MONEY MOBILITY
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APRIL 2022

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Navigating the money-in side of the money mobility equation

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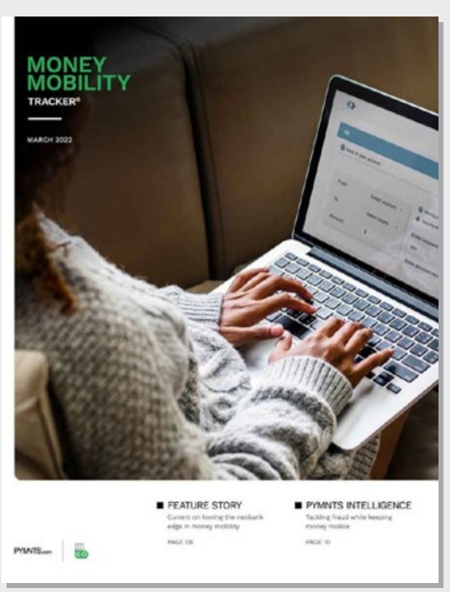

■ MARCH 2022

Money Mobility Tracker®

ACKNOWLEDGMENT

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EDITOR'S LETTER

Digital banking tools have become an integral part of consumers' lives, from the 39% of consumers who rely on mobile budgeting apps to track their finances to the 35% who say that mobile check deposit is their primary banking app's most valuable feature. Digital channels have also become popular as a means of opening and funding new accounts, with 62% of consumers in a 2021 survey saying they would be willing to open a new checking or deposit account digitally.

Preferences for account opening and funding vary widely, however, highlighting the importance of flexibility on the "money-in" side of the money mobility equation. A consumer's willingness to use a digital-only channel when creating that new account depends on several factors, including the nature of the account they are opening. While 71% of consumers said they would be willing to open a new credit card account digitally and 64% said the same of a new cell phone billing account, just 23% of consumers expressed comfort in opening a buy now, pay later (BNPL) account via digital rails.

This gap in comfort levels may reflect consumers' relative familiarity with credit cards versus newer products such as BNPL, but there seems to be no accounting for some preferences. Despite their generally higher level of technology engagement, for example, consumers between the ages of 18 and 24 had significantly higher preferences for opening new accounts in legacy, nondigital channels than consumers 65 and older. This finding suggests that financial literacy may outweigh overall digital savviness in determining one's comfort with digital banking channels, leaving it up to financial institutions (FIs) to help educate younger consumers in using these tools.

FinTechs and neobanks seeking to offer consumers the payment options they want when moving money into different accounts will face a daunting task. While it may be tempting for tech-savvy organizations to try to achieve it all in-house, it may be too large a job for any entity to take on alone. Partnerships will be essential for banks and other enterprises to provide consumers with the full range of money mobility they need.

Thought Leadership Team

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Feature Story

Wise On
Powering Instant Transfers In A Non-Instant World

WHEN WISE BEGAN OPERATING MORE THAN A DECADE AGO, THE FOUNDERS SET OUT WITH THE GOAL TO MAKE CROSS-BORDER MONEY TRANSFERS SIMPLER AND MORE TRANSPARENT, ACCORDING TO SHARON KEAN, GLOBAL EXPANSION SENIOR PRODUCT DIRECTOR FOR THE FINTECH COMPANY.

The first challenge they addressed was presenting customers with the true exchange rate they were receiving separate from any added fees, rather than rolling the fees into the exchange rate as some competitors do, she said.

As the company's scope has expanded beyond money transfers between the United Kingdom and Europe, so have its challenges. Wise now covers more than 50 different currencies and facilitates exchanges between a host of countries. That scope, combined with Wise's approach to accelerating cross-border money transfers, means the company has to navigate various financial structures and gives it a unique perspective on the current state of money mobility on a global scale.

TRANSFERRING INSTANT PAYMENTS

To power instant payments across borders, Wise holds its own accounts in each country where it operates, sometimes with partner financial institutions (FIs).

"Up to 40% of our payments are actually instant," Kean said. "So, if you send money from the U.K. to Australia, or from the U.S. to Europe, often it's instant."

When a Wise customer initiates a money transfer from their account, the actual transfer goes into a Wise company account in the same country where the transfer originates. Based on its own risk assessment process, Wise then releases money from an account in the country where the transfer is being received. Wise does not have to wait for the funds to cross borders as a result and can significantly speed up money transfers.

"We try not to actually, physically, move money between borders," Kean said.

The major factor preventing more Wise transactions from being instant is the financial systems and regulations within different countries, she explained. Some transfers may also be slowed based on the risk profile of the customer making the transfer or the entity receiving funds, but even that often comes back to how quickly that country's financial system permits money to be received into Wise's domestic account.

NAVIGATING REGULATIONS AS A FINTECH

As with many FinTechs, Wise is building out the services associated with customer accounts, enabling them to hold, spend, send and receive funds associated with their Wise accounts in a manner that resembles bank accounts. Wise even offers a debit card, though it is not a bank. The company is sometimes restricted in countries requiring a banking license to integrate directly into the domestic payment scheme and depends on partner FIs in those countries.

Wise is already directly integrated in the U.K., Australia and parts of Europe. Transfers must be completed with the assistance of a partner FI in markets such as the U.S.

"The gold standard that we aim for is [direct integration] because that's the route to getting it the fastest and the cheapest," Kean said.

Unfortunately, having to work with a partner FI introduces added costs and added steps. In countries where Wise is directly integrated, it transfers money directly to the recipient's account. In non-integrated countries, it depends on the partner FI's capabilities, capacities and policies.

MANAGING RISK TO MAKE PAYMENTS INSTANT

While not all countries have true instant payment schemes, and others are still in development, Wise applies a risk assessment model common among FinTechs for speeding up transfers.

"At the end of the day, the clearing system has that lag of up to three days," Kean said. "But there are ways of assessing whether you think someone is going to abuse the system or not, and you can therefore make some of those payments move a bit quicker."

How easily Wise can do that depends on whether it can make direct transfers or it needs to work through a partner FI. In some markets, the FinTech may have a choice of partners with well-developed digital tools such as application programming interfaces (APIs), but in others, it may have a partner with outdated or non-existent APIs, slowing down the process.

"The older, legacy infrastructure can be really hard to work with," Kean said. "I think that's a challenge that probably every FinTech has."

Working with legacy FIs can also mean working with risk management policies that are not taking advantage of the latest technology, an area in which Wise has invested significant effort.

"We want our customers to not have their payments stopped, or we don't want to make them wait too long to be verified or onboarded," Kean said. "At the same time, we've got to build in a way where we do the right checks and don't let bad actors use our platform."

As someone based in London, where instant payments have been the standard for some time, Kean said that she is often surprised by how slow money can move in other countries, indicating room for improvement moving forward. As consumers become more familiar with the concept of instant payments due to the efforts of FinTechs and other financial providers, demand for the regulatory and systemic changes to make them more common will grow.

Q&A

DREW EDWARDS
CEO
IN GO

What is the greatest risk for FinTechs and neobanks attempting to manage the money-in side of money mobility completely in-house?

There are a number of challenges with managing money-in capabilities using an in-house team. For example, the sheer scale and resources needed to maintain true money mobility capabilities — frictionless inbound funding from any source — can always be a roadblock.

However, the biggest risk of relying solely on in-house teams is fraud. An environment defined by instantly available funds arriving from a variety of accounts and transaction mediums — checks, cash, ACH, apps, etc. — that cannot be clawed back or deducted if later determined to be fraudulent puts an enormous amount of pressure on teams to get it right the first time, every time.

That is an unfair expectation because in-house teams are inherently hamstrung by a lack of visibility into the many types of fraudulent actors and behaviors that exist across the entire financial marketplace. Seeing only a tiny glimpse of the market by virtue of their own transaction history leaves them unprotected.

Even in the case of banks, which have access to robust fraud databases, there are gaps in coverage because these systems do not track nonbank transactions and behaviors. And this nonbank transaction environment is often where the most severe fraud risks exist because they operate outside of traditional, in-person know your customer and anti-money laundering protections.

The most effective fraud protection system, then, is one that has a complete view of the marketplace and can create a cross-functional network effect. For in-house operations, that means tapping into partners — either alone or in combination — that provide access to databases covering both bank and nonbank systems. This capability provides a fuller view into the overall marketplace, significantly lessening their risk profile.

PYMNTS Intelligence

Meeting Consumers' Money-In Mobility Needs

The share of disbursements received via instant payment rails has tripled since 2020, approaching even that of the most common method, same-day automated clearing house (ACH), which commands 22% of disbursements received. In 2021, 17% of all disbursements received were through instant payment channels, compared to 5.7% in 2020. By contrast, cash disbursements fell more than 35% and check disbursements fell more than 50% from 2020 to 2021.

The effort to infuse the economy with funds through stimulus payments following the pandemic's onset significantly contributed to the number of disbursements consumers received. By July 2020, the United States government had issued approximately 171 million payments totaling more than $400 billion. As economic pressures increased the urgency of receiving funds, consumers grew more interested in instant payments. Given multiple disbursement options, consumers favor instant payments when available.

That desire for faster payments also extends to how consumers connect their accounts. Fifty-eight percent of consumers have linked their bank accounts to at least one other platform or service, such as Venmo or Apple Pay, and 57% of those with linked accounts would consider using a connected service in place of a traditional bank account. This month, PYMNTS Intelligence examines the money-in side of money mobility, including consumer preferences when opening and funding accounts, the trends shaping disbursements and what consumers expect from account providers.

TAKING THE NONDIGITAL ROUTE

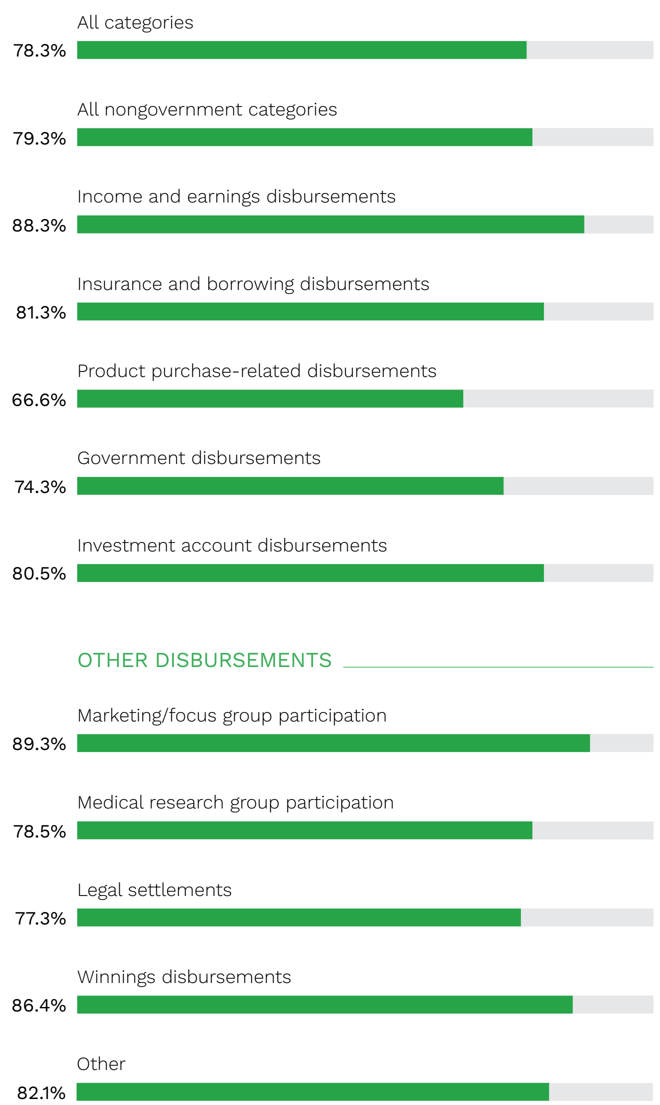
Consumers generally favor digital rails when opening new accounts, but exceptions remain. It may seem counterintuitive that 29% of consumers between the ages of 18 and 24 would prefer to open a financial account through traditional rails such as phone and mail, while less than 8% of consumers older than 65 prefer these legacy methods. Despite mobile apps' ubiquity in younger consumers' lives, just 49% of consumers under 25 said they would be comfortable downloading an FI's app to open a new account.

The type of new account they are opening also affects consumers' channel preferences. Seventy-one percent of consumers said they would be willing to open a new credit card account digitally, 64% would do so for cell phone billing and 62% would open checking and deposit accounts in digital channels. Meanwhile, just 24% of consumers said they would be comfortable using digital means to open either a mortgage account or a personal loan. Despite the close linkage of BNPL accounts with online transactions, just 23% of consumers said they would feel comfortable opening a BNPL account purely through digital rails.

FIGURE 1:

Share of consumers given a choice in how they receive disbursements

Share of consumers who can select how to receive disbursements from select sources



Source: PYMNTS | Ingo Money
The State Of Consumer Disbursements 2021

THE PULL OF DIGITAL CHANNELS

There is no doubt that digital has become integral to most consumers' financial lives. A recent survey of U.S. consumers found that 84% were able to name at least one banking app feature they use, and 39% said they rely on budgeting apps for tracking their finances. Another survey found that 35% of U.S. consumers considered mobile check deposit to be a banking apps' most valuable feature, followed by statement and account-balance viewing at 33%, the ability to transfer funds at 31% and bill payment at 28%.

Comfort with digital channels has prompted many consumers to consider using digital-first entities as their primary FI. Thirty-seven percent of consumers aged 40 or younger said they would select a FinTech over a traditional bank when selecting a primary FI. Fifty-seven percent of all consumers said they would consider using an app, such as Apple Pay or Venmo, for this purpose. That share jumped to 75% among Generation Z respondents but fell to just 20% among baby boomers.

PUTTING IT TOGETHER

FinTechs may face a daunting task if they attempt to build in-house solutions to meet consumers' widely varying money-in account needs and preferences. The operational costs of managing multiple rails can quickly become overwhelming, and risk mitigation is always more challenging when working alone. Partnerships can offer the means of fulfilling those needs without getting bogged down in costs and details that can detract from a FinTech's core mission.

NEWS & TRENDS

CHALLENGES FACING FINTECHS AND OTHER ALTERNATIVE FINANCIAL SERVICES

MOBILE MONEY'S HEAVY LIFT POSES CHALLENGES TO FINTECHS

FinTechs looking to enable consumers' money mobility with a maximum range of payment options could be overlooking the big-picture costs if they try to tackle the problem in-house. Drew Edwards, CEO of Ingo Money, said that without experience, it can be easy to underestimate what is involved in ongoing operations and maintenance of multiple rails.

FinTechs just starting to address ubiquitous payment options may not have a firm grasp of how comprehensive their systems need to be to meet consumer expectations. Edwards said the process of expansion can become never-ending, with businesses constantly discovering new rails they need to add. The upfront cost of partnering for payment solutions may seem less desirable, but it can be a much better alternative when considering the long-term costs of in-house development.

U.K.'S ALTERNATIVE LENDERS GAIN BACK MARKET SHARE

Alternative lenders such as peer-to-peer (P2P) lending platforms initially lost ground during the pandemic, but the British Business Bank says those platforms are now making gains again. Mainstream lenders had the upper hand during the early stages of the pandemic, commanding a dominant position over the influx of COVID-19-related loans made with government backing. A return to market-based lending in the United Kingdom has generated moderate growth for P2P lending, from £4 billion in 2020 to £4.1 billion in 2021.

The end of emergency loan programs also appears to be having the opposite effect on larger institutions, with bank lending falling 45% in 2021. Overall loan volume was not in decline, however, and equity investment in small U.K. businesses during the first three quarters of 2021 grew 130% compared to the same period in 2020.

ECONOMICS AND COVID-19 ARE CHANGING PAYMENTS

ECONOMIC PRESSURES GENERATE INTEREST IN MORE FREQUENT PAYDAYS

The idea of more frequent paychecks for employees is gaining popularity as some companies move to offer options in this area, especially in the service industry. Fifty-one percent of surveyed workers said they would change jobs simply for the added benefit of being paid more frequently. That share jumped to 76% among hotel and food workers. The stress that many lower-wage earners feel as inflation reaches 7.5% may be motivating the desire for more control over when they get paid. The same survey showed that 62% of respondents think that the increasing cost of living is outstripping their pay increases.

Thirty percent of respondents said they worry about their finances when they are at work, and many of those who are the most stressed by the current economic environment are already barely able to cover monthly expenses, let alone plan for their financial futures. Pay-on-demand systems can give workers a heightened sense of control over their finances and reduce stress related to financial concerns.

CONTACTLESS BECOMES THE NEW WAY TO GET PAID

The pandemic pushed many payors — from government agencies to private businesses — to find an alternative to checks for making payments. ACH payment usage had been consistently increasing for several years, but the pandemic further accelerated that move. Greater reliance on ACH for transactions typically conducted via checks contributed to a significant jump in ACH transactions in 2021 from 2020, with same-day ACH volume rising 74% year over year to reach 603.8 million transactions.

ACH transfers for business-to-business (B2B) transactions and direct deposit for payroll became more critical as in-person interactions decreased. Currently, 82% of U.S. workers are paid by direct deposit. Additionally, some state governments switched to ACH for sending out unemployment benefits as their systems struggled under the added weight of the economic crisis. The IRS also sent out a significant number of ACH payments, particularly as the federal government began issuing advance payments for the child tax credit and other credits.

SMBs STILL SEEK SOLUTIONS FOR LATE AD HOC PAYMENTS

Economic uncertainty also has small to mid-sized businesses (SMBs) interested in getting paid more predictably. SMBs annually spend a collective $28 billion on discounts and incentives to encourage business partners to make one-time supplier payments on time, but that strategy does not seem to be working. More than one-third of all ad hoc vendor payments for which discounts are available still arrive late, and another one-third are paid just on time and no earlier.

The problem is particularly pronounced for commissions and B2B marketplace payments, with one-third of each received later than all other ad hoc payments. Even with invoice payments for consulting services and products sold to other businesses — the ad hoc payments most likely to be paid on time — more than one-quarter are still received late. A significant part of the problem could be SMBs' lack of leverage in persuading buyers to pay according to terms or by payments other than checks, which adds friction to both sides of the transaction. Improved payment systems and more payment options could help solve the problem.

Money-in mobility and the modern consumer

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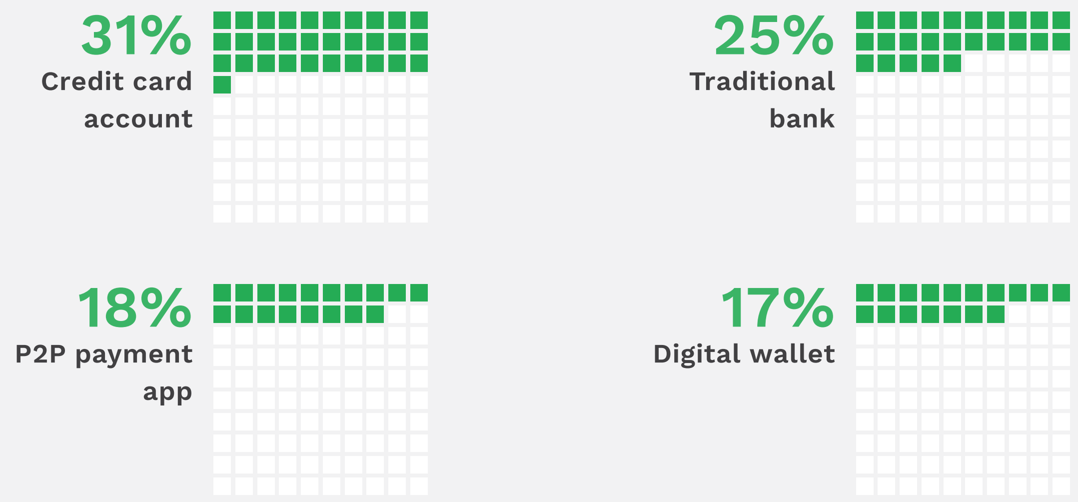
Following on the heels of the digital transformation, most consumers were opening and funding new financial accounts of some type. The types of accounts and channels used in opening those accounts do not necessarily match digital preconceptions, however, especially regarding the habits of younger consumers.

Consumers opening new financial accounts in 2021[1]

Nearly 59% of consumers opened a new financial account in 2021. Even though the digital transformation was in full swing, traditional financial products were the leading account types opened.

Share of consumers opening new accounts, by leading account type



New financial accounts by generation[1]

While Gen Z consumers, who are often beginning their financial journeys, led in new account openings in 2021, similar shares of older, more established millennial and bridge millennial consumers were also opening new accounts.

Share of consumers opening new financial accounts by age group

Generation Z	82%
Millennials	80%
Bridge millennials	76%
Generation X	59%
Baby boomers and seniors	35%

Digital discomfort when opening new accounts[1]

Among Gen Z and millennials, there is still some discomfort with using digital channels to open new accounts. The top reason was the same for both generations: the inconvenience of not having details close at hand.

Top Gen Z reasons for digital discomfort

60%	Do not have details handy
56%	Too many documents for verification
56%	Do not trust financial technology used to set up accounts

Top millennial reasons for digital discomfort

48%	Do not have details handy
46%	Submit too many personal details
44%	Too long for verification

1. Account Opening And Loan Servicing In The Digital Environment. PYMNTS.com. February 2022. https://www.pymnts.com/wp-content/uploads/2022/02/PYMNTS-Account-Opening-And-Loan-Servicing-February-2022.pdf. Accessed April 2022.

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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.

INGO

Ingo Money is the money mobility company. Founded in 2001, it provides technology platforms and expert risk management to FinTechs, banks and businesses that enable safe and instant money movement, from any source to any destination. Ingo's solutions power deposits and transfers for inbound and outbound money flows, cross-platform P2P and digital payouts, with network reach to more than 4.5 billion bank accounts, cards, digital wallets and cash-out locations. This transformation of traditional payments helps businesses reduce cost and delays while dramatically improving the consumer experience. Headquartered in Alpharetta, Georgia, Ingo employs more than 200 professionals and serves some of the largest brands in North America.

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