FinTech Digest UK

September 2021

Unmissable insight for FinTech brands

The Payments Issue

Attest

From the CEO

Jeremy King
Attest

Across the many tectonic shifts created by the a global pandemic, FinTech was one industry uniquely positioned to benefit from such a great period of behavioural change. With access to bank branches restricted during lockdown, and cash considered a potential coronavirus risk, more and more people turned to online services, financial apps and digital payments. In fact, our research finds that the pandemic has significantly accelerated adoption of digital financial solutions in the UK; a great leap forwards for a UK FinTech sector that was already super hot.

Having carried out research into the sector in 2019, we can see how attitudes towards cash have changed dramatically across the pandemic. We've gone from being a nation that preferred using hard currency to one that now favours digital payments, all in the space of just 18 months. It's a sea change and it means the opportunity for FinTechs to build upon this behaviour shift and accelerate adoption of new products has never been bigger.

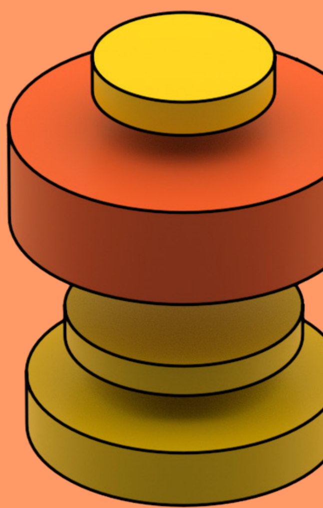
Our data also highlights growing interest and openness to financial technologies that previously consumers have been slower or reticent to adopt, like cryptocurrency and biometric payments. We see how far (and fast!) the pandemic has pulled more market share away from the legacy Big Four Banks and towards digital-only neobanks. And that there's a bright future for buy-now-pay-later (BNPL) providers in the UK, despite tighter regulatory control.

In this edition of the FinTech Digest, we also hear from pension provider PensionBee about how they've adapted to a shift in consumer attitudes by developing the UK's first mainstream fossil fuel free pension.

We're sure you'll be as excited as we are by the insights in this quarter's Digest and the outlook for the UK FinTech industry. If you have any thoughts, comments, feedback or alternative takes on any of the content/data, we'd love to hear from you.

Drop us a line at hello@askattest.com

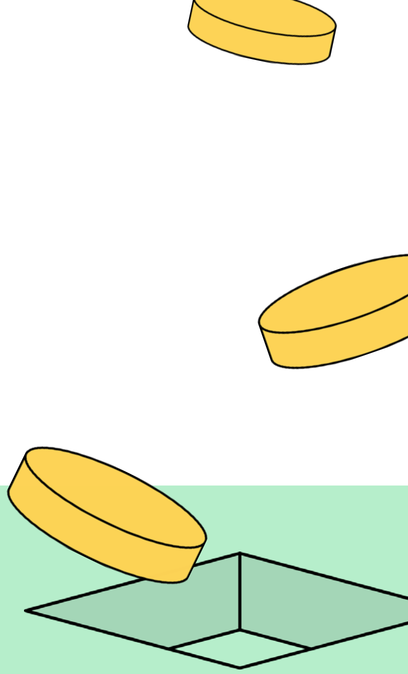
Contents



01

British consumers are ready to embrace a cashless future

Attitudes to cash have changed during the pandemic, with the majority of UK consumers now preferring to go cashless.



The pandemic has rapidly accelerated the UK's progression towards becoming a cashless society, according to our latest survey of 1,000 working-age consumers.

More than half the population (53.5%) now agree they prefer to carry out cashless transactions, which has risen from 35% the last time we asked, in January 2020. Prior to the pandemic, the majority of people disagreed that cashless was best (38%), but this attitude has now switched and only 19% disagree.

Just 16% of Brits say cash is their favourite way to pay for things in real life, down from 20% pre-pandemic. Meanwhile, contactless payment options have received a boost, with 56.5% of people preferring to pay with a contactless card (up from 48%) and 17.5% preferring to pay with a contactless device (up from 16%). Preference for chip and pin card payment has fallen from 17% to 10%.

People are even eschewing cash when it comes to paying friends and family; only 21% chose this option, with the remainder opting for digital payment either by bank transfer (59%) or a mobile payment app (20%).

The pandemic has clearly changed the way people pay for things - indeed, 43% say it's changed their behaviour a little bit and 27% say it's changed it a lot.

So, why the change?

During the pandemic, some retailers began refusing cash on the basis that it posed a risk for catching COVID-19. While most businesses have been forced to make a U-turn, the idea that cash is unhygienic has stuck with some consumers. Nearly 18% cite hygiene as the reason they prefer to use a digital payment option - although that's not the driving factor behind this change.

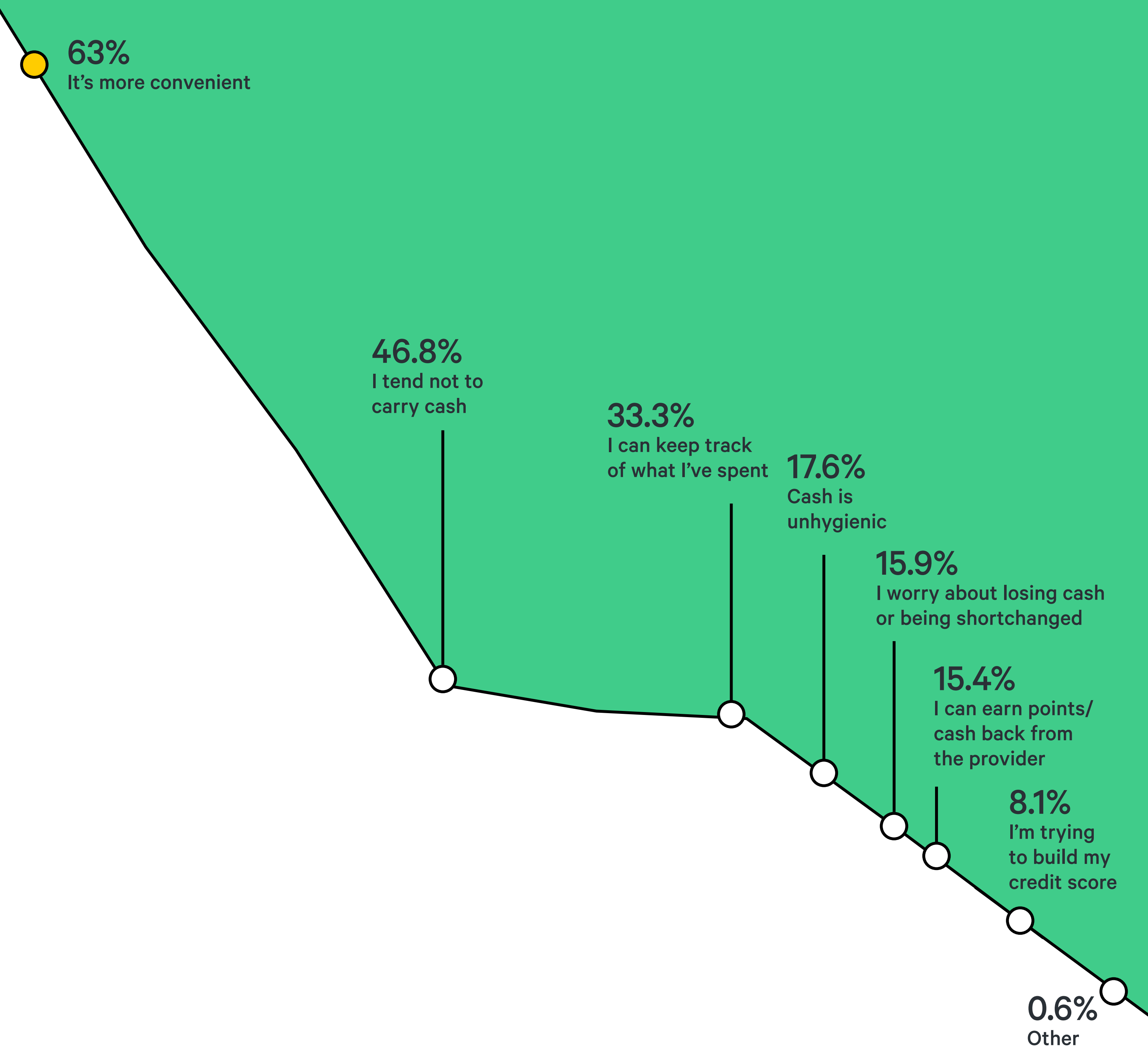
The biggest reason people prefer to use a card or device is because they find it more convenient (63%), with 47% saying they tend not to carry cash on them. And a third of Brits like digital payments because it means they can keep track of what they've spent.

Other reasons given include worrying about being shortchanged or losing money (16%), taking advantage of benefits offered by payment providers (15%) and being able to build a credit score through card usage (8%).

Even the way we pay for things online has altered over the last 18 months, with an increase in adoption of digital wallets such as Apple Pay and Google Pay. The percentage of people who say a digital wallet is their favourite way to pay for things online has grown from 8% to 12% (and this rises to 25% of people aged 18-25).

Although, interestingly, we also see a marked decline in preference for online payment services like PayPal (down from 38% to 28%), with people opting for credit or debit cards instead (up from 48% to 54%). Perhaps confidence in cards has increased thanks to the rollout of 'Strong Customer Authentication', which requires card issuers to add extra security checks?

Why do you prefer to pay with a card/device?



Are we ready for a cashless society?

Sweden has already declared it will become the first cash-free society in 2023, but it looks like the UK might not be too far behind. Our data finds there are more people in favour of a cashless Britain than against it; 43% agree that they would welcome a cashless society, while 35% disagree. A further 22% are on the fence.

Younger generations are especially in favour of going cashless, with 51% of both the Gen Z (aged 18-25) and Millennial (aged 26-40) demographics agreeing they would welcome it.

> “We could keep tabs on exactly what we are spending, and you can always lose cash.

> “I think it would be convenient. Lighter in the pocket and more hygienic.

Why we want to go cashless

> “Would have no impact as I don’t use cash. Would make it easier if everyone took card.

> “Very positive, much cleaner and easier to manage.

> “Money is filthy and the thought of catching anything from money makes it obvious cashless is the way forward.

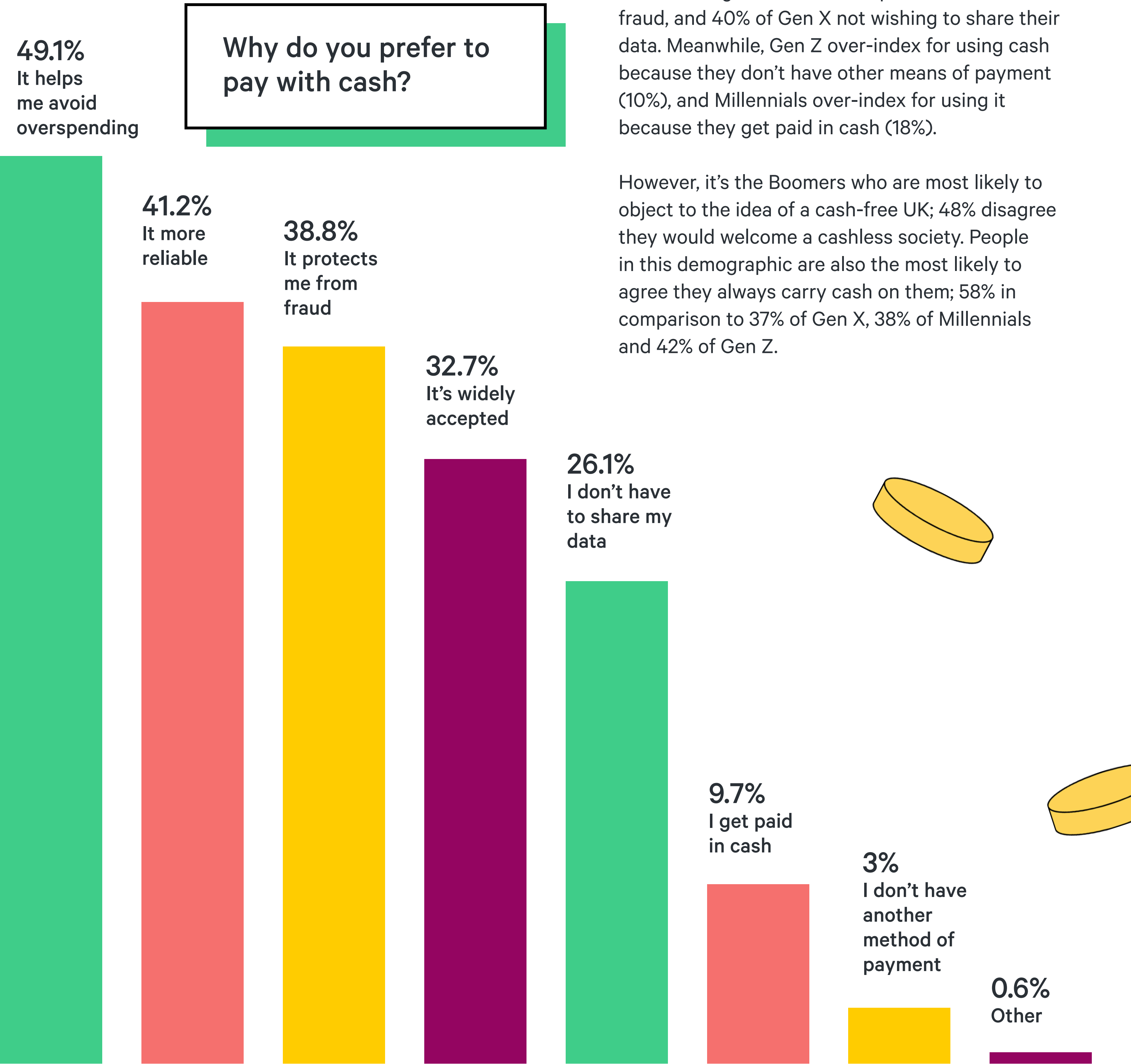
Who still uses cash?

While going cash-free seems convenient to many, for some, the prospect is frightening. Age UK has warned that 2.4 million people aged 65 or over are at risk of societal exclusion due to declining access to cash. But it's not only pensioners who want to cling on to cash, there are people in all age groups who see benefits in hard currency.

According to our survey, 16% of Brits aged 18-65 prefer to pay for things with cash, with Gen X (aged 41-55) showing the most preference for it (20%). The main reason they give is that it helps them to avoid overspending (49%), while 41% of people find cash to be more reliable.

Security concerns are higher among the older demographics, with 48% of Boomers (aged 56-65) choosing cash because it protects them from fraud, and 40% of Gen X not wishing to share their data. Meanwhile, Gen Z over-index for using cash because they don't have other means of payment (10%), and Millennials over-index for using it because they get paid in cash (18%).

However, it's the Boomers who are most likely to object to the idea of a cash-free UK; 48% disagree they would welcome a cashless society. People in this demographic are also the most likely to agree they always carry cash on them; 58% in comparison to 37% of Gen X, 38% of Millennials and 42% of Gen Z.



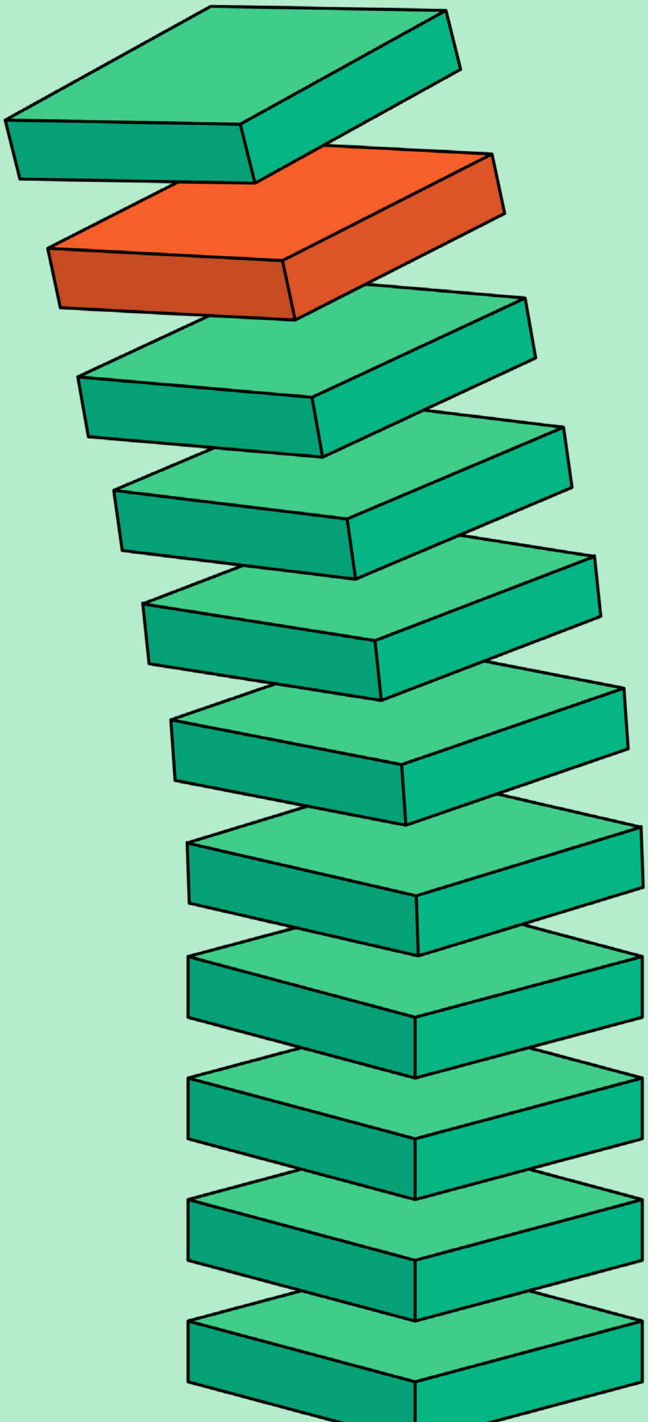
Why we need to keep cash

“ Too easy for fraudsters and will create even wider gaps between rich and poor.

“ I worry about the people who can’t get a debit card.

“ Lots of the more mature people in society don’t have the means of using digital payments.

“ It’s a good idea but what about if technology fails? If the Wi-Fi goes down? Cash is handy.



“ Possibly inconvenient for paying people i.e. window cleaner, and giving tips.

The FinTechs making a cashless society possible

The concerns that people have about going cashless are important, but over the last 18 months, we've already seen a host of innovations aimed at making a cashless society more inclusive.

SumUp and Zettle offer mobile card readers for small businesses and sole traders with no monthly fee, meaning even Big Issue sellers can now accept card payment. And with Tomato Pay you don't even need a card reader to take payment; you can simply generate a QR code on your phone.

Another FinTech company, CleverCards, allows businesses and government departments to instantly send digital pre-paid Mastercards by SMS, WhatsApp or email. This means people without a bank account can receive money - and spend it digitally.

Meanwhile, Starling Bank launched the Starling Connected card during the pandemic, which vulnerable people who are self-isolating can give to volunteers to pay for their shopping, in a safe and secure way.

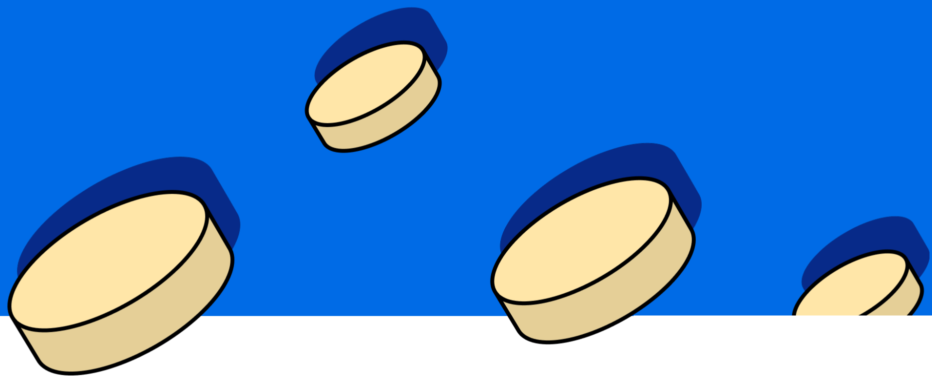
Indicating that the government is also eyeing a cashless future, Chancellor of the Exchequer Rishi Sunak recently announced the £375m million Future Breakthrough Fund. The fund will support UK FinTech startups with research and development that can accelerate deployment of disruptive technologies.

We've already seen a host of innovations aimed at making a cashless society more inclusive.

02

The payment tech most-wanted by British consumers

There's growing interest in biometric payments and crypto as Brits turn their backs on cash.



As the UK marches towards a cashless future, what payment methods are we likely to embrace? Will credit and debit cards be binned in favour of fingerprints and face scans or are consumers still too wary about biometric options?

Our data suggests that Brits - or at least the younger ones - are ready to adopt new payment technology. Almost half of Gen Z (aged 18-25) say they would 'probably' or 'definitely' use biometric payment options, while only 22% say they would not (the others are undecided).

Millennials (aged 26-40) are also mainly in favour, with 44% saying they would pay with their hand, face, cornea or voice, and 29% saying they wouldn't. Gen X (aged 41-55) are more split, with 39% in favour of biometric payments and 31% against. Boomers (aged 56-65) are the only demographic more likely to reject biometric payments (41%) than they are to accept them (31%).

The reasons the different age groups give for not wanting to adopt this emerging technology vary. The overriding concern among Brits is around fraud; 41% worry their biometric identity could be stolen. It's certainly an issue that providers will need to work hard to address - it's one thing having your password or pin compromised but quite another if it's your fingerprint or voice (the latter are not so easily changed!).

Gen Z particularly over-index for worrying about having their biometric identity stolen (51.5%), as well as for the possibility that it could put their physical person in danger (38%) - those finger-chopping fears still exist.

It's interesting that older generations are less concerned about these risks, and have different reasons for objecting to biometric payments. Gen X over-index for saying it makes them "feel like big brother is watching" (41%) and Boomers over-index for simply not seeing any benefit in the technology (42%).

What concerns do you have about using a biometric payment option?

41.4% My biometric identity could be stolen

36.3% I feel like Big Brother is watching

34.6% I see no benefit

34.2% It could put my physical person in danger

1.9% Other

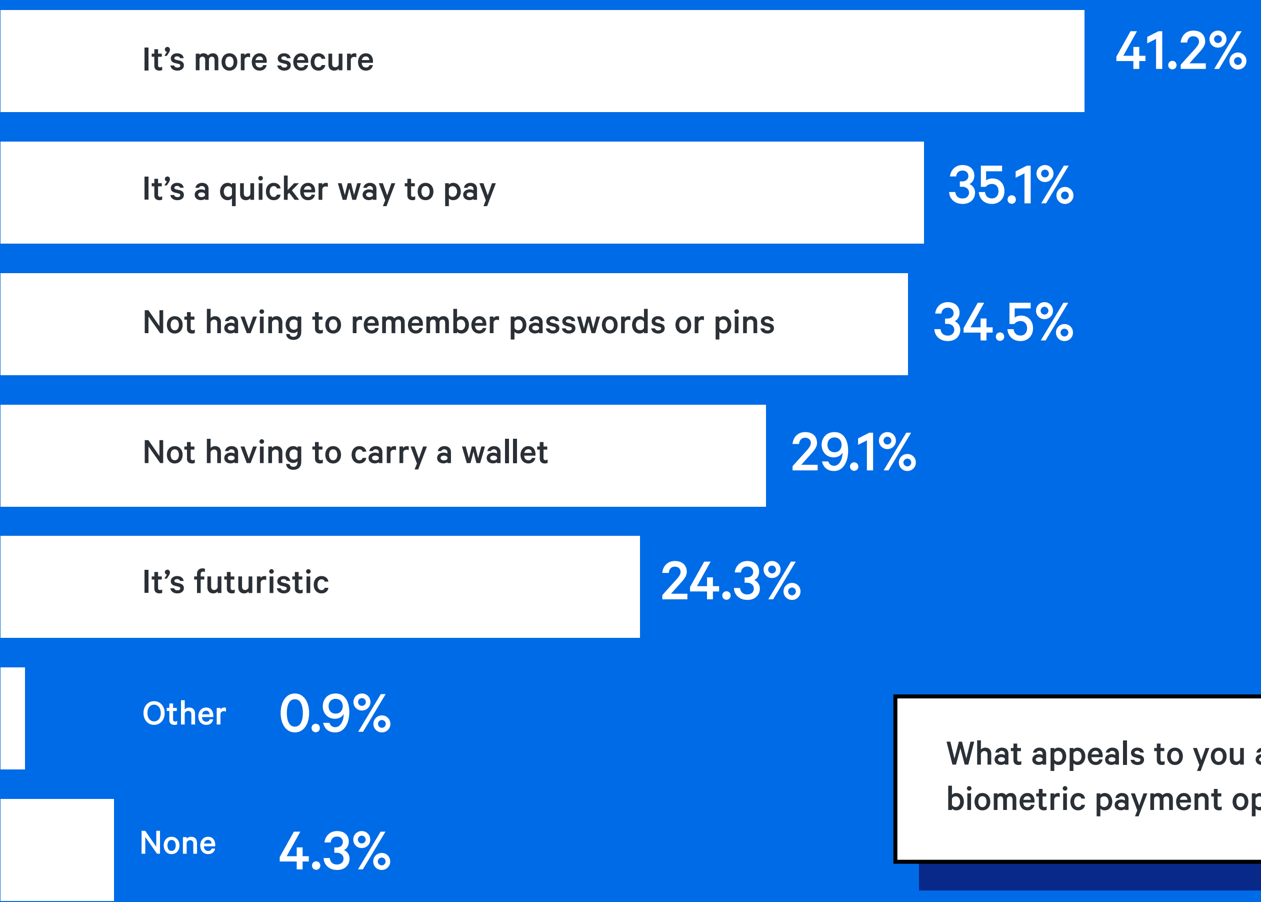
1.2% None

Leave your wallet at home

Providers who are leading the way with biometric payment options include Amazon, who have launched Amazon One in the US, which lets shoppers pay with their palm print at Amazon stores and branches of Whole Foods Market. Meanwhile, Dutch FinTech PayByFace lets people pay by simply looking into a point-of-sale (POS) system, and Fluent.ai provides voice recognition tech that allows people to make payments via smart speakers and devices.

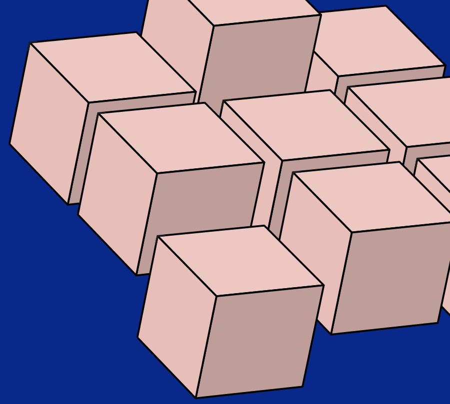
These solutions mean you can leave your wallet and phone at home - all you need to pay is your body. According to 29% of Brits, that's a big plus point for biometric payment options, but the main reason given for wanting to make the switch to biometric is that it's more secure (41%).

Gen Z over-index for choosing biometric payment because it's a quicker way to pay (40%), while Boomers are attracted to it because it means they don't have to remember passwords or pins (42%). Gen X, meanwhile, like the idea of biometric payment because "it's futuristic" (28%).

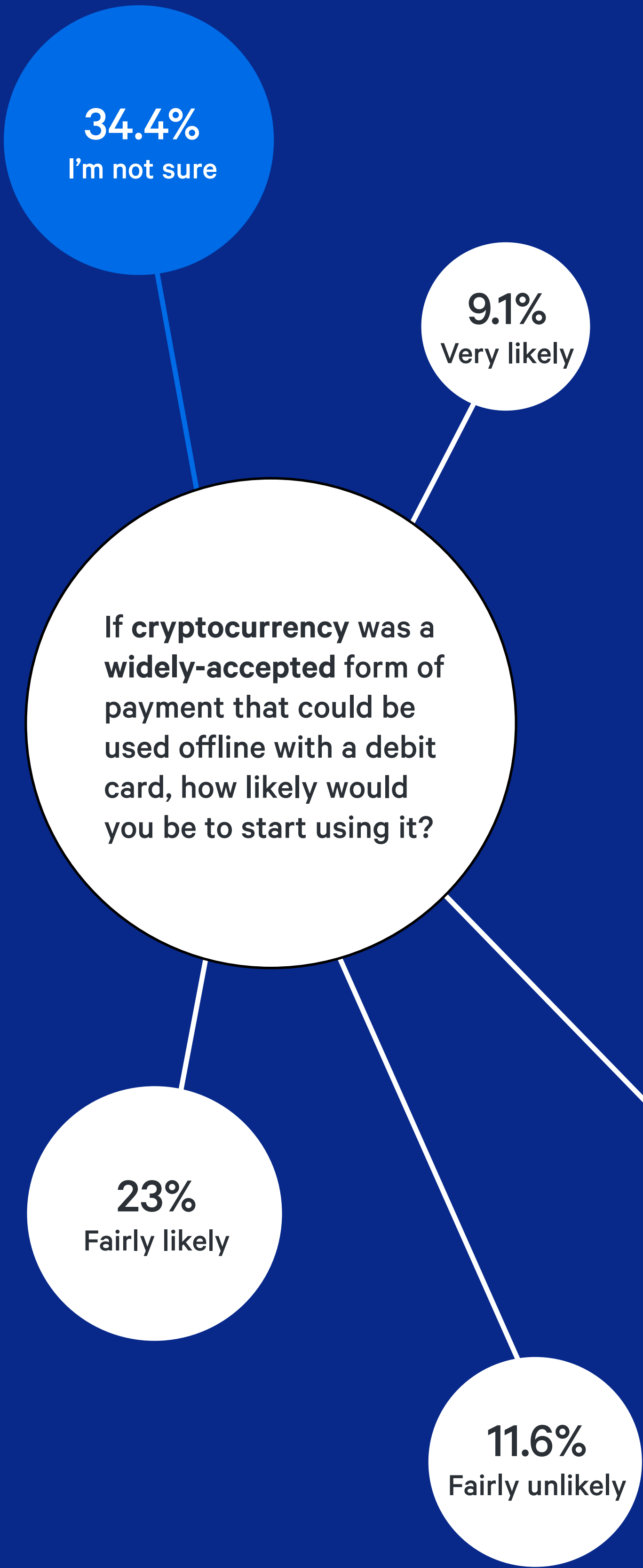


What appeals to you about biometric payment options?

Will crypto ever be king?



Crypto currency has long been touted as the future of money but we are yet to see it take hold in any meaningful way. There are still only a small number of retailers that accept Bitcoin in the UK, but the market could be about to open up thanks to a partnership between Visa and 50 of the leading crypto platforms. The initiative will make it easy to convert and spend digital currency at 70 million merchants worldwide using a crypto-linked visa card.



Just over 32% of Brits say they would be 'fairly' or 'very' likely to start using cryptocurrency if it was a widely-accepted form of payment that could be used with a debit card. A further 34% are not sure, while 33% say they're fairly or very unlikely to use it.

Gen Z show the most enthusiasm for crypto, with 46% likely to use it and only 15% unlikely, but interest in using digital currency to pay for day-to-day items declines with age. Boomers are the least interested, with 56% of people in this age group unlikely to use it and only 18% likely.

Currently, just 1% of UK consumers say cryptocurrency is their favourite way to pay for things online, although this is up from 0.5% in January 2020.

The future of credit

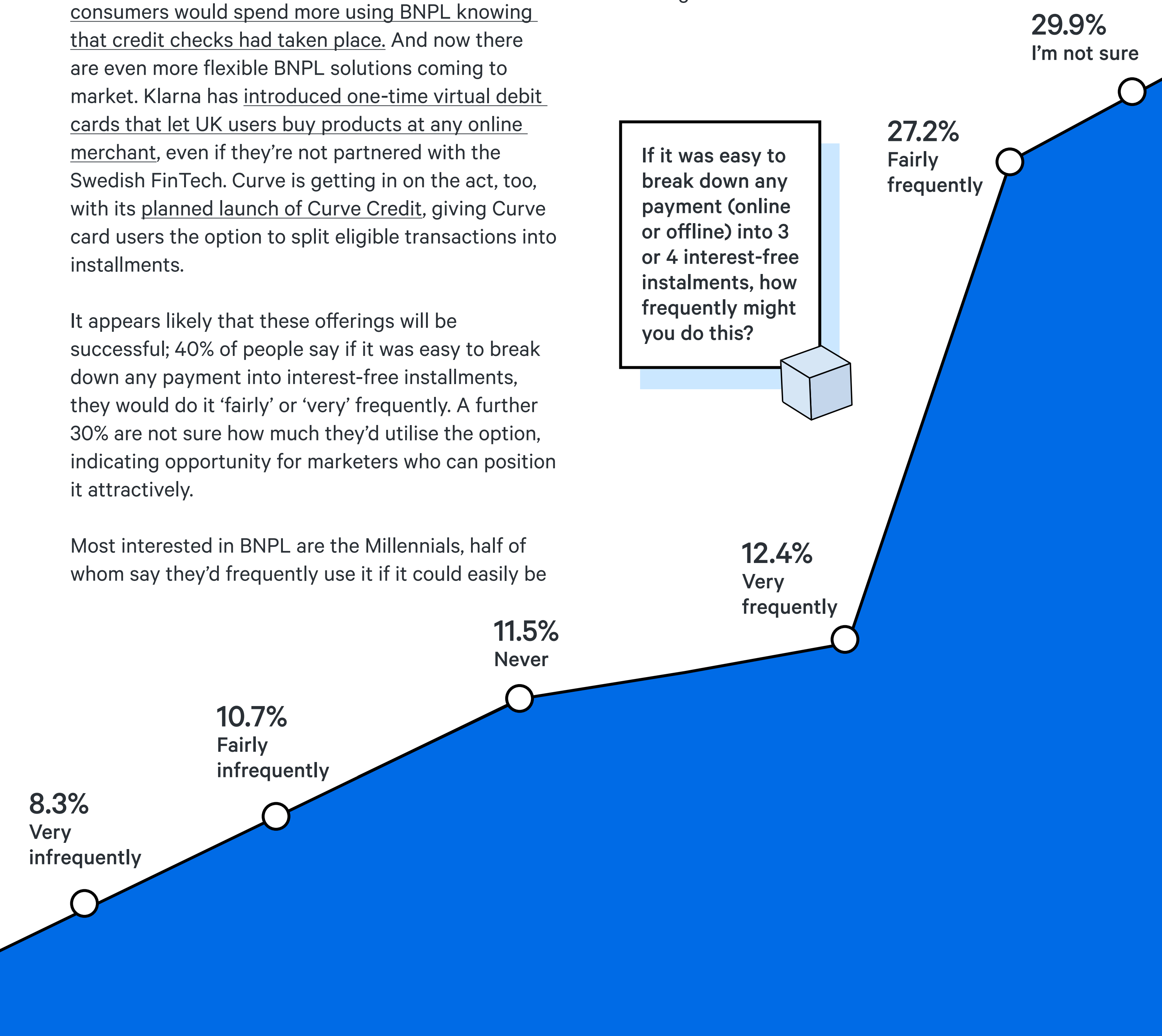
New-style Buy Now Pay Later (BNPL) providers that let shoppers pay for their purchases in three or four interest-free installments are changing the face of credit in the UK. Despite the introduction of tougher regulation to control the industry, consumers continue to show growing interest in these payment options.

Earlier this year, we found that almost 49% of consumers would spend more using BNPL knowing that credit checks had taken place. And now there are even more flexible BNPL solutions coming to market. Klarna has introduced one-time virtual debit cards that let UK users buy products at any online merchant, even if they're not partnered with the Swedish FinTech. Curve is getting in on the act, too, with its planned launch of Curve Credit, giving Curve card users the option to split eligible transactions into installments.

It appears likely that these offerings will be successful; 40% of people say if it was easy to break down any payment into interest-free installments, they would do it 'fairly' or 'very' frequently. A further 30% are not sure how much they'd utilise the option, indicating opportunity for marketers who can position it attractively.

Most interested in BNPL are the Millennials, half of whom say they'd frequently use it if it could easily be applied to purchases both online and offline. Meanwhile, Gen Xers are the most undecided (35%), and Boomers are least likely to make use of it (only 22% would do so with any frequency).

What's clear, is that the more convenient, quick and secure providers can make digital payments, the more consumers will adopt them. Young people especially are open to new ways to pay, and reducing friction will be the key to winning them over.



03

The consumer insight behind PensionBee's groundbreaking fossil fuel plan

PensionBee noticed attitudes towards investments changing, so they used consumer research to find out exactly what today’s customer wants.

When pension provider PensionBee began receiving calls from customers who wanted to exclude oil companies from their investments, they recognised a shift in consumer attitudes.

People seemed to be growing more interested in sustainability and the ethics of their investments. It was something that Priyal Kanabar, Customer Insight Manager at PensionBee, needed to investigate.

“It felt like we were getting a lot of calls from customers concerned about investing in oil through their pensions but we weren’t sure whether these were vocal customers who had a minority opinion or whether their views were representative of most of our customers,” she says.

To understand the issue further, Kanabar used Attest to carry out an extensive consumer research project. The research probed PensionBee’s customers on how they want their pension money invested, and to what extent they want providers to take ethical concerns into consideration in the investment process.

“From that, we learned there was significant demand for a new Fossil Fuel Free Plan. We used evidence from Attest surveys to lobby our money managers to create a completely new mainstream fund. It’s been a really exciting project.”

PensionBee’s Fossil Fuel Free Plan* excludes companies with oil, gas or coal reserves, as well as tobacco companies and manufacturers of controversial weapons. Instead, the new plan will ensure more of savers’ money is invested in companies who are committed to the transition to a greener economy using a Paris-aligned index created as part of a collaboration between FTSE and the Transition Pathway Initiative.

The plan has already received £45 million in commitments from people pledging to switch their existing plans. Kanabar says this proven real-life demand backs up the data gathered through Attest.

“The data is high quality,” she says. “It’s good because we can get a lot of responses from a big sample size. Attest is digital, and so we could reach our customers really quickly to ask how they want their money invested. We were able to validate the feedback we were getting from customers and evidence consumer demand for this new fund.”

Driving positive change

The Fossil Fuel Free Fund isn't PensionBee's only piece of data-backed research hitting the headlines; they've also released a report about the difficulties of drawing down pensions called 'Drawdown Doldrums'. Reports of this nature help the pension provider to grow brand awareness and also drive positive change in the industry.

"We did some research about people who are trying to access their money at retirement and how they have really struggled to navigate the market. We released our report along with a webinar, and that's helping us to call out bad behaviour in the industry and advocate for better pension experiences.

"Our insights have been published in the national media. For example, the Telegraph published an article that brought attention to how some pension providers neglected customers during the COVID crisis."
Kanabar says PensionBee are passionate about listening to consumers and representing their interests. As well as interviewing customers individually, she uses Attest to get views from the wider market.

"I sit in a team called Customer Voice," she says. "The purpose is to amplify consumer voices in the industry. This includes calling out other pension providers for when they're not delivering a fair service to customers. Recently we've been working on a piece about fees and how they can be too expensive and not transparent enough."

Other teams within PensionBee to leverage Attest include those working in marketing and customer experience. The platform has helped them understand the core reasons why some consumers fail to convert after interacting with the brand online. This has enabled PensionBee to improve their conversion rate even more.

Concludes Kanabar: "Our mission is to make pensions simple and engaging, and embracing customer feedback is a huge part of that. Attest helps us to harness insight quickly and easily to drive evidence-based decision making and ensure as a business we are relentlessly focused on customer need."

*Capital at risk.

To learn more about how PensionBee used Attest to develop the UK's first mainstream fossil fuel free pension, watch our free on-demand webinar.

04

Why do UK consumers love neobanks?

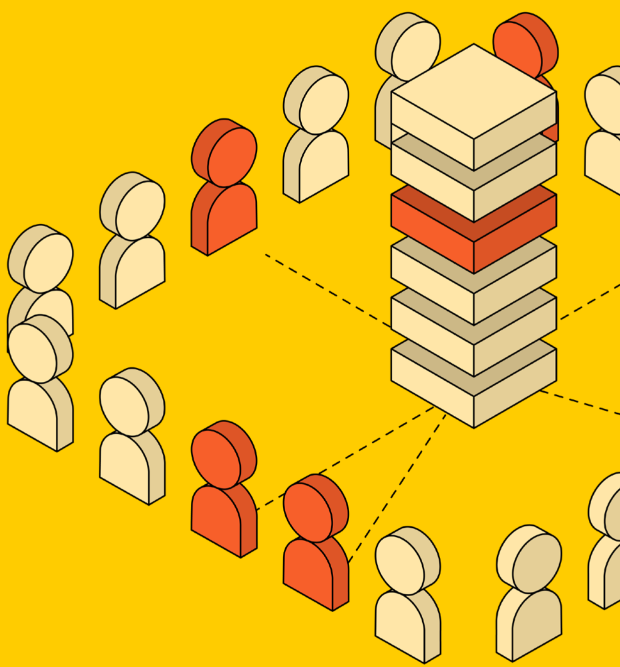
Consideration of digital-only banks has never been higher and it’s all thanks to fantastic UX.

Neobanks have enjoyed a significant uptick in customers and usage since the pandemic - but much more growth is on the cards.

Our research finds 45% of UK consumers are considering opening a new digital bank account in the next six months (check out our survey of 1,000 working age Brits, in partnership with The Banker).

Gen Z (aged 18-25) are the demographic most likely to be eyeing up challenger banks like Monzo, Starling and Revolut; 59% say they are ‘potentially’ or ‘seriously’ considering a new account.

Meanwhile, 47% of Millennials (aged 26-40), 43% of Gen X (aged 41-55) and 32% of Boomers (aged 56-65) say the same.



How do you feel about opening a new account with a digital-only bank in the next six months?

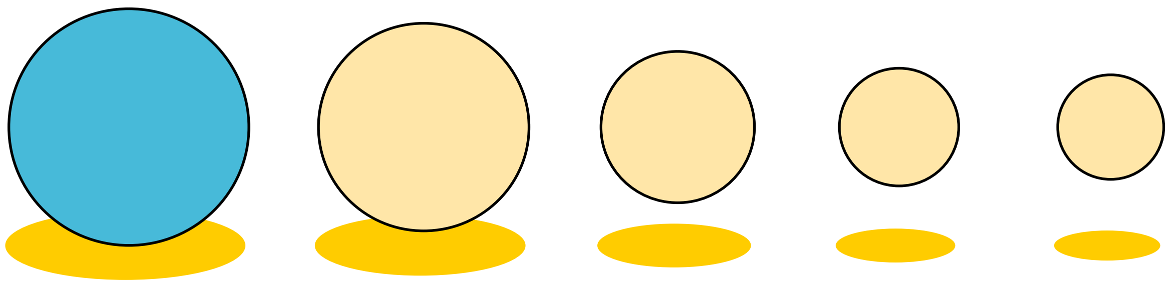
38.3% I am not currently considering it, but am open in the future

29.4% I am potentially considering it

15.5% I am seriously considering it

9.3% I would never consider it

7.3% I already have a digital-only bank and don’t need a new account



What's the draw of digital-only?

We asked those who have an account with a neobank or are thinking about getting one in the future, what the attraction is.

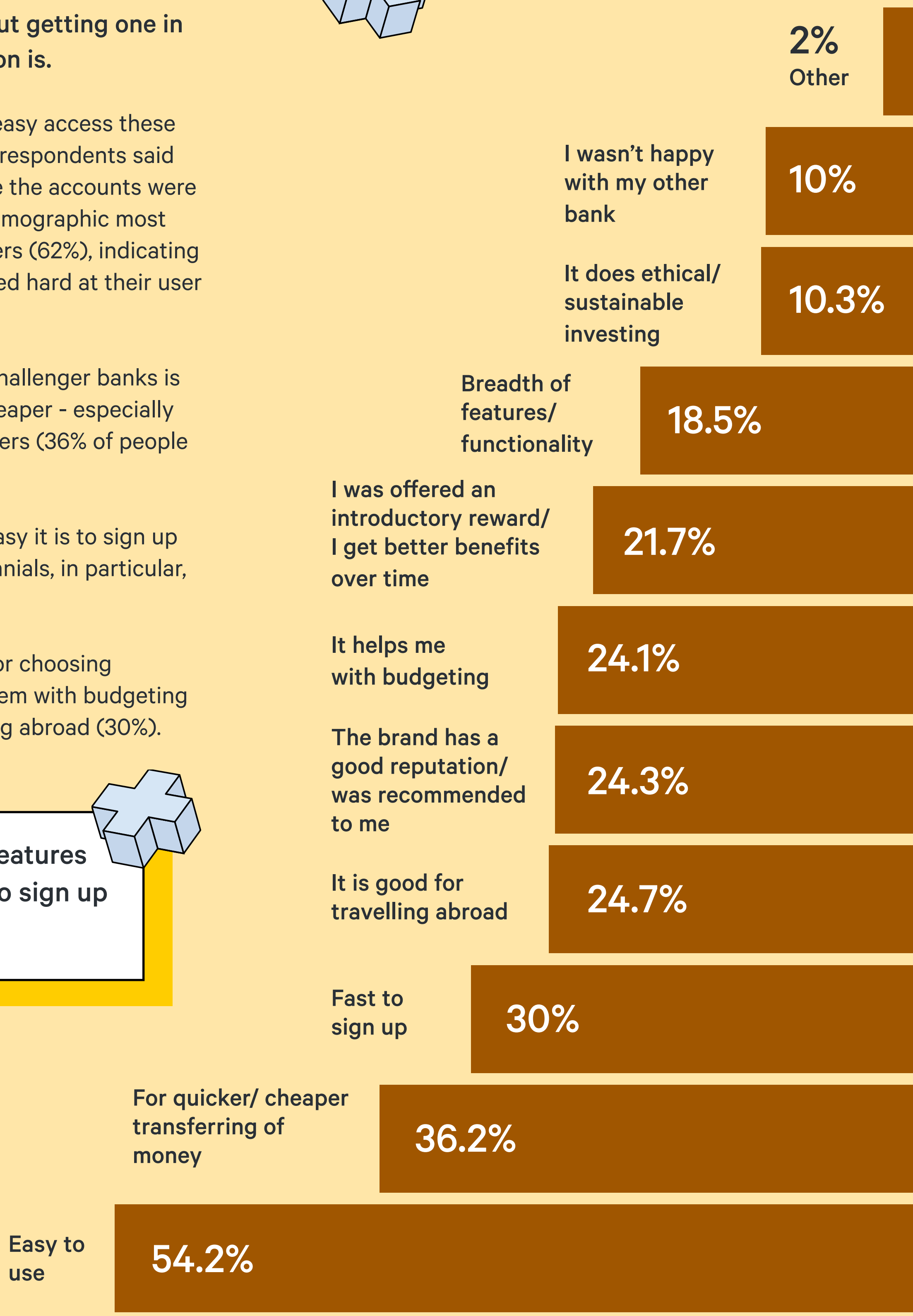
The single biggest draw is the easy access these digital services provide; 54% of respondents said they wanted to sign up because the accounts were easy to use. Surprisingly, the demographic most likely to say this was the Boomers (62%), indicating that these providers have worked hard at their user experience (UX).

Another significant benefit of challenger banks is that they're often faster and cheaper - especially when it comes to making transfers (36% of people are attracted by this).

The third largest draw is how easy it is to sign up with a digital bank (30%). Millennials, in particular, appreciate this (37%).

Gen Z, meanwhile, over-index for choosing neobanks because they help them with budgeting (36%) and are good for travelling abroad (30%).

Which of the following features made/makes you want to sign up to a digital-only bank?



How the pandemic has accelerated neo-bank adoption

According to our data, almost one quarter (23%) of UK consumers now use digital-only banks. And 37% of these people signed up since March 2020, showing the impact the pandemic has had on the sector.

The older demographics are the most likely to have been pushed to adopt a digital bank account by coronavirus; 46% of Boomers with a digital-only account signed up during the pandemic, as did 44% of Gen X.

The younger demographics are more likely to have already been using neobanks, with the biggest user base seen among Millennials (31% have a digital-only account).

But it's not just customer numbers that have increased in the last 18 months, overall usage of neobanks has too. We found that 41% of people who use neobanks have increased their usage during the pandemic.

Please select which option best describes your interaction with digital-only banks since the pandemic began

Winning over the remainers

Only 9% of the people we surveyed said they'd never consider opening a digital-only bank account. It's not very many, which shows how well challenger banks have done at promoting their advantages, but what is it that's stopping these remainers?

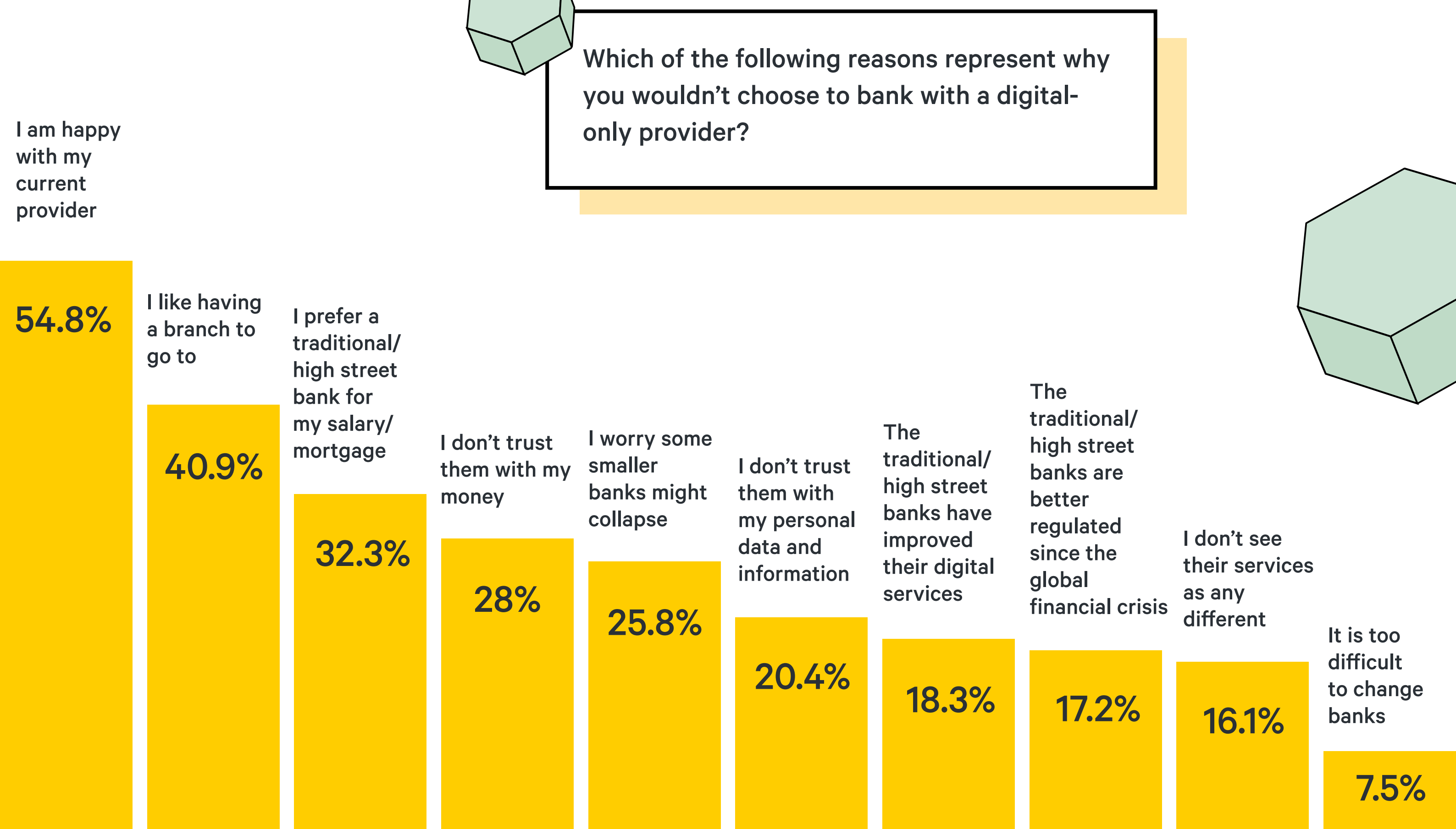
Quite simply, they're happy with their current provider (55%) and they like having a branch to go to (41%). When we consider that Boomers are almost three times as likely to be disinterested in digital banks than Gen Z (19% of Boomers wouldn't consider using a neobank), we can better understand these priorities.

This generation are much more embedded with traditional providers and may have multiple accounts, cards, loans and mortgages with the Big Four. They're more likely to be familiar with their local branch - and might even know the bank manager by name - so it figures they'd be more attached.

For neobanks that want to go after this hard-to-win segment, our data indicates that focusing on building trust might help. Looking at the perception of Boomers, in particular, 31% worry that digital-only banks might collapse and 22% believe high street banks are better regulated.

Concerns around the security of personal data also prevent 25% of these consumers from using neobanks, while 31% state they simply don't trust them.

What the insight shows, though, is that most people do see the benefits of digital-only banks and that the stronghold of the Big Four continues to weaken. Even older consumers have been converted to neobanks, having been forced to try an alternative by the pandemic. Using social proof from these types of users could go a long way to convincing others to give challenger banks a chance.



05

How close is the UK to becoming a cashless society?

Attest surveyed 1,000 working age UK consumers to find out how the pandemic has changed the way we want to pay for things.

84%
favour a digital payment method for real life purchases

63%
find digital payments more convenient

18%
think cash is unhygienic

43%
would welcome a cashless society

53.5%
agree they prefer to carry out cashless transactions

47%
tend not to carry cash

33%
say digital payments let them keep track of what they've spent

4 in 10
would 'probably' or 'definitely' use biometric payment options

Attest

06

Do financial partnerships drive consumer trust?

For this edition of Attest Investigates we're exploring how the existence of financial partnerships affects consumer trust.

Can people trust a financial brand they haven't heard of? If that brand partners with a recognised name, are consumers more willing to use the product? It's something we wanted to investigate, so we surveyed 250 nationally representative UK consumers.

The results

To gauge consumers' comfort with financial brands they don't recognise, we asked **how likely they are to use a financial brand they haven't heard of before.** The results were:

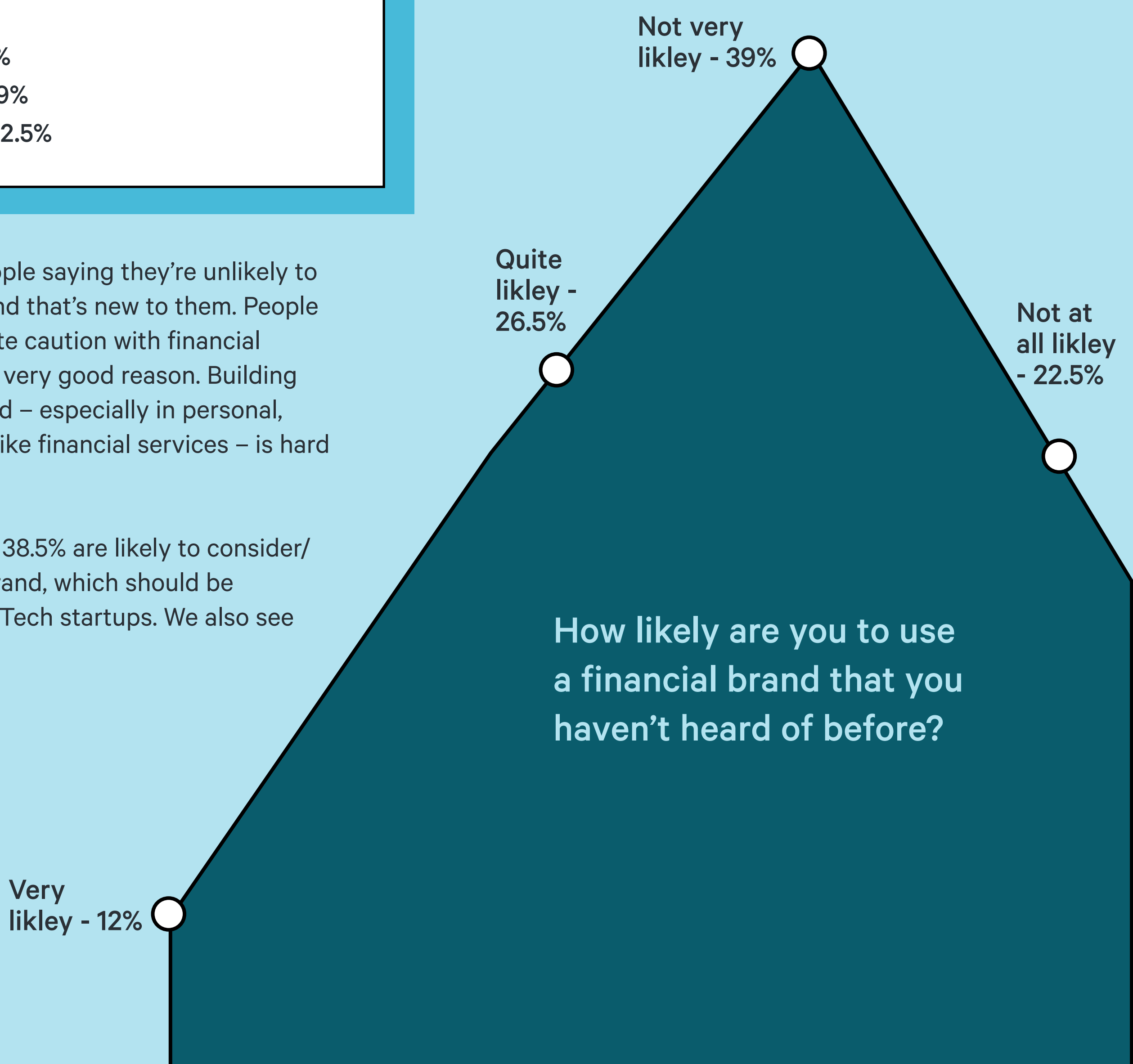
Very likely – 12%
Quite likely – 26.5%
Not very likely – 39%
Not at all likely – 22.5%

That's 61.5% of people saying they're unlikely to use a financial brand that's new to them. People tend to demonstrate caution with financial products, and with very good reason. Building trust in a new brand – especially in personal, detailed activities like financial services – is hard (and expensive).

However, a sizable 38.5% are likely to consider/ use an unknown brand, which should be encouraging to FinTech startups. We also see slight increases in people's likelihood to use an unknown brand as we travel down the age spectrum:

- **Millennials – 40% said 'Very/Quite likely'**
- **Gen Z – 45% said 'Very/Quite likely'**

It's worth noting that financial caution seems to grow with age, so we absolutely shouldn't take it for granted that younger generations will be more open to financial products later in life, just because they seem more open now.



And what if an unknown brand partners with a household name?

Getting to the nub of the issue of financial partnerships and if/how much they nurture consumer trust, we asked if respondents' likelihood to use a new financial brand would change if an unknown brand partnered with a recognisable one.

The results are emphatic:

81% said they're more likely to use an unknown brand if it partnered with one they knew.

While it's clear that it's in the best interest of challengers to partner with established incumbents, great new partnerships can potentially result in wins for both sides. Incumbents lend credibility and legacy, in exchange for new, flashy challenger products that help to build/retain market share.

What factors and features are important to consumers?

Going one level deeper, we asked our consumers to rank a range of typical features and traits that make up a financial partnership.

These were the top three factors:

1. Clarity on what the product is – Why is this partnership a good idea for me?
2. Regulation of partner brands – What value does the incumbent create?
3. One brand to be recognisable – Where does the credibility come from?

These were the three least important factors:

1. Seeing ads about the partnership
2. Seamless integration with an existing product
3. For all partner brands to be recognisable

What can brands glean from this? Caution is clearly still a major factor in people's financial decisions. They want to know exactly what they're signing up for, but if you nail the messaging and product interface, consumers will be on board.

Conclusion

It seems we still live in a post-Financial Crisis era, in which consumers remember all too vividly being burned by un/loosely-regulated financial services. As we see from the data, for people to trust financial services, they have to see why brands deserve their trust.

Partnerships seem to offer a fast-track way to do that, with a disproportionate influence on the probability of success, so they're well worth pursuing for young FinTechs trying to build credibility.

Attest

Hungry for more?

askattest.com

Growth without guesswork.

/@askattest

/ attest-technologies-limited

/@askattest