# Why Consumers Are Now Driving the Future of Money

COVID-19 has accelerated the end of cash and pushed digital payments to a new tipping point

By Michael Moeser


Presented by

PaymentsSource AMERICAN BANKER

# Why Consumers Are Now Driving the Future of Money

**Why read this report?**
The events of 2020 have had a significant impact on the payments ecosystem. This report explores how consumer behaviors are shifting, where digital payment technology adoption is accelerating and where resistance to others is breaking down.

## Introduction

The COVID-19 pandemic has radically changed consumers' attitudes and behaviors toward money and payments. A new study by PaymentsSource details how the crisis significantly accelerated the adoption of some digital payment technologies — and has eliminated long-standing resistance to others.

**Key findings include**

- An intense focus among consumers on managing and monitoring their cash flows, in the context of stalled economic growth and employment uncertainty;
- Fresh interest and growth in platforms that offer earned wage access (EWA) services, particularly among younger employees;
- Accelerated adoption of mobile wallets as preferred payment tools;
- Adoption of P2P platforms allowing payments and money transfer directly;
- The embrace of contactless in the retail setting, years after its general adoption outside the United States.

All of these trends are driven by innovation in digital technologies, a common attribute that many observers presumed would advantage fintechs and technology-driven startups and so-called disruptors.

But notably, the study found the opposite: In this time of crisis and uncertainty, consumers generally expressed more confidence and interest in the offerings of traditional banks and financial players than the newcomers.

**Michael Moeser,** Senior Analyst, Payments at *PaymentsSource*

## About this report

PaymentsSource, an Arizent publication, conducted this survey to explore the trends and unmet needs in the payments marketplace. The research explores consumer attitudes and behaviors toward money and payments, examining the impact COVID-19 has had on the adoption of new technologies such as contactless cards.

The survey was conducted online in the U.S. with 506 adults, ages 18-74 during September 10-21, 2020, and is reflective of the general population based on a number of demographic factors including age, race, gender, etc. The survey was inclusive of banked, underbanked and unbanked consumers, as well as being representative of all U.S. geographic regions.

## Consumers want to know where their money is

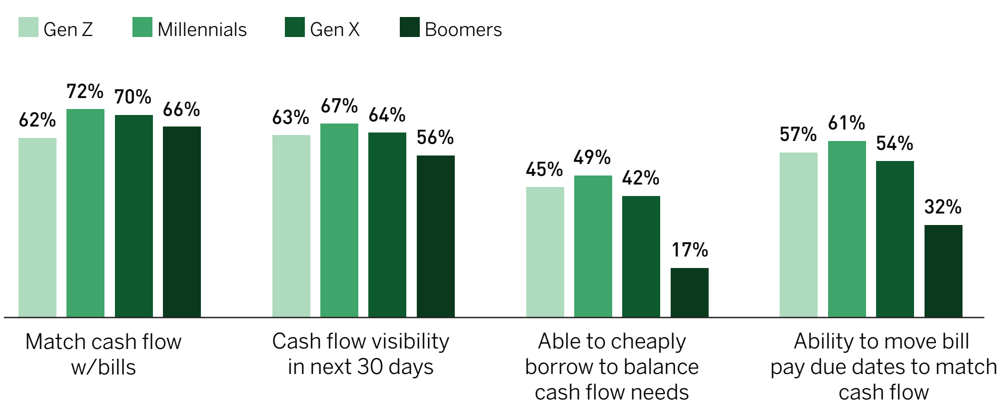
Cash flow visibility in the next 30 days and the ability to match cash flow with incoming bills were the unmet needs that resonated most with survey respondents across generations, with 68% of survey respondents stated that aligning incoming cash flow with outgoing expenses/bills was critical or very important to them.

That said, the specific nature of this need is a impacted by a number of factors such as age and household income.

There were two areas of cash flow needs where boomers demonstrated statistically significant differences compared to other generations. These differences — low-cost borrowing and the ability to move bill pay due dates — should be meaningful to payment product designers and marketers targeting consumers of different age groups.

Seventeen percent of boomers felt the ability to cheaply borrow to balance cash flow needs was a critical or very important need, in contrast to 49% of millennials, 45% of Gen Z and 42% of GenX. Also, boomers did not see the same level of importance (32%) as other generations placed on the ability to move bill pay due dates to match cash flow, such as millennials at 61%.

**Managing cash flow is a top priority for younger consumers**
(% rating each capability critical or very important)




**Q: How important is it for you to have the following capabilities?**
Source: PaymentsSource Future of Money Survey 2020

Roughly **2 out of 3** U.S. consumers state cash flow visibility is critical or very important.

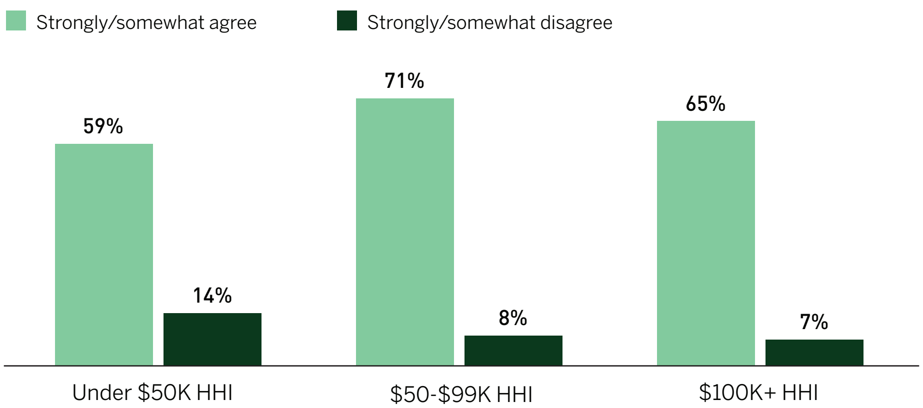
## One problem, multiple solutions

The ability to monitor one's financial situation from one central point of view is not entirely new in the financial world; fintechs such as Yodlee, Mint and others have embraced this idea, as well as large financial institutions such as Fidelity.

The concept of a single dashboard containing all of an individual's financial accounts and bills resonated as an important concept (strongly agree and somewhat agree) with all groups, at approximately 6-in-10 or greater expressing that interest.

Middle-income respondents felt the strongest about having a single dashboard, with 71% strongly or somewhat agreeing that it was an important idea, compared to only 59% of lower income respondents — a statistically significant difference.

**Wealthier groups are more interested in a dashboard approach to bills**
(% who think having a single dashboard to look at all financial accounts is important)




**Q: Please rate your level of agreement with the following statement: "I think it's important to have a single, central location or dashboard to look at all of my financial accounts, bills, etc."**
Source: PaymentsSource Future of Money Survey 2020

But having a dashboard only solves the problem of visibility. Other services may be necessary to actually improve cash flow for consumers who have trouble meeting their monthly expenses during the economic crisis.

One option is an earned wage access (EWA) service. This service, offered by companies such as PayActiv, Branch and DailyPay, allows employees to access a portion or all of their wages that have been earned during a specific pay cycle prior to the payday. Generally, EWA services are offered through employers, but are managed by the provider. For example, Walmart offers EWA services to its 1.5 million associates through a joint partnership with PayActiv and Even.

EWA services are popular among younger consumers who need cash flow to pay for school, buy homes and raise children. The services are less popular for older employees, particularly those approaching retirement.

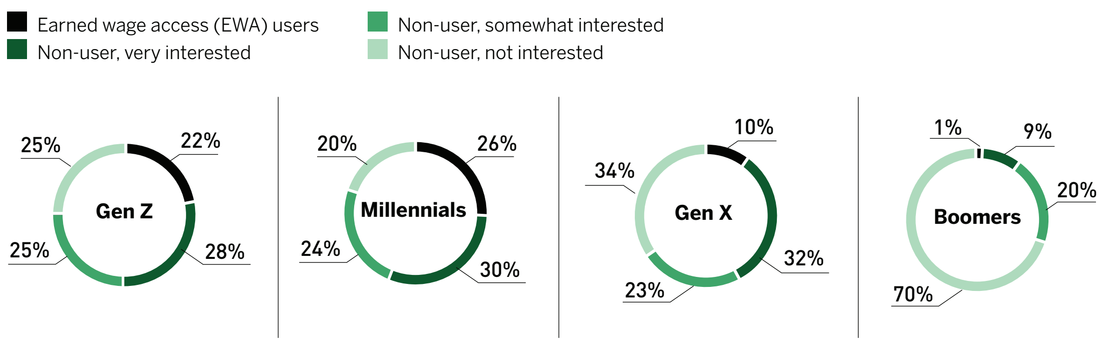
The heaviest users of EWA services in the survey were Gen Z (22%) and millennials (26%), with more than double the Gen X (10%) adoption and multiples of boomer adoption (1%). The first three generations also had statistically significant higher levels of possible future use in comparison to boomers, who registered only a 9% "very interested" rate.

There is clear room for growth, as 28% of Gen Z consumers and 30% of millennials indicated they were very interested in EWA, despite having never used such services before.

**75%** **of Gen Z and** **80%** **of millennials express some interest in EWA services.**

**EWA services resonate more with younger consumers**

(% using or interested in earned wage access)




**Q: How interested would you be to gain faster access to money you've earned at your job, but have not yet been paid (also known as earned wage access)?**

Source: PaymentsSource Future of Money Survey 2020

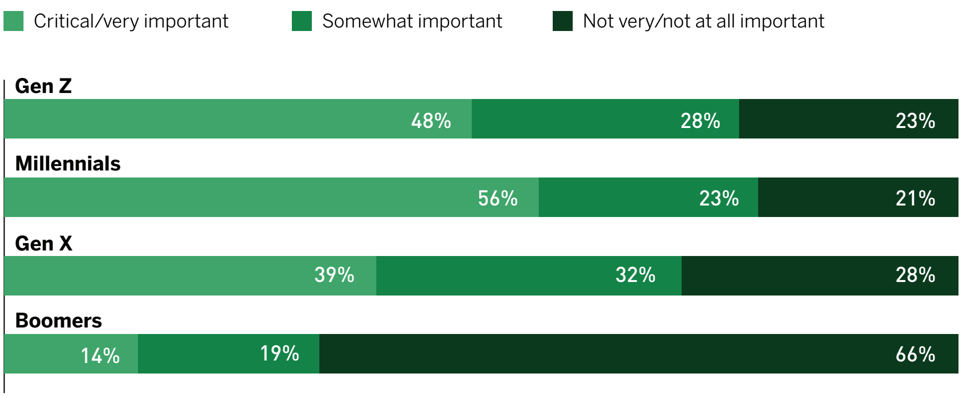
## Retailers can also address cash flow needs

Short-term point-of-sale (POS) loans have exploded onto the financial scene in recent years with an ever-rising popularity for both online and now in-store purchases. Companies in this space have recently experienced significant growth — Afterpay added 5.3 million active customers in the last year, Klarna was recently valued at $10.65 billion and PayPal reported its best quarter ever since its IPO. This category is largely an area dominated by fintechs, at least for now.

One version of the POS loan has taken the lead — the "split in 4" deferred charge product. It allows consumers to pay four equal installments that are charged every two weeks, typically to a debit card, often at no cost to the consumer. This enables someone without credit to buy something beyond their immediate ability; and for those with credit, it helps them avoid accumulating debt.

At least half of the younger respondents reported that having access to this type of credit product was critical or very important to their being able to make purchases (Gen Z at 48% and millennials at 56%). Gen Xers, to a slightly lesser extent, still felt strongly about these products. Yet for boomers, a short-term installment loan held less appeal, as only 14% saw it as critical or very important and fully two thirds (66%) saw it as not very or not at all important.

**Short-term POS installment loans are more attractive to younger consumers**
(Importance of access to short-term (2-3 month) loan/deferred charge installment loan product)




**Q: How important would it be for you to have access to a short-term loan or deferred charge program, offered at low or no cost to you, to enable purchases online or in-store that would be paid off in installments over a 2-or 3-month period?**
Source: PaymentsSource Future of Money Survey 2020

As it stands, these products remain a niche opportunity, since they target one-off purchases rather than the overall cash flow needs of the consumers that use them.

## Mobile wallets reach a tipping point

The market for mobile wallets has had a lot of dead ends, particularly in the U.S., where heavyweights such as telcos and retailers failed to get a one-size-fits-all wallet app off the ground. Apps such as Apple Pay, Google Pay and Samsung Pay have the advantage of being baked into their manufacturers' devices, but remain limited to their respective ecosystems.

Despite these headwinds, mobile wallets are increasingly supported by merchants and financial institutions alike. And since mobile wallets are largely contactless, they hold more appeal during the coronavirus pandemic, as consumers don't want to touch surfaces that could carry germs.

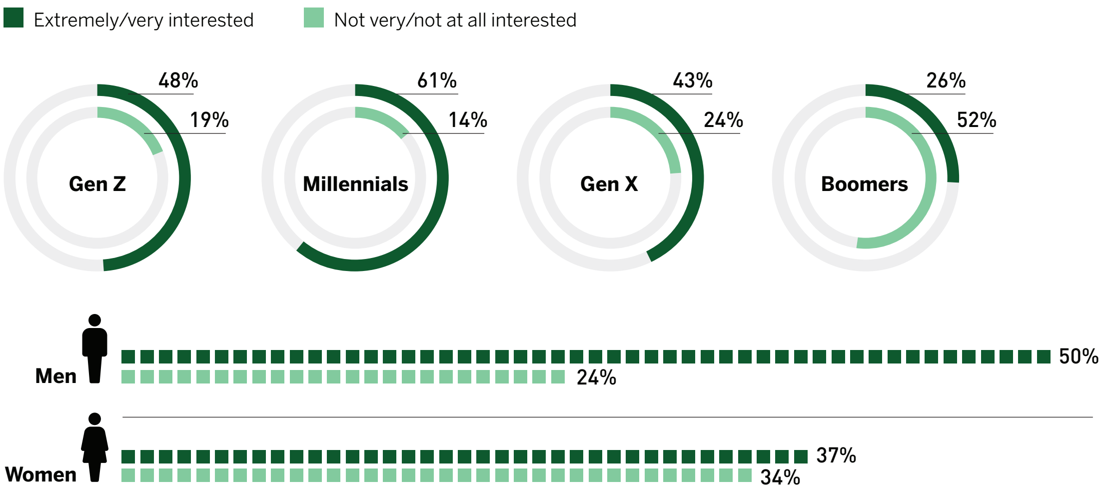
That said, mobile wallets fundamentally require consumers to change long-held payment habits, so older generations are less likely to adopt the technology. Over half of boomers (52%) reported that they were not very or not at all interested in using a mobile wallet as a primary purchase method for in-store and online transactions.

There are other factors besides age that affect the willingness to adopt mobile wallets. Gender, income and community all influence how willing a consumer is to use mobile payment technology.

**70%**
**of U.S. consumers express some interest in mobile wallet payment adoption.**

### Age and gender can influence interest in mobile wallet adoption

(Interest in using phone/mobile wallet as primary payment method)




**Q: If you could use your phone (mobile wallet) to pay for all your purchases in-stores or online, how willing would you be to use it as your primary payment method?**
Source: PaymentsSource Future of Money Survey 2020

The gender gap is particularly significant with men expressing more interest than women in using a mobile wallet for online and in-store purchases, at 50% and 37%, respectively. Meanwhile, more women (34%) stated that they were not very or not at all interested in using a mobile wallet as a primary purchase method than men, at 24%.

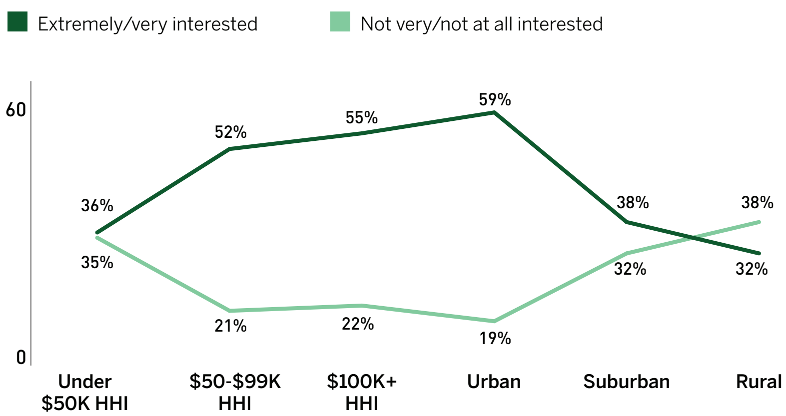
Age is another factor in willingness to use a mobile wallet, but it's not a straight line from young to old. More than 6-in-10 (61%) millennials said that they would be extremely or very interested in using their phone's mobile wallet as their primary purchase method if they could use it to pay for all of their in-store and online transactions. For the younger Gen Z, that figure was 48%.

After the peak of interest among millennials, interest in mobile wallets dipped at higher age groups, with 43% of Gen X respondents and 26% of boomers expressing the same interest levels about using a mobile wallet as a primary payment method for purchases.

Upper and middle income groups had higher interest levels in using a mobile wallet as a primary payment method, at 55% and 52%, respectively; this is in contrast to lower-income respondents, at 36%. Almost as many low-income respondents stated that they were not very or not at all interested in mobile wallets (35%) as those who said they were (36%).

Urban survey respondents were significantly more interested in using a mobile wallet for their primary payment method, at 59%, when compared to suburban (38%) and rural (32%) respondents. This is more likely a function of a higher density of retailers in cities, and of urban businesses needing to cater to multiple payment types in order to best compete for customers.

**Higher income can influence mobile wallet payment adoption**
(Interest in using phone/mobile wallet as primary payment method)




**Q: If you could use your phone (mobile wallet) to pay for all your purchases in-stores or online, how willing would you be to use it as your primary payment method?**
Source: PaymentsSource Future of Money Survey 2020

Smartphone network coverage is also stronger in cities, making a phone a more practical device for payments and other aspects of commerce.

## COVID-19 has prompted major changes in payment habits

Over the six months since the COVID-19 national emergency was declared through mid-September, 30% of respondents reported that they had changed their primary method of in-store payments.

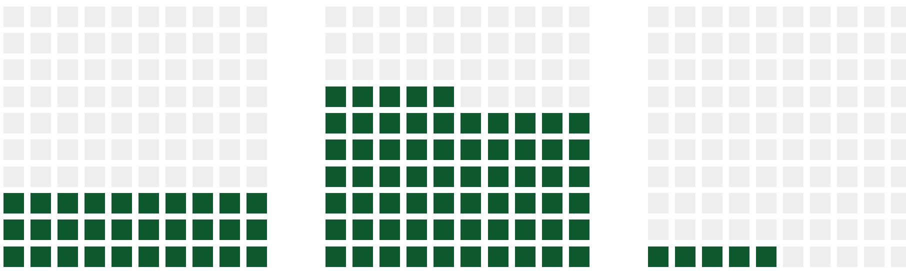
Having one third of consumers changing their primary in-store payment method in six months is monumental, threatening the very existence of large card portfolios and breathing sudden life into new payment methods and languishing products.

Almost **one third** of U.S. consumers have switched their primary in-store payment method since the onset of COVID-19.

Generally, changes in primary payment methods are gradual, such as the slow reduction in check usage at the point of sale over the last 50 years. Even major rewards and incentives don't cause such a dramatic shift in consumer payment behaviors.

**Safety concerns and convenience have contributed to 4 out of 10 U.S. consumers adopting contact-less cards or mobile wallets as primary in-store payment methods since COVID-19.**

**COVID-19 has led almost a third of consumers to switch their primary in-store payment method**



Since COVID-19, I have changed how I pay in-store

30%

Since COVID-19, I have not changed how I pay in-store

65%

Since COVID-19, I generally avoid making in-store purchases

5%

**Q: Since COVID-19 have you changed your primary form of payment for in-store point-of-sale purchases?**
Source: PaymentsSource Future of Money Survey 2020

However, the COVID-19 pandemic has thrust change onto retailers like few other forces in the past, including wars and recessions. Shelter-in-place lockdowns, health fears and consumers wanting to avoid contact at all costs have forced businesses to respond to marketplace changes at lightning speed, lest they risk losing all of their customers. Companies unwilling to accept Apple Pay in the past were suddenly announcing support, POS terminals with contactless capabilities were being turned on and cash was being relegated to a special checkout or not taken at all.

More specifically, the research found three primary impacts of COVID-19 on the payments landscape: in-store payments, primary card switching and P2P adoption.

## A flight from cash

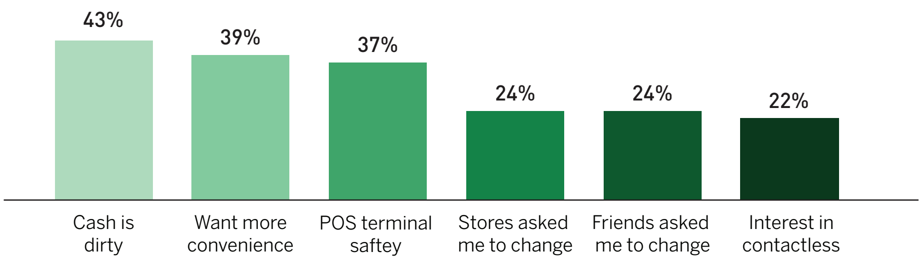
Among those who changed their primary payment method for in-store transactions, one quarter (24%) reported adopting contactless cards, and another 15% reported switching to a mobile wallet.

There are two themes that resonate behind the dramatic change that has occurred recently in primary POS payment methods and likely will continue to drive further change into the future — an overall demand for safety (real and perceived) and convenience (especially if it enables or amplifies safety).

Cash being perceived as dirty (43%) and health and safety worries about touching a POS terminal (37%) made a number of consumers reconsider their preferred payment method. Other factors such as stores requesting card and mobile wallet usage for the safety of their staff, and friends and family convincing a consumer to switch payment methods over virus concerns, fit with the overall safety theme.

### Cash being dirty, convenience and safety were top change agents

(Reasons for changing in-store point-of-sale payment preferences)



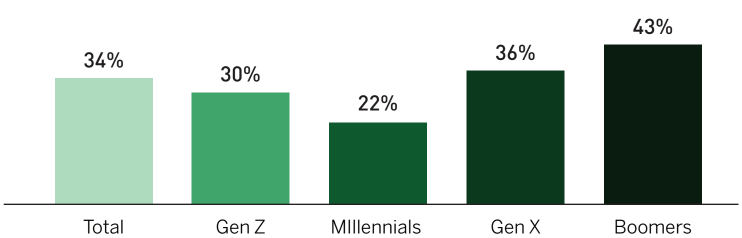

**Q: What were the main reasons that you changed your in-store point-of-sale payment preferences?**
Source: PaymentsSource Future of Money Survey 2020

Issuers that do not offer contactless cards are missing out on this demand. When respondents who were not making contactless card or mobile wallet transactions were asked why they did not, the main reason they stated was that they did not own a contactless card.

Overall, one third (34%) of respondents not making a contactless transaction reported not owning a contactless card was a primary reason. This was higher in the older generations of Gen X (36%) and boomers (43%), possibly due to their having a longer-term relationship with their card issuer and having older, non-contactless cards. In contrast, Gen Z (30%) and millennials (22%) had lower rates of non-usage due to lack of contactless card ownership, as they may be newer to their cards.

### One third don't own a contactless card - a key barrier to contactless growth

(% stating reason they don't make contactless payments is because they lack a contactless card)




**Q: What are the main reasons you have been reluctant to adopt or use contactless cards and/or mobile wallets/pay by phone more often for in-store point-of-sale purchases?**
Source: PaymentsSource Future of Money Survey 2020

## Faster primary card switching

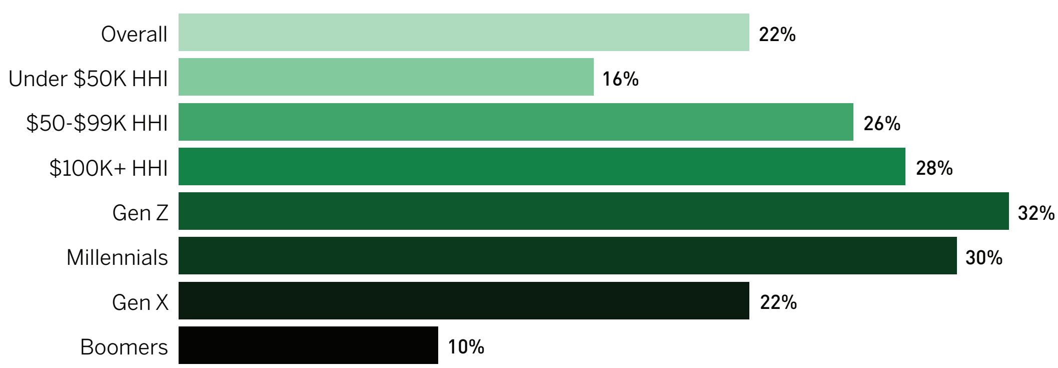
It could be argued that COVID-19 has essentially compressed 18 months of primary card churn into just six months, with 22% of credit card and debit card-holding respondents stating they have switched their primary card in the past six months.

The two highest income levels ($50,000-$90,000 household income and $100,000+ household income) reported the highest levels of primary card switching at 28% and 26%, respectively.

**COVID-19 is a factor in primary card switching for 54% of U.S. consumers.**

### The younger and more affluent switched their primary card at higher rates

(% of consumers who have switched their primary debit/credit card in the last six months)




**Q: In the last 6 months have you switched your primary credit card or debit card to a new/different one?**
Source: PaymentsSource Future of Money Survey 2020

Additionally, the two youngest generations, Gen Z (32%) and millennials (30%), also reported the highest levels of switching their primary card. These are likely due to a combination of higher income individuals having more options and the ability to switch cards, and younger consumers outgrowing their starter cards.

Just over half (54%) of those who switched their primary card felt that their decision was influenced by COVID-19. About 77% of millennial card switchers said COVID-19 influenced their decision to switch, while only 8% of boomers who switched said the pandemic was a factor.

### COVID-19 drove 54% to switch their primary card

**Q: Was the decision to switch your primary credit card or debit card impacted in any way by the coronavirus?**
Source: PaymentsSource Future of Money Survey 2020

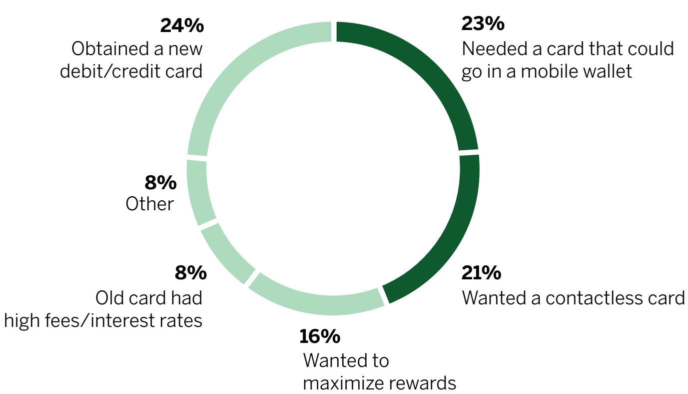
There is, however, a consumer expectation that in getting a new card it should be packed with all of the latest features, which would include contactless. The same thing happened during the EMV transition in the two or three years after 2015. While issuers were busy migrating their existing card portfolios from magnetic stripe-only cards to EMV-enabled, all new customers were immediately sent EMV-enabled cards. So the presumption could be that while contactless may not have been the primary driver, it was at least in the consideration.

Despite a rapidly growing trend toward consumers adopting mobile wallets and contactless cards, other factors also weigh on a consumer's decision to switch to a new card. Almost one quarter (23%) stated that they needed a card that could go in a mobile wallet, and one-in-five (21%) wanted a contactless card. Sixteen percent of recent card switchers reported that maximizing rewards was the primary reason behind obtaining a new card.

**Interest in cards with more technology is a primary driver of switching behavior for 44% of U.S. consumers.**

**Four out of ten of switchers wanted a card with more technology**

(Reasons for switching primary credit or debit card)




**Q: Why did you change your primary credit or debit card?**
Source: PaymentsSource Future of Money Survey 2020

## P2P adoption is accelerating

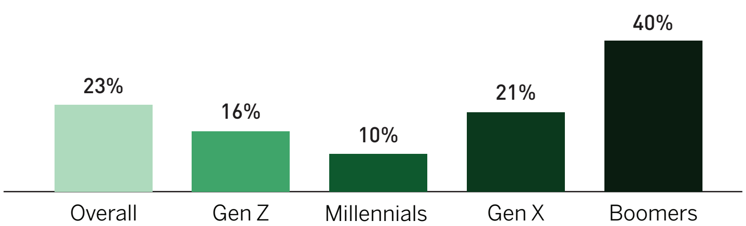
P2P services represent another clear example of the impact COVID-19 has had on the payments ecosystem. Prior to March 13, 2020, the level of non-adoption of person-to-person (P2P) money transfer services (such as Venmo, Square Cash and PayPal) was highest among boomers at 40% who had never used a P2P service.

Adoption was higher in younger age groups, with only 10% of millennials and 16% of Gen Z respondents having never used a P2P service prior to COVID-19. The rate of non-use among Gen X respondents was 21%, more than double the level of millennial non-use.

**Nearly half of U.S. consumers have started using or increased usage of P2P services since March 2020.**

### Older consumers were less likely to have used P2P prior to COVID-19

(% who never used P2P services prior to COVID-19)

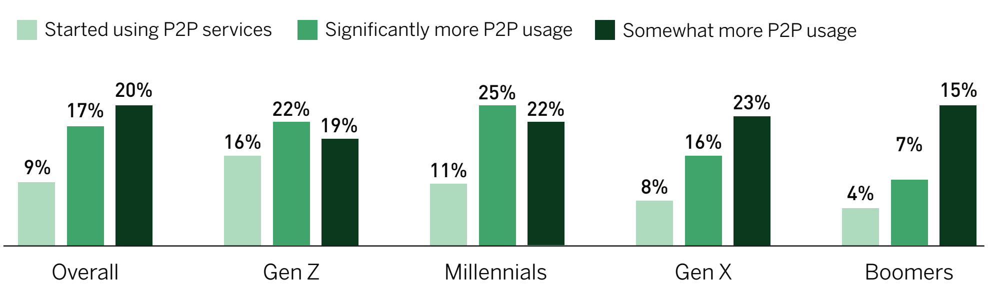



**Q: Before COVID-19, how long had you been using digital peer-to-peer (P2P) money transfer services such as Venmo, Square Cash, PayPal, etc.?**
Source: PaymentsSource Future of Money Survey 2020

Like mobile wallets, P2P apps offer a contactless way for consumers to move money. The apps also allow friends and family to send funds to one another without the risk of travel. Younger consumers who are already familiar with P2P apps may also be introducing them to older peers as an alternative to handling cash.

### COVID-19 has pushed all generations to use P2P more

(Change in P2P usage since COVID-19)




**Q: Since COVID-19, how has your usage of digital peer-to-peer (P2P) money transfer services such as Venmo, Square Cash, PayPal, etc. changed?**
Source: PaymentsSource Future of Money Survey 2020

Overall, there's been a 9% increase in P2P adoption and a combined 37% increase in usage (significantly and somewhat) in six months following the start of COVID-19 lockdowns in the U.S., which means that almost half (46%) of U.S. consumers have increased their engagement with or started using P2P services.

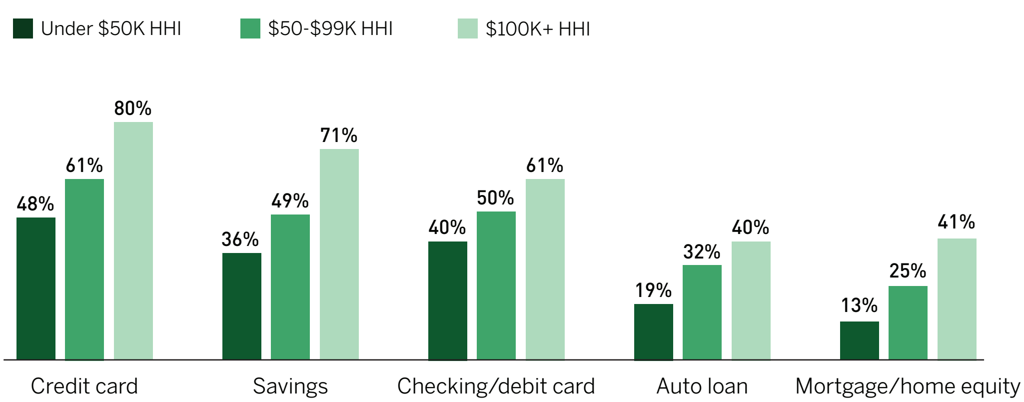
## Even in a pandemic, the digital divide remains

Banks, fintechs and retailers should be aware that even if consumers have a stronger need for digital financial products, their desire to acquire them digitally is not universal.

Affluent respondents were the most confident about applying online without any face-to-face interactions across a wide array of products, more so than both middle and lower-income groups at a statistically significant difference level. About 80% of high-income respondents were comfortable applying online for credit cards, 71% for savings accounts and 61% for a checking account/debit card.

Over half (61%) of middle-income respondents felt the same level of comfort about applying digitally for a credit card, and just half would apply online for a savings account (49%) and a checking account/debit card (50%). In comparison, the lowest income level (under $50,000 HHI) felt the least comfortable applying online-only for any of the financial products in the survey, with the lowest level of confidence for auto loans (19%) and mortgages/home equity (13%).

**Comfort in applying for financial products online is influenced by income**
(% comfortable applying for financial services products online)




**Q: Which, if any, of the following financial services products would you be comfortable applying for online, without any face-to-face interactions with the provider?**
Source: PaymentsSource Future of Money Survey 2020

**From credit cards to auto loans, higher income consumers are most comfortable applying for financial products online.**

More affluent consumers may be more comfortable in applying online for financial services because they believe that they have more options available to them.

By contrast, the products available to less affluent customers are also less appealing, such as the subprime accounts offered to consumers who have struggled to build their credit. Subprime products have more fees, higher interest rates, hair-trigger penalty clauses and in general are more diffcult to understand which makes a prospective customer less comfortable in applying for them without face-to-face support.

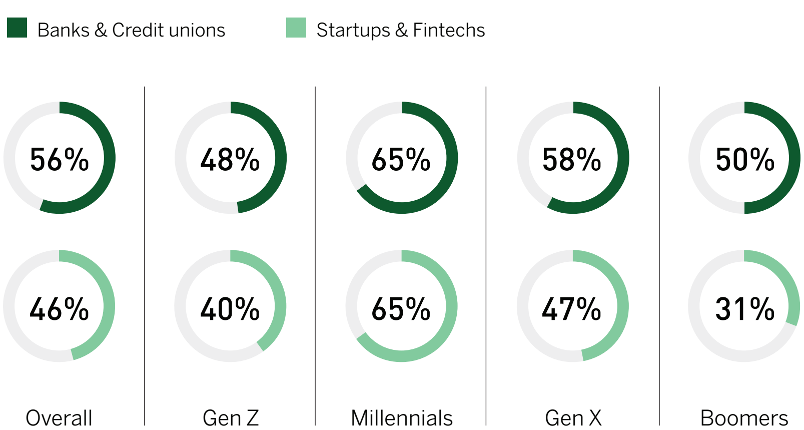
As lower income can affect an ability to pay bills on-time, there is a greater risk of suffering a bad credit score because of a few missed payments. Also with a lower income, a less affluent consumer will be offered lower credit limits by banks due to a more limited ability to pay. Therefore, any revolving credit on a limited credit line will negatively impact a credit score.

That said, newer financial products such as the previously discussed earned wage access services can help less affluent consumers better manage their cash flow and thus open them up to a wider range of more appealing financial products.

## Who do consumers see as innovators? Not necessarily fintechs

While there is a clear shift toward increased use of payments technology during the pandemic, most of the options such as mobile wallets and P2P apps were already widely supported by banks. This allowed consumers to change their habits while still keeping their accounts at a trusted financial institution.

**A majority of millennials believe fintechs are strong financial product innovators**
(% who agree either banks or startups are strong innovators of financial products)




**Q: Rate your agreement: I believe the following providers are strong innovators in new financial products and services.**
Source: PaymentsSource Future of Money Survey 2020

**Consumer sentiment favors banks and credit unions over fintechs as strong financial product innovators.**

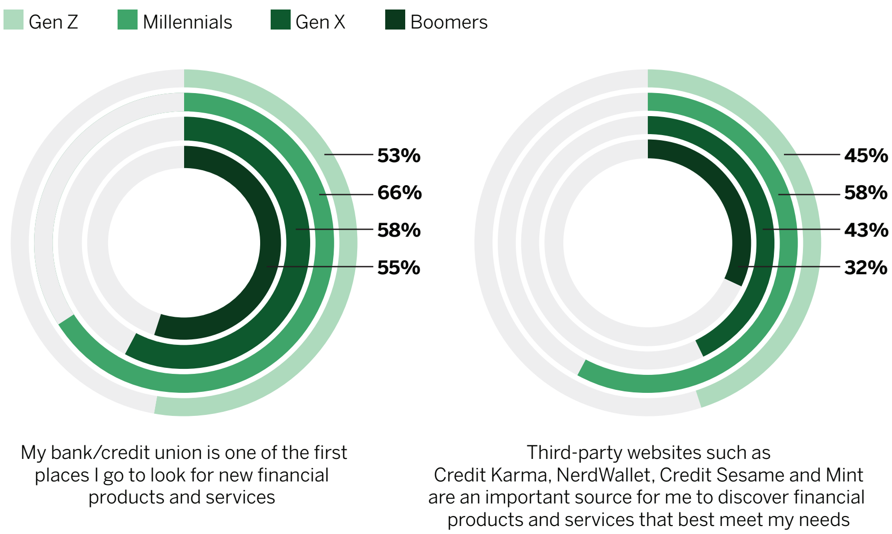
In a time of economic uncertainty, trust and stability are of crucial importance — even to younger consumers.

About two thirds (65%) of millennials felt that banks and credit unions, along with startups and fintechs, were strong financial product innovators. About half of boomers (50%) and Gen Z (48%) felt that banks and credit unions were strong innovators, while just 40% of Gen Z and 31% of boomers felt that startups and fintechs were strong product innovators.

Despite the proliferation of information available on the internet, banks and credit unions remain among the first places where at least half of all consumers in each generation visit to research new financial products. Millennials, at least directionally, have the highest rate of going to a bank first at 66%, followed by the other generations.

**In the internet age, banks still remain an important source of new financial products**

(% agreeing with each statement)




**Q: Please rate your level of agreement with the following statements?**

Source: PaymentsSource Future of Money Survey 2020

In terms of third-party websites such as Credit Karma, NerdWallet, etc., millennials reported the highest level (statistically significant) of seeing them as an important source to discover new financial products that best meet their needs, at 58%. Less than half of all three other generational groups saw third-party websites in this same light.

One of the challenges third-party websites inherently face is their lack of objectivity (real and perceived). Despite claims of being independent of banks and credit unions, their revenue, in many cases, is directly tied to the referrals they provide to the financial institutions they are reviewing. Consumers are also aware that banks and card companies will pay more to be at the top of any list of credit cards being searched on these websites.

## Conclusions

COVID-19 is creating an unprecedented opportunity for the companies to address safety and convenience in payments. The pandemic has shaken the retail landscape to its core, and broken consumers' payment preferences.

Cash flow dashboards are not meeting consumers' demands to match incoming cash with expenses. A dashboard needs to integrate an ability to borrow for short periods at low cost – something very few financial institutions provide, yet it is a significant need for younger and middle-aged consumers.

Banks and credit unions are not serving the growing demands for EWA services, especially among younger consumers. Startups dominate this sector, and can continue to disintermediate banks by expanding their bill pay and savings offerings.

Now is the time for banks, credit unions and fintechs to educate and support their customers wanting to load cards and other payment forms into a mobile wallet. The pandemic has caused consumers to re-evaluate the mobile wallet's value in light of the contactless health and safety benefits it provides. The successful issuer can become the primary card in the mobile wallet.

P2P services are positioned to acquire new customers across all groups. Platforms such as Square Cash, Venmo and Zelle lend themselves to money transfers as well as purchases. Also, their lower costs relative to credit cards make them attractive to merchants.

Institutions not offering contactless technology to their entire card portfolios risk losing part of them — especially the more profitable customers. The current 22% churn of primary cards in six months represents triple the normal rate of attrition, posing an immediate threat to card portfolios.

Merchants and their acquiring partners must provide safer alternatives by enabling contactless technology. Further, P2P wallets need to be considered and integrated into a modern POS system, along with other technologies such as voice, to meet growing calls for safety, security and convenience.

Banks and credit unions need to seize the moment, as this time of crisis makes trusted, long-term relationships more valuable. Fintechs will want to counter such overtures by banks.

**About Arizent Research**
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