Don’t laugh, but banks really should care about your feelings

Open Banking and the promise of disruption

The introduction of Open Banking in early 2018 was expected to significantly disrupt the financial services industry across Europe. Once granted access to consumer banking and transactions data from other financial institutions, insurgent third-party providers would shake incumbent banks to the core. After all, technology giants such as Apple and Amazon were already making inroads into the lucrative business of payments. Nearly two years on, the jury is still out on whether Open Banking will indeed be revolutionary. In a way, that’s no surprise: people are hopeless at predicting the future. But what we can do, thanks to behavioural economics, is to get an understanding of some of the all-important unconscious drivers of consumer behaviour that will help determine just how much conventional banking will - or will not – change.

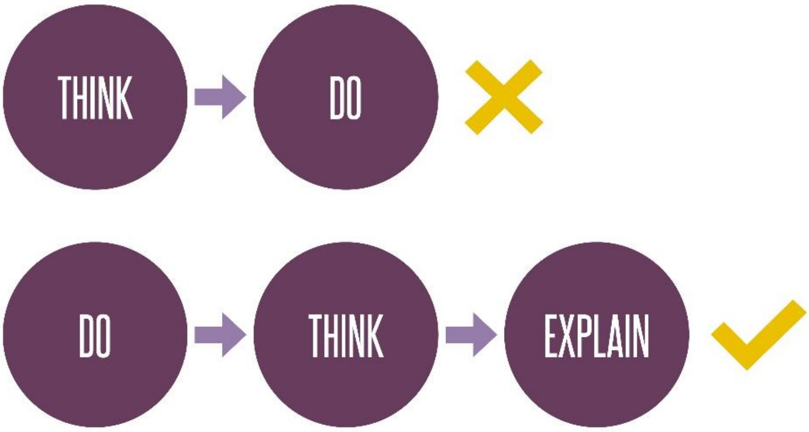
Please don’t ask me – I don’t know!

Humans are naturally curious. We have an unquenchable appetite to know what tomorrow will bring. Companies, faced with competition and fast-evolving markets, must strive relentlessly to stay ahead of the curve, especially at times of major shifts in technology or consumer attitudes. Yet history and experience show the impossibility of predicting the future with any confidence when there is no previously observed behaviour to go by. Just ask Kodak or Nokia…

Businesses have traditionally gone about trying to anticipate market changes by asking people. Surveys, focus groups, etc. are cheap, easy to organise and provide seemingly reassuring, quantifiable guidance for corporate decision-makers. Except they don’t: they’re mostly, if not entirely, worthless. Why? Because people don’t know how they will behave tomorrow, let alone how they will react to a situation in the future that they’ve never before experienced. You need only consider how many people give up New Year resolutions by mid-February to realise how poor we are at predicting what our future selves will do. Behavioural economics teaches us that our decisions and actions are often driven by **context, mental shortcuts** and other **unconscious traits.**

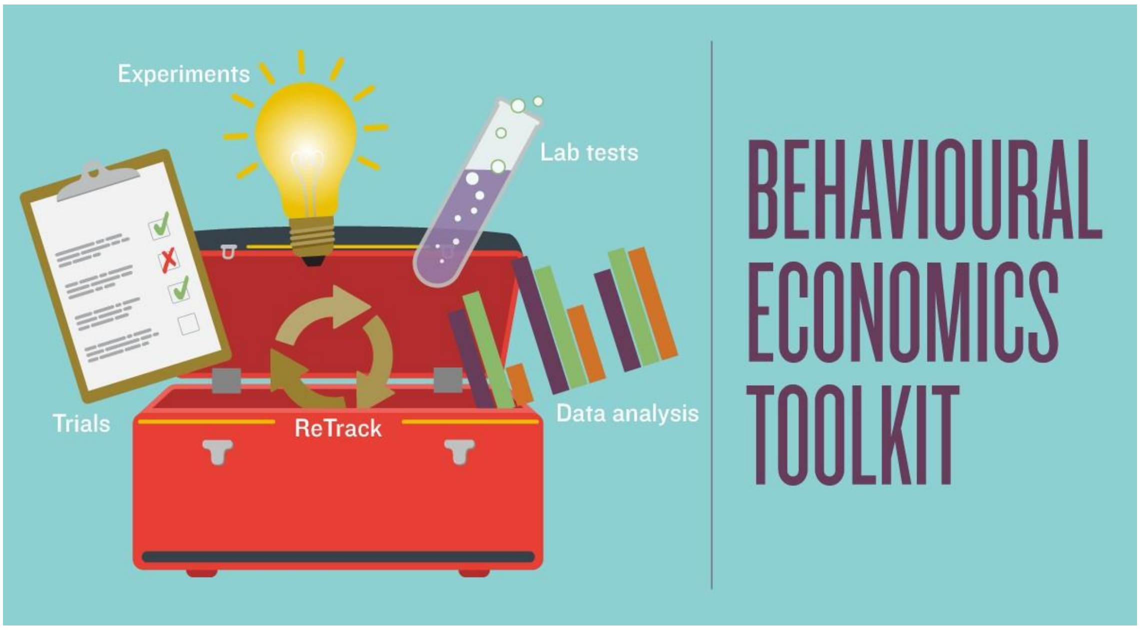
It is impossible for us to predict with any accuracy how we would behave in a hypothetical future scenario. There are simply far too many unknowable, **context-specific** factors that influence any particular decision. Take, for example, which pasta sauce you are going to buy for dinner. No doubt price, taste, brand and health concerns all feed into your choice… But what about the argument you just had with your partner or the stress about tomorrow’s work deadline? Considerations like these will certainly impact your decision in the moment and are impossible to replicate in surveys.

Operating in the background, often undetected, such **unconscious drivers** have a major influence on how we make up our minds. As humans, we generally make decisions and then develop explanations that fit neatly with those decisions. Our unconscious mind seems to be behind the wheel more often than we like to admit.

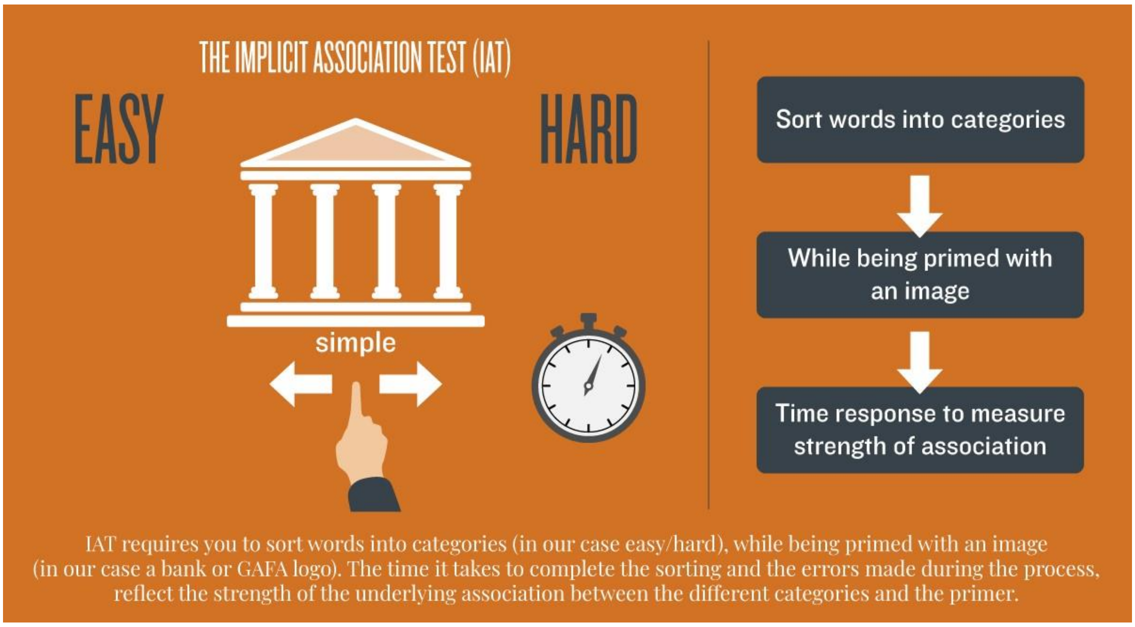


So… how does that make you feel?

Far from throwing in the towel, we at Frontier are constantly exploring ways of understanding the triggers of consumer behaviour. Some of the tools we use to tackle the challenge are shown below.



One method we had not previously investigated is Implicit Association Testing (IAT), which is designed to detect the strength of a person's unconscious associations. It does this by measuring word association reaction times. Pioneered by a group of Harvard professors in 1998, IAT has become well known through its use in assessing racial biases. It is now widely used in social psychology as well as in commercial advertising. So, we thought we'd apply IAT to the question of how Open Banking might develop.



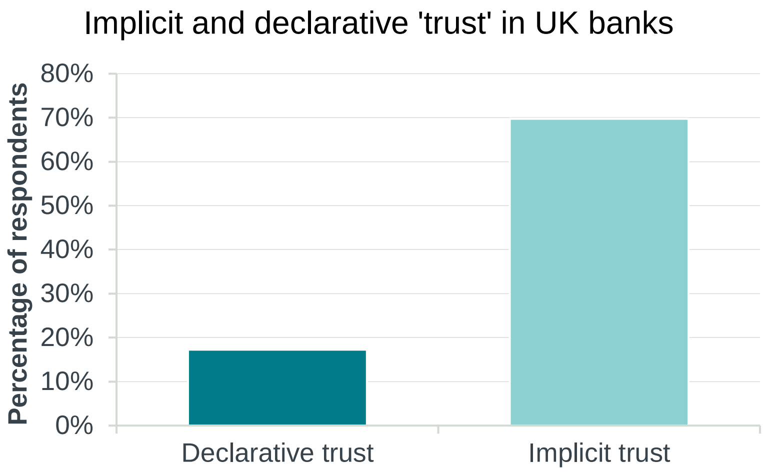
Working with our partners, Buyer Brain, we assessed implicit attitudes to using traditional banks and compared them to what people associate with Big Tech firms such as Google, Apple, Facebook and Amazon (GAFA). To do this, we looked at attitudes towards 'trust' and 'ease', , and compared the implicit results to what people said when we asked them directly in a survey. Spoiler alert: the unconscious tells a very different story.

People say they don't trust banks, but really they do…

One of the main conclusions is that there seems to be a paradox at the heart of banking: when asked, people say they don't trust banks, but implicitly their behaviour says otherwise. On the face of it, there are plenty of reasons to distrust banks. They were pilloried for having caused – or at least exacerbated – the 2008 financial crisis, since which time living standards have stagnated but bankers' bonuses have continued to generate plenty of headlines. Huge fines for the mis-selling of payment protection insurance have stained banks' reputations. And to the extent that people think badly of banks, that could be enough to nudge others to declare that they feel the same way - whether they do or not. After all, it's comforting not to stand out from the crowd.

And yet, customers' actual behaviour shows that in practice they do, in fact, have faith in banks. They entrust their savings to banks, they take out mortgages from banks and they constantly use the debit and credit cards issued by banks. This is at once reassuring and unsurprising, because trust is the core pillar of banking. If we didn't have confidence in banks, we'd keep our wealth under the bed; the foundation of the modern economy would collapse. At the same time, there appear to be limits to people's trust. Why do banks charge such high credit card rates? Can they be counted on to offer customers the best deal?

The explanation for this apparent paradox lies perhaps not with the banks themselves but with what customers have in mind when considering trust. In other words, the trust that they reveal in implicit testing may differ from the degree of explicit trust they express when asked directly.



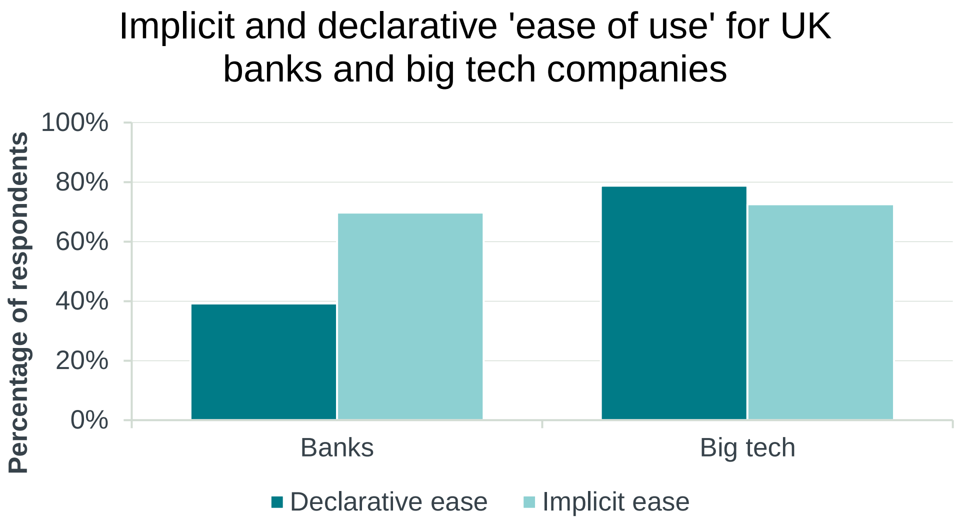
People say they don’t trust tech firms with their money… until they do

The picture is not dissimilar when it comes to the tech titans. People may declare explicitly that they don’t trust GAFAs with their money, but you need look no further than the rise of ApplePay, GooglePay and AmazonPay to see that to some extent at least, on an implicit level, they do trust them. In any case, customer behaviour and habits are constantly evolving. So, even if people don’t have full-throated trust in GAFAs today, that doesn’t mean that will be the case tomorrow. Certainly, tech companies are already trying to shift customer perceptions and get themselves bracketed in people’s minds with providing financial services and managing their money. The success of Chinese tech giant Alibaba, whose affiliate Ant Financial built up the world’s biggest money market mutual fund in very short order, has surely not gone unnoticed in Silicon Valley. A recent Financial Times headline captured the sense that change is in the air: ‘*Google is coming for your bank account*’ The scale of GAFAs’ ambitions in this field is best illustrated by Facebook’s proposal for a cryptocurrency, Libra. Alarmed at the prospect of a privately owned money competing with state-backed currencies, financial regulators and central banks are mounting stiff resistance to the Facebook project. But the direction of travel is clear.

People say banks are difficult to use, when they actually use them…

As with the question of whether banks can be trusted, there is an apparent paradox when it comes to ease of use. When asked, customers say banks are difficult to use, even though card payments, cash withdrawals and direct debits generally occur seamlessly. The explanation, perhaps, is that the smoothness is taken for granted, like turning on a tap or a light switch. Because routine transactions just “happen”, people don’t necessarily associate them with using a bank. It is when they have to deal directly with a bank that frictions appear – half an hour on the phone with a distant call centre does not translate into “easy to use”. To say nothing of your friendly Frontier economist who moved from South Africa to the UK and tried to get a credit card without having a credit history there…

Although banks have spent fortunes on online and mobile banking to make their services easy to access, people still declare, when asked, that GAFAs are easier to use. Interestingly, however, this belief contrasts with an implicit sense that banks are as convenient to use as a big tech firm. The challenge for banks, then, is to find out how to convert those implicit feelings into explicit reality.



People feel apathetic towards both banks and GAFAs

Connoisseurs of Motown classics might know the 1962 hit by The Contours called “Do You Love Me?”. The right answer, of course, is ‘yes’. It certainly isn’t ‘sort of’. Yet that is the uninspiring reaction that both banks and tech companies draw from today’s generation of consumers. Banks in particular seek to appeal to people’s emotions. Adverts, slogans and mission statements such as “By your side”, “On your side” and “A bank for your ideas” are meant to convey trust and to promote a sense that a bank’s customers somehow share common bonds. Not that banks have a monopoly on sentimental marketing, as anyone who has seen this year’s Christmas advert by Amazon – seemingly inspired by the romantic comedy “Love Actually” - will know. Unfortunately, the overriding response by customers of GAFAs and banks alike is one of indifference (and slow reaction times in our IAT test are consistent with this). They feel strongly about important issues such as family, religion or politics but apparently have little if any emotional attachment to their bank or to their favourite tech company.

Should banks care?

Banks need to take these and other findings from behavioural economics seriously. The pace of change in banking and financial services can only quicken. If GAFAs decide not be content with playing second fiddle for much longer, they already have the systems, data and detailed customer knowledge needed to challenge banks in some of their lucrative lines of business. Doing nothing in response is not an option. Instead, banks should set to work urgently on three key fronts:

Trust – What do customers actually mean by trust, and how can banks do better at using behavioural data to measure, understand and react to people’s feelings?

Ease – People say they don’t find banks easy to use. Even though there is significant implicit ease in day to day transactions - how can the friction often associated with banks be reduced?

Engage – How can people be made to care about the services banks offer and the benefits they bring? Or should banks just accept that mellow feelings and implicitly easy service is what customers want?

The questions may seem straightforward. The answers are not. But one thing is clear: with rapid change coming, banks can no longer work on the assumption that an account holder with a balance of £1,000 and three direct debits is a “loyal” or “engaged” customer. As the challenges from tech behemoths and other insurgents mount, incumbent banks ignore the unconscious drivers of our everyday decisions at their peril.

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