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Britain’s banks: the untapped potential to close the savings gap

Most retail banks have largely retreated from long-term savings, not least due to regulatory risk and complexity around products like pensions. But banks retain a proximity to customers that could create exciting options as new channels open up and the savings industry evolves. They could be the key to closing the savings gap.

Retail banks have had exceptionally good reasons for not pursuing opportunities in the long-term savings and investment management market. With the weight of regulations, it's possible some banks have felt the balance has shifted too heavily from caveat emptor to caveat vendor – even in areas where tight control has always ensured the right product went to the right customer.

The retail bank business model hasn't helped. "Banks used to provide these products when the bancassurance model was more prevalent," says KPMG's UK head of banking Dan Thomas. "They would service the whole range of customer needs around different life events. But PPI, in particular, changed all that."

The recent appetite of regulators to punish mis-selling, and the resultant conduct risk that long-term savings products might create, meant most banks have left pensions and insurance well alone. "If you can get an interest margin on deposits, why have a whole lot of other products in your stable that you may or may not make money out of – and that cost a lot to sell and service," asks Thomas.

But that bias might be changing. The UK's savings gap creates a desperate need to focus customers on long-term saving and investing. Organisations that can build a proposition around all of a customer's financial needs, tailored to their life-stage, have an opportunity to seize the financial services market.

And it's the retail banks that are in the best position to do just that.

Customer focus: from intent to action

The main reason for this optimism? Most people still rely on their bank for day-to-day financial transactions. Customers know them – and, importantly, banks know their customers at a level of granularity most other financial services businesses can only dream of.

At the same time, the banks have already taken big strides towards digitising that customer proximity, successfully encouraging a large number of people into online banking. Those digital platforms start to address some of the issues with managing conversations around long-term savings that had raised the spectre of conduct risk.

The proposition has to be less about products, and more about building a customer-focused service to manage a range of financial situations. Helping reluctant savers to budget better and become more efficient in their use of money, for example, opens the door to a long-term savings journey in a relatively low-friction way – right from their current account.

"The key is how banks resolve the franchise risk versus the franchise obligation of their service," says Thomas. "Banks clearly want to talk about customer focus – but that demands an end-to-end, cradle-to-grave offering."

Co-ordinating the purchase of protection products, for example, or even utilities – all of which touch the current account – seems a logical extension of existing customer services. Layering in simplified versions of long-term savings products then seems much less of a reach.

Using new digital platforms as leverage on their existing customer proximity changes the practical question, then. But banks have a genuine desire to do the right thing for customers over the way products are sold, how advice is offered, and even around the use of customer data. And that's still an issue.

Advice, risk and the role of the regulator

Banks have ongoing relationships with customers, many of whom pay monthly fees for their services. They have a physical presence on the High Street, with trained staff able to offer guidance. And their growing sense of customer focus allied to this ready-made distribution platform puts them well ahead of many product specialists looking to develop 'direct to consumer' channels.

But the whole financial services industry has been struggling with the conundrum about advice ever since RDR cut off IFA commissions. Most people simply don't want to pay for advice – and if they do, it's usually a one-time experience. For a bank offering a pension, say, what is the status of someone who says, 'I was once advised' rather than 'I am advised'? How would a regulator view their capacity to understand the product or its terms?

The regulatory landscape for longer-term savings products doesn't help. The track record of governments in the past 20 years has been constant change in the rules. "The regulation has tended to be political, not logical," says Thomas.

"It's understandable that banks see conduct risk when the outcomes have been so completely unforeseen," he continues. "PPI was expected to create a £150m exposure for the banks – but it's £30bn and counting. That's a warning sign. When activities move online, you can be sure the regulator will start to question any business that's performing strongly and looking at fresh conduct risks."

One bright spot for banks is that there seems to be a clear political shift towards individual responsibility around long-term savings, and away from a regulatory approach that suggests providers are culpable for every negative outcome.

There's still a desperate need for clarity over the liabilities related to advice and guidance for consumers. But the mood may be changing as government realises it needs to promote self-reliance among an aging population.

In the meantime, some banks have taken the initiative, deploying tools that help them identify customers with potential poor outcomes – allowing them to step in to address them before they become complaints.

"A huge slice of banks' budgets go on resilience measures," says Thomas. "Every pound they spend there isn't going to new channels or products – while their competitors in those spaces don't have the legacy cost obligations." So investment in these "early warning" systems should create future headroom, both financially and from a risk perspective.

The goal: end-to-end financial services

There's another advantage that banks have: presence. Public opinion on "the bankers" might have plummeted after 2008, but people still assume that the big brands in retail banking are permanent fixtures. That's a vital brand asset when they're thinking about their long-term savings.

"The big players have other advantages over the online insurgents and challenger banks," says Thomas. "Branch networks, for example – most people, when faced with a big financial decision, want face-to-face contact. Banks can experiment with their branches and try to create a truly omnichannel customer experience. It's about different ways to create an emotional connection."

That might also be the key to another opportunity: mass affluent wealth management. "For better off people, saving is less about the rate of return, it's about their time," he explains. "Banks ought to be able to use their command of information and their facilities to offer much broader services using the same platforms." That shift from product or transaction to rounded offering – almost a concierge service – is a big opportunity.

Banks could create an end-to-end customer proposition in financial services – from accepting someone's first payroll, to crystallising their pension. But as well as regulatory change and using these smarter ways of looking at customer proximity, that attractive vision requires a shift in culture and business model.

The business model and technology are critical

Online banking has changed what customers see, especially in terms of day-to-day money management. But the business model transformation needs to go deeper. It starts with the quality and accessibility of information banks have on their customers. (Challenger banks, with new off-the-shelf systems, find this easier – but lack the scale to invest heavily in products.)

"Banks have lots of data, but not always lots of insight," explains Thomas. "The question is how they might use the data to develop actionable insights that scale – and then how they leverage it without spooking the customers. Privacy is a huge issue now."

There are big opportunities for banks developing a strong set of systems and controls around a single view of customers, for example, or building a core banking platform that can be used by any channel that will reach customers, even without human intervention.

"BlackRock spent over $150m buying FutureAdvisor, a leading robo-adviser tech business in the US," says Thomas. "That's a sign of where things are heading. But it's also a reminder: many fintech businesses are starting to nibble away at the value chain for banks, and for other financial services businesses."

Simplified, streamlined platforms would open up new business models – and new products and services – without complicating the single view of the customer, and without jeopardising profitability. The opportunity to own a low-cost, high-utility, end-to-end financial service for the mass market is there.

It might be simplistic to say the time is ripe for an Apple or a Google of personal financial services. But if the savings gap is to close – if we're to create a saving generation – then we'll need a financial business to fulfil that role. And the retail banks have a lot of the attributes that a winning business model will need.

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