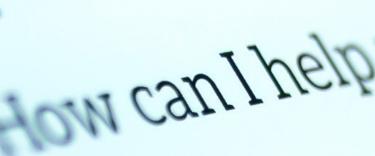


TAHDI

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### **Executive summary**

Customers who engage with banks and lenders via webchat expect – and need – the same ease of communication as they would through traditional contact channels. This means being able to communicate freely and without barriers, having clear expectations about what webchat can provide, and receiving the right support, regardless of their personal circumstances.

As financial services firms evolve their digital communication channels, it is vital they keep pace with customers' needs and expectations. If they don't, there is a risk of poor customer outcomes – such as unmet needs, misunderstandings, or delays in accessing the right support. As such, it is critical that digital transformation keeps pace with evolving customer needs, to ensure the full potential of technology within financial services can be realised.

Our latest research explores how well financial service firm's webchat functions – an increasingly commonplace channel of communication – are servicing customer needs.

Through a mystery shopping review of **ten banks and lenders comprising 190 customer journeys**, we have been able to identify both what customers value from webchat interactions, as well as the factors which can influence a positive or negative customer experience.

This report unpacks those **key findings**.

#### Glossary

- Chatbot Interaction involving written
  messages with an artificial intelligencepowered customer service representative
- Live chat Interaction involving written
  messages with a human customer service
  representative
- Webchat Exchange of written messages
   between a customer and a firm, which may
   involve either a chatbot or a live chat
- Templated dialogue Webchat with structured language that often involves pre-set choices or pre-defined responses
- Free-flowing dialogue Less structured webchat which enables customers to explain in their own words, with responses based on customer feedback

#### **Customers value flexible communication**

37%

of 'excellent' interactions involved webchats where customers could communicate freely.

11%

of 'excellent' interactions involved webchats where customers communicated through templated wording.

53%

of 'excellent' interactions involved webchats where there was a blend of templated wording and free typing.

Some templating can work though, provided customers still have some ability to communicate in their own words.

#### Customers want to be understood

95%

of webchat interactions where customers felt understood straightaway were associated with an 'excellent' experience.

8%

of interactions were associated with a 'good' experience where it took multiple attempts for customers to be understood, and just 5% with an 'excellent' experience.

78%

of 'very poor' interactions involved situations where customers experienced barriers in having their needs recognised.

When customer needs are promptly understood and responded to, customers have a better experience.

#### Customers need the right support for their circumstances

73%

of customers using live chat felt indicators of financial difficulty were picked up on. This dropped to 57% of customers in chatbot interactions.

50%

of customers using live chat felt indicators of vulnerability were addressed. This dropped to 31% in chatbot interactions.

Customers want the right support irrespective of their needs, but live chat is better at engaging with signs of financial difficulty or vulnerabilities.

The insights from this report will support firms in developing webchat services that enable open communication and timely access to the right help.

# Background: Digital interactions shape customer outcomes

Digital transformation in financial services is not new, but in recent years, it has grown at an accelerated rate. The COVID-19 pandemic triggered a rapid rise in the use of digital services, with many customers turning to online banking, digital payments, and webchat interactions

According to the Bank of England, as of 2024, 75% of UK financial service firms are using Artificial Intelligence (AI), with an additional 10% planning to do so in the next three years.<sup>1</sup>

Consequently, customers are increasingly encountering advanced technology within financial services, and are regularly presented with the ability to communicate digitally. If designed correctly, this can bring ease, flexibility, and convenience to their journey. However, whilst digital experiences may differ from traditional channels, customers still need their queries to be understood when they engage digitally, with the solutions they receive being equally relevant to their needs. If not, customers are at risk of receiving unfair outcomes.

To better understand if digital transformation is keeping pace with fair customer outcomes, we recently assessed the digital communication services available to customers across ten banks and lenders. These ranged from traditional and high-street providers to challenger and digital-first firms, providing a holistic view across the sector. Specifically, we focused on webchat interactions – encompassing both live chat and chatbot – given their increasing prevalence in financial services.

#### Our approach

Our research assessed how firms engaged with customers in a variety of scenarios – from customers raising queries or concerns about their accounts, through to customers seeking guidance or support in relation to financial concerns.

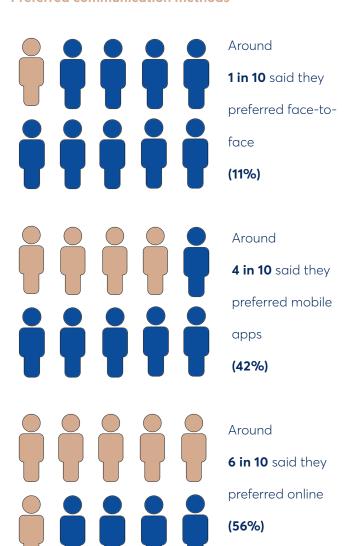
This was completed with the help of a cohort of 190 mystery shopping customers who were asked to assess their experience against a pre-defined scoring matrix. This considered:

- the customer journey from the point of trying to access digital webchat services;
- the experience of initially interacting with firms;
- how well circumstances were picked up on throughout webchat interactions, and;
- the relevance of the responses and next steps provided to customers.

Participants reflected a varied customer base and were asked to rate their confidence in using technology, as well as their preferred communication methods. This was to better understand their preferences and experiences prior to completing each review.

On a scale of 1 to 10 (1 being 'very unconfident' and 10 being 'very confident') **70%** of participants rated their confidence in using technology as 10. All others rated their confidence as 5 or above.

#### **Preferred communication methods**



These statistics are important as they indicate that participating mystery shoppers generally had a strong degree of confidence in using technology and tended to favour digital channels. As such, their experiences and feedback are likely reflective of customers who are comfortable navigating online interactions. However, despite this, and as our report highlights, even digitally literate and confident mystery shoppers encountered challenges in engaging through digital channels.

28% of customers communicating through chatbot

– rather than a live agent – found the interaction

'helpful', while 13% said it was 'very helpful'. 37% of
customers said the interaction was 'very unhelpful',
and 22% said it was 'unhelpful'.

**46%** of customers using chatbot said they were not confident in the next steps or support available to them. **82%** of customers who spoke to a live agent through webchat said they did feel confident in their interaction.

This suggests that for customers who are less confident in using digital services, those challenges may be further exacerbated, increasing the risk of unfair outcomes.

# What customers want and need when they contact firms through webchat

Our mystery shopping research considered and assessed each interaction through the lens of what customers most want and need when engaging through webchat. Namely:

Customers want to communicate freely

Customers want to be understood

Customers want to prompt access to the right help

Customers want to know what to expect from webchat interactions

Customers want the right support regardless of their circumstances

Customers want webchat services that are easy to find

# Part 1

Customers want to communicate freely

Customers want to prompt access to the right help

Customers want to be understood

Customers want to know what to expect from webchat interactions

Customers want the right support regardless of their circumstances

Customers want webchat services that are easy to find

# Part 1: Customers want to communicate freely, be understood, and to promptly access the right help

"I said what the problem was, and they helped straightaway. I felt the information provided was very helpful. It told me who to call and proposed further support."

#### Mystery shopping participant

When a customer engages their bank or lender, be it with a query, concern, or need for support, they each want the same thing; the ability to communicate freely and without restriction. This means customers being able, in their own words, to explain what their issues or questions are, rather than being limited to pre-defined statements.

Likewise, customers want their questions or concerns to be promptly recognised, with the right support swiftly presented. Of course, this does not mean webchat must resolve every issue directly, but it should be able to identify the help customers need and refer them to more comprehensive support, if required. Customers neither want nor benefit from barriers to communication – particularly when such obstacles can delay getting help.

"Chatbot knew I needed to be referred to a live human because it could only answer general queries. The live agent understood the issue by referring me to relevant help immediately."

#### What we found

There is a significant variance in how easily customers can communicate and be understood when using live chat (interacting with a real-life colleague) as opposed to chatbot (interacting with an AI or data-based machine).

In live chat interactions, customers have the freedom to communicate freely, without constraint and in their own words. Our research shows that this level of flexibility meant customers were far more likely to feel understood in a live chat journey, and therefore, were more likely to promptly get the assistance they needed.

However, when using webchat, customers are typically required to first interact through chatbot – which often relies on templated, structured language, such as preset questions or statements for customers to choose from – followed by pre-defined responses from chatbot. Rarely does this lead to customers feeling able to freely or fully express their needs.

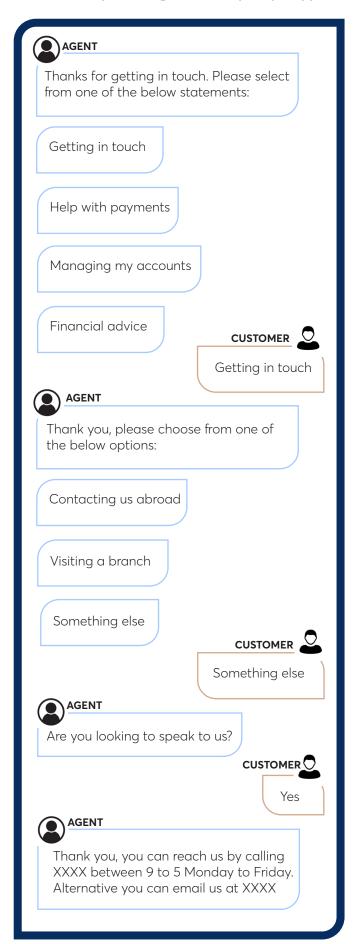
Instead, templated wording often leaves customers feeling restricted and unable to fully convey their circumstances; in turn there is a risk vital information will be lost.

Furthermore, there can be a barrier to customers promptly getting the help they need because either they cannot move past the 'explaining stage' of their interaction, or they receive a response which does align to their situation.

89%

of 'excellent' mystery shopping experiences were linked to webchat which allowed freeflowing dialogue – either in combination with templated options or purely free-flowing.

#### A customer experiencing barriers to prompt support



In this scenario, the customer originally selects 'getting in touch'. From this, they are invited to say if this is about 'getting in touch abroad',' visiting a branch', or 'something else'. the customer selects 'something else' because they are not looking to make contact abroad, and they are not enquiring about a branch visit. The customer is then asked 'are you looking to speak to us', the customer selects 'yes' and is asked to call the firm. In this scenario, the customer goes around in circles trying to make the right selections to get the help they need, which can be disengaging and a barrier to getting help, particularly as the customer has opted to communicate through webchat but is redirected to call in.

### "The chatbot's pre-set responses didn't match what I was trying to ask, so it felt like I wasn't being listened to."

#### Mystery shopping participant

Interactions which rely on templated dialogue can lead to a cycle of customers trying but being unable to fully communicate what they need.

Customers often then try to adapt to these restrictions, selecting different templated wording to convey their questions, with inconsistent success rates.

However, whichever communication channel customers use, they should be able to communicate with ease; customers should not be required to adapt to chatbot, chatbot should adapt to them.

#### Meeting customer needs

By and large, our research demonstrates that currently, customers are likely to face barriers in being understood when they interact through templated chatbot channels. For this reason, live chat services, or those that allow an element of free typing, are far more likely to allow customers to communicate with freedom, and ease, and are far more likely to lead to customers being understood and accessing the support they need.

74%

of 'poor' mystery shopping experiences were linked to purely templated chatbot interactions.

45%

were linked to a 'very poor' experience.

However, whilst templated chatbot interactions were more likely to be associated with misunderstandings and poor customer experience, we did identify some scenarios where templated wording worked more effectively.

"The chatbot was able to understand my query. It stated that I could enter a short sentence or choose from a preselected list of topics. I typed my query and there was no confusion as to my meaning."

#### Key factors to consider

When chatbot asked customers whether its response had been helpful – and promptly acknowledged when it had not, offering alternative support – customers were much more likely to get the help they needed.

### A chatbot proactively offers support from a live agent

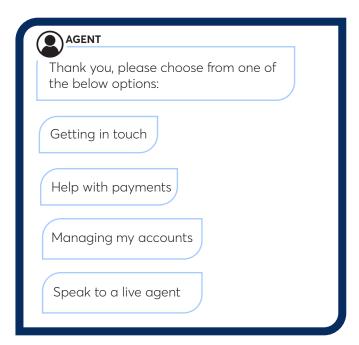


Although in this example, the customer could not freely articulate their query, they did have the agency to communicate where chatbot had not understood their concerns, and action was promptly taken based on this.

This demonstrates that in some situations, templated interactions can be beneficial in efficiently ensuring customers gain access to the help they need.

Similarly, it can be helpful, at the offset of chatbot journeys, to include the ability for customers to select if they would prefer to speak to a live colleague. For customers where templated responses do not align to their situation, including this option removes the obstacle of customers having to try and select the statement or issue which most closely aligns to their issue. This reduces the risk that they will be caught in a cycle of trying but failing to convey their needs.

## A chatbot offering the opportunity to speak to a live agent



However, whilst including these options can be helpful, it is clear from our research that customer experiences are far more positive when to at least some degree, customers can speak in their own words and therefore promptly have their needs understood. This does not mean that an element of templating cannot be useful, but when it is tempered with the ability for customers to free type, the customer is far more likely to have a positive interaction.

"The chatbot's first reply to my issue was relevant and appropriate. It identified I couldn't understand some information and asked if I needed online support...once I provided my answer, it made a quick decision to connect me with a live agent."

#### Mystery shopping participant

This might mean that the customer can use a blend of templated statements and questions, as well as the option to free type if the templated wording does not align for them. Alternatively, it can be that customers can exclusively free type, with chatbot then responding through templated wording.

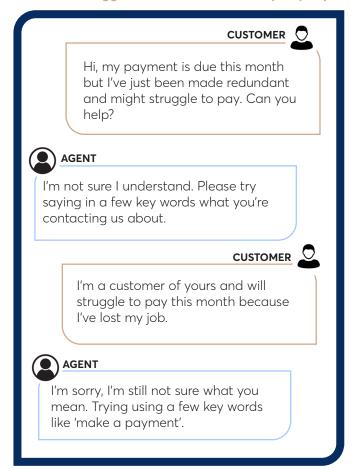
Either way, customers want their queries to be understood and responded to accurately. Our research indicates that this is more likely to occur when there is degree of flexibility in how customers can express themselves during webchat interaction. However, to ensure interactions are as effective as possible, it is also essential that when customers can and do communicate freely, chatbot in turn can recognise what they are saying.

Through our research, we identified instances where despite customers free typing, chatbot did not demonstrate an ability to understand what customers had communicated:

53%

of 'excellent' experiences allowed customers to communicate through a blend of free typing and templated wording, as did **49%** of 'good' interactions.

#### A chatbot struggles with a customer's simple query



In this example, although the customer is being clear, chatbot cannot recognise what the customer is saying. Although it allows the customer to reframe their statement, chatbot remained unable to understand what the customer had articulated. Where the customer is then not presented with any alternative options, such as to speak to a live colleague, the ability for them to access the help they need becomes hampered.

"It was difficult to explain the issue I was facing because it asked me to re-phrase my question or select from a list of options eight times before it offered me the option of speaking to a live agent."

#### Mystery shopping participant

Whilst chatbot may not be designed to completely understand and respond to all queries, it does as a minimum, need the ability to recognise and act on what it is told. After all, customers do not want a service that only helps when their query fits a predefined scenario – they want and need the right support, whatever their circumstances. Moreover, it is unreasonable to expect customers to anticipate and use the exact phrasing required to 'unlock' the help they need.

Instead, customers have a far more positive experience where chatbot can understand quickly what customers are expressing.

As with fully templated chatbots, a key factor that can improve customer interactions is by offering the option to switch to a different communication channel where this will be useful. This means that even in situations where free typing is available but chatbot cannot recognise what it is being told, customers are not prevented from accessing the right support.

95%

of 'excellent' interactions involved customers feeling that a chatbot understood them straightaway.

78%

of 'very poor' experiences involved a customer making multiple attempts to be understood

"The chatbot knew I needed to be referred to a live human because it could only answer general queries. The live agent understood the issue by referring me to relevant help immediately."

Mystery shopping participant

A chatbot offering to switch communication channels



#### Other key factors to consider

When customers access webchat services, they need to understand both how the service can help them and what to expect from the interaction.

As customers are likely to engage with multiple firms through a variety of webchat platforms, their experiences of how webchat can support them may vary significantly.

Customers cannot, on the other hand, be expected to know if they are speaking to a human as opposed to a data or Al driven machine. Nor can they be expected to know any intentional boundaries in how a templated chatbot facility can help them. Failing to clearly set customer expectations can lead to confusion and frustration.

Through our research, we saw examples of firms providing up-front, transparent information to customers explaining if they were speaking to a human or machine, what the service was designed to help with, and in some cases, what customers should do if they needed more comprehensive support.

"If it had been clear the webchat couldn't understand free flowing information, it would have been less confusing from the beginning."

Mystery shopping participant

#### A chatbot manages expectations

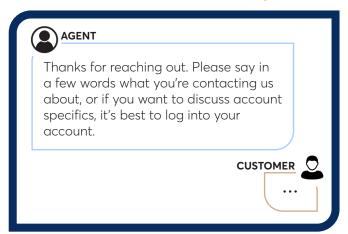


Where firms set expectations in this way, they ensured customers knew what to anticipate from the interaction and avoided customers trying to resolve an issue or query through a channel which was not designed for their situation.

"It was clear before and during the webchat that I was on a live chat function because there was a banner across the top of the web form prior to beginning the conversation and subsequently across the chat window displaying live chat."

However, whilst we saw examples of firms setting customer expectations well in webchat interactions, we also identified instances where it was not made clear to customers the boundaries in how the service could assist them

#### A chatbot is unclear about how it can help



Although in an example like this, customers have been told to log-in to their account to discuss their account specifics, it is not clear in what capacity the chatbot can help the customer, nor if they are speaking to a human or machine. Similarly, whilst it is helpful to advise customers they will need to log-in to discuss account specifics, this could have a different meaning to different customers.

Instead, advising customers upfront about who they are speaking to, specifically how they can be helped, and proactively providing the option to communicate through a different channel if appropriate, will help ensure customers are clear on what to expect from firms and avoid them facing barriers in accessing the right help.

# Part 2

Customers want to communicate freely

Customers want to prompt access to the right help

Customers want to be understood

Customers want to know what to expect from webchat interactions

Customers want the right support regardless of their circumstances

Customers want webchat services that are easy to find

# Part 2: Customers want the right engagement and support regardless of their circumstances

"They identified from my initial statement that I was having difficulties and probed further before offering the relevant advice"

#### Mystery shopping participant

In addition to valuing the ability to communicate freely, quickly access the right support, and have clear expectations of webchat, customers also want – and need – support that is tailored to their individual circumstances. They should feel confident that whenever they reach out to their bank or lender, they will receive assistance that is relevant to them.

This means that whether it's live chat or a chatbot, webchat services must be able to identify each customer's specific query and, regardless of what that issue is, provide the appropriate level of engagement and clear next steps.

Equally, customers do not want vague or generic guidance – responses that speak only in broad terms without addressing the unique aspects of their situation fail to meet their needs.

"It just pointed me to a costof-living support page but did not answer my question."

#### What we found

Our research identified that, consistent with other aspects of webchat interactions, live chat was much more likely to establish and engage with a customer's individual circumstances.

Likewise, customers in a live chat service were more likely to feel confident about the next steps they should take and the support which they could access.

Similarly, live chat was much more likely to ensure customers were confident about the next steps they should take, and more informed in respect of their financial understanding.

"I was left knowing that there might be some form of support available, but no understanding of what that might be."

Mystery shopping participant

74%

of customers using live chat felt their circumstances were understood, vs **65%** of chatbot customers.

82%

of live chat customers felt confident about the next steps they should take, and about the help available to them, vs. 54% for chatbot.

46%

of live chat customers felt more informed regarding their financial understanding whereas **71%** of chatbot customers did not feel more informed in this regard.

#### Key factors to consider

These findings are perhaps unsurprising, given that customers were far more likely to feel understood during live chat interactions. However, it reinforces the importance of chatbots quickly recognising what customers need and of determining if they can address this, or if the customer should be redirected to a more appropriate method of support.

Additionally, customers regardless of the method they use to communicate, should be confident that if they have a care need or concerns, firms will be alert to this and will engage appropriately.

However, our research found that live chat interactions were more likely to identify and respond to signs of potential financial difficulties or suggestions of vulnerabilities, as opposed to chatbot services.

Given customers often encounter chatbot functions upfront when they use webchat, it is critical that care needs or financial concerns can be picked up on. Otherwise, there is a risk of vital information being missed and of customers not receiving the support they need, relevant to their circumstances.

57%

of customers using chatbot felt indicators of financial difficulty were picked up on, vs **73%** of live chat customers.

31%

of customers using chatbot felt suggestions of vulnerability were identified, vs **50%** of live chat customers.

"Chatbot did not ask for any further details about the operation I mentioned during my initial enquiry, and how that might affect me."

#### **Further findings**

Whilst there is a material variance in how well live chat and chatbot can offer support that is relevant to a customer's circumstances, our research also identified a distinction in how well both live chat and chatbot could engage with certain situations as compared to others.

Particularly, webchat – compromising live chat and chatbot – showed a greater capacity to engage with customers who were expressing concerns in relation to the cost-of-living crisis.

Webchat was more inconsistent with other situations, such as customers engaging firms about a change in their circumstances or to query account charges.

On the other hand, when customers expressed confusion about information they had received from firms, or about a request they had had from their provider to get in touch, they were less likely to feel webchat engaged well with their query.

"The advisor was unable to help and said they can only offer general information."

Mystery shopping participant

63%

of customers trying to highlight issues with the cost-of-living felt these needs were understood.

53%

of customers trying to highlight issues with changes of circumstance felt their needs were understood, as did **53%** of customers seeking to query fees.

32%

of customers trying to understand something about their account felt their needs were understood.

### Key factors to consider

While it is encouraging that webchat was able to engage effectively with topical issues like the cost-of-living crisis, customer needs and circumstances are diverse. As such, webchat must be capable of supporting customers with all queries and all personal situations, regardless of the reason for their contact.

Our research indicates that webchat services are particularly effective when designed to recognise and respond to specific situations. However, this capability should not be limited to trending or time-sensitive topics. Instead, it highlights the need for webchat to be adaptable and responsive to the full range of customer needs.

"The agent responded right away advising that they had a specialised hotline dedicated to the cost-of-living crisis. They also mentioned that I could speak to a cost-of-living expert for support and guidance. They then helpfully confirmed the opening times along with a number of related links to provide support and guidance."

# Part 3

Customers want to communicate freely

Customers want to prompt access to the right help

Customers want to be understood

Customers want to know what to expect from webchat interactions

Customers want the right support regardless of their circumstances

Customers want webchat services that are easy to find

# Part 3: Customers want webchats that are easy to find

"The website was easy to navigate and use. The information on the website was clear and easy to understand."

Mystery shopping participant

"The chat option was clearly displayed on the bank's very convenient home page."

Mystery shopping participant

"The webchat was not easy to locate. There was no link on the home page, nor under contact or connect with us. My next search was the social media page. I had to Google search for the webchat and read the chat box questions. I then had to accept the cookies to access the webchat feature."

Mystery shopping participant

It may seem simple, but customers do not want it to take multiple attempts to access a firm's webchat services. Customers want – and should be able to expect – to easily locate the different communication channels that firms provide.

However, when it is not clear from a firm's website if they provide webchat, or if they do, how to access it, this can create the risk of disengaging customers or requiring them to try different attempts to access the facility.

Not only can this be off-putting for customers, but it can also increase the likelihood of customers abandoning their search for webchat and instead reverting to more traditional models of communication, such as telephone calls, which can be counterintuitive to providing digital channels.

Further, it can also influence the overall experience customers have of a webchat journey.

#### What we found

These findings illustrate the importance of making webchat services easy to find or more salient on a firm's webpage. Ensuring webchat functions are proactively displayed to customers and that they are housed in logical, easy to find locations will increase the likelihood of customers being able to swiftly access the right services.

"The chat function was not available on my first attempt which made the experience of navigating the website poor. When I eventually found the live chat function, it was unavailable. I checked back numerous times and after three-and-a-half hours it became available."

Mystery shopping participant

"There was a very prominent 'CHAT' button in the bottom right corner."

Mystery shopping participant

86%

of 'excellent' interactions involved customers being able to locate webchat within one to two clicks of a firm's homepage, as did 88% of 'good' interactions.

0%

of 'excellent' or 'good' interactions involved webchats that needed five clicks or more from a firm's homepage to locate the webchat.

26%

of 'very poor' interactions involved a webchat that took five or more clicks to locate.

# Conclusion: Develop a consistent, customer-centered approach to digital communications

"It was very quick and easy to use. When I was passed on to a real person, I didn't need to give my details or explain the situation again."

#### Mystery shopping participant

Evolving digital communication channels can play an important role in helping customers gain access to the right support and information from their financial service providers in a convenient and efficient manner. They can allow customers to raise questions or share concerns without needing to visit their local branch or pick up the phone.

However, this is contingent upon webchat services being able to fully understand, recognise, and respond to each customers individual circumstances. Currently, customers cannot consistently receive the support and engagement they need, through webchat.

Differences in how live chat and chatbot services operate can lead to inconsistent – and sometimes inequitable – customer outcomes.

While live chat is more likely to provide the help customers need, access to a human colleague is often blocked by chatbot systems that fail to understand the customer's intent or situation. This not only results in frustration and poor experiences but can also stand in the way of customers achieving fair outcomes.

There can be a role for chatbots – when they allow customers to communicate clearly, and when they can swiftly identify when more holistic, human support is needed. However, our research shows significant variation in the quality of these experiences between firms. This underlines the need for a more consistent, customer-focused approach to digital communication journeys.

While advanced technology has the potential to increase efficiency and convenience, it cannot yet replace the value of real human interaction – especially when customers need nuanced support.

"I found the robot side of it too frustrating, and I felt too limited to stick to the subject topics of the webchats. I felt stuck in a loop with it."

### What's next?

Our research into digital communication is only the beginning of our exploration into how digital transformation is evolving with customer needs.

Later in the year, we will be launching the results of our latest research into how well customers can access and apply for finance online. We will also be holding workshops and events to further explore the findings from our webchat and product applications research. To be the first to hear about these exciting developments, you can register for the LSB newsletter using the QR code below.

### Read the LSB's latest news and sign up to our newsletter:



## Further information about the LSB

The LSB is an independent body which works with businesses providing financial services and products to deliver better outcomes for their customers. The LSB oversees a number of pioneering Standards, Codes and other frameworks which support the delivery of better customer outcomes beyond statutory regulators' remits or where there are emerging risks. The LSB's work covers SME and consumer lending, as well as issues such as financial inclusion. Through insights derived from its unique position in the financial services sector, the LSB shares knowledge, data and best practice to support innovation, growth and trust.

To find out more about the evidence-based research we provide, as well as the actionable insights we offer, including training on a broad range of financial service subjects, please contact <a href="mailto:insight@lstdb.org.uk">insight@lstdb.org.uk</a>.

You can also provide feedback on this piece and you can provide it by emailing insight@lstdb.org.uk.