JGFR Banking Briefing February 2017

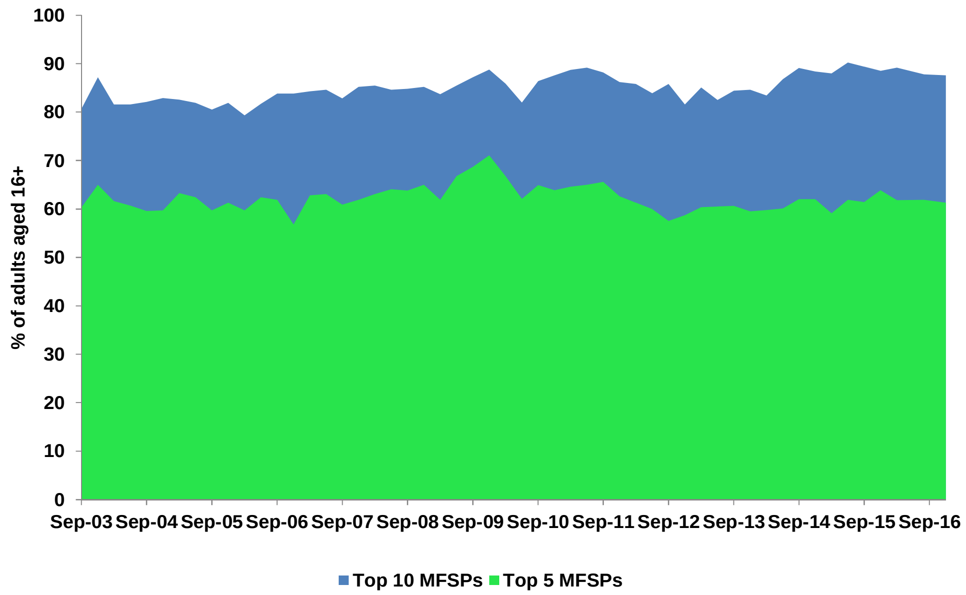
Barclays and Lloyds Banking Group close to 40% main financial services provider (MFSP) market share

With the future of retail banking constantly under the spotlight – be it from politicians, regulators, trade associations, review bodies, management consultancies, financial analysts and private equity – consumers remain wedded to their main financial services provider (aka main high street bank).

In the December 2016 JGFR UK Banking Barometer*, 91% of adults cited having an MFSP, slightly down on 92% in the summer, but a little above the long term average of 89%.

Asked about their MFSP, 88% of adults cited one of the top ten banking brands, little changed in the past year, but above the long-term average of 85%. While share of the top five MFSP brands is slightly down on a year ago (61% vs 63%), it is only just below the long-term average of 62%.

Share of Top 10 and Top 5 MFSP brands, 2003-17

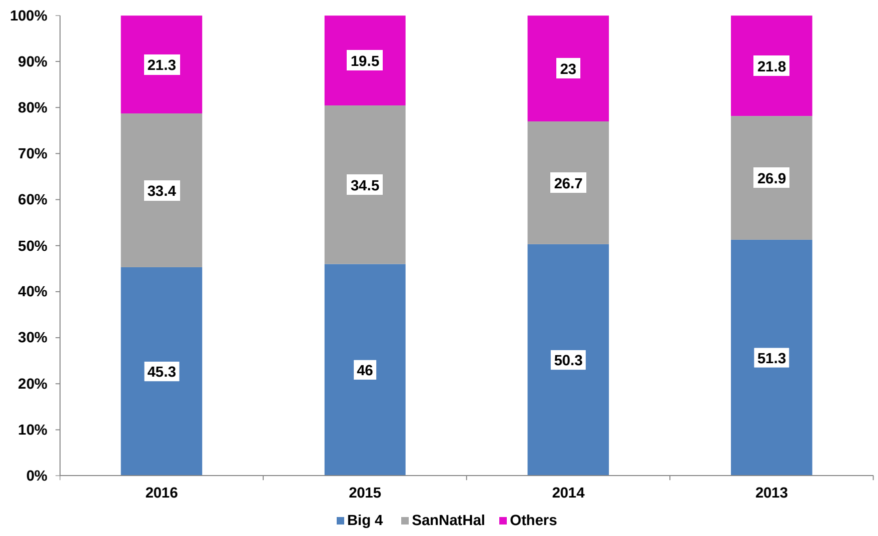


Source: GfK / JGFR

Competition in retail banking, a goal of policy makers with a desire to see more switching of accounts and the emergence of challenger banks, remains largely confined to switching between the high street brands.

A year ago the Q4 Banking Barometer highlighted the emergence of a retro-feel to the MFSP market, led by the rise in the share of former building society brands Halifax and Santander (formerly Abbey & Alliance & Leicester) and current building society-turned-bank Nationwide. Together their combined share had grown from 27% in 2013 to 35% in 2015. Much of this growth was the result of switching from other high street brands.

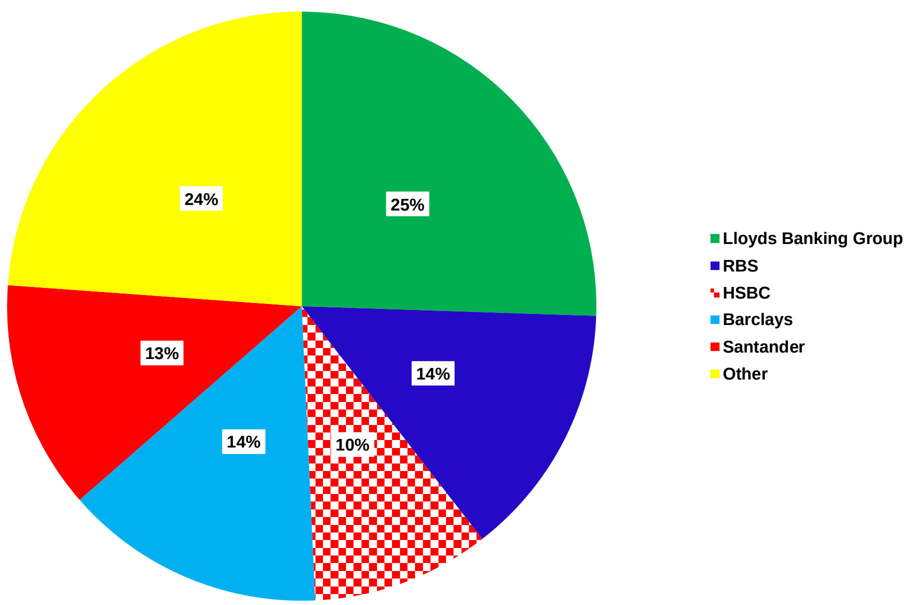
The changing shares of MFSPs 2013-16



Source: GfK / JGFR

During 2016 the share of both the big 4 high street bank brands and the 3 former and current building society brands has slipped a little with some pick up in smaller MFSP providers, although their share is still below the level in 2014.

Market share of leading banking groups, December 2016



Source: GfK / JGFR

Compared to December 2015 the main changes have been a slight drop in the shares of Lloyds Banking Group and RBS and a small rise in Santander and other challenger MFSPs.

TSB is among the best placed of the new challenger brands, with a rise in its market share over the year to around 4%. Increasing market share for challenger banks is very tough where there is no branch network. Even where there is a branch (store) network such as Tesco Bank, M&S Bank and Virgin Money, despite the strong brand names, together they only have an MFSP share of 1.3%.

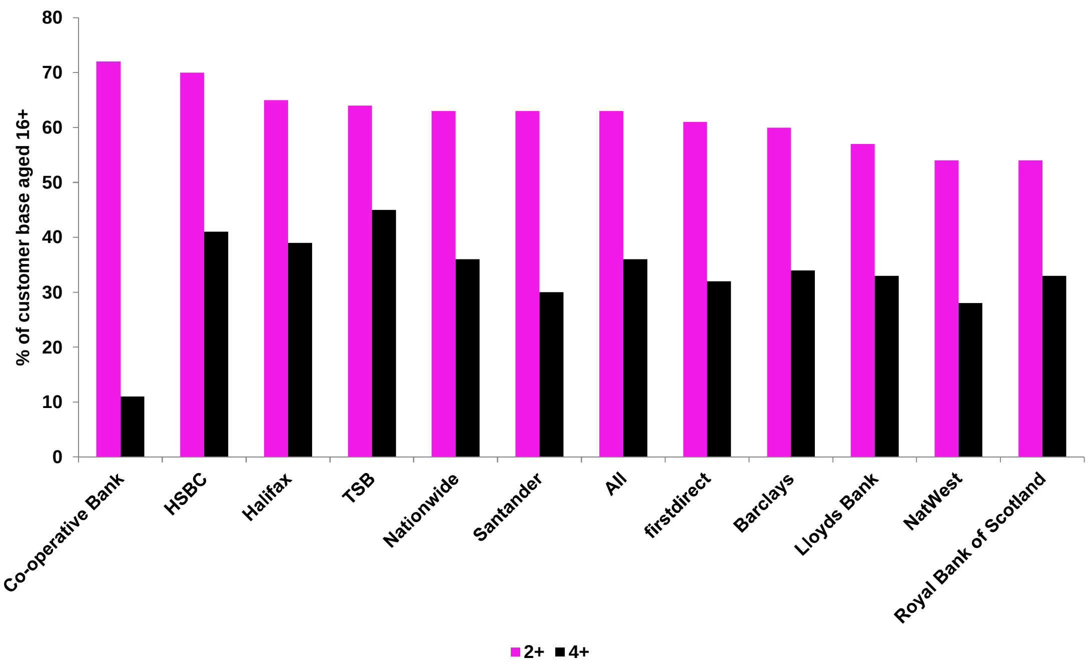
While winning numerous service awards firstdirect has struggled to win more than 3% MFSP market share and has averaged around 2% in the past year.

With the fate of the Co-op Bank now uncertain, together with the new RBS spin-off Williams & Glynn Bank, some 1-2 million MFSP customers may consider switching.

The newly independent CYBG Group comprising of well-established regional bank brands Clydesdale Bank and Yorkshire Bank has a combined MFSP share of nearly 2% with the former having a 8% share in Scotland and the latter a 10% share in Yorkshire / Humberside.

Responding to meeting the needs of customers is a much-repeated goal of MFSPs. Intending financial activity across customer bases provides both an indication of future needs and also identifies shifts in the customer base.

Financial activity in prospect next 6 months by MFSP customers, Q1Q2 2017*



*Respondents selecting 2+ & 4+ savings, investment & borrowing products from 18 categories

Source: GfK / JGFR

Intended financial activity fell in the Q1 UK Financial Activity Barometer (FAB), although the proportion of adults intending to be very active (4 or more intended activities) increased from 31% in Q4 2015 to 36% in Q1 2016.

Not all MFSPs will benefit from increasing customer demand; financial services product selection will often be based around the best deals online at an aggregator site. Having MFSP designation does provide early indications of financial activity in prospect.

Year-on-year TSB, Co-operative Bank and HSBC have all seen gains in financially active customers (2+ activities), with NatWest showing the biggest decline. Among very- financially-active customers (4+ activities), TSB and Nationwide have seen the biggest gains.

By product area Nationwide and Halifax are well placed in cash savings and ISAs, Halifax in life & pensions, HSBC in investments, and TSB, Royal Bank of Scotland and HSBC in borrowing. A higher proportion of Co-operative Bank and Royal Bank of Scotland customers intend to repay / pay down debt.

Commented John Gilbert, Chief Executive of JGFR:

"2016 provided many operating challenges for the banking industry with 2017 likely to be as challenging. The digital transformation of banking continues as costs need to be cut and customer satisfaction with online and mobile services is high. To date there is little sign of any major new challengers emerging as main financial services providers, only a reshuffling of the decks with the revival of long-established brands. The era of Open Banking is approaching but short of the forced break-up of MFSPs , change will only occur very slowly"

*The Q4 2016 UK Banking Barometer was conducted by GfK for JGFR among 2,000 adults aged 16+ online. It is housed on the same omnibus used for the regularly cited UK Consumer Confidence Barometer and UK Financial Activity Barometer

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