

TOPICAL REPORT

Digital Banks: Opportunities & Sentiments

July 2021

INTRODUCTION

About this report

This is the 2nd year of the Digital Banking report for SMU-ISE. The Monetary Authority of Singapore (MAS) announced on December 5th 2020 the full digital bank licensees; Grab-Singtel consortium and tech giant Sea. Compared to the previous year, this report aims to evaluate the difference of Digital Bank perception. Diving into data collected as part of the Customer Satisfaction Index of Singapore (CSISG) study, this report seeks to provide insights to the following questions:



- Is there a difference in willingness of customers to take up products with Digital Banks?
- Who is more likely to try using Digital Banks in Singapore?
- How can traditional banks defend against new Digital Banks?
- How might Digital Banks entice current banking customers to switch over?

Awarded full Digital Bank licensees



Shortlisted applicants



EXECUTIVE SUMMARY

Key Points (1/2)

- **The Threat:** While there was a significant drop in banking customers willing to try Digital Banks, 37.5% of customers are still willing to try. Competition will continue to be stiffest in the Credit Cards business followed by the CASA business as respondents indicated they were willing to apply for these products with the new Digital Banks.
- **The Profile:** Customers willing to try Digital Banks continue to sway towards (1) remote banking users and (2) the younger group. 2020 also saw a significant increase in willingness to try Digital Banks among those 60yrs and above.
- **Under-served:** Those willing try Digital Banks rated their current banks significantly lower compared to those not willing to try Digital Banks. Loyalty for current banks is slightly lower among those willing to Digital Banks.
- **Defending Market Share:** Customers willing to try digital banks were driven by (1) availability of products and services and (2) reliability. Those not willing to try were used to human-based service interactions.



Awarded full Digital Bank licensees

Shortlisted applicants

Key Points (2/2)

Defending Market Share

Neutralising willingness to try Digital Banks: Delivering on Empathy and Assurance related elements are key experiences to deter banking customers to try Digital banks. The appeal of an innovative and forward looking bank also deters them from trying Digital Banks.

Driving loyalty for traditional banks: In addition to Empathy and Assurance, Responsiveness is a key element to drive loyalty for traditional banks



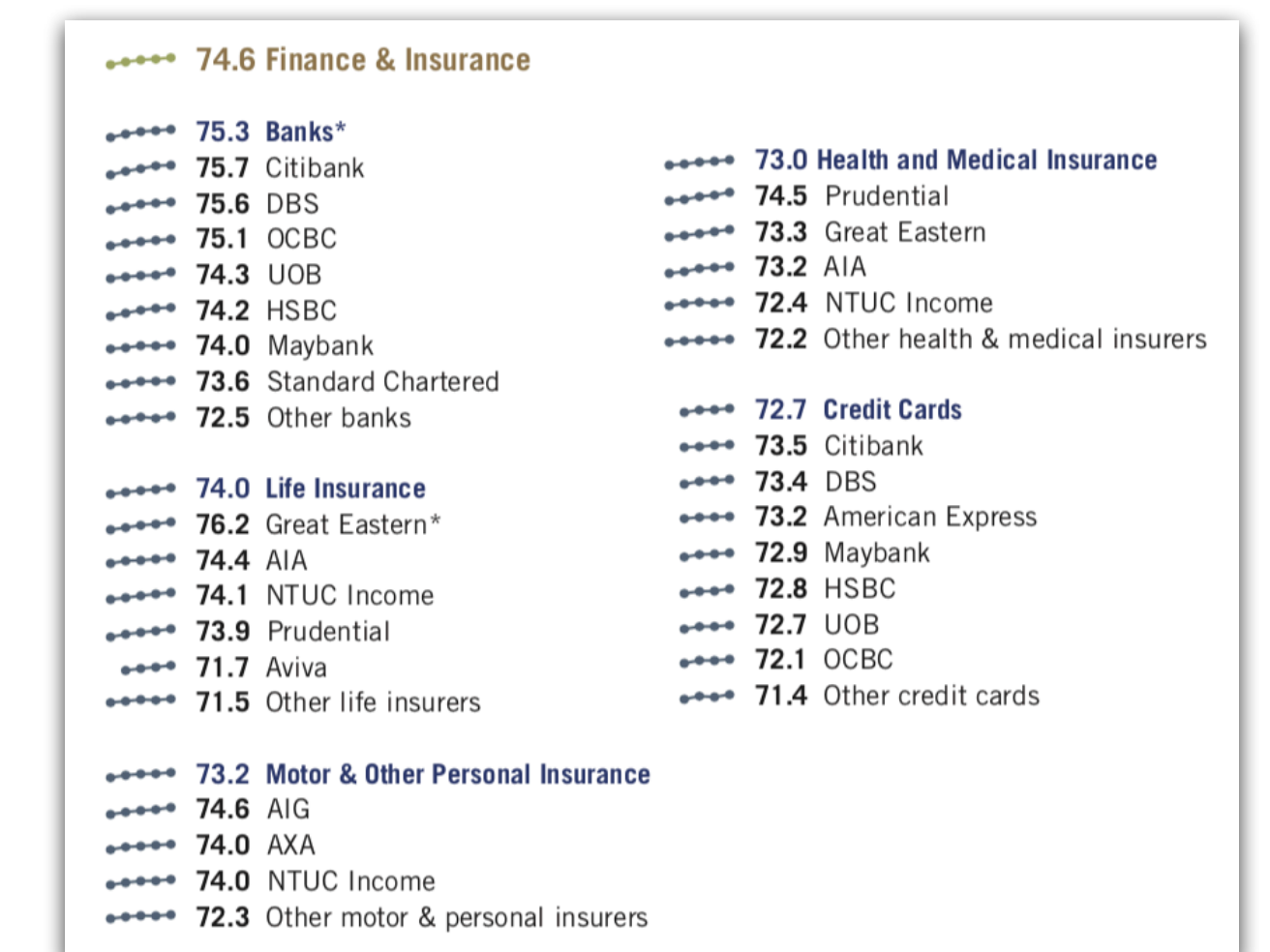
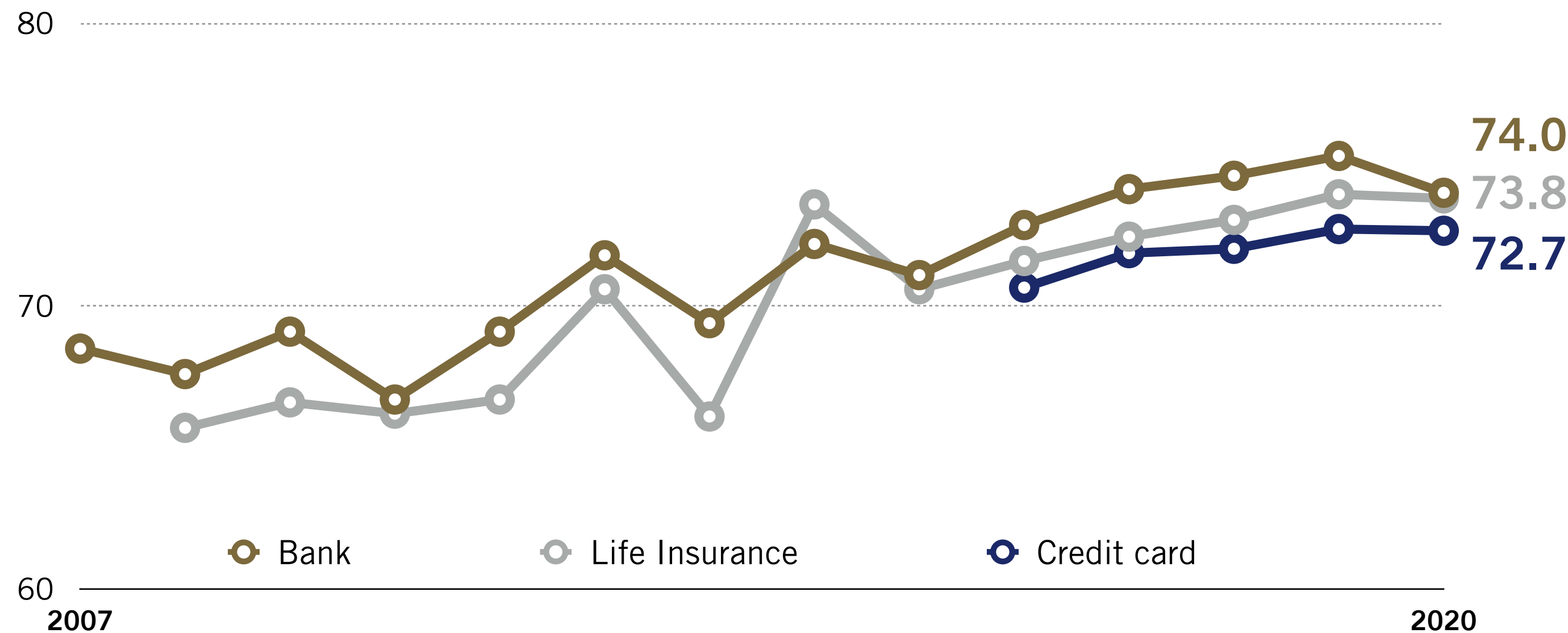
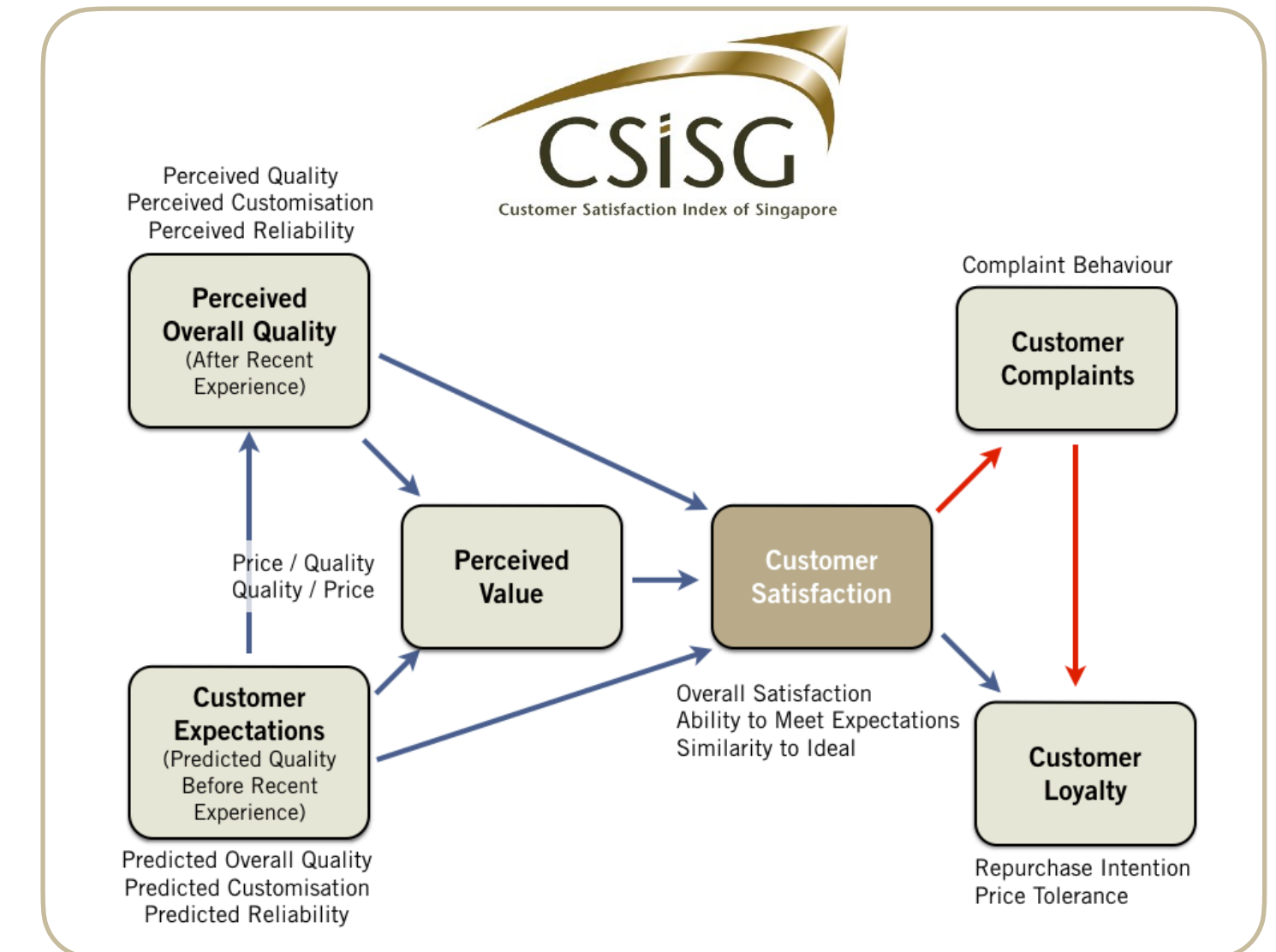
Awarded full Digital Bank licensees

Shortlisted applicants

METHODOLOGY

The Customer Satisfaction Index of Singapore

- The Customer Satisfaction Index of Singapore (CSISG) is the only national, cross-industry customer satisfaction index in Singapore.
- An established methodology modelled after the American Customer Satisfaction Index (ACSI) developed by the University of Michigan in 1994.
- The CSISG has been measuring the Banking sub-sector since 2008.
- The data in this report was extracted from the 2020 research on the sub-sector.

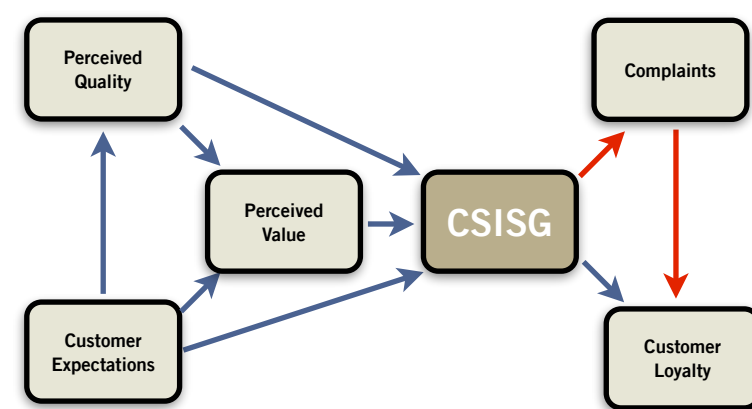


Research Methodology

	Banking Sub-Sector
Data Collection Methodology	Door-to-door household surveys with local residents who have a Current or Savings account (CASA) and have interacted with their Bank in the last 3 months.
Fieldwork Period	Oct 2020 to Jan 2021
Sample Size	Banking Sub-Sector: n=1550 Local Banks (DBS, UOB, OCBC): n=200 each Foreign Banks (HSBC, StanChart, Citibank, Maybank): n=200 each Other Banks: n=150

RECAP ON BANKS Q4'20

Drivers & Outcomes of Satisfaction Declined For Banks Sub-Sector



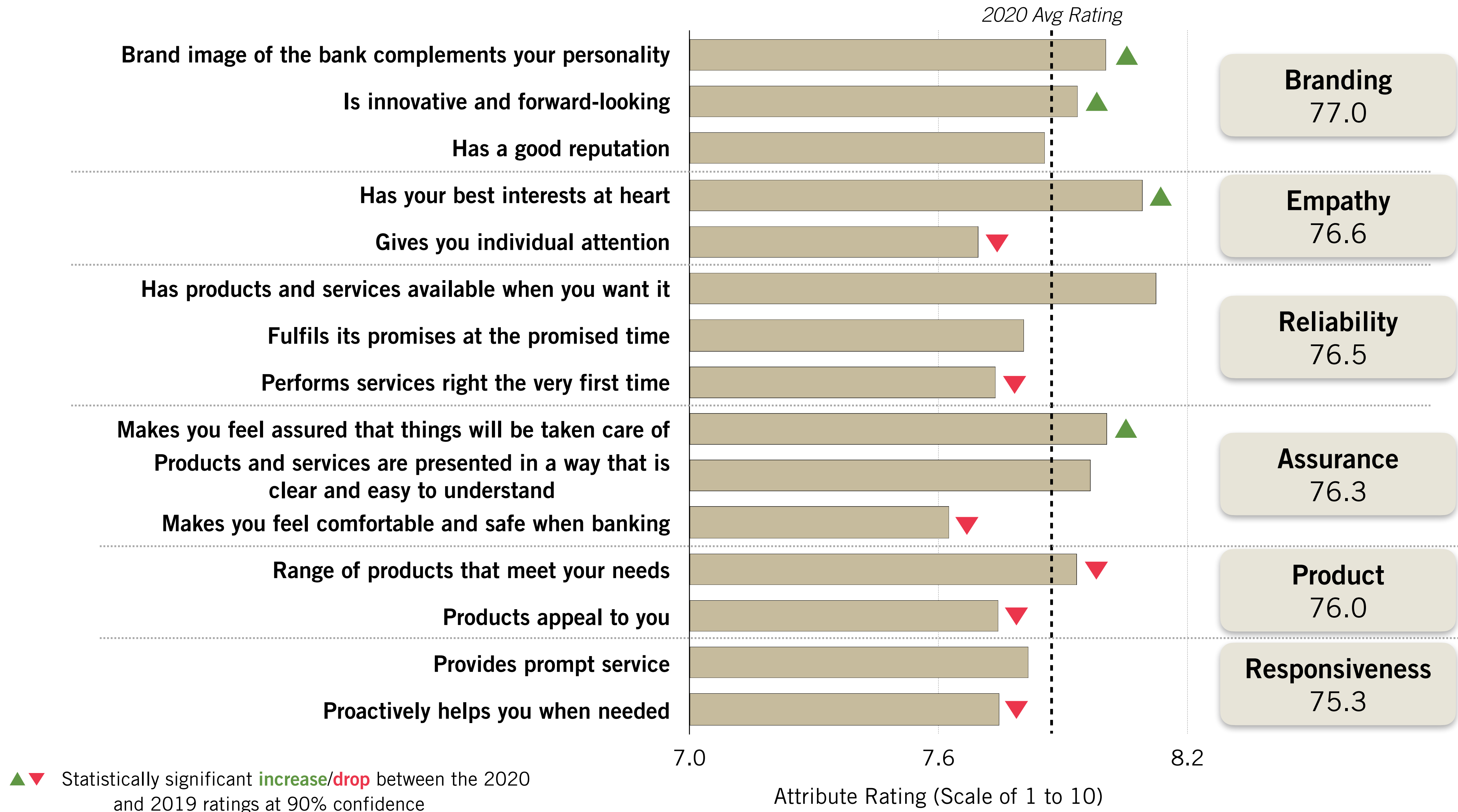
	Customer Expectations (Predicted Quality Before Recent Experience)	Perceived Quality (After Recent Experience)	Perceived Value	CSISG	Customer Loyalty
Banks	73.6 ▼ (-1.4%)	75.9 ▼ (-1.9%)	76.6 ▼ (-1.5%)	74.0 ▼ (-1.7%)	67.3 ▼ (-7.0%)
Credit Cards	72.2 ■ (-0.5%)	75.2 ■ (-0.4%)	75.6 ■ (-0.4%)	72.7 ■ (-0.1%)	71.9 ■ (-0.6%)
Insurance*	75.5	74.9	72.2	73.8	71.4
e-Payments (New)	77.0	78.6	NA	79.0	80.2

▲ ▼ Statistically significant year-on-year increase/drop at 90% confidence

■ No statistically significant year-on-year change at 90% confidence

* Note: Data collection for Insurance sub-sector was done online with locals only, as opposed to face-to-face interviews in 2019. Life and Health & Medical Insurance were merged as one sub-sector

Banks Attributes - YOY Movements



Timeline of Industry-Wide Decline In Interest Rates For CASA

THE STRAITS TIMES

COVID-19 SPECIAL

Banks here cut deposit rates in line with global markets

Changes take effect from May; borrowing sentiment remains muted amid pandemic

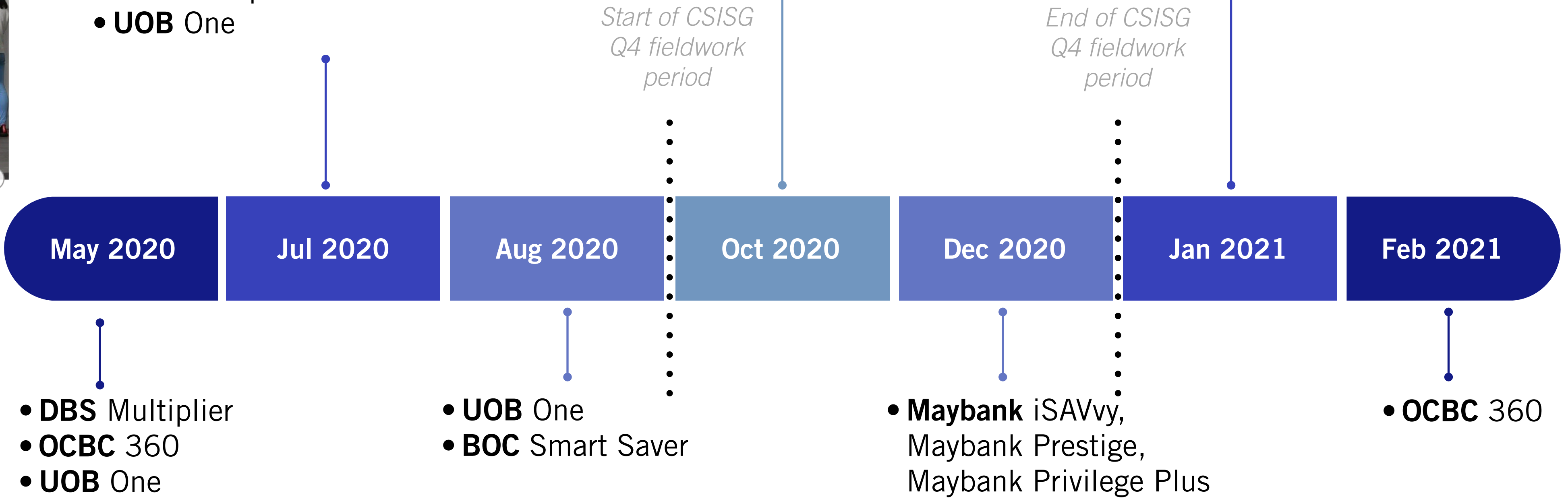


	SMU	CIMB	DBS	Maybank	OCBC Bank	Standard Chartered	Standard Chartered	UOB
BASE INTEREST	0.1% - 0.2%	0.3% (S\$100k ref. 12/1/2021)	0.05%	0.18% (S\$20k ref. 11/1/2021)	0.05%	0.03%	0.4% (S\$20k ref. 11/1/2021)	0.05%
MONTHLY SALARY CREDIT	+0.3% (S\$2-4k) +0.5% (S\$5-10k)		0.4% - 3.0%	+0.4% - 1.2% (at least S\$1.8k)	+0.1%		0.5% - 2.50% (S\$4 salary) + (S\$4 salary) x 0.01 (S\$100k)	0.5% - 2.50% (S\$4 salary) + (S\$4 salary) x 0.01 (S\$100k)
BILLS (GIBO)/ BONUS	+0.30% p.a. bill		+0.30% 1 category	+0.1% - 0.4%	+0.07%			
MONTHLY CASH SPEND	+0.3% (S\$100) +0.5% (S\$150)		Credit salary/ CDP dividends + More categories & higher amount transacted + More interest	+0.4%	+0.25% (S\$100) +0.6% (S\$1k)			
INVESTMENTS			+2.75% 2 categories	+0.4% - 1.2%	+0.9%			
INSURANCE	+1.5%			+0.4% - 1.2%	+0.9%			
HOME LOAN/ BONUS								

- **OCBC 360**, OCBC Bonus+ Savings, OCBC Premier Dividend+ Savings, OCBC Child Development, OCBC Plus! Savings, NTUC-OCBC Starter,
- **Standard Chartered** JumpStart, SCB Bonus\$aver,
- **DBS Multiplier**
- **UOB One**

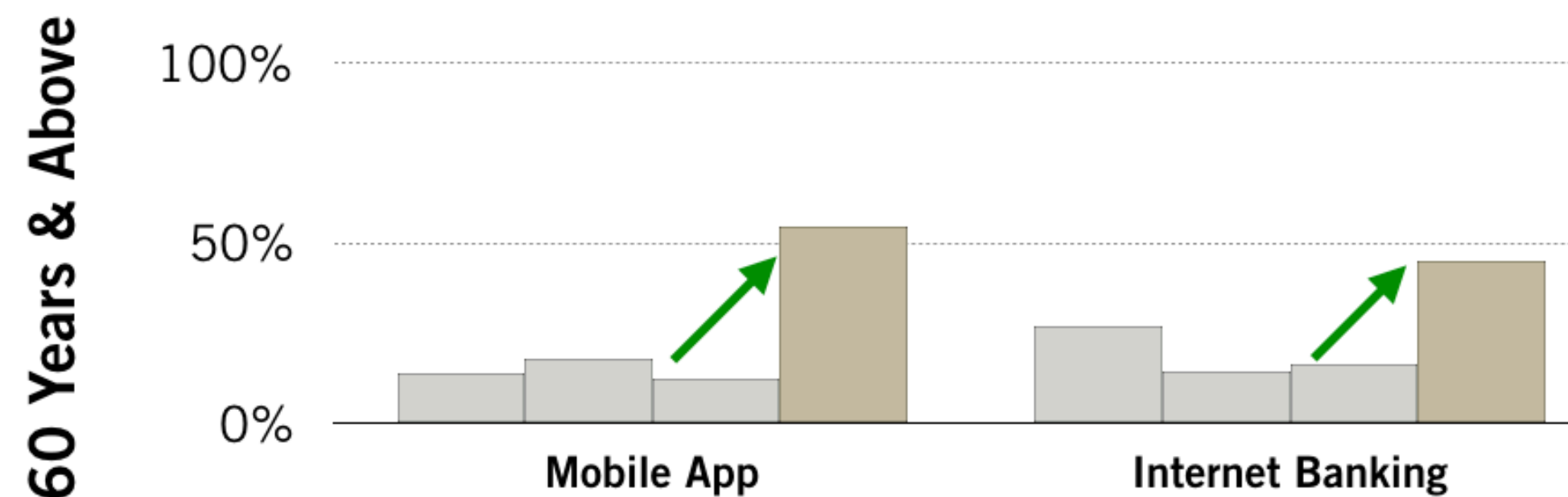
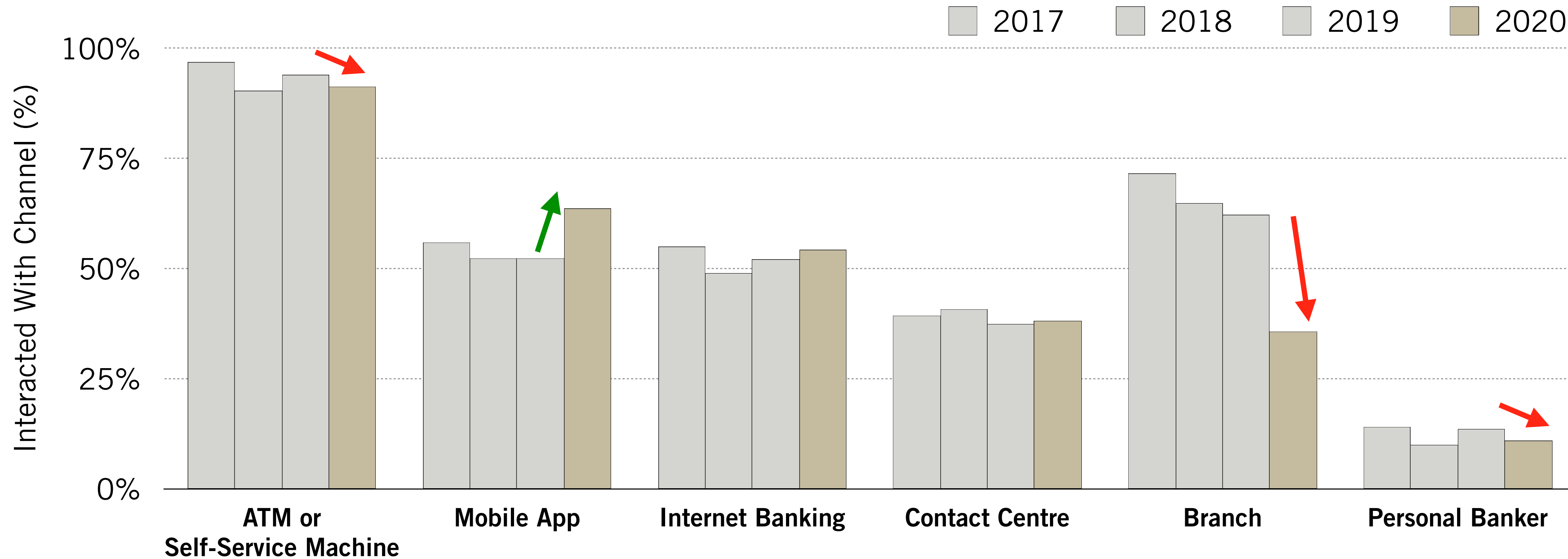
- **OCBC 360**
- **HSBC Advance**, HSBC Everyday Global

- **Standard Chartered** Current & Savings Account
- **DBS Multiplier**



Sources:
 (1) <https://www.straitstimes.com/business/banking/banks-here-cut-deposit-rates-in-line-with-global-markets>
 (2) <https://mothership.sg/2020/12/dbs-multiplier-interest-rates/>
 (3) <https://www.straitstimes.com/business/banking/ocbc-again-cuts-interest-rates-on-flagship-savings-account>
 (4) <https://blog.seedly.sg/best-savings-accounts-singapore/>
 (5) <https://blog.seedly.sg/uob-one-savings-account-review/>
 (6) <https://blog.seedly.sg/ocbc-360-savings-account-review/>
 (7) <https://cutt.ly/AzSS18>

Significant Decline In Branch Interactions With Significant Increase in Mobile App & Internet banking from Senior Segment



↗ ↘ Statistically significant increase/drop between 2020 and 2019 at 90% confidence

KEY HIGHLIGHTS

Willingness To Apply for Products Through New Digital Banks

Banking customers are less willing to apply products with new Digital Banks in 2020 as opposed to the year before



Question on Willingness to Apply for Products on Digital Banks
“Now, which of the following products would you be willing to apply for through a digital bank?”

62.7% ▲
 Not Willing To Apply For Any Products

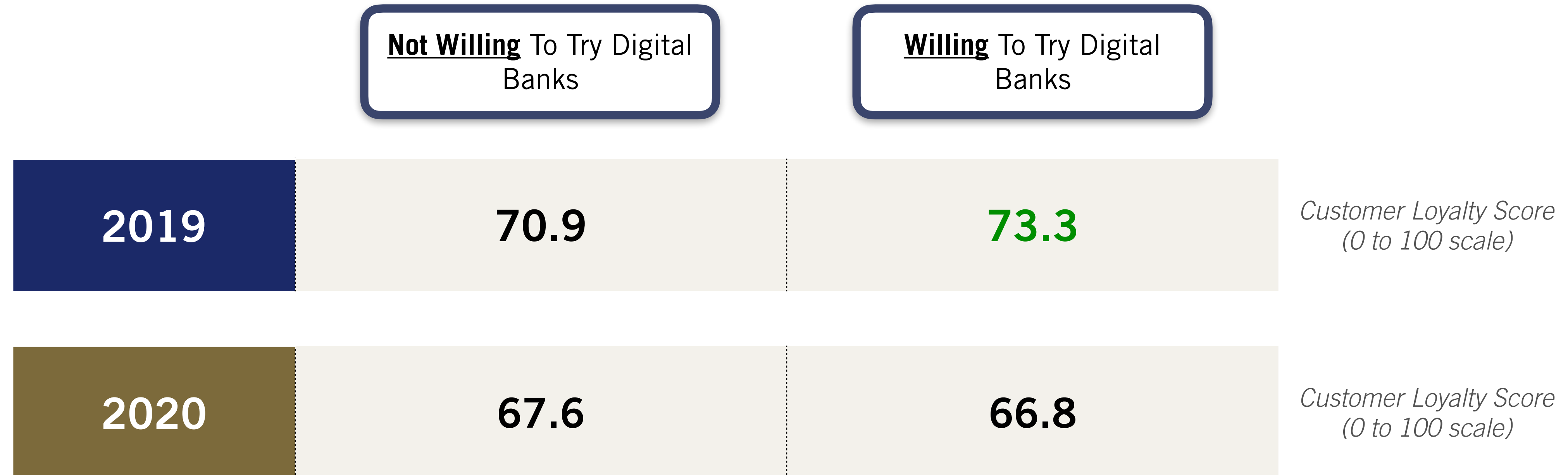
37.3% ▼
 Willing To Apply For Products

2019
56.7%

2019
43.4%

▲ Statistically significant increase from 2019
▼ Statistically significant decrease from 2019

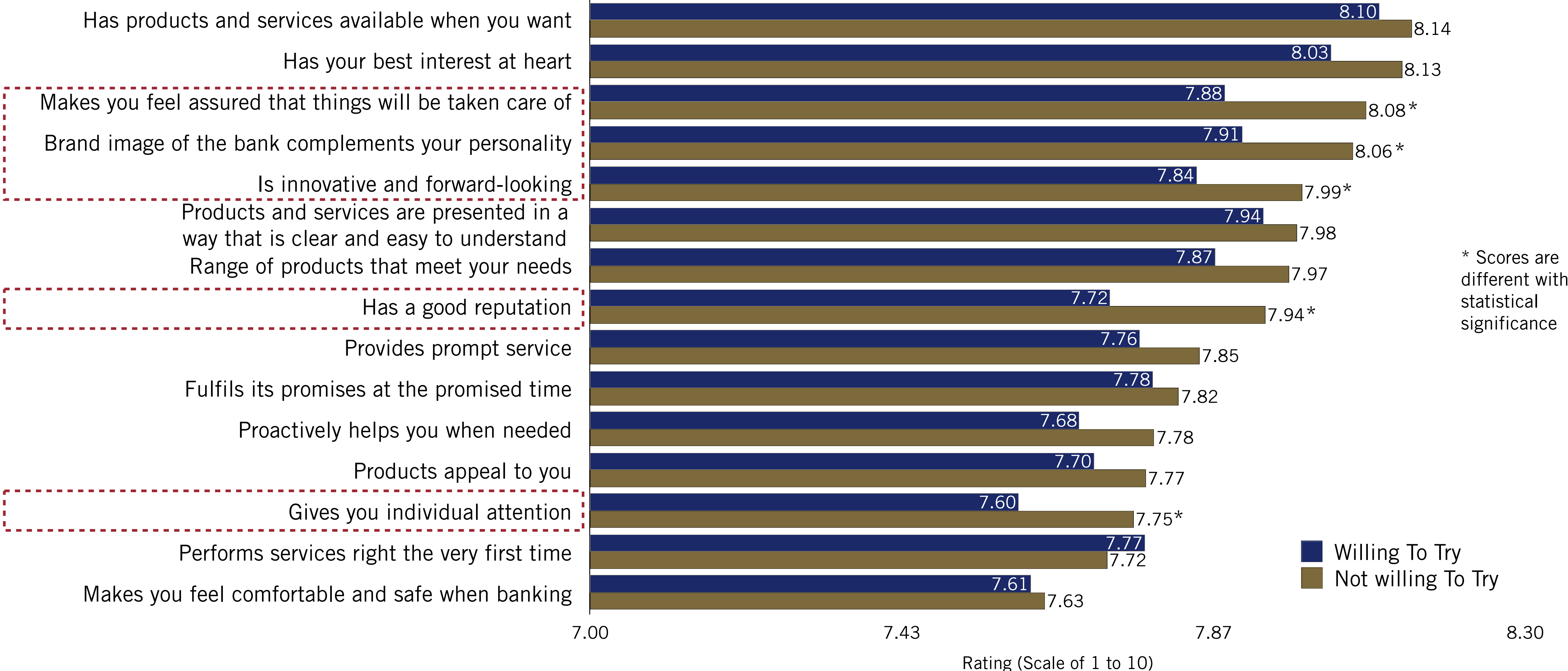
Compared to 2019, There Is no Discernible Difference in 2020 Loyalty Scores for the 2 Segments of Customers



GREEN/RED indicates that the loyalty scores of Willing To Apply segment is **HIGHER/LOWER** than the scores of those Not Willing To Apply with statistical significance.

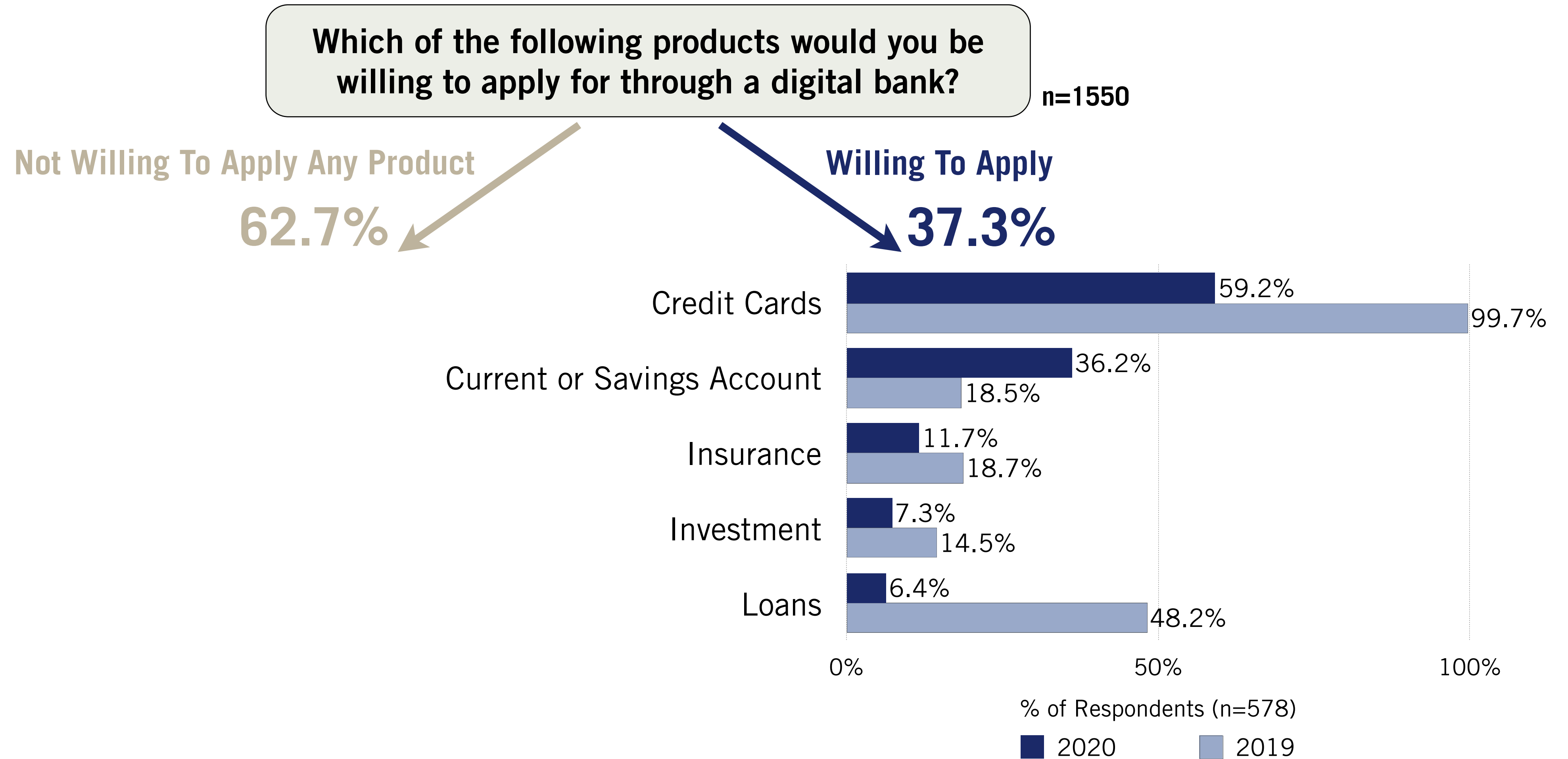
Customers Not Willing To Try Digital Banks Rate Their Current Banks Significantly Higher on Several Attributes

Attribute Ratings



What Are They Willing To Try:

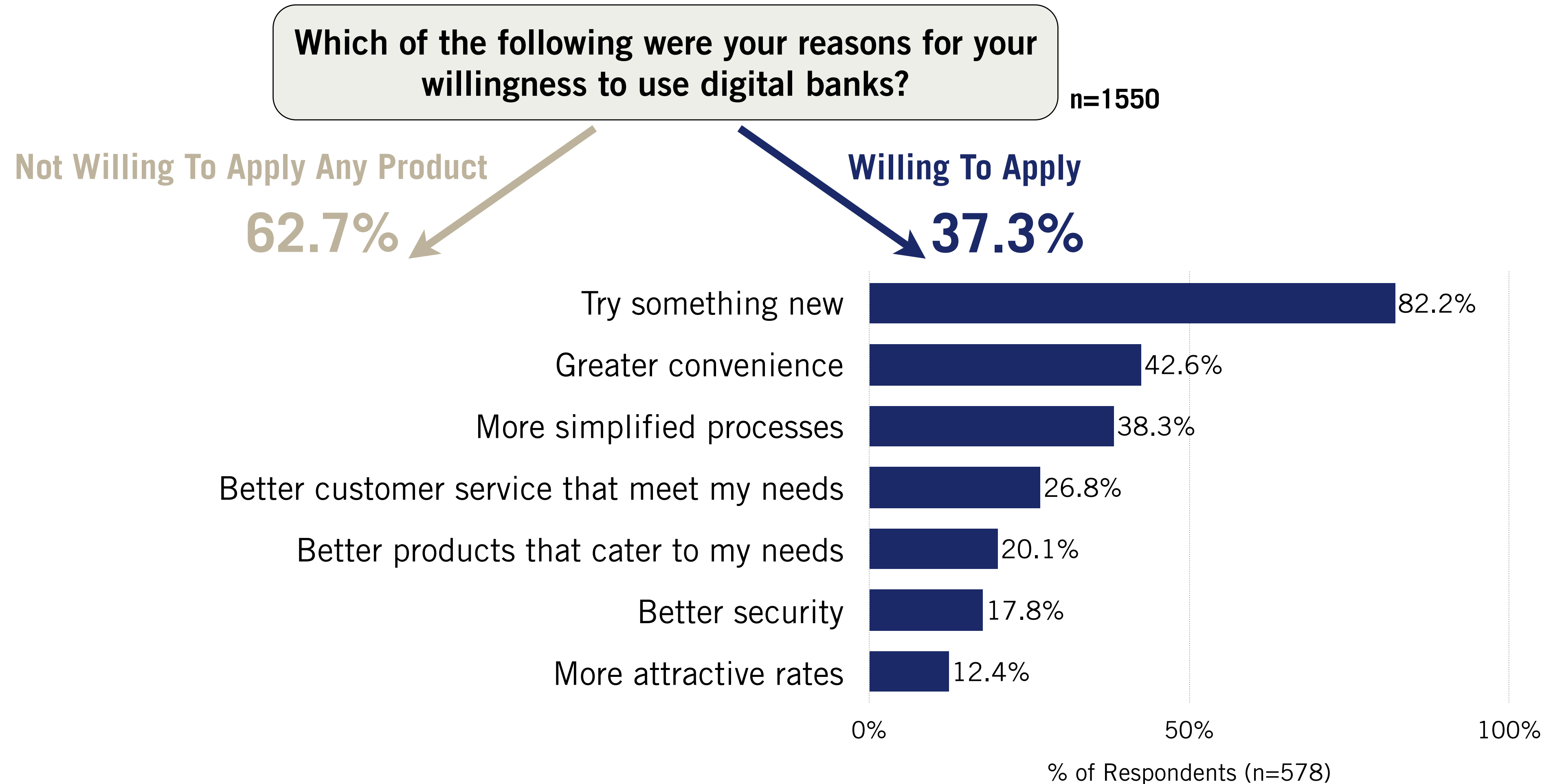
Willingness to apply for credit cards and loans have dropped from 2019 however, willingness to apply for savings account has increased



Multiple responses allowed, hence percentages may not add up to 100%

Why Are They Willing To Try:

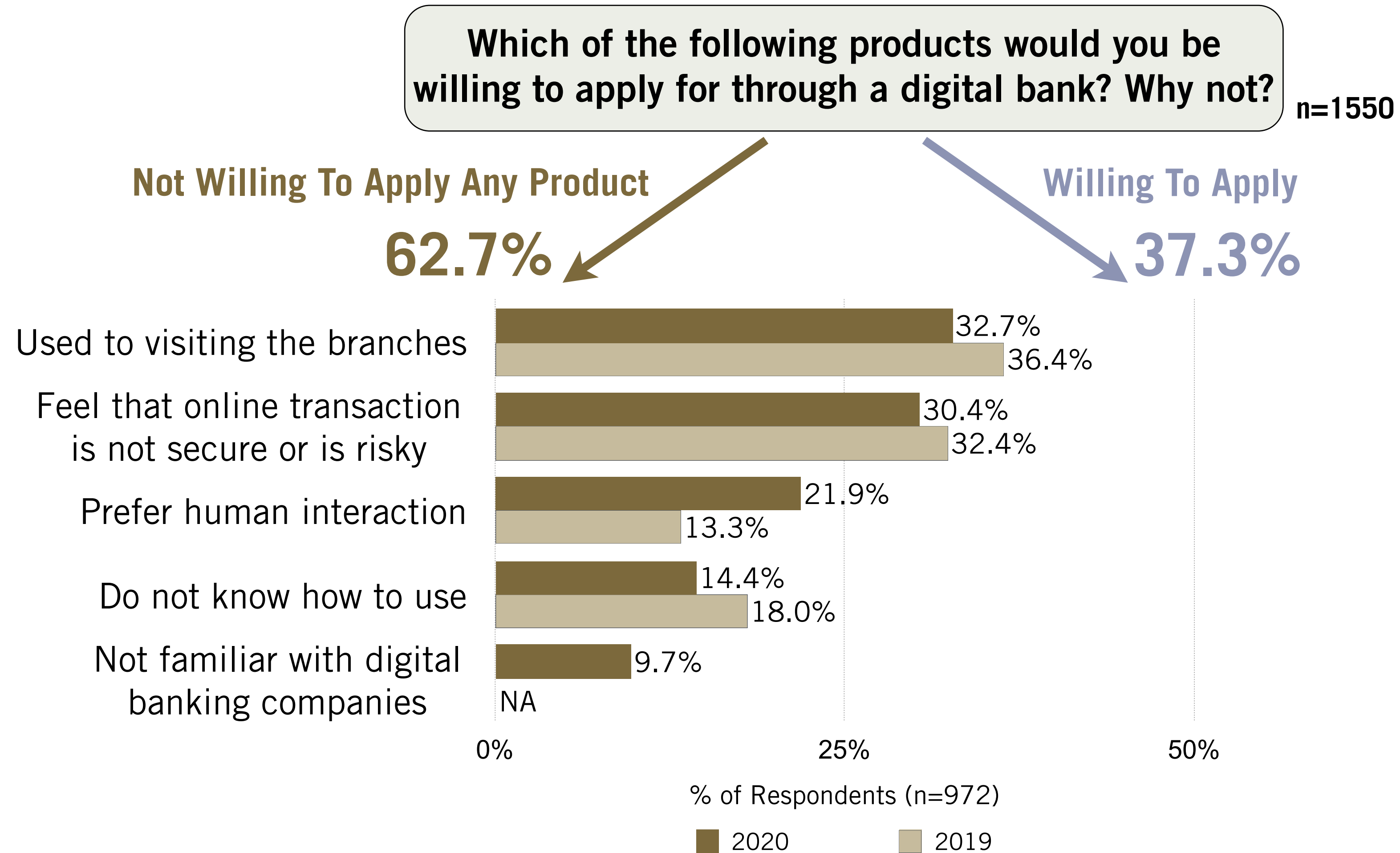
Curiosity is the key reason in willing to try Digital Banks. It is then followed with elements of convenience and processes



Multiple responses allowed, hence percentages may not add up to 100%

Why Are They NOT Willing To Try:

While being used to visiting branch and security are key reasons not to try Digital Banks, preference for human interaction has seen the biggest increase from 2019



Multiple responses allowed, hence percentages may not add up to 100%

Defending Against Digital Banks: Customers Willing To Try Digital Banks Were Driven by Availability and Efficiency

Increasing Impact on Customer Loyalty

TOP 5 DRIVERS OF LOYALTY FOR CURRENT BANK	
Customers <u>Not</u> Willing To Apply for Products Through Digital Banks	Customers <u>Willing</u> To Apply for Products Through Digital Banks
Provides prompt service	Products and services available when you want
Has your best interest at heart	Performs services right the very first time
Brand image complements your personality	Products and services are presented in a way that is clear and easy to understand
Products and services are presented in a way that is clear and easy to understand	Provides prompt service
Feeling comfortable and safe	Has a good reputation

What Willing Customers Want

Among the key drivers of loyalty for customers willing to try Digital banks, reliability related issues remain key, namely (1) availability, and (2) services being executed right, feature among the top five.

Incumbent banks should note that these are potential areas digital natives like digital banks may have a competitive advantage in, and work on improving these areas to defend their market share.

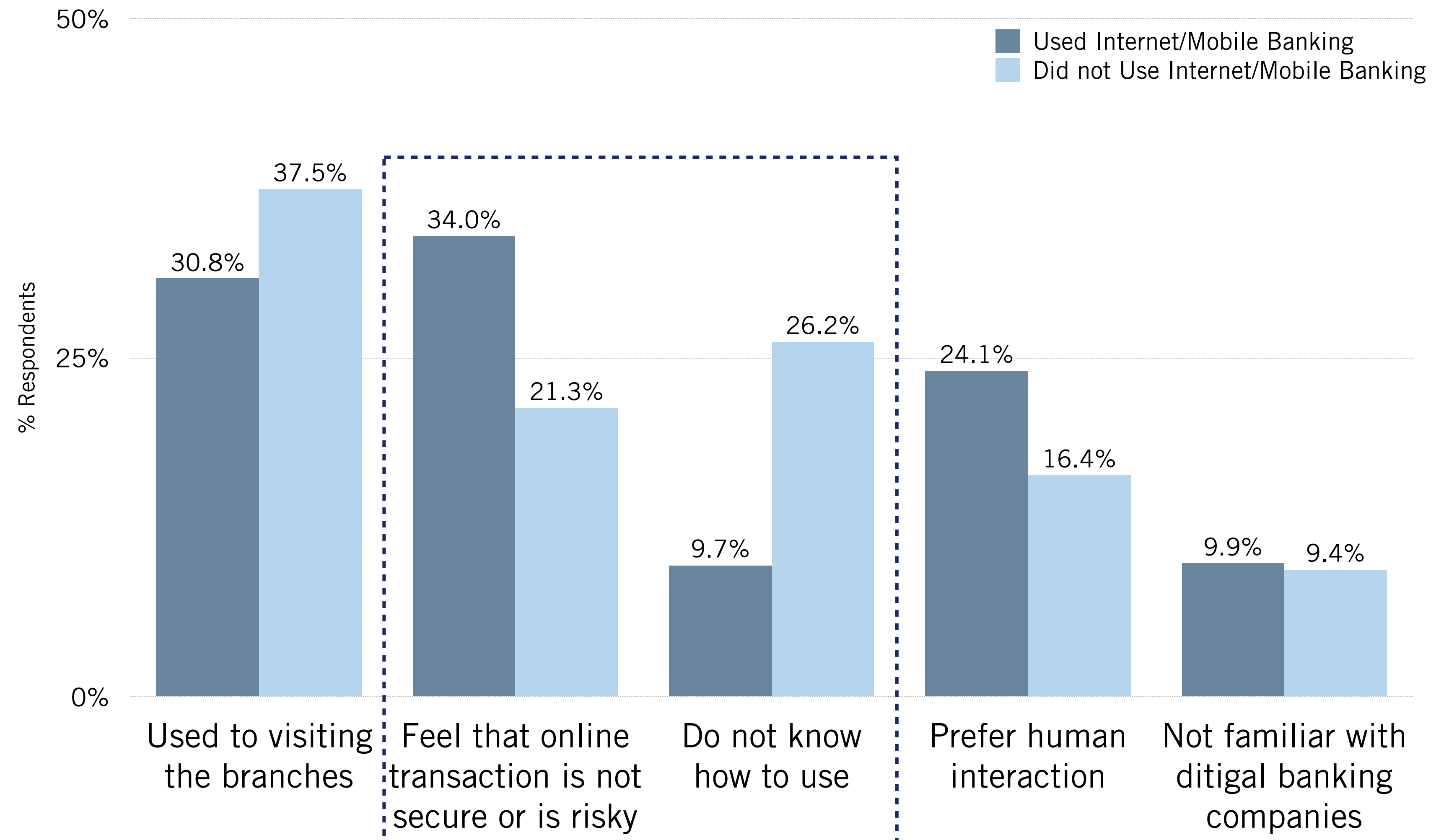
Why Not Try Digital Banks: Familiarity With Branches & Security Key Reasons for Unwillingness To Try New Digital Banks

- **Among those who use i-banking/m-banking:**

With a stronger preference for human interaction, online transactions are perceived as risky.

- **Among those who do not use i-banking/m-banking:**

Despite the push for digital banking during the pandemic, it comes as no surprise that those who still have not used i-banking or m-banking, continue to indicate a preference for branches and a lack of knowledge on using digital banking services.



TRYING OUT DIGITAL BANKS

Assessing Customers' Willingness To Try Digital Banks

Highlights

- Willingness to try Digital Banks in 2020 has dropped significantly from 2019; 43.3% to 37.35%.
- The drop in willingness to try Digital Banks, is mainly attributed to non-DBS banking customers.
- The older segment (60 years & above) are more willing to give Digital Banking a try as compared to 2019.



Awarded full Digital Bank licensees

Shortlisted applicants

Most Segments of Banking Customers Except 60 Years & Above Are Less Willing To Apply for Products Through a Digital Bank

		Not Willing To Apply For Products			Willing To Apply For Products		
		2019		2020	2019		2020
		56.7%	▲	62.7%	43.3%	▼	37.3%
Online Banking Usage	Used Internet/ Mobile Banking	48.5%	▲	58.4%	51.5%	▼	41.6%
	Did Not Use Internet/ Mobile Banking	77.9%		76.8%	22.1%		23.2%
Age	18 to 34 Years	44.1%	▲	56.0%	55.9%	▼	44.0%
	35 to 59 Years	56.6%	▲	66.0%	43.4%	▼	34.0%
	60 Years & Above	82.9%	▼	64.7%	17.1%	▲	35.3%
Personal Income	Under SGD 3K	53.2%	▲	77.0%	46.8%	▼	23.0%
	SGD 3K - Under SGD 6K	46.6%	▲	62.8%	53.4%	▼	37.2%
	SGD 6K - Under SGD 10K	45.2%	▲	62.0%	54.8%	▼	38.0%
	SGD 10K or over	65.1%		61.5%	34.9%		38.5%

% Within Each Demographic Sub-Group
(Row Percentage)

WILLING TO TRY DIGITAL BANKS

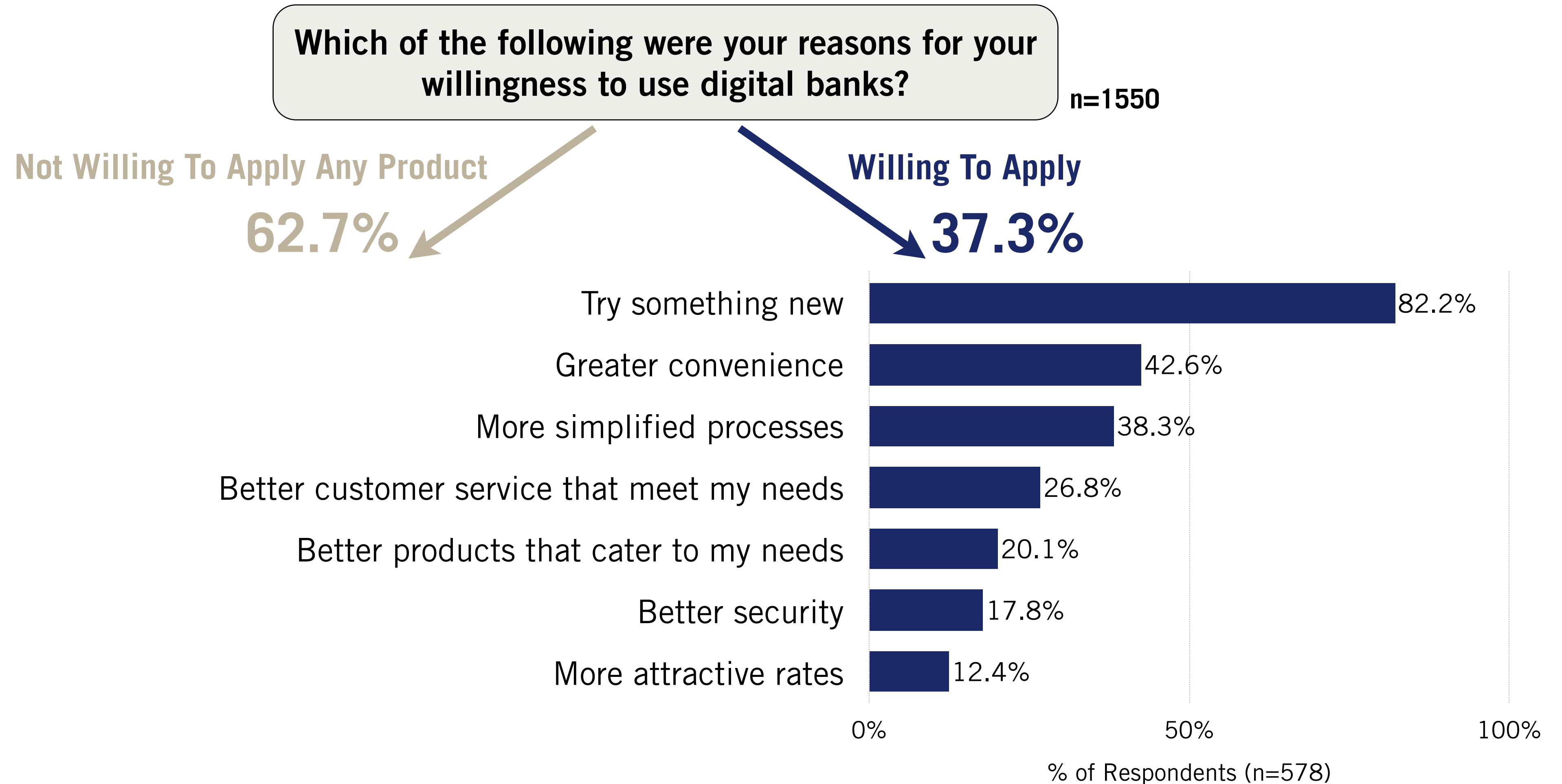
Assessing Customers Who Are Willing To Try Digital Banks

Highlights

- “Trying something new” is the key reason customers are willing to try Digital Banks. This more pronounced amongst the mid-income segment (S\$3-10k).
- Elements related to convenience and process is the next more quoted reasons to try Digital Banks.
- Credit card continues to be the top product customers are willing to try with a Digital Bank with Savings Account being the next most popular product to try.

Why Are They Willing To Try:

Curiosity is the key reason in willing to try Digital Banks. It is then followed with elements of convenience and processes



Multiple responses allowed, hence percentages may not add up to 100%

Why Are They Willing To Try - Demographic Profiles

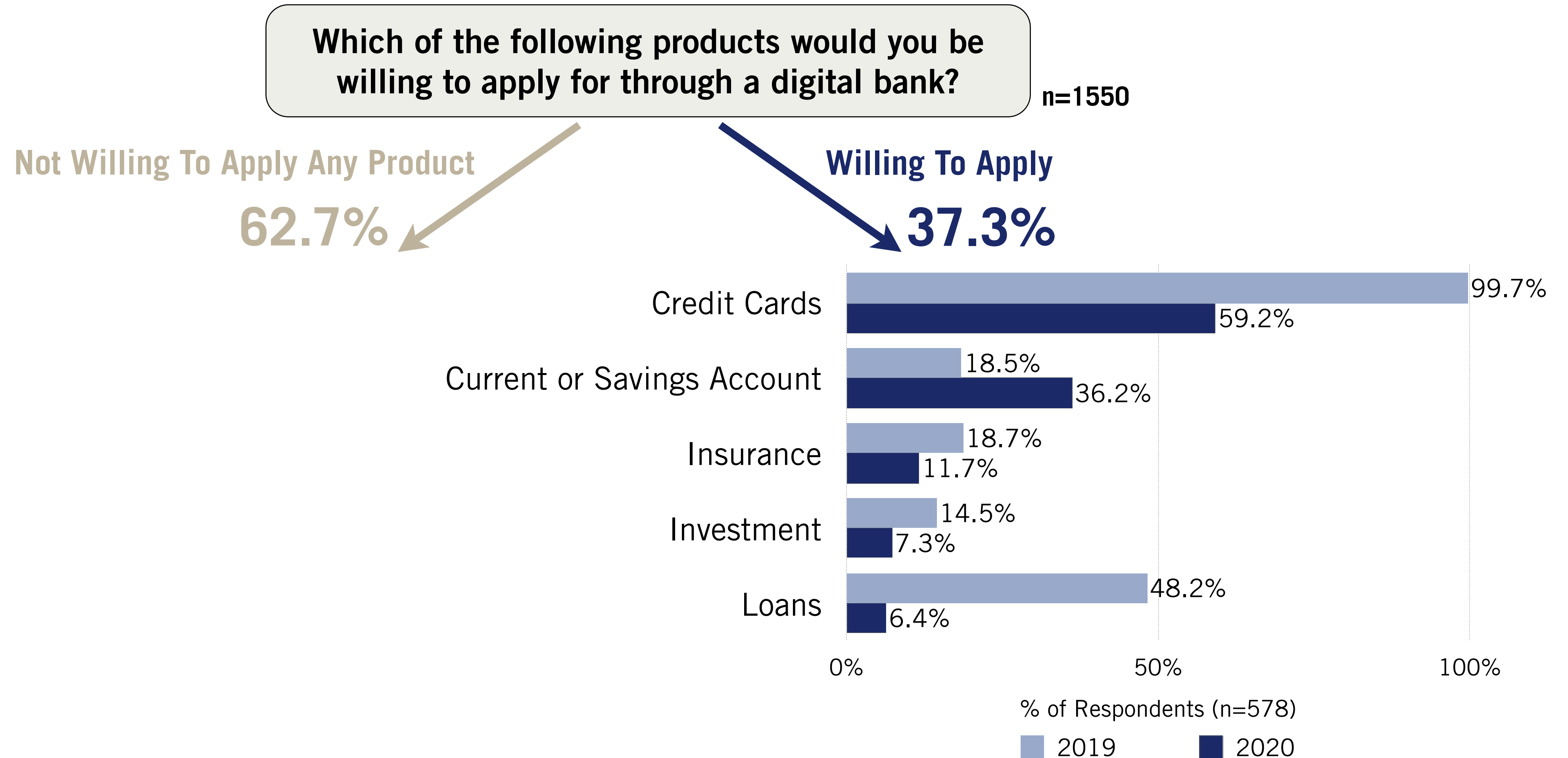
	Try Something New	Greater Convenience	More simplified Processes	Better Customer Service	Better Products	Better Security	More Attractive Rates
All banking customers	82.2%	42.6%	38.3%	26.8%	20.1%	17.8%	12.4%
Online banking usage#							
Used Internet/Mobile Banking	82.7%	43.0%	38.1%	27.1%	20.3%	13.5%	13.1%
Did not use Internet/Mobile Banking	79.1%	40.2%	39.3%	24.7%	19.1%	43.5%	8.4%
Age							
18 to 34 years	87.0%	45.4%	36.8%	29.7%	21.6%	11.6%	14.8%
35 to 59 years	83.7%	41.2%	43.5%	24.9%	22.2%	21.6%	12.3%
60 years and above	54.1%	38.8%	14.6%	25.9%	2.5%	21.2%	3.6%
Personal Income							
Under SGD 3K	82.4%	40.9%	21.7%	15.8%	18.3%	30.9%	1.0%
SGD 3K - Under SGD 6K	94.4%	34.1%	32.5%	32.8%	21.0%	16.7%	5.3%
SGD 6K - Under SGD 10K	90.1%	41.8%	48.7%	26.3%	20.1%	8.3%	17.0%
SGD 10K or over	64.9%	33.2%	41.6%	22.8%	30.1%	3.7%	5.1%

GREEN/RED indicates that the proportion of the segment is **HIGHER/LOWER** than the scores of All Banking Customers with statistical significance.

Italic text denotes low sample (<30)

What Are They Willing To Try:

Willingness to apply for credit cards and loans have dropped from 2019 however, willingness to apply for savings account has increased



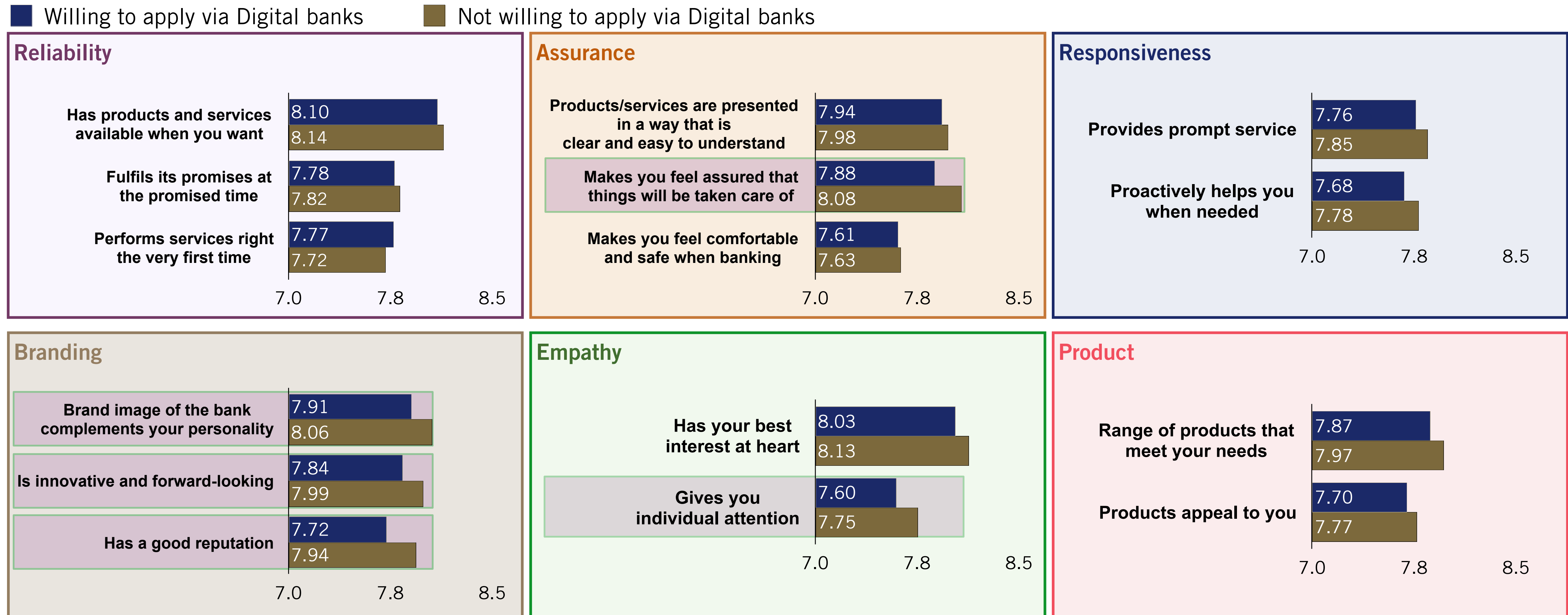
Multiple responses allowed, hence percentages may not add up to 100%

What Are They Willing To Try: By Demographic Profiles

	Credit Cards	Current or Savings Account	Insurance	Investment	Loans
Online banking usage#					
Used Internet/Mobile Banking	56.2%	38.7%	12.1%	8.3%	7.2%
Did not use Internet/Mobile Banking	77.0%	21.7%	9.1%	1.3%	1.4%
Age					
18 to 34 years	63.2%	34.5%	11.9%	2.3%	3.5%
35 to 59 years	57.8%	35.4%	8.0%	12.0%	9.2%
60 years and above	51.1%	48.3%	32.2%	0.6%	1.7%
Personal Income					
Under SGD 3K	82.4%	19.3%	16.9%	0.4%	1.4%
SGD 3K - Under SGD 6K	71.7%	21.3%	10.8%	2.2%	6.5%
SGD 6K - Under SGD 10K	64.1%	31.0%	6.3%	9.2%	1.1%
SGD 10K or over	40.0%	49.1%	11.5%	17.1%	2.8%

Poorer Customer Experience May Be a Key Reason To Not Try Digital Banks

- **Most Attributes Rated Lower:** Customer willing to apply products via digital banks rated most attributes lower than those who were not willing to try out digital banks.
- **Branding:** Brand-based attributes were all rated significantly lower.



■ Indicates statistically significant higher/lower ratings between the two groups at 90% confidence

Rating (Scale of 1 to 10)
Total no. of respondents: n=1550

**NOT WILLING TO TRY
DIGITAL BANKS**

Assessing How To Defend Against Digital Banks

Highlights

- Familiarity of visiting branches and perception of online transactions being risky still continue to dissuade customers from trying Digital Banks.
- The COVID-19 pandemic might have alleviated preference for human interaction as a key reason for not wanting to try Digital Banks in 2020.
- Incumbent banks should also work on improving the clarity of products and services offered and their brand reputation. These areas were key drivers of loyalty regardless of the customers' willingness to try digital banks.



Awarded full Digital Bank licensees

Shortlisted applicants

Why Are They NOT Willing To Try:

While being used to visiting branch and security are key reasons not to try Digital Banks, preference for human interaction has seen the biggest increase from 2019

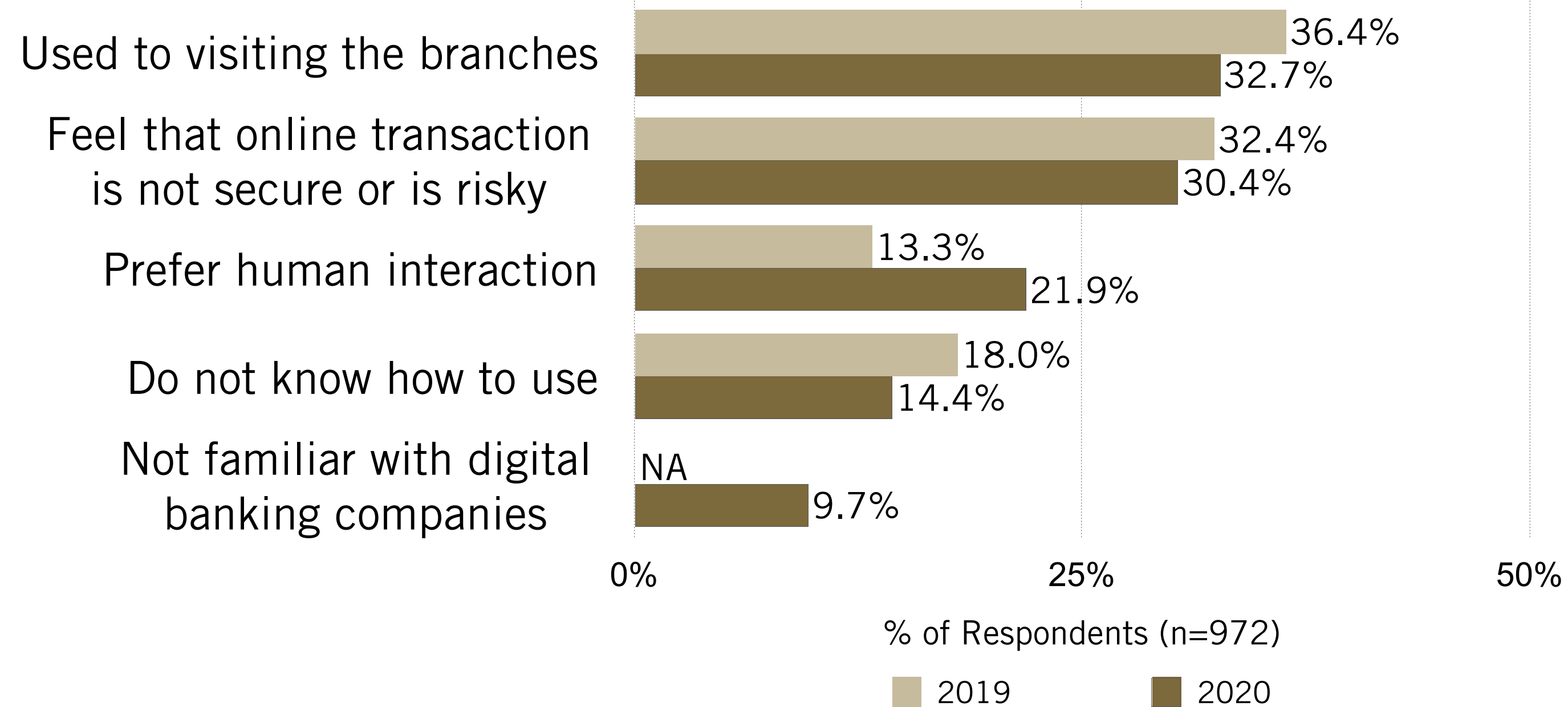
Which of the following products would you be willing to apply for through a digital bank? Why not? n=1550

Not Willing To Apply Any Product

62.7%

Willing To Apply

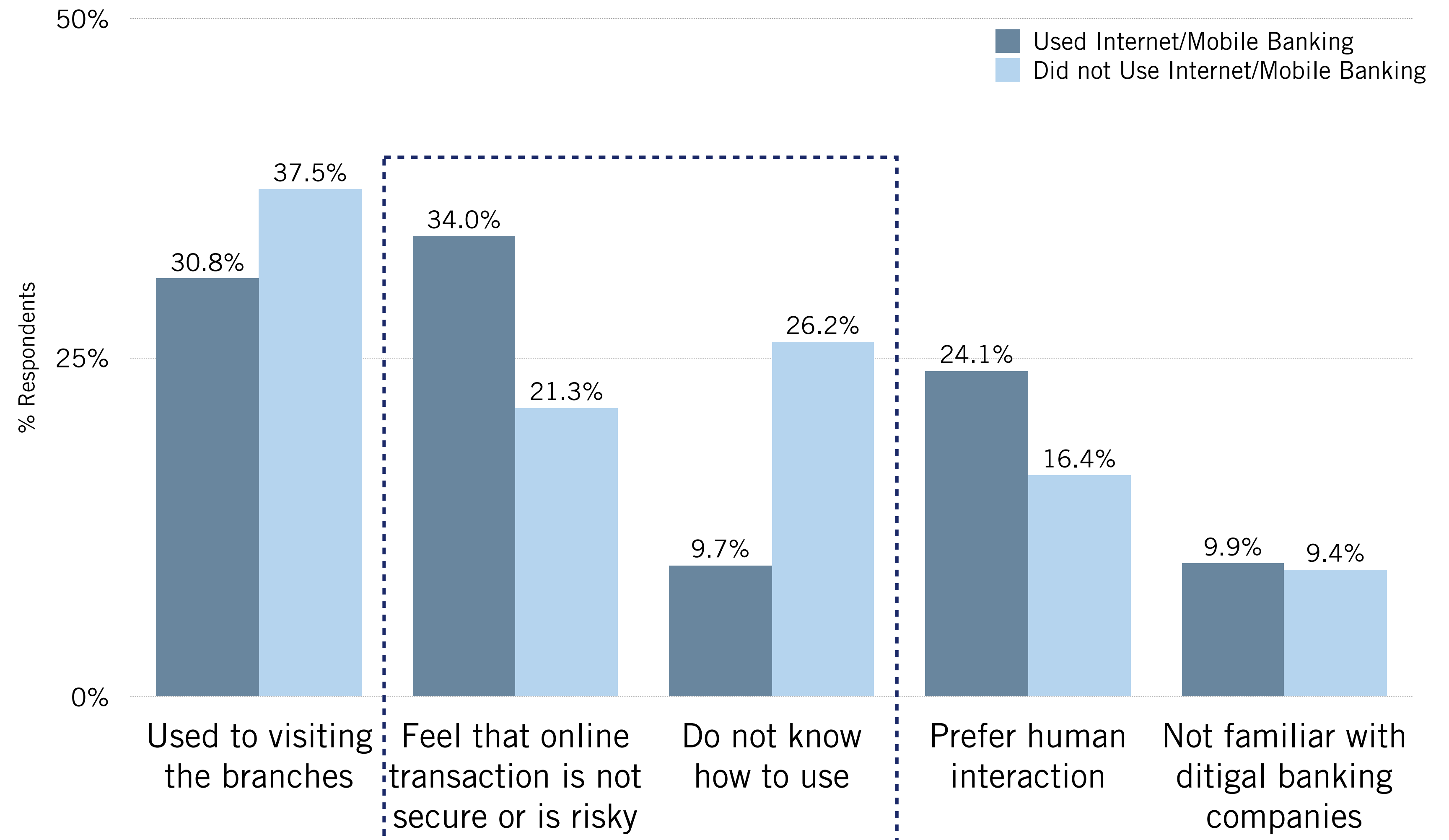
37.3%



Multiple responses allowed, hence percentages may not add up to 100%

Why Not Try Digital Banks: Familiarity With Branches & Security Key Reasons for Unwillingness To Try New Digital Banks

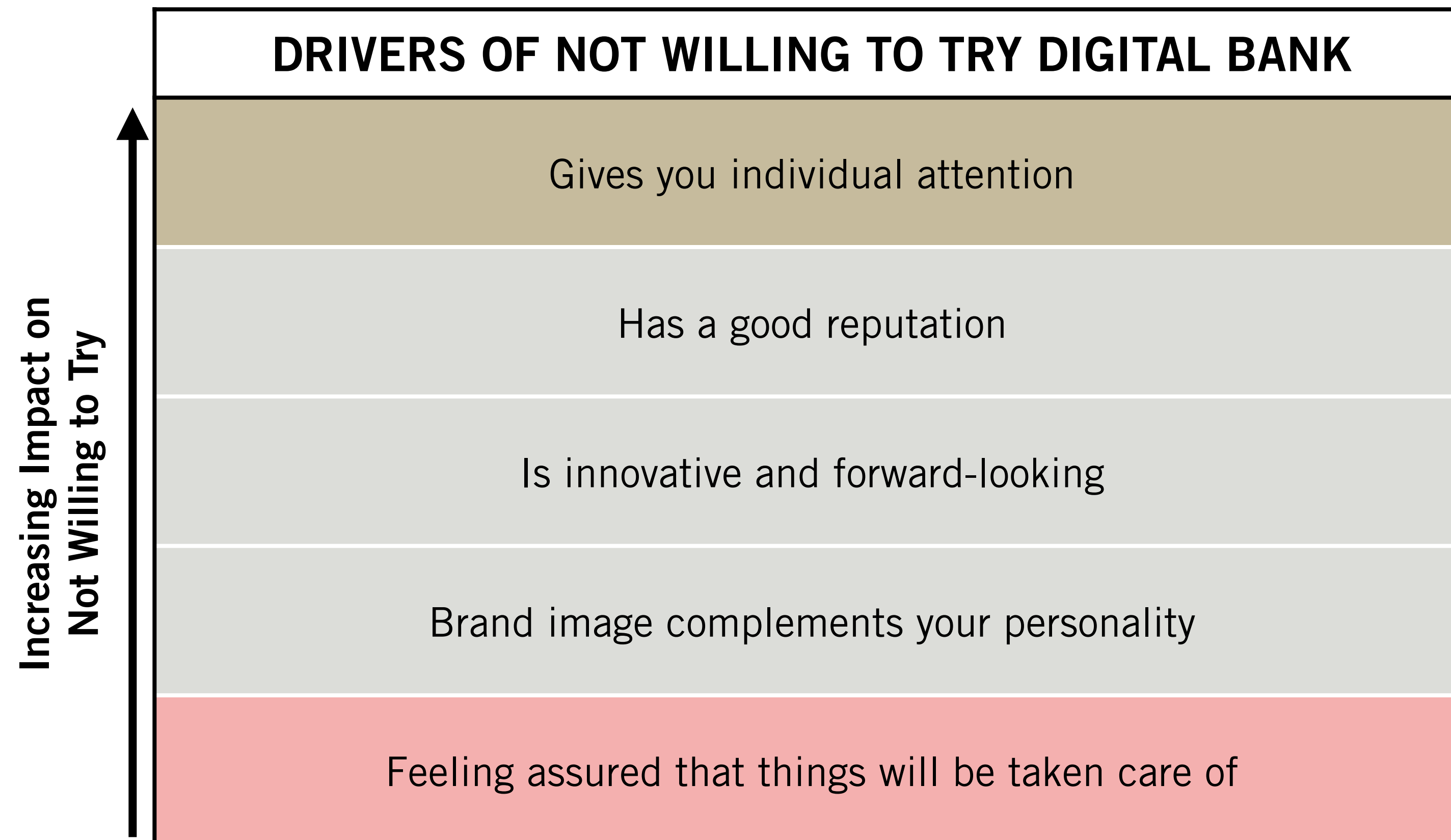
- Among those who use i-banking/m-banking:**
 With a stronger preference for human interaction, online transactions are perceived as risky.
- Among those who do not use i-banking/m-banking:**
 Despite the push for remote banking during the pandemic, it comes as no surprise that those who have not used i-banking or m-banking are less do not know how to use Digital banks.



Why Are They NOT Willing To Try: By Demographic Profiles

	Used to visiting branches	Feel that online transaction is not secure	Prefer human interaction	Do not know how to use	Not familiar with digital banking companies
Online banking usage#					
Used Internet/Mobile Banking	30.8%	34.0%	24.1%	9.7%	9.9%
Did not use Internet/Mobile Banking	37.5%	21.3%	16.4%	26.2%	9.4%
Age					
18 to 34 years	36.2%	32.1%	20.7%	12.7%	6.2%
35 to 59 years	30.3%	30.6%	21.9%	16.0%	11.9%
60 years and above	37.5%	24.0%	25.2%	9.5%	6.9%
Personal Income					
Under SGD 3K	18.3%	25.0%	25.8%	38.2%	13.1%
SGD 3K - Under SGD 6K	42.3%	23.2%	16.7%	14.5%	5.0%
SGD 6K - Under SGD 10K	28.2%	38.4%	30.0%	7.2%	6.1%
SGD 10K or over	26.3%	26.0%	25.0%	12.2%	20.7%

Defending Against Digital Banks: What Drives Consumers From Trying Digital Banks?



Customers who were not willing to try digital banks

- Rated their banks higher on empathy and assurance related attributes
- Think more highly of their banks in terms of branding and innovation

DEFENDING AGAINST DIGITAL BANKS

Defending Against Digital Banks: Customers Not Willing To Try Digital Banks Were Driven by Empathy, Assurance and Brand Image

What Not Willing Customers Want

Among the key drivers of loyalty for customers not willing to try Digital banks, empathy, brand image and assurance related attributes feature among the top five.

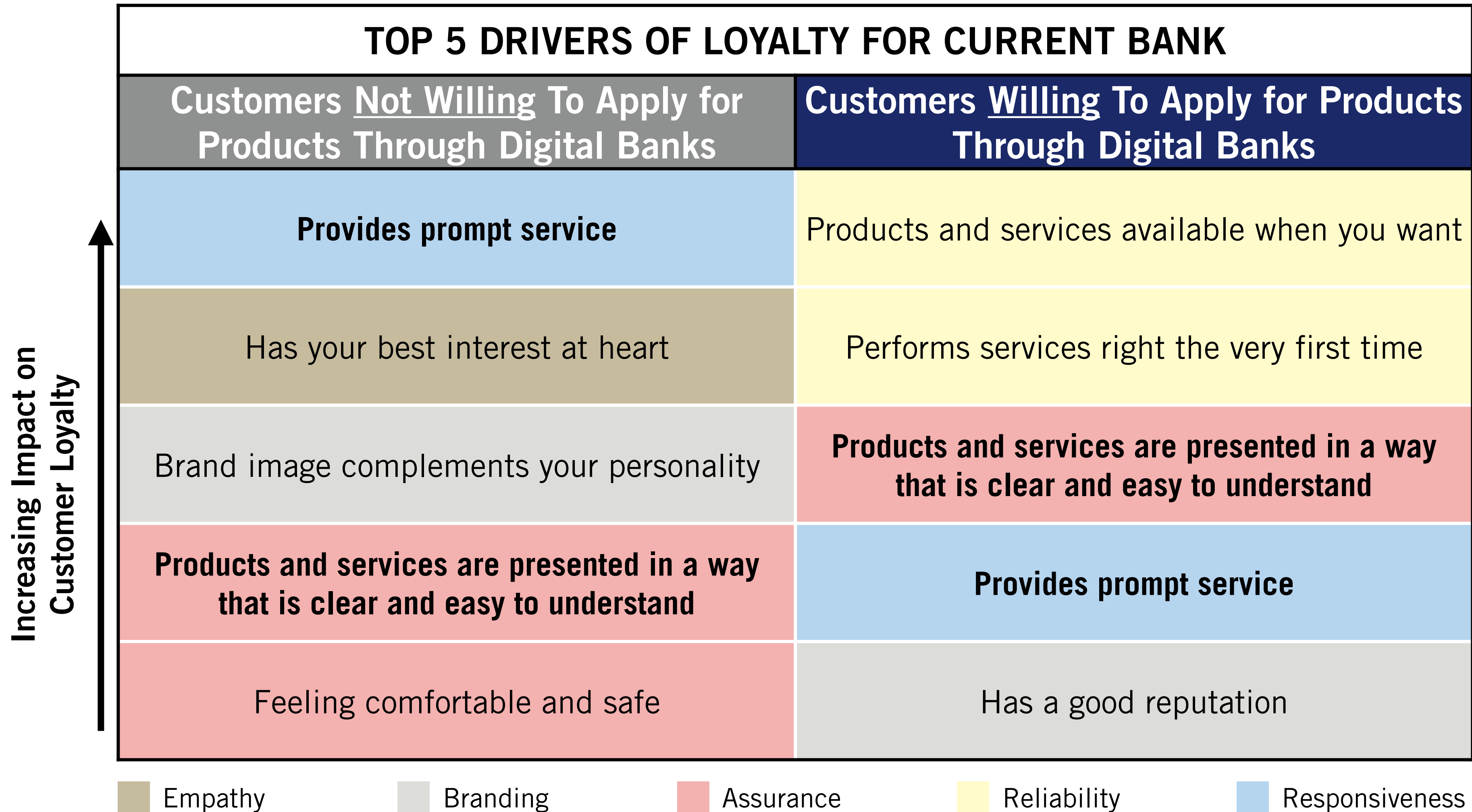
Incumbent banks have the advantage in these areas as they can provide the human touch and are better established brand names. They should continue to build on these areas to defend their market share.

Increasing Impact on Customer Loyalty

TOP 5 DRIVERS OF LOYALTY FOR CURRENT BANK	
Customers <u>Not</u> Willing To Apply for Products Through Digital Banks	Customers <u>Willing</u> To Apply for Products Through Digital Banks
Provides prompt service	Products and services available when you want
Has your best interest at heart	Performs services right the very first time
Brand image complements your personality	Products and services are presented in a way that is clear and easy to understand
Products and services are presented in a way that is clear and easy to understand	Provides prompt service
Feeling comfortable and safe	Has a good reputation

Empathy
 Branding
 Assurance
 Reliability
 Responsiveness

Defending Against Digital Banks: Customers Willing To Try Digital Banks Were Driven by Availability and Efficiency



What Willing Customers Want

Among the key drivers of loyalty for customers willing to try Digital banks, reliability related issues remain key, namely (1) availability, and (2) services being executed right, feature among the top five.

Incumbent banks should note that these are potential areas digital natives like digital banks may have a competitive advantage in, and work on improving these areas to defend their market share.

CONCLUSION

Conclusion - The Challenge

With the pandemic fast tracking digital interaction with banks, there is a significant shift in willingness to try Digital Banks. Customers are craving for the physical interaction with banking staff whilst also wanting quick turnaround transactions.

Gaining Market Share: With limited physical interactions, the appetite for personalised physical interaction is high. Traditional banks need to leverage on Empathy and Assurance related aspects for interactions with customers as they are key drivers against willing to try Digital Banks

Defending Market Share: With Responsiveness and Assurance being the key elements of driving loyalty with traditional banks, incumbent banks need to also make available the necessary digital tools for customers to self-serve.



Awarded full Digital Bank licensees

Shortlisted applicants

Additional Information/ Data About the Report..

Customer loyalty cut by willingness to try Digital Banks and Demographics

		Not willing to apply products through Digital Banks 65.6	Willing to apply products through Digital Banks 67.8
Online Banking Usage	Used Internet/ Mobile Banking	69.2	71.9
	Did Not Use Internet/ Mobile Banking	56.2	63.7
Age	18 to 34 Years	69.2	71.9
	35 to 59 Years	66.8	67.8
	*60 Years & Above	56.2	63.7
Personal Income	*Under SGD 3K	56.2	63.7
	SGD 3K - Under SGD 6K	66.8	67.8
	SGD 6K - Under SGD 10K	66.8	67.8
	SGD 10K or over	66.8	67.8

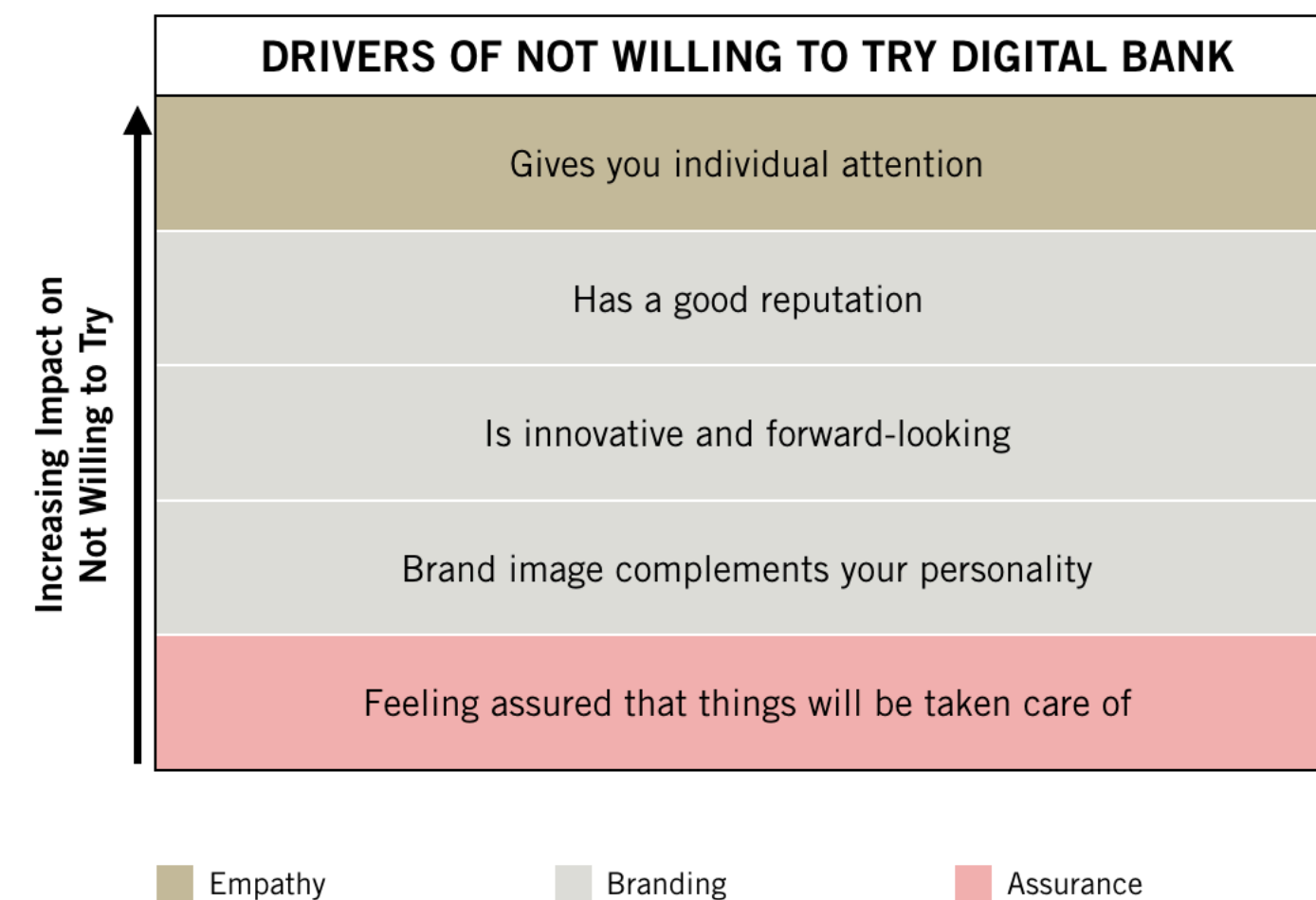
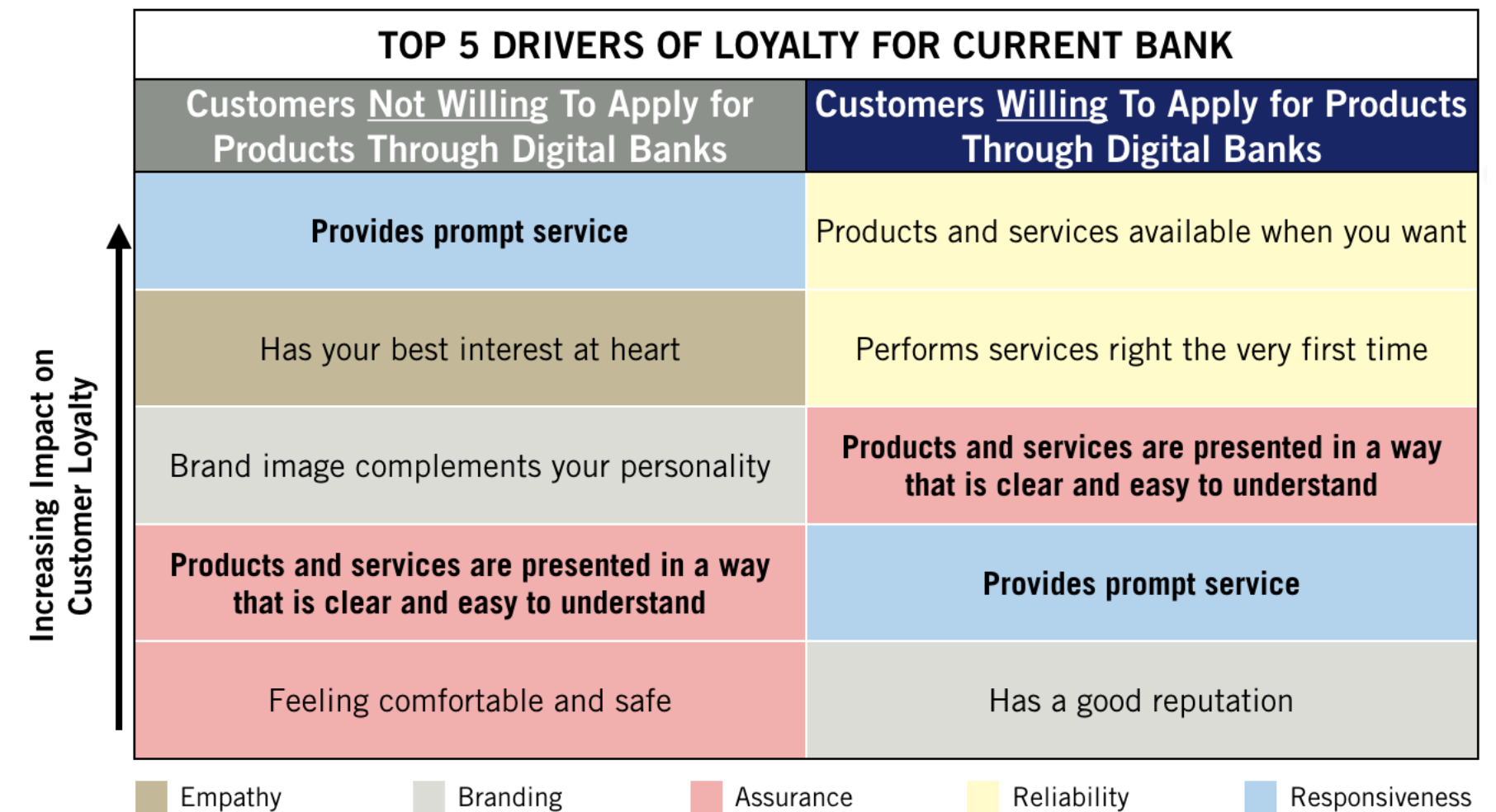
Italic text denotes low sample (<30)

Willingness to try Digital Banks cut by Banks and Demographics

		Not willing to apply 65.6	Willing to apply 67.8
Online Banking Usage	Used Internet/ Mobile Banking	69.2	71.9
	Did Not Use Internet/ Mobile Banking	56.2	63.7
Age	18 to 34 Years	69.2	71.9
	35 to 59 Years	66.8	67.8
	*60 Years & Above	56.2	63.7
Personal Income	*Under SGD 3K	56.2	63.7
	SGD 3K - Under SGD 6K	66.8	67.8
	SGD 6K - Under SGD 10K	66.8	67.8
	*SGD 10K or over	66.8	67.8

Italic text denotes low sample (<30)

Loyalty and Willingness drivers of customers by banks



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