Digital Banking: The Brewing Battle For Where We Will Bank, a PYMNTS and Optherium collaboration, assesses consumers' interest in using digital banking services more in the future than they do now and creating relationships with large organizations. The report is based on a survey of 2,225 consumers in the United States conducted from July 1 to July 7.

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The Brewing Battle For Where We Will Bank

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Digital Banking: The Brewing Battle For Where We Will Bank was produced in collaboration with Optherium, and PYMNTS is grateful for the company's support and insight. **PYMNTS.com** retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION.

Consumer banking has been a hotbed of technological innovation for years, and now banks and their competitors are facing more urgency to hasten the adoption of digital services, pressured in part by events of the last 18 months.

Federal Deposit Insurance Corp. (FDIC) Chairwoman Jelena McWilliams noted in a June 2021 speech that "innovation is no longer a question of 'shall we; shall we not' but 'how can we do it because we must.' ... The momentous shift that many societies around the world have experienced as a result of the pandemic has only underscored how critical innovation is for banks and consumers alike."[1]

Bank customers' behavior already makes it clear that technology-based services are the preferred means of banking. PYMNTS' research reveals that bank customers already use digital banking services significantly more often than branch banking. While 48 percent of banking customers use branches, only 11 percent said the branch is their primary method of banking. Sixty percent of banking customers use a mobile app, and 41 percent declare mobile apps to be their primary means of banking.

For Digital Banking: The Brewing Battle For Where We Will Bank, a PYMNTS and Optherium collaboration, we surveyed 2,225 consumers in the United States from July 1 to July 7 to gauge consumers' interest in using digital banking services more in the future than they do now and creating relationships with large organizations. Our findings identified the broad acceptance of digital banking across all age groups and gauged the interest consumers have in using more digital banking services from a trusted brand that would offer convenience and ease-of-use while promising security and protection from fraud. Consumer interest in banking security is fairly consistent across all age groups, and a failure to assure consumers about a digital banking platform's security may inhibit their willingness to accept it. Our study also uncovered opportunities for banks and nonbank providers, including companies like Amazon and Apple, to meet consumers' growing demand for digital banking services.

This is what we learned.

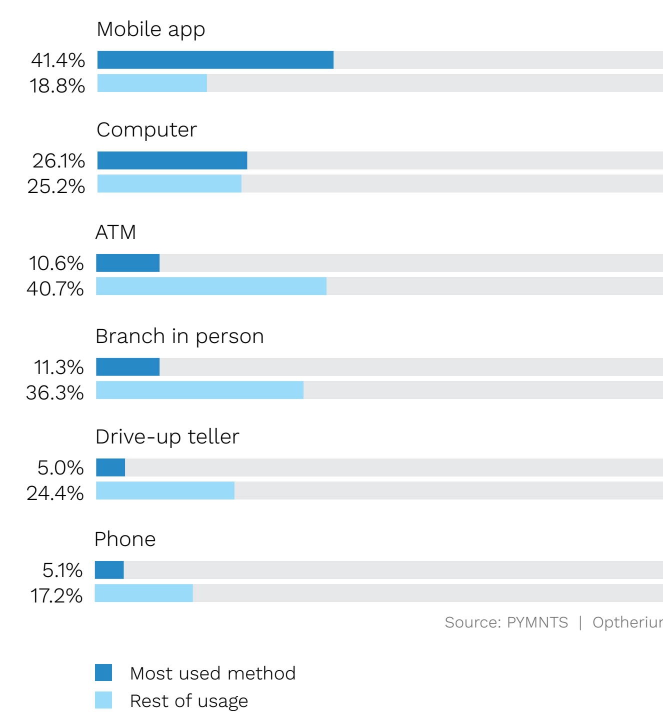
[1] McWilliams, J. Remarks by Jelena McWilliams at "Fintech: A Bridge to Economic Inclusion". FDIC. 2021. https://www.fdic.gov/news/speeches/2021/spjun2921.html. Accessed September 2021.

Digital banking services are already standard, as 82 percent of consumers connect to their accounts via some digital method.

Consumers expect digital access to be part of their banking experiences. The share of consumers who bank primarily via a mobile app is four times as large as that of those who interact with their accounts mainly at a physical branch. Only a minority of consumers do not use at least one type of digital banking service. More than eight out of 10 consumers use some digital method to connect to their accounts. Forty-two percent say they use mobile apps, and 26 percent report computers are the devices that they used most frequently to access their accounts.

FIGURE 1:

How consumers engage with bank accounts
Share of consumers who engage with bank accounts in select ways, by most used method and overall usage



The shift to digital banking includes large banks with extensive branch networks, small banks, credit unions and digital-only financial institutions (FIs). Approximately 70 percent of account holders at large FIs primarily use digital means to connect with their accounts. Bank customers tend to use digital services like mobile apps, online banking offerings and ATMs more often than branch services. This preference holds even though the overwhelming majority of bank customers do their banking with large banks, regional banks, local banks or credit unions. Only 7 percent of bank customers rely on digital-only banks.

The market is a long way from complete adoption of digital-only banking services, leaving substantial growth opportunities for traditional and new providers, especially large companies.

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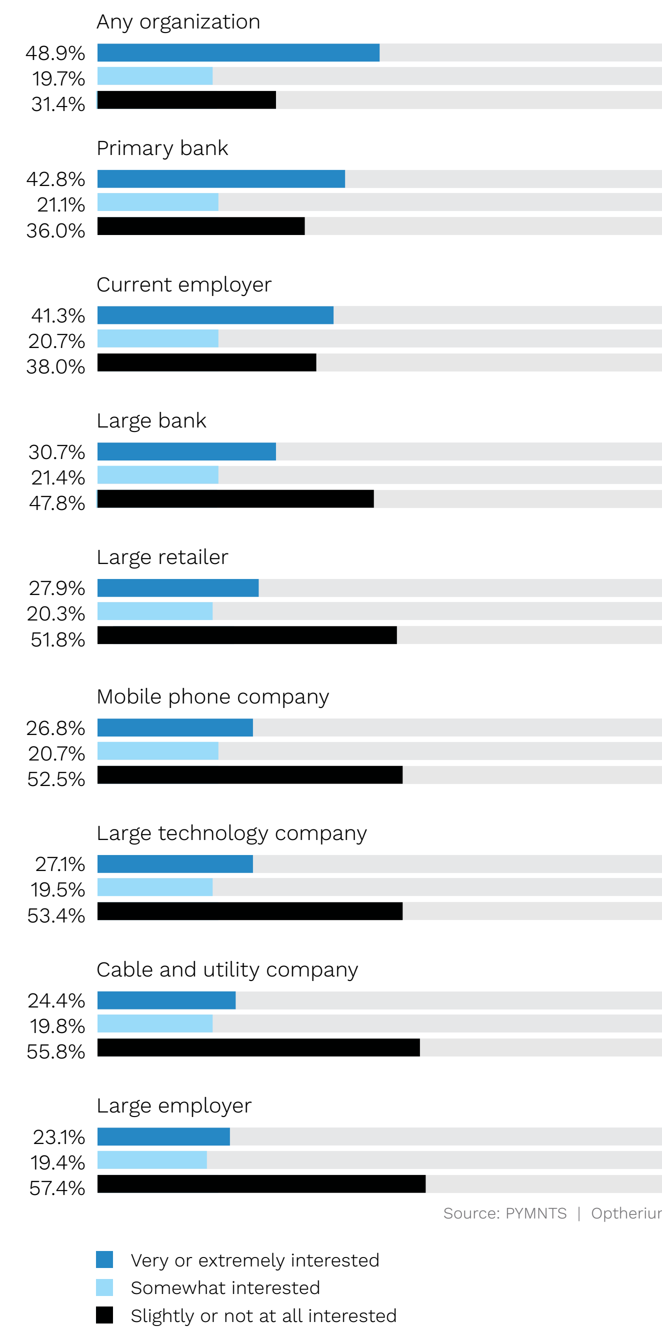
FIGURE 2:

Consumer interest in digital-only banking services from large organizations

Share of consumers exhibiting select levels of interest in using a digital-only banking service from a large organization



Source: PYMNTS | Optherium

Consumer interest in digital banking services is high, but just seven out of 100 consumers bank primarily at an online-only bank. This unmet demand presents new opportunities but has also exposed traditional FIs to more competition from nonbank firms like retailers, telecommunication services providers and technology companies. Some consumers may even be willing to receive banking services from their employers.

49%

OF CONSUMERS ARE HIGHLY INTERESTED IN RECEIVING ONLINE BANKING SERVICES **FROM A LARGE COMPANY.**

48%

OF CONSUMERS CITE AMAZON AS A NONBANK **THEY WOULD TRUST** WITH DIGITAL-ONLY BANKING SERVICES.

FIGURE 3:

Consumer interest in digital-only banking services from large organizations
Share of consumers who are “very” or “extremely” interested in usign digital-only banking services by certain type of large organization, by generation

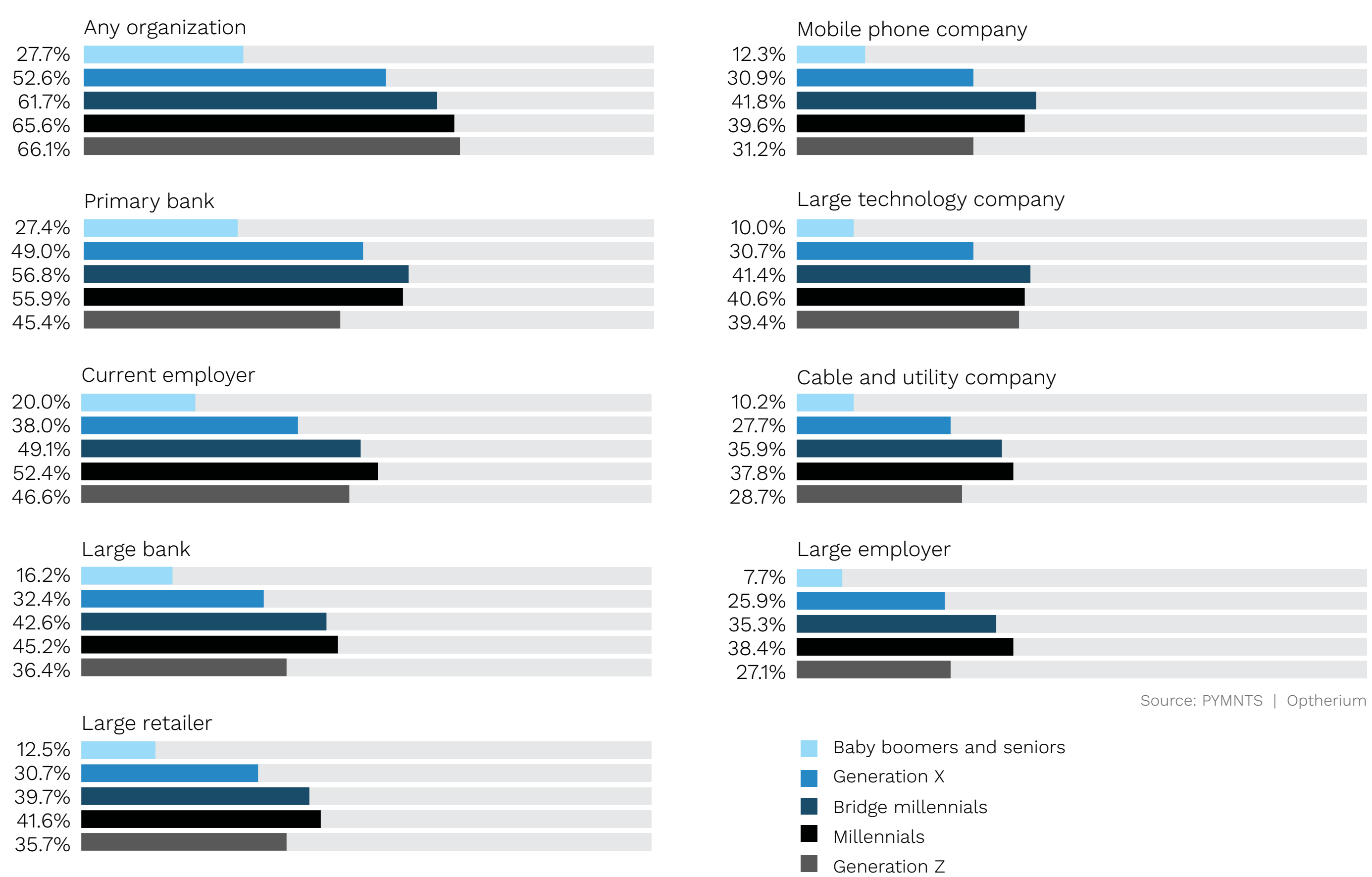
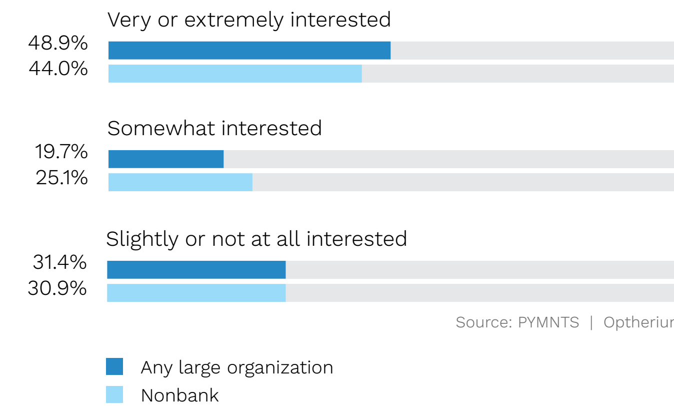


FIGURE 4:

Consumer interest in digital-only banking services from large organizations
Share of consumers exhibiting select levels of interest in using digital-only banking services, by type of large organization



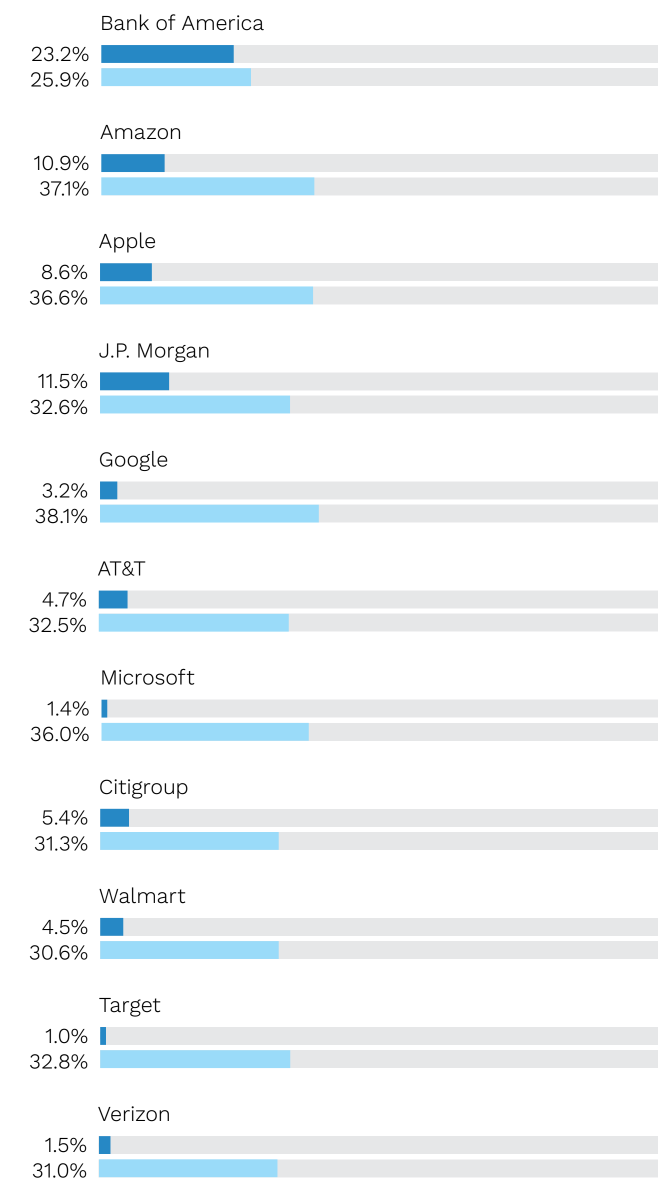
Our data found that 49 percent of consumers are highly interested in receiving online banking services from a large company. Twenty-eight percent of consumers — 73 million adults — say they are “very” or “extremely” interested in receiving online banking services from large retailers, and 41 percent of employed consumers are interested in receiving online banking services from their employers. Even many customers of larger FIs exhibit interest in digital-only banking services. Forty-three percent of banking customers with a credit or savings account are “very” or “extremely” interested in using online-only banking services from their current FI. This interest in using online-only banking services is not dependent upon a bank being the provider of the services, and it is present in most age groups, apart from baby boomers and seniors.

Consumers trust Amazon and Apple as well as the nation's largest banks when it comes to offering digital banking services.

High expectations for smooth experiences and trustworthy brands explain why consumers would seek online-only banking services from nonbanks and FIs.

FIGURE 5:

Brands consumers trust to provide digital-only banking services
Share of consumers who trust select brands to provide digital-only banking services



Source: PYMNTS | Opttherium

Most trusted to provide banking services
Trusted but not most trusted

Consumers say they value companies with well-known, trusted brand names that have track records of providing excellent digital experiences and delivering products reliably and securely. This means nonbanks have a major opportunity to increase their share of the banking market if they can demonstrate their skill making financial services easy to use while protecting customers' privacy and funds. It also explains why 48 percent and 45 percent of consumers cite Amazon and Apple, respectively, as the nonbanks they would trust the most if they offered digital-only banking services. The totals are nearly equal to the shares trusting the top-ranked FIs, Bank of America (49 percent) and J.P. Morgan (44 percent). Google (41 percent), AT&T (37 percent) and Microsoft (37 percent) were also among the nonbanks that consumers rated highly as trusted digital-only banking service providers.

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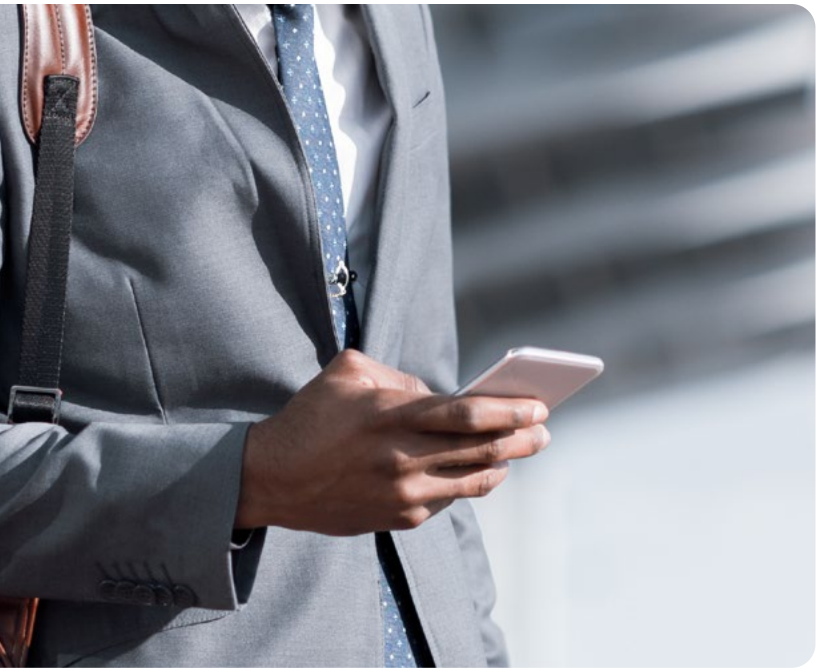


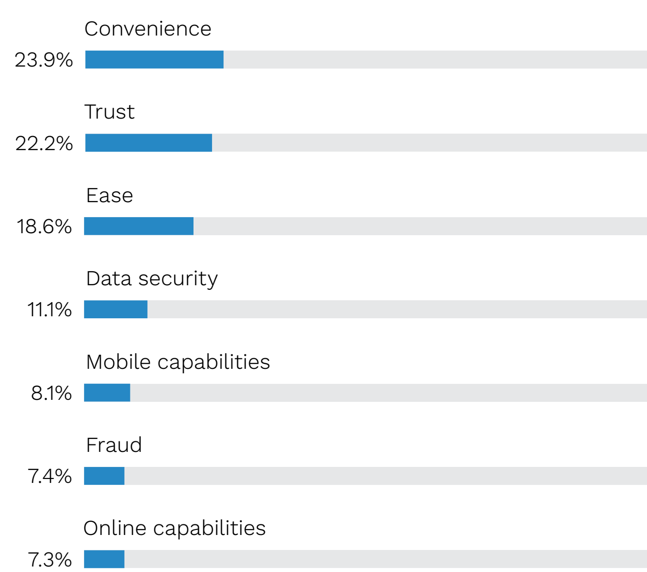
24%

OF CONSUMERS SAY **CONVENIENCE IS THEIR MOST IMPORTANT REASON** FOR USING DIGITAL-ONLY BANKING SERVICES.

Twenty-two percent of respondents interested in digital-only banking services cited trust as the most important reason for using such services. Greater convenience was cited by 24 percent of respondents interested in making their primary bank a digital-only bank run by a large organization. Respondents also cited ease of use, data security, mobile capabilities, fraud and online capabilities as reasons they would use a digital-only banking service.

FIGURE 6:

Why consumers use digital-only banking services
Most important reason for using digital-only banking services



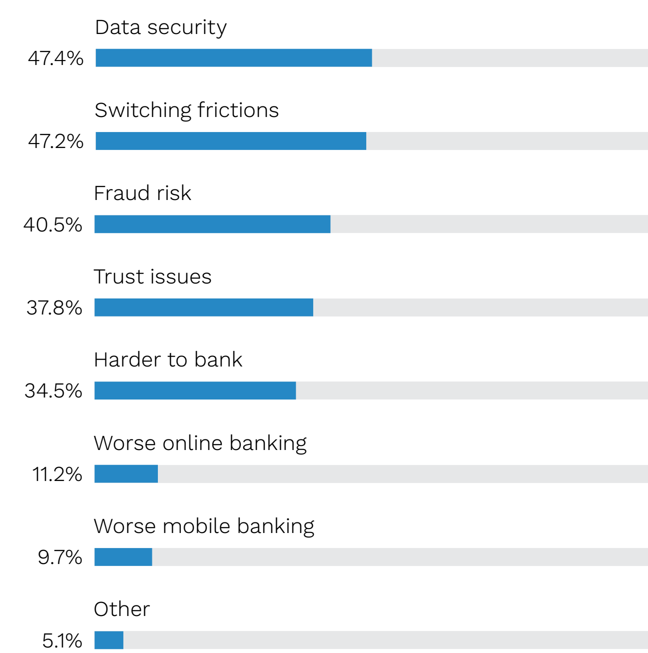
Source: PYMNTS | Optherium

25%

OF CONSUMERS CITE THEIR CONCERNS ABOUT **DATA SECURITY** AS A REASON NOT TO USE A DIGITAL-ONLY BANKING SERVICE.

FIGURE 7:

Reasons for not switching primary banking service
Respondents who are "slightly" or "not at all" interested in making their primary bank a digital-only bank provided by a large organization



Source: PYMNTS | Optherium

Security concerns tend to depress consumer interest in obtaining online banking services from nonbanks. Forty-one percent of uninterested consumers identified fraud risk as a reason for disinterest in switching, and 47 percent said data security concerns drove their reluctance to switch their primary banking-service provider.

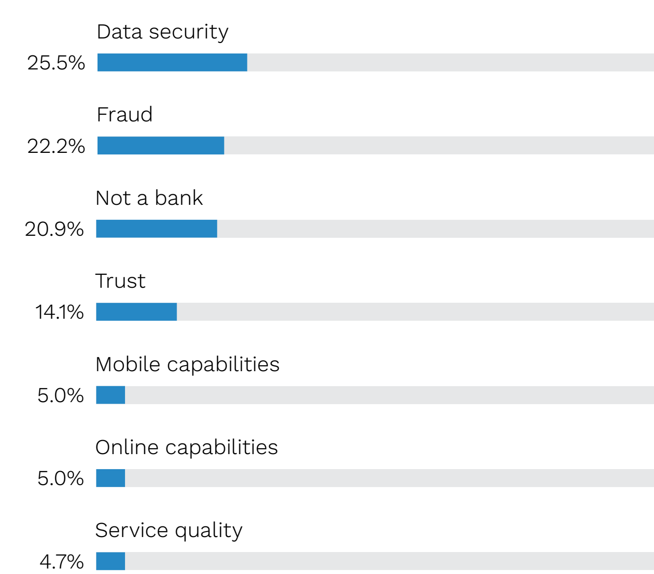
Banks and nonbanks that address data security concerns may position themselves to expand their market shares.

Data security is a top factor on which consumers rely when choosing a banking service provider. Moreover, the importance with which it is ranked is comparable among all age groups surveyed. Data security is also a lead concern among consumers not interested in digital-only banking, especially baby boomers and seniors (33 percent cited it as a concern). Twenty-five percent of Gen X consumers likewise registered concern about data security, the next greatest share. Notable shares of other age groups — bridge millennials (19 percent), Gen Z (18 percent) and millennials (16 percent) — also expressed some concern about data security.

FIGURE 8:

Reasons consumers opt against using digital-only banking services

Share of consumers citing most important reason for not using digital-only banking services



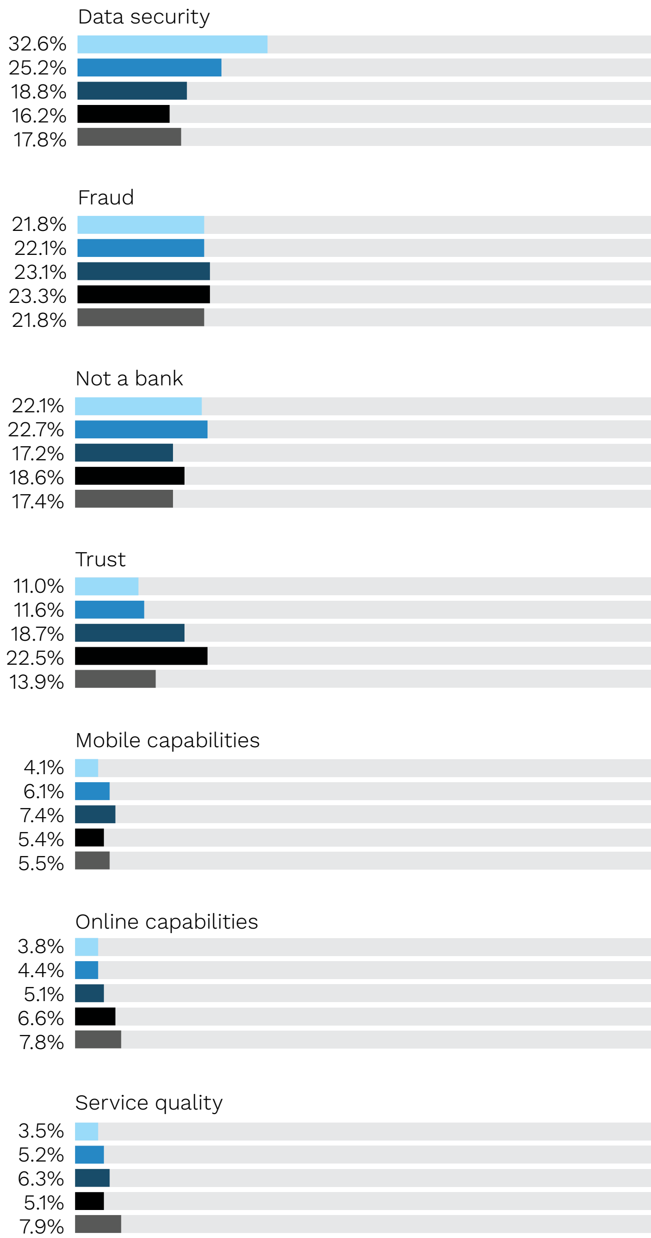
Source: PYMNTS | Optherium

THE HIGH INTEREST IN DIGITAL BANKING AMONG SOME YOUNGER AGE GROUPS IS NOT TIED TO A SERVICE PROVIDER'S CORE BUSINESS MODEL.

FIGURE 9:

Reasons consumers opt against using digital-only banking services

Share of consumers citing most important reason for not using digital-only banking services, by generation



Source: PYMNTS | Optherium

Our data revealed that 26 percent of respondents not interested in digital-only banking services rated data security as the most important reason for not shifting to digital banking. Fraud was also an important concern, and roughly equal portions of 22 percent to 23 percent cited it in every age group.

Twenty-four percent of respondents rated convenience as the most important reason for using a digital-only banking service. Sizable portions of respondents also called out trust (22 percent), ease-of-use (19 percent) and data security (11 percent) as important issues with digital-only banking.

66%

OF **BRIDGE MILLENNIALS** ARE INTERESTED IN MAKING A DIGITAL-ONLY BANK THEIR PRIMARY BANK.

*The bridge millennial cohort (defined as those born between 1978 to 1988) is an overlapping of two neighboring generations, millennials and Generation X. Members of this group experienced the internet at a young age and are old enough to be in their prime earning and spending years.

Banking service providers have a great opportunity to expand their digital banking offerings with Generation X, bridge millennial, millennial and Generation Z consumers.

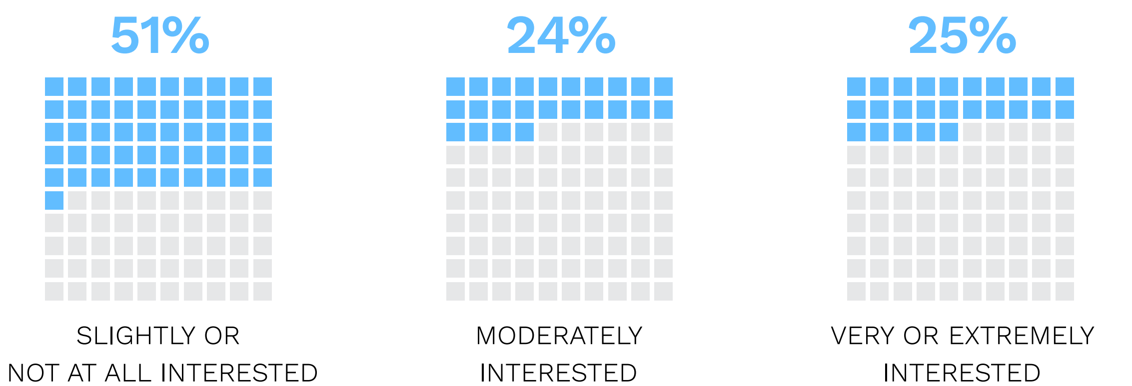
Baby boomers and seniors have accounted for much of the financial sector's growth during the past several decades, but a huge generational shift is already underway. Younger age groups are in or entering their prime earning years and possess greater technological acumen than the generations that preceded them. The generational transition and existing trends in the financial services market suggest that younger generations will look to digital financial services to help them manage their growing financial assets as they increase their earnings power. For example, far larger shares of Generation X (56 percent), bridge millennial (66 percent), millennial (66 percent) and Generation Z (64 percent) consumers are interested in shifting their primary accounts to digital-only bank accounts than baby boomers and seniors. These younger generations' interest is not dependent on the core business model of the service provider, suggesting an opportunity is present for nonbanks to aggressively compete for a share of banking assets.

25%

OF CONSUMERS ARE **"VERY" OR "EXTREMELY" INTERESTED** IN MAKING THEIR PRIMARY BANK ACCOUNTS DIGITAL-ONLY.

FIGURE 10:

Consumer interest in having a digital-only primary account
Share of consumers exhibiting select levels of interest in making their primary accounts digital-only



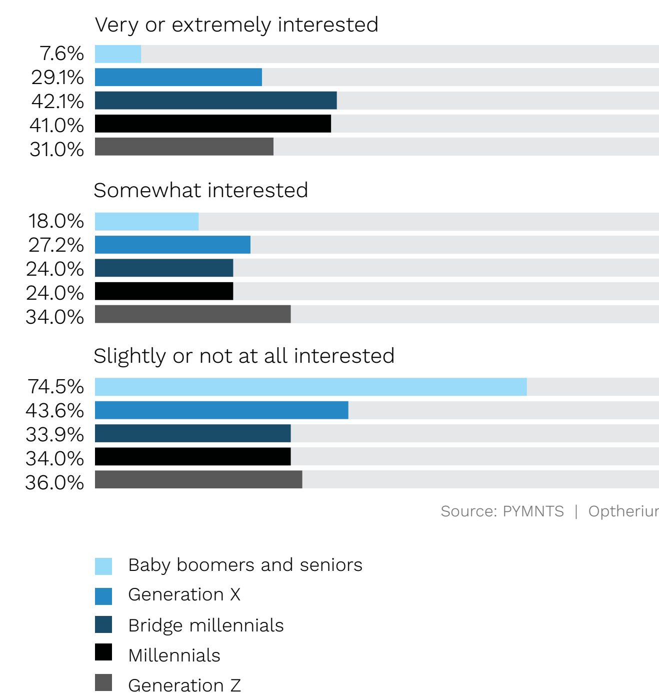
Source: PYMNTS | Optherium

75%

OF **BABY BOOMERS AND SENIORS** ARE “SLIGHTLY” OR “NOT AT ALL” INTERESTED IN MAKING A DIGITAL-ONLY BANK THEIR PRIMARY BANK — **THE MOST RESISTANCE AMONG ANY AGE GROUP.**

FIGURE 11:

Consumer interest in having a digital-only primary account
Share of consumers exhibiting select levels of interest in making their primary accounts digital-only, by generation



Source: PYMNTS | Optherium

Only 26 percent of the elder demographic expressed interest in using a digital-only service as their primary bank account.

Forty-two percent of bridge millennials and 41 percent of millennials declared themselves “very” or “extremely” interested in banking with a digital-only bank, the highest proportions of survey respondents who did so. The next largest group was Generation Z, of whom 31 percent were “very” or “extremely” interested in banking with a digital-only bank. Generation X respondents followed, at 29 percent. Only 8 percent of baby boomers and seniors said they were “very” or “extremely” interested in banking with a digital-only bank.

Online-only banks have a new mandate:

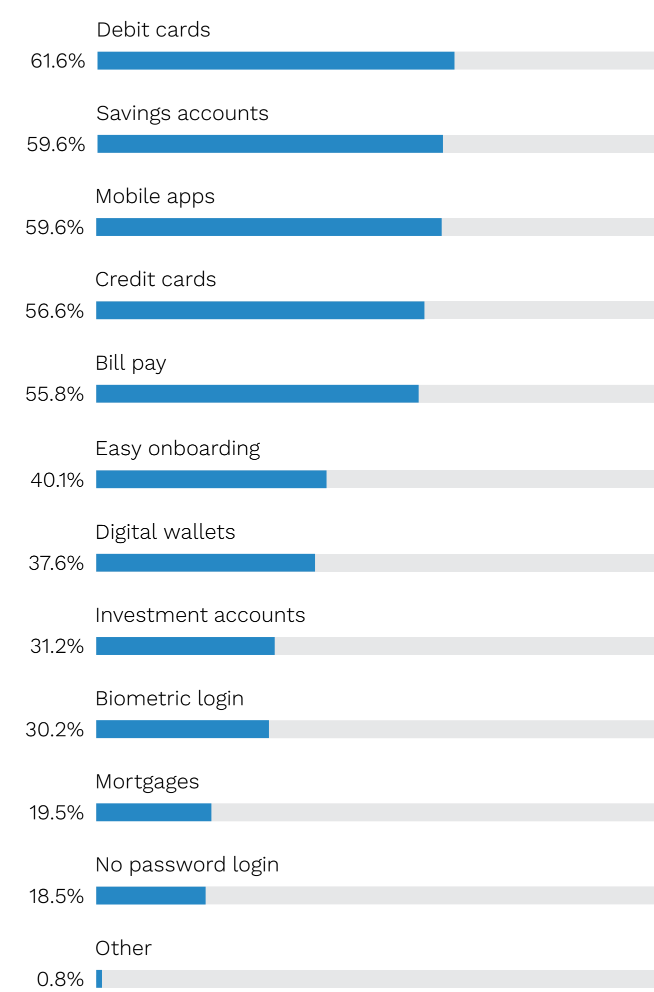
How consumers' demands are met will determine the market's future.

The strong interest in digital-only banking is offset somewhat by the low adoption rate to date. This low rate highlights that an opportunity to meet market demand exists if digital banking providers can promote their ability to provide convenient and reliable services while protecting consumers' data and privacy. Online-only banks must, at a minimum, provide basic features that consumers want.

FIGURE 12:

What consumers want from online digital banking platforms

Share of consumers desiring select features from online digital banking platforms



Source: PYMNTS | Optherium

62%

OF CONSUMERS WANT DIGITAL-ONLY BANKS TO OFFER **DEBIT CARDS.**

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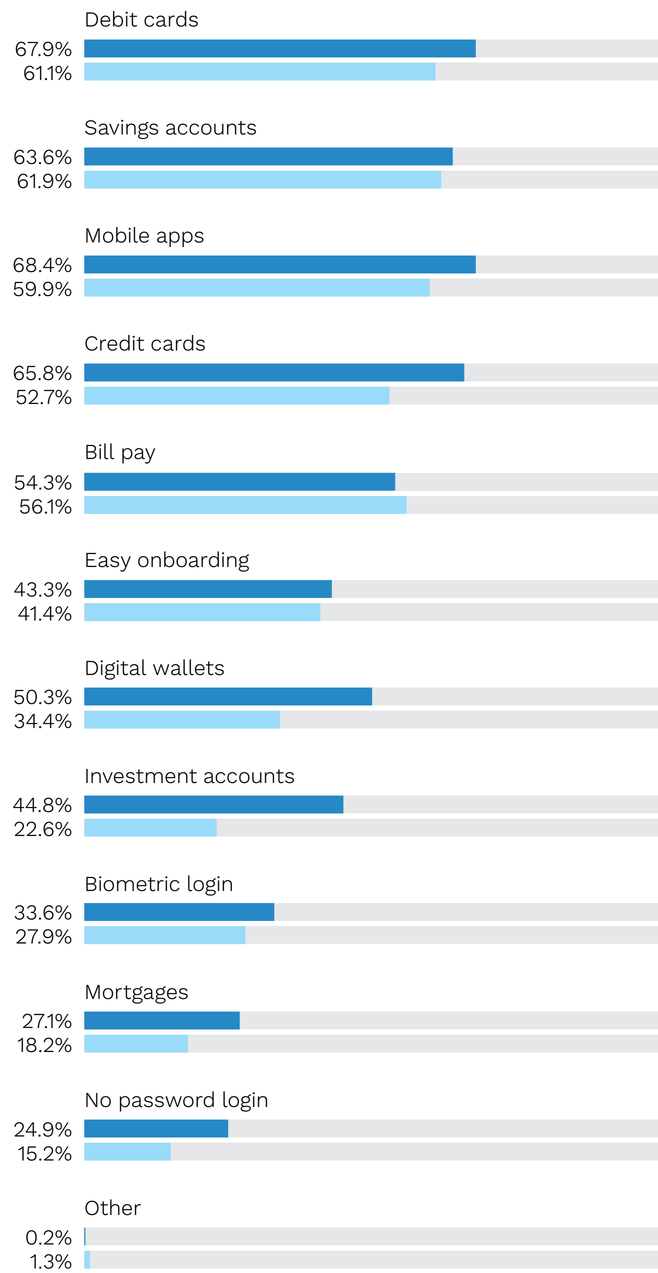
FIGURE 8:

What consumers want from online digital banking platforms

Share of consumers desiring select features from online digital banking platforms, by intensity of interest in making a digital-only bank their primary bank



Source: PYMNTS | Optherium

Very or extremely interested

Somewhat interested

A substantial amount of interest in continuing to use the more familiar banking services that have been around for decades still exists. For example, 62 percent of consumers still want debit cards. Other services, such as savings accounts, mobile apps, credit cards and bill-pay offerings, are preferred by between 56 percent and 60 percent of consumers interested in digital-only banking services. Digital-only banks may find they must satisfy these preferences with their feature offerings if they are to take advantage of the current opportunity and gain new customers and market share.

DIGITAL-ONLY BANKS MAY HAVE TO SATISFY **DEMAND FOR TRADITIONAL BANKING PRODUCTS** TO GAIN CUSTOMERS.

51%

OF CONSUMERS ARE **"SLIGHTLY" OR "NOT AT ALL" INTERESTED** IN MAKING THEIR PRIMARY BANK ACCOUNTS DIGITAL-ONLY.

CONCLUSION

As the banking market makes greater use of technology-driven services, observers of the space can expect opportunities for nonbanks to compete in the banking market and gain market share to increase. Digital-only banks and brands may want to capitalize on the opportunity consumers' keen interest in digital banking presents.

48% **of consumers say trust in a large, nonbank company's brand name would make them interested in banking with that company if it enters the market.**

This interest gives trusted brands like Amazon and Apple an opportunity to wrest market share from large banking organizations.

To succeed, nonbanks need to demonstrate the convenience, usability and security of the mobile apps, digital wallets, bill-pay offerings and other digital banking services they provide.

All competitors, including traditional banks and potential nonbank players, have to prove they can deliver the technology-based services consumers crave while satisfying their concerns about data security and privacy.

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METHODOLOGY

Digital Banking: The Brewing Battle For Where We Will Bank, a PYMNTS and Optherium collaboration, is based on a survey of 2,225 consumers in the United States conducted from July 1 to July 7. The survey asked 13 questions about consumers' banking relationships and their reasons for using a particular financial institution as their "primary" bank. We define primary bank as the bank at which consumers keep checking and savings accounts that they use to deposit their paychecks and/or pay their personal bills.

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PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

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Optherium is the most powerful, secure, and cost-effective ecosystem for digital banking. We provide IT consulting and IT integration services to banks, enterprises, and governments. Our products are innovative, white label, neobank and RegTech software-as-a-service solutions for digital banking. Our platform provides everything needed to effectively launch and run your own digital banking application. Services cover white-label mobile and web applications, pluggable interfaces, Optherium SDK, and custom APIs.

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