

Consumer Insights: Digital Disruption to Banking and Payments

Implications for Community Banks

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Table of Contents

Background & Methodology

Detailed Findings

- Digital Banking & Self Service
- Digital Wallets
- Digital P2P Payments

Final Thoughts

Research Background & Methodology

Mastercard and Bancard conducted a customized research study to **assess current trends, opportunities, and threats** as related to Community Banking Digital Strategy.

Survey

9th – 16th December, 2016

20 minute, self-administered online survey

Sample Structure

Total Respondents n=1,500

- Community Bank n=450
- Credit Union n=450
- Regional Bank n=300
- National Bank n=300

Respondent Qualifications

- Personal Device Ownership
- Household Decision Maker
- Checking Account



Today, we are going to discuss insights from across three key sub-components of digital banking and payments strategy

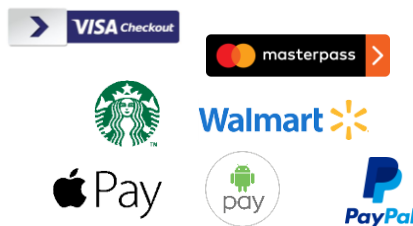
Digital Banking & Self Service

- Digital Banking has become a **full suite of banking and payment solutions** across a variety of devices (computers, mobile phones, and tablets)
- Online and Mobile Banking has quickly become **table-stakes in the market**, driving customers to and away from financial institutions – banks that deliver **robust capabilities and compelling user experience** will be the primary beneficiaries



Digital Wallets

- Mobile payment applications allow consumers to **securely and quickly make payments in-store**, at the point-of-sale, using a mobile device
- There is a **wide variety of providers** for mobile payments / digital wallets, including: **issuers, payment networks, merchants, and Fintech** companies



Digital P2P Payments

- The landscape of domestic (non-remittance) P2P solutions can be categorized into **three major types** by provider
 - › **Bank Owned / Consortium**
 - › **Processor / Partner**
 - › **Third Party**
- P2P solutions allow consumers to **send money from their checking account / debit rails to another person/account** through computers and/or mobile devices



Table of Contents

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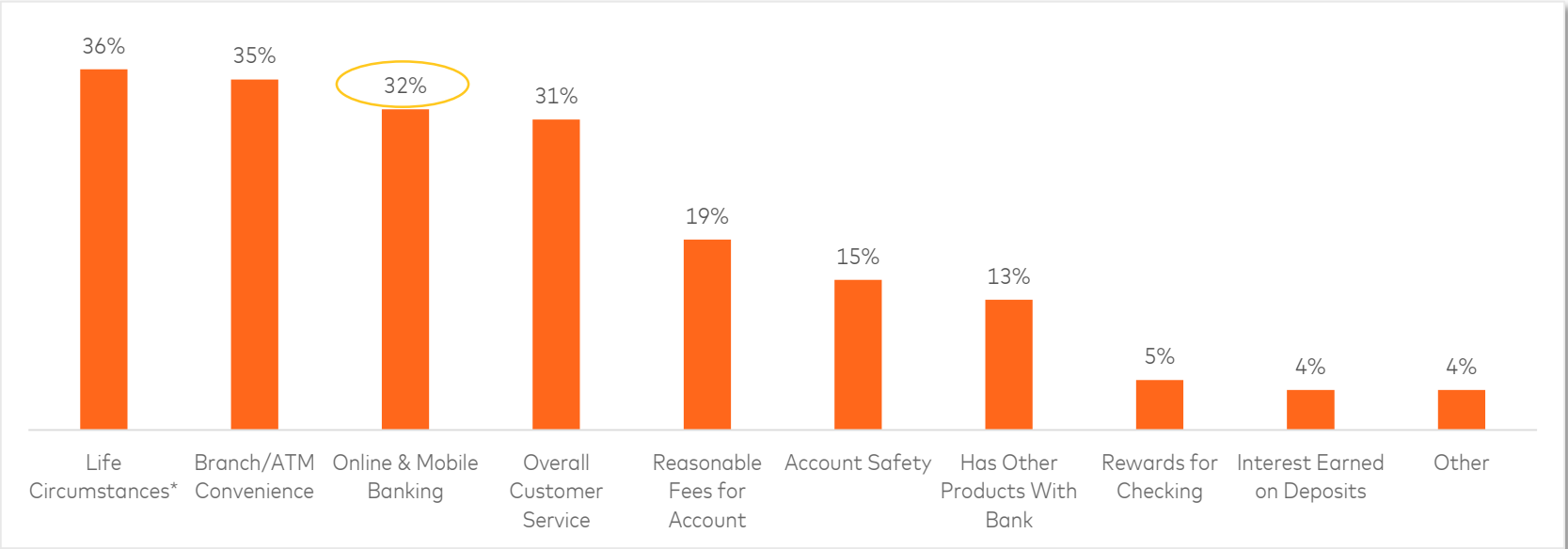
Final Thoughts

Digital Banking & Self Service



The legacy means by which banks compete has been upended; Community Banking Customers have a growing appetite for quality and convenient digital banking

Top Reasons for Banking with Primary Bank (Net)

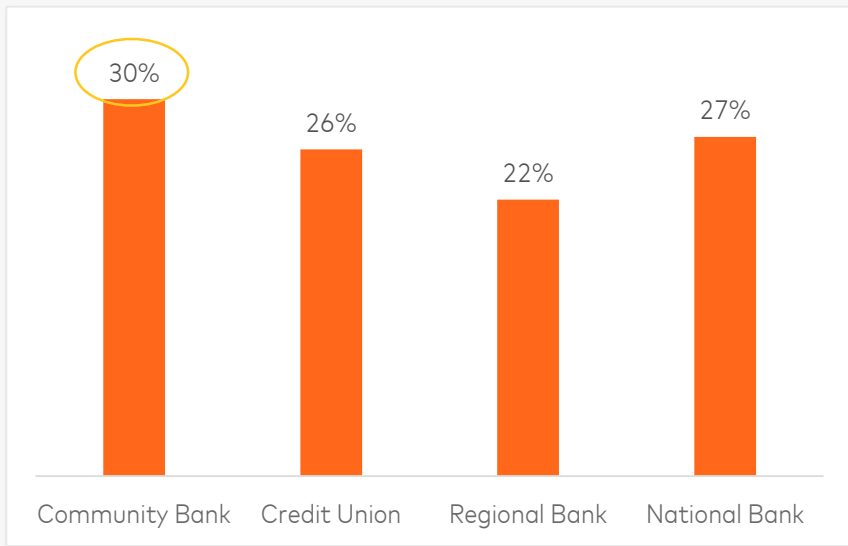


While 'life circumstances' and 'branch/ATM convenience' are cited as top reasons driving a consumer's primary banking relationship, **'mobile banking' is increasingly important and cited by nearly one third of all consumers** as a driving force behind primary banking relationships.

*Life Circumstances amalgamates the following survey responses for why customer chose their primary bank: First Bank Account Opened, Same Bank as Parent. Same Bank as Spouse/Partner/Significant, Other Inconvenience to Change Banks

Community Banking Customers are more likely to defect to another bank for better mobile banking features than all other segments surveyed

Risk of Attrition For Superior Mobile Banking



33% of **Community Banking Customers** report having a checking/savings **account at more than one bank**

16% of those with other accounts cite **Quality and Convenient Mobile Banking** as a reason for opening additional bank accounts.



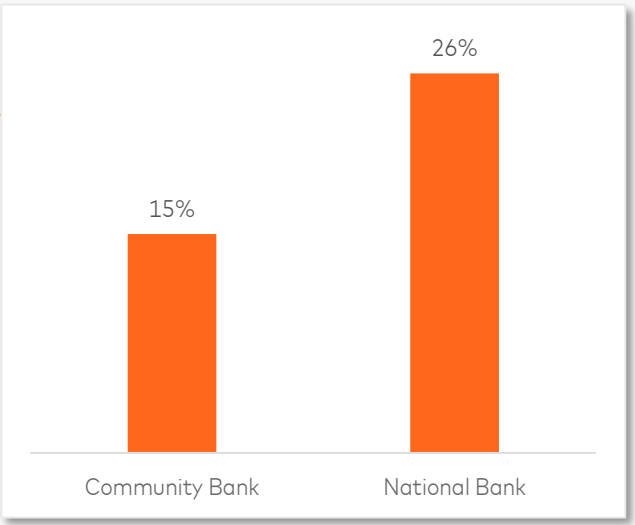
In order to mitigate the relatively high risk of attrition, community banks in particular **need to enhance their mobile strategy and invest in innovative features that respond to consumer demand**. In turn, this investment would also support customer acquisition.

Community Banking Customers show strong omni-channel engagement, but there is an opportunity to increase share of highly active mobile bankers

Engagement Channels (At Least Once Monthly by Primary Segment)

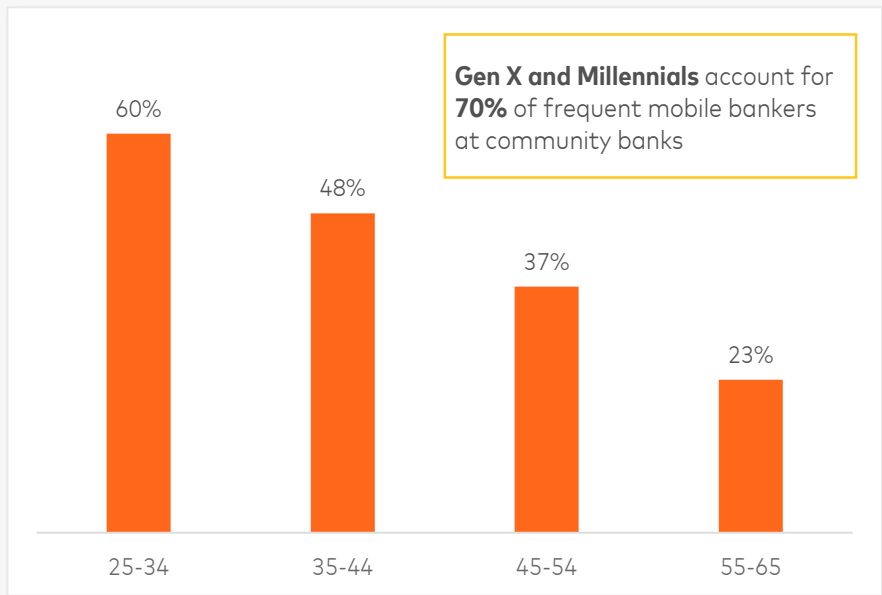
	Community Bank	National Bank
Online banking (desktop/laptop computer)	74%	84%
Mobile phone or tablet banking	58%	55%
Used ATM	63%	62%
Visited branch	53%	54%
SMS or Text Message Banking	20%	23%
Received SMS or Text alerts for regular or suspicious account activity	19%	25%
Called customer service	18%	16%
Used online chat window	11%	10%

Mobile Banking More than Once Weekly



Robust mobile banking can help Community Banks create stickiness with valuable customer segments: Millennials and Gen X

Mobile Banking Engagement by Age



Who Are Frequent Mobile Bankers?*

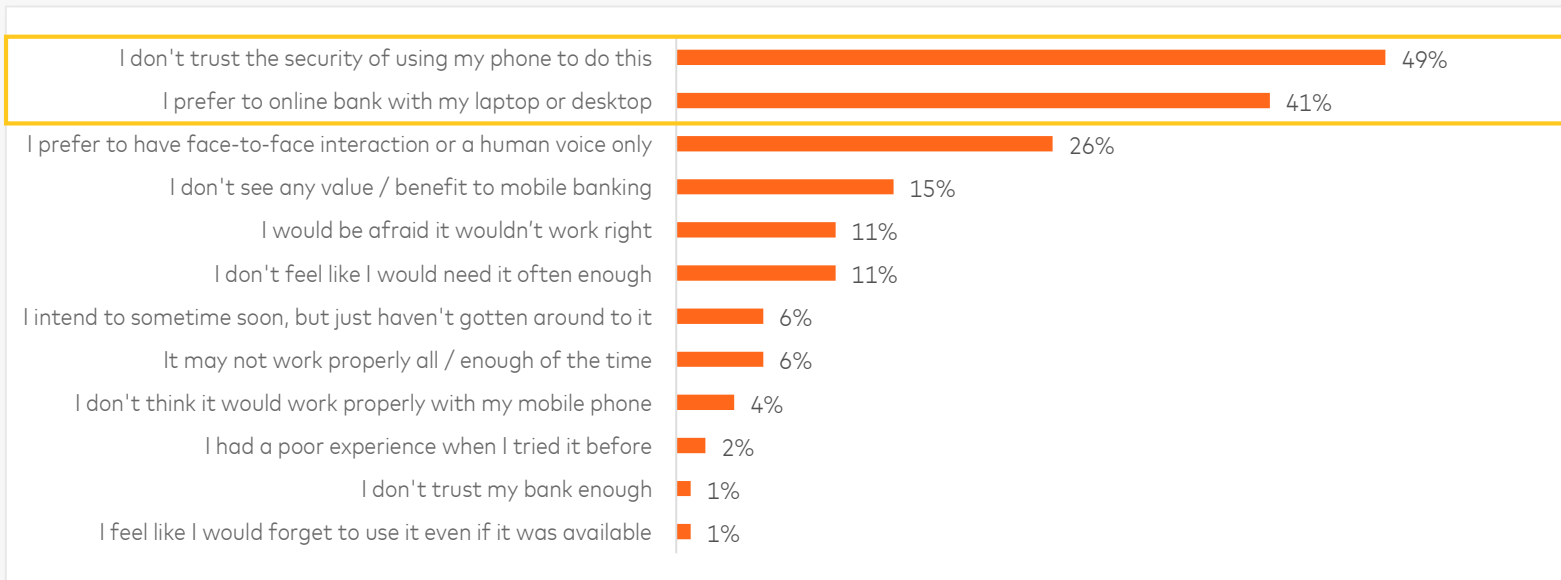
- **Younger:** 60% of respondents age 25-34 report mobile banking once weekly or more
- **Mass Affluent:** 49% of respondents making more than \$100K per year
- **Debit Card Centric:** 47% of frequent debit card users, over 37% of credit centric customers
- **P2P and Mobile Wallet Users**



Frequent mobile bankers are high-value customers. Given that Community Banking Customers are more likely to defect to another bank that offers superior mobile banking services than any other primary banking segment, **digital strategy will play a critical role in acquiring and retaining Gen X and Millennial customers** at Community Banks.

Security concerns are the leading barrier to adoption of mobile banking services; customers also have a strong preference for traditional online banking

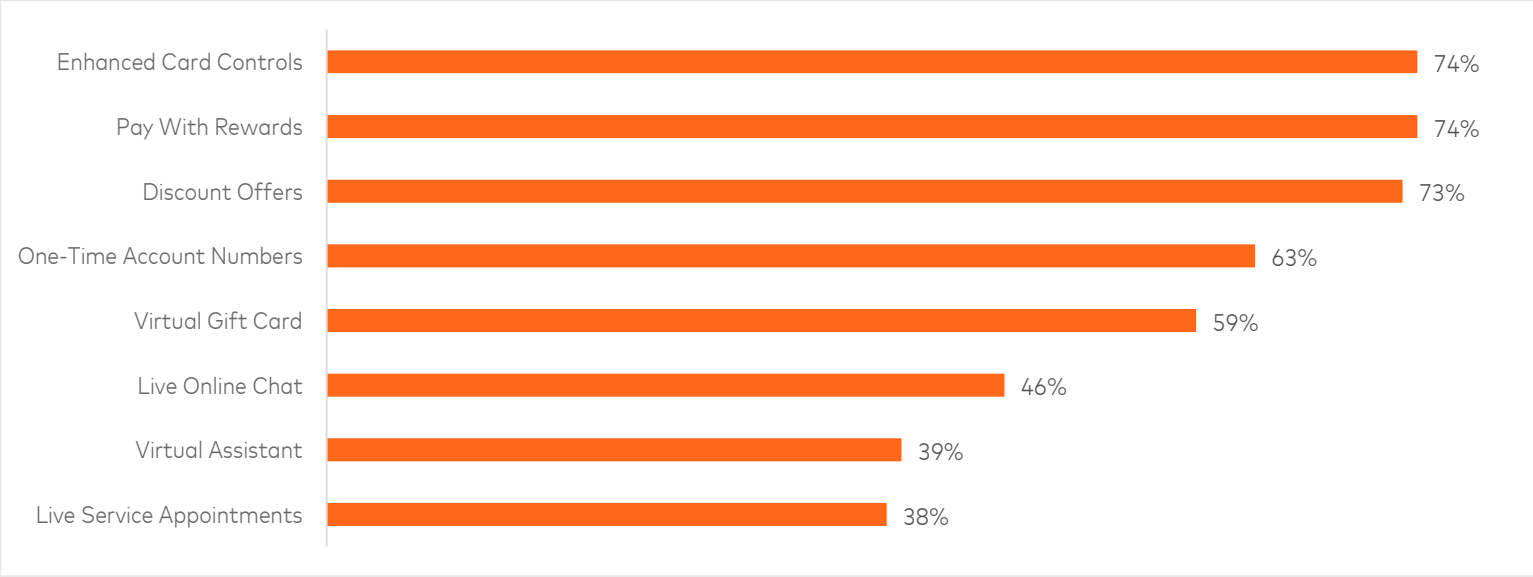
Community Bank Customers' Barriers to Adoption of Mobile/Tablet Banking



The perceived lack of security of mobile banking may be mitigated through educational campaigns that emphasize security and assurance (e.g., fraud-liability guarantee). Given the preference for traditional online banking, mobile banking should be positioned as a complement to (not a replacement for) the laptop/desktop website experience.

There are number of next generation features gaining ubiquity in the market that save money and increase security, matching consumers' demand

Community Bank Customers 'Very / Somewhat Interested' in New Features & Services



Frequent Mobile Bankers and Concept Acceptors are significantly more interested, nearly 90% of respondents, in value-added services and features (e.g., enhanced card controls, discount offers, and pay with rewards). Meeting the demand of these segments will be critical for leading adoption of emerging payments and banking services.

Section Summary

- **Quality and convenient digital banking** is of increasing importance to Community Bank Customers
- There is **ubiquitous adoption for online banking services**; Community Banks are best served **driving frequent engagement with mobile** banking
- Community Bank Customers are **more likely to attrite for better digital banking** than any other segment
- **Safety and security concerns** are the leading barrier to adoption of mobile banking; there is a **strong preference for traditional online banking**
- Consumers are interested in **emerging features that increase security and enhance rewards/savings**

Pathways to Action For Community Banks



ENSURE TABLE STAKES ARE MET FOR FUNCTIONALITY & USER EXPERIENCE

Today's differentiators are tomorrow's table stakes: Work with partners to implement "must-have" digital banking features and deliver an easy experience



INCLUDE POLICIES & MESSAGES OF ASSURANCE AND SECURITY

Most industry communication centers on convenience, but likely convenience seekers have already adopted. Education is paramount for success.



INVESTIGATE REWARDS, OFFERS, & CARD CONTROLS

Target Millennials / Gen X and higher-income customers are interested in "next-gen" features. Other value adds delivered via digital also may drive engagement.

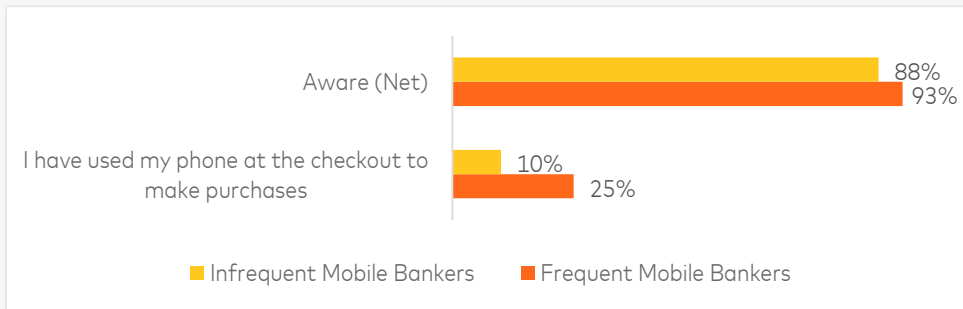
Digital Wallets



Despite high awareness of mobile payments, adoption remains modest more than 2 years after the launch of Apple Pay, indicating strong barriers to adoption across all segments

→ Frequent Mobile Bankers are leading the sluggish adoption of mobile payments technology.

Community Bank Customer Awareness & Usage of Mobile Payments

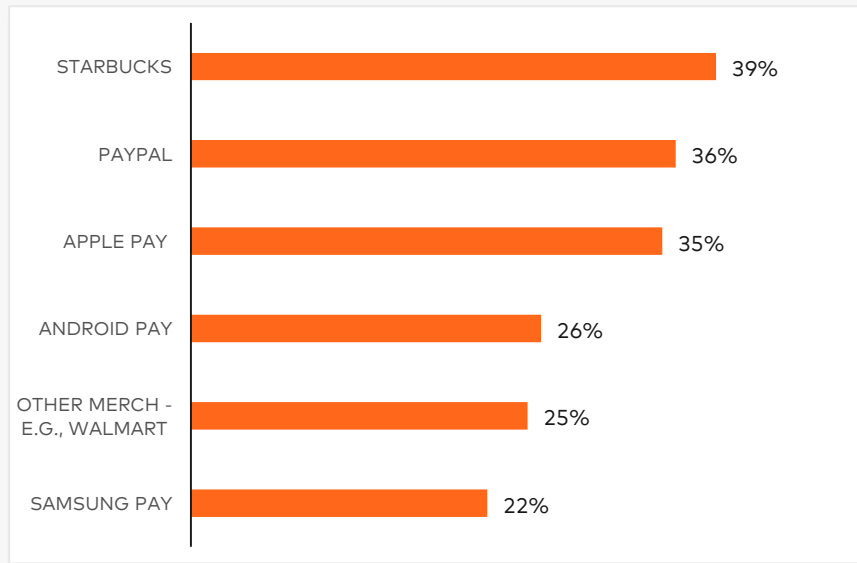


Who Is Using Mobile Proximity Payments?*

- **Younger Segments:** 24% age 25-34 and 24% age 35-44
- **Mass Affluent:** 26% greater than \$100K per year
- **Debit and Credit Centric Consumers**



Solution Usage Among Mobile Payment Adaptors*

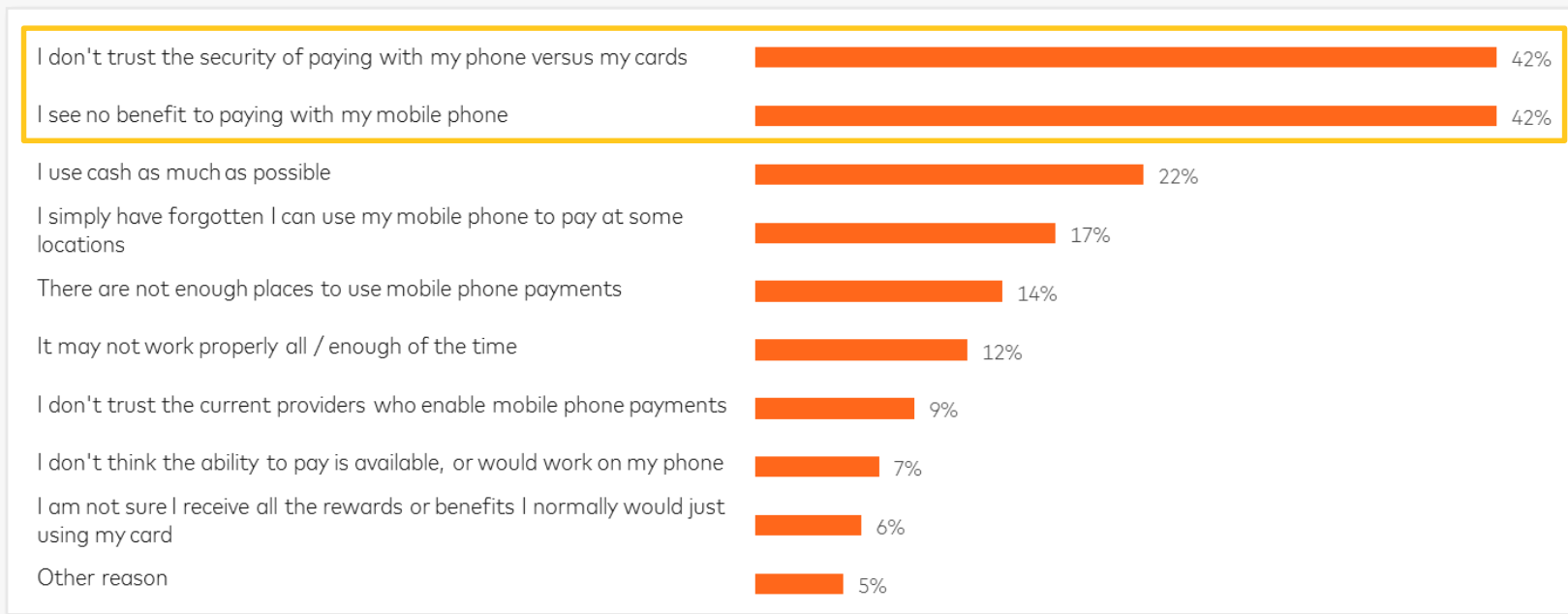


*Reflects total respondents n=1,500

Security is a leading barrier to adoption of mobile proximity payments, even if the payments are equal or more secure than card-based transactions

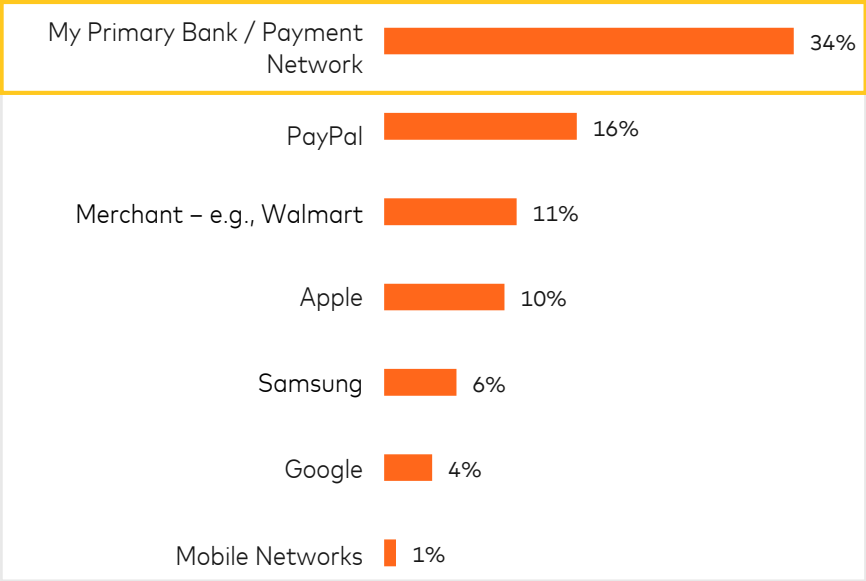
→ To drive adoption, community banks should message any benefits of mobile payments as well as mitigating security fears with education and assurances

Community Bank Customer Top Barriers to Adoption

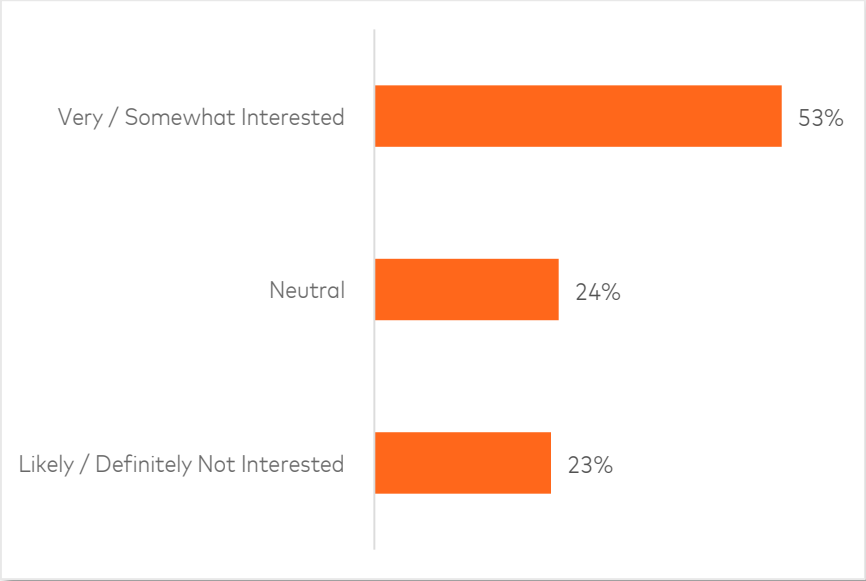


Community Bankers are very interested in bank provided mobile payments; in the absence of bank solutions customers are shifting preferences to other providers

Preferred Mobile Wallet Provider

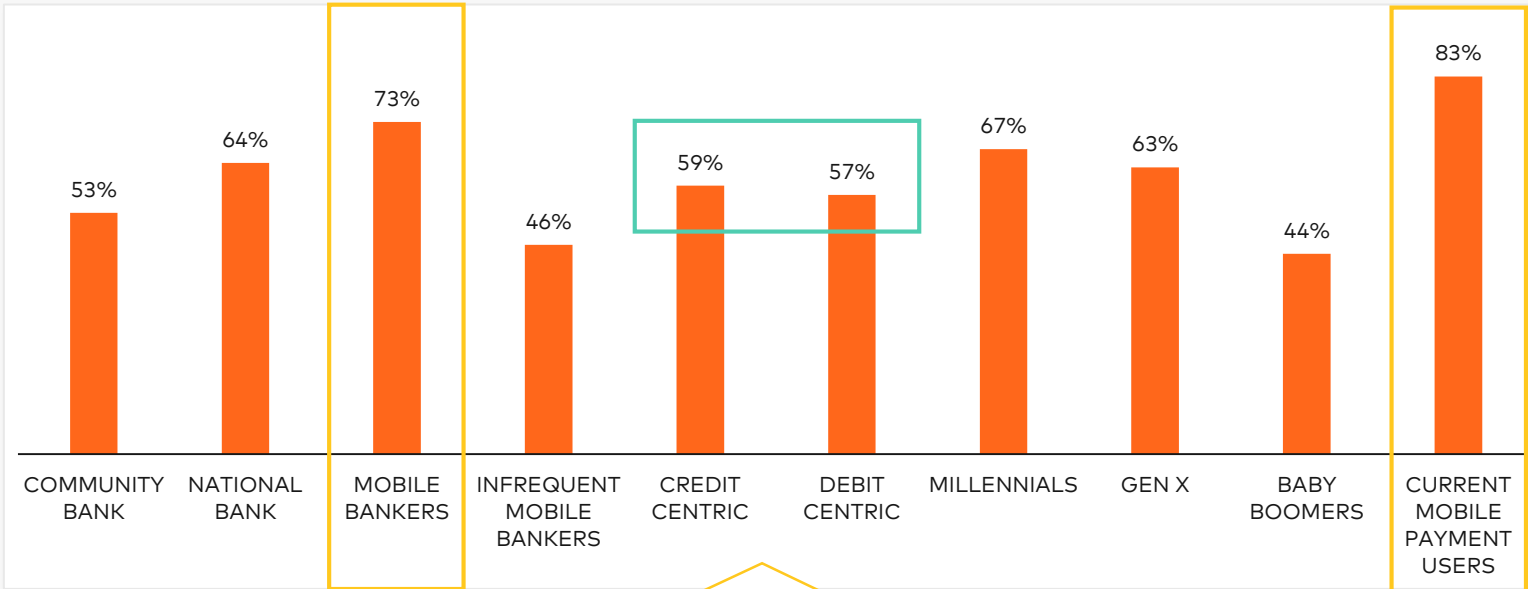


Community Bank Customer Interest in Bank Provided Mobile Wallet



Frequent Mobile Bankers and Current Wallet Users are most interested in a bank provided mobile payments solution

'Very / Somewhat Interesting' In a Mobile Payment App from Your Primary Bank

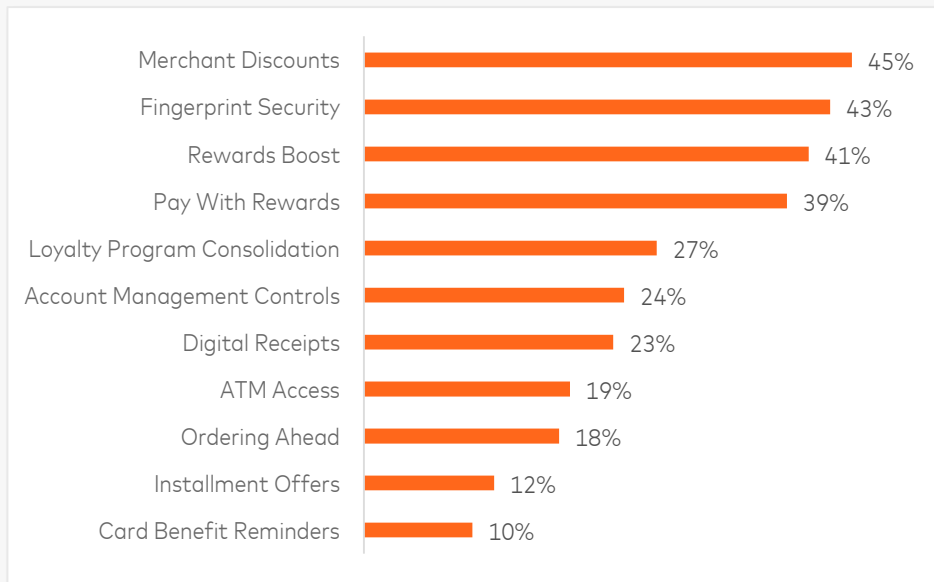


Debit and Credit Centric consumers are **equally interested** in a mobile payment solution provided by their primary bank, indicating a growing opportunity for debit-focused Community Banks.

Community Banking Customers are more likely to use a mobile payment solution with enhanced security features and rewards benefits

Community Banking Customers are **7% more interested in Fingerprint Security** (*biometric authentication*) than customers at National Banks

Mobile Payments Preferred Benefits Across Community Bank Customers



Stimulating Wallet Adoption

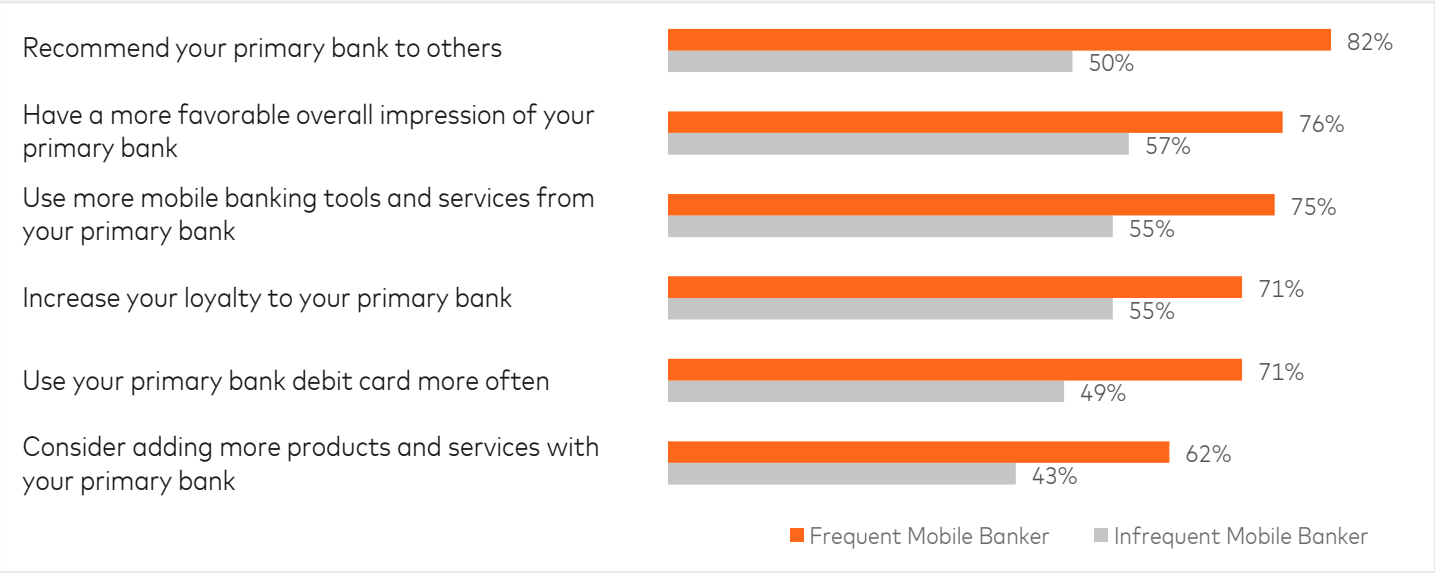
- **Ensure safety and security** through added features and prominent messaging
- **Provide a rich value proposition** that includes enhanced rewards and discounts



Digital Wallets have a value proposition for the greater banking relationship that extends beyond greater card account activity

Frequent Mobile Bankers are more likely to have an improved relationship with their Primary Community Bank when offered a mobile payment solution. There is latent demand for payments as a Next Gen feature.

Impact of Mobile Payments on Community Bank Relationship



Section Summary

- Community Bank Customers are **highly aware** of mobile payments, but **adoption hovers low** at 18%. **Frequent Mobile Bankers** are leading adoption.
- **Apple Pay and PayPal** lead the market in awareness and usage
- Consumers resist mobile payments due to **security concerns and perceived lack of value**
- The majority of Community Bank Customers are interested in a **bank provided mobile wallet**, with added **security features** and **rewards benefits**
- A bank provided solution has a **positive impact on consumers' relationship** with their Community Bank

Pathways to Action For Community Banks



ENSURE BASELINE FOR DIGITAL WALLETS – E.G., TOKENIZATION

Work with processors to ensure tokenization for all products (i.e. credit and debit cards) and educate members on the security and benefits of tokenization



ENABLE THIRD PARTY WALLETS

Fully enable third party wallets as a critical component to Card on File strategy, even if there is not yet critical mass around bank-branded solutions



“WAIT AND WATCH” AS MOBILE PAYMENTS MATURE IN THE MARKET

Be able to swiftly adjust pipeline, with operational flexibility and resourcing, to execute on an appropriate branded digital wallet strategy



CONSIDER BEST PATH FOR A BRANDED WALLET EXPERIENCE

There are options for basic deployments, or complex, integrated wallets like larger issuers are pursuing. Prioritize decisions on timing of either option to market.

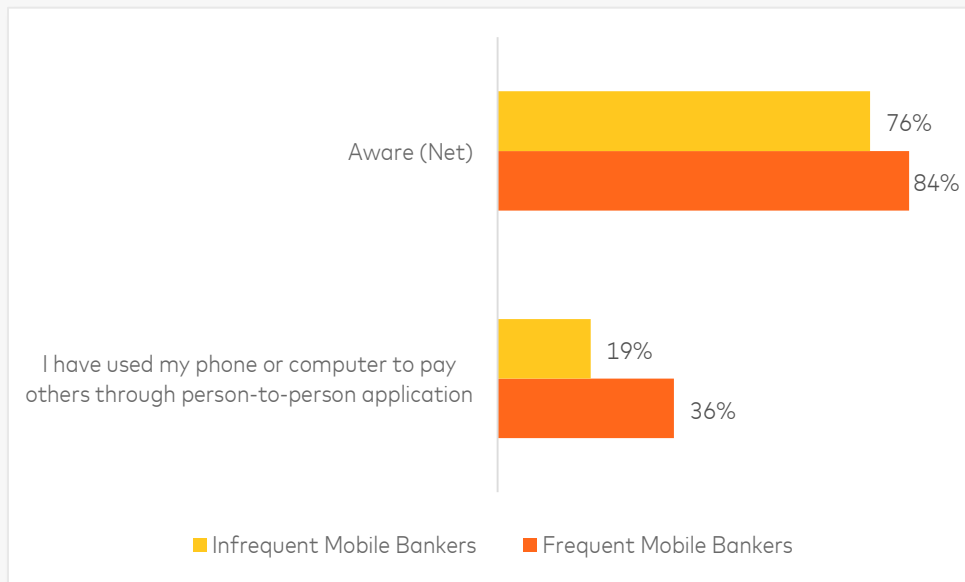
Digital P2P Payments



Community Bank Customers are less aware of P2P Payments, however adoption surpasses that of Mobile Proximity Payments

→ Frequent Mobile Bankers are leading adoption of P2P Payments at Community Banks, P2P is also beginning to gain traction among Infrequent Mobile Bankers

Community Banker Awareness & Usage of P2P Payments



Who Is Using P2P Payments?*

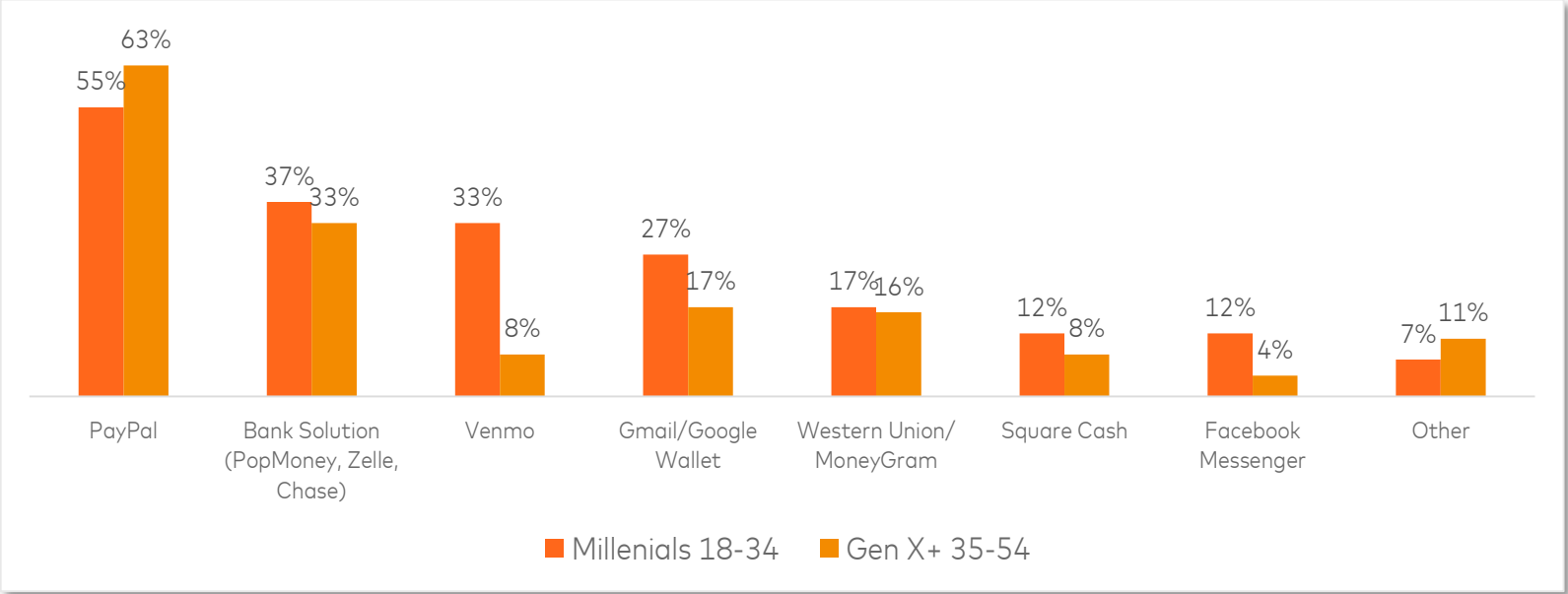
- **Younger Segments:** 37% of respondents age 25-34 and 33% ages 35-44
- **Mass Affluent:** 35% of respondents making more than \$100K per year
- **Debit and Credit Centric Consumers**
- **Frequent Online Shoppers**



*Reflects total respondents n=1,500

Millennials are leading the adoption of P2P solutions, having used an average of two unique P2P solutions in the past year

P2P Solution Usage: At Least Once in the Past Year*



*Source: Mastercard Advisors CCD Panel October 2016

Community Banking Customers have a strong preference for cash and check; they also do not trust the security of P2P Payments

To combat tender preferences for cash and check, Community Banks must clearly communicate the benefits of P2P Payments, such as transaction speed and seamless integration with online banking

Community Bank Customers Top Barriers to Adoption

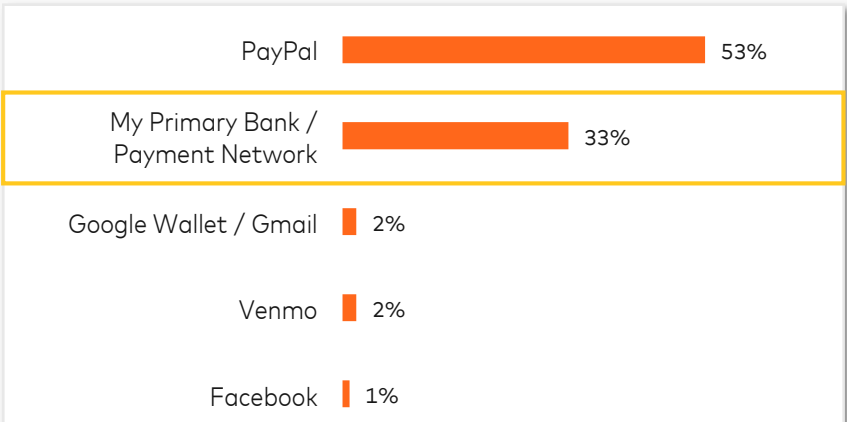


Frequent and Infrequent Mobile Bankers are equally concerned with the security of P2P Payments

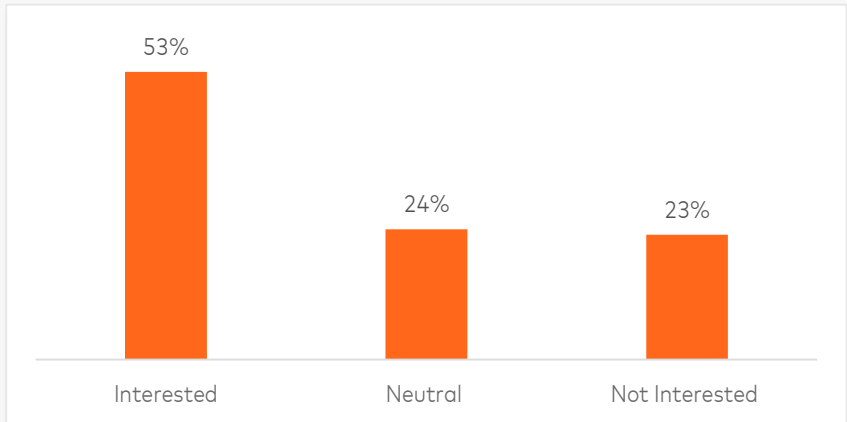
Community Banks are at risk of being disintermediated by third party P2P providers, such as PayPal, Google, and Venmo

There is strong latent demand for bank provided P2P Payments among consumers. Community Banks have the opportunity to avoid disintermediation and capture the growing population of P2P users

Preferred P2P Payments Provider



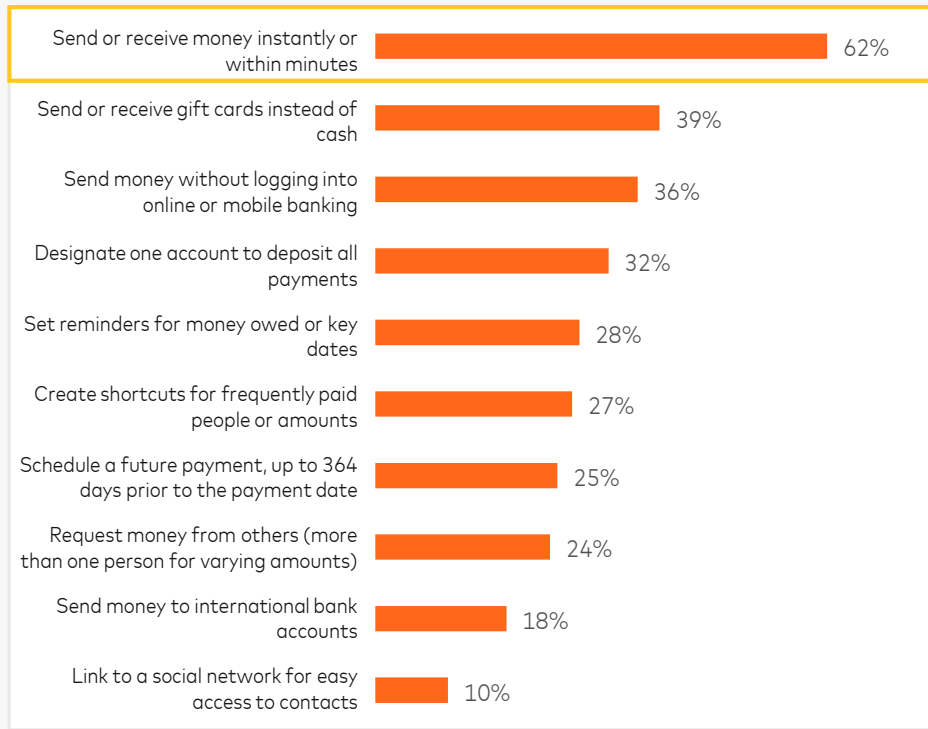
Community Bank Customer Interest in Bank Provided P2P



34% of current P2P users already use, and would rather use, an alternative P2P solution not provided by their primary financial institution.

Consumers are significantly more likely to use a P2P Payment solution that allows for instant money transfers

P2P: Preferred Benefits Across Community Bank Customers



Older customer segments are most interested in instant money transfers: **71% of respondents ages 45-65** are more likely to use P2P Payments with this added benefit

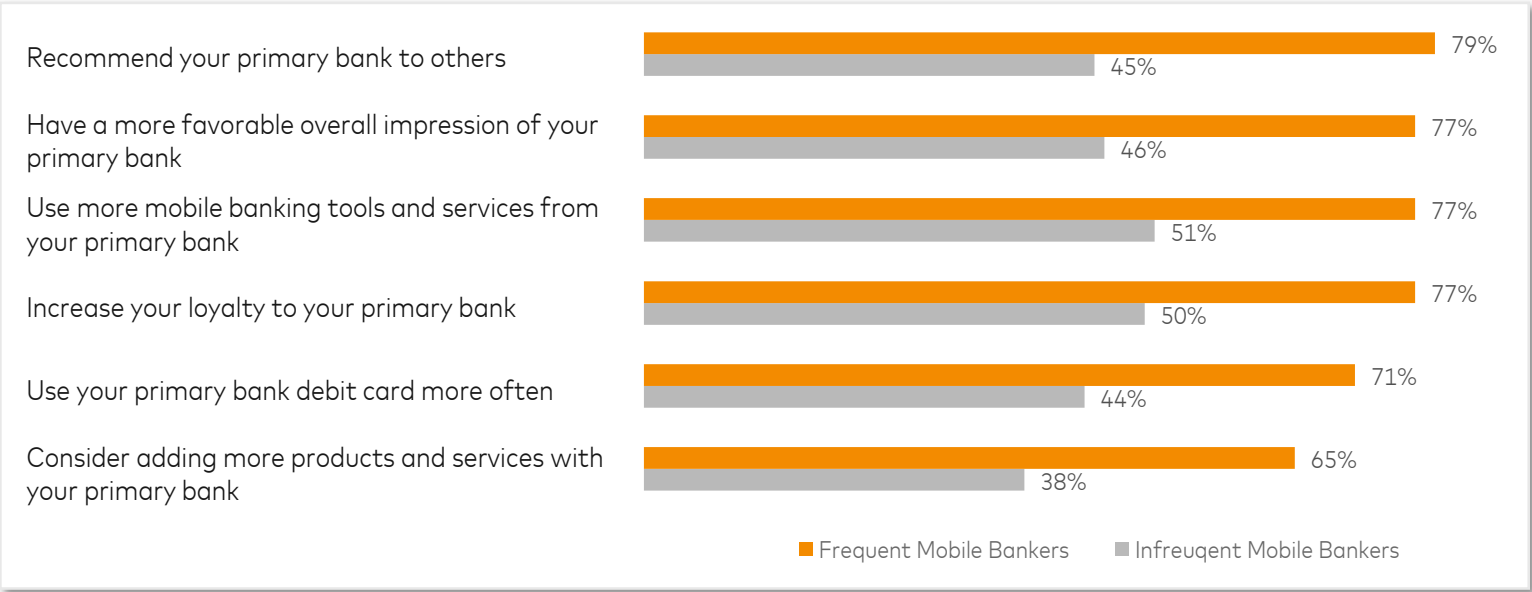
Lower Income (Under \$50K annually) and **Debit Centric** customers demonstrate a stronger preference for instant money transfer capabilities.

Banks must offer a **slick and frictionless user experience**, that is mindful of many use cases (e.g. gift cards, custom reminders, shortcuts).

P2P Payments would have a positive impact on customers' relationships with their Community Bank

→ Frequent Mobile Bankers are more likely to have an improved relationship with their Primary Community Bank when offered a P2P Payment solution

Impact of P2P Payments on Community Bank Relationship



Section Summary

- Community Bank Customers are **less aware** of mobile payments, **adoption surpasses that of Mobile Payments**, especially across **Frequent Mobile Bankers**.
- **PayPal** is the current leader for P2P Payments, especially since they happen to own Venmo
- Consumers resist P2P payments due to **security concerns and a strong preference for cash and check**
- The majority of Community Bank Customers are interested in a **bank provided P2P solution**, with added benefits such as **instant money transfers, gift card transfers, and frictionless login**
- A bank provided solution improves **consumers' relationship with their Community Bank**

Pathways to Action For Community Banks



CONSIDER BEST P2P SOLUTIONS / PARTNERS NOW AVAILABLE

There is growing momentum in terms of participant banks, features / functionality, and convenient deployment for the *Early Warning / Zelle* solution



EMBED CARDS INTO THIRD PARTY P2P PROVIDERS

Focus on embedding cards into P2P solutions as a critical component to Card on File strategy – driving your card to top of wallet for card-not-present transactions



“WAIT AND WATCH” AS P2P MATURES IN THE MARKET

Be able to swiftly adjust pipeline, with operational flexibility and resourcing, to execute on changes to P2P products and user experience

Table of Contents

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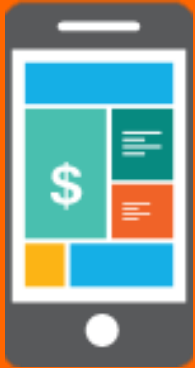
- Digital Banking & Self Service
- Digital Wallets
- Digital P2P Payments



Final Thoughts

Key Takeaways

**Deliver on the Table
Stakes of Digital &
Mobile Banking**



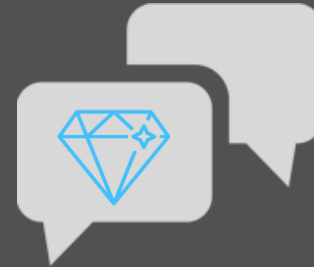
**Drive Valuable
Customers to be
Mobile Preferred**



**Overcome Adoption
Barriers Through
Education &
Reassurance**



**Clearly
Communicate
Compelling Value
Proposition**



**Deliver on Next
Generation
Features &
Payments**



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