DIGITAL-FIRST BANKING TRACKER®

OCTOBER 2021

Ally Financial explains why AI-supported devices are key to meeting consumers' shifting banking expectations
– Page 8 (Feature Story)

Seventy percent of consumers in India would be comfortable switching to digital-only banks
– Page 12 (News and Trends)

What banks can do to seize the wearable payments opportunity in 2021
– Page 16 (Deep Dive)

PYMNTS.com | NCR

DIGITAL-FIRST BANKING

TRACKER®

TABLE OF CONTENTS

ACKNOWLEDGMENT

The Digital-First Banking Tracker® was produced in collaboration with NCR Corporation, 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.

PYMNTS.com | NCR

WHAT'S INSIDE

Digital banking channels are slowly but steadily becoming the primary way consumers interact with their financial institutions (FIs). Recent PYMNTS data shows that 70 percent of United States account holders at larger banking institutions first turn to digital tools when interacting with their chosen financial partners, and more than 41 percent cited mobile apps as their preferred channel. Digital bank account access and mobile apps have become increasingly standard across the financial ecosystem, and consumers' familiarity with these tools is prompting them to consider how newer, next-generation technologies could offer additional benefits.

Interest in voice-activated banking tools such as smart speakers and wearable devices is particularly high, with reports predicting that these devices will see rapid adoption in the next few years. One such study even projected that more than 478 million households will count as "smart homes" by 2025. Consumers' interest in smart speakers and other internet of things (IoT)-enabled tools for payments and finance also affords opportunities to FIs. Forty-three percent of credit or savings account holders reported being "very" or "extremely" interested in utilizing digital-only services offered by their banks, according to recent PYMNTS data. Seven percent of consumers stated that they already rely on digital-only institutions to meet their banking needs.

Seamlessly incorporating smart speakers and other IoT-enabled tools into banking services and platforms could be key to helping banks of all sizes capture consumers' attention. Analyzing how today's digital-first consumers want to connect with their FIs — including which channels, tools and devices are becoming more popular — could grant legacy FIs and neobanks or FinTechs critical advantages in bolstering customer engagement and loyalty.

AROUND THE DIGITAL BANKING SPACE

Consumers are becoming more and more comfortable with voice-activated technologies, and ownership of smart speakers and similar devices is rising. One recent PYMNTS study found that 31 percent of U.S. consumers now have voice-activated speakers in their homes, and a growing number are using them to make payments. Twenty-five percent of individuals who own smart speakers reported using them to make purchases, while an additional 19 percent stated that they would be open to tapping the devices to make payments in the future. This strongly suggests that smart speakers and other voice-enabled technologies will play a more significant role in the banking space over the next few years.

Closely monitoring consumers' usage of smart speakers and other emerging technologies may prove key for banks looking to capture customer engagement and loyalty. This is especially true for younger consumers such as millennials and members of Generation Z, as both are beginning to seek more personalization from their financial experiences. One recent study revealed that 61 percent of United Kingdom consumers between 18 and 24 years old wanted their FIs to provide customized financial insights, for example. Figuring out how to glean and share these insights through users' preferred devices and channels should be a top goal for banks aiming to create lasting customer loyalty.

Legacy FIs are also turning to digital channels and devices to compete in the growing digital financial ecosystem. JPMorgan Chase & Co., for example, recently announced plans to open its first retail bank overseas in the U.K., a digital-only institution. The 200-year-old U.S. FI is attempting to muscle its way into a field saturated with other digital-only heavyweights such as Monzo and Revolut, and it will lean on its resources and regulatory experience as it works to separate itself from the U.K. digital pack. This is JPMorgan Chase and Co.'s second attempt at breaking into the digital-only banking space after the company launched its now-shuttered U.S. mobile financial brand, Finn, in 2019. The FI will need to carefully consider digital-first consumers' banking preferences and needs to witness success this time.

For more on these stories and other digital-first banking developments, read the Tracker's News and Trends (p. 12).

HOW AI-SUPPORTED DEVICES CAN HELP FIs MEET CONSUMERS' CHANGING DIGITAL BANKING EXPECTATIONS

Digital banking has long been the norm for a significant portion of consumers, but impacts of the global health crisis on the financial industry show that FIs of all sizes cannot grow complacent. Simply offering access to online or mobile banking solutions is no longer enough, and FIs must find ways to meet their customers wherever, whenever and however they want. In this month's

Feature Story (p. 8), Sathish Muthukrishnan, chief information, data and digital officer for digital-only bank Ally Financial, discusses how the pandemic has accelerated consumers' expectations for digital banking experiences and why banks must examine emerging technologies to keep pace.

DEEP DIVE: HOW BANKS CAN TAP WEARABLES, CONTACTLESS PAYMENTS TO BOLSTER CUSTOMER ENGAGEMENT, LOYALTY

Consumers have grown more open to trying new payment methods during the past year, and contactless payment tool use is skyrocketing. The rising popularity of mobile wallets and other touchless payment tools has also led individuals to consider how smartwatches, wristbands and other wearable technologies could benefit their payment or banking experiences. One recent report found that 35.3 million wearable payment devices were sold within the first half of 2021, indicating that support for these tools could help banks enhance customer satisfaction. This month's Deep Dive (p. 16) examines why interest in wearable payment tools is growing and how banks can respond to such trends to drive loyalty.

EXECUTIVE Insight

How have the events of 2020 changed consumers' payment preferences and feelings regarding wearable or contactless payment devices? How can banks use insights about these preferences to keep customers satisfied?

"The pandemic has made [consumers around the globe] more aware of the devices they interact with and physically touch on a regular basis. As a result, we've seen a rise in contactless payments in convenience stores, restaurants and retailers as a way to limit touch. Banks and credit unions need to look at wearables as another tool and channel that consumers are increasingly likely to use for their banking and payment needs, and they need to understand the type of transactions consumers are using wearables for so they can build the user experience consumers want."

How do you see the role of contactless or wearable payment tools changing over the next few years, especially as more consumers grow comfortable with digital-first or digital-only banking experiences?

"Digital banking has become synonymous with online and mobile, but it's only a matter of time before digital-first banking experiences are one and the same, regardless of device or channel. As the technology in wearable or contactless payment tools continues to expand and the experience improves, we expect the adoption of these tools to continue to increase."

What challenges could hamper the adoption of wearable payment tools, and how can banks overcome these issues?

"The biggest challenge that banks and credit unions could face is convenience stores, restaurants and retailers … developing their own systems that eliminate the need for consumers to interact with their device or bank card at all. If banks and credit unions want to combat this, it's paramount [that] they provide a completely seamless experience, irrespective of the device used."

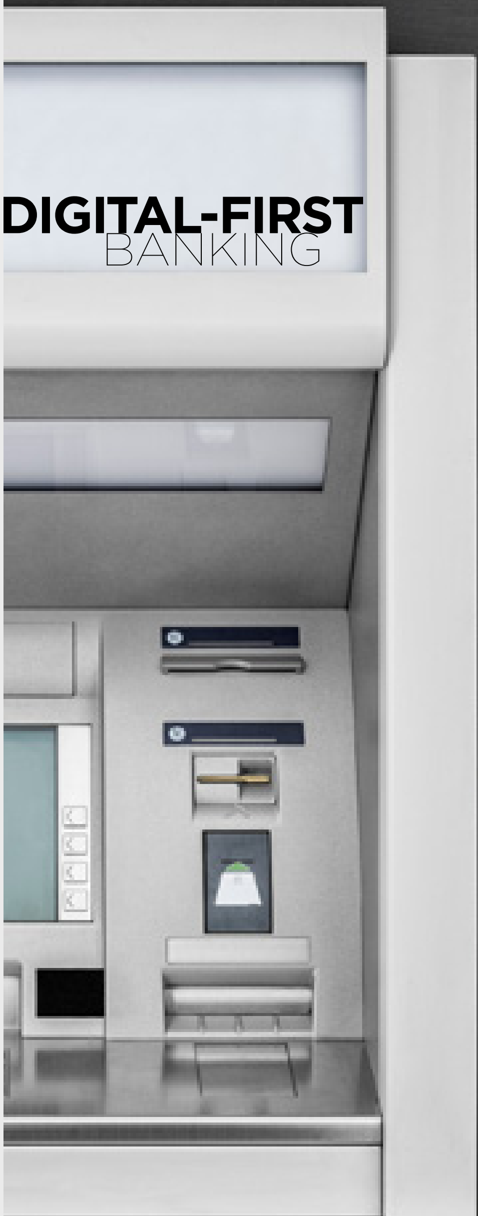
Douglas Brown

Senior vice president and general manager

NCR Corporation

5 FIVE FAST FACTS

PYMNTS.com | NCR



70%

Share of account holders at larger FIs who interact with their banks primarily via digital channels

41%

Portion of consumers who prefer to use mobile apps for their financial needs

43%

Share of credit or savings account holders who are highly interested in using digital-only services at their current banks

7%

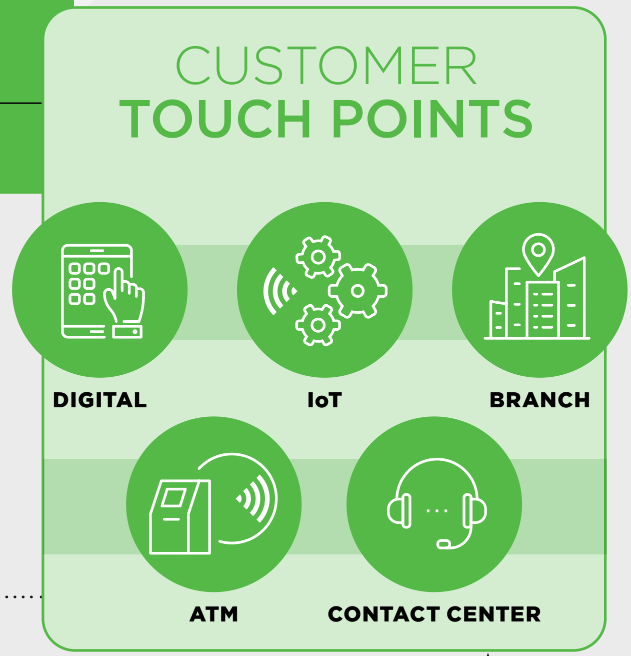
Share of consumers who are relying on digital-only FIs to meet their financial needs

22%

Portion of consumers willing to switch to digital-only FIs who would be motivated to do so for convenience

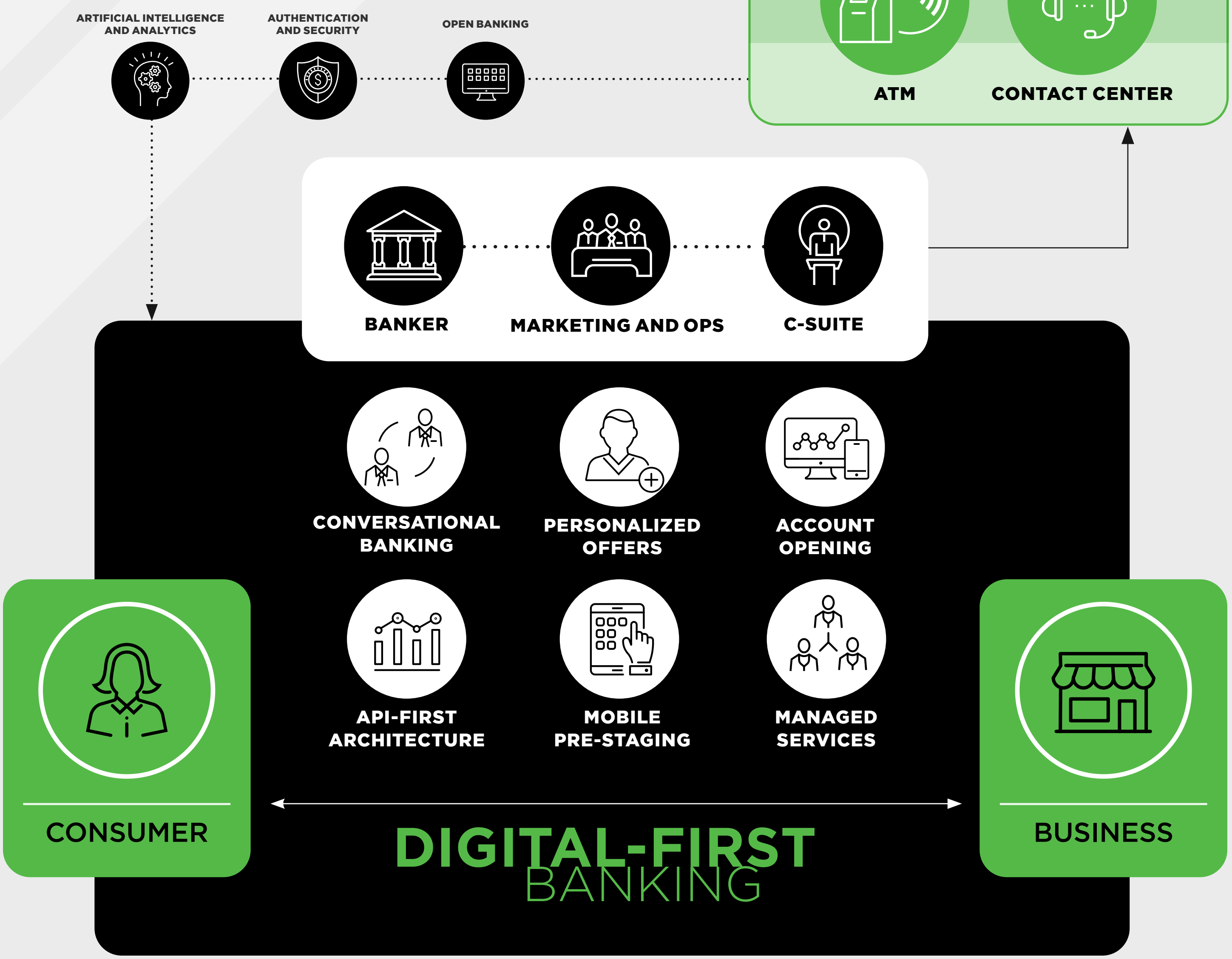
DIGITAL-FIRST BANKING

TRACKER®



ECOSYSTEM

The Digital-First Banking Tracker®, a PYMNTS and NCR Corporation collaboration, examines how banks are using digital transformation to elevate customer experience and improve efficiency.



ALLY FINANCIAL EXPLAINS WHY AI-SUPPORTED DEVICES ARE KEY TO MEETING CONSUMERS' SHIFTING BANKING EXPECTATIONS

Consumers have become enamored with digital banking during the past 18 months, and a growing share prefers to interact with their FIs primarily online or via mobile phone. Banks also have raced to keep up, shoring up their websites and adding mobile app features to retain and engage customers. Still, it is no longer enough for FIs to simply augment existing tools because smooth, instant access to online financial solutions has become the norm for consumers, said Sathish Muthukrishnan, chief information, data and digital officer for Ally Financial.

"Consumers have become accustomed to having instant access to information 24 hours a day and have come to expect the same from the companies they interact with," he said. "Financial services [are] no different. For banks to remain competitive, they must meet their customers where they are — everywhere."

A world where real-time, personalized banking services are table stakes means that FIs must find new ways to keep customers' attention and differentiate themselves. This makes it critical for them to examine AI-supported tools or voice-activated technologies such as smart speakers as consumers seek ways to make their banking experiences as convenient as possible.

MOBILE MAKES WAY FOR NEXT-GEN BANKING

Consumers' taste for digital-first banking is hardly new, but the pandemic has underscored just how different expectations are now that consumers have access to more online solutions. The global health crisis has accelerated customers' expectations regarding interacting with their chosen

"For banks to remain competitive, they must meet their customers where they are — **everywhere.**"

FIs whenever and however they like, and Muthukrishnan explained that this trend gives digital-only institutions a notable advantage.

"I call it the Sunday night–Monday morning phenomenon: The same frictionless, mobile-based experience that customers enjoy in their homes on a Sunday night through connected devices and cutting-edge apps is the same frictionless experience they expect from their financial institution when they bank with them on a Monday morning," Muthukrishnan said. "It's not enough to translate the traditional banking experience to a mobile or web experience. Consumers, particularly those who are more tech-savvy, want you to anticipate their needs [and] to help them achieve their goals in ways that were previously unachievable through a brick-and-mortar experience."

Ally is leaning on various technologies to help keep customers engaged as the digital-first banking era takes shape. Sixty-five percent of customer questions that come to the company's AI-supported digital assistant, Ally Assist, are currently being answered by the chatbot without the need for human assistance. The bank is also taking steps to add tools and solutions to its platform, launching a tech lab last year to examine shifting customer behaviors and technology trends. FIs must consider these developments to stay competitive, especially as technologies such as AI, wearables and even augmented reality (AR) or virtual reality (VR) solutions begin to play more prominent roles in the banking ecosystem.

"Sophisticated AI capabilities, including virtual assistants, will continue to exist across channels to best serve customers where they are," he said. "In the near term, we see mobile continue to increase as the primary means of access to digital financial services. It is very possible that AR/VR [technology] of the future could provide a more immersive virtual financial services experience, but it will take time to mature and gain traction."

Analyzing how consumers' banking habits have shifted and will shift should be a top goal for banks today, especially as customers' trust in wearable devices such as smartwatches or voice-activated speakers expands. Adjusting for a world where such devices are commonplace could prove key for FIs seeking to boost customer engagement and loyalty.

PREPARING FOR THE WEARABLE BANKING AGE

Consumers expect the best speed and quality from their FIs when they log onto their websites or open their mobile apps. Figuring out how to provide these increasingly personalized services to customers at any time of day and through any channel is the next great challenge for banks, however.

"Harnessing the powerful convergence of data, AI, [the internet of things], 5G and quantum computing will enable us to provide consumers with personalized financial services at a scale and sophistication not previously available," Muthukrishnan said. "While it is difficult to predict how it will play out, it is clear that each of these areas are maturing rapidly and hold enormous potential to help consumers."

FIs must be sure they are crafting services that can not only meet consumers' banking expectations in today's world but also seamlessly and easily fulfill their future needs down the line. Keeping an eye on how customers are utilizing wearables and other IoT-enabled devices should thus be prioritized as FIs chart their innovation strategies for the years ahead.

NEWS & TRENDS

VOICE-ACTIVATED BANKING TOOLS AND WEARABLES

25 PERCENT OF CONSUMERS HAVE MADE PURCHASES THROUGH VOICE-ACTIVATED SPEAKERS

Voice-activated technologies such as smart speakers have quickly grown from a novelty to a mainstream connected device in most consumers' homes. Recent PYMNTS research found that 31 percent of U.S. consumers now have smart speakers in their homes, for example, and the Alexa Echo speaker largely dominates this space, responsible for a 68 percent share of the voice artificial intelligence (AI) market. The increasing familiarity of such devices appears to be leading to greater comfort among consumers when utilizing them for payments, the research also found. Twenty-five percent of consumers who currently have voice-activated speakers reported making purchases through the devices. An additional 19 percent reported they have not made purchases this way but may do so in the future. This indicates the smart speaker may become a more popular banking or retail purchasing tool, especially as consumers' preference for digital-first banking continues to grow. FIs and merchants should get ahead of this trend and consider how such devices can be folded into their services and offerings moving forward.

MORE THAN HALF OF YOUNG UK CONSUMERS SUPPORT FIs USING AI FOR TAILORED SERVICES

Younger consumers are especially likely to tap mobile or wearable devices for their banking needs, and these users are asking for more than just the standard financial app from their FIs. Consumers in the millennial and Gen Z demographics are seeking personalized services and features. One recent study surveying U.K. consumers found that 61 percent of individuals between the ages of 18 and 24 want their banks to provide tailored insights to help them reach their financial goals.

Fifty-four percent of consumers also said they were comfortable with FIs utilizing AI or similar technologies if it meant generating the financial insights or other personalized services they wanted. This speaks to an increasing familiarity with AI among consumers and the benefits the technology offers. Banks should examine how users' perceptions of automated tools are shifting to ensure they are meeting customers' needs.

GLOBAL DIGITAL-FIRST BANKING DEVELOPMENTS

JPMORGAN CHASE & CO. TO ROLL OUT DIGITAL-ONLY BANK IN THE UK

The digital banking ecosystem is becoming more saturated with competitors as more consumers turn online first to meet their financial needs. JPMorgan Chase & Co. will be competing with major online-only banks — including Monzo and Revolut — as it looks to roll out its own within the U.K., for example. This will mark the first overseas retail bank set up by the banking giant in its two centuries of operation, according to a recent report about the launch.

The bank will be leaning on key resources — such as its higher technology budget — to stand apart from the digital crowd in the U.K., and the bank cited its regulatory expertise as a key advantage. The announcement of a new U.K. digital-only brand follows the closure of the FIs U.S.-based mobile-only brand Finn in 2019 after it failed to connect with consumers.

90 PERCENT OF CONSUMERS IN THE ASIA-PACIFIC REGION ARE ACTIVE DIGITAL BANKING USERS, STUDY FINDS

Digital channels are quickly becoming the dominant place where consumers around the globe are interacting with their FIs. One recent study found that nine out of 10 consumers in the Asia-Pacific region are now active digital banking users, for example. Virtual banking tool adoption has also risen rapidly in both developed and emerging countries within the region, and the report also found that 88 percent of consumers surveyed in emerging markets are now

tapping such tools. Only 54 percent reported doing the same in 2017.

Consumers in this region have fully embraced mobile financial apps and solutions. The report revealed that mobile-optimized FinTech apps and eWallet solutions are becoming more popular, as 54 percent of consumers utilized them this year. Expanding comfort with mobile payment and banking apps is also occurring as cash use for daily transactions is decreasing: Cash is now used for less than 30 percent of individuals' weekly spending on average.

INDIAN CONSUMERS BECOME MORE WILLING TO SWITCH TO VIRTUAL BANKS

Interest in digital-first — or even digital-only — FIs is rising among consumers in India. More than 70 percent of respondents from a recent survey said they would be willing to switch from their current banking provider to a virtual bank or neobank, for example. This includes using FinTech offerings or wallets tailored for mobile devices, and more than half of consumers now tap such tools. This speaks to the growing role that smartphones are playing within banking globally. Banks must keep an eye on such devices, as they are becoming the primary way digital-first

customers interact with FIs. The portion of consumers turning to digital banking channels more frequently to meet their financial needs is also on the rise: 91 percent of Indian consumers stated they use digital banking at least once every month.

NEXT-GEN TECHNOLOGIES AND BANKING TRENDS

HOW BRANCH BANKING WILL SHIFT TO MEET DIGITAL-FIRST PREFERENCES

Digital and mobile banking channels are becoming the primary way consumers worldwide want to connect with their FIs, but they may not be ready to let go of physical bank branches just yet. Recent studies suggest that branches will not disappear entirely, and the role of the branch will change to incorporate many of the digital-first elements customers find so critical to their experiences. One recent report concerning the Asia-Pacific region predicted that 50 percent of in-branch transactions will be started on digital channels but completed at brick-and-mortar locations by 2024. This includes transactions that consumers preset on virtual channels before they entered their banks and those made during appointments with bankers that were set up online.

This suggests that branches will continue to play a role in the financial ecosystem for consumers in the future, even as digital-first tools and devices become more widely used. FIs must examine their branches' design and explore how branches can work in tandem with their online products and services accordingly.

DEEP DIVE

HOW BANKS CAN **CAPTURE THE WEARABLE PAYMENT OPPORTUNITY**

Convenience is more important than ever in banking today, with the pandemic continuing to drive consumers' exploration of new payment methods and technologies. Contactless payments via smartphones skyrocketed in 2020, and this trend is expected to persist. One recent study projected that there will be 49 billion mobile contactless transactions in 2023, up from 26 billion this year. Banks and retailers have moved swiftly to keep pace with these developments, taking steps to support the touchless payment tools with which consumers are growing more comfortable.

Touchless payment adoption can help FIs build long-term customer loyalty, but contactless methods' growing popularity has also piqued consumers' interest in emerging technologies such as wearables. One recent news article reported that 35.3 million wearable payment devices were sold in the first half of this year, a 34 percent increase from 2020. Trust in smartwatches has also grown steadily in recent years, with these devices representing 68 percent of those wearable sales. Sixty percent of consumers in one September 2020 survey believed it would be more secure to store personal and payment data on wristbands than on separate devices or applications, underscoring their faith in these tools' security.

The following Deep Dive examines how emerging technologies such as wearables and IoT-connected devices are becoming more integral to digital-first consumers' modern banking needs. It also takes a closer look at how supporting these innovations can improve customer satisfaction and engagement.

MAKING ROOM FOR WEARABLES

Interest in wearable devices' potential in the banking and payments spaces did not originate during the pandemic. Financial and technology professionals have written about their future use for years, while banks and payment providers have partnered with fashion brands to show off the devices' capabilities to both industry players and tech-savvy consumers. The technology still occupied a novelty status for the average consumer before 2020, however, especially in the U.S., where adoption of even touchless payment tools was lukewarm at best until public health concerns drove consumers to try smartphone payments. One pre-pandemic study reported that just 19 percent of American consumers indicated a preference for contactless payments, for example, whereas the global mark was 45 percent on average.

Interest in online-only banking institutions is expanding in the U.S. alongside public gravitation toward more advanced technologies. A recent PYMNTS study found that 43 percent of consumers are interested in online banking services from large-scale FIs, and 24 percent who use digital-only banking services tap them for the convenience they offer.

The importance of convenience seems to be influencing consumers' receptivity to wearables or IoT-connected smart devices, which enable them to make purchases or conduct routine financial tasks without leaving the comfort of their homes. Consumers are also becoming particularly enamored of wearables they can use to make payments swiftly and seamlessly at the physical point of sale (POS). Seventy-two percent of consumers in a January 2021 study believed wearable payment devices represent the future of brick-and-mortar shopping, for example. Supporting these devices should be one of banks' top goals, but this support must provide security as well as convenience.

BRIDGING THE TRUST DIVIDE

Consumers are beginning to view wearable devices as more than a novelty but are still tapping these tools for a somewhat narrow range of purchases, suggesting a lingering trust gap. Recent reports found that though many customers are open to using wearable devices for small-ticket items, they remain wary of utilizing them for larger or more complex transactions. Seventy-two percent of consumers in one report were comfortable leveraging wearable wristbands for purchases worth less than $30, for example, while 17 percent said they would be fine using the payment tools to make purchases of any amount.

FIs that invest in wearable devices support can earn lasting customer loyalty and engagement as these innovations continue their evolution from experimental tools to familiar payment forms. Banks of all sizes looking to capture consumers' attention will want to develop their banking tools and features accordingly.

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 companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

NCR

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, comments or would like to subscribe to this report, please email us at feedback@pymnts.com.

DIGITAL-FIRST BANKING TRACKER®

DISCLAIMER

The Digital-First Banking Tracker® may be updated periodically. While reasonable efforts are made to keep the content accurate and up-to-date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, OR RELIABILITY OF OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED "AS IS" AND ON AN "AS AVAILABLE" BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS.COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATION`S ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.