

Savanta:

Business banking – the digital war

Are neobanks winning the battle?

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make better decisions



Neobanks marching forward

The UK FinTech industry has been growing rapidly, and this accelerated throughout the Coronavirus pandemic. In 2021, the total UK FinTech investment (including mergers & acquisition, private equity and venture capital) increased sevenfold to around £28.4 billion, from around £3.9 billion in 2020¹. **Today, the UK FinTech industry is the biggest in Europe** and second in the world after the United States.

¹ <https://home.kpmg/uk/en/home/media/press-releases/2022/02/uk-fintech-investment-soars-to-37-billion-in-2021.html>



The UK Government is supportive of innovation in the financial industry and many neobanks offer **innovative business services**, such as low rate or fee free, instant account approval, invoicing tools and links to accounting software.



Such innovation has proved appealing to small businesses. Indeed, Starling has received **several awards in the business banking sphere**, such as 'Best Business Current Account' in January 2021, 'Best Business Bank' in July 2021 and 'Business Lender of the Year' in October 2021 from various institutions.

Covid-19 changes the field

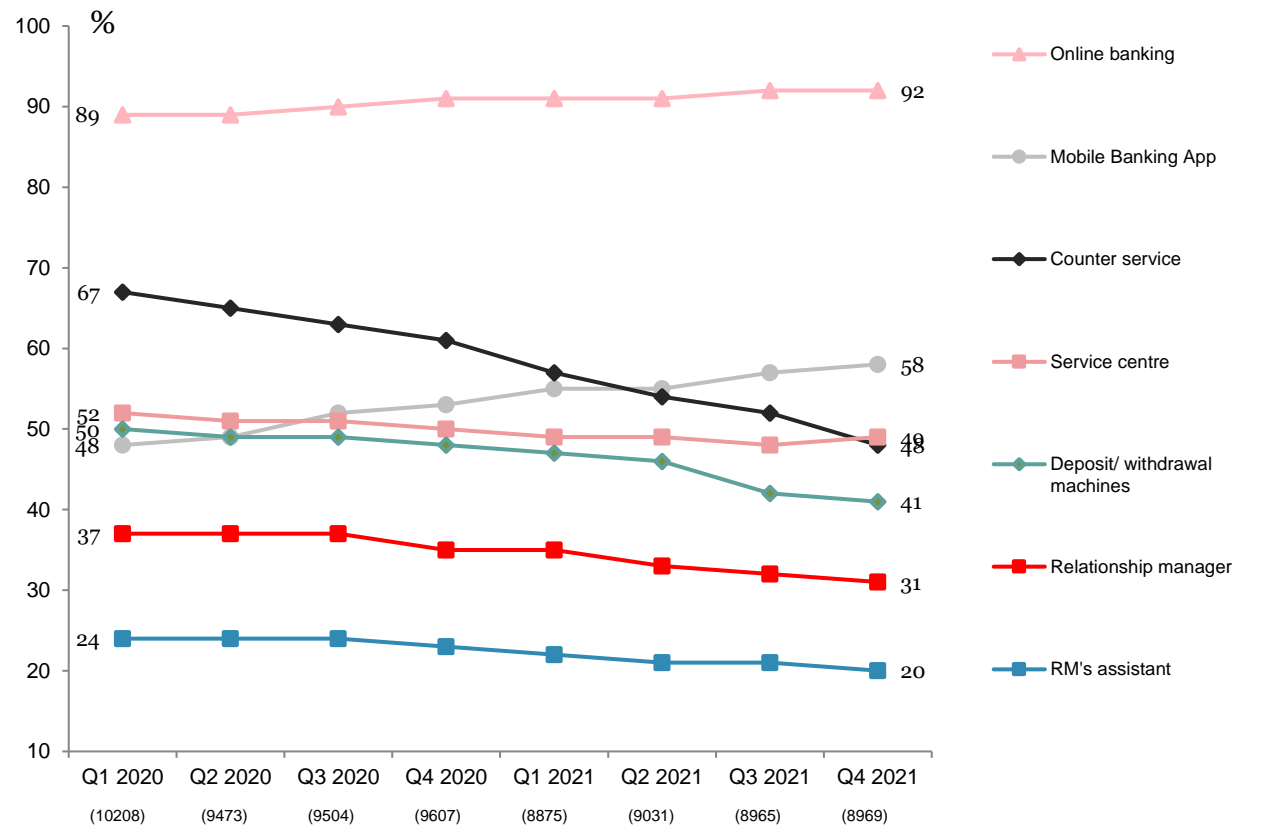
The Coronavirus pandemic accelerated growth in the FinTech industry, including digital banking, as people’s behaviours, including business banking customers and regulators, changed. Many business banking customers moved to using digital tools more and having less face-to-face contact with their bank, with fewer visiting the branch or seeing their relationship manager face-to-face.

MarketVue Business Banking has been tracking business banking customers’ channel usage behaviour for over 10 years. The data shows a consistently high level of online banking usage and a growth of mobile banking usage since the start of the pandemic.

“ **The proportion using mobile banking increased from 48% to 58% over the period.** ”

Channels used

Which of the following methods have you personally used to carry out your business banking over the past year with your main bank?



Start-ups join the neobank ranks

Alongside the growth in mobile banking app usage, we saw growth of neobank main business bank market share. Our Q4 2021 data amongst GB start-ups and established businesses with turnover up to £2 million, reported neobanks accounted for 10% of main bank market share. Specifically, amongst start-ups, 54% of main business bank relationships were opened with a neobank, with Starling and Tide leading the way.

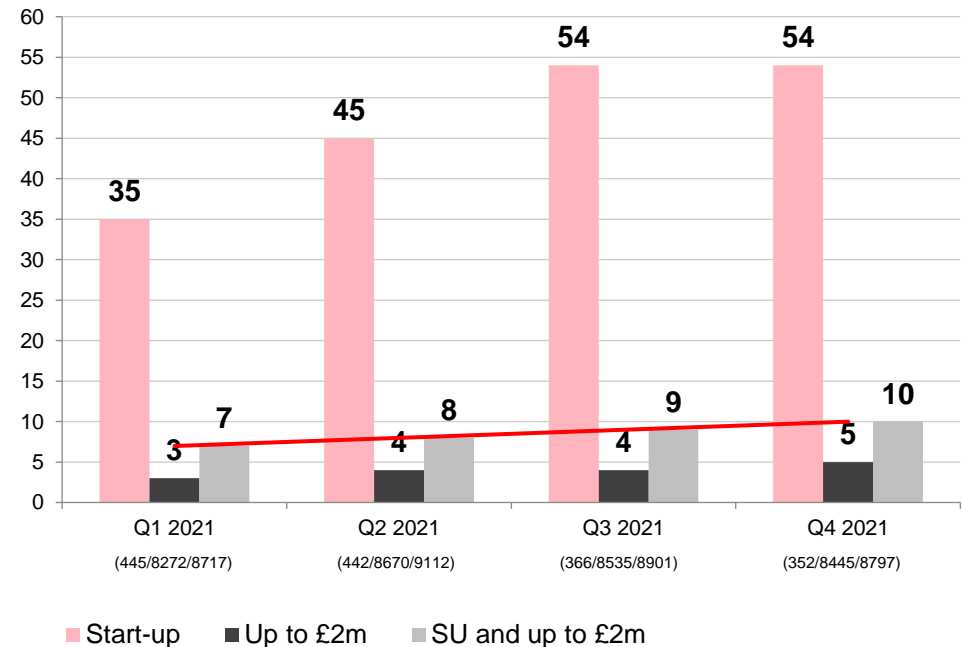
Neobanks have clearly seen the benefit from the growing number of start-ups during the pandemic. According to government data, there were around 810k² new start-ups incorporated in 2020/21, enabling neobanks to rapidly grow market share.

Neobanks are currently operating in the small business segment with very few larger businesses (£2m+ turnover) reporting their main bank to be a neobank (<0.5%) in Q4 2021.

²<https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

Main bank for business banking - neobank

Which banks do you currently use for business banking? Of these, which is your organisation's main bank for day-to-day business banking?



Switchers take up the rear

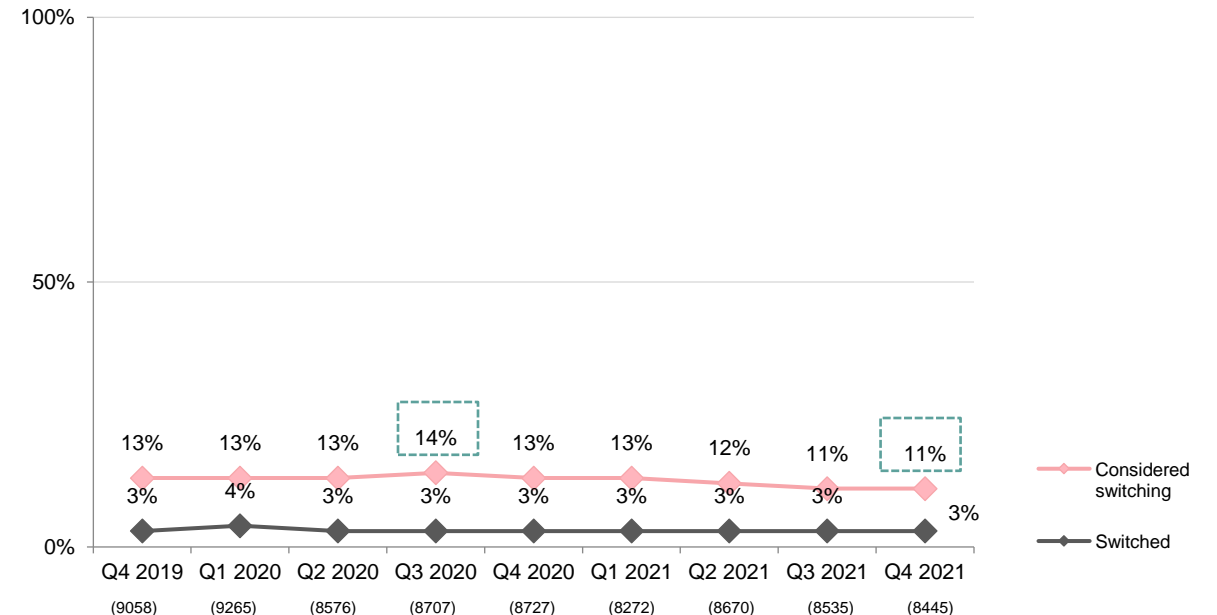
Savanta’s MarketVue Business Banking survey has also been tracking switching and switching consideration over time. At the end of 2019, 13% of start-ups and businesses with turnover up to £2m said they were considering switching their main business bank account. This increased marginally to 14% in Q3 2020 but was only 11% at Q4 2021.

Actual business bank switching, however, remained consistently low. Our data shows switching to be at between 3-4% for the last decade, as behaviour fails to match up with consideration.

This behaviour seems unlikely to change soon and the **growth of the neobanks has almost entirely been fuelled by start-up businesses.**

Switching behaviour in the past 12 months

Have you changed your main bank over the past 12 months or considered changing?



²<https://www.gov.uk/government/statistics/companies-register-activities-statistical-release-2020-to-2021/companies-register-activities-2020-to-2021>

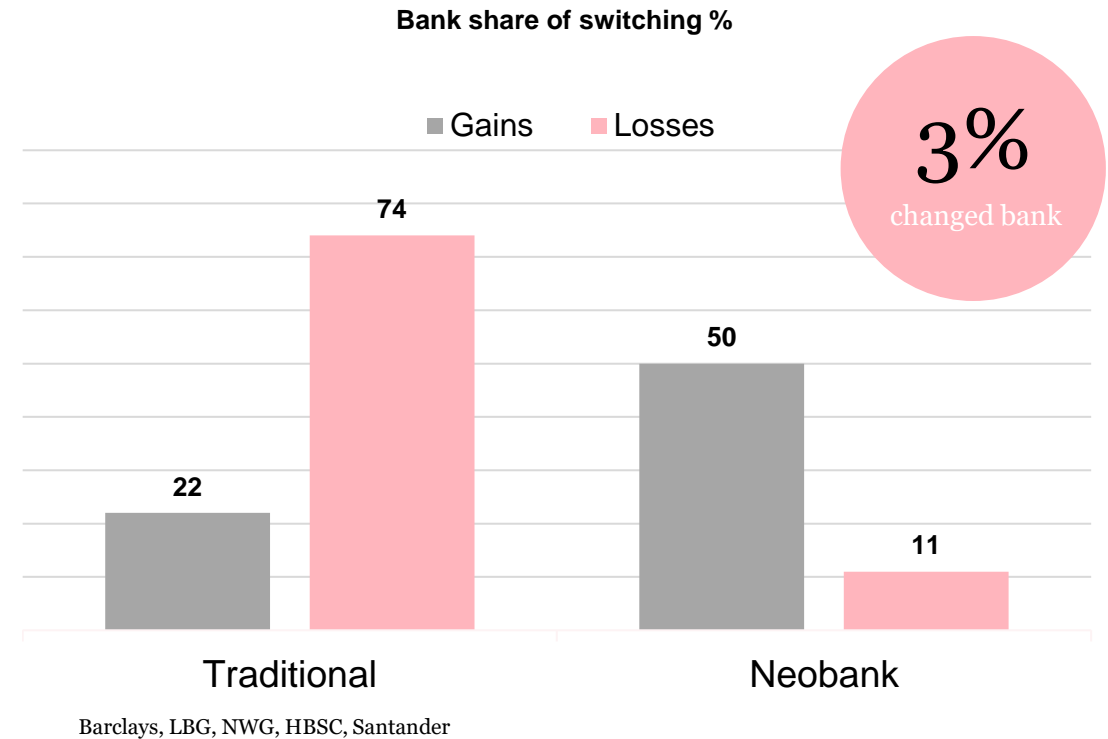
Looking at established small businesses with turnover up to £2m, switching is very much away from the traditional banks and towards neobanks

When we asked these businesses why they chose to switch to a neobank, the top 3 reasons given were:

- **better service (including ease of opening an account) (30%)**
- **online banking features (23%)**
 - **free banking (20%)**

Proportion of businesses switching main business bank

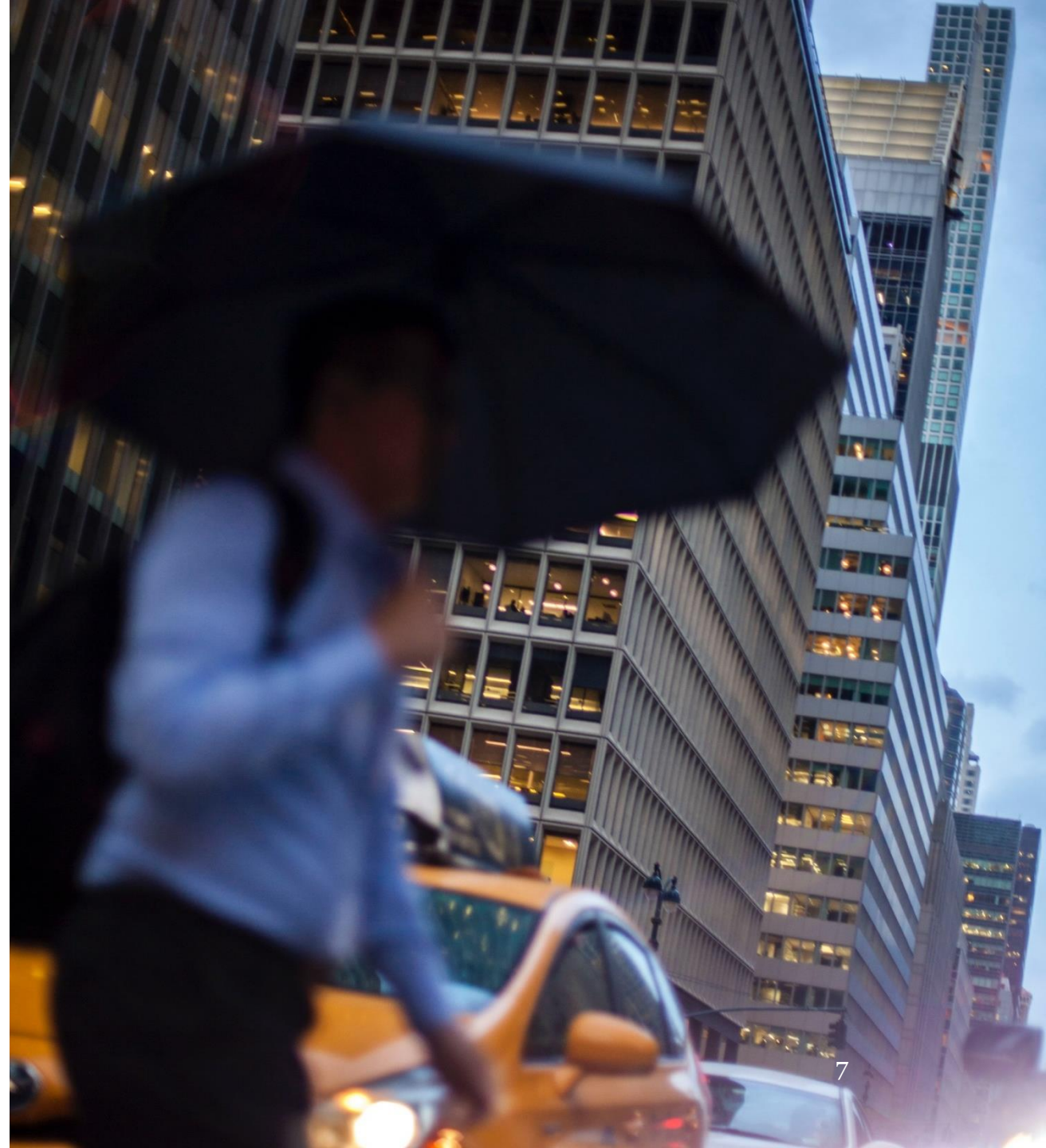
Have you changed your main bank over the past 12 months or considered changing?



But larger businesses reject the call

Looking to the future, we asked start-ups and established businesses of all turnover levels how likely they would be to consider using a digital-only bank to provide their banking needs in the future. Most start-ups and smaller businesses were relatively open to the idea, while businesses with larger turnover were still reluctant.

One in five (20%) said a digital-only bank would be their first choice or one they would seriously consider. A further 21% said they might consider a digital-only offering. But 59% are outright rejectors.

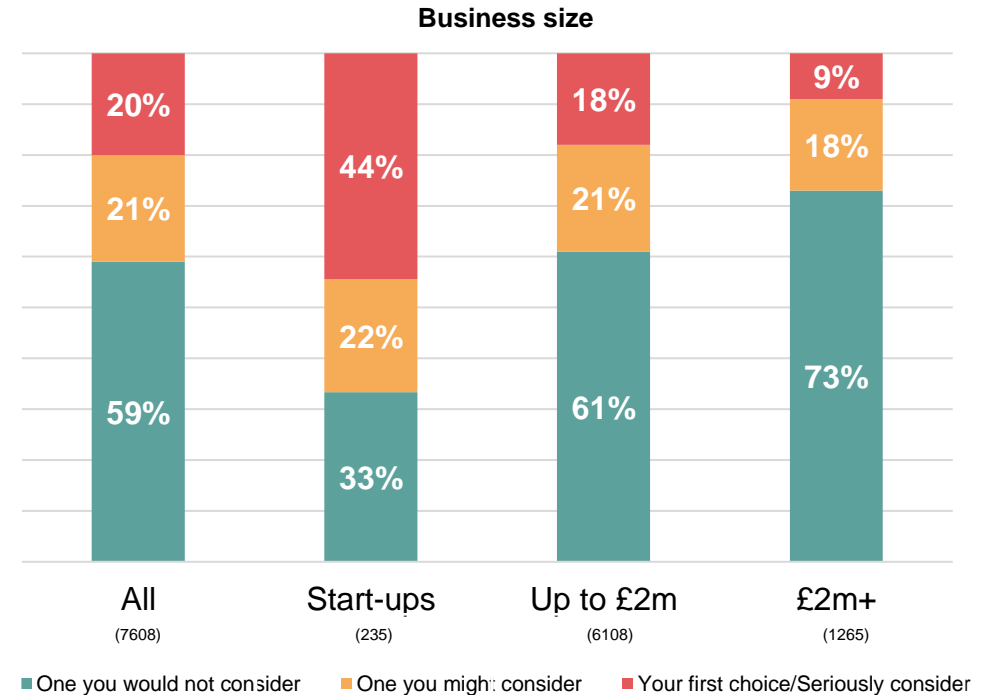


Start-ups were most favourable towards using a digital-only bank as their main bank in the future. Over 4 in 10 (44%) said it **would be their first choice** or they would seriously consider doing so. Only 33% **would not consider**. Those providing **business services were the most open** to considering a digital-only bank, with agricultural businesses being the least open. Those in London were also the most open to considering digital-only banks compared to those in other regions.

Looking at businesses with £2m+ turnover, 73% said they would not consider a digital-only bank as their main bank in the future with only 9% saying they would seriously consider it or that it would be their first choice. The high proportion rejecting might be driven by an impression that neobanks are suitable for businesses with simpler needs, offer less industry specialisms and are not able to support businesses to trade internationally as seen in our brand association data.

Digital-only bank consideration

How likely you'd be to consider the following banks for your future banking needs, given a free choice: A Digital-only Bank



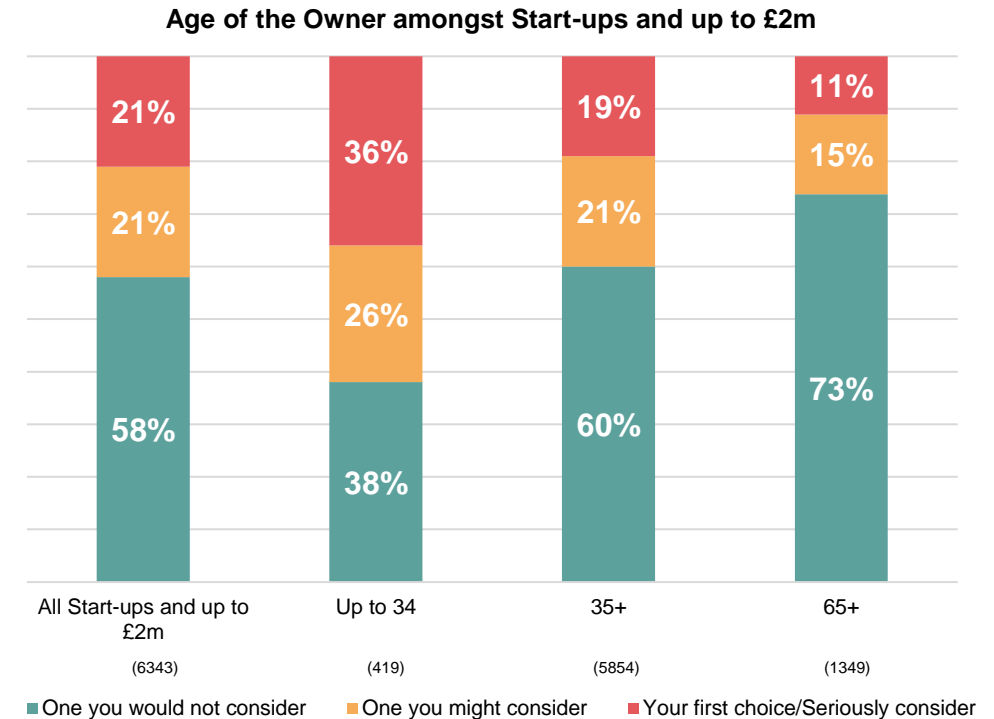
Looking at age, it's perhaps no surprise that younger business owners are more willing to consider a digital-only bank for their business compared to their older counterparts. And it's widely known that younger business owners are the key target for neobanks in both the business and retail market.

At Q4 2021, 60% of those aged over 35 would not consider a digital-only bank as their main bank for business, while the over 65s are the most likely to reject a digital-only solution (73%).

But will this rejection continue?

Digital-only bank consideration – Start-ups & up to £2m age of owner

How likely you'd be to consider the following banks for your future banking needs, given a free choice: A Digital-only Bank



Is the battle won?

Our data clearly showed that there were certain types of businesses and business owners that were more open to using digital solutions like those offered by neobanks, namely start-ups and younger business owners.

What about the war?

The question is, as these businesses grow, will they outgrow their neobank partners.

Perhaps not.

All owners' behaviour has changed of late, forced forward by the pandemic. Fewer businesses are now transacting via cash, preferring to use digital payments. Much business communication has moved online and more business people have become comfortable with the digital world.

We'll be asking the same questions in future waves of the MarketVue Business Banking survey and will be monitoring developments closely.



Meet the team



Stephen Palmer

EVP, Financial Services

Stephen has 25 years' research experience across financial services and tech and leads the financial services team at Savanta. Prior to Savanta, Stephen was Head of Insight at Kantar Financial Services & Technology and responsible for delivering customer experience, brand and segmentation research. Stephen is a certified member of the MRS and has sat on the standards board.

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Ben McGregor

Director, Client Services

Ben has spent the last 25 years working in financial services, providing targeted support to some of the most recognisable global brands across banking, insurance, payments, wealth, and investment banking. Recently that has included support across the ESG journey – from strategies to reach Net Zero to corporate reputation work. Ben moved to Savanta at the end of 2021 to support the growth of the financial services business.

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Sue Lewis

Senior Director, Financial Services

Sue has over 30 years' market research experience, including six years' experience client side (in the healthcare sector at BUPA and in business banking at Barclays, where she was a senior market research manager). Before joining Barclays, Sue was previously an associate director at City Research. Sue has a BSc (Hons) degree in Sociology from the University of Southampton and is a certified member of the MRS (CMRS).

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Rima Aryandani

Senior Consultant, Financial Services

Rima joined Savanta when Wealth-X Custom Research was acquired in 2019. She has worked predominantly on quantitative projects in the finance and wealth space and has particular expertise in project logistics. Rima has a Master's degree in International Tourism from the University of Lugano, Switzerland and a Bachelor's degree in Economics from the University of Indonesia.

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Savanta's MarketVue Business Banking

Based on a continuous survey of 15,000 financial decision makers in UK businesses and 10 years of historical data, MarketVue Business Banking is a highly **reliable and detailed monitor of how banks are perceived by business customers.**

It is designed as a **complete market overview** covering market share, trends, brand health and customer experience to inform business strategy and provide tactical feedback for action planning. Interviewing is conducted continuously among a UK representative sample from start-ups, SMEs up to major corporates throughout the year and data/insight is delivered to clients on a quarterly basis.

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