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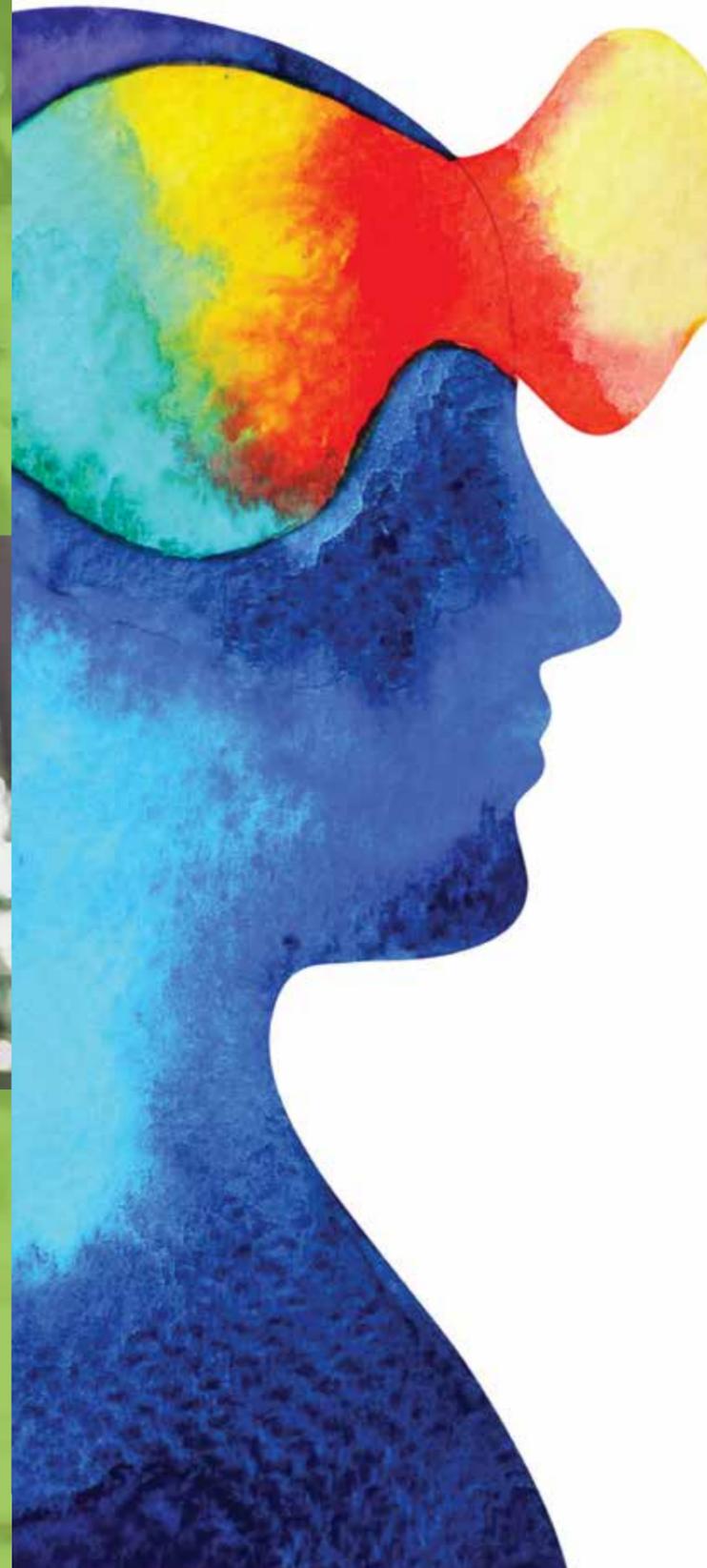
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The success of challengers points the way for incumbents

Challenger banks are redefining the digital banking experience, and traditional banks stand to benefit from their trailblazing efforts.

On many fronts, challenger banks appear to be thriving. These digital-first upstarts are securing venture capital investment and expanding into new countries at rapid rates. And more are coming: *FinTech Futures* lists 21 UK and US challenger banks slated to launch in 2019.

They're also winning over today's banking customers. In a 2019 FIS survey of UK banking customers, challenger banks pulled ahead of their competition with an 88% overall customer satisfaction rating. Global banks remained steady, while regional and cooperative banks saw their ratings fall from 2018. The newcomers are clearly doing something right.

MEETING TODAY'S CUSTOMER EXPERIENCE EXPECTATIONS

As one would expect in an industry named for its opposition to the establishment, challengers or "neobanks" have multiple differentiators from their incumbent counterparts, including lower fees and innovative products like debit cards for children linked to their parents' accounts.

But much of their advantage comes down to the superior user experience (UX)

they offer. Digital onboarding is quick and easy. New features include real-time notifications of transactions, categorised spending reports to help with budgeting and the ability to split bills among friends.

A rich omni-channel experience has strong appeal for new banking consumers. Generation Z, the first cohort to grow up with widespread internet access, expects the speed and convenience that big tech leaders pioneered. Challenger banks understand how critical it is to attract these customers when they're young and keep them for a lifetime.

THE ROLE OF TRUST

Although the FIS survey found that a "smooth, easy customer experience" was an important bank attribute for 64% of respondents, trustworthiness and secure transactions topped the list at 81% and 82%, respectively. In a climate of headline-grabbing security and privacy breaches, customers have signaled that trust is something they take seriously.

Due to their decades of experience, traditional banks have the jump on challengers when it comes to trust.

Adding a modern UX to their long-standing reputation and robust security practices enables them to capitalise on their strengths.

RETROFITTING LEGACY TECH

The good news is that today, traditional banks often have access to the same innovative solutions that challenger banks do. Many fintech, regtech and UX tools are cloud-based and modular, meaning they can be integrated into existing infrastructure. Flexible API technology serves as a catalyst for retrofitting legacy systems. For example, identity verification systems like GlobalGateway help with customer due diligence (CDD) and interact with core banking platforms. This dovetailing of solutions reduces the chance of disruption that comes with major tech overhauls, while maintaining the trust that's so important to customers.

Verifying customers through a digital, automated workflow has immediate UX benefits: it simplifies and speeds up the onboarding process, which is crucial for landing younger customers who live on their mobile phones.

Because they are building their tech stack from scratch, challenger banks have their pick of new tools – it's less digital transformation, more digital formation. So incumbents should pay close attention to their choices.

Canadian challenger banks Koho and Stack are currently leveraging GlobalGateway to help meet AML/KYC compliance requirements during customer onboarding. The identity verification API satisfies these banks' high standards for UX and also meets the security and compliance requirements needed to earn customer trust.

LEARNING FROM ONE ANOTHER

Challenger banks and traditional banks can take a page from each other's book. The keen UX focus mastered by challengers is not out of reach for their bigger counterparts, and trust can be attainable for challengers who lack an established reputation. Through modern tech solutions, each can learn from one another and have their cake and eat it too. Trust and strong UX need not be mutually exclusive; customers today demand both. **bt**

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