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CHALLENGER FINANCE IN DIGITAL AND A GLIMPSE INTO 2017

An incisive report into the emergence of challenger banks, their evolution, and where they are set to stand in 2017

In this paper we shall investigate how challenger banks have fared in 2016 and where new challengers stand in 2017, while investigating SERP (Search Engine Result Page) competition amongst challengers and the Big Five banks. The Big Five are:

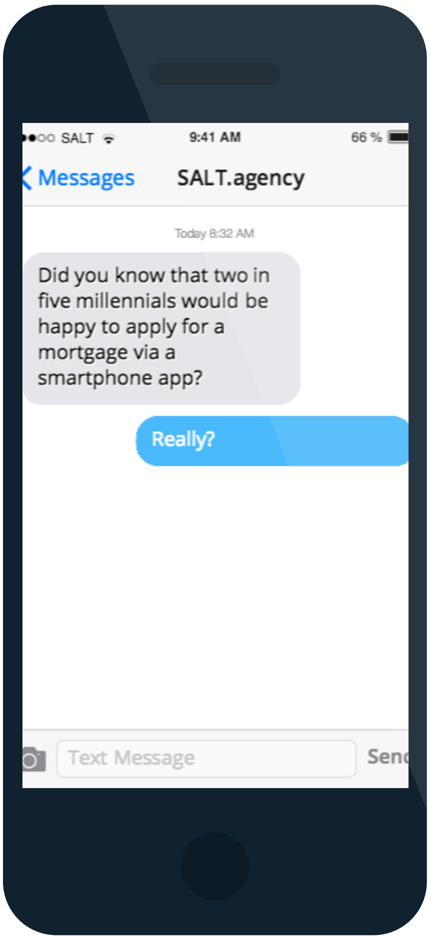
There is little doubt that the Financial Crisis of 2007-8 has had a sustained and everlasting impact on the way in which people go about their lives.

Out of those that lived through it, perhaps this statement is no truer than to millennials, the people who were born between the mid-1980s and the very last years of the 1990s.

This generation, which in the mid-noughties began to emerge from universities and colleges around the world, is now changing the very face of how the machine of modern banking operates.

In the UK, the young no longer look in favour of the Big Five, with their lack of differentiation, low customer satisfaction, and purposeful ambiguity.

Millennials now reach for challenger banks, both in business and in matters personal, where they can enjoy better saving rates and cost advantages, while at the same time dealing with a bank that operates entirely within a digital landscape.



In fact, one survey in 2016 discovered that over half of millennials would take out a mortgage with a challenger bank, while two in five said that they would be happy to do so using an app.

In regards to banking, 2016 has been the year of the challenger bank, which is an achievement considering that arguably, the previous year had been too.

In 2015 challengers outperformed the Big Five in regards to return on equity (ROE), with smaller challengers publishing returns of 17 per cent, larger challengers at 9.5 per cent, and the Big Five at 4.6 per cent.

Challengers also increased their lending assets by 31.5 per cent, compared to a decline of 4.9 per cent for the Big Five.

More importantly however, total profits for challengers increased by £184m, against a drop of £5.6 billion for the Big Five (before tax).

The rise of the challenger and breakthrough

With the reputations of the Big Five in continuous turmoil, a great confidence vacuum has developed — allowing challenger banks to fill the void.

In 2010 Metro Bank was the first bank to be granted a high-street licence in over 150 years.

A string of new banks have since materialised, including Aldermore, Shawbrook, Virgin Money, Charter Savings, Tesco Bank, and Atom, making the challenger market an ever more alluring and competitive place for young consumers.

Many of them are now constituents of the FSTE 250 index, with the majority joining its ranks between 2014 and 2015. In July this year, it was reported that 20 new challenger banks were in talks with The Bank of England to obtain their licences.

Indeed, the appeal of challenger banks lies largely in their simplicity, superior service and better deals, but also, and perhaps increasingly so, their ability to perform in the digital sectors, lessening the relevancy of a brick and mortar existence.

But it is also here where the crux of the issue lies, whereas digital performance is a beacon for challengers, the same area forms a chink in the armour of many major banks, which have been criticised for their outdated and ponderous IT systems — curtailing their ability to truly grasp the potential of digital banking.

In fact, a report released by Which? in October found that Santander, Lloyds, and Halifax have consistently scored poorly over the past four years when it came to security measures concerned with online banking.

Between 2014 and 2015, fraud losses soared by 64 per cent to £133.5 million for online banking, with the consumer watchdog revealing that only five out of the 11 major banks have acceptable online security to protect customers.

This doesn't put challenger banks in the clear however, as TSB, one of the larger challengers, was also found to have poor security measures in this instance.

And challengers can also fall victim to cybercrime.

In early November it was revealed that Tesco Bank had 40,000 accounts hacked (20,000 raided), forcing it to cease transactions across all 136,000 current accounts.

At the time of writing, City regulators are investigating whether the challenger had failures in its systems and controls that might have contributed to the incident.

If so, it could be hit with a multi-million pound fine — on top of the figure it must pay back to customers, as well as any other compensation fees.

That aside, 2016 has been a great year for challengers, which were undaunted even in the wake of the Brexit vote in June.

Although challenger share prices were weakened going into the referendum, before facing falls of up to 50 per cent post June 23, every single challenger bank has reported business as usual, with some even managing to reverse share price losses.

TSB more than trebled profits to £161.6 million up until September 2016, compared with profits of £49.1 million the year before.

Indeed, Brexit has reportedly made consumers think about which banks they use, with more turning to the likes of digital-only banks such as Atom — the first of its kind in Britain.

In March Monzo (then Mondo), a mobile-only challenger, raised £1 million via equity crowdfunding in just 96 seconds.

And it is in these micro, digital, or mobile-only banks where the true competition will lie in 2017. Not in the goliaths of global banking, but within challengers themselves.

Surviving and growing in 2017

Although already doing so, it is expected that the digitally focused challengers will break away and distinguish themselves from the larger challenger banks entirely, posing the greatest threat to some of the more established institutions outside of the major banks.

But not all of them can succeed.

As mentioned earlier, competition in 2017 will be like no other, and for banks just hitting the market, attracting customers from established brands, amidst high levels of customer inertia, will be difficult.

Targets will need to be hit in the opening months of the year, and it is expected that some will simply run out of energy while others consolidate.

But by highlighting their own transparency, alternative mindsets, and unique customer interaction, even the newest micro-challenger stands a fair chance.

Being that many small challengers will enter the fray post-Christmas, getting a stronghold in the SERPs will be crucial to the existence of many — even those that will cater to mobile-only markets.

So what will be the **big three** services for challengers next year?

Quite simply, buy-to-let products, SME funding and finance, and asset finance, much like this year, will provide the backbone for the future of challengers in 2017.

To succeed therefore, especially for digital banks, it is important to get ahead in the SERPs, and as can be imagined, organic search in the finance industry is as competitive as they come.

That said, by investigating the query “asset finance” in the UK, we are presented with an interesting set of results.

Top 20 Results in Google UK for "asset finance" as of November 2016

#1 INVESTOPEDIA.COM
#2 FUNDINGOPTIONS.COM
#3 CLOSEASSETFINANCE.CO.UK
#4 FLA.ORG.UK
#5 BARCLAYSCORPORATE.COM
#6 STARTUPS.CO.UK
#7 INVESTEC.CO.UK
#8 UTBANK.CO.UK
#9 MONEYSUPERMARKET.COM
#10 BARCLAYS.CO.UK
#11 ULTIMATEFINANCE.COM
#12 CREDOASSETFINANCE.COM
#13 BRITISH-BUSINESS-BANK.CO.UK
#14 LLOYDSBANKCOMMERCIALFINANCE.CO.UK
#15 GOV.UK
#16 COUNTYFINANCEGROUP.CO.UK
#17 ALDERMORE.CO.UK
#18 ASSETFINANCESOLUTIONS.COM
#19 HTB.CO.UK
#20 PRAETURAAF.COM

Not only do we find well-placed challengers, such as Close Asset Finance (Close Brothers), and United Trust, both of which are in the top ten, but also a range of affiliates, associations, and finance groups.

It’s not until we see Barclay’s (5th) that we find one of the major five banks at all, and not another until Lloyds (13th).

But why are we seeing so many affiliates, Government (British Business Bank is Government owned), and advice websites?

Quite simply, Google doesn’t just stack a list of banks and associations within the SERPs because they are banks or associations.

Now more than ever the search engine takes into consideration a wealth of interests and perspectives, as not everyone will want to find a bank just because they have searched for “asset finance”. They might also be looking for advice or comparisons, which is why we are able to find sites such as Investopedia and MoneySuperMarket.

Challengers looking to break into the top SERP positions will therefore have to consider a wealth of reasons for why a business might search for “asset finance” without actually directly trying to sell products to them.

Offering useful advice, solutions, and FAQs within well-structured sites, are clean and clear ways of providing answers to a range of queries while strengthening the opportunity for SERP exposure.

But does the search query “buy to let mortgage” offer a similar smattering of results in organic search?

As we can see, “buy to let mortgage”, which is one of the most competitive terms currently found in finance, also yields a mixture of results.

What is perhaps interesting in this case is that we see a much larger presence of the biggest banks, with HSBC, Barclays, Halifax (part of Lloyds Banking Group), and NatWest in the top ten results.

There are no challenger banks found within the top 20 organic search results for this search term. In fact, they don’t start appearing until the mid-20s, with the likes of TSB (25th), and Virgin Money (26th).

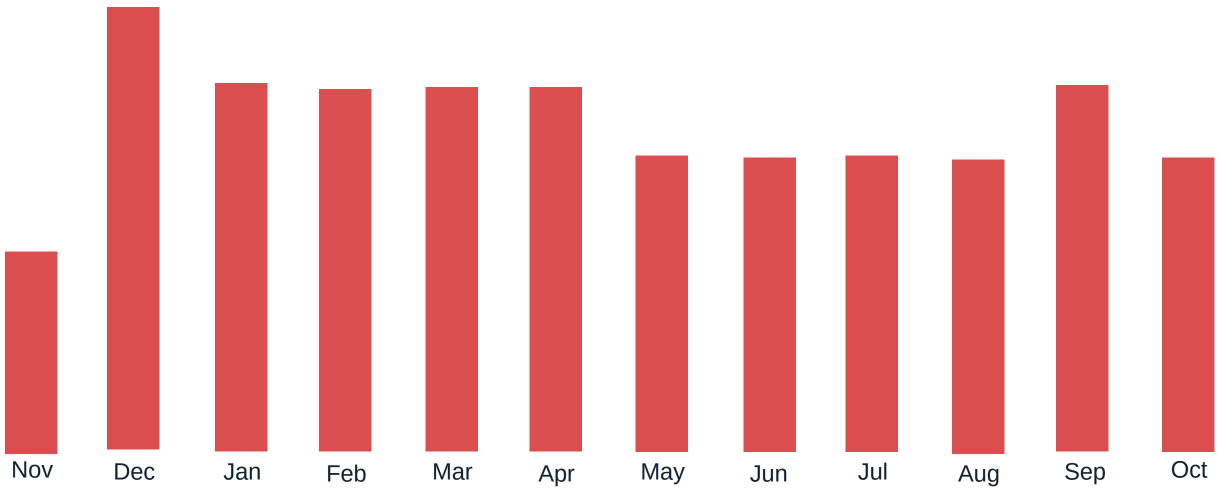
Another difference located in the research was the months that people searched for “buy to let mortgages”.

Although “asset finance” was a search term that has been particularly steady between November 2014 and November 2015, we found that one month stood out for “buy to let mortgages” more than any other — December

Top 20 Results in Google UK for "buy to let" as of November 2016

#1 MONEYSUPERMARKET.COM
#2 HSBC.CO.UK
#3 MONEYADVICESERVICE.ORG.UK
#4 THISISMONEY.CO.UK
#5 BARCLAYS.CO.UK
#6 USWITCH.COM
#7 HALIFAX.CO.UK
#8 NATWEST.COM
#9 MONEYFACTS.CO.UK
#10 TELEGRAPH.CO.UK
#11 WHICH.CO.UK
#12 COMPARETHEMARKET.COM
#13 GOCOMPARE.COM
#14 TELEGRAPH.CO.UK
#15 RBS.CO.UK
#16 ALEXANDERHALL.CO.UK
#17 ALEXANDERHALL.CO.UK
#18 WIKIPEDIA.ORG
#19 MORTGAGEADVICEBUREAU.COM
#20 LEEDSBUILDINGSOCIETY.CO.UK

SEARCH TRENDS IN GOOGLE UK FOR "BUY TO LET"



As can be seen in the lead up towards Christmas 2015, there was relatively little interest within the search engine, although this picks up dramatically in December, where potential landlords might be looking towards letting in the coming year.

Although it might be hard for some of the more newly established challengers to break into the higher pages for December 2016 — as thorough organic campaigns should offer longevity in the SERPs, not haste — it might be more realistic for some of the newer and less established challengers to reap the rewards of late winter search interest in 2017.

It is perhaps of little surprise to learn that SMEs have taken a shining to challenger banks, as the Big Five have not yet returned to their lending levels pre-the 2007/8 financial crisis.

The combination of competitive rates and superior customer service seems to be winning new businesses over as well as individuals.

THE EU REFERENDUM, AND THE PROSPECT OF FURTHER BUY-TO-LET TAX HIKES IN 2017, APPEARS NOT TO HAVE DENTED THE APPETITE OF LANDLORDS TO INVEST IN THE MARKET.

THE GUARDIAN, OCTOBER 2016

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Again, the SERPs offer a mixed bag of results, with the realisation that not one major bank (with the exception of The World Bank) can be found within the top 20.

We do however see a range of challengers with Metro Bank found in fourth place, only after Wikipedia, a financial forum, and a consultancy.

Although “SME finance” is one of the most searched terms in regards to SME funding, the SERPs show that both challengers and major banks are failing to take the term into account.

This leaves the query open for new challengers to take the term (and other ill-tapped searches), into account for their organic search strategies moving into the new year.

Top 20 Results in Google UK for "sme finance" as of November 2016

#1 WIKIEPDIA.ORG
#2 SMEFINANCEFORUM.ORG
#3 BDRC-CONTINENTAL.COM
#4 METROBANKONLINE.CO.UK
#5 IFC.ORG
#6 FINDSMEFINANCE.CO.UK
#7 TRADEFINANCEGLOBAL.COM
#8 GOV.UK
#9 GOV.UK
#10 ACCAGLOBAL.COM
#11 MAVENCP.COM
#12 LINCSCOT.CO.UK
#13 GLOBALSEMFINANCEFORUM.ORG
#14 WORLDBANK.ORG
#15 WORLDBANK.ORG
#16 SMEFP.CO.UK
#17 SMEFP.CO.UK
#18 BBA.ORG.UK
#19 OECD.ORG
#20 ENTERPRISE-DEVELOPMENT.ORG

As stated earlier however, all the above is froth if challengers can’t overcome the simple yet all too impeding challenge of getting individuals and businesses to switch accounts.

We investigated the SERPs to see which challengers are ranking for account switches.

Top 20 Results in Google UK for "switch current account" as of November 2016

#1 CURRENTACCOUNTSWITCH.CO.UK
#2 MONEYSAVINGEXPERT.COM
#3 MONEYSUPERMARKET.COM
#4 NATIONWIDE.CO.
#5 MARKSANDSPENCER.COM
#6 HALIFAX.CO.UK
#7 USWITCH.COM
#8 BARCLAYS.CO.UK
#9 SANTANDER.CO.UK
#10 WHICH.CO.UK
#11 LLOYDSBANK.COM
#12 TELEGRAPH.CO.UK
#13 PAYMENTSUK.ORG.UK
#14 CO-OPERATIVEBANK.CO.UK
#15 CO-OPERATIVEBANK.CO.UK
#16 NATWEST.COM
#17 TSB.CO.UK
#18 TESCOBANK.COM
#19 COMPARETHEMARKET.COM
#20 THISISMONEY.CO.UK

As can be seen on the table, which takes the top 20 results for the popular search term “switch current account”, we see a blend of informative websites alongside major banks and large challengers.

It is interesting to see the appearance of M&S Bank however, a challenger that has not been found in our earlier results, but is marked ahead of the likes of Halifax, Barclays, and Santander in this instance.

Such a result indicates that much of the bank’s organic search strategy is focussed on acquiring individuals looking to switch current accounts.

Aside from M&S Bank, we can also see other challengers in the form of The Co-Operative Bank (another first), TSB and Tesco bank.

With an increased dosage of challenger banks for this particular search term (and likely for other relatable terms), we can clearly see that the major challengers are aware of where they can get new business in 2017.

For new and emerging challengers looking to enter the fray, there absolutely must be a focus on this search term and its affiliates.

As with “asset finance”, new challengers can look to compete with the larger and more established banks with technically compliant websites that adhere to Google’s best practice standards.

It is indeed consumer inertia that will signal the rise and fall of all new challengers, who will within the next year need to prove their mettle not only against the Big Five, but also against the challenger banks that are established outside of banking, and those that have already stamped their presence on an ever-competitive market.

Like any online business, getting potential clients to your website is crucial, especially when your brand name is not yet established.

An organic and technical SEO campaign is therefore crucial for digital and emerging challenger banks. Technical audits, market gap analyses, penalty inspections, and SEO campaign audits are key to acquiring and maintaining search visibility.

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