UK Fintech & Open Banking

Where is the consumer opportunity?

Gusto RESEARCH

Introduction

In this report, we reveal crucial insight on the critical areas driving current and future consumer reactions to 'Fintech' innovation:

- Which services are they aware of, and which would they consider using?
- Which potential providers have they heard of, which would they consider, and which would they prefer to access services through?
- How 'digital' are existing banks?
- What would drive faster adoption?
- What are the key barriers to adoption?

This insight is based on an online survey Gusto conducted in February 2017, with a nationally representative sample of 1,000 UK adults with active bank accounts.

By Mark Gentry
Associate Director

> **"We estimate the Fintech market… to be worth c. £20bn in annual revenue and growing…"**

Ernst & Young, "Landscaping UK Fintech",
Commissioned by UK Trade & Investment, 2014

The emergence of a thriving 'Fintech' sector is a success story for the UK economy, estimated by the UK government in 2014 to generate substantial annual revenues.

Fintech is seen by many as having the potential to unlock tremendous economic benefits.

The UK Government is actively pushing 'open banking' as the key to generating the innovation, competition and investment they see as necessary to revive the financial services sector.

As with any new technology, the acid test for success is consumer response.

Overall, our research findings align with the emerging supply-side view that consumers are not looking for the full-scale disruption of financial service relationships that many commentators foresee being driven by the emergence of the 'Fintech' sector.

Nonetheless, this technology has tremendous potential to drive the adoption of beneficial new services, address unmet consumer needs, and accelerate the evolution in how consumers use their money.

"The question is no longer "bank or Fintech?" but programming interfaces and calculating costs...

While Fintechs started off being quite feisty towards the established institutions, we are now seeing a diverse coexistence based on competition, cooperation and expanding the service offering."

Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank. Introductory address delivered at the Baden-Baden Entrepreneur Talks, 22.03.2017

The insight in this report focuses on the following key conclusions:

Sentiment is positive overall, and stronger among younger consumers

Payment services drive adoption, but aggregation and digital banks are on consumers' radar

Banks are the preferred channel… but online payment and card providers would be considered

New 'Digital Banks' are emerging, but specialist providers are better-known

Several major banks are successfully positioning themselves as 'digital' banks

Concern for security of money is the most important factor influencing adoption

Cost savings are likely to drive short-term adoption, but personal support will be needed

Sentiment is positive overall, and stronger among younger consumers

Digital technology opens up new opportunities for consumers to benefit from closer control over their day-to-day finances.

Products promise better value and a better user experience, tailoring and responding to changes in individual circumstances.

As well as improving the efficiency of ‘back-office’ systems, innovative and disruptive digital services for the consumer have also been touted as proffering nothing short of a revolution for how we spend, save and interact with our money.

Our research confirms that most consumers welcome the emergence of new online financial services.

60% feel positive about using new online financial services

14% feel very positive 14%

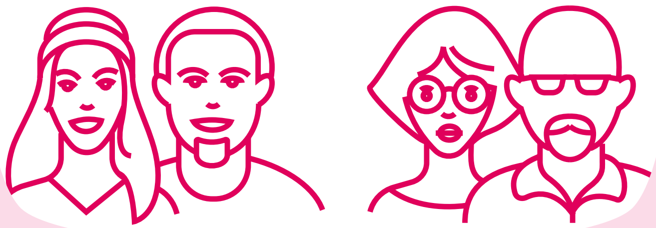
Sentiment towards using new digital financial services is broadly positive, particularly among those aged 25-34, where openness to technology and financial need combine most strongly.

At retirement age, however, sentiment is far less positive, limiting the opportunity for pension decumulation and other services focused on the ‘grey market’.

81% of those aged 25-34 feel positive

VS

28% of those aged 65+ feel positive



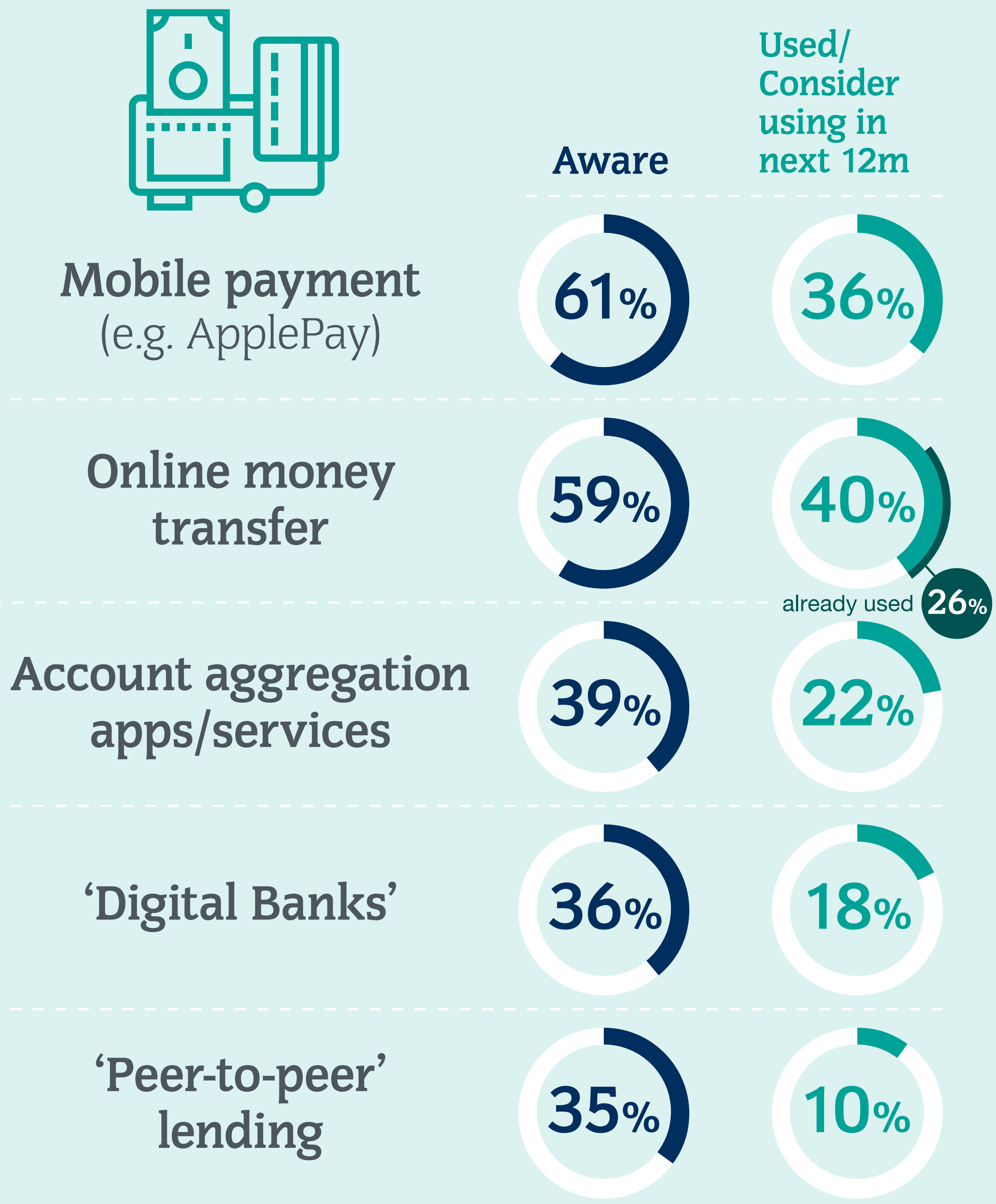
Payment services drive adoption, but aggregation and digital banks are on the radar

Out of all the new services available, mobile and online payments appear to be acting as the gateway to the world of 'Fintech' for consumers.

We found that around three in five people are aware of these services and more than one in three have either used them, or would consider using them in the next 12 months. Over one in four have already made online money transfers.

Account aggregation and 'digital banks' are on consumers' radar but are not well-established as yet. Over one in three are aware of these services, and around one in five have used/would consider using them in the next 12 months.

Over one in three are aware of 'Peer-to-peer' lending, however, only one in ten have used/would consider using this in the next 12 months. This looks set to remain a niche interest in the short-term.



Banks are the preferred channel… but online payment and card providers would be considered

The potential for emerging Fintech to cause significant consumer disruption has been the subject of much speculation.

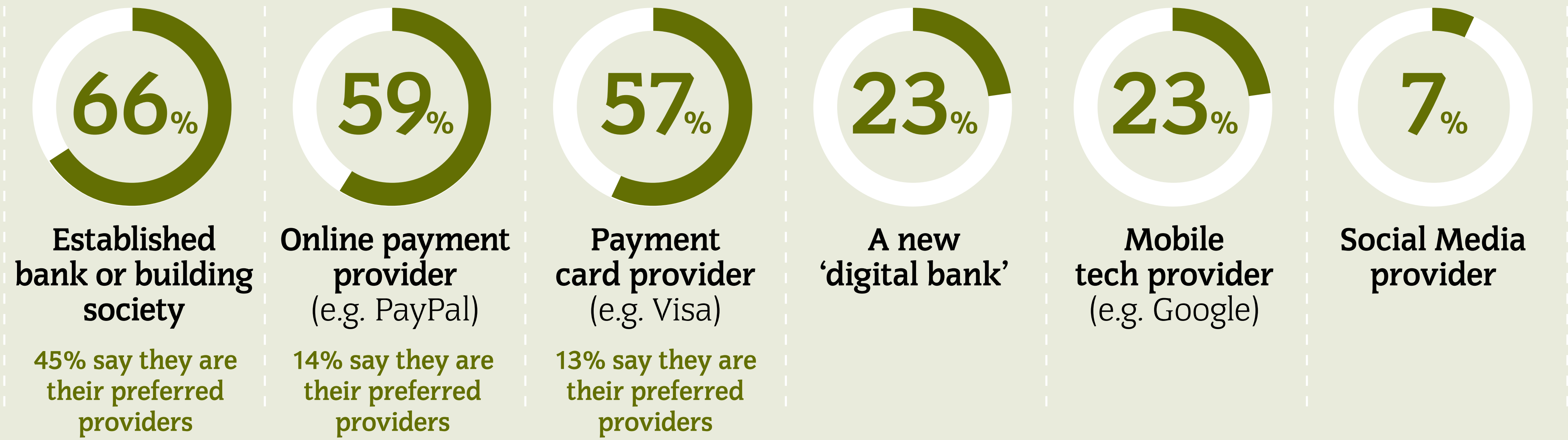
Technology providers who keep control of the end-user interface, could potentially control the consumer relationship, and push traditional banks into the background (as infrastructure providers) or replace them altogether.

Our research clearly shows that consumers currently prefer to use established banking institutions to access new digital services.

Established online payment and card providers, such as PayPal and Visa are seen as the most likely alternatives. Despite their high profile, mobile technology providers and 'digital banks' are currently low on the list of potential providers, with Social Media platforms hardly considered at all.

There seems little appetite for a 'revolution' from consumers at present.

Who would you consider using to access new types of digital financial services?

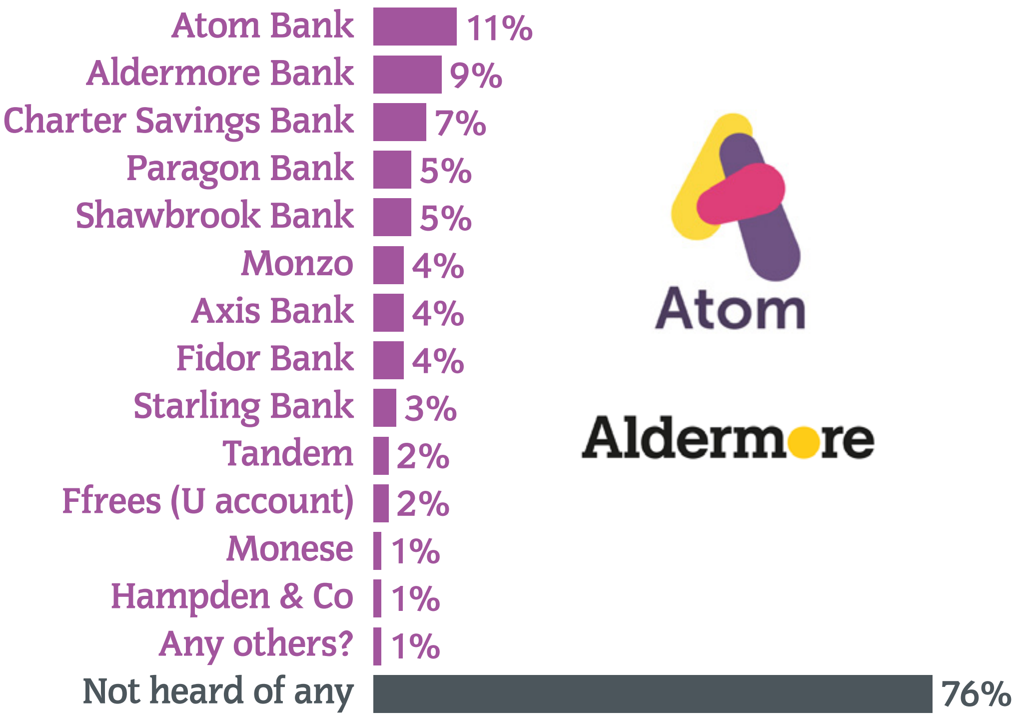


New ‘Digital Banks’ are emerging, but specialist providers are better-known

Atom Bank is most well-known new ‘Digital Bank’ at the moment.

Established ‘challenger’ banks with strong digital offers (such as Aldermore), also currently have slightly stronger levels of awareness than new market entrants.

Awareness (with prompting)

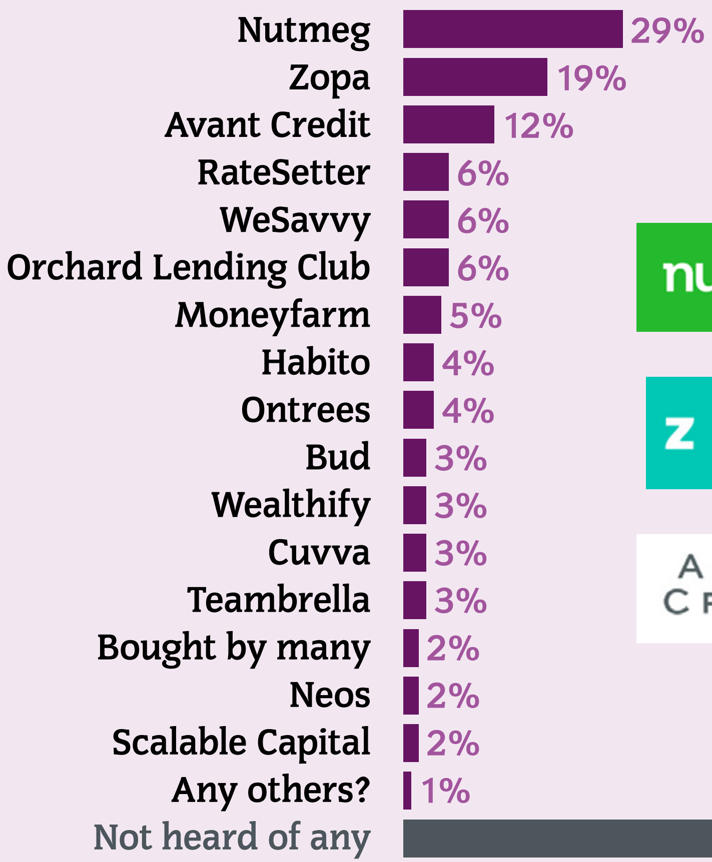


New specialist service providers look strongly positioned in niche areas.

Nutmeg Wealth Management has established a particularly strong level of brand awareness among consumers.

Awareness of the Zopa peer-to-peer lending platform and Avant Credit personal loans is also relatively strong.

Awareness (with prompting)



Several major banks are successfully positioning themselves as ‘digital’ banks

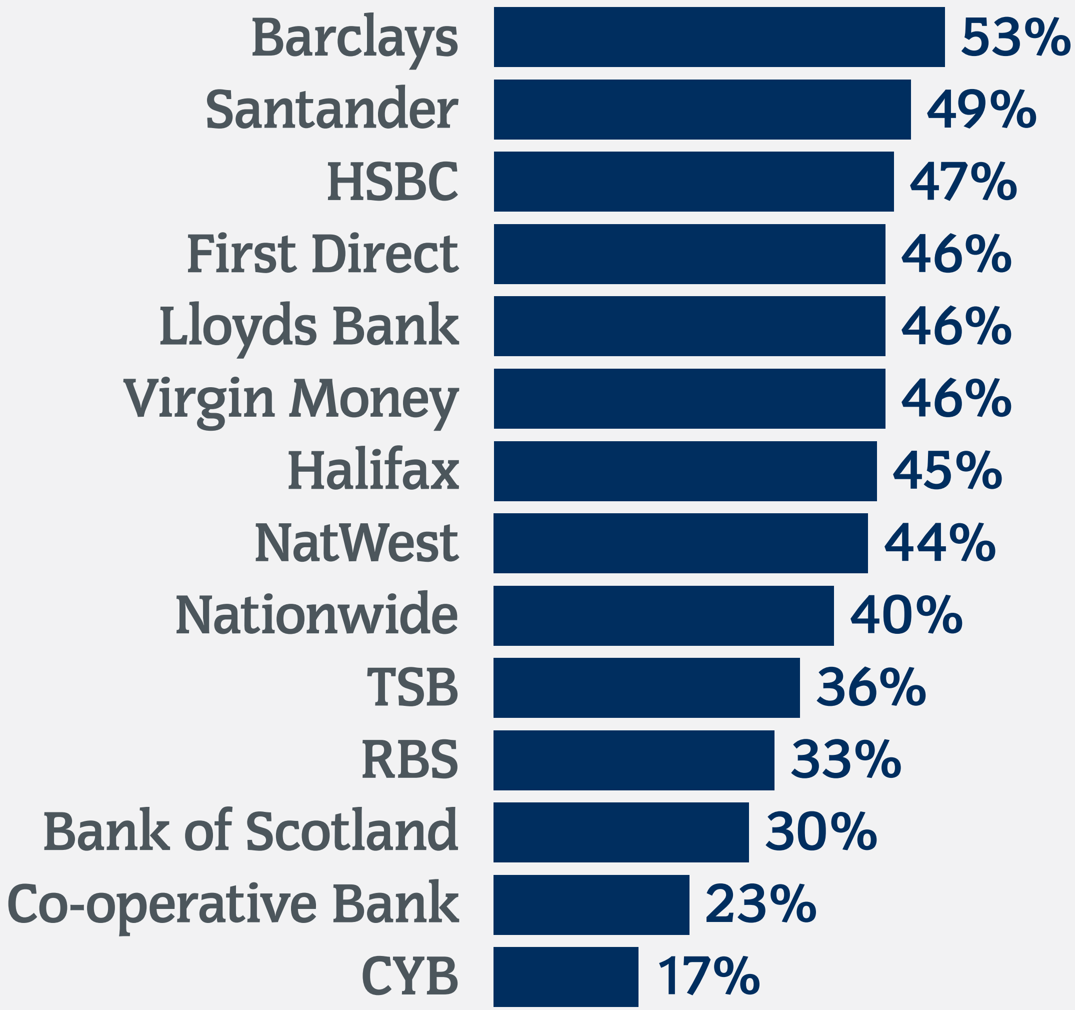
Major banks are also looking to establish themselves as ‘digital’ providers, to compete with emerging competitors.

We found that Barclays is the mainstream banking institution most likely to be regarded as ‘digital’.

Barclays’ recent above-the-line advertising campaign emphasises their online focus very strongly, and may well be helping to establish them at the forefront of the traditional providers.

Santander, HSBC, First Direct and Lloyds have also achieved relatively high levels of ‘digital’ association.

Do you consider the following banks to be ‘digital’? *



*Banks that allow you to fully manage your money online using on-line banking portals or apps

Concern for security of money is the most important factor influencing adoption

The extensive growth of mobile payments over the last 12-18 months has raised expectations for rapid adoption of new consumer 'Fintech' applications. However, these services have to contend with ongoing concerns about security, whilst aligning with unmet (and therefore unpredictable) consumer needs.

We asked people to tell us what was likely to encourage or discourage them from using new digital financial services. We analysed both what they said, and how fast they responded, in order to identify the factors that had the greatest explicit/rational (strong) and implicit/irrational (fast) impact. These are the areas on which providers need to focus in order to drive take-up of services.

90% say that improved security of their money would encourage them to use services

91% say that concerns that their money might not be secure would discourage them from using services

Security of money is the key area where providers need to reassure consumers. Strong security is seen as a key potential driver of adoption as well as a barrier.

In both cases, we found strong explicit and implicit responses, highlighting the enormous influence of security perceptions on adoption decisions.

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Convincing consumers that these services have security levels that match, and potentially exceed online banking, is key to widespread take-up.

Cost savings are likely to drive short-term adoption, but personal support will be needed

Consumers are also implicitly motivated to use services when there are straightforward benefits and limited perceived risks.

Saving money on insurance premiums is a key area of potential short-term usage, along with better money management.

By the same token, fear of not getting the best deal can be a strong barrier.

Providers will need to reassure customers that the cost savings arising from the use new technology are being passed on to them through cheaper prices and better value.

84% say saving money on insurance premiums would encourage them to use services

83% say being able to manage money more efficiently in general would encourage them

90% say not getting the best deals would discourage them

Finally, lack of personal service would be a major implicit barrier to service usage. Consumers clearly still need reassurance that they can talk to someone if they need to.

88% say not being able to talk to someone if they needed help would discourage them from using digital financial services

To maximise their potential, service providers will need to develop business models that can accommodate the cost of offering appropriate levels of personal support, integrated with service delivery that is largely automated.

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