Seven Charts: The State of Digital Banking in 2020

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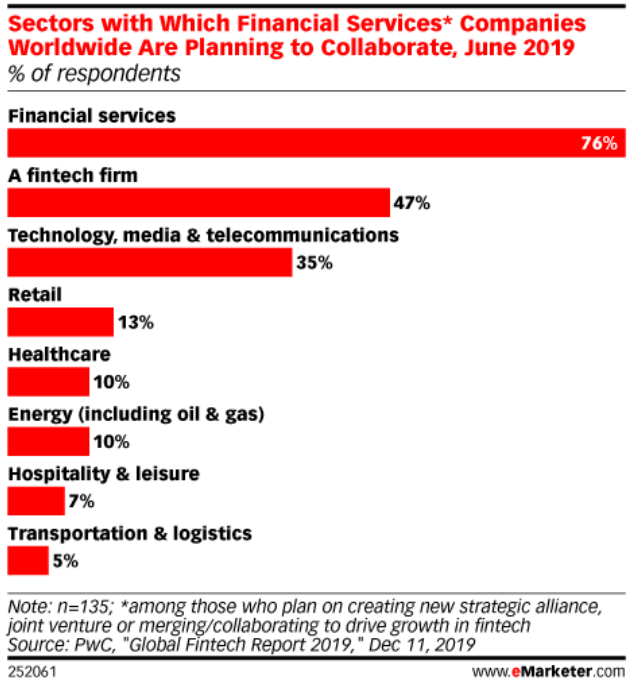
The banking industry is becoming more complex with the rise of mobile and open banking, increased demand for real-time interaction and personalized services, as well as new regulations. A need for better experiences across channels has also resulted in unprecedented competition among banks and financial services firms.

The start of 2020 saw a digital banking license race in Singapore; and in Europe, startup banks like Monzo, Revolut and N26 have emerged, adding to the competitive landscape. Several new "neobanks"—which are digital-based direct banks—are appearing in the US market for younger consumers who don't necessarily need banks with physical locations.

Here are six digital banking trends—with seven charts—that we predict will occur in 2020.

More Banks to Partner with Fintechs

Banks will continue to partner with companies to offer Banking as a Service (BaaS), allowing third parties that are not banks to offer banking products. For example, in August 2019, HSBC partnered with tech platform Amount to launch a digital lending platform, and we should expect more partnerships like this to come in 2020. A June 2019 PwC survey of financial services companies worldwide shows that among companies that wanted to collaborate with other sectors for growth, 47% were likely to collaborate with a fintech firm.



Through innovative services and targeted products, financial technology companies have been disrupting traditional banking and challenging institutions to rethink banking products by rolling out services like in-store mobile phone payment platforms or offering nonbank money transfers. And financial technology companies are proving that these innovations win consumers over.

According to EY's "Global FinTech Adoption Index 2019," financial technology services adoption among internet users has nearly doubled during the past two years, and the adoption rate is growing. Its March 2019 data shows that 64% of digitally active consumers across 27 markets used fintech.

Financial Technology Services Adoption Among Internet Users in Select Countries, March 2019
% of respondents in each group

China	87%	Chile	66%
India	87%	Brazil	64%
Russia	82%	Germany	64%
South Africa	82%	Sweden	64%
Colombia	76%	Switzerland	64%
Peru	75%	Australia	58%
Netherlands	73%	Spain	56%
Mexico	72%	Italy	51%
Ireland	71%	Canada	50%
UK	71%	US	46%
Argentina	67%	Belgium & Luxembourg	42%
Hong Kong	67%	France	35%
Singapore	67%	Japan	34%
South Korea	67%		
Worldwide	**64%**		

Source: EY, "Global FinTech Adoption Index 2019," May 31, 2019
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The survey also found that global awareness of financial technology products was even higher, at 96%.

Adoption of Neobanks

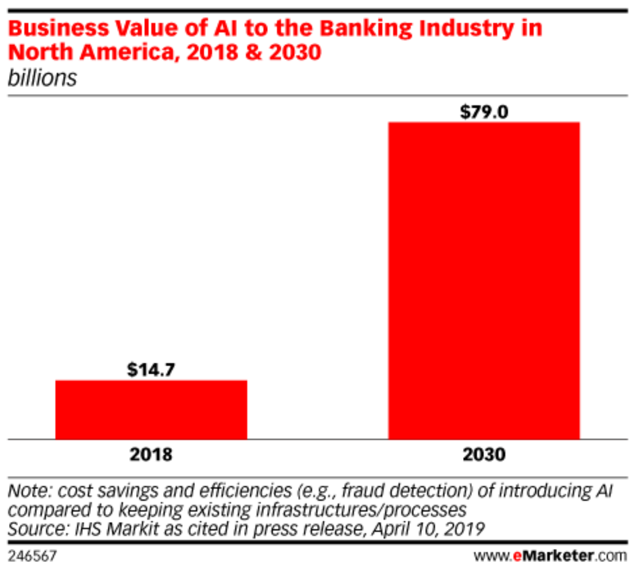
Neobanks will pose a challenge to traditional banks in 2020 as more customers lean toward the convenience of digital-only platforms. A neobank is a digital- or mobile-only bank with no physical locations, and it provides users with basic financial services such as checking and savings accounts and money-transfer services.

According to the latest FDIC "National Survey of Unbanked and Underbanked Households" published in October 2018, 25.2% of US households either did not bank or were underbanked—meaning they may have had bank accounts but still used financial services outside the banking system to make ends meet. Neobanks are strategically targeting the unbanked population and tech-savvy millennials with their cost-effective structures (no monthly fees, no withdrawal or overdraft costs), along with offering personalized customer experiences (budgeting and money-tracking tools, real-time balances).

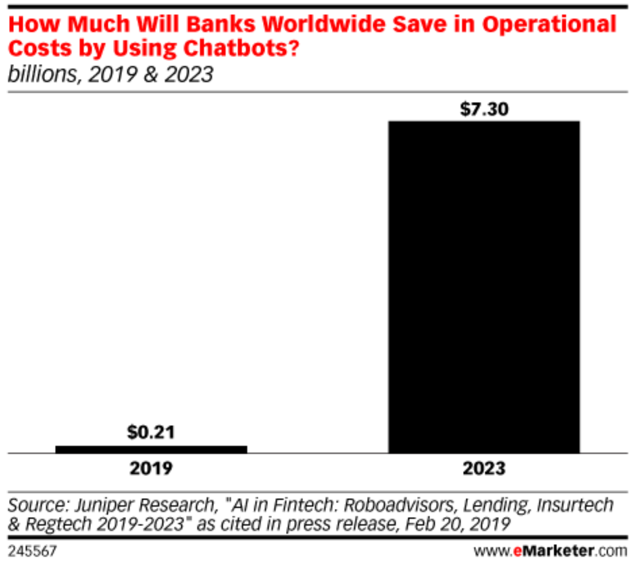
An August 2019 Finder.com survey conducted by Pureprofile states that 21.4% of US internet users ages 18 to 91 already used neobanks. About 57% of the same respondents said they believe that digital banking is more convenient than brick-and-mortars, and 8.8% of the respondents intended to open a digital-only bank account in the coming months.

The AI Evolution Continues

Despite relatively slow adoption, banks are increasingly looking to AI to improve their business operations and customer experiences using chatbots and fraud- and risk-detection features. According to an April 2019 report from IHS Markit, the business value of AI in global banking will reach $300 billion by 2030. North America is expected to become the largest market for AI in banking between 2019 and 2023, reaching $79 billion. However, Asia-Pacific, Europe and other global regions will roll out more AI solutions in the banking sector between 2024 and 2030.



The cost savings from banks' chatbot usage alone will reach $7.30 billion worldwide by 2023, up from an estimated $209 million in 2019, according to a February 2019 report from Juniper Research.



Chatbot integration in mobile banking apps is expected to make up 79% of chat-driven customer interactions in 2023. Increased consumer preference for app-based banking contributes to this, according to the research firm.

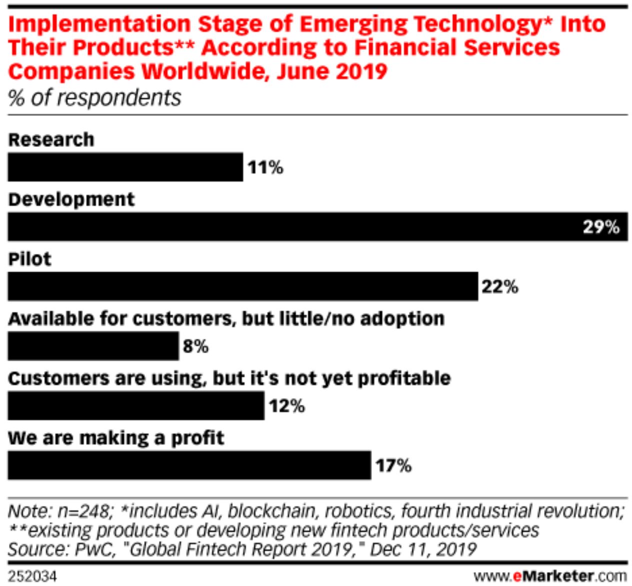
Revitalizing Blockchain Technology

As the financial industry continues to innovate past the use of a conventional transaction process, there is a slow but steady upsurge in blockchain technology adoption and investment, because blockchain allows for the decentralization of data storage. That means there will be safer transactions and greater asset transparency.

The World Economic Forum predicts that the financial sector will increasingly experiment with hybrid blockchain models, while the public sector will increase its use of smart contracts. Several major banks, such as Standard Chartered, American Express and Banco Santander, have partnered with Ripple (a global blockchain remittance network) to facilitate cross-border payments using blockchain.

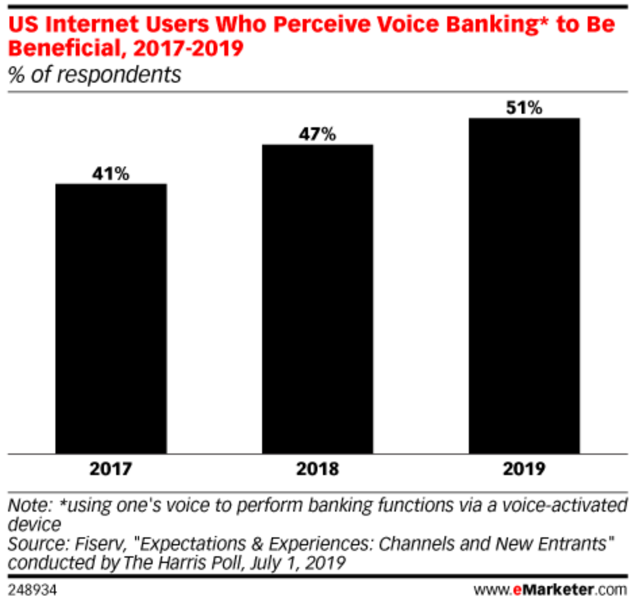
Financial firms are currently in various stages of blockchain implementation. According to PwC data from June 2019, when global financial institutions were asked about the implementation of emerging technology—like blockchain and AI—37% said they had fintech-based products or services available to their customers. More than a fifth

(22%) of these companies said they had products or services in the pilot stage.



Voice Banking Takes off

As people become more acclimated to using voice assistants for search and task performance, banks will benefit from the utilization of voice banking services. Use-case examples include consumers commanding a voice-enabled device to check account balances or pay bills. Survey data from Fiserv released in July 2019 shows that more people reported seeing the benefits of voice banking than ever before. About half (51%) of US internet users said they saw benefits of voice banking, up from 41% in the 2017 survey.



Although usage is still heavily skewed toward younger demographic segments, and there are some hurdles such as security and privacy issues, voice banking has strong growth potential with consumer education.

Companies like American Express, Capital One and PayPal are already offering voice banking services—supported by Alexa, Siri and Google Assistant—that allow customers to check their balances, transfer money, pay bills and report fraudulent transactions. Bank of America even created its own voice-activated virtual assistant Erica in June 2018, which reportedly had over 10 million users as of December 2019.

Tightened Control over Third-Party Data Access

It's no secret that banks and fintech apps have been attempting to rein in third-party access to customer data. This year, it's expected that major US banks will further tighten that third-party access to data, despite several industry initiatives and partnerships that were established to standardize data-sharing practices. PNC Financial Services Group made security moves to prevent data aggregators getting access to customers' account or routing numbers. And JPMorgan Chase said it will ban third-party apps from accessing customer passwords.

According to an October 2019 American Bankers Association survey conducted by Morning Consult, security was No. 2 when it came to what US internet users valued most about their bank (21%), preceded by little to no fees.