THE GREAT PAYMENTS DISRUPTION

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THE DAWN OF A NEW BANKING LANDSCAPE

Take a look around: We're living in the Great Payments Disruption.

The disruption for banks and credit unions is coming from multiple angles, with contactless payments becoming more common and cryptocurrencies surging in popularity. New fintech players emerge every day and competition is heating up as more challenger banks enter the fray. The banking industry has barely had time to keep up with these changes as the foundation of the payments landscape transforms.

This raises the issue: How has this disruption impacted consumers?

To answer this question, Entrust surveyed 1,350 consumers from nine countries who have made or received digital payments in the past 12 months to understand their sentiment, preferences and habits during this disruption of payments[1]. The report assesses where the banking industry stands in 2022 and uncovers future considerations as the Great Payments Disruption continues.

[1] See Methodology section for further information on the survey audience.

BANKING IS EMPHATICALLY DIGITAL-FIRST, BUT OMNICHANNEL TOUCHPOINTS ARE STILL KEY

Digital is the consumer banking standard — and it's not even close.

Eighty-eight percent (88%) of respondents said they prefer to do their banking online in some form. But "online" doesn't tell the entire story — the vast majority of consumers are using their bank's app and barely anyone is going to the branch. Fifty-nine percent of all respondents prefer to bank online while 29% prefer to bank online on their desktop web browser *(Figure 1).*

ONLINE BANKING REIGNS SUPREME

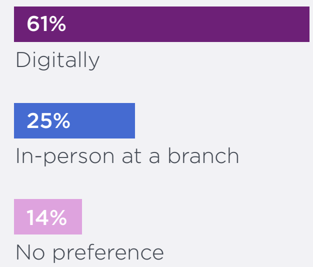
88% OF CONSUMERS PREFER TO DO THEIR BANKING ONLINE

Figure 1. **Where do you most often do your banking?**

	Online on your desktop web browser	Online on your bank's mobile phone or tablet app	In-person at a branch	In-person at an interactive teller machine (ITM)	On a phone call with your bank
Overall	29%	**59%**	8%	3%	1%
United States	22%	**63%**	11%	3%	1%
Canada	**53%**	41%	3%	3%	1%
United Kingdom	27%	**59%**	10%	4%	0%
Germany	39%	**48%**	11%	2%	1%
Saudi Arabia	29%	**60%**	5%	5%	1%
United Arab Emirates	29%	**61%**	7%	1%	1%
Singapore	23%	**65%**	8%	3%	1%
Australia	31%	**62%**	7%	0%	0%
Indonesia	9%	**71%**	9%	6%	5%

Although consumers globally prefer online banking tools, that doesn't mean they aren't engaging with their banks via physical footprints: Seventy percent (70%) of respondents said they've used an interactive teller machine (ITM) in the past year.

Ways consumers prefer to open bank accounts



WHAT DO WE THINK?

Even accounting for geographical differences, banks that aren't prioritizing digital-first experiences will not resonate with today's consumers. As more fintech players enter the space, competition will only raise the standard for how good your digital offerings must be.

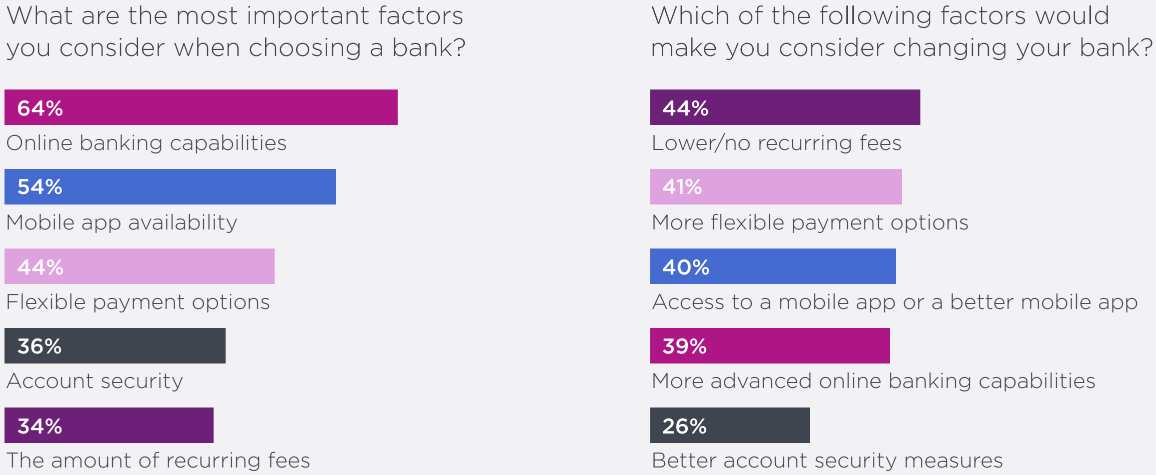
This is just as true for remote banking as in the branch — consumers expect seamless digital integration and instant service when they interact with the bank at an ITM or the desktop web portal.

Our survey also showed this shift to digital mediums rapidly changing on a generational level — Gen Z, millennials and Gen X bank most often on mobile apps while baby boomers and the silent generation most often bank on desktop — and these preferences will continue to evolve as younger generations gain more purchasing power.

FEE STRUCTURES AND FLEXIBLE PAYMENTS CAN PROVIDE THE EDGE IN THE RACE FOR CUSTOMERS

The top five most important factors that respondents consider when choosing a bank and the top five factors that would make respondents consider changing their banks came down to lower fees, digital solutions and security — which are all made possible by digital transformation *(Figure 2)*.

Figure 2. **Most important factors consumers consider when choosing a bank vs. Factors that would make consumers consider changing banks**



The decision-making factors from respondents highlight that consumers want high-quality digital banking at a fair price, which is good news for challenger banks.

With challenger banks like Chime and Revolut offering hundreds of dollars in fee-free overdraft protection and unlimited foreign exchange with no added fees, these banks could further their current disruption by encroaching on traditional banks' market share.

And the conditions are prime for this to happen:

- 72% of global respondents[2] said they would consider using a branchless online banking service/challenger bank for their banking *(Figure 3)*.
- The global market size of challenger banks is **projected to grow** at an average annual rate of nearly 48% until 2028 to 722.6 billion U.S. dollars.

PAYMENTS WITH CRYPTO?

52% of respondents said they would consider using digital currencies like Bitcoin, Ethereum or central bank digital currency (CDBC) for payments.

Banks should continue to adapt their offerings as more customers look to add cryptocurrencies to their payments options. **Blockchain technology** also offers fast payment processing and 27% of respondents said digital money transfer capabilities were one of their most important factors when choosing a bank.

Figure 3. **Respondents that would consider using a branchless online banking service/challenger bank for their banking, broken down by country[3]**

United States	86%
Canada	53%
United Kingdom	87%
Germany	71%
Singapore	69%
Australia	66%
Indonesia	75%

WHAT DO WE THINK?

Respondents' top factors for choosing a bank and changing their bank illustrate the game of inches and centimeters that banks must play in today's market.

Challenger banks are resonating with customers. And while the **worldwide market size of large banks** dwarfs that of the challenger bank sector, the willingness of customers to consider challenger banks can't be ignored. The average **lifetime value of a banking customer** is around $4,500 U.S. dollars, so the loss of customers to fintech disruptors could add up over time. Additionally, **Open Banking regulation** is gaining global traction, which could level the playing field among banks as customers consider switching to new banks that offer better data privacy rules.

The bottom line: Expect traditional banks to compete with each other and other challenger banks by investing in digital and security offerings that speak to the factors that matter most to customers, including seamless omnichannel experiences and secure and flexible payment options. We also anticipate banks to take inventory on creative ways to generate revenue outside of fees. For example, digital banking opens up the opportunity for new non-fee-based revenue strategies like advertising.

[2] Saudi Arabia and the United Arab Emirates were not included in this question as the countries don't have any significant challenger bank offerings
[3] Canada likely saw lower willingness to use a challenger bank because the country is limited in its banking choices, digital-based Canadian banks similar to challenger banks are still run by large bank corporations

CONTACTLESS PAYMENTS COULD SEE GREATER GROWTH WITH MORE DIGITALLY ISSUED CARDS

Respondents listed credit/debit cards with contact chips as their top preferred payment method, but contactless credit/debit cards were a close second. While respondents indicated a strong preference for contactless cards, contactless mobile pay was significantly less popular *(Figure 4).*

However, this lack of contactless mobile pay uptake could be because only a slight majority of respondents (53%) said they've received a digitally issued debit or credit card from their bank or credit union.

On a geographic level, preferred payments only become more nuanced *(Figure 5).*

For example, while the U.S. has made major gains in contactless payment usage, it's a late-stage adopter in comparison to the rest of the world — most card carriers did not use contactless cards on a wide scale **until the late 2010s**, while U.K. cardholders have used contactless cards **since 2007.**

Furthermore, Canada had the highest use of cash out of every country surveyed at 41% of respondents. This is likely because most people in Canada use cash on transactions to avoid sales tax and sellers prefer cash to avoid paying taxes on revenue (**one poll** found that 84% of Canadian shoppers admitted they pay in cash for this reason).

Additionally, Indonesia had the highest usage of e-wallets, crypto wallets and prepaid digital wallets at 65% of respondents. This **can be explained** by Indonesians' historic consumer receptivity to new offerings in the digital economy and the government's rapid regulatory approval of dozens of e-wallet platforms.

THE GLOBAL RISE OF CONTACTLESS CARDS

Nearly half of all respondents globally (48%) prefer to pay with contactless credit or debit cards

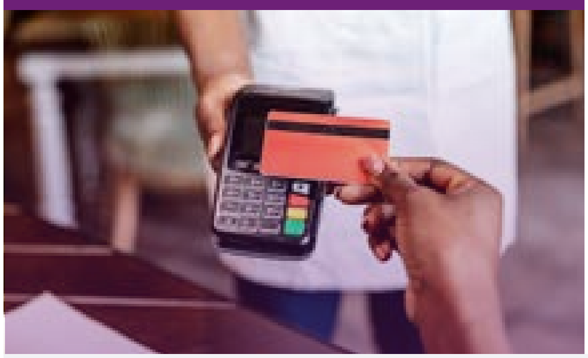


Figure 4. **Which of the following are your most preferred payment methods to use?**

Credit/debit card with chip	**50%**
Contactless credit/debit card	**48%**
Credit/debit card with magnetic stripe	**32%**
Contactless mobile pay	**30%**
Cash	**24%**
E-wallet/crypto wallet/prepaid digital wallet	**22%**
Check/cheque	**2%**

Figure 5. **Most preferred payment method by country**

	Credit/debit card with chip	Contactless credit/debit card	E-wallet/crypto wallet/prepaid digital wallet	Peer-to-peer payment apps	Credit/debit card with magnetic stripe
United States	✓				
Canada		✓			
United Kingdom		✓			
Germany	✓	✓			
Saudi Arabia				✓	✓
United Arab Emirates		✓			
Singapore		✓			
Australia		✓			
Indonesia			✓		

WHAT DO WE THINK?

Digitally issued cards could be a significant customer growth area for banks and credit unions considering that flexible payment options were a top factor for respondents when both choosing a bank and considering a bank change. This notion is especially true in the United States, where we expect contactless payment usage to continue skyrocketing as it has over the past few years.

For banks, investing in a **digital card solution** could quickly meet this consumer desire while transforming their card portfolio. This technology also provides customers increased control, security and flexibility when monitoring spend and managing both physical and digital cards.

A digital card solution enables customers to immediately receive payment credentials from a bank's mobile app, which can be an effective selling point considering almost two-thirds of survey respondents prefer to open a bank account digitally. This preference is especially high among Gen Z (65%), millennial (69%) and Gen X (54%) respondents.

But banks shouldn't neglect in-branch solutions either. A quarter (25%) of consumers surveyed still prefer to open their bank accounts in a branch and 15% have no preference between online or in-person.

So, banks should also consider an in-branch **instant card issuance tool** for a total card issuance offering customers can use when opening an account or replacing a lost or stolen card. This gives banks the opportunity to accelerate relationships with their customers, driving differentiation that isn't available to challenger banks.

In the end, one thing is clear: Consumers want options.

BANK CUSTOMERS ARE SECURITY-CONSCIOUS — AND IT'S ON BANKS TO DEMONSTRATE HOW ACCOUNTS AND PAYMENTS ARE SECURE

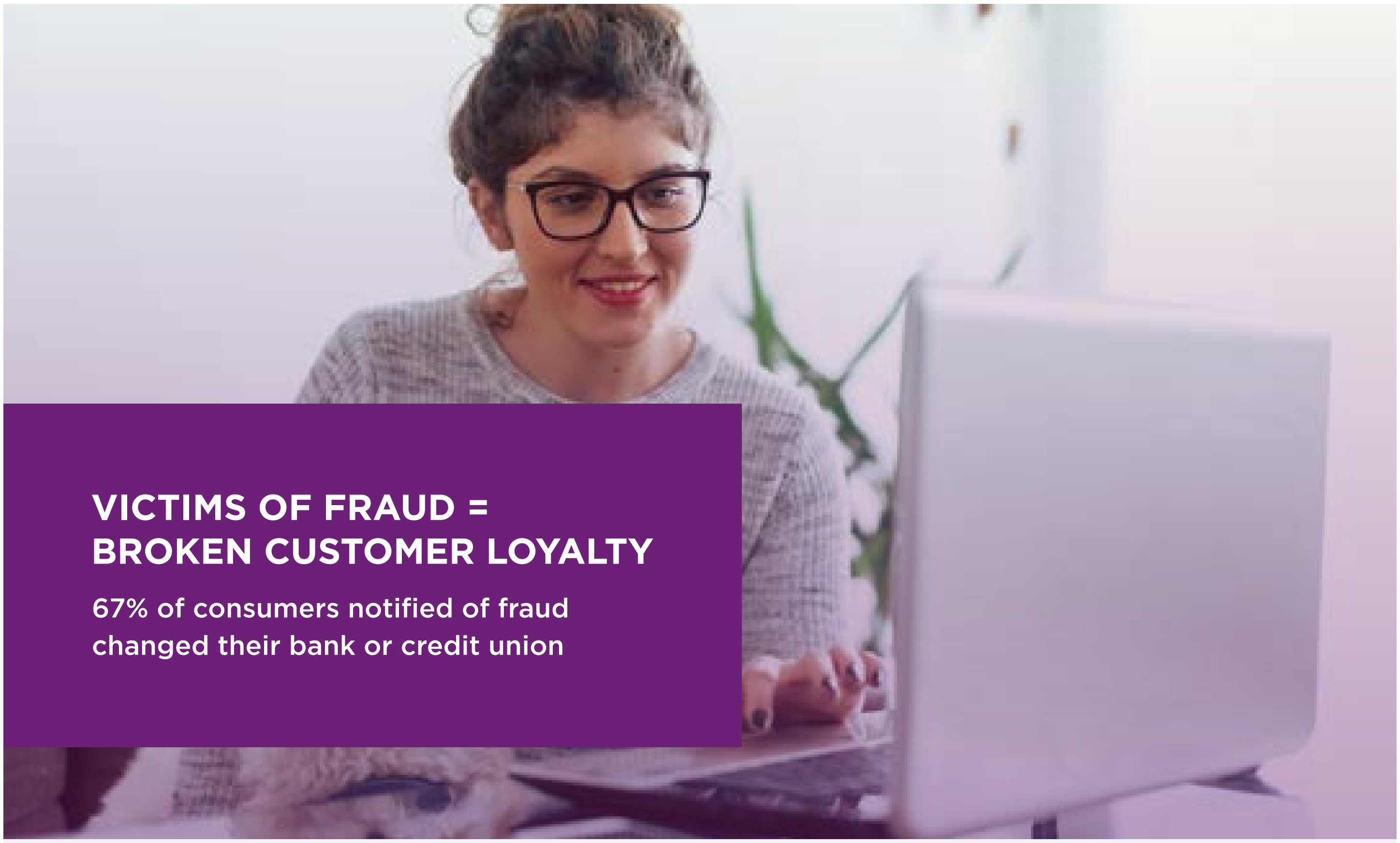
Ninety percent (90%) of respondents said they were concerned about the potential of banking or credit fraud as banking and credit become more digital.

Additionally, many respondents have dealt with the real consequences of bad security: Forty-two percent (42%) said they've been notified of a personal banking or credit fraud incident in the past 12 months.

The result of fraud? Damaged customer loyalty. More than two-thirds (67%) of respondents notified of fraud changed their bank or credit union as a result. To avoid these potential losses, it looks like banks will not only need to **improve their security offerings**, but also communicate with customers on how advanced technology keeps their accounts secure.

When it came to account access security, respondents listed username and password, security questions, two-factor authentication and fingerprint recognition as the top account access security methods offered.

However, these same choices also represented the top account access security methods respondents trusted to securely validate their payments, indicating that consumers likely need more education on the security capabilities of more advanced features like biometric authentication methods *(Figure 6).*



VICTIMS OF FRAUD = BROKEN CUSTOMER LOYALTY

67% of consumers notified of fraud changed their bank or credit union

Figure 6. **Account access security methods offered by banks and credit unions vs. Account access security methods trusted by consumers**

	What types of account access security methods does your bank or credit union offer?	Which user authentication methods do you trust to securely validate your payments?
Username and password	80%	59%
Security questions	58%	51%
Two-factor authentication	43%	46%
Fingerprint recognition	38%	43%
Facial recognition	27%	34%
Providing a physical credential for in-branch and interactive teller machine access	13%	14%
Voice recognition	10%	14%

WHAT DO WE THINK?

Consumers' answers about the offerings and account security they trust tell us two things: 1) Most banks are only offering the basics for account security, and 2) consumers are unaware of the power biometric solutions could provide when it comes to account and payments protection.

Given consumers' massive concerns about fraud and their flight risk of switching banks when they are victims of fraud, banks and credit unions should consider investing in high-quality **security tools** and highlighting the strength of those solutions to customers for both general banking and payments.

By upping their security postures, banks and credit unions can embrace the future of their industry. They should consider a **security portfolio** built on trusted identities, data and payments. An effective portfolio should feature **encryption** or **tokenization** with **strong key protection** to safeguard sensitive data. Tokenization protects a bank's core financial identities from data breaches by providing a merchant-specific encrypted token for each purchase. So, if a merchant suffers a data breach, a customer's payment information is effectively worthless to hackers.

Banks should also leverage solutions that **fight fraud** and provide a secure yet seamless customer experience. Solutions such as **passwordless access** and **device reputation** management tools proactively detect fraudulent activity in the background without adding more friction for customers. And while banks don't need to break down the ins and outs of their security tech to customers, they should be proactive in letting customers know how their account is protected through the proven strength of authentication technology like **transaction verification and adaptive authentication**.

BREAK THROUGH WITH SECURE DIGITAL EXCELLENCE

Financial institutions have two pathways as the Great Payments Disruption happens around us: Resist the change and cling to fading practices or become champions of disruption by providing a **superior trusted digital experience** that resonates with both new and existing customers.

Consumers are digitally connected in almost all facets of their lives — and it's evident they expect the same from their banks and payment experiences. The timeline for digital change is getting shorter. The tech is out there for banks to get ahead of the curve in providing a secure, digital-first omnichannel customer experience — it all comes down to whether you take the leap now or try to catch up later.

If you're ready to be an active player in the Great Payments Disruption, Entrust is ready to streamline your digital transformation journey. **Contact us** to learn more about how we can help your organization embrace the future of banking and engage the connected consumer.

ABOUT ENTRUST CORPORATION

Entrust keeps the world moving safely by enabling trusted identities, payments and data protection. Today more than ever, people demand seamless, secure experiences, whether they're crossing borders, making a purchase, accessing e-government services, or logging into corporate networks. Entrust offers an unmatched breadth of digital security and credential issuance solutions at the very heart of all these interactions. With more than 2,500 colleagues, a network of global partners, and customers in over 150 countries, it's no wonder the world's most entrusted organizations trust us. For more information, visit **entrust.com**.

SURVEY METHODOLOGY

Entrust surveyed 1,350 consumers from the United States, Canada, United Kingdom, Germany, Saudi Arabia, United Arab Emirates, Singapore, Australia and Indonesia. Respondents made or received digital payments in the past 12 months.

LEGAL DISCLOSURE