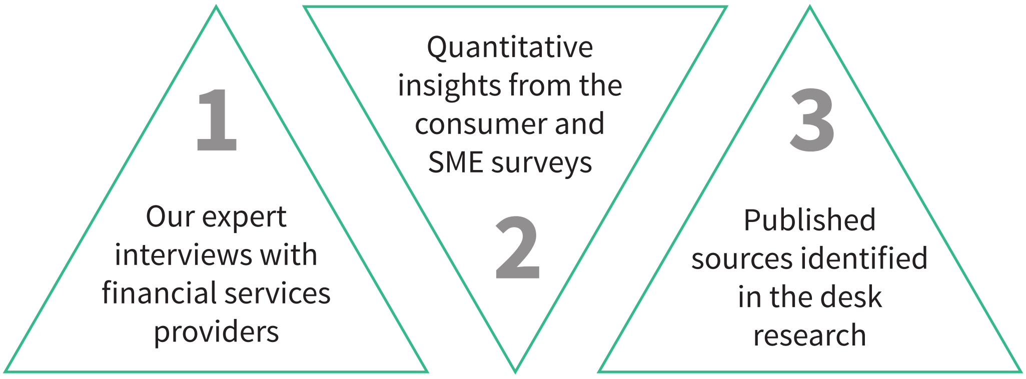
Inflation drives value purchasing

Cashless society

Digital and cryptocurrency for purchasing

Triangulating the three perspectives: How likely each trend will influence switching

We analysed each trend from three perspectives:



In our analysis, we triangulated the three perspectives to score a high, medium or low agreement on whether a trend will increase or decrease current account switching or have an uncertain or low impact.

Low agreement | Medium agreement | High agreement

5. Future switching trends

Changing structure of society trends

Young consumers less loyal to brands

There is less brand loyalty amongst Millennials and Gen Z than older generations. This is likely to lead to more consumers and SMEs looking for better financial deals.

Increase switching

High agreement

Providers said that the older generation of consumers is more loyal to financial services brands and switch products less often. The Head of Europe Open Banking at a multinational financial services provider explains, “There is a generation cycle, those who are older have stayed loyal to brands.” Our research shows younger consumers are more likely to switch with 47% of Gen Z saying they intend to switch some financial products due to the cost of living (average 39%). Desk research shows that Gen Z are likely to have been more exposed to personal financial literacy education. This could influence them to switch financial providers when they are not happy with their provider or if they can find a better deal for their current account.[1] Overall, when triangulating the three perspectives there is high agreement that the ‘Young consumers less loyal to brands' trend will increase switching.

47% of Gen Z say they intend to switch some financial products due to the cost of living (average 39%)

[1]Forbes, Why Financial Literacy Isn’t Gen Z’s Sweet Spot – Yet. September 2022. Available at: https://www.forbes.com/sites/markcperna/2022/09/13/why-financial-literacy-isnt-gen-zs-sweet-spot-yet/

Tech-savvy consumers find deals

The public is getting better at searching for and accessing information digitally. More will find offers to switch financial products.

Increase switching

Medium agreement

Providers agree a small, and falling, percentage of customers will be technology-phobic in the future. Most acknowledge that by comparison Tech-savvy consumers and SMEs have a significant advantage in being able to quickly access information online. They are experienced researchers and now account for a large proportion of the population. Improved access and use of technology improves the quality of information available to consumers. A consumer commented, “(I) do a quick Google, Instagram and uSwitch search” [when researching products]. An SME owner explains what they like about using comparison websites, “Go Compare and MoneySuperMarket, they are both neutral. They are always trying to speed things up, speed to quote.” However, our desk research shows digital deals will not apply to some vulnerable consumers.[2] There will be customers who are vulnerable and not digitally able. Vulnerability may be caused by a number of factors such as digital exclusion, cognitive impairment, poor literacy, physical or mental health issues, and difficult life events. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Tech-savvy consumers find deals' trend will increase switching.

Moving to multi-accounts

Many consumers and SMEs hold multiple current accounts, credit cards, savings accounts and pensions. They are ‘nudged’ to have separate pots for different financial purposes.

Decrease switching

High agreement

Providers stated it is more likely that in the future customers will keep existing accounts open while opening and trialing new ones. This ‘invisible migration’ will involve customers moving key transactions from one current account to another without a formal switch of accounts. There are advantages and disadvantages of multi-accounts. Online platforms, apps and Open Banking will potentially make it easier for customers to manage multiple accounts. In our consumer research 53% of consumers have more than one current account. 42% of consumers who have more than one current account (multi-bankers)

[2]FCA, Treating vulnerable consumers fairly. June 2022.Available at: https://www.fca.org.uk/publication/research/vulnerability-exposed-research

say they do not close bank or building society current accounts that they are not using (average 38%). An SME we interviewed said, “Over time I have got multiple current accounts as I shop around. There is no need to close them.” Overall, when triangulating the three perspectives, there is high agreement that the ‘Moving to multi-accounts' trend will decrease formal switching whereby the original account is closed. Despite this, more new current accounts will be opened.

> 42% of consumers who have more than one current account (multi-bankers) say they do not close bank or building society current accounts that they are not using (average 38%).

Data privacy paradox

Customers have concerns about how organisations collect, manage and use their personal data. This may make it difficult for financial providers to target offers to consumers.

Decrease switching

Medium agreement

Providers cite data privacy as one of the highest priorities. In desk research consumers and SMEs repeat the importance of organisations protecting their customers’ identity and financial information.[3] However, the industry relies on access to personal data to offer relevant products and services. Consumers often welcome these offers. For example, nearly half of all consumers in our research would like to be told annually about options to switch; some more regularly if interest rates change. Some consumers would welcome proactive nudges for example before a switch, receiving messages that notify them of a better account or deal. Paradoxically these nudges are reliant on customer data collection and its use by financial services organisations. If future high-profile data breaches occur, or customers perceive they are not adequately compensated for breaches, both customers and regulators will be less willing to share personal data. They may expect more data privacy and security steps, and be more careful in sharing data, which will make the process of opening new accounts more difficult. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Data privacy paradox' trend will decrease switching.

[3]Forbes, Customer Experience And Digital Transformation: Challenges And Opportunities. October 2022. Available at: https://www.forbes.com/sites/forbestechcouncil/2022/10/28/customer-experience-and-digital-transformation-challenges-and-opportunities/?sh=6200e97e77fb

Technology transformation in data, AI and channel delivery trends

Digitalisation of finance

The financial services industry is improving back-office processes which will make account opening and operation easier.

Increase switching

High agreement

All providers, particularly FinTechs, are positive about the beneficial influence of the digitalisation of banking processes on switching. This may help overcome challenges mentioned by providers including anti-money laundering requirements. “(Anti) money laundering (requirements) mean the on-boarding is not hassle free for consumers, and it could be easier,” according to a non-executive director. In our research consumers and SMEs agree they are looking for an easier switching experience. 23% of consumers say if a financial services product switch took too long it would become a barrier to switching. Desk research sources recognise the potential of digitalisation to improve customer experience.[4] Digitalisation of back and front office processes reduces the effort required to switch for both customers and providers, ensuring switching has fewer barriers and lower costs. Overall, when triangulating the three perspectives, there is high agreement that the ‘Digitalisation of finance' trend will increase switching.

Better marketing personalisation

Data analytics and marketing automation will improve product recommendations and service levels to individual customers. Providers will be able to make more relevant offers for new customers but also improve service to existing customers. Therefore the overall impact on the levels of switching is uncertain.

Switching impact uncertain

Medium agreement

Providers agree that data analytics will improve personalised marketing such as communication and marketing recommendations. It involves delivering products that are targeted to smaller customer niches, including specific segments of society or particular types of workers such as those in the gig economy.* A 44-year-old digitally-sophisticated consumer that we interviewed remarked on a well-known comparison website, “It has all the info saved for my car insurance quote ready for next year. It’s nice when they ask me has everything stayed the same and give me the new price. You will not find it cheaper anywhere else.”

[4]McKinsey & Co, Getting personal: How banks can win with consumers. July 2022. Available at: https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/getting-personal-how-banks-can-win-with-consumers

*A gig economy is a free market system in which temporary positions are common and organisations hire independent workers for short-term commitments

At the same time, our desk research suggests that better personalisation in customer journeys is a big opportunity for financial services to drive offers and therefore loyalty.[4] Both the providers and the desk research indicated that better personalisation may increase loyalty as much as it may increase switching. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Better marketing personalisation' trend will have an uncertain impact on switching.

AI Virtual Assistants empower customers

Customers will be able to instruct Alexa-like virtual AI devices to identify offers and manage the switching of financial services products. This will reduce effort for consumers and SMEs, if it works well.

Increase switching

Medium agreement

Providers say the use of AI Virtual Assistants is likely to be taken up by a significant minority of customers. However, providers believe these services will not be truly effective before the end of the decade. A bank director explained, “Erica at Bank of America, their chatbot is the beginning. Moneybox use of data allows more compelling offers. It will develop.” In addition to being easy to interact with by voice or text, AI driven Virtual Assistants could offer benefits such as always being available to search for better financial deals as well as making the product switch. Consumers who already have more than one current account are more likely to consider using AI-enabled Virtual Assistants and these may reduce the effort involved in switching financial products. Desk research sources are in favour of AI Virtual Assistants, supporting consumers with convenient living and decision making.[5] Overall, when triangulating the three perspectives, there is medium agreement that the ‘AI Virtual Assistants empower customers' trend will increase switching in the longer term, however the timing is uncertain.

Automated switching services developing

Services that identify, select and switch products automatically for customers are growing. If successful, these services will speed up the process of market discovery.

Increase switching

Low agreement

Some providers were unsure about the impact that automated switching services may have on financial services products. These services are already available from some comparison

[4]McKinsey & Co, Getting personal: How banks can win with consumers. July 2022. Available at: https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/getting-personal-how-banks-can-win-with-consumers
[5]AI., Top 10 AI-powered virtual assistant companies. April 2022. Available at: https://aimagazine.com/ai-applications/top-10-ai-powered-virtual-assistant-companies

websites. For utilities, providers such as uSwitch and Look After My Bills offer automated switching services. Ethical considerations regarding automated switching services and the correctness of the switching decision raise concerns for regulators in financial services. A 39-year-old digitally-sophisticated consumer explained his reluctance to switch and highlighted the attraction of automated services, "I won't switch due to the hassle of form filling and repetitive questions. It takes longer than it should." Consumers are clearly looking for frictionless switching journeys and desk research sources suggest that these services could be used to simplify switching. Overall, when triangulating the three perspectives, there is low agreement that the 'Automated switching services developing' trend will increase switching.

> "I won't switch due to the hassle of form filling and repetitive questions. It takes longer than it should."
>
> 39-year-old digitally-sophisticated consumer

Omni-channel influence

Although bank branches are closing, new channels for customers to learn about and contact financial providers are making it easier to build new customer relationships.

Increase switching

Medium agreement

Providers say that branch closures will free up resources to focus on new customer channels and marketing. Already the majority of consumer current accounts are being opened online. Desk research indicates that branch visits are popular with the older generation, some SMEs, and the digitally excluded who may have less opportunities to learn about switching or relevant new products.[6] However, the increase in banking community hubs and banking booths may act as a useful replacement. Our research shows only 24% of consumers prefer to switch to a new financial provider face-to-face with staff or an adviser. At the same time, new channels are being used in financial services: WhatsApp, messaging, voice assistants, apps, social media and e-mail. These channels make it easier to communicate new switching offers to customers. The functionality of digital and mobile banking is growing as these channels are incorporated into service

[6]Centre for Ageing Better, How are older people adapting to digital technology during the COVID-19. July 2020. Available at: https://ageing-better.org.uk/blogs/how-are-older-people-adapting-digital-technology-during-covid-19-pandemic

delivery, potentially making communication and switching easier. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Omni-channel influence' trend will increase switching.

Digital ID promises easier customer experiences

The take-up of digital ID services by consumers and SMEs is uncertain. They could potentially make switching much easier for all parties including financial services providers.

Increase switching

Medium agreement

Providers were aware of the potential for consumers and SMEs to use digital ID for opening and accessing financial services accounts across a range of product categories. However, they have concerns about the take up of and the trust in these systems, by both consumers and SMEs. The benefits are clear. A strategy manager at a pension provider said, “Banks should eliminate the frictional steps, minimising and only asking for the most critical info by utilising digital ID.” A bank payments director commented, “Make it easier for the customers, presently we ask for a lot of info for switching. Make validation easier e.g. Digital ID without having to give lots of details”. Our research shows 30% of consumers agree it takes too long to prove their personal identity to financial providers and 55% agree it would be useful to have smart ID solutions that securely save their ID documents when for example, opening new financial accounts. In addition, those who use Open Banking are more likely to want easier identity and security processes for switching. Desk research shows the increasing take up of digital IDs but this growth varies from market to market.[7] Concerns about data security are relatively high in the UK market. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Digital ID promises easier customer experiences' trend will increase switching.

Industry competition trends

Price comparison websites extend services

Price comparison services depend on switching for revenues. They will continue to innovate and offer better deals which will keep high awareness of switching among customers.

Increase switching

High agreement

[7]Forbes, What Does The Future Of Digital ID Look Like? June 2022. Available at: https://www.forbes.com/sites/forbestechcouncil/2022/06/07/what-does-the-future-of-digital-id-look-like/?sh=612a2e32266b

Providers recognise the role that comparison websites play in switching financial services products. They also suggested they were agile and able to move quickly to promote new products should an opportunity appear. Desk research confirms that price comparison websites contribute significantly to the sales of many financial products.[8] Our research shows that consumers and SMEs are attracted to switching after seeing better deals and offers on the TV, news apps, social media, comparison websites like Money Saving Expert, and after internet searches. In our research many consumers and SMEs underlined the importance of price comparison websites in their switching behaviour. Overall, when triangulating the three perspectives, there is high agreement that the 'Price comparison websites extend services' trend will increase switching.

New FinTechs and challenger banks compete

New financial products and services will be introduced by FinTechs and challenger banks. These will encourage traditional providers to respond and offer better deals.

Increase switching

Medium agreement

While some providers agreed that a larger variety of new niche financial products in the market would increase switching, others were less certain. In the UK, FinTech investment has been high, leading to new banking, savings, loan, insurance, payments and investment products all of which have attracted new customers. Desk research confirms that FinTechs shape the future of financial services markets by encouraging traditional players to 'catch-up' with their innovations.[9] One example would be the introduction of customers being able to switch a payment card on and off from their app. In the desk research, there are suggestions that the levels of funding for new FinTechs and challenger banks may decline, thereby reducing new switching offers. However, other sources suggest the levels of funding for FinTechs will continue to be high in the long-term future to support new entrants' services and offers. Overall, when triangulating the three perspectives there is medium agreement that the 'New FinTechs and challenger banks compete' trend will increase switching.

Big Tech disrupts traditional finance

Big Tech already offers financial products and services. It will continue to disrupt the market either by making direct offers to consumers and SMEs or through technology that will revolutionise traditional players' processes.

Increase switching

High agreement

[8]Mintel, UK Price Comparison Sites in Financial Services Market Report 2022. Available at: https://store.mintel.com/report/uk-price-comparison-sites-in-financial-services-market-report
[9]PWC, Customers in the spotlight: How FinTech is reshaping banking. Available at: https://www.pwc.com/gx/en/industries/financial-services/publications/fintech-is-reshaping-banking.html

Providers believe younger consumers are willing to switch to Big Tech (e.g. Amazon, Apple, Google, Meta and ByteDance) that offers new financial products. A manager at a general insurer stated, “Big Tech e.g. Amazon will be involved. They will be active in switching.” In our research a manager at an Open Banking based money management platform commented, “If Google came into the market, it could be more effective than all the activity of the rest of banks and comparison sites.” Our consumer research shows about 1 in 2 of Gen Z and Millennials are open to switching to these suppliers, although this result falls to 1 in 4 for Gen X and Baby Boomers. The desk research confirms that Big Tech will offer banking products that compete on convenience and may be easier to use than traditional banks.[10] Other desk research sources confirm that Big Tech is advancing and will change the processes of financial services providers by using cloud technology, AI and metaverse innovations such as augmented reality and virtual reality.[11] Overall, when triangulating the three perspectives, there is high agreement that the ‘Big Tech disrupts traditional finance' trend will increase switching.

> “If Google came into the market, it could be more effective than the rest of banks and comparison sites.”
>
> Manager, Open Banking based money management platform

Apps target customer loyalty

Banking apps are designed to improve customer tie-in and loyalty by offering features which consumers and SMEs value. These may attract new customers while also making existing customers less willing to switch. Therefore the overall impact on the level of switching is uncertain.

Switching impact uncertain

Medium agreement

Most providers place an emphasis on banking apps for their future relationships with consumers and SMEs. Desk research shows that apps are generally seen as improving customer loyalty through their ease of use and the features they offer.[12] They make it easier to provide verification information before accessing account details. This means providers can communicate more targeted offers to customers and ease the process of account opening for additional products. However, some of the providers indicated that while

[10] Oliver Wyman, The tectonic Shift. Available at: https://www.oliverwyman.com/our-expertise/journals/state-of-financial-services.html
[11] FCA, The potential competition impacts of Big Tech entry and expansion in retail financial services. October 2022. Available at: https://www.fca.org.uk/publication/discussion/dp22-5.pdf
[12] Insider Intelligence, UK Mobile Banking Emerging Features Benchmark 2022. November 2022. Available at: https://www.insiderintelligence.com/content/uk-mobile-banking-emerging-features-benchmark-2022

better apps may increase loyalty, they may also increase switching as customers try to find better or more recommended apps. A 39-year-old consumer describes the convenience of apps, “Yes, I can put other bank accounts on the one banking app, and see other accounts in one place. I can do payments, but seeing all accounts on one screen is the best thing.” According to our research 55% of consumers and 69% of SMEs have a mobile banking app. Overall, when triangulating the three perspectives, there is medium agreement that the ‘Apps target customer loyalty' trend will have an uncertain impact on switching.

> 55% of consumers have a current account on their mobile app

Online platforms disrupt

Financial services platforms will enable customers to see and manage multiple accounts on one screen. They will make comparisons easier for consumers and SMEs and possibly enable better and faster decisions about switching or opening new accounts.

Increase switching

High agreement

Some providers expressed their concerns about the profitability and viability of online platforms both now and in the future while recognising that they do give more information to customers. Others see the experimentation with these platforms across a range of financial products as leading to some success already. Our research shows that 52% of multi-bankers will continue to use, or would use, a single financial management platform, such as Moneybox or Snoop, that helps them see many of their financial products on one screen (average 33%). Some providers raised concerns about the security of these services. However, desk research sources suggest that the FCA recognises the value of different platforms, including investment platforms, and the regulator intends to protect consumers and investors against breaches with interconnecting systems and services on platforms, whilst balancing appropriate access and authentication.[13] Overall, when triangulating the three perspectives, there is high agreement that the ‘Online platforms disrupt' trend will increase switching.

[13]FCA, Findings from our investment platforms costs and charges review – good and poor practice. May 2022. Available at: https://www.fca.org.uk/firms/investment-platforms-consumers-investment-costs-good-poor-practice

Add-ons and tie-ins change financial products

Financial providers will include add-ons (e.g. cashback, complimentary products) and tie-ins (e.g. contract terms, redemption fees) to their products to limit switching but also to attract new customers. Therefore the overall impact on the levels of switching is uncertain.

Switching impact uncertain

High agreement

Providers were uncertain about the impact of financial product add-ons and tie-ins on switching. Our research shows Millennials and Gen Z currently take advantage of bank add-ons such as loyalty incentives and cashback schemes (25%), mobile phone insurance (23%), online secure documents storage (17%), and travel insurance (15%). Desk research sources suggest new add-ons and tie-ins are being developed which will widen consumer and SME choices for managing money.[14] For example, some banks offer autosave features. The features involve setting up savings for a specified percentage of every deposit or choosing an amount to save over a specific period or round-ups. These could be attractive to both existing and new customers, therefore driving loyalty or encouraging switching depending on the customer's situation. Overall, when triangulating the three perspectives, there is high agreement that the ‘Add-ons and tie-ins change financial products' trend will have an uncertain impact on switching.

Regulatory and governance initiatives trends

Regulators promote switching

There will be ongoing regulatory activity to drive competition and promote financial product switching. Examples include AI is a force for good, mortgage switching, pensions dashboards and Consumer Duty.

Increase switching

High agreement

Providers agree that future banking regulation in the UK will drive an increase in switching. A building society director said, “A reminder [to the banks that some people] want bank account number portability may nudge them to support the promotion of switching.” Some said there was potential to improve competition in consumer and SME banking by raising awareness of the opportunity to switch. A director at a global payments company commented, “There is a generation cycle, those who have stayed loyal to bank brands. They need more education about the benefits of switching.”

[14]FCA, How regulation can prepare the ground for economic growth. September 2022. Available at: https://www.fca.org.uk/news/speeches/how-regulation-can-prepare-ground-economic-growth

Upcoming regulation such as Consumer Duty[15] indicates more consumer protection particularly for the vulnerable. As most consumers and SMEs are not aware of future regulations and governance initiatives this topic was not included in our surveys, but future governments are likely to return to the topic of competitive markets in personal finance. Overall, there is high agreement that the 'Regulators promote switching' trend will increase switching.

Open Banking/Open Finance roll out

Open Banking and Open Finance adoption by consumers and SMEs changes the functionality of financial products. It introduces non-financial providers to the market (Open Finance). Overall, it may make account switching more appealing, but also reduce the incentive for existing customers to switch. Therefore the overall impact on the levels of switching is uncertain.

Switching impact uncertain

High agreement

Some providers are uncertain about the success of Open Banking. Consumers and SMEs already using Open Banking agree it is easier to see all their banking products and compare benefits. According to our research, 51% of multi-bankers say they have Open Banking and 46% of multi-bankers state they will be less likely to switch their current account if they use Open Banking (average 39%). A 36-year-old consumer explains, "Open Banking is easy to use. Now I can view my accounts in one place and manage my money. For multiple accounts and different payments I can see what is going in, and when. It allows me to save and highlights my spending. But it possibly encourages me to switch, as I can see all the accounts." Other research sources show Open Banking creates uncertainties for current banking business models, yet future opportunities are emerging.[16] Open Finance is in its early life cycle in the UK. In some markets it has given opportunity for non-financial services brands to enter the banking market, creating more competition. Overall, when triangulating the three perspectives, there is high agreement that the 'Open Banking/Open Finance roll out' trend will have an uncertain impact on switching.

> "Open Banking is easy to use. Now I can view my accounts in one place and manage my money…. But it possibly discourages me not to switch, as I can see all the accounts." 36-year-old consumer

[15]FCA, PS22/9: A new Consumer Duty. July 2022. Available at: https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty

[16]PWC, Open Banking will shape the future of UK retail and commercial banking. Available at: https://www.pwc.co.uk/industries/banking-capital-markets/insights/open-banking-shapes-future-uk-retail-commercial-banking.html

Environmental, Social and Corporate Governance (ESG) matters

The public's awareness of ESG issues is increasing and financial products which support these issues will attract new customers.

Increase switching

Medium agreement

The desk research sources suggested sustainable finance has become a meaningful share of financial services businesses such as banks, investment providers and insurers. Banks promote their interest in sustainability and diversity while ESG investing is established. Consumers have increasing awareness of sustainability issues and new investment opportunities for ESG. Desk research makes it clear that some consumers will want to switch to more ethical providers and offers.[17] Our quantitative research with consumers shows that sustainability will influence 1 in 5 consumers in switching financial products. However, providers in our research were less convinced that ESG was important to customers and that it would drive switching behaviour. Overall, when triangulating the three perspectives, there is medium agreement that the 'Environmental, Social and Corporate Governance matters' trend will increase switching.

Economic uncertainty trends

Higher interest rates incentivise change

The motivation for consumers and SMEs to switch financial services products will rise due to higher interest rates. Providers will respond with new offers increasing account opening and switching in many product categories.

Increase switching

High agreement

Providers recognise that higher interest rates will lead to financial services providers offering more attractive savings products while loan products will become more expensive. This dynamic will incentivise consumers and SMEs to search for better deals, with more consideration given to the length of the contract. The uncertainty around the changing interest rates may force customers to choose shorter terms, thereby giving more opportunity for switching in the future. Desk research sources concur that the UK economy

[17] McKinsey & Company, McKinsey's Global Banking Annual Review. December 2022. Available at: https://www.mckinsey.com/industries/financial-services/our-insights/global-banking-annual-review

will not return to the era of very low interest rates in the short term, so the savings and loans market may be more dynamic for a time.[18] Overall, when triangulating the three perspectives, there is high agreement that the ‘Higher interest rates incentivise change' trend will increase switching.

Inflation drives value purchasing

Economic downturn means consumers and SMEs have a greater need to switch financial providers for better value.

Increase switching

High agreement

Providers say that the cost of living crisis caused by inflation will increase switching. A Product Manager at a FinTech bank describes the value of a switching service, “Switching should enhance the financial prosperity of the nation.” In a recession switching incentives will be more important to consumers and SMEs as they seek to reduce their outgoings. Our research shows there is a particular appetite among consumers for switching loans, mortgages and credit cards in a downturn. Consumers say the most highly-valued features for switching include incentives (58%), timely switching (40%) and the guarantee and reliability of the switching service (46%). For SMEs the most valued switching features are the guarantee (43%), timely switching (41%) and the incentive (40%). Some providers and the desk research agree that consumers’ fluctuating credit worthiness and credit scores are a concern that may encourage them to do more research to identify better products and services.[19] 46% of high credit users, those with an overdraft, personal loan, credit card or BNPL arrangement in our consumer research are concerned about their credit score over the next 3 years (average 34%). Overall, when triangulating the three perspectives, there is high agreement that the ‘Inflation drives value purchasing' trend will increase switching.

> “Switching should enhance the financial prosperity of the nation.”
>
> Product Manager, FinTech bank

[18]Investors’ Chronicle, Where rates are heading in 2023. December 2022. Available at: https://www.investorschronicle.co.uk/ideas/2022/12/15/where-rates-are-heading-in-2023/
[19]Financial Times, Credit crunch: how the cost of living crisis is pushing households to breaking point. August 2022. Available at: https://www.ft.com/content/45deb236-985b-44e7-a3c1-a39d88ce79b2

Cashless society

Consumers and SMEs are using less cash over time, resulting in more electronic payments. Interest in switching to better digital payments and banking products may increase.

Increase switching

Medium agreement

The restrictions necessitated by the Covid-19 pandemic supercharged the use of cards and mobile wallets. While cash withdrawals went up in 2022 for the first time in 13 years[20] the long-term trend is a slow decline in the use of cash for transactions leading to questions about its future. Some providers believe that the UK cashless movement has gone as far as it can go. Other published sources show the cash system has been slowly eroded over the years and banking and technology companies will continue to promote a cashless society.[21] Overall, when triangulating the three perspectives, there is medium agreement that the 'Cashless society' trend will increase switching.

Digital and cryptocurrency for purchasing

Digital and cryptocurrencies will be adopted to make purchases, changing the use of traditional bank and payment accounts.

Low impact switching

High agreement

Most providers were unsure about the influence of digital and cryptocurrencies on switching, referring to them as fringe influencers. They were unsure about the future use of cryptocurrencies for everyday transactions. The use of any future Bank of England digital pound is equally uncertain in the next 10 years. Desk research sources confirmed that cryptocurrencies are yet to have a significant impact on total purchasing on the UK high street.[22] In our research we did not ask consumers and SMEs about the influence of digital and cryptocurrencies as too few have direct experience. Overall, considering providers and the desk research views there is high agreement that the 'Digital and cryptocurrency for purchasing' trend will have a low impact on switching.

[20]This is Money, Are Britons returning to cash in hand to better grasp the cost of living crisis? February 2023. Available at: https://www.thisismoney.co.uk/money/saving/article-11623765/Cash-withdrawals-went-2022-time-13-years.html
[21]Brett Scott, CloudMoney. 2022. Available at: https://www.amazon.co.uk/Cloudmoney-Brett-Scott/dp/1847925871?asin=B09N6QP4NY&revisionId=&format=2&depth=1
[22]PWC, Charting a course amid evolution and revolution. Available at: https://www.pwc.com/gx/en/financial-services/fs-2025/pwc-future-of-payments.pdf

6. Conclusion

This report explored trends that may impact the future of switching in the next five to ten years. By using a mixed-method approach, we included the voices of industry experts, end users and SMEs to compile a list of 23 trends that will impact and shape the future of switching to different degrees.

While a few trends identified in this report could result in a decrease in switching, most of the future trends appear to point towards an increase in switching, resulting in greater financial freedom for consumers and SMEs. We have explored the impact of five high-level drivers including the changing structure of society, technology transformation in data, AI and channel delivery, industry competition, regulatory and governance initiatives, and economic uncertainty. Within these, some of the trends that are likely to drive an increase in switching are the digitalisation of finance, Big Tech disrupting the traditional financial sector, and high interest rates and inflation incentivising change.

Younger generations are more likely to be more financially literate and be less loyal to brands. This can be influenced by the increased digitalisation of financial services which itself is driven by the growth of FinTechs and innovations led by AI advancements. In time this continuous increase could lead to an even faster and less fragmented switching experience. Upcoming technologies such as Digital ID could potentially also play a role, though there are divided opinions on how influential they will be.

The growth of open banking and the roll out of open finance has the potential to both drive and inhibit switching. On one hand side, consumers seeing all their accounts in one place may make them less inclined to switch. On the other hand, as FinTechs create more opportunities and Open Banking grows towards Open Finance, consumers could potentially become more aware of their options and, as a result, become more likely to consider switching for products beyond their current accounts such as mortgage or pension plans. The role that regulators play in the conversation around switching is also likely to have a high impact on switching and will play alongside the ongoing evolution of Open Banking.

Our findings and insights for each trend point to the ways in which financial product switching could change for consumers and SMEs in the future. However, the trends that will impact switching should be reviewed and updated with time. This report is designed to stimulate conversations with those in the switching ecosystem and other key players.

Our contact details

email: CASS@wearepay.uk
address: 2 Thomas More Square, London E1W 1YN
www.wearepay.uk
twitter: @CurrentAcSwitch