

The Digital
Migration

Growing Share of Banking

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Executive Summary

The FinTech industry has produced a plethora of challenger bank brands, giving today's consumer numerous digital banking options. The US alone has **30+ digital-only banks***; brick-and-mortar institutions have improved their digital offerings; and consumers view digital P2P wallets as banks.

With over 40 million US users adopting digital bank accounts**, the banking landscape is at a watershed moment as consumers pressure test these virtual accounts.

In 2020, the **U.S. Digital Banking Survey** completed by Pathward® and Visa®, looked broadly at these dynamics across digital banking. Our research dives into acquisition drivers, usage habits, barriers to adoption and the users behind this substantial migration to digital banking.

This market is still maturing even as **38%** of all consumers now own digital-only bank accounts. Importantly, these digital accounts are giving access to banking and investing opportunities to consumers who were previously boxed out.

Online finances have evolved dramatically in the last decade, moving from static tasks like monitoring one's everyday purchases to full spectrum financial services from spending, saving, investing and borrowing. Challenger bank brands that meet these evolving consumer needs will be in a good position to win.

Our study will help illustrate how these consumers are navigating and adopting digital accounts, and will provide strategic recommendations on ways to attract even more users. Ultimately, how well digital banks craft their solutions and messages to drive consumers to shift a portion of their banking to digital will determine that brand's success.

* <https://www.kansascityfed.org/publications/research/rwp/psrb/articles/2020/neobanks-banks-any-other-name>

** 2018 U.S. Census Data



Digital challengers should focus on ways to grow share of banking - entice the consumer to trial a portion of their banking with a digital account

Our study focused
on **three consumer
banking segments,**
each with
600 respondents



Digital Purists

Consumers who bank solely online, either with challenger bank brands or online-only accounts offered by traditional banks. Their accounts are not associated with a bank which has any physical location.



Hybrids

Consumers who both bank with digital-only accounts AND hold an account(s) with a traditional bank or credit union with a physical location.



Traditionalists

Consumers who exclusively bank with banks that have a local, physical location.

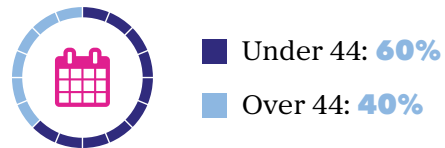
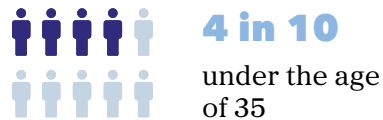
CONSUMER PROFILES

Digital Purists

Cumulatively, this is the youngest user base. They have fewer kids and marriages than their other segments. They skew toward urban living and claim to be the least financially stable.

Key Statistics

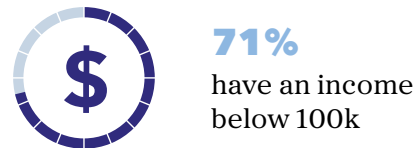
Youngest Demographic



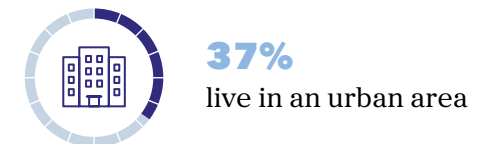
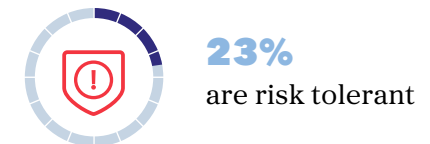
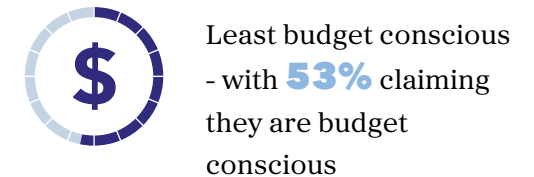
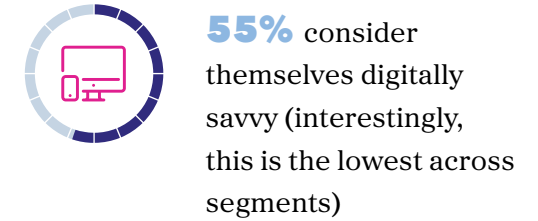
Gender



Least Financially Stable



More Profile Insights



CONSUMER PROFILES



Hybrids

Demographically, Hybrids are more affluent, educated, employed and risk tolerant. Their profile is more closely aligned with the Digital Purists than Traditionalists. The most noteworthy deviation from other segments is their heavy gender skew towards men.

By definition Hybrids are open to managing their funds across multiple accounts

As previously stated, this profile helps illustrate why this segment is a rich target for challenger bank brands. Shifting a share of their banking to a digital format offers a lot of deposit and transaction opportunity.

More Profile Insights



36%

2+ digital-only bank accounts



24%

are risk tolerant



60%

full-time (consistent with the 60% national average)

Key Statistics

Most Kids



63%

have kids

Most Educated



57%

(hold a 4-year degree and higher)

Most Affluent



4 in 10

(100k + income)

Most Male



40%



60%

Challengers

A deeper dive into the Digital Purist & Hybrid segments

We looked more deeply at a digital-only sub-segment – The Challengers. This segment was defined as consumers banking with challenger bank brands (e.g. Chime, Varo, MoneyLion) rather than digital accounts offered by traditional bank brands or online credit unions.

The consumers banking with challenger brands skew even younger, more urban and more risk tolerant.

	Digital-Only Statistics	Challenger Subsegment Statistics
Gender	52% F / 48% M	49% F / 51% M
Under 44	60%	78%
Over 44	40%	23%
% with 100K Income	29%	37%
% Full Time	42%	57%
% Urban	37%	48%
% Risk Tolerant	23%	53%

Among account holders, **51% of the Digital Purists** and **61% of the Hybrids** have accounts with Challenger bank brands

Digital Purists



Hybrids



Challenger Subsegment
 "Other" Digital Bank Subsegment

CONSUMER PROFILES



Traditionalists

Traditionalists provide a contrasting narrative to digitally-banked segments. They are less affluent, older and less risk tolerant than both Digital Purists and Hybrid users.

Key Statistics

Oldest



4 in 10

over the age of 55

Most Financially Stable



5 in 10

report being financially stable

Most Female



56%

44%



26%

have an income of at least 100k

More Profile Insights



61%

consider themselves digitally savvy (interesting to note while they haven't adopted a digital account, they are comfortable with technology)



14%

are risk tolerant



46%

live in a suburban area

Consumer Banking Habits

Account
Ownership

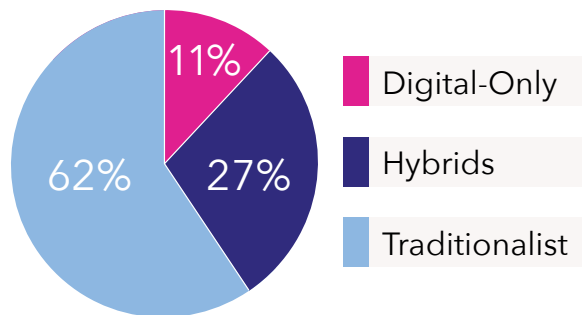
Drivers of
**Multiple
Accounts**

Consumer Banking Habits

While the digital banking category has grown, digital users are still acting like early adopters: they are analytical about their choices – **nearly a quarter** of respondents research **many** digital bank options before opening an account.

Now that we've introduced the various banking segments, how big are they? A full **11%** of all consumers bank exclusively through digital-only bank accounts, over double that (**27%**) are using both traditional and digital-only accounts, a segment we're referring to as the **Hybrids**.

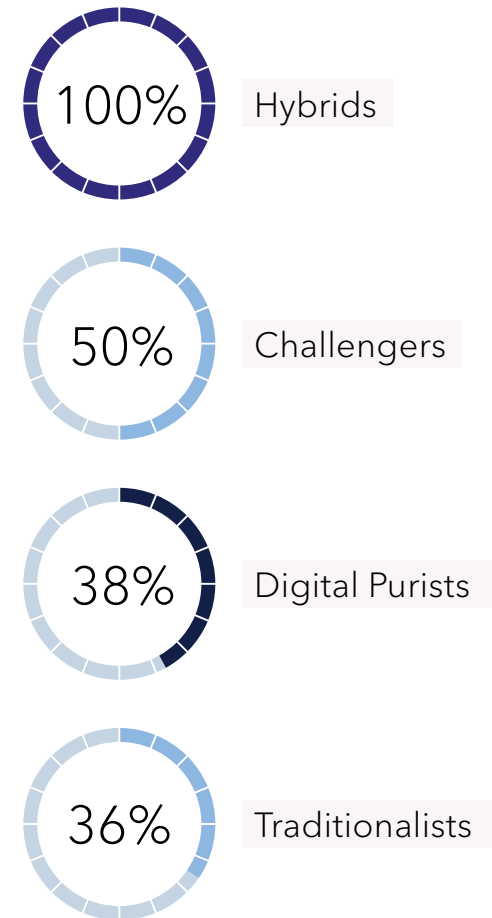
U.S. Banking Consumer Segments



These hybrids are indicative of an overall trend:

American consumers are comfortable holding multiple bank accounts with **36%-100%** (depending on segment) of consumers owning two or more bank accounts

% OWNING MULTIPLE ACCOUNTS



What's driving multiple account ownership?

Regardless of segment, there are three primary motivators:



Budgeting

separating funds for everyday spending (**46%**)



Safety

multiple accounts is perceived as safer (**42%**)



Money Movement

ease of sending funds between accounts and to other people (**33%**)

Hybrids are a sizeable, important segment to understand in the banking space.

Understanding their behavior can help define acquisition strategy. One key insight is that **77% of Hybrids** report they will never close their traditional accounts because of **convenient access to free, local ATMs and Security, nervous to put all money in digital bank**. These digital adopters view their digital accounts as an addition to their existing account(s), not a full replacement.

Reasons Hybrids Retain Traditional Accounts

Sample Size

N=600



Figure 3: Hybrid Users Top Reasons to Keep Traditional Account(s) (% Selecting as a Top 5)

The Digital Migration



Driving
Awareness



Driving
Adoption

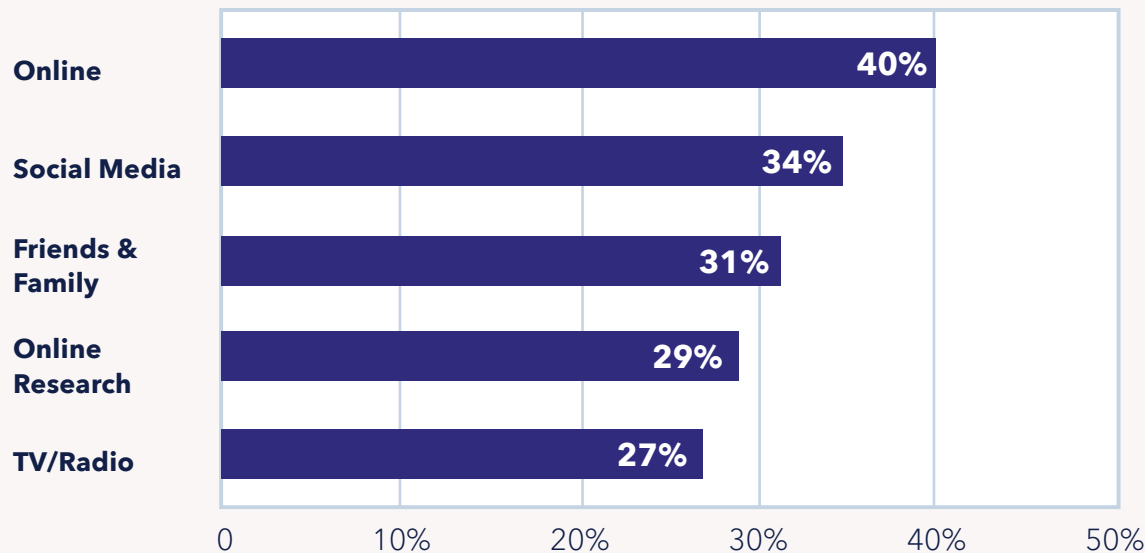


Hybrids -
Sweet Spot

Driving Awareness

Consumer awareness of digital-only banks is being driven primarily by digital channels. This technology-forward marketing aligns with challenger bank brands, in particular, as they tout their next-generation products and solutions, which appeal to a younger, more digitally-savvy demographic.

Top Channels For Learning About Digital Banks



This doesn't mean challenger bank brands have dispensed with traditional advertising (e.g. billboards, magazines, subway and bus stops), but the effectiveness of below-the-line advertisement has been significant, and should continue to be deployed.

80% of all segments visit at least one of the following social media platforms more than once a week: Facebook, YouTube and Instagram

Importantly, Hybrids hold the broadest and deepest social media footprint – a prime target to receive digital advertising

Traditionalists learned of their brick-and-mortar banks from Friends and Family (**62%**). Online Advertising (**17%**) and Social Media (**13%**) score much lower as awareness drivers. Nevertheless, with **31%** of digital account users also learning about their primary bank from friends and family, challenger bank brands may have to get more innovative about how to tap this conventional yet valuable channel.

THE DIGITAL MIGRATION

DRIVING ADOPTION

Digital adopters are persuaded by easy online experiences, so challenger banks – formed by strong product and user design teams coupled with an emphasis on the mobile experience – should have an edge against traditional competitors.

Consumers adopt digital accounts for the benefits challenger bank brands have offered in competition against traditional banks - **better economics**

For all digital bank segments, top drivers for acquiring a digital account include:

- APR on Savings (**49%**)
- Lower Account Fees (**48%**)
- No Overdraft Fees (**46%**)

However, **functional features** like Mobile User Experience (**45%**), Early Access to Wages (**44%**) and Convenient ATM Locations (**44%**) ran a close second to the economic benefits, suggesting digital

Digital Features Driving Adoption

	All Digital Bank Segments N=621	Digital-Purists N=310	Hybrids N=312
APR on Savings	49%	33%	55%
Lower Account Fees	48%	55%	45%
No Overdraft Fees	46%	49%	45%
Smart Phone / Mobile	45%	47%	44%
Early Access to Wages	44%	41%	45%
Convenient ATM Locations	44%	44%	44%
Manage all Financial Needs	39%	47%	36%
Simple Billpay	34%	40%	32%
Ability to Access Discounts	30%	25%	32%
P2P Payments	28%	27%	28%
Special Savings Functionality	28%	28%	28%
Ability to use this Account to Invest	27%	25%	27%
Ability to Borrow Short Term Loans	24%	23%	24%
Budgeting Tools	21%	31%	17%

banks should convey more strongly that what consumers experience at brick-and-mortar banks are also available with virtual accounts.

Important to note, **Hybrids value APR on Savings most**. As a segment, they are more

affluent and therefore have more to save. Whereas, for the younger, less established **Digital Purists, lower account fees stand highest**. Understanding the needs of these different segments in your messaging could improve the efficiency of your acquisition communications.

After consumers adopt digital accounts, the primary features in use align with the reasons for signing up. Among all digital users, the mobile app (**49%**), bill payment (**35%**) and sending money to friends and family (**20%**) are used regularly (once or more per month).

Surprisingly, less used are budgeting tools (**12%**) and discounts and rewards for spending behaviors (**10%**).

With 75% of Traditionalists aware of digital banks and 20% planning to switch to a digital account in 12 months, it will be advantageous to focus some effort on this majority segment

The good news for challenger bank brands is that Traditionalists cite the same reasons for **potential interest** in opening a digital account (i.e. APR on Savings, Lower Account Fees, etc.). Therefore, challenger bank brands can meet the needs of this segment with their existing offering.

The biggest obstacle is to address some of the barriers to adoption Traditionalists are citing, such as account safety (**44%**), digital-only bank's financial stability (**40%**) and concern over access to cash and ATMs (**36%**).

Challenger bank brands should craft messages that persuade consumers to "test" these digital accounts

Messages that suggest moving a portion of their funds to gain advantages like higher APR, no overdrafts and no monthly fees or segregating a portion of their money for specific uses, like vacation or emergency funds in a new account, may resonate with today's bank consumer.

Challengers may also mitigate safety concerns by dialing up messaging around their FDIC insured status, highlighting account tenure or leveraging existing customers to create compelling testimonials from consumers who had initial reservations. Given this segment's size, motivating even a small percentage of Traditionalists represents a significant growth opportunity.

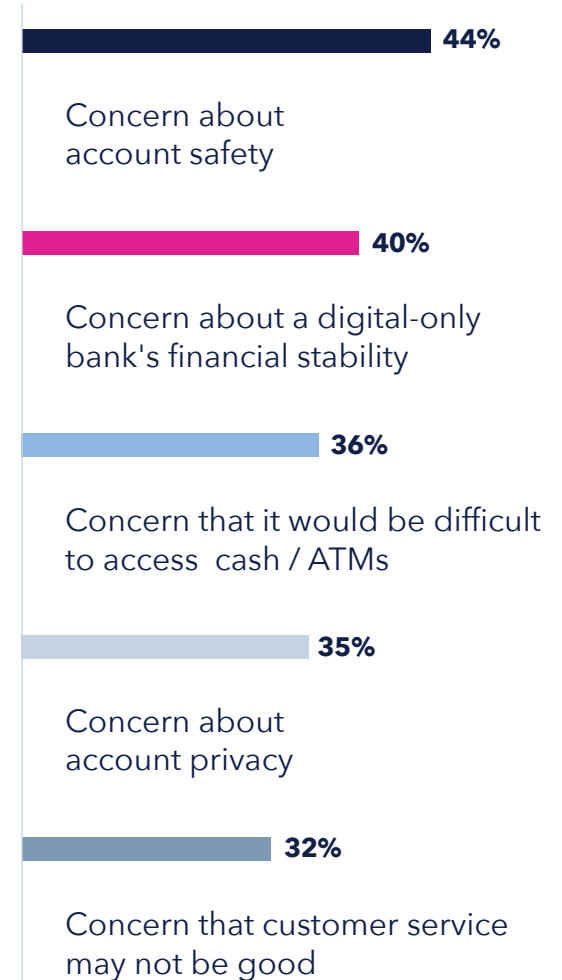
Barriers to Adoption

All Digital Account Holder Segments

Figure 6: Concerns About Digital-Only Banking (% Selecting as a

Sample Size

N=562



Challenger banks are providing access to **consumers** *previously excluded from the system*



Low / No Cost Accounts

Many of these digital bank account offerings come with no fee or low fee account fees enabling many consumers to enter the formal banking system



Short Term Advance Options

The proliferation of digital accounts offering small, short term advances are helping smooth cash flow challenges for many consumers



New Investors

As micro investing is embedded into digital bank accounts, many consumers have new access to a simpler investing solution

Expanding Access

Digital bank account offerings are broadening financial inclusion to a variety of constituents, and this increased access can lead to improved financial health. Who is benefiting?

One key segment is Americans with limited monthly income and who need to manage cash flow tightly. The digital bank account offerings are likely broadening the inclusion of many consumers in the underbanked population. These are consumers who hold bank accounts but often use non-bank financial products (check cashing, money orders, payday loans). They use these alternatives to avoid overdraft fees or monthly maintenance fees. These consumers often experience cash flow gaps due to income levels or pay cycle challenges. An adjacent segment is likely the younger consumer just beginning their financial lives who are also more likely to have limited monthly income.

As our profiling indicates, a key demographic within the Digital Purists are those with a lower income. The Digital Purists over-index in the **\$0-\$25K** and **\$25-\$50K** income ranges relative to the overall population. As we noted, they skew younger overall, **78%** of those banking with a challenger bank are under 44 years old. Additionally, a higher percentage of this consumer group (**14%** vs. **8%** overall) have only been in the U.S. for 2-5 years. More of these consumers report sometimes feeling like “I am barely making it” than the overall population (**51%** vs. **37%**).

These digital accounts are bringing new consumers into the banking system with offerings that meet their financial needs.



The digital bank account offerings are likely broadening the ***inclusion of many consumers in the underbanked population.***



Lowering Barriers to Use: With no fee or low fee offerings, more consumers can afford to use their bank accounts day to day. Many of the digital only bank accounts are offering no monthly fees, no minimum balance fees, no ATM fees and no overdraft fees. For consumers that already struggle with cash flow, removing these fees can be the difference between being able to fully use their bank accounts versus weaving together a mix of cash, money orders and high-cost loans to avoid fees. The one caveat here is whether these digital bank options can sustain this low fee model.



Cash Flow Smoothing: Some of these challenger banks are offering consumers who qualify (typically a direct deposit relationship) access to cash flow smoothing options – short term, low dollar value advances for no or low fee. These options, help consumers pay bills on time reducing late fees and avoid costly payday or other high interest loan options.



Accessible Investing: Some of these challenger banks are simplifying and reducing barriers to investing. A number of challenger banks offer simplified investment programs where consumers can invest small amounts of money into simplified investing choices. Consumers can begin to learn about investing with small amounts of money without having to do independent research. These offerings limit the risk consumers feel they are taking and are enabling a broader group of consumers to start experimenting with investing.

With lower barriers to use and broader access to low-cost advances and investing, more consumers are included in the financial system. Not only do these accounts become steppingstones to potentially longer-term financial health they also provide the opportunity for these consumers to participate in an increasingly digital marketplace. The share of cash transactions continues to drop year over year. Cash transactions represented **37.4%** of transactions in February 2020 and dropped to **30.5%** in February 2021. ¹ For consumers, the ability to shop online (potentially at lower cost), send money to friends and family and pay bills without having to physically go to the billers' location opens up valuable access.

¹<https://www.businesswire.com/news/home/20210316005501/en/After-One-Year-of-COVID-19-New-Square-Data-Reveals-the-Share-of-Cashless-Businesses-Has-More-Than-Doubled>

Hybrids: Sweet Spot for Digital Banking Growth

This consumer is the bullseye for digital banking growth. They have the highest percentage of consumers with multiple bank accounts. And even though they claim less financial stability than Traditionalists, they are the most affluent and have attained more stability in family and work life than Traditionalists and Digital Purists.

They are keenly aware that brick-and-mortar and digital banking present different benefits

and disadvantages, and do not feel wed to either/or choices. Perhaps, this is why their propensity to owning three or more accounts (**61%**) far outweigh their counterparts (Digital Purists – **10%**, Traditionalists – **7%**) in this category.

When looking at the primary drivers and features for opening a digital account, Hybrids only differ from Digital Purists on two counts. Hybrids value higher APR on Savings more

than Purists (**55%** Hybrids vs. **33%** Digital Purists). Whereas Digital Purists value Managing All Financial Needs more highly than Hybrids (**47%** Digital Purists vs **36%** Hybrids). This suggests the more youthful, Digital Purist is less concerned about savings, perhaps due to having less of it, while it's obvious that Hybrids are less concerned about a digital account managing all of their financial needs due to their tendency of holding multiple accounts.

What happens when brick & mortar and digital accounts go head to head?

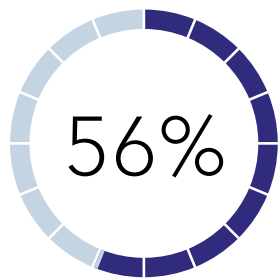
	Hybrids		
	Traditional Account	Digital-Only Account	Both Equally
Paying bills	37%	24%	37%
Paying for everyday expenses	38%	24%	34%
Larger, infrequent purchases	41%	23%	30%
Savings	35%	26%	35%
Investing	27%	26%	31%
Linked to P2P payment apps	22%	40%	31%

Question: Which account do you use more frequently for the following banking activities?

When looking at Hybrid account usage behavior, digital accounts have strong every day use adoption. A majority reported they use their digital-only accounts more or equal to their traditional account for everyday usage like bill payment and everyday expenses. This signals strong engagement with digital accounts. They are not simply a one-time trial, they have become ingrained in consumer's everyday behavior.

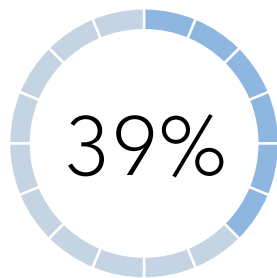
With strong penetration into everyday use of digital bank accounts, why is that **77% of Hybrids** say they will always hold on to at least one traditional bank account?

The top reasons cited are:



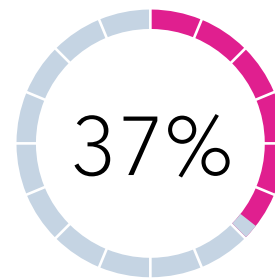
Convenience

access to free,
local ATMs



Security

nervous to put all
their money in a
digital bank



Trust

new to digital
banking; want to build
confidence

This should look familiar, since these are the barriers Traditionalists cited in their concerns for opening a digital account. However, it's not a stretch to believe challenger bank brands can persuade Traditionalists to test their products given their success with Hybrids. Again, we recommend that challenger bank brands continue to message both potential and current users on safety and convenience issues to build more confidence in their products.

While convenience of cash and security remain the anchors for Hybrids maintaining traditional brick & mortar accounts -

that doesn't mean Hybrids won't give digital accounts a healthy share of their banking

Digital Account Performance

Digital Satisfaction Scores Rival Traditional Accounts

Mostly or Completely Satisfied:



Digital Purists



Hybrids



Traditionalists

Digital Account Performance

All segments report high satisfaction. Digital bank account holders express highest satisfaction with self-servicing tools and fees while traditional bank account holders are most satisfied with customer service and mobile banking.

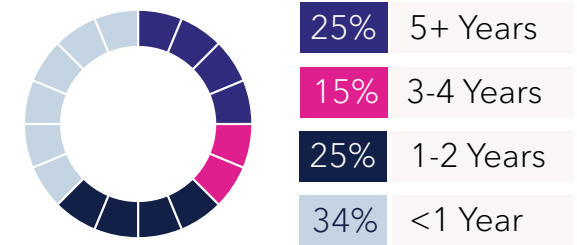
Respondents from each segment largely mirror one another within bank feature satisfaction.

Digital bank users cite **fees and cost of services** in their top five reasons for satisfaction. Since **lower fees** were a top five reason for adoption, this stat proves digital banks are delivering on that promise

It's noteworthy that Traditionalists express equal satisfaction scores for their online banking experience as their digital counterparts, suggesting that challenger bank brands need to offer more than strong online banking UX to win over these satisfied customers. They report high satisfaction with traditional customer service (higher than self service tools), but report lower satisfaction scores around fees than their digital counterparts, clearly a key lever for challenger banks to continue pushing.

Falling below customer satisfaction and smooth UX for all segments is convenience of ATMs and ability to view all their financial information.

Digital Account Tenure



These satisfaction rates have translated into retaining customers at a significant rate. **40%** of consumers report a tenure of **3+** years.

These tenure rates for digital-only accounts signals a strong trend for the future. As consumers experience these virtual accounts, a significant number are remaining loyal.

Features Driving Satisfaction

	Traditionalists N=600	Digital Purists N=555	Hybrids N=535
Sample Size			
Website / online banking experience	45	43	48
Mobile app / mobile banking experience	49	47	41
Fees / cost of services	37	46	41
Online Bill Payment	41	42	33
Customer service	54	35	35

Figure 6: Top Five Reasons for Satisfaction

Methodology

A two-step weighting approach was used to ensure a population-reflective data set

All incoming sample was weighted to US national census figures on gender, age and household income. And then weighted again to represent the U.S. Banking Population using 2018 census data.

CONNECTION
ANALYSIS

About



As a leading provider of innovative financial solutions to consumers and businesses throughout the country, Pathward is powering some of the nation's leading card issuing, challenger banking and payment concepts. Pathward, National Association, a national bank, is a subsidiary of Pathward Financial, Inc.[®] (Nasdaq: CASH), a South Dakota-based financial holding company.

Pathward is one of the largest issuers of prepaid and debit cards in the U.S., having issued more than a billion cards in partnership with fintechs, program managers, payment providers, community banks and other businesses. We also move billions of dollars each day through traditional and faster payments rails on leading payment networks. Through partnerships with us, the companies we work with are able to deliver unique, innovative products, while we help them to save valuable time and resources, mitigate risks and continue to grow.

For more information on the payment solutions we enable for our partners, visit us at pathward.com.



Visa is a global payments technology company that enables fast, secure and reliable electronic payments across more than 200 countries and territories through our advanced transaction processing network known as VisaNet. We facilitate global commerce through the transfer of value and information among a worldwide network of merchants, acquirers, issuers, consumers, fintechs, neobanks, digital wallets, enablers and governments. We deliver value by helping issuers like Pathward continue to provide innovative and secure solutions for their customers to pay and be paid.

To learn more about how
Pathward can help you grow your
business and enable the features and
benefits consumers are looking for in a
digital account, contact us at

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Contact Us