

The state of banking & payments 2021:

How consumer habits
have changed

Introduction

Over the last few years, the payments industry has continued to evolve, with new players entering the market and the number of alternative payment methods on offer increasing steadily. While there is certainly more choice for consumers, the adoption and usage of these payment methods is not guaranteed; consumer behaviours are notoriously challenging to break, with newer tech often taking years to become mainstream.

During the first half of 2021, Compass Plus Technologies conducted a two-part survey to delve into the way in which payments and banking habits have changed for consumers in the UK. Participants were asked questions relating to the way they make payments, the security of various payment methods, emerging trends, their current banking habits, and the way their behaviours are likely to change in the future.

Having undertaken research into consumer and industry expectations of the payments market since 2014, the results of this survey were analysed alongside previous responses to give an overview of the way that consumer payment and banking habits have changed – as well as to see if expectations became reality.





The impact of COVID-19

The impact of COVID-19 touched many areas of our lives, with the majority of business sectors being affected in one way or another, and the payments industry was not immune to this. We saw increased digitisation, primarily cash-based businesses looking for alternative payment acceptance, and the increased use of QR codes, as businesses and consumers alike sought out contact-free ways of accepting and making payments.

Despite these obvious changes, the majority of our survey respondents (67.5%) said that the pandemic had not changed the way they pay for goods and services. However, of the almost third of respondents who had changed their payment habits, the overarching reason was in relation to cash usage, with 54.7% using cash less frequently or not at all, while over a quarter of consumers increased their use of contactless payments.

Other changes included an increased use of debit card payments, mobile payments, and credit card payments.

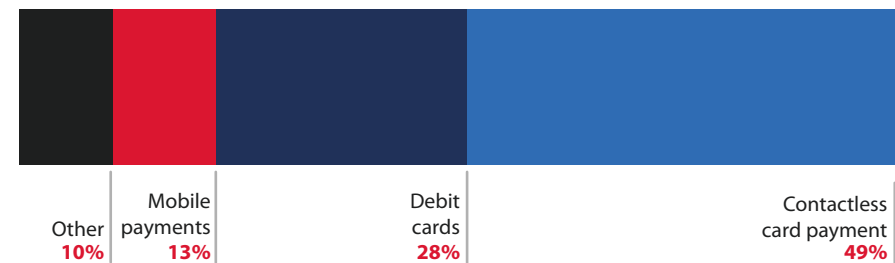
The way we pay today



Debit card payments overtook cash as the most popular way to pay for the first time in the UK in 2017*. Since then, the UK payments industry has witnessed a continued decline in cash-based payments, with transactions made with cards increasing exponentially. The introduction of the likes of contactless cards, mobile payments, account-to-account transfers, and buy now pay later facilities to name just a few more recent additions to the payment options available, has meant that consumers today have more choice than they've ever had before.

However, it is contactless cards that seem to have well and truly cemented their place in consumers' hearts, with almost half of respondents (49%) most likely to pay using a contactless card for purchases under £45 – the UK contactless limit for card transactions at the time of the survey. This was followed by debit cards at 28% and mobile payments at 13%. These results are not surprising, use of tap and pay technology has increased dramatically over the last few years, which has accelerated in the last 18 months due to merchants up and down the country encouraging consumers to pay using contact-free methods, particularly during the early stages of government COVID-19 lockdowns.

Preferred payment method for under £45

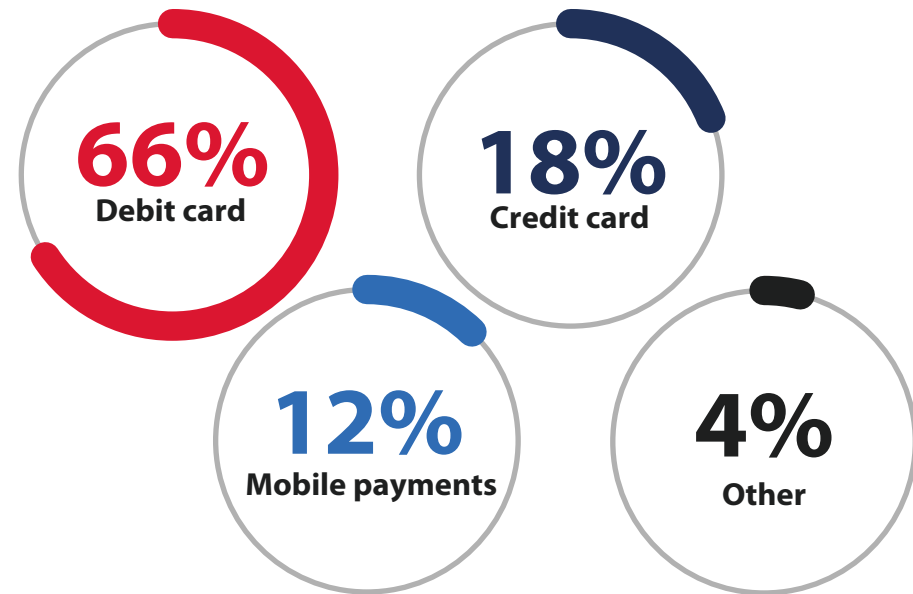


*UK Finance, UK Payment Markets 2018



For purchases above the contactless threshold, debit card transactions topped the results with a significant 66% of respondents preferring to pay for goods and services using this payment method. Credit card and mobile payments came in at 18% and 12% respectively. These figures solidify the industry speculation that to have more control over their money, consumers are moving away from the use of credit cards.

So, what about cash? While 67% of respondents admit to still carrying cash, just 3% of purchases under the contactless limit were made using cash, decreasing to 1% of those over £45.





The inevitable rise of mobile payments

Since their introduction, the rise of mobile payments has been on a relatively slow burn, but in recent years we are seeing mobile payments being used more frequently with their penetration growing year-on-year. Today, almost 10% of our survey respondents were making the majority of their payments using their mobile device.

Back in 2011, we asked industry professionals when they thought the tipping point would be for mobile payments reaching mainstream adoption – the majority stated 2-3 years. However, by 2014, consumers were still not convinced, with most respondents believing it was still 2-3 years off, and 12% thinking it would never happen. These figures highlight the slow uptake of the payment method in its infancy.





With 40% of consumers in our 2016 survey not yet having heard of the xPays, these statistics are unsurprising. However by 2019, 92% of respondents were aware of these alternative payment methods, with 90% of our respondents actively using their mobile device to make payments. Fast forward to today, and according to the UK Payments Market 2021 report**, in 2020 17 million people had registered for mobile payments – an increase of three-quarters in a year.

With almost 8 in 10 of our survey respondents stating that they would rather leave their wallet at home than their mobile phone, it is no surprise that almost a quarter of respondents expect to make the majority of their payments using a mobile device in 2031. While many industry analysts would put this down to the younger tech-savvy generations, where smartphones have penetrated almost every aspect of their everyday lives, our survey results revealed that it was not limited to the younger generations. In fact, over a third of those aged 60 and above expect to make the majority of their payments with a mobile device in 10 years.



Since 2019 over 90% of our respondents are actively using their mobile device to make payments.

** <https://www.ukfinance.org.uk/news-and-insights/blogs/rise-mobile-payments-2020>

The security vs convenience conundrum



We know that security matters, with making payments safe an essential priority for the industry. As such, we have been asking consumers to rate what they view as the most and least secure payment methods over the last decade. So how do the most popular payment methods fair today?

Despite their apparent reduced use, credit cards have been ranked as the most secure way to pay since 2018, with almost a quarter of respondents in our 2021 survey putting them top of the list (24.1%). This was closely followed by debit cards, coming in second place at 23.4%. These figures seem to be mainly driven by the age of respondents, with those aged under 45 viewing credit and debit cards as equals, and over 45s naming credit cards as the most secure payment method.

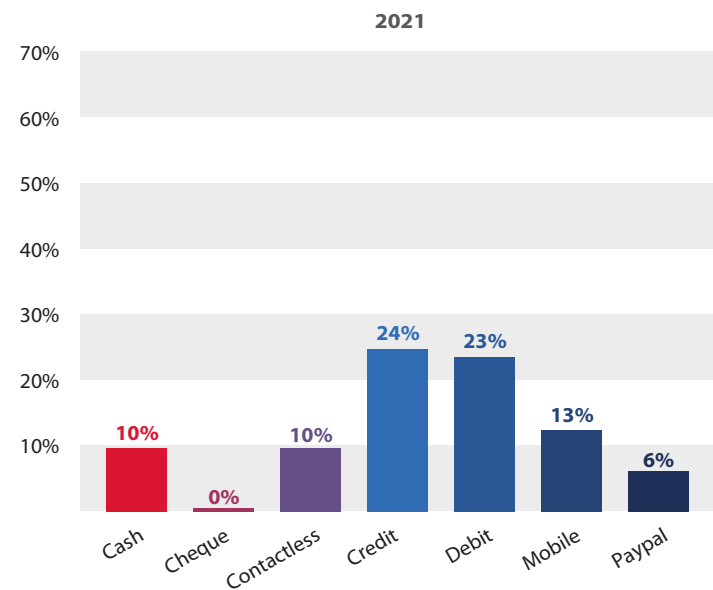
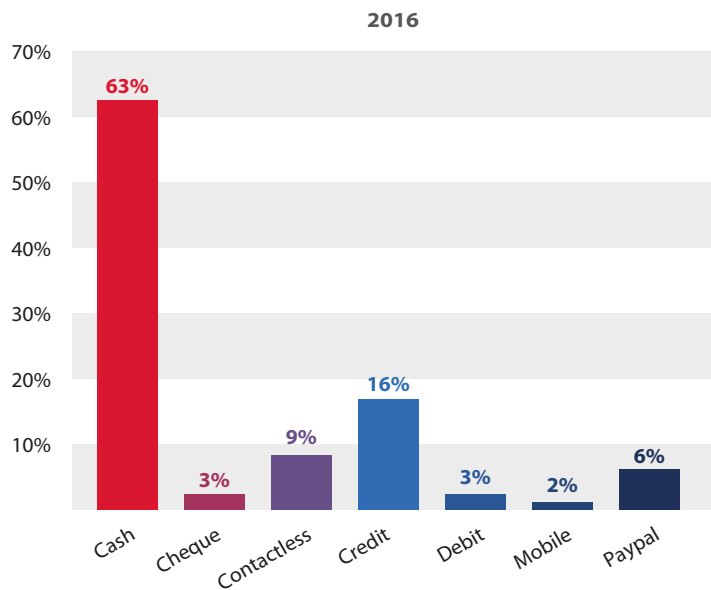


Over the last few years, the perception around cash has changed significantly. Back in 2016, 62.5% of respondents believed cash was the most secure payment method, this figure has continued to decline, and today, just 10.2% think of it as the most secure.

If we flip the switch and look at what our respondents perceive to be the least secure payment method, 2021 saw the cheque ranked number one with 38.2% of the votes, with cash coming in second at around 15%.

Contactless cards and mobile payments have consistently been ranked as some of the least secure payment methods. Five years ago, in 2016, a quarter of respondents believed them to be bottom when it comes to security, and while this number is dropping, there is still a long way to go to turn this belief around. Despite this perception, we have seen a big uptick in both contactless cards and mobile devices being used to pay for goods and services, highlighting that consumers' favour convenience over security. They were also rated the top 2 payment methods of the future, with the majority of respondents believing they are the methods they will primarily use in 10 years, showcasing that this is a trend that is unlikely to change.

Votes for most secure payment method



The banking landscape



So far, this study has focused on payments, but the banking landscape has also changed significantly over recent years, with digital channels transforming customer experience, and FIs all over the globe undertaking branch transformation initiatives.

The digital revolution

Going back to 2014, we saw over a quarter of consumers choose the branch as their favourite way to bank. Today, this figure has dropped to just 3%. Instead, digital channels have gained in popularity. While only 3 in 10 respondents stated that the way they bank had changed during 2020, those who had cited reasons relating to banking online more frequently, if not always, and using both internet banking and mobile banking apps. This is not surprising as consumers needed to navigate branch closures during government lockdowns and find alternative ways to manage their finances.

The evolution of banking and acceleration in digital transformation can be best seen when we look at mobile banking over the past 7 years. In 2014, just 15% preferred to bank via their mobile, with only 42.8% of respondents actually using the service. Today, 71% of survey respondents named it their top way to bank, with 90% of respondents using it. These figures are significant in themselves, however it goes further than that - nearly half of those who use decide to bank through their mobile do so daily (48%). This was not restricted to younger participants; the majority of consumers across all age groups log on everyday.

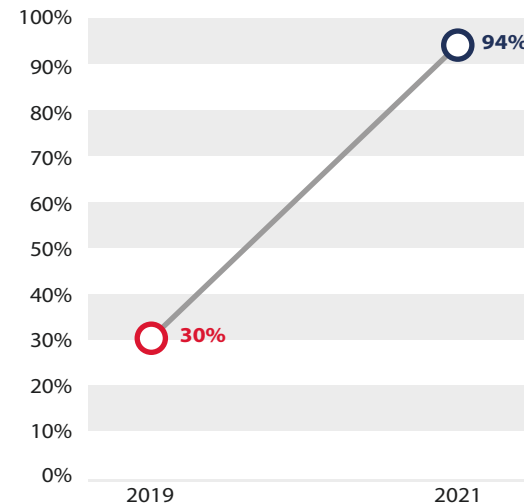


Open Banking

Open Banking is playing a significant role in stimulating innovation across the industry by enabling immediate payments directly from bank accounts, but what is uptake like?

Our 2021 survey results revealed that only 6% still do not know what Open Banking is, down from almost 70% just two years ago. This is a significant drop and great news for the industry and FIs who have worked to educate consumers on the benefits of Open Banking. The number of users has doubled since 2019, however, only 27.7% of respondents today have taken advantage of the initiative by adding other accounts to their mobile banking apps.

% of responders who knew what Open Banking is

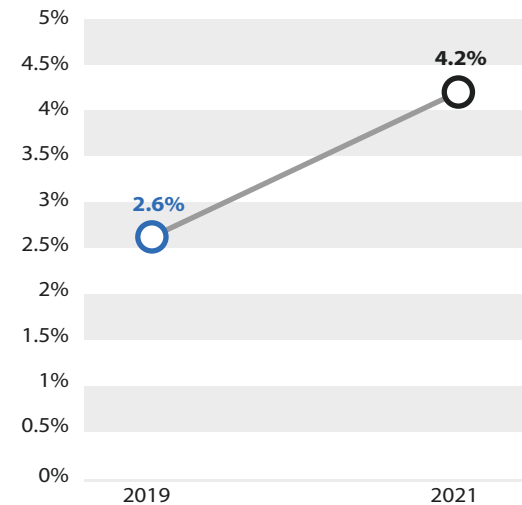




ATMs

The ATM industry was hit significantly during 2020, with many consumers decreasing their use of cash, in favour of digital payment methods. While almost two-thirds of respondents still carry cash on them, ATM usage has declined over the last 2 years, with 52.4% rarely using the self-service banking channel, down from the majority using the machines 1-2 times per month in 2019. The number of consumers never using ATMs has almost doubled since 2019, from 2.6% to 4.2%. One thing that has not changed however, is that the ATM is still used primarily for cash withdrawals – with 95% of respondents using it as a simple cash machine. These results are a significant blow to FIs and ATM deployers, who are looking to utilise the channel in other ways.

% of consumers never using ATMs



Does age come into play?

While a lot of these changes in payments and banking habits could be attributed to differences across different age groups, the results of our 2021 survey have seen some of the closest results we have ever had. Of course, there are areas where older generations seem to be more comfortable with the more traditional payment and banking methods, but this is changing, with many having been around for a significant amount of time now, new habits are beginning to be formed.

For example, while the over 60s are still more likely to use internet banking, mobile banking came in a very close second place, with the majority of over 60s using it on a daily basis.

The biggest difference we saw in age groups was in relation to cash. 85% of over 60s still carry cash on them, compared to just 25% of under 21s. Over 60s were also less likely to use mobile payments to pay for goods and services compared to those under 60.



% of respondents who carry cash by age group

over 60s



under 21s





Looking to the future

The results of our survey have shown that consumers favour choice, and the variety of payment methods on offer today give it to them. With consumers across all age groups utilising all of the methods available to them, it is clear that there is no longer such a distinct generational gap between the usage of more traditional and newer alternative payment methods - a gap that is steadily decreasing year-on-year.

While the use of contact-free payments has increased over recent years, and accelerated in the last two, it will be interesting to see what will happen when the impact of COVID-19 lessens, and whether these behaviours will remain in place.



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