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Fintech threat to incumbent banks biggest in personal loans market

- Nearly half of consumers open to considering fintech competitors for personal loans
- Banks vulnerable as average customer switches personal loan provider every 3 years
- Loss aversion means fintechs less of a threat to banks in current and savings account markets

Financial technology start-ups such as Ratesetter and Lendable pose a significant threat to the dominance of established banks in the UK's £200bn personal loans market, according to new research.

In the 'Battling for Buyers' report, behavioural science experts Decision Technology (Dectech) explore consumer openness to fintech providers across a range of banking products, such as loans, current accounts, and mortgages. The experiments found consumers are more open to considering fintechs for personal loans than for other products.

Nearly half (43%) of consumers are happy to choose a fintech provider for a personal loan. This compares to one in three (33%) being open to having their current account with a fintech and only one in four (26%) considering a fintech for a savings account.

The research shows that one of the biggest barriers to fintechs is low brand recognition. The most recognised fintech brand, online investment manager Nutmeg, was only recognised by one in four (26%) consumers, compared with five out of six (83%) recognising Virgin Money, the least recognised big bank. Few fintech firms were found to have name recognition in double figures.

According to Dectech, behavioural science may provide the answer to why consumers are willing to consider a fintech provider for some banking products more than others. The report explains that loss aversion – people's tendency to be more sensitive to potential losses than potential gains – means customers are more willing to trust unrecognised brands when borrowing money than when saving.

In addition, the research found consumers on average change personal loan provider once every three years, versus once every 12 years for a current account. Due to the higher churn rate and greater openness to new competitors for personal loans and other borrowing products, Dectech recommends that banks focus their efforts on these markets.

The report suggests established banks emphasise the trust that comes from being an established brand to hold onto customers in savings markets, while ensuring their offer remains competitive for lending products, where established banks are more liable to be outcompeted on price and speed in lending by newcomer brands with lower overheads.

Dr Henry Stott, Director of Decision Technology, said:

"These findings are a stark warning to incumbent banks. There is considerable consumer appetite for fintech providers already, especially when buying products based on price rather than brand trust. As name recognition for challenger brands increases, the threat they will pose will do likewise, and we'd expect them to start taking market share across a wider range of products.

“Established banks should pick their battles, leveraging trust in their brand for savings products where customers are more focused on reliability and aiming to stay competitive on price and speed for lending products where customers are most open to newcomers.”

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Notes to Editors
A copy of the report can be downloaded at
http://www.dectech.co.uk/behavioural_science/briefs/dectech_battling_for_buyers.pdf

About Decision Technology
Decision Technology (Dectech) is an innovative research consultancy that specialises in helping businesses and policymakers understand and manage customer decision-making, from acquisition through to retention and all the points in-between. It applies insights and techniques from behavioural science, such as randomised controlled field trials and online behavioural experiments, rather than traditional market research surveys. It is a member of the Market Research Society and the Management Consultancies Association.