Article:
FinTech is gaining traction and young, high-income users are the early adopters

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FinTech is gaining traction and young, high-income users are the early adopters

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Abstract
This article presents the findings of new research focused on the consumer adoption of FinTech. FinTech products – financial services products developed by non-bank, non-insurance, online companies – offer alternative ways of accessing a variety of services, from money transfers to financial planning. Adoption is relatively high for such a new category – with 15.5% of digitally active consumers using FinTech products. The projected growth is dramatic: the adoption levels could potentially double in 12 months. FinTech adoption peaks above 40% among digitally active users with high incomes — which means that some of the most economically valuable customers for banks and insurers are already FinTech customers.
1. Introduction: Getting to a baseline understanding of FinTech adoption

There has been an explosion in the number of new technology-led entrants in financial services in the last few years, broadly operating under the term FinTechs. In this article we define FinTechs as firms that are combining innovative business models and technology to enable, enhance and disrupt financial services.

Last year $12 billion of private capital was invested into FinTechs, helping thousands of new companies form, win customers and scale up their operations. The most promising FinTech companies have a laser-like specific customer proposition — generally one that is poorly served, if at all, by traditional financial services companies — and serve up a seamless and intuitive user experience.

Banks and other financial services companies have watched nervously as more and more FinTechs have brought significant innovations to the market. Some of these more traditional companies have begun to engage with FinTechs through partnerships, incubator programs and outright acquisitions. They are trying to understand the level of threat and get answers to some basic questions. For instance, how many consumers are using FinTech products? What is the profile of the user base? What is their reason for using FinTech? In short, how much traction does FinTech really have?

To fill this information void, we have launched the EY FinTech Adoption Index. The Index attempts to capture the level of FinTech adoption among digitally active consumers. Our research also allows us to develop a detailed picture of the existing FinTech user base.

In this first article, which draws on a survey of 10,131 digitally active consumers, we look at FinTech adoption in Australia, Canada, Hong Kong, Singapore, the U.K. and U.S.¹ In each of these markets, we have identified 10 FinTech services which fall into four broad categories: savings and investments, money transfers and payments, borrowing and insurance (see Table 1).

¹ The survey was conducted in September and October 2015.
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Table 1

<table>
<thead>
<tr>
<th>Savings and investments</th>
<th>Money transfer and payments</th>
<th>Borrowing</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Equity or rewards crowdfunding</td>
<td>7. Overseas remittances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Online investment advice and investments</td>
<td>8. Non-banks to transfer money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Online budgeting and financial planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Online stockbroking or spread betting</td>
<td></td>
<td></td>
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</tbody>
</table>

Non-bank money transfers have become extremely common among digitally active consumers – they are a mainstream product. We have adjusted for this over-indexing by categorizing as FinTech adopters those who say that they have used two or more of the 10 products listed in Table 1 in the last six months. We believe this makes our definition of FinTech use more rigorous, and our discussion of FinTech adoption cohorts more reliable.

2. Investment, support from government and falling technology costs are fuelling innovation in financial services

In the race for online financial services, the starting gun has sounded. FinTech companies are giving users new ways to raise debt and equity financing, manage investments, obtain cheaper insurance through telematics and make payments. By some estimates, as many as 12,000 financial technology start-ups now compete for consumers’ attention. The start-up activity has been supported by the ever-lower cost of technology, and by capital from both corporate sources (including banks and financial services companies) and more traditional early-stage investors (including venture capitalists and angel funders). Today, there are dozens of FinTech firms (so-called unicorns) with valuations in excess of $1 billion.²

FinTechs have also benefited from the open support of governments looking to promote competition and innovation in financial services. While the impact of this support is hard to quantify, it undoubtedly sets the tone both within the broader business environment, and for the application of regulations. One of the governments providing this support is the U.K., for which EY previously authored a study about FinTech’s potential (Landscaping UK FinTech, 2014).

3. Adoption levels by market
FinTech is clearly more than just hype. In the six markets we surveyed, a weighted average of 15.5% of digitally active consumers are FinTech users (according to our definition as having used at least two FinTech products). Hong Kong, where 29.1% of the digitally active use FinTech products, and Canada, with 8.2% are the only markets surveyed that differ significantly from the 15.5% average; all other countries’ rates gravitate within 2.5 percentage points (Figure 1 overleaf).

The survey suggests the proportion could swell to twice these levels, or even higher, within 12 months. EY plans to update The Index regularly and expand the country coverage in order to develop a time series of adoption.

4. The main FinTech categories and the extent to which they are catching on
That money transfers and payments have high adoption rates should not come as a surprise. In effect, these are entry-level FinTech products, allowing consumers to test the waters with simple transactions that don’t involve much risk or commitment. Payment services provided by FinTechs are also an integral part of the customer journey of many popular e-commerce sites, designed to eliminate friction and improve conversion rates at the purchase stage.
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Figure 1: FinTech users by market

Because of these factors, 17.6% of respondents have made a transaction in the last six months through an online company that is not a bank. Online payments (including through PayPal) account for the most transactions in this category, followed by online foreign exchange and overseas remittances (Figure 2 overleaf).
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Figure 2: Analysis of FinTech use by product type

The savings and investments category comes as the second most heavily used, at 16.7%. Online stockbroking and spread betting are the most common activity types within this category. These are followed in order by online budgeting and planning, online investments, equity and rewards crowdfunding and investing through peer-to-peer (or marketplace lending services) loans.
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Insurance, including health premium aggregators and car insurance utilizing telematics, intended to lower premiums, is the third most-used FinTech category, followed by online borrowing (through peer-to-peer websites). These two categories of FinTech have the lowest adoption, though both still have usage rates above 5% among those we surveyed.

There are some notable differences in the ordering of products by geography. For instance, online stockbroking and spread betting are the most common activity types in Australia and Hong Kong. Online budgeting and planning is popular in the U.S., with almost 10% of respondents saying they have used this service in the last six months.

5. Why FinTech is gaining traction and the key constraints on its growth

Consumers using these new online financial services say that a big part of their appeal is the ease of setting up an account. More than two in five FinTech users (43.4%) cite ease of setup as the number one reason to use these products. This is followed by more attractive rates/fees, access to different products and services, and better online experience and functionality (Figure 3 overleaf).

That FinTech succeeds along these dimensions, especially ease of setup and the quality of online experience, is in our view a function of the design principles followed by many FinTech firms. These design principles include:

- construction and delivery of their proposition entirely around the consumer, ideally embedded in a non-financial services use case
- simple and intuitive customer visuals and journey, with easy onboarding
- simple product constructs (customizable, but with limited variability) with no penalties or commitments.
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**Figure 3: Reasons for using FinTech services (reasons that responses voted as first choice)**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy to set up an account</td>
<td>43.4%</td>
</tr>
<tr>
<td>More attractive rates/fees</td>
<td>15.4%</td>
</tr>
<tr>
<td>Access to different products and services</td>
<td>12.4%</td>
</tr>
<tr>
<td>Better online experience and functionality</td>
<td>11.2%</td>
</tr>
<tr>
<td>Better quality of service</td>
<td>10.3%</td>
</tr>
<tr>
<td>More innovative products than available from traditional bank</td>
<td>5.5%</td>
</tr>
<tr>
<td>Greater level of trust than the traditional institutions</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Base: 1,485 respondents who indicated using two or more FinTech products in % of first choice rankings
EY FinTech Adoption Index 2015

The use of these design principles, in many cases for building services from the ground up, has led to easy-to-understand customer propositions and product sets that can be very appealing. By contrast, traditional players are often constrained by product silos, rigid product suites and pricing structures, and legacy core IT systems. As a result, their online products have more cumbersome user interfaces than FinTech products, and are more apt to involve complex and manual processes.
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Banks are not necessarily stuck with this baggage. Many are beginning to replicate certain FinTech design principles, using mechanisms like customer experience laboratories and rapid prototyping to research and test new services. These methodologies are allowing traditional financial institutions to create more intuitive online products. And in certain service areas and segments, financial services companies are getting to where they want to be by partnering with FinTechs.

6. Early adopters of FinTech tend to be young, high-income, high-value customers.
The use of FinTech skews toward younger, higher-income groups. For instance, about one in every four respondents aged 25 to 34 has used at least two FinTech products in the last six months. FinTech use is also higher than average among 35 to 44 year-olds (21.3%), and among those in the 18 to 24 cohort (17.7%). For each cohort above age 44, the proportion of FinTech users declines and is below the average of all users (Figure 4 overleaf).

Younger non-FinTech users are also far more likely than older non-users to say they plan to give additional FinTech products a try in the future. Among non-FinTech users aged 18 to 34, roughly 23% expect to be using at least two of these newer online financial products in the next six months. If they behave as they say they intend to, nearly half (47.8%) of all digitally active consumers aged 25 to 34 will be FinTech users in the near future.

FinTech use is light among those who make less than US $30,000 (Figure 5). Usage grows steadily as respondents’ incomes move higher, reaching 44% for those with incomes above US $150,000.³

³ Our sample has limited coverage of high-income segments. Still, the trend toward higher usage in this segment is clear.
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Figure 4: Use of FinTech users by age group

Base: 1,485 respondents who indicated using two or more FinTech products

EY FinTech Adoption Index 2015
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**Figure 5: Profile of FinTech users by income group**

In addition, many high earners not currently using FinTech expect to make more use of their products in the next six months, suggesting a situation where almost 60% of people earning US $150,000 and above may soon be FinTech users. The high adoption rates, current and planned, reflect higher earners’ greater interest in money transfer and investment products, the FinTech propositions of most interest to this cohort.
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By contrast, lower-income respondents are much less likely to use savings and investment products, and fewer than 3% have bought insurance or borrowed money through a FinTech (Figure 6).

Figure 6: Consumer preferences by income levels

Base: 2,592 respondents who indicated using at least one FinTech service
EY FinTech Adoption Index 2015

The upshot of FinTech’s high-end penetration is that FinTech companies are threatening banks’ share of wallet in one of their most important segments. In response, financial institutions may want to re-assess how they attract and serve this high-value segment. Traditional customer segmentation strategies, focusing on customers’ wealth, probably made sense when banks were the natural, and in many cases, the only real choice for many retail financial products. However, in the era of FinTech, a more nuanced segmentation strategy should come into play with banks taking a fresh look at how they assess customer lifetime value and reaching out to key customer segments in a more focused way.

Our view is that banks should review their multi-channel strategy, particularly for the product areas and high-value segments most impacted by FinTech, in order to deliver a better online experience to customers.
7. Urban areas have a higher rate of FinTech adoption
In the six markets in our survey, city dwellers are significantly above the average in their use of FinTech. For instance, the New York digitally active users are twice as likely to take advantage of two or more FinTech products than the country average (33.3% compared to the U.S. 16.5% rate). The trend is similar for London (25.1% of Londoners use FinTech versus 14.3% of the U.K. country average) and to a lesser extent, Sydney (16.3% versus 13% for all of Australia).

The high adoption rates in cities is a function of demographics and access. On the demographic side, cities tend to have a disproportionate number of higher-income users and millennials. On the access side, offline media is more effective within cities than outside of them, thanks in part to the wide reach of advertisements in buses, subways and other heavily trafficked urban settings. For these reasons, it seems certain that FinTech adoption rates in cities will remain structurally higher than outside cities.

8. For the substantial majority of respondents who have not used FinTech products in the last six months, awareness is the main hurdle
Over half of non-FinTech users say they simply are not aware of the existence of FinTech services. About a third say they don't need such products, and just over a quarter say they prefer working with a traditional bank or insurance company.

One factor that has not hampered these services to date, is trust (Figure 7 overleaf). That suggests that usage may increase as marketing grows and awareness rises, and reinforces the notion that the threat to banks and insurers will intensify.

Many FinTechs are using the significant funds they have been raising to invest in customer acquisition strategies including marketing and awareness raising. This puts the two worlds on a collision course, increasing the urgency for financial services providers to come up with a competitive response.
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Figure 7: Reasons consumers say they don’t use FinTech

- Was not aware they existed: 53.2%
- Did not have a need to use them: 32.3%
- Prefer to use a traditional financial services provider: 27.7%
- Don’t understand how they work: 21.3%
- Don’t trust them: 11.2%
- Have used FinTech in the past but don’t want to use it again: 0.8%

Base: 7,539 respondents who have not used any FinTech products
EY FinTech Adoption Index 2015
Conclusion

Banks and insurance companies have historically been protected by barriers to entry. These include the complexity of the regulatory environments in which they operate, the lack of “killer apps” that have come along to replace them, and the trust that consumers and governments implicitly have in brand-name financial institutions. This protection has been reinforced by a degree of customer inertia, and by the burdensome process of switching and opening new accounts.

However, all of these barriers are starting to come down. Regulators, especially in a post-crisis world where banks’ reputations have taken a hit, are actively working with new entrants in the hope of giving consumers more choice. Some of the new FinTech services are simply better, offering deeper or unique value propositions, and a more intuitive experience than traditional financial products. Ease of setting up an account is a great example: with many FinTech products, account setup can be completed in a few minutes. Finally, traditional bank and insurance customers have learned that they can get some of what they need online, in the same way that traditional retail customers, 10 or 15 years ago, embraced the online channels. The issue of trust online has not gone away completely, but it is receding, as the findings in this survey make clear. As FinTech adoption catches on, it is inevitable that more consumers will drift away from traditional financial services companies. Banks and insurers are already beginning to work with FinTechs through partnerships and acquisitions. In doing so, they are tacitly acknowledging that some level of coexistence between the new and the old will be inevitable in the future.

However, if these firms are to compete effectively with the challenge from FinTech providers, they need to provide a more comprehensive response. They must re-assess their view of which customers are most at risk from the new competition and re-double their efforts to serve them effectively. Customers who don't meet traditional wealth management segmentation criteria, but who are potentially valuable users of savings/investments or payment products, may merit fresh attention. Furthermore, traditional firms must learn to adopt, in their own way, the design elements that make FinTech services so engaging and easy to use. While not directly replicable, there is much to learn from how FinTechs are designing the customer proposition and how they are harnessing technology to deliver compelling services.
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