

THE BANKING INDUSTRY'S DILEMMA

Feeling the Tension Between
Consumers' Digital and
Predigital Demands

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Accenture **Interactive**

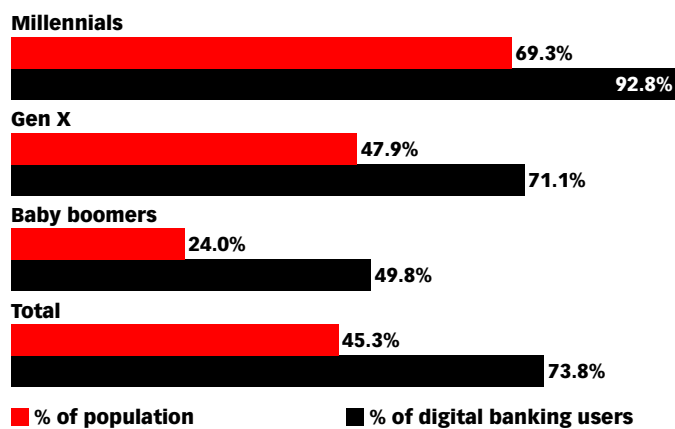
THE BANKING INDUSTRY'S DILEMMA: FEELING THE TENSION BETWEEN CUSTOMERS' DIGITAL AND PREDIGITAL DEMANDS

Digital technology certainly alters the way consumers do their banking. But it has not supplanted usage of physical bank branches—nor do most people want that to happen. Banks must offer new services without alienating the many customers (including young ones) who value key aspects of traditional banking.

- Digital banking has gone beyond niche status in the US. eMarketer estimates that 61.3% of US adults will use it this year. As with most things digital, it has caught on more strongly with younger consumers than it has with their elders. Even among millennials, though, about one in four are still non-users. And growth is slow at this point.
- Mobile banking is where a larger generation gap appears. While more than nine in 10 millennials who use digital banking also use mobile phone banking, just half of boomers do so. Even among Gen Xers—generally a digital-friendly population—nearly three in 10 who use digital banking abstain from mobile phone banking.
- Amid all this digital activity, consumers don't want to do without physical bank branches. And that's true not only of older consumers. Gen Zers in North America are more likely than boomers (23% vs. 16%, respectively) to visit a branch at least once a week, an Accenture survey found.
- The advent of "open banking" could bring nonbanks into competition with banks for some services. But thus far, consumers are reluctant to give untraditional players access to the personal account information that would make this possible. Accenture polling in the UK found two-thirds of respondents saying they would not share such information with third-party providers.
- Mobile payments usage has been slower than digital and mobile banking to win a mass constituency among US consumers. eMarketer estimates that 25.3% of smartphone users age 14 and older will be proximity mobile payment users this year. Even among millennials, fewer than half are users.

WHAT'S IN THIS REPORT? This report assesses adoption of digital banking services by US consumers and examines consumer attitudes (in the US and elsewhere) toward digital and nondigital aspects of banking—indicating that banks must finesse a balance between the new and the old.

US Mobile Phone Banking Users, by Generation, 2018 % of population and % of digital banking users



Note: mobile phone users who access their bank, credit union, credit card or brokerage account via mobile browser, app or SMS using a mobile phone at least once per month; excludes virtual wallet services (e.g., PayPal, Google Wallet); millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964
Source: eMarketer, April 2018

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KEY STAT: Older consumers—i.e., the people who tend to have real money—are likely to have adopted digital banking. But they have been more reluctant than young consumers—i.e., the people who tend to have little money—to add mobile phone banking into their mix.

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INTRODUCTION

As digital technologies emerge, we become accustomed to seeing new methods and services shunting aside the old. But consumers' behavior vis-à-vis banking indicates this sector does not easily conform to that familiar formula. When it comes to the industry consumers need to trust with their money, the tried and true competes strongly with the new and improved. Even the consumers who are most eager for new digital services are unwilling to forgo the more traditional aspects of banking, including physical bank branches and the flesh-and-blood human beings who staff them.

Consumers, it seems, will not always be the impetus for driving change in this sector. In Europe, a new EU law that took effect this year (the revised Payments Services Directive, commonly referred to as PSD2) is creating potential for retailers, tech companies and other third-party providers to become competitors in some areas of banking. But the law's key requirement—that banks give such outside companies access to customers' financial data—also mandates that this sharing occur only if a customer gives permission. And early evidence, which we'll discuss in detail later in the report, suggests that many consumers are reluctant to do so. The same wariness is likely to arise in the US and elsewhere as what is referred to as "open banking" becomes a more global phenomenon.

And this reflects a broader ambivalence among consumers. Maybe the customer is always right, but that does not mean the customer is consistent or logical. Yes, consumers want new, more convenient services, but they also want the familiarity of traditional branch banking. They want highly personalized banking services, but they are reluctant to provide the information that makes those services possible. This sort of ambivalence slows the disruption in banking that might occur if the pace of change were determined only by technological advances. It is not.

This has important implications for the degree to which banks rely on new technology as a focal point for appealing to current and potential customers. Based on polling in 18 markets around the world, a 2017 report by Accenture ("Beyond Digital: How Can Banks Meet Customer Demands?") emphasized that to secure consumer trust and loyalty, "banks will need more than just a digital-first approach. As digital offerings mature, banks must define their value proposition to encompass both digital innovation and traditional values to meet their customers' needs."

As with many matters involving new technology, a wide generation gap exists regarding digital and (even more so) mobile banking. This is especially salient for banking because there is also a generation gap in the financial resources of younger and older consumers. With their broad affinity for new technology, millennials and Gen Zers are the customers most likely to demand new digital services from their banks. But they are also the people with the least money. Older consumers have the financial assets that make them customers worth having for a bank. But they are also the ones most attached to traditional services and most leery of newer digital options—especially when those options entail handing over lots of personal information. Faced with potential competition from untraditional players (and from each other), banks cannot decline to provide new services. But neither can they expect their most monied customers to be avid users of those technologies anytime soon.

None of this means banks will be enduringly immune to the digital disruptions that have upended other sectors, ranging from retail to media to travel. Consumers' desire for better services will erode the reluctance to embrace something new. But in a sector where consumers are understandably wary of what's unfamiliar, the process of disruptive change will not be a simple one.

-sizing the population of US digital banking users

Digital banking has won a large constituency among US consumers. But plenty of people—including plenty of young people—still abstain from it. And the pace of adoption is slowing. For the foreseeable future, usage of digital banking will be common but well short of universal among US consumers.

eMarketer estimates that 61.3% of US adults will use digital banking at least once a month this year. As one would expect, penetration is highest among millennials. But even in that age group, about one in four do not use it. As a point of comparison, just about 5% of millennials do not use smartphones. Given baby boomers' slowness in adopting new technology at this point in their lives, it's no surprise that they lag in digital banking: Fewer than half of them are expected to be users this year. Since Gen Xers have used computers and the internet for much of their adult lives, it is more of a surprise that nearly one-third are non-users of digital banking.

US Digital Banking Users, by Generation, 2018-2022 % of population

	2018	2019	2020	2021	2022
Millennials	74.7%	75.8%	76.7%	77.2%	77.6%
Gen X	67.4%	68.6%	68.9%	69.0%	69.2%
Baby boomers	48.3%	48.2%	48.5%	48.6%	48.5%
Total	61.3%	62.7%	63.8%	64.6%	65.3%

Note: ages 18+ who access their bank, brokerage, credit card or credit union account digitally via any device at least once per month; excludes virtual wallet services (e.g., PayPal, Google Wallet); millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964

Source: eMarketer, April 2018

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Accenture polling in the US and Canada in September 2017 (for a report titled "10 Mega Trends Driving the Future of Payments") looked at frequency of usage. It found 65% of adults using online banking at least weekly. For all age groups other than Gen Z (defined as ages 18 to 21), online banking was "the preferred way for North American consumers to access their banking services."

Looking ahead, eMarketer's forecast does not anticipate a surge in adoption during the next several years. By 2022, we expect 65.3% of US adults to be digital banking users. Even among millennials, penetration is expected to rise by fewer than three full percentage points, to 77.6%. One way of looking at this: There is plenty of room for growth in adoption of digital banking, but growth on a large scale does not seem to be occurring.

Of course, banking isn't solely a matter of transactions. It also can entail getting information and advice, and this is an area where many consumers are open to a digital approach. Accenture's "Beyond Digital" report showed consumers are "open to receiving entirely computer-generated support, provided it can deliver the tailored and personalized services they need." As an example, it said 71% of banking customers surveyed "are willing to receive automated support regarding which type of bank account they should open." Improved speed and convenience are the main attractions of such automated support, cited by 39%.

An earlier Accenture study, its "North America Consumer Digital Banking Survey" in 2016, asked whether respondents would be interested in receiving advice and services "in a way that was entirely computer-generated, without any input from a human advisor." With the question posed in these terms, large majorities of US respondents said they would be interested in that method of getting advice about investments (80%), insurance coverage (69%) and retirement finances (68%).

Usage of digital technology often entails a trade-off in which consumers give up some privacy in return for content and services. Not surprisingly, many are more guarded about making such a bargain when dealing with the industry they must trust to take good care of their money. And they are aware that their personal data can be in peril. Frequent news reports of data breaches at big companies—ranging from Equifax to Delta Air Lines to Target—clearly affect consumers' attitudes toward banks. And this plays a role in their loyalty (or lack thereof) to their current bank. In Accenture's "Beyond Digital" report, the biggest driver of loyalty to a bank was "the ability to trust their bank in protecting their personal data," cited by 43% of respondents.

Consumers do not rule out giving banks access to more personal data, but they need to see a benefit in return. In Accenture's "North America Consumer Digital Banking Survey," 63% of US respondents said they are willing to share personal information with their primary bank so that institution "can use it to present more suitable/relevant product and service options to you in the future." The figure rose to 77% among North American millennials.

There is considerably less willingness to share personal information with banks' untraditional competitors—a sentiment that figures to stymie adoption of open banking. An Accenture survey conducted in the UK in August 2017 got an indication of this when two-thirds of respondents said they "won't share their personal financial data with third-party providers." Likewise, 59% said they "would trust only their own bank with their account information" when looking for something like a better mortgage rate or opening a savings account. Far fewer would trust online payment companies, retailers or social media companies with such personal information.

What Kinds of Companies Would UK Internet Users Trust with Personal Bank Account Information*? Aug 2017

% of respondents



Note: *e.g., when seeking something like a better mortgage rate or savings account

Source: Accenture, "UK Open Banking Survey," Oct 2, 2017

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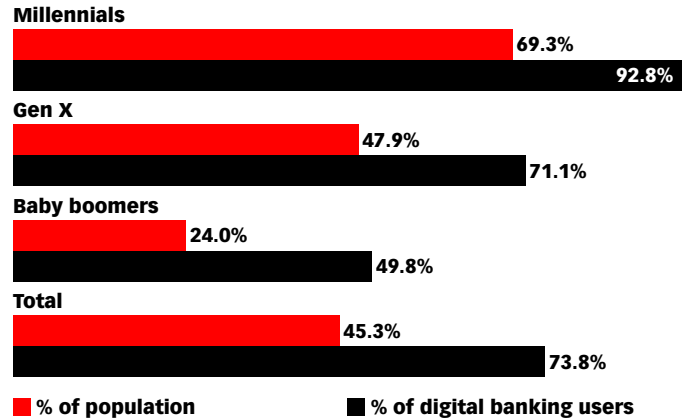
MAKING THE MOBILE LEAP, OR NOT

It feels almost like a law of nature: Everything digital tends to become mobile. We've seen it happen with social media, and we're seeing it happen with digital video. But consumers' usage of digital banking may prove more resistant to that tendency.

eMarketer estimates that fewer than half of US adults (45.3%) will be mobile banking users this year—i.e., accessing their bank, credit union, credit card or brokerage account via mobile browser, app or SMS on a mobile phone at least once a month. (Note that this definition excludes the distinct category of virtual wallet services. Mobile payments will be addressed later in this report.) Calculated as a proportion of digital banking users, nearly three-quarters are mobile phone banking users.

US Mobile Phone Banking Users, by Generation, 2018

% of population and % of digital banking users



Note: mobile phone users who access their bank, credit union, credit card or brokerage account via mobile browser, app or SMS using a mobile phone at least once per month; excludes virtual wallet services (e.g., PayPal, Google Wallet); millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964

Source: eMarketer, April 2018

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What's conspicuous here is the falloff in mobile phone banking penetration from one generation to the next. One can say of millennials that someone who uses digital banking probably uses mobile banking as well. That is not a safe assumption when looking at Gen Xers and (even less so) boomers.

For that matter, a large disparity is seen between younger and older Gen Xers. We estimate that 89.1% of 35- to 44-year-olds who use digital banking are also mobile phone banking users, while the proportion drops to 55.7% in the 45-to-54 age group.

Consumers in their 40s and 50s are at or close to their peak earning years, and the older ones are coming within sight of retirement. As such, they naturally need a wide range of banking services. But they are not necessarily eager to add mobile phone banking to their repertoire. Penetration is still rising, but not at a spectacular pace. Among 45- to 54-year-olds who use digital banking, the proportion who use mobile phone banking is expected to reach 62.2% in 2022. Among those ages 55 to 64, there will be a similarly modest gain, reaching 56.5%.

And since the increases in penetration for digital banking itself will be meager during that period, this will leave all age brackets over 45 with well under half of their full population using mobile phone banking. Calculated on the basis of total population (rather than just among digital banking users), barely one-third (34.3%) of those ages 55 to 64 are expected to be using mobile banking in 2022. The projected 2022 figure for the 45-to-54 age group is higher but still fairly meager at 43.6%.

Accenture's "10 Mega Trends Driving the Future of Payments" report also stressed the age disparity in usage of mobile banking. It identified Gen Zers—few of whom currently have enough money to whet a banker's appetite—as the only age group that prefers mobile as its primary banking channel. While it found 69% of Gen Zers surveyed using mobile banking apps daily or weekly, a mere 17% of boomers were doing so. "This confirms a massive generation gap in accessing banking services that will continue to widen," the report said.

In theory, banks could use their marketing to nudge older consumers toward mobile services. But this becomes less likely to happen as the financial sector shifts more of its ad spending to mobile channels—venues where older consumers are less likely to see ads than via desktop/laptop. In 2016, the financial services industry in the US allotted 35.2% of its spending to advertising on desktop/laptop computers, according to eMarketer's estimate. The proportion is expected to fall to 30.0% this year and to 28.2% in 2019.

Tablets provide an alternative to smartphones as a mobile device for banking. But they are less popular than phones for that purpose. eMarketer estimates that 23.6% of the US adult population will be tablet banking users this year. Among adults who use digital banking,

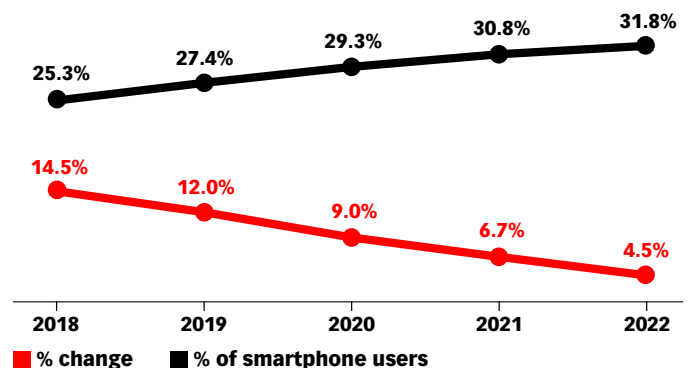
38.5% are expected to be tablet banking users. The larger screen gives the tablet an advantage over the phone for seeing financial data. But the fact that people don't generally carry a tablet around with them, as they do their smartphones, no doubt limits its usage as a mobile banking device.

A SLOW START FOR MOBILE PAYMENTS

The emergence of mobile payments introduces another digital element into consumers' financial lives—or would if they cared to make use of it. So far, a majority are disinclined.

Looking at the US population of smartphone users age 14 and older, eMarketer estimates that 25.3% will be proximity mobile payment users this year. And though penetration is low, the rate at which penetration grows is already slowing. The pace of increase is expected to fall into single digits as soon as 2020. Thus, while penetration is rising, we expect it will still be below one-third of smartphone users in 2022. (In the definition eMarketer employs, a proximity mobile payment is a point-of-sale transaction made by using a mobile device, excluding tablets. It can include scanning, tapping or swiping a mobile device at point of sale.)

US Proximity Mobile Payment Users, 2018-2022
% change and % of smartphone users



Note: ages 14+; mobile phone users who have made at least one proximity mobile payment transaction in the past 6 months; includes point-of-sale transactions made by using mobile devices as a payment method; excludes transactions made via tablet
Source: eMarketer, April 2018

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As with digital and (especially) mobile banking, adoption of proximity mobile payments has been dominated by young adults. Even among millennials, though, a minority of smartphone users employ proximity payments—for instance, just 44.2% of those 25 to 34 use the purchasing method. By 2022, fewer than six in 10 in this age group (56.7%) are expected to be proximity payment users. As for older smartphone users, penetration is estimated at just 30.6% this year among the 35- to 44-year-olds and falls off sharply from there.

In its analysis of the situation, Accenture's "10 Mega Trends Driving the Future of Payments" report contrasted consumers' tepid interest in mobile payments with their enthusiasm for the device that makes that practice possible. "Consumers' use of mobile payments has been consistently lackluster even as they fell madly in love with their mobile phones in other aspects of their lives," the report said.

But Accenture does see that changing, thanks to the emergence of open banking and the advances in technology that it will encourage. The report also pointed to Gen Z as a force for change. "As Gen Zers enter the workforce and their financial needs become more complex, they will radically reshape payments," the report predicted. "Trendsetters themselves, Gen Z will influence other consumers, upending what the industry thinks it knows about its customers."

For Gen Zers and others, transactions alone may not be what makes usage of mobile payments most attractive. As the Accenture report emphasized, the "true value" of the overall payments experience will include the opportunity for banks to provide customers with useful information. It cites "a single view of account information" as a value-added service likely to gain traction in the next few years.

Indeed, 23% of respondents in Accenture's survey said they "would give up their mobile banking app for a digital wallet with all their payments information in one place." But this is also an area where banks could face nonbank competition with the emergence of open banking. "Delivering this unified mobile payments experience will become ground zero in the battle over customer experience between traditional players and third-party payment providers," the report said.

Peer-to-peer (P2P) mobile payments—in which one individual transfers funds to another electronically using a mobile phone via app or mobile browser—have already been the province of nonbank providers like Square's Cash App, Venmo and Google Wallet. And that technology has made significant inroads among adult smartphone users in the US. eMarketer estimates that about four in 10 smartphone users age 18 and older will be P2P mobile payment users this year. As with proximity mobile payments, the pace of increase in penetration is slowing. Still, we anticipate that nearly six in 10 smartphone users will be P2P mobile payment users by 2022.

BRANCHES STILL MATTER

One might imagine that banking customers fall into two basic categories: those who use digital technologies for their banking and those who still trudge to physical branches. However, no such divide exists in the real world. Even as digital and mobile banking have gained user bases, consumers still want access to physical branches. Sure, many people want the services digital banking can provide. But they regard these as a supplement to, not a replacement for, their bank's physical presence.

Visits to branches are a routine part of banking for consumers, and not just for technophobic old folks. Accenture's "10 Mega Trends Driving the Future of Payments" report said 20% of respondents in North America visit their bank branch at least weekly. That includes 23% of Gen Zers. A smaller proportion of boomers (16%) reported going to a branch at least weekly. Though counterintuitive, Gen Zers' above-average reliance on branches reflects the fact that their employment—often in the "gig" labor force—tends to tie them to the cash economy. They prefer managing their money via mobile devices, explained Michael Abbott, a managing director in Accenture's Financial Services practice, in summarizing the report. However, cash-based jobs mean "they still need branches to digitize their earnings."

A large majority of consumers expect to continue using physical branches and would be wary of a bank that lacks them. That was clear in Accenture's "North America Consumer Digital Banking Survey." Among US respondents, 86% (including the same percentage of millennials) said they anticipate using branches in the future. Just one in four said they would consider switching to a bank that doesn't have physical branches. And here again, younger consumers displayed an attachment to branches, with just 26% of the North American millennials saying they would consider using a bank that doesn't have them. The figure was higher—but not very high, at 35%—among respondents who use wearables. So even in a cohort who are early adopters of that technology, a bank without branches has limited appeal.

Consumer trust is a crucial asset for banks as they face competition from nonbank players, and branches play an important role in fostering that sentiment. When the same Accenture survey asked respondents why they anticipate using branches two years from now, 48% in the US endorsed the statement "I trust my bank more when speaking to someone in person." More broadly, 47% agreed with the statement "I receive more value from my bank when speaking to someone in person." Indeed, the appeal of branches consists largely of the human beings who staff them.

Sometimes it's a matter of being able to complain to a human being. In Accenture's "Beyond Digital" report, 67% of respondents cited the ability to make a complaint to a human advisor as one of the most important features of branches in the future. And sometimes it's a matter of being able to converse about a complicated topic: 61% said the ability to get advice from a human advisor on complex products like mortgages was important.

Showing the interplay between old and new, a branch can also be the place where consumers are educated about how to use digital services. In Accenture polling conducted in the UK in December 2017 and January 2018, 48% of respondents said they "want to be shown hands-on how to use the bank's mobile and online services." Barclays in the UK taps into that sentiment by promoting what it calls "Digital Eagles," staffers who assist customers with "practical and helpful advice" on using digital resources. In the US, Capital One aims to appeal to millennials by deploying branches branded as Capital One Cafés, where customers can use iPads to access brief finance lessons. Or they can sit down

with a touchscreen-equipped "Café Coach" for a money coaching session. Some people simply use the location as a café—coffee, food and free Wi-Fi are provided—before maybe getting around to talking with a Capital One staffer about the bank's services. Both examples underscore the broader point that consumers want traditional branches and digital services to work in tandem for them—making both of those channels more useful.

CONCLUSIONS

- eMarketer's numbers make it clear that while consumers are attracted to digital banking, they pick and choose among its manifestations and do not simply adopt every new technology that comes along. Accenture research in the UK underscores the point that consumers are not ready to go fully digital in their banking, as "the decision of some banks to increase digital-only interactions risks alienating customers of all ages." Bank branches must evolve, but few consumers want to do without them. eMarketer's forecast on mobile phone banking makes it clear that consumers are not ready to see the newest technologies replace the older and familiar ways of using a bank.
- While acknowledging consumers' appetite for new and better services, one should not overlook consumer inertia, especially in relation to a sector (like banking) where people are understandably wary of what's unfamiliar. Examining that tendency in relation to open banking, Accenture's UK polling in August 2017 found 53% of respondents saying they "will never change their existing banking habits and adopt open banking." The attitudes of consumers in that country are a likely precursor of reactions among American consumers as open banking gains traction in the US. (Without the regulatory impetus open banking has received in Europe, it is less of a presence thus far in the US.)
- Consumers experience a kind of push-pull in the regulatory environment relative to banking. PSD2 and the advent of open banking implicitly tells them they should share their personal data in order to get new services. But the GDPR and publicity surrounding it (in the US and elsewhere) implicitly tells them they can and should play their data close to their vests. The tension between these two outlooks likely complicates consumers' decisions on whether to give untraditional players access to personal financial information.

- One obvious advantage banks have in combatting new competitors: They have lots of money. An Accenture report titled “Building the Future-Ready Bank: Banking Technology Vision 2018” noted that “incumbent banks have managed to avoid the waves of disruption that have washed over other industry sectors.” And a key reason is that market share has gravitated “not to new entrants, but instead to incumbents who can afford to invest billions of dollars in a great digital customer experience.”
- Many consumers (especially older ones) don’t see the point of mobile payments. They will need to be persuaded more of its practical advantage before usage becomes the norm. It’s a telling sign that eMarketer’s forecast sees growth in penetration slowing before proximity mobile payments have won over even one-third of US smartphone owners.

LINKS TO RELATED ACCENTURE CONTENT

[Beyond Digital: How Can Banks Meet Customer Demands?](#)

[Building the Future-Ready Bank: Banking Technology Vision 2018](#)

[Digital Transformation in Banking: Beyond the Everyday Bank](#)

[Financial Services Change Survey 2017](#)

[Latest Thinking: Capitalize On Open Banking Trends](#)

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