ON-BOARDING REPORT

The Battle to On-board II:

The European Perspective on Digital On-boarding for Retail Banks

Contents

Executive Summary

PSD2 and Open Banking initiatives, combined with the rise and mainstream acceptance of new products and services being offered by fintechs, means that the battle to retain consumers is only getting fiercer for banks and other financial services providers.

Two years ago, Signicat commissioned the first Battle to On-board report, which found that 40% of consumers in the UK had abandoned bank applications thanks primarily to the slow and cumbersome paper-based and online processes that banks were using to meet their KYC and AML obligations. Without a digital identity system (eID) to securely identify their customers online, banks were struggling to on-board increasingly digital-savvy consumers in an efficient and user-friendly way.

This latest research revisits these questions two years on, not only in the UK, but also in Germany, the Netherlands, and Sweden. It will make uncomfortable reading for many banks, particularly in the UK where the number of applications that are abandoned has leapt from 40% to 56%—an increase in abandonment of 35% since the previous study.

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This report covers five themes relating to the acquisition of new customers and increasing the likelihood for existing customers to take additional services. The themes are:

- Business Opportunity
- Customer Choice
- Customer Trust
- Impact of Open Banking and PSD2
- Cross-border Banking

Business opportunity

What consumers want to fix is clear - 52% said that they would be more likely to complete a new account application with a bank if the entire process was online. The same number said that a completely online on-boarding process would encourage them to take additional services from the provider, providing incumbent banks with the opportunity to retain and expand their relationship with existing customers, rather than lose them to new fintech service providers looking to steal away customers with a slick product and a smooth on-boarding process.

Customer Choice

Sweden, with a nearly universally adopted centralised electronic ID (eID) scheme to allow customers to securely identify themselves online, had the highest percentage of respondents that initiated an on-boarding process (80% of respondents). The Swedes also had the highest rate of adoptions of 3 or more new financial products over the past 12 months (40%). Interestingly, Sweden did have a high abandonment rate, but respondents listed changing their minds (30%) and confusing language (20% - higher than any other country surveyed) as the primary reasons for stopping an application process. These are not consumers frustrated by the on-boarding process, but simply more empowered to reconsider their choice and walk away due to convoluted and unclear language and confusing user experience.

This would indicate that eID schemes do help the on-boarding process, but they are just the first step in improving the on-boarding process, especially as the audience becomes more technologically savvy and their expectations around ease of use increase.

Customer Trust

There is positive news for financial institutions when it comes to the question of who should provide eID. The overwhelming answer is that banks are most trusted to set up a shared eID scheme; the majority of respondents made it clear that they would like banks to take the lead on digital identity. Respondents clearly trust banks over a government scheme, and social media and specialist providers also have very low levels of trust.

Impact of Open Banking / PSD2

In the last two years the UK research shows the number of people likely to be put off switching bank accounts increase from 20% to 46% - that's despite a scheme that allows bank account switching in five days. This clear (and increasing) reluctance to switch comes at a time when Open Banking is attempting to re-engineer how financial services work, and must be addressed if Open Banking is to be the success it promises to be. This reluctance to switch, together with the high application abandonment rate in the UK, points to increasing consumer frustration with the lengthy process to create new accounts. The UK has the most time-consuming onboarding processes of the countries surveyed.

Cross-border Banking

The use of eID will also help gain cross-border customers, as the majority of consumers would want an eID that they could use across Europe. This is especially true in Sweden, where knowledge of eID is also highest. Only 22% of people do not want to use their eID across Europe.

Key takeaways:

- Banks are still failing to provide digital-first, frictionless on-boarding, with 52% of all respondents giving up on an application
- 35% more applications are being abandoned in the UK than two years ago
- 72% of consumers want an all-digital on-boarding system
- Digitally on-boarded consumers want more services and are more loyal
- ID Schemes promote greater uptake of financial products but the consumers become more discerning
- Consumers want banks rather than governments to provide an eID Scheme

Introduction

In 2016, Signicat published unique research into on-boarding, The Battle to On-board. Retail banks were facing a growing battle for consumers' business from challenger banks and fintechs, and a great deal of money was being spent on digital transformation to meet this challenge.

One area that hadn't been addressed sufficiently was customer on-boarding. The need to comply with Know Your Customer (KYC) and Anti Money Laundering (AML) requirements is often paper-based and requires personal information and several proofs of identity to be shared. So even while much of the on-boarding process can be completed online, documentation must be presented in person or sent through the post, introducing unwanted friction.

On-boarding documentation must be presented in person or sent through the post, introducing unwanted friction

Signicat commissioned an independent survey of UK consumers to explore experiences of applying for financial products with traditional banks. We found that 40% of consumers had abandoned bank applications before they were complete. More than 1 in 3 of these abandonments were due to the length of time it took to complete the details required. Another third objected to the amount of personal information they were asked to provide.

Our recommendation to the market was for existing forms of identity to be reused as the basis of digital identity, eliminating much of the frustrations and barriers to on-boarding consumers.

Two years have passed since the first Battle to On-board research, and it is time to see how on-boarding has changed. We wanted to see if there were changes in how banks were on-boarding consumers, the opinions of consumers to these processes and examine if changes in the financial services market has had an effect on consumer sentiment.

One of the biggest changes in the last two years, Open Banking, has the potential to revolutionise retail banking. Nine banks in the UK have been required to create APIs that will give third parties access to account information and initiate payments, and similar schemes are underway across Europe thanks to PSD2 legislation. The regulation aims to both drive innovation and improve competition in the financial services sector.

Consumer awareness of Open Banking is low, and will likely remain low. The consequences, however, are likely to be far-reaching as consumers use third-parties to bring together accounts into a single dashboard and offer additional services such as financial advice. Any brand that wants to use an API to access banking data and process payments can do so—meaning we may see entrants from other sectors disrupting the banking sector. An already competitive market has suddenly, through regulation, become even more competitive with banks being challenged not only by fintech start-ups, but also innovators from other sectors, such as the airline Norwegian, whose newly launched bank already boasts one million customers.

This is in addition to the ongoing and increasing threat from challenger banks. In 2017, the UK regulator approved twelve new banking licenses, up from eight the previous year. Alongside these new challenger banks are many other financial providers looking to provide a single service, such as savings, international exchange, or mortgages, and take this business away from the incumbent banks. Many of these challengers are already offering fully digital mobile-first on-boarding.

The new research, as well as revisiting the same questions as two years ago, also widens the scope. We have asked how consumers would prefer to identify themselves, and extended the countries researched beyond the UK to compare answers in Germany, the Netherlands and Sweden.

Advances in ID verification and increased competition in the market should present a more positive picture of on-boarding. But will reality match the hypothesis?

What do we mean by eID?

As a concept eID is rarely understood by the consumer. The survey would suggest that many consumers in countries that do not have established eID Schemes equate eID with the use of login credentials to access online services, particularly financial services. eID is term usually associated with eID Scheme and relates to a single electronic login that can be used to access many different services online.

Typically, eID Schemes are either created by governments to facilitate digital access to their services or by one or more banks backed by their KYC processes. Successful eID Schemes will allow an individual to use a single set of credentials to access a wide range of services such as BankID and IDIN.

The battle to on-board 2016

The first Battle to On-board research was a unique look into the on-boarding of UK financial services consumers. It found that poor on-boarding practices were undermining the sizeable investment that banks were making to attract new consumers, "tripping them up at the last hurdle".

The research found that:

- 40% of consumers had abandoned bank applications
- More than 1 in 3 (39%) abandonments were due to the length of time taken
- A third (34%) were due to demanding too much personal information

The research indicated that the situation was getting worse. Those who had applied for a product in the 12 months leading up to the research had abandoned more applications than those who last applied in the previous 12 months (45% vs 26%). This pointed to consumers becoming more frustrated with the application process than they were before.

The report had clear conclusions. Banks were only going to be able to reverse this trend if they made the entire on-boarding process online. More than half of consumers would be more likely to apply for a product if the process was 100% online, and if paper-based identity was unnecessary. Almost every potential customer had verified physical ID—such as a passport or driving license—but found that they were unable to use these digitally to accelerate on-boarding.

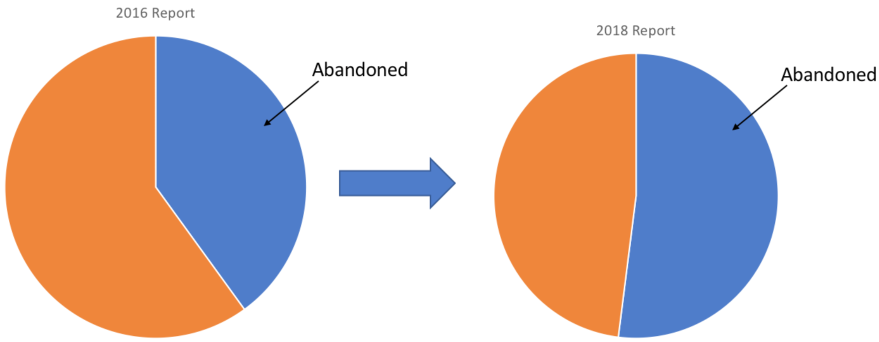
The major barrier to a 100%-online application process is identity verification. Until relatively recently this has been tricky thanks to the need to either post or present documents at a bank branch.

Given that nearly all respondents had access to a legitimate form of identification, we concluded that if these were reused as the basis of digital identity, much of the frustration around on-boarding consumers would disappear.

More consumers are abandoning on-boarding

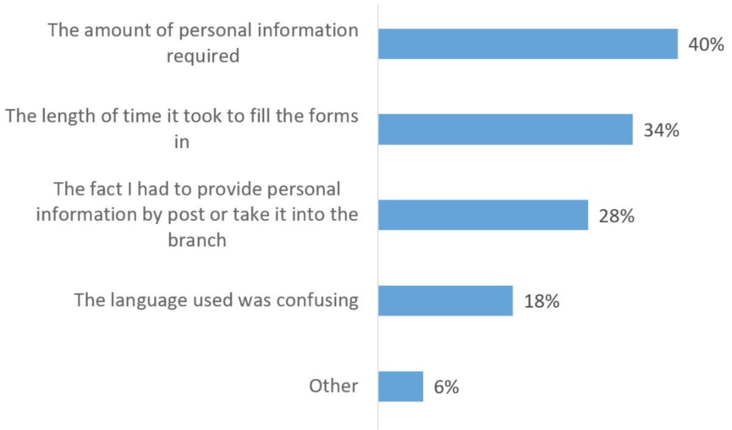
2018 Survey Results
The most troubling statistic from 2016 was that 40% of financial services applications in the UK were abandoned part-way through completion. For every three completed applications, two were left unfinished after all of the work and expense getting the potential customer to that crucial point.

This hasn't improved. In fact, it's now worse than ever in the UK with 56% of respondents having abandoned an application. A full look at the data is required to understand what is driving this behaviour.

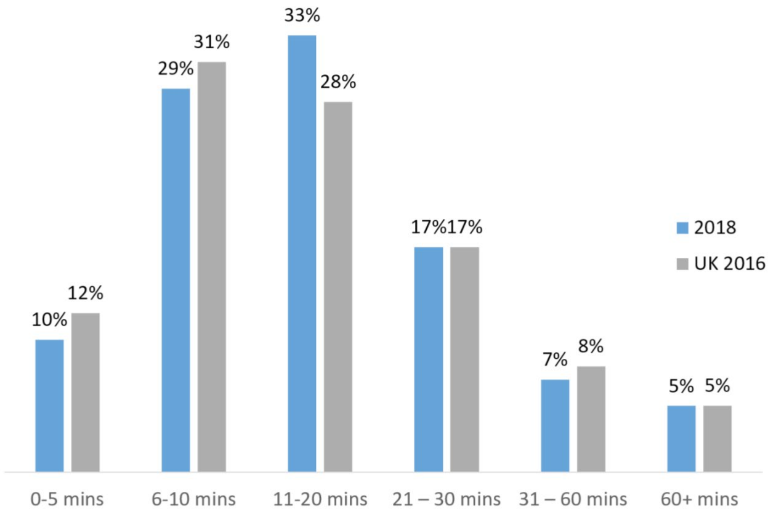


In 2016, 4 out of 10 applications were abandoned, in 2018, we see being 5.2 out of 10 applications are abandoned – over half.

When asked what the key reasons were for abandonment, the most frustrating aspect of applying for a financial product was cited as the "amount of personal information required" (40%), followed by the "length of time it took to fill the forms in" (34%).



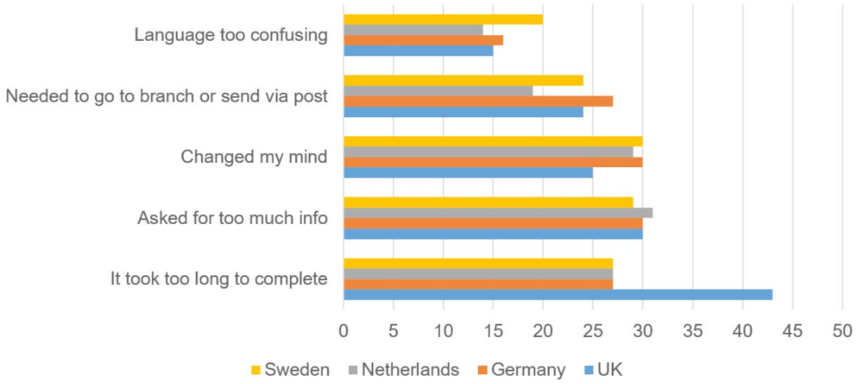
While KYC and AML regulations require that a certain amount of personal information is submitted, banks should be able to work with the length of time issue. Sweden's respondents report the lowest average time spent (14 minutes), which isn't a coincidence considering the standardized usage of an eID scheme. The average time to complete the financial process is 17 minutes. However, for 12% their last completed application took 31 minutes or longer.



The reasons for abandonment

It is worth taking a close look at the reasons for abandonment to better understand the effect eID is having.

The reasons consumers gave for abandoning applications:



UK

In the UK, an application taking too long is by far the biggest reason for abandonment with 43% of respondents citing this as the reason. The UK has the most time-consuming on-boarding process of the countries surveyed talking on average 5 minutes and 31% longer than in Sweden. It is likely that the length of time to complete an online application is one of the reasons why UK consumers are far less likely than the Swedish to start the process to open new accounts. The desire for a shorter on-boarding process is backed by 61% of respondents being more likely to complete an application if the whole process was online. This is significantly higher than any of the other countries surveyed.

Sweden

Sweden, with a centralized and almost universally adopted eID scheme called BankID, saw an abandonment rate of 60%. At first glance this could suggest that an eID Scheme either does not improve on-boarding or even worse makes digital on-boarding more problematic. However, looking at the full context the reason behind a higher number makes sense. Consider:

- 80% of respondents have attempted to sign up for a financial service in the past 12 months. This is significantly higher than in all other markets tested.
- The Swedes also had the highest response rate in terms of number of financial products, with 40% of respondents starting to sign up for 3 or more products over a 12 month period.
- Fully 50% abandoned the process due to two factors: Customers changing their minds (30%) or simply finding the language confusing (20%).
- Sweden had the lowest application time (14 minutes) compared to other countries.

Considering all of this data collectively, the relative simplicity means that consumers are more likely to start an application for a product that they are not yet 100% decided upon, as changing their minds will not mean a lot of wasted time. It also means that, while abandonment may be higher than expected, more customers begin an application than elsewhere. For financial institutions, streamlining the language and more compelling user experience would likely result in more customers.

Germany

In Germany the story is not so clear cut as the UK with less focus on the ability to complete on-boarding entirely online, only 43% would be more likely to complete the process if this was entirely online. Germans are also least likely to abandon an application at 40%. With large numbers, 61% applying for new services and 34% adopting 3 or more products this suggests that German consumers will persevere in the process despite having similar reasons for abandonment as other consumers outside the UK, changing their mind (30%), too much information requested (30%), taking too long (27%), and needing to go to a branch (27%).

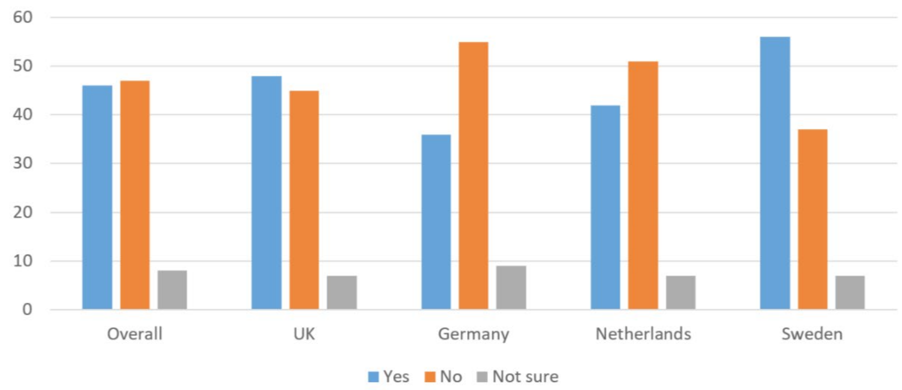
Netherlands

In the Netherlands, the country with the highest number of eIDs, consumers found the application process either easy or very easy, but were concerned about the amount of personal information being required and the length of time it took to complete the application process. Recording the lowest number of applications, these concerns seem to impact how often consumers will apply, or re-apply, for new products.

The impact of Open Banking

With the ongoing investment in technology over the last two years[1], it's hard to believe abandonment in the UK, Germany and the Netherlands is as high as it is due to a deterioration in on-boarding processes. Rather, the data suggests that it is due to customer attitudes shifting.

Have you ever considered switching your current account, but been put off because you're worried about the paperwork involved in proving your identity to a new bank?

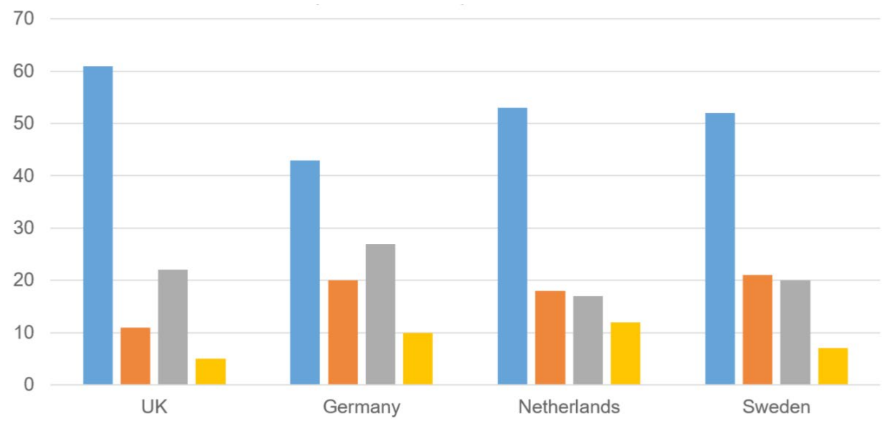


Opinion is split on whether paperwork means people are less likely to switch bank account. Most interestingly, in the last two years the UK has seen the number of people likely to be put off increase from 20% to 46% - that's despite a scheme that allows bank account switching in five days. Banks may see this statistic and think that this means their customer base is safe. In reality, the first bank to remove the barriers to better on-boarding will benefit greatly, whether that's an established bank or a challenger bank. This comes at a time when Open Banking is attempting to re-engineer how financial services work. This clear (and increasing) reluctance to switch must be addressed if Open Banking is to be the success it promises to be.

[1] The digital transformation of European banks continues with banks projected to spend in excess of €62 billion on IT in 2017. https://www.abbl.lu/2017/07/24/ebfs-2017-facts-figures/

The appeal of digital-only applications

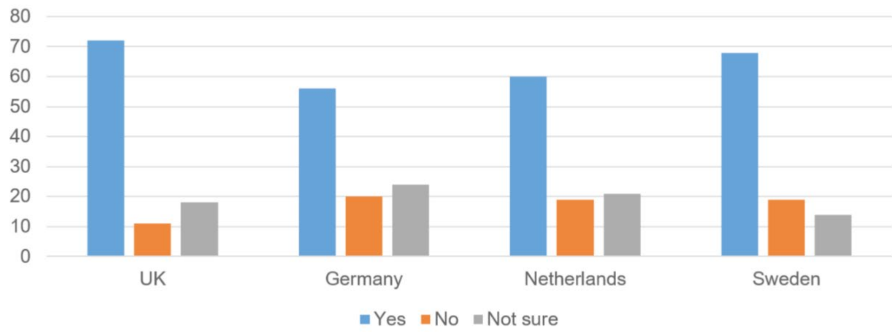
Would you be more likely to apply for a financial product if you could complete the entire process online?



Overall, across all four nations, 52% of respondents said that they would be more likely to complete an application if the entire process was online. The UK, the laggard when it comes to eID, is the most keen to make use of them, with over 60% of respondents more likely to complete online applications.

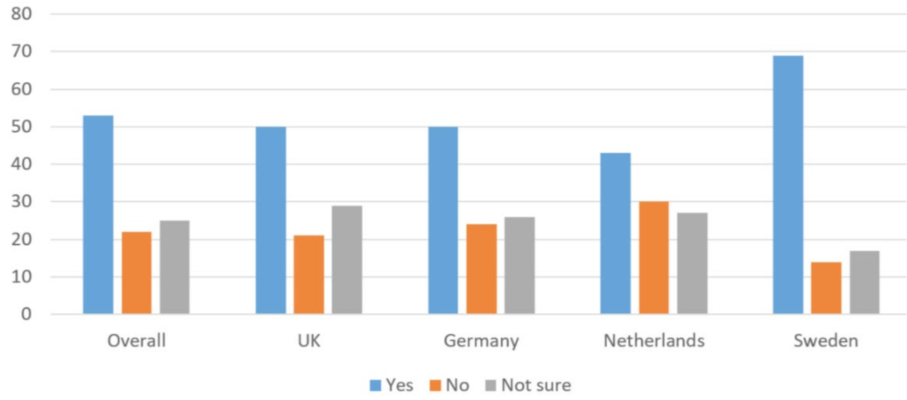
Where online on-boarding really shines, however, is in the impression it leaves with consumers. New consumers don't just want to complete applications online, doing so encourages them to give these providers additional business.

Would an online only registration process that didn't require sharing paper credentials (utility bill, driving licence, passport, etc.) make you more likely to buy additional products and services from the financial service provider?



An overwhelming number of consumers are more loyal to providers that give them the option of using an eID. Overall 64% of consumers will buy additional services from banks that don't make them go through a paper-based ID process.

Would you be happy to have an eID that you could use online for buying products, opening banking accounts, etc anywhere across Europe?



Digital identity: who do consumers trust?

The use of eID will also help gain cross-border customers, as the majority of consumers would want an eID that they could use across Europe. This is especially true in Sweden, where knowledge of eID is also highest. Only 22% of people do not want to use their eID across Europe.

Banks that are relying on their stature in the market to protect them from disruption are in for a rude awakening. Consumers are demanding digital on-boarding, and will reward those that provide with their loyalty and custom. Therefore a challenger bank that offers a friendly, simple, and fully digital on-boarding process, is likely to steal away the rest of that customer's business, purely by virtue of that process being fully digital. These banks, while they may struggle to offer the same suite of services as their bigger rivals, will be able to partner with other fintech providers to give customers what they want. A challenger banks with an eID scheme and a solid partner programme would be a formidable rival.

Consumers want digital on-boarding. Banks that don't meet this expectation will lose out.

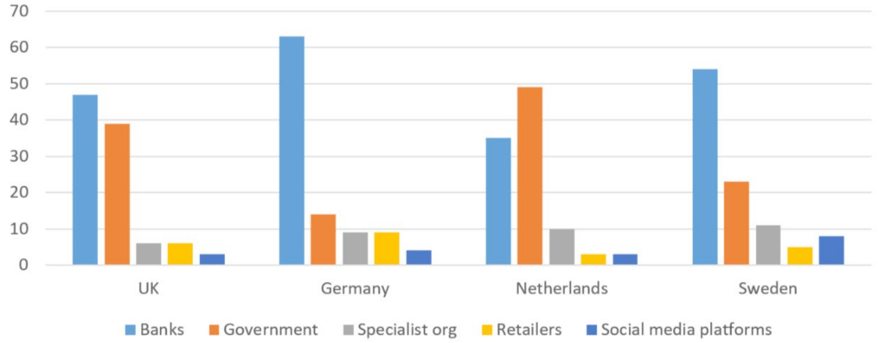
The digital identity opportunity

We know the problem: poor on-boarding of consumers (thanks to a lack of eID) means that more than half of consumers are abandoning applications for financial services.

We know the solution: Consumers want digital on-boarding (as offered by eID) and an identity system that provides this will be successful.

However, who should implement eID? Should it be banks, government, or even a company such as Facebook or Google?

Who would you prefer to provide your electronic identity (eID)?



For consumers, the runaway winners are banks. In the UK, 49% of respondents would prefer their bank to provide eID, rather than the government, which scores just 31%. This effect is extreme in Germany, with only 14% preferring government-issued ID.

The Netherlands bucks the trend, though this is probably thanks to the success of the government's DigiD scheme. The Dutch prefer the government only because the government has shown that they can provide an effective scheme, while elsewhere people would prefer if banks provided this service.

Alternatives such as retailers and social media platforms did not fare well. While the likes of Google, Facebook and Twitter have been making their login credentials available to use on other sites, this hasn't translated into trust in these platforms, with only 5% of respondents preferring social media for eID. Asked if social media could be trusted to speed up on-boarding, 52% said no—even before recent news headlines that may reduce consumer trust in social media giants.

Consumers want eID, and they want banks to lead the effort in providing it.

Conclusion: consumers want digital IDs

Consumers have a clear message for banks: identity is a problem, and we want you to fix it. This is good news for banks—they retain the trust that will help them retain business against their new rivals. Furthermore, trust and ID services could present a lucrative business opportunity at a time when traditional revenue streams are under threat.

But this trust will only hold back the tide for so long. The increasing rate of abandoned applications is evidence that convenience and a better on-boarding system will beat trust over time.

Banks, much like in the survey of two years ago, hold the key to improving customer experiences. They had the opportunity in 2016 and they have the opportunity now. In 2016, Open Banking was some way off and eID infrastructures were not present in the same way as now. While banks can still take advantage of the current situation, the need to do so is more pressing than ever—and the excuses have disappeared.

Banks need to both create eID where it doesn't exist and educate their customers as to exactly what it is and how to use it

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Banks need to both create eID where it doesn't exist and educate their customers as to exactly what it is and how to use it. They need to create paperless, online/mobile-only processes that their potential customers will happily engage with. Smaller and challenger banks must do this too—through partnerships they can offer as compelling a suite of services as large banks, and eID will mean customers can get on board easily.

Consumers are more dissatisfied than two years ago. If account switching gave consumers the means to leave their banks, Open Banking now gives them the motivation. While time has not yet run out for traditional banks, the clock is ticking.

Strategic considerations for banks

- Review their on-boarding processes as part of their digital transformation efforts, to make sure they are not losing customers at this crucial point
- Evaluate the identity technologies that can make on-boarding frictionless for consumers
- Explore the potential of being an "identity broker", using the trust people have in banks to assure identities for third parties
- Consider collaborating with other banks to create a digital ID scheme that consumers will trust and can be used for on-boarding across the retail banking sector, following the lead of countries such as Norway

Methodology / About Signicat

Methodology

The survey was conducted by Sapio Research in February 2018 and consisted of an online questionnaire completed by 4000 adults with bank accounts—1000 in each of Germany, Sweden, the Netherlands, and the UK.

About Signicat

Based in Trondheim, Norway, and founded in 2007, Signicat operates the largest Digital Identity Hub in the world, offering the only complete identity platform in the market and trusted to reduce the burden of compliance in highly regulated markets.

With Signicat, service providers can build and leverage existing customer credentials to connect users, devices and even 'things' across channels, services and markets transforming identity into an asset rather than a burden. By removing manual, paper based processes and replacing them with digital identity assurance, customer on-boarding is accelerated and access to services is made simple and secure. Signicat's Identity Hub is a complete solution to that offers compliance and a route to better customer engagement.

Signicat has over 200 financial services organisations as clients, connects to more than 20 schemes globally and verifies more than 10m identities per month. For more information, visit: https://www.signicat.com/contact/