



Customer experience and payment behaviours in the PSD2 context

Online shopping is the engine for digital payments

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57%

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36%

of consumers chooses credit cards as the preferred payment method for shopping online

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8%

of consumers prefers alternative payment for shopping online

Find the gap in the digital banking experience

94%

of customers trusts its bank to protect its data and is confident in using the bank's online services

24%

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40%

of customers prefers using non banking financial apps as they provide a better user-friendly experience

The generation of multi-bankers

60%

of customers confirms that it has current accounts in more than one bank

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Executive Summary

The growth of digitalisation and the rise of new user experience models are changing the expectations and needs of consumers, forcing the banking and payments sector to increase their customer centric approach.

The digital revolution and the change in consumer behaviours are the triggers for the increase and spread of financial apps. The willingness to adopt mobile apps, with user-friendly interfaces, facilitates the use of mobile payments for consumers, independently whether the app is provided by a bank or by another player. **The propensity of customers to use alternative financial apps may introduce more risks for banks that on the other hand can be disintermediated.**

This interview, undertaken by PwC and Strategy&, confirms the trend of the use of technology in every-day life, and aims at analysing consumers' online shopping habits and their willingness to use innovative payment methods. We see that consumer habits are changing, as well as the relationship they maintain with their bank; this is confirmed by the increased focus on online shopping, especially by Millennials. The outcomes of this analysis can be used as a starting point for banks when deciding their approach to the digital banking transformation, rethinking their current market position.



Methodology and participation

PwC and Strategy& have analysed consumers' perception on digital payments. The sample is composed by 1.700 responses from European consumers in the period commencing from October to December 2017. Most of respondents are male (56%) between the ages of 26 and 35 (55%), they hold a master's degree (67%) and earn an average net income that ranges between 3.000€ and 4.000€ (31%).

The results are presented in 4 European geographical areas (i.e. 14% Northern Europe, 17% Western Europe, 22% Southern Europe and 47% Eastern Europe) in order to better identify trends and compare the level of digitalisation for each of these areas.



Online shopping is the engine for digital payments

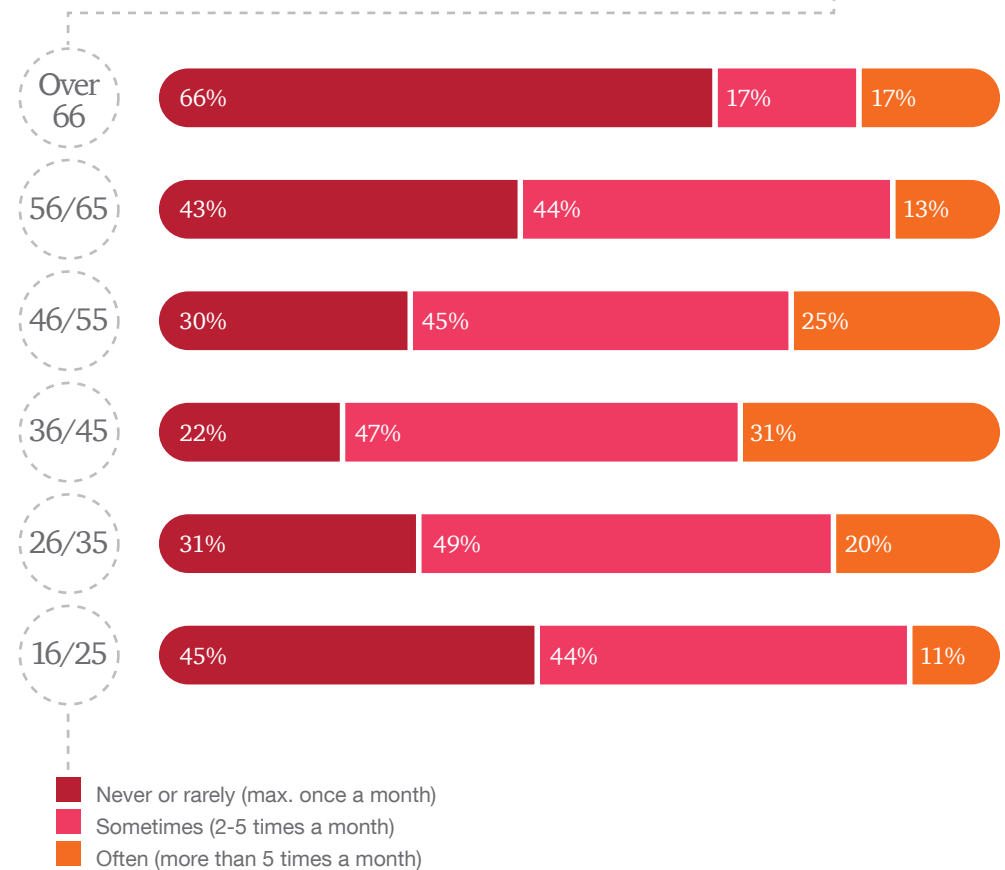
Digitalisation is strongly influencing and modifying shopping behaviours and, if implemented correctly, can be a powerful and effective way for banks to maintain their client base while they continue engaging with new customers. Banks are in a favourable position when it comes to participating in the life of their customers, not only through the development of the banking apps, but also through the creation of a marketplace able to offer different functionalities to monitor customers' spending habits, understand customers' needs and guarantee customised and targeted solutions.

More than half of respondents shop online with a high monthly frequency: 48% between 2 and 5 times per month, around 20% shops more than 5 times per month. **Most of the online shoppers are between 26 and 55 years old** (see Figure 1).

Surprisingly, even the population between 56 and 65 years have embraced the concept of online shopping, in particular, in Northern Europe. In fact, 25% of respondents shops online more than 5 times per month as opposed to 14% in Southern Europe. This trend continues when looking at Eastern Europe (100%) and Western Europe (50%), even though with a lower frequency of 2 to 5 times per month.



1. How often do you shop online in a month? (answers grouped by ages)



Those consumers, who prefer physical shopping to online shopping, declare that the main reason for this is that they are either concerned about the safety of online payments (21%) or because they continue to prefer the more traditional payment methods and the personal contact with the in-store salespersons (53%).

The rise of online shopping is undeniably facilitated by the fact that it has become more accessible through the use of PCs and smartphones, but also to the increase in guaranteed security when making online payments. Consumers prefer to shop online to obtain lower prices and because of the easier and quicker usability compared to shopping in-store. In addition, the variety of products available online is considered for 20% of consumers as an important aspect why they prefer online shopping (see Figure 2).

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2. Which aspects are more important for you when shopping online?



There is evidence that the usage of mobile devices (smartphone and tablet) has increased when purchasing online compared to last year¹, even though **the majority of consumers prefer to shop using more traditional devices, such as a PC.**

Mobile payments are starting to become popular and this can be noticed by the fact that smartphones, as represented in Figure 3, represent the second most used device to initiate a payment (during the last 12 months). This result is also confirmed by the answers obtained for each European area.

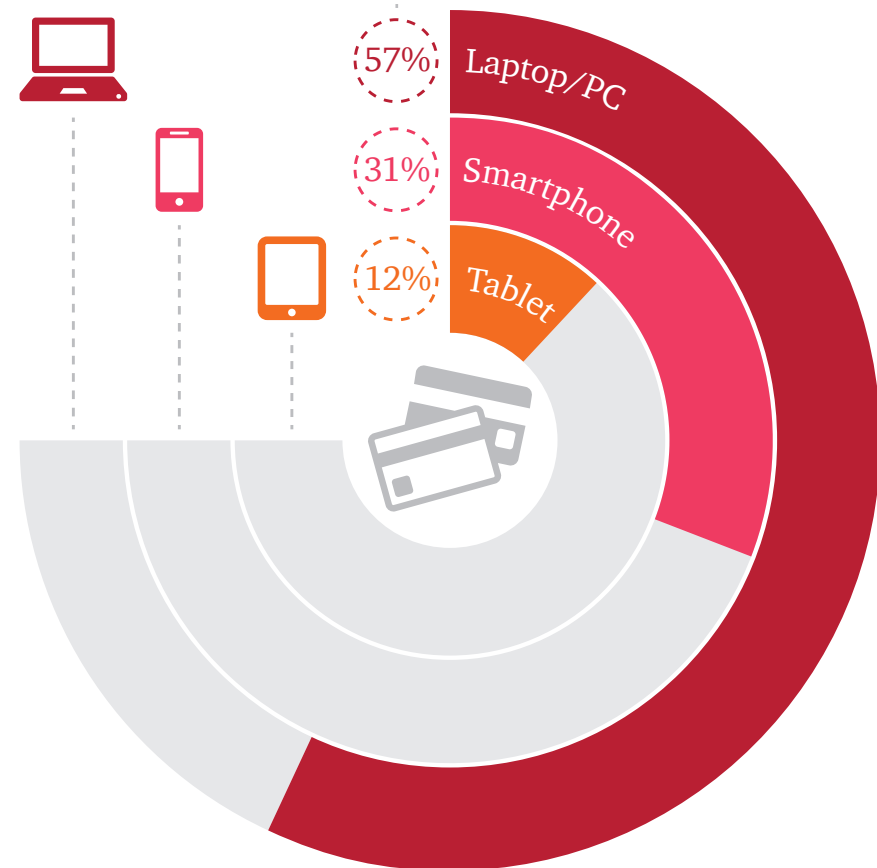
Even though the majority of people still prefer the use of a laptop, in particular in Northern Europe, where 47% of consumers uses a laptop for shopping online. However, 39% uses a smartphone, almost reaching the percentage of those using a PC, in other areas of Europe this gap is more evident.

Mobile devices are providing new channels that banks can use to strengthen the relationship with their customers.

1. Source: "Total retail 2017", PwC 2017.

57% of consumers prefers to shop using more traditional devices such as a PC

3. Which device do you most frequently use for shopping online?

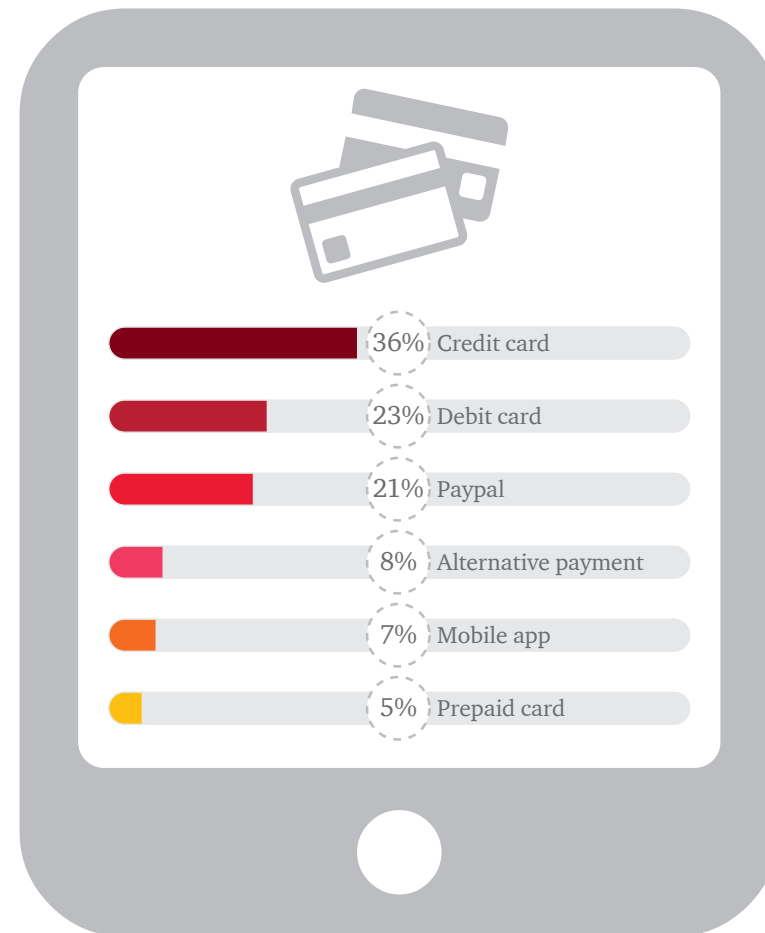


It has emerged that 36% of online shoppers chooses credit cards as the preferred payment method. This is confirmed when analysing the answers obtained for the different geographical areas and the use of devices (smartphone, PC/laptop, tablet). It emerges that only in Eastern Europe, international debit cards are the most used method of payment. Moreover, 8% of respondents prefers alternative payment for shopping online, such as Sofort, iDeal. We can draw a conclusion that, **although traditional payments are still widespread, the market is increasingly receptive to new innovative payment services** (see Figure 4).

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8% of consumers prefers alternative payment for shopping online

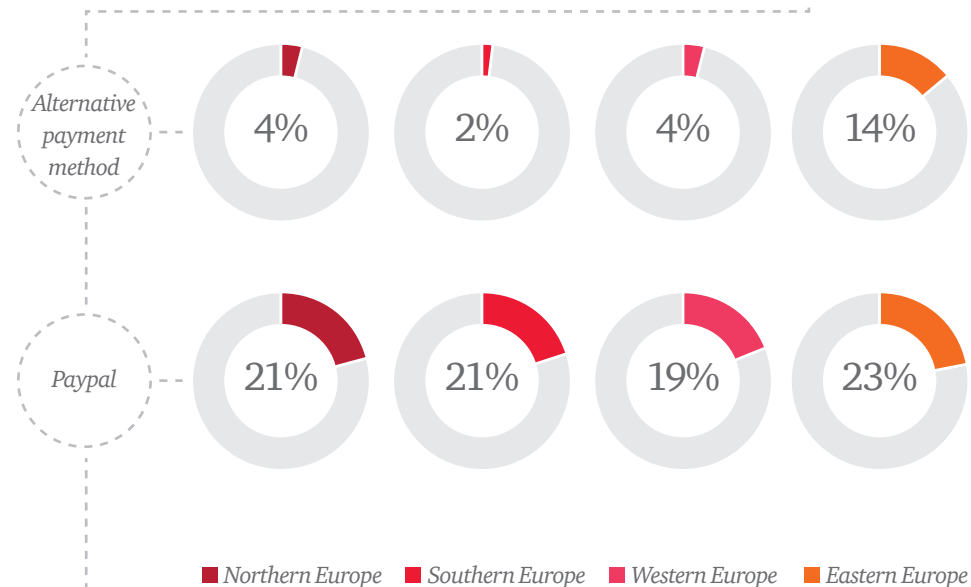
4. Which is your preferred payment method when shopping online?



Indeed, Figure 5 shows that, when considering new innovative payment methods, Eastern Europeans are those most receptive to using alternatives when compared to other European areas.

The general trend, however, is that we see is that consumers on a whole are ready to consider using new payment methods, which will compete with those offered through traditional channels. **Banks should start to think about new and innovative ways for connecting with their customers, proposing themselves also as payment providers.**

5. Which is your preferred payment method using Laptop/PC for shopping online?



Find the gap in the digital banking experience

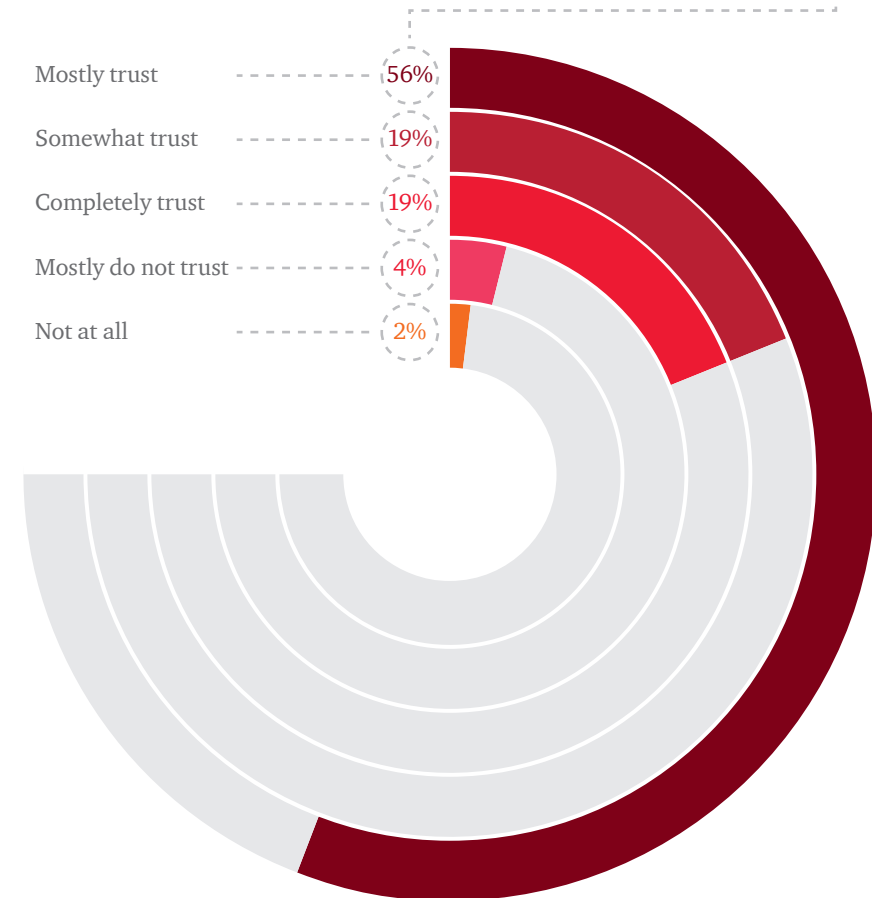
Markets are about to change radically. On the one hand, consumers are continuously changing their habits and preferences; on the other hand, banks will have to compete with new market players in other sectors.

Consumers already use several services in the banking sector, offered by third party providers, and banks need to react in order to compete and keep pace with these new entrants.

In the perception of consumers, the banking sector is synonymous to the highest levels of IT security: 94% of customers trusts its bank to protect its data and is confident in using the bank's online services, of which 19% says "completely trust" (see Figure 6). Most of the customers consider the security and confidentiality of data an extremely significant driver when choosing their bank. Instead, it would seem that they are adverse to transfer their data to a non-financial third party.

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6. To what extent do you trust your bank to protect your data and provide secure operations online?



Banks should take advantage of this position by investing in innovation and concurrently increasing their digital offering.

Analysing the diffusion of non-banking apps and how consumers perceive them, it is important to note that the market is evolving and that other players operating in the payments sector are starting to gain a position of trust, even if at the moment most consumers are not yet ready for them.

Just around 24% is now using financial apps offered by third party providers (see Figure 7). These results are similar for the different European areas. Instead, there is a clear preference amongst respondents to use the financial apps provided by their bank (see Figure 8).

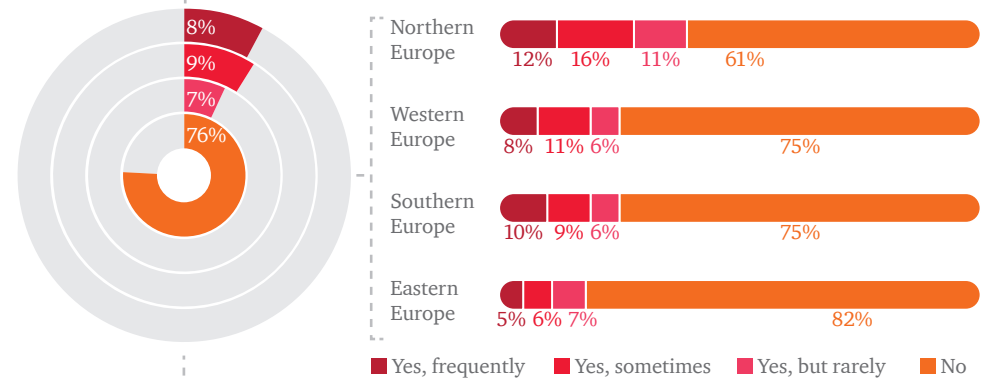
This shows that banks still have a preferred direct line with their customers.

However, despite the marginal use of these alternative financial apps, it is important to understand the apps' differentiating factors and the advantages over those provided by the banks.

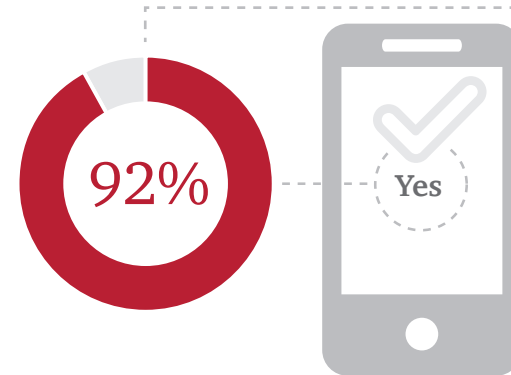
24% of customers is now using financial apps offered by third party providers

40% of customers prefers using non banking financial apps as they provide a better user-friendly experience

7. Do you use any financial apps which are not provided by your bank?



8. Do you use any financial apps which are provided by your bank?

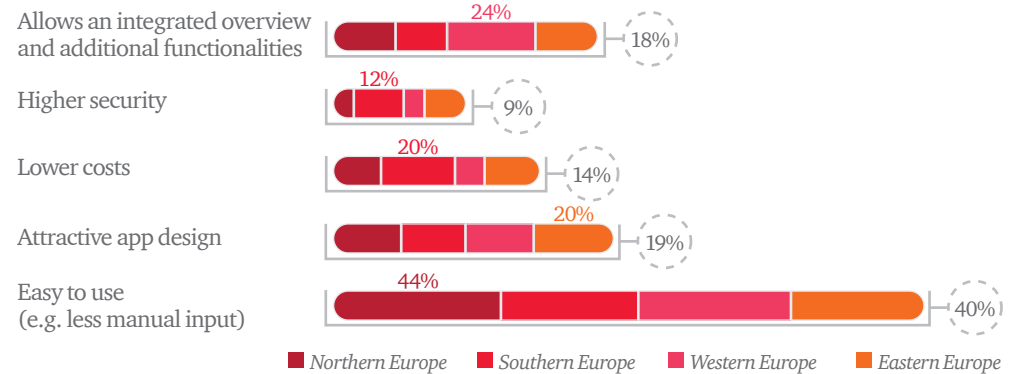


40% of respondents prefers using non-banking financial apps as they provide a better user-friendly experience. Design attractiveness is considered an important aspect for many users in Europe, except for those in Western Europe, who prefer extra features, such as design attractiveness. In Southern Europe the costs associated with the service significantly influence the choice of alternative apps (see Figure 9). This means that banks should invest primarily in optimising both the usefulness and the design of the apps, considering additional investments in areas that their customers perceive as valuable.

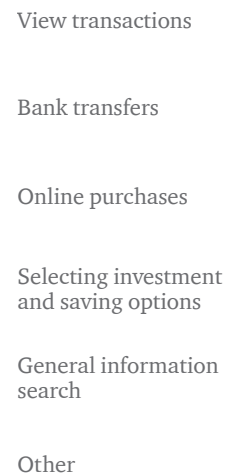
Banking and non-banking apps are currently used for different purposes (Figure 10a/10b). As a proof of their intrinsic nature, banking apps are used mainly to display the list of transactions and to initiate payments, while non-banking apps are primarily used for online shopping, and to search for general information. Indeed, only 17% of respondents uses non-banking apps for displaying account balances and checking transactions.

Results are heavily influenced by those respondents **between the ages of 26 and 35 (46%) as they use alternative apps for online purchases and banking apps for different purposes, such as displaying transactions and initiating payments.** This scenario is supported by the fact that consumers between 26 and 35 are addicted to online shopping and they already have the financial means.

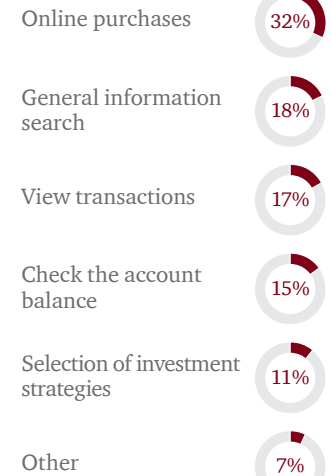
9. What do you perceive are the major benefits using alternative financial apps?



10a. Activities conducted through banking financial apps



10b. Activities conducted through alternative financial apps



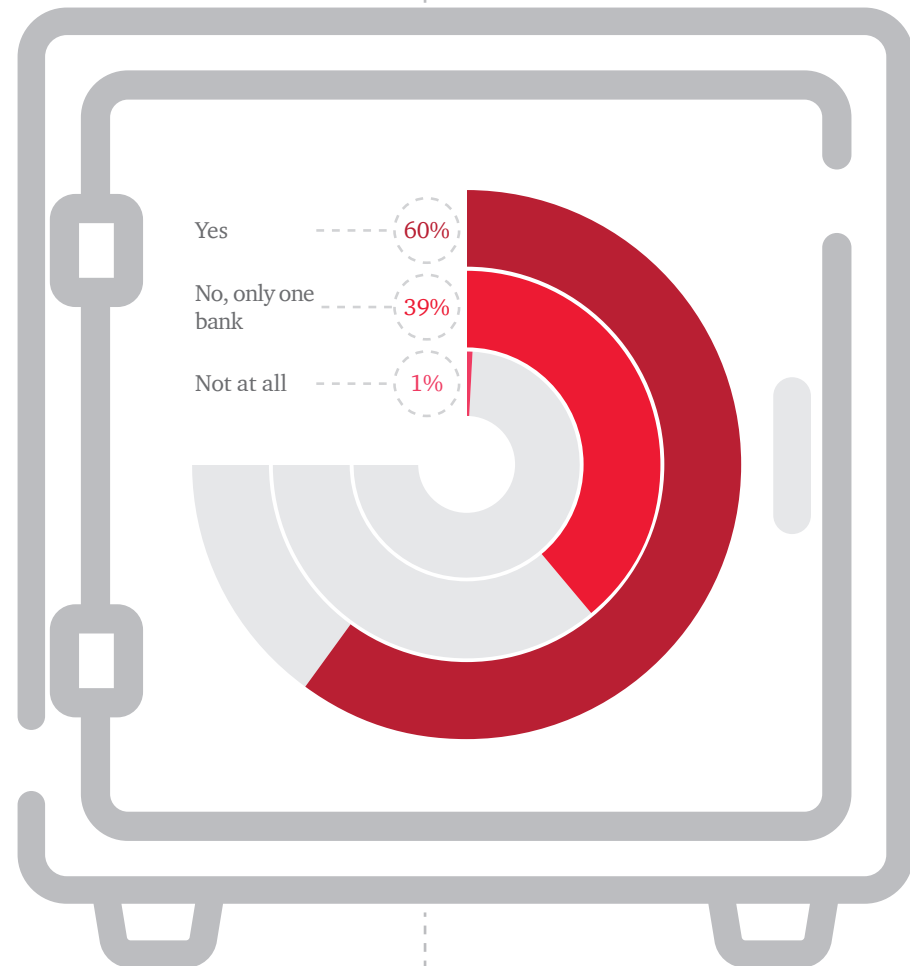
The generation of multi-bankers

As mentioned above, interview confirms traditional bank as touchstone for European consumer. The same trend is also confirmed by answers obtained for each European area, although other third party financial service providers are gaining market share.

The increase and ease of using home banking and internet in general, combined with the reduction of operating costs, have led to the growth of multi-banking customers. In fact, **60% of respondents confirms that it has current accounts in more than one bank** (see Figure 11).

60% of customers confirms that it has current accounts in more than one bank

11. Do you have current accounts in more than one bank?

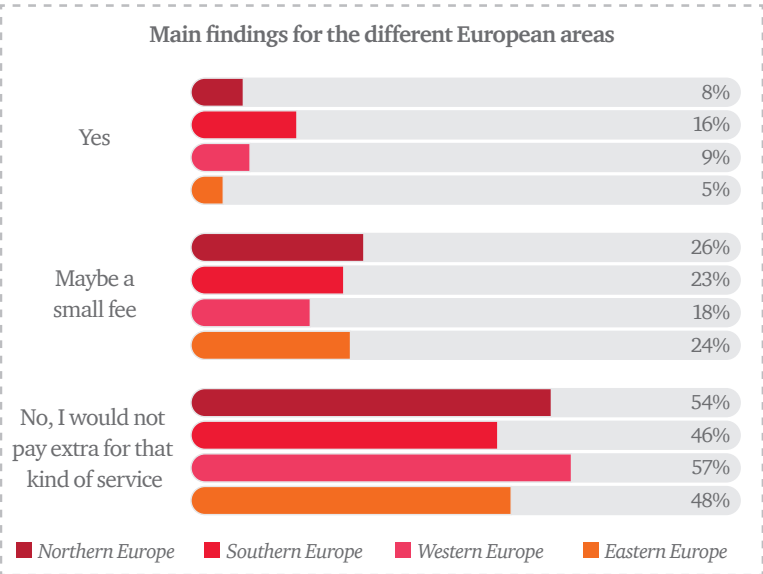
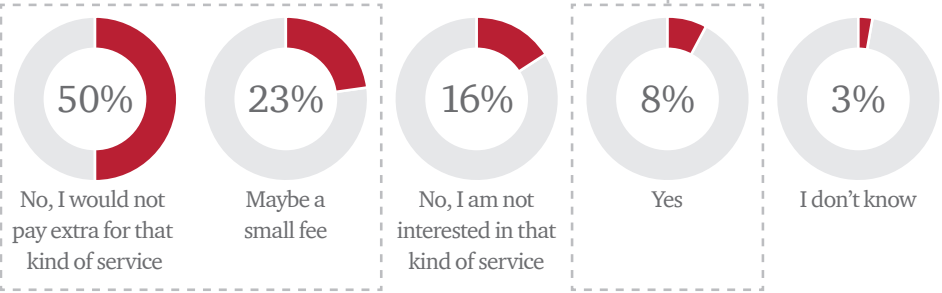


To exploit this scenario, several FinTechs developed a new service called “account aggregator services providers” (introduced by the European Payments Service Directive 2 – “PSD2”) that collects and consolidates information from one or more payment account into a unique touchpoint. Most consumers, however, are unwilling to pay fees for a service that lets them manage their different account through a single point of entry (see Figure 12). 50% of respondents would not pay for the aggregation service; only 31% of participants is willing to pay for similar services, of which the majority states that fees should be kept to a minimum (23%). In Southern Europe, 39% of respondents is willing to pay for an aggregation service, also with small fees; this result shows that more than in other European areas, the effect of digitalisation is changing habits and if the services are worthwhile, users are inclined to pay for them. In Western Europe, 57% of respondents is not willing to pay fees for an aggregation service, in line with the other European areas interviewed.

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31% of customers is willing to pay for the aggregation service

12. Would you be willing to pay for a service that gives you a complete overview of your current accounts in different banks?



So, what is the right recipe for banks? Banks... Seize the moment!

This is not a marginal phenomenon, but should be considered the dawn of a new era, where FinTechs are quickly changing the habits and behaviours of business leaders, consumers and banks. **The vortex of innovation, that is currently challenging the banking sector, does not simply highlight the advent of a new digital age,** with the development and introduction of new services and technologies, **but also the start of a revolution in the traditional way of “being a bank”.**

Considering the rapid growing of alternative payment methods, banks have to be able to adapt and expand their payments offering, balancing essential aspects such as usability, simplicity and multichannel integration.

Digital transformation represents one of the most complicated and exciting challenge for banks. The latter might gain exponential benefits if they are able to rethink their approach, transforming their services portfolio. Time to market represents a key success factor and for this reason banks need to anticipate and manage change in order to not to be crushed.

Being aware of the digitalisation level of their customers will help strengthen the relationship, offering them valuable solution to meet and anticipate their needs.

The main strength of third party providers is the enriched user experience and the integration with additional functionalities (e.g. integrated overview, check the account balance). Banks can leverage customer trust and exploit their position in order to offer Value Added Services based on the analysis of customers' data (e.g. offer customised products based on each profile).

This is a clear and straightforward message for banks. Their next move should be focused on innovation and digitalisation. Indeed, on the one hand they should strengthen the loyalty shown by their clients and on the other hand, they should try to innovate their internal system and be apt to what is changing around them.





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