RISE OF THE CHALLENGER BRANDS
HOW CHALLENGER BRANDS ARE WINNING AGAINST INCUMBENTS.

WITH A CASE STUDY ON THE RISE OF THE CHALLENGER BANKS

Words: William Reynolds
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We are all aware of the challenges facing traditional institutions. From the constantly shifting digital landscape and powerful competitors like Amazon to increasing consumer demands and marketing saturation, traditional brands are being squeezed out of the competition in every aspect. This is particularly the case within banking as startups attempt to ‘change banking as we know it’ and strip market share from long-entrenched players.

As a result, the rise of the challenger banks (such as Monzo, Starling, N26, Tide, and Revolut) is on the lips of the trillion dollar financial services industry. In the UK - home of the fintech startups and the first challenger banks - churn in the financial sector has drastically increased, with 235,648 customers using the Bacs switching service in the last quarter of 2018 alone.

Whilst this is in part due to anti-competitive pushes from UK watchdogs, the fallout of this churn for traditional financial brands can be seen clearly. It is telling that 15% of new current accounts created in the UK are purported to be with one challenger bank alone.

In 2018 Monzo, Revolut and N26 all published valuations of $2BN, $1.7BN, $2.7BN, with customer bases in excess of 2M, 3M, 2M users (respectively).
Whilst these innovative challengers have surged ahead in customer acquisition and UK consumer perception, traditional banks have started to roll out their own cutting edge next generation digital products. Including:

- Barclays overhauling their online banking app in September 2018.
- HSBC launching their own digital first solution: ‘Connected Money by HSBC’.
- RBS revamping their digital app.
- TSB relaunching their app and increasing support for business owners.
- NatWest taking strides to update their digital app, including rolling out a personal digital assistant ‘Mimo’.

Each of these updates and product releases have their unique selling points and differences. Some may carry fewer consumer insights or budgeting offerings, however, they all generally offer the same features that challenger banks initially came out touting. They also have robust interest-bearing current accounts, full regulatory backing with Open API access, and the ability to link to other financial products including loans, mortgages, and in-house ISA’s.

**CHALLENGERS USED TO WIN ON PRODUCT. BUT NOW THERE IS PARITY, AND THEY STILL WIN. WHY?**

This focus on product - the disruptive result of the innovation of upstart brands within fintech - has arguably levelled the playing field for traditional banks. This has resulted in the development of fundamentally better products than challengers can provide. Yet, traction for challengers is only accelerating while traditional institutions are still being viewed (at least by sections of the technology community) as laggards with the possibility of becoming obsolete.

But why is this still the case?

Simply put, challenger banks have positioned themselves tactically. They are not banks, but rather technology companies that provide smart solutions to manage your finances. This is in a bid to avoid the negative connotations that traditional financial institutions evoke.

Another factor is a pointed divergence from the standard approach to professional services communications, to one where they place the consumer at the heart of what, why, and how they push out their communications. Diving into the data it is clear that if traditional banks and brands across all industries altered their approach to their communications and how they interact with their customers, they could reduce, or reverse the challenger’s momentum.
As we look at the core differences between the approach challengers and traditional banks are taking, we see a few stark differences and an emerging theme that is apparent across sectors.

Challengers have been very careful to position themselves not as banks, but as consumer-centric technology companies. By situating themselves in this way and feeding this alternative mentality into their frequent communications, they are able to produce significantly more engaging and accessible content for the modern customer.

At the same time, established players are relying on their entrenched reputations and aren’t pulling their weight in a sector they have previously dominated.

Since the 2008 financial crash, consumer perception of banks (and financial institutions generally) has plummeted. Banks are increasingly perceived as being wrapped up in uncaring corporate greed. This is overwhelmingly apparent in polling from the Deloitte Trust Index showing that less than 2/10 consumers believe banks have their best interests at heart. [2]

As public confidence in banks has waned, less and less people trust that these institutions will fully support them in looking after their money. Rather than being a helpful tool, banks are increasingly perceived as a necessary evil for modern life.

As a direct result, challenger banks have burst onto the scene with a disruptive new approach. They want themselves to be seen as innovative tech companies providing smart financial solutions.

For example, top brass at Monzo publicly claim that they aren’t just building a bank - they’re building a hub for your financial life.

But this isn’t just their mission statement, it is at the heart of what they purport to be doing and is evident in their actions. They push out communications, as seen below, engaging their community and including them in the lifecycle of new products and releases - much like the consumer-focussed technology firms of Silicon Valley.

Would you expect this from your old bank? Realistically, it’s highly unlikely that you’ve ever expected, or experienced, this level or form, of communication from a traditional institution.
The superior efficacy of Monzo and other challengers’ positioning strategy seems like an easy claim to make. But when you dig into the data around the media produced about them and the topics they are associated with in the biggest national media outlets, it becomes absolutely clear that they are hitting the nail on the head.

When conducting a search in Signal for TSB, we can see the tags and sentiment for each article related to them (filtered from over 2.7 million global news sources). More interestingly, we can see strong differences in the topics - positive or negative - related to their media coverage in the last 30 days.
If we look at this across a selection of banks for 2018, we can provide analysis on the proportion of articles that are related to these negative topics.

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<thead>
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<tbody>
<tr>
<td>3 Major Banks</td>
<td>Monzo</td>
</tr>
<tr>
<td>&quot;Corporate Crisis&quot;</td>
<td>3.2%</td>
</tr>
<tr>
<td>&quot;Financial Crime&quot;</td>
<td>3.2%</td>
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<tr>
<td><strong>Average</strong></td>
<td><strong>6.7%</strong></td>
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As is illustrated above, there is a significant imbalance, with 8.2% of coverage related to traditional institutions associated with negative topics such as "Corporate Crisis" and "Financial Crime". While challengers, on the other hand, have received barely a third (2.6%) of coverage on the same negative topics.

Even more significant to the public’s perception of financial institutions is the media coverage of them relating to innovation and product advances. It is obvious that there is a vast discrepancy in what the media communicates in relation to traditional and challenger banks.

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<td>0.3%</td>
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<td>&quot;Fintech&quot;</td>
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As communications professionals know, a brand’s public perception is hugely influenced by the media coverage produced about them. Here we see that so few (a nearly imperceptible amount) of product launch efforts from traditional financial institutions are being picked up by the media - either negatively or positively. This leaves consumers with the perception challengers are constantly making better products for them, while traditional bank’s associated with innovation barely occurs.

However, it is not simply the sheer volume of launches or glitzy product updates that is catapulting challenger banks towards success, but how they are communicating them. They are communicating openly, transparently, and are taking real pains to emphasise the work they are doing behind the scenes for the consumer to ensure the comms delivers the maximum impact.
PRODUCT, PRESS RELEASES AND PRIORITIES

So what’s spurring the challenger’s success? It isn’t just that these banks are associating themselves with a different product mentality. If we dive into the communications being produced we see a significant difference in what is being pushed out the door, what is being stressed, and the nature of that communication.

Firstly, challengers are constantly and consistently pushing updates about features they’re working on and new functionality releases to their community and the media. Across 2018 alone, the marketing and comms teams at Monzo published 50 product features and updates:

• There have been 17 new product and feature launches and 21 articles on their functionality improvements.

• And arguably more importantly, 12 updates and explanations for their priorities, plans, or, in a couple of cases, product cancellations.

Even in the cancellation of features, they communicate transparently and in simple terms why they are making the decision. It is clear that their customer-centricity and love for their community members is at the heart of their communications.

In comparison, releases from traditional banks were across the board far less transparent and a lot less frequent. As an example, in 2018 TSB worked hard on improving their products and revamping their digital app. They introduced transparency into how customers could track their spending over the past twelve months, easier peer to peer payments, and a scheme to help small businesses in their expansion.

Despite this level of activity within the product and their offering, when you dive into TSB’s press releases there is very little in the way of positive product promotion. There was a stark lack of communication around product development and there were no transparent updates on the progress or efforts going into upgrading their banking proposition.

Significantly, apart from mopping up the mess they created with an IT crisis during a server migration, there were only a couple of updates touching on interest rate changes and the launch of the small business scheme.

Secondly, the sentiment of the coverage that product releases and updates receive is paramount to the effectiveness of a bank’s communications strategy.

Together, the lack of frequency of comms and the overwhelmingly negative sentiment of the coverage for traditional banks, badly impacts public perception.

‘go-live’ dates throughout the year. Since then we’ve started work on a number of really exciting projects that need our focus right now like Business Banking.

Unfortunately that means we’ve chosen to pause work on joining the Image Clearing System for now. And we can’t say when we’ll pick it back up.

There are a few things we take into account when prioritising what we work on (you won’t be surprised to find it’s mainly focused around you 😊). The questions we ask ourselves include:

1. How many of our customers will benefit from this?

2. Will it let our customers do something new?

3. Are we working on the right thing to have the biggest impact right now?

Thinking about the first question, for example, less than 0.1% of our customers have ever deposited a cheque! So there’s a good chance that, if we spend our time and effort on something else, we could build something that helps more of you.
It is evident when the average sentiment of the coverage for traditional and challenger banks are compared, that there is something fundamentally ineffective with the former’s strategy. The 13% disparity in negative coverage reveals the lack of control traditional banks have over the sentiment of their brand in the media. An absence of communication about product launches and updates impacts this as it allows the media to freely develop and feed into an atmosphere of negativity surrounding them.

It also shows that while there have been scandals at challenger banks like the new mobile bank, N26, and there have been plenty of opportunities for other new fintech companies to be scrutinised and receive more negative coverage, the media perception of them is vastly positive. This is partially due to the aforementioned clever positioning of themselves as fintech companies rather than banks. But it is primarily a result of their customer-centric, open and transparent communications.

By going (what feels like) above and beyond the service industry standard when communicating new product releases, updates, and even product development failures, challenger banks are humanising the banking experience and allowing consumer-agency within the traditionally distant financial sector.

This isn’t however, the end of the road for traditional institutions, as this clear issue with public perception can be addressed by changing communications.

We can look to NatWest’s digital transition through 2018 as a strong example of how banks can turn this around. Throughout 2018, they launched multiple new innovative propositions such as financial assistants, a new business bank, and their new digital consumer app offering much of the same functionality as challenger banking apps. And in all of these, they pushed out communications focused on how these new product offerings and updates are for their consumers.

Taking solely sentiment from the most important sites like top-tier UK newspapers and US media sources over the last 3 months:

<table>
<thead>
<tr>
<th>Traditional Bank</th>
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<tr>
<td>1600 Articles</td>
<td>1100 Articles</td>
</tr>
<tr>
<td>15% Negative</td>
<td>2% Negative</td>
</tr>
<tr>
<td>5% Positive</td>
<td>30% Positive</td>
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NatWest launches Mettle, its own digital app-only, future-focused business bank

They’ve changed their business banking proposition: launching a standalone app backed by their powerful capabilities, with a very different fee structure and a streamlined, consumer friendly processes.
Their digital consumer offering has also been completely revamped. Both through in-house building and partnering with other European banks - in particular the open banking platform, Tink - to improve their data enrichment and products for budgeting consumers.

On top of this change to match the product offerings of incumbents, and innovate with their products, they are also leveraging their strengths - physical locations and network - to bring consumer first banking to a new era.
While undertaking the digital revamp and the development of highly competitive digital products, they have ensured that their efforts and commitment to innovation have been deployed in their comms. As we can see above, they’ve done this in a manner that has resulted in their efforts being picked up by major media outlets. Additionally, the skyrocketing media coverage has coincided with an impressive uplift in positive sentiment.

While it would be presumptuous to align this solely with changing communications (they’ve created new products and our analysis hasn’t gone into extensive depth), it does show that the combination of innovative product development and pushing that in their comms has put them well onto the right track.

And the fruit of their labour has begun to positively affect their results too. NatWest have gone from losing 12,514 net customers on the Bacs switching service in the last quarter of 2018 (after an additional 13,000 loss the quarter before), to gaining net 8,000 customers in the first quarter of 2019. This does indicate an upwards trend for NatWest, but despite similar product changes across the board, many of NatWest’s peers are falling behind. Banks, such as TSB, Santander, and others still show a sliding scale with Bacs in 2019.

It may take time for NatWest to be thought of as a consumer-first brand, accelerate their growth to rival the challengers, and stem the flow of switching consumers over the long term.

But the initial results of their digital revamp show promise. And an evolving perception of them as a financial institution may see them - if they can continue to innovate on the all important product front - as well, or better, positioned than these challenger banks to capitalise on the current digital revolution within the financial sector.
CONCLUSION

It is clear that financial institutions, and brands generally, are at a crossroads. Relying on historical customer loyalty and brand status is no longer good enough; the goalposts have moved and incumbents are scrambling to keep up.

However, despite the current upwards trajectory of challenger brands, it is possible for traditional institutions to turn things around and increase their momentum to compete in an evolving marketplace. Challenger brands may continue to dominate their sectors by disrupting with customer-focussed digital products and aligned communications strategies. But on the flip side, more established brands could shake their traditional chains and hold (or grow) their ground by revolutionising their communications to focus on their customers.

Traditional brands have deeply entrenched advantages such as scale, global reach, financial flexibility, and the extensive customer lists challengers covet. They have an established product with significant scope to develop technologically, and the budget to do so...

To capitalise on the opportunity this crossroad offers, traditional institutions need to:

- **Share their new technology advancements** and push their modern functionality by taking advantage of product releases and internal innovations.
- **Engage their audience through open and transparent communication** along their development journey, whilst emphasising their efforts to improve the consumer experience.
- **Take proactive stances and interact with their audience where they are**, by distributing content through mediums they care about or getting involved in relevant events/causes.
- **Communicate the evolution of their mission and strategy** to facilitate a greater level of consumer agency within the relationship.

Challengers in every sector, but in the financial sector specifically, spent 2018 catching up to the core features provided by traditional brands and banks, and are now pushing for future focussed value-adds to their offerings. The challenger’s customer-centricity and rapid product implementation won’t be changing anytime soon, so the product developers at traditional banks will need to continue working full steam ahead to maintain any product lead they have.

Ultimately, if traditional brands innovate and change with the evolving PR and comms landscape - taking a leaf out of the challenger book by prioritising and carefully implementing a consumer-first communication strategy, pushing their core strengths, and aligning properly with their customers - they have more than a fighting chance to re-route the current trajectory of the marketplace and be at the forefront of this changing era.

All this data came from Signal AI’s primary platform. If you want to see key developments in topics you care about, enhance your business intelligence research, or understand how your brand is being interpreted online (with our best-in-class media monitoring tool), reach out for a demo today at www.signal-ai.com/request-a-demo.

Appendix

[1] Bacs Payment Schemes Limited switching statistics

[2] Deloitte Trust Index results
Signal is the A.I. powered media monitoring platform delivering strategic insights that help you make the best possible decisions.

For more information email hello@signal-ai.com or call us on +44 (0) 20 3828 8200 (UK and rest of world) or +1 917 398 5931 (US).