DIGITAL-FIRST BANKING TRACKER®

JUNE/JULY 2022

FEATURE STORY

GO2bank on improving customers' financial literacy

PAGE 06

PYMNTS INTELLIGENCE

How financial literacy affects consumers' digital banking preferences

PAGE 12

PYMNTS.com | NCR

Read the previous edition

■ JUNE 2022

Digital-First Banking Tracker®

DIGITAL-FIRST BANKING

TRACKER®

PYMNTS.com | NCR

ACKNOWLEDGMENT

The Digital-First Banking Tracker® was produced in collaboration with NCR, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

TABLE OF CONTENTS

EDITOR'S LETTER

Digital banking's upward trend over the past decade saw a significant spike as the pandemic shut down brick-and-mortar banking either temporarily or permanently. Consumers who adopted digital and mobile banking as their mainstays during this time are unlikely to switch back to banking in person, with projections estimating there will be 216.8 million digital banking users in the United States by 2025 and more than 3.6 billion globally by 2024.

Digital banking is particularly popular among younger generations such as millennials and Generation Z, many of whom have never banked in a branch at all. These generations are also those least likely to have a solid understanding of financial matters such as loans, mortgages, investments and retirement accounts — thanks, in large part, to institutional failings of the public education system. Forty-one percent of teenagers say their high schools do not offer any financial literacy classes, and 34% of Gen Z reportedly learns about personal finance from YouTube and TikTok rather than classes or parents.

This is making younger adults lean more heavily on digital banking tools to seek the financial advice and knowledge they lack, and their expectations of the technology are high. Seamlessness and convenience are top priorities, and financial institutions (FIs) that place an emphasis on these qualities in their mobile banking apps are setting themselves up for success. Sixty-six percent of users leverage these apps for their convenience, 57% do so because they are easy to use and 46% use them because they save time.

Some banks are taking direct steps to improve their customers' financial literacy beyond just providing seamless experiences. Bank of America's financial wellness program, for example, reported more than 5 million sign-ups as of last year, with participants increasing their account balances by a total of $34 billion. Whatever approach banks take to boost their customers' financial literacy will pay off as these younger generations comprise a greater share of the digital economy.

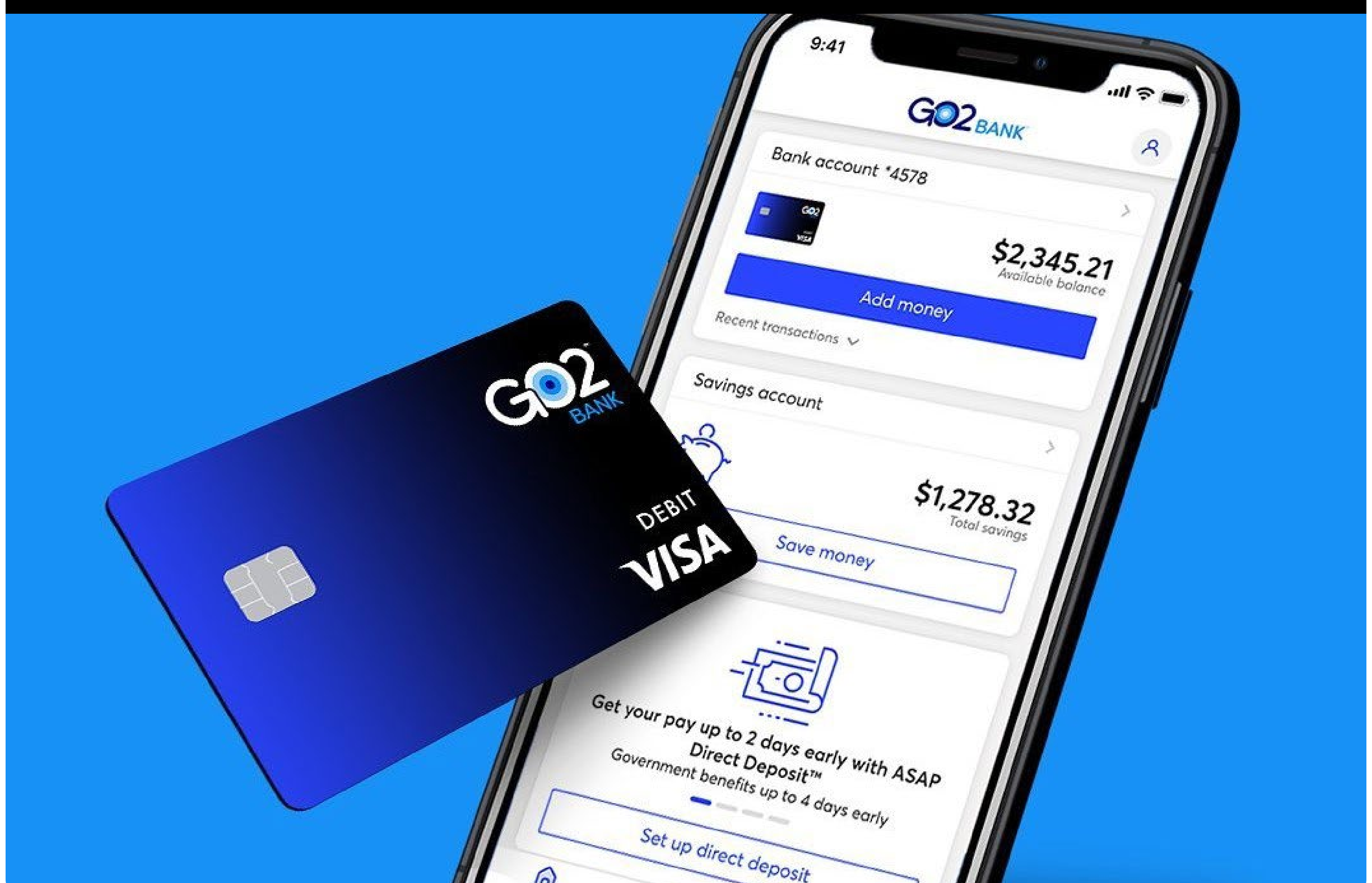
This edition of the Digital-First Banking Tracker®, a PYMNTS and NCR collaboration, examines why younger generations tend to lack the financial literacy of their older counterparts. It also explores what these consumers look for when it comes to digital banking and how fulfilling these demands can produce more satisfied and loyal customers of all ages.

Thought Leadership Team

PYMNTS.com

Feature Story

GO2BANK On Improving Customers’ Financial Literacy



FINANCIAL LITERACY IS A SIGNIFICANT CONCERN FOR AMERICANS, ESPECIALLY FOR YOUNGER GENERATIONS SUCH AS MILLENNIALS AND GENERATION Z.

An increasingly difficult economy, coupled with a lack of well-rounded financial education in many public schools, means that younger consumers often lack a broad understanding of basic financial concepts, such as interest, savings and mortgages, making them vulnerable to predatory influences, including payday lenders and get-rich-quick scams.

Some FIs are taking the initiative to pick up where consumers’ schooling failed by actively working to improve their financial literacy and well-being. One example is online checking account provider GO2bank.

“One in four Americans have zero savings,” said Abhijit Chaudhary, chief product officer at GO2bank’s parent organization, Green Dot Corporation. “And only 16% of Americans know how to look at short-term [financial] metrics. This is what we want to change — and this is what we in the industry will change.”

Chaudhary offered PYMNTS some lessons on the importance of financial literacy and the steps that GO2bank is taking to improve its customers’ monetary savviness.

THE IMPORTANCE OF IMPROVING FINANCIAL LITERACY

Financial literacy is a crucial life skill that, unfortunately, is waning in many individuals, particularly younger generations with less wealth. Lacking this know-how makes consumers prone to further financial hits, such as overdraft fees and late payments, which can quickly add up, resulting in a vicious circle that cripples them financially.

“How do we help our low- to moderate-income customers get financially educated?” Chaudhary asked. “This is an important responsibility, because otherwise, [customers] will get taken for granted, and they’re charged massive fees. But if you educate your customers properly, they’re able to access short-term cash and make payments on time.”

Each customer's financial situation is unique, however, and what works to educate one consumer might not work for another. This makes it imperative to communicate with customers directly and solicit feedback on what helps them, or these educational efforts will be for naught.

"We try to do a lot of testing [of] the customers: We get the feedback, we create mock-ups and we go into mass audiences and ask them, 'What do you think of this?'" he said. "'Do you like this user experience? Do you like this feature? Does it appeal to you?' And based on that, we decide to invest in [financial education] products."

HOW BANKS CAN IMPROVE FINANCIAL LITERACY

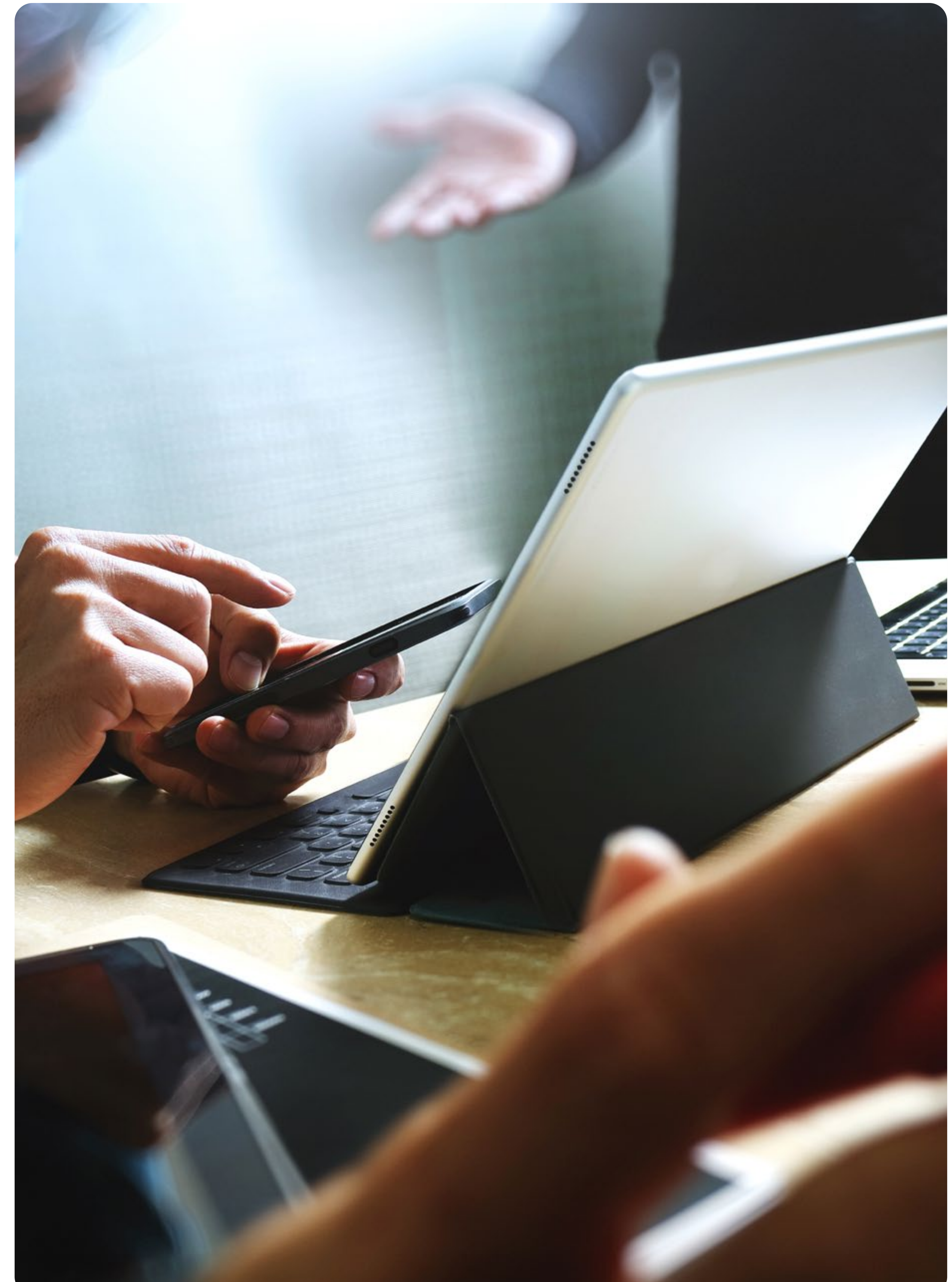
Informed by this extensive testing process, GO2bank offers a number of tools for its customers to improve their financial literacy and avoid exploitation by bad actors. Credit monitoring is one crucial method consumers can use to improve their financial health with minimal effort.

"We wanted to educate our customers on how important it is to monitor your credit beyond the FICO free credit score," Chaudhary explained. "But let's say you're going on vacation, and you will not be able to check your bank accounts regularly. You can lock your credit in advance. We started educating customers to use this feature because this is going to help protect their credit. Since we launched this feature in January of this year, we've seen customers' scores go up probably about 20 to 25 points."

It is also vital that all of a customer's regular payments are made in one place, because it is quite easy to forget about payments on different cards and overdraw due to unawareness of a regular payment. GO2bank helps customers monitor these payments by consolidating them in a single stack.

"When a customer gets a product, they always get very confused, because some people forget that they're paying a given bill via a different card," said Chaudhary. "What we did is we introduced a [bill-consolidation] service that has all your subscriptions: Netflix, Hulu — you name it; it's there. And you're able to automatically switch the credit card number at those subscription sites. You don't have to individually go to all the 10 different places where you have subscriptions."

This offers customers the ability to stay on top of their regular payments and avoid late fees or overdrafts. This might be a small step toward improving financial literacy, but every little bit counts when starting from the ground up.



Q&A

ERIC BRANDT
Strategic market analyst
NCR

Younger generations such as millennials and Generation Z are less financially literate than their older counterparts. Why is this, and how does it affect their financial lifestyles?

It begins with placing a greater emphasis on financial education within our school systems. We need to get back to educating our youth when they're school-aged. It's encouraging that many states are now mandating and implementing financial education into their curriculums. The recent economic climate allowed our younger generations to become slightly complacent with their financial literacy and competence. The impact of borrowing money at 2.5%, for instance, was minimal compared to what older generations have faced — and what younger generations are now facing as rates jump. These two components may result in some adverse outcomes for these younger generations.

What steps can banks take to ensure their services are optimized for their less financially literate customers?

There are two components here: financial literacy and financial proficiency. Interactive tools such as quick, on-demand videos and gamified content, as well as simplified terms and conditions that are easier to understand, will go a long way in building financial literacy and impacting these consumers' financial well-being. When it comes to financial proficiency, that's a whole different animal. But providing financial management solutions to help set and manage a budget or easily calculate when a loan will be paid off, for example, will be critical to building proficiency among less financially savvy consumers. Providing these solutions and services will build trust, loyalty and ultimately, more engagement.

How can banks directly improve their customers' financial literacy, and what benefits would that bring for both customers and FIs?

Providing tools and services to build financial literacy and proficiency, as discussed previously, is beneficial to all. Financially healthy consumers generally become more engaged consumers. For most, the more engaged a customer is the more profit for the bank. Increased engagement [creates] more opportunities to cross-sell and upsell other products and services. But it can also mean less 'bad debt,' which is a win-win for all.

PYMNTS Intelligence

How **Financial Literacy** Affects Consumers' Digital-First Banking Preferences

Digital banking has become the standard banking method over the past several years, largely due to the boost it received during the course of the pandemic as bank branches shut down or reduced their hours, forcing consumers to turn online to do their banking. More than 65% of Americans currently use digital banking, up from 61% in 2018, and this trend is expected to continue as services that were once available only in-branch, such as loan applications and account openings, move online.

Digital financial services are particularly appealing to younger generations — and the reasons do not all have to do with their greater tech-savviness. One of the primary reasons for young people's affinity for digital banking may be surprising: a lack of financial literacy compared to their older peers. This disparity in financial know-how derives from a number of factors, including lower spending power, lack of familiarity with in-branch banking and coming of age amid a global health catastrophe. In the absence of real-world experience, younger consumers are coming to rely on digital banking tools to educate themselves about financial matters. At the same time, they have high expectations of technology and tend to have a low tolerance for digital banking friction. Catering to this demographic as it gains market share will be a key priority for the banking industry in both the short and the long term.

This month, PYMNTS examines the issue of financial literacy among younger generations, how it affects both their needs and their expectations for digital banking and how banks can meet these demands with improved digital financial services.

FINANCIAL LITERACY AMONG DEMOGRAPHICS

Generation Z consumers are taking their first steps into the banking world and, at first glance, appear to be financially precocious. Half the generation currently has some sort of long-term investment, with 26% of these investors saying they have money in the stock market and the rest in alternative investments, such as retirement accounts, 401(k) plans and cryptocurrency. Financial investments, however, do not necessarily correspond to financial literacy. Just one in four Gen Z consumers say

they could adequately explain how the stock market works, and overall, members of this generation have the lowest confidence in their financial knowledge of all generations surveyed, including millennials, Generation X and baby boomers.

One of the largest causes of this deficit of financial understanding is an educational system that fails to provide this knowledge. Forty-one percent of high school students in a recent survey reported that their schools have no financial literacy classes. More than half of teenagers said they were worried about financing their futures, with 70% saying that increased college costs have forced them to change their plans after high school graduation. While nearly half of states currently mandate financial education courses and more are implementing requirements this year, the damage may already be done for young adults past high school.

Younger consumers are both drawn to digital banking technology and becoming more reliant on it for financial knowledge. Younger demographics also have high expectations for the technology and have little patience with inconvenient digital banking experiences. It is incumbent on banks, therefore, to pick up the slack and provide not only informative but also friction-free digital banking experiences that meet these consumers where they are.

HOW DIGITAL BANKING TOOLS AID FINANCIAL JOURNEYS

Mobile apps are one of the key tools that banks can deploy to make their banking services more seamless. Chase Bank found that 73% of consumers were leveraging these apps once a week or more by the end of 2021, an 8% increase year over year, and 62% of individuals said they could not live without this service. Consumers viewed these apps as significant components of a seamless banking experience, with 66% saying they use them for their convenience, 57% for their ease of use and 46% for their time-saving capabilities.

One challenge that banks are facing in their quest to improve digital offerings for less financially literate customers, however, is that consumers' usage of digital banking tools directly corresponds to their financial savviness. One study found that 44% of consumers who described their financial skills as "expert" leveraged digital banking tools more often this year than last year, while those who called themselves "savvier than most," "somewhat savvy" and "not financially savvy" reported increased usage at rates of 24%, 18% and 17%, respectively.

Some banks are taking direct steps to improve their customers' financial literacy beyond just providing seamless experiences. Bank of America's financial wellness program, for example, saw more than 5 million sign-ups as of last year, and participants in the program increased their account balances by a total of $34 billion. Improving financial literacy in this way can result in a positive feedback loop as more financially literate consumers leverage digital apps, improve their banking experiences and learn more about healthy financial lifestyles.

NEWS & TRENDS

FINANCIAL LITERACY **TRENDS**

54% OF TEENS FEEL THEY ARE FINANCIALLY UNPREPARED FOR THE FUTURE, STUDY FINDS

Teenagers have plenty to worry about without their financial futures on the line, but money may be one more stressor for most teens. A recent study found that 54% of teens are worried about financing their futures, with various concerns leading to this outlook. Nearly 70% of respondents said the increasing cost of higher education had altered their post-high school plans, with 49% saying this was their top concern. Another 43% were concerned about taking on student loans, and 27% worried that college would not be a worthwhile investment.

Financial literacy is also a prime concern. Forty-one percent of teenagers said their high schools did not offer any financial literacy classes, and 40% said a better understanding of student loans would help ease their college concerns. Just half of U.S. states currently mandate personal finance classes, though more plan to in the coming year.

MORE THAN ONE-THIRD OF GEN Z TURN TO YOUTUBE AND TIKTOK FOR MONEY MANAGEMENT EDUCATION

With financial education lacking in schools, more and more teenagers are turning to alternative methods to take financial literacy into their own hands. A recent study revealed that 34% of Generation Z said they learned about personal finance from YouTube and TikTok, with more than 7% looking to online forums such as Reddit as resources. By comparison, more than 22% learned about personal finances from their families or parents, and nearly 18% received education from high school or college classes. Many members of Gen Z are educated enough to have significant investments, with 22% saying they own stock and 19% having investments in real estate. The largest share of these individuals had no investments at all, however, at 33%. Just 34% had no debt, and 9% had more than $50,000 in debt, mainly from student loans.

CONSUMERS DO NOT UNDERSTAND THE CAUSES OF INFLATION, STUDY FINDS

Increasing inflation over the past several months has been a growing concern for many individuals, with 68% of consumers saying it has impacted their ability to afford basic living expenses. Just one-third of respondents could correctly identify the source of inflation, however, blaming income growth, interest rates and other factors rather than the actual causes: global supply chain disruptions, fossil fuel deficits and the economic impact of the war in Ukraine. Younger generations reported higher anxiety than older groups regarding inflation and were also the most likely to misidentify its source.

This tracks with other trends about younger generations lacking financial literacy as well as being the most economically unstable. Retirement is a particular concern, with 64% of individuals worried that inflation will harm their ability to save.

DIGITAL-FIRST BANKING
IMPLEMENTATIONS AND SOLUTIONS

ALLEGACY FEDERAL CREDIT UNION PARTNERS WITH NCR AND GOOGLE CLOUD FOR CUSTOMER SERVICE ENHANCEMENTS

Improving digital service offerings is one way to help consumers lacking financial literacy, and FIs are jumping at the chance. One example comes from North Carolina-based Allegacy Federal Credit Union, which partnered with NCR and Google Cloud to implement a new data analytics program. The CU will leverage the program to help its members understand savings goals, credit scores and spending plans. The data analytics solution is also meant to help the CU on the back end by leveraging data visualization tools, assisting leaders in planning new initiatives based on the performance of prior ones. Allegacy currently has 16 branches across North Carolina and handles $2 billion in assets among 166,000 members.

J.P. MORGAN'S BRITISH DIGITAL BANK PROCESSED 20 MILLION PAYMENTS IN EIGHT MONTHS

Digital banking has become table stakes for the financial industry, and record numbers of customers are leveraging online options for their transactions. J.P. Morgan's digital venture Chase in Britain recently announced that it has processed 20 million payments among 500,000 different customers since its launch eight months ago.

Signifying the challenges of digital banking, however, this digital bank has not yet turned a profit. J.P. Morgan is likely to lose $450 million on the venture this year, according to the bank, in large part due to the cost of implementing digital banking solutions. The bank's technology modernization efforts will cost more than $2.8 billion in 2022, up from $1.8 billion in 2019.

© 2022 PYMNTS.com All Rights Reserved

DIGITAL-FIRST
BANKING
TRACKER®

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

NCR Corporation is a leader in banking and commerce solutions, powering incredible experiences that make life easier. With its software, hardware, and portfolio of services, NCR enables transactions across financial, retail, hospitality, travel, telecom and technology industries. NCR is headquartered in Atlanta, Georgia, with 34,000 employees and does business in 180 countries. NCR is a trademark of NCR Corporation in the United States and other countries.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at feedback@pymnts.com.

DISCLAIMER