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GLOBAL DIGITAL BANKING INDEX 2021

How do people around the world view
digital-only banking?





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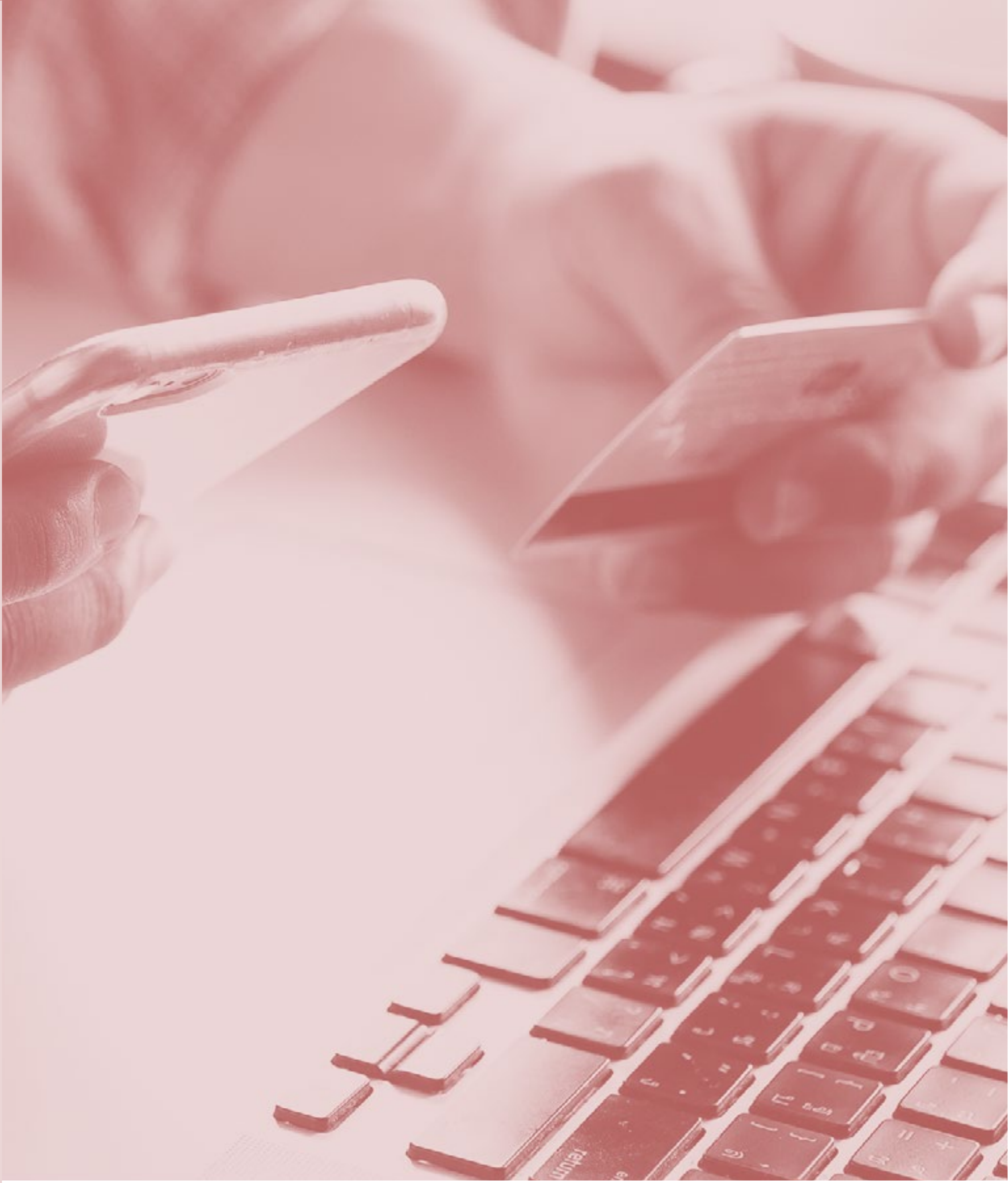
01

INTRODUCTION

New digital players rapidly emerging.

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How has the pandemic shaped the demand for simple and intuitive banking services.

The financial sector has changed dramatically since the 2008 financial crisis. In addition to the rapid adoption of digital tools, channels and services across the sector, we have seen the emergence of a new breed of banks and service providers that are entirely digital. During an era of tech-driven disruption that spanned consumer-facing industries, many of these banking newcomers have pioneered technology to solve legacy issues such as unnecessary complexity and sluggish innovation.

In recent years, digital-only banks have gained traction with millions of consumers around the world. The success of new entrants—like fully licensed banks Starling, Bunq and N26, as well as other fintech service providers like Nubank and Chime— **shows the global demand for simple, intuitive digital banking services.**

Their wholly digital service model seems tailor-made to address the dramatic shifts in consumer expectations and the Covid-driven inability of traditional banks to service customers face-to-

face. At the same time, some traditional banks rushed to digitize their customer experiences, attempting to narrow the competitive gap between themselves and their digital-only rivals.

So now, looking beyond the pandemic, what are the prospects for digital-only banks? To gain a better understanding of consumers' attitudes toward digital services and the organizations that offer them, N26 in collaboration with Accenture undertook an analysis that was based largely on the results of **Accenture's 2020 Global Banking Consumer Study**. The conclusion is that there is extensive and growing receptiveness to the simplicity, convenience and value of digital banking.

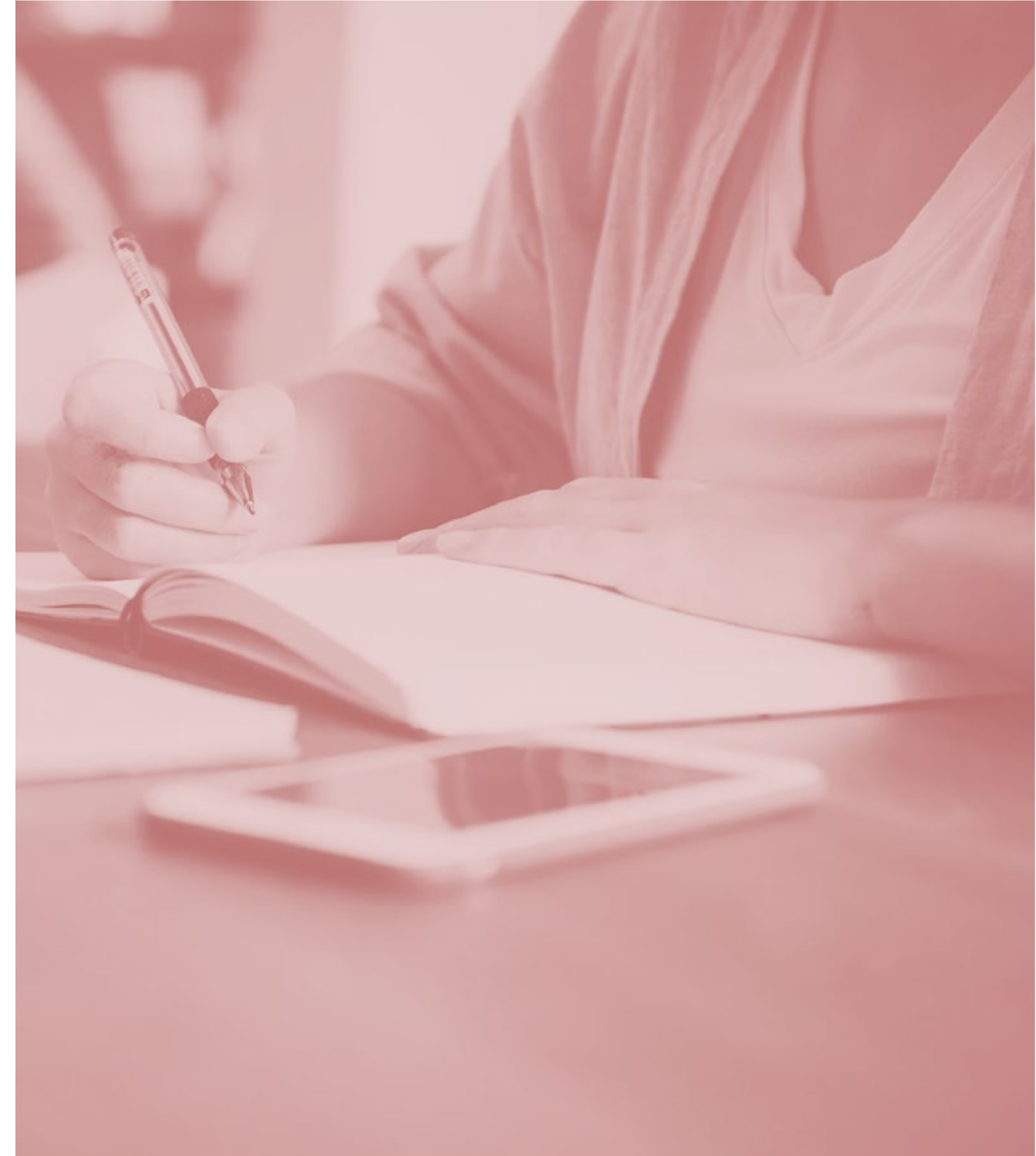
Of course, this is not the exclusive preserve of challenger banks—incumbents have recognized the need to digitize and many have invested heavily in acquisitions, in digital-only subsidiaries and in revamping their legacy operating models. Yet most digital-only banks back their agility, their inherent innovativeness and their counter-traditional image to take on the incumbents and carve out a profitable market share for themselves. To expand their footprint, however, they will need to gain the trust of consumers and broaden their appeal across diverse communities, especially women.

About the research

This analysis is based on **Accenture's 2020 Global Banking Consumer Study**, which surveyed 47,810 respondents across 28 markets including Australia, Belgium, Brazil, Canada, China—mainland, China—Hong Kong, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, the United Arab Emirates, the United Kingdom and the United States. In this report, these markets are deemed to represent the global market.

Respondents were consumers of banking and insurance services who had a bank account and at least one insurance policy. They included multiple generations and income levels. The fieldwork was conducted during July and August 2020.

For the purposes of the analysis, we defined a digital-only bank as a bank that has no physical, face-to-face customer interaction. In its survey report, Accenture used the term “neobank”—defined as a digital-only bank that is not part of a larger traditional bank—to distinguish it from traditional banks, most of which utilize a mix of digital and physical channels. For this analysis, the terms “digital bank”, “challenger bank” and “digital banking” combine these two descriptions and explicitly exclude in-person interaction and bricks-and-mortar branch networks. However, digital bank customers may (but need not) have accounts with both digital and traditional banks.



02

THE OPPORTUNITIES AHEAD FOR DIGITAL BANKING

Over a billion potential banking customers.

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Key trends

nearly

1 in 4

financial services
customers already use a
digital bank

with a further

46%

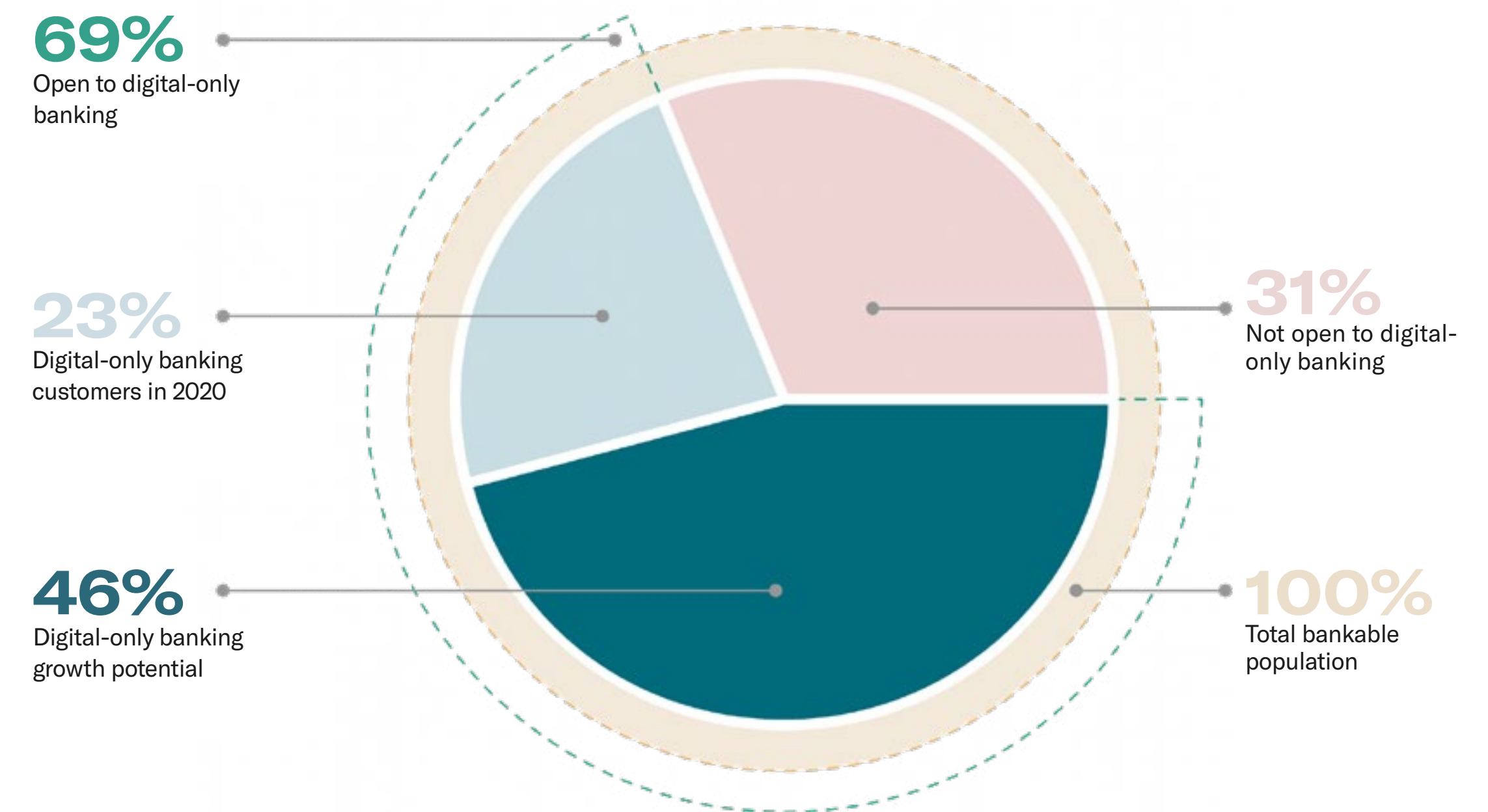
estimated to be
potential digital bank
users

It's no surprise that more and more people are open to digital banking, especially in the wake of the COVID-19 pandemic, which has driven interest in contactless, at-home consumer products.

Globally, 23% of banking and insurance customers have accounts with a digital bank. This translates to an estimated 450 million customers. It is projected that this number could potentially reach almost 70% globally, in effect tripling the current market size. Additionally, it is estimated that nearly half (46%) of the total bankable population globally consist of those who do not have digital-only bank accounts but would be motivated to open one in order to gain access to the typical digital banking features—such as good value for money, a simple user experience, and clear and simple communication. These consumers did not include a preference for physical bank branches among their reasons for not having a digital-only bank account.

Together, these findings suggest that there is a largely untapped market for digital banking—potentially as many as 1.4 billion customers across the 28 markets.

Exhibit 1. The share of digital-only customers and an estimate of the receptiveness to digital-only banking in the 28 markets covered by the Accenture survey.



03

INTERNATIONAL GROWTH

Brazil and China lead the way.

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Although growth is undeniable across markets, some countries are accelerating more quickly than others into the new era of digital banking.



Key trend

China and the United States could grow to have a total of 771 million and 148 million digital bank customers, respectively.

In the Accenture study, Saudi Arabia (54%), United Arab Emirates (51%), Brazil (44%) and China (42%) lead the way with the highest share of customers in their financial services markets already having a digital-only bank account.

However, many countries which have smaller digital banking populations are swiftly catching up. Some, including Switzerland, Ireland, the UK, and France, increased their digital banking growth rate by more than 50% between 2018 and 2020.

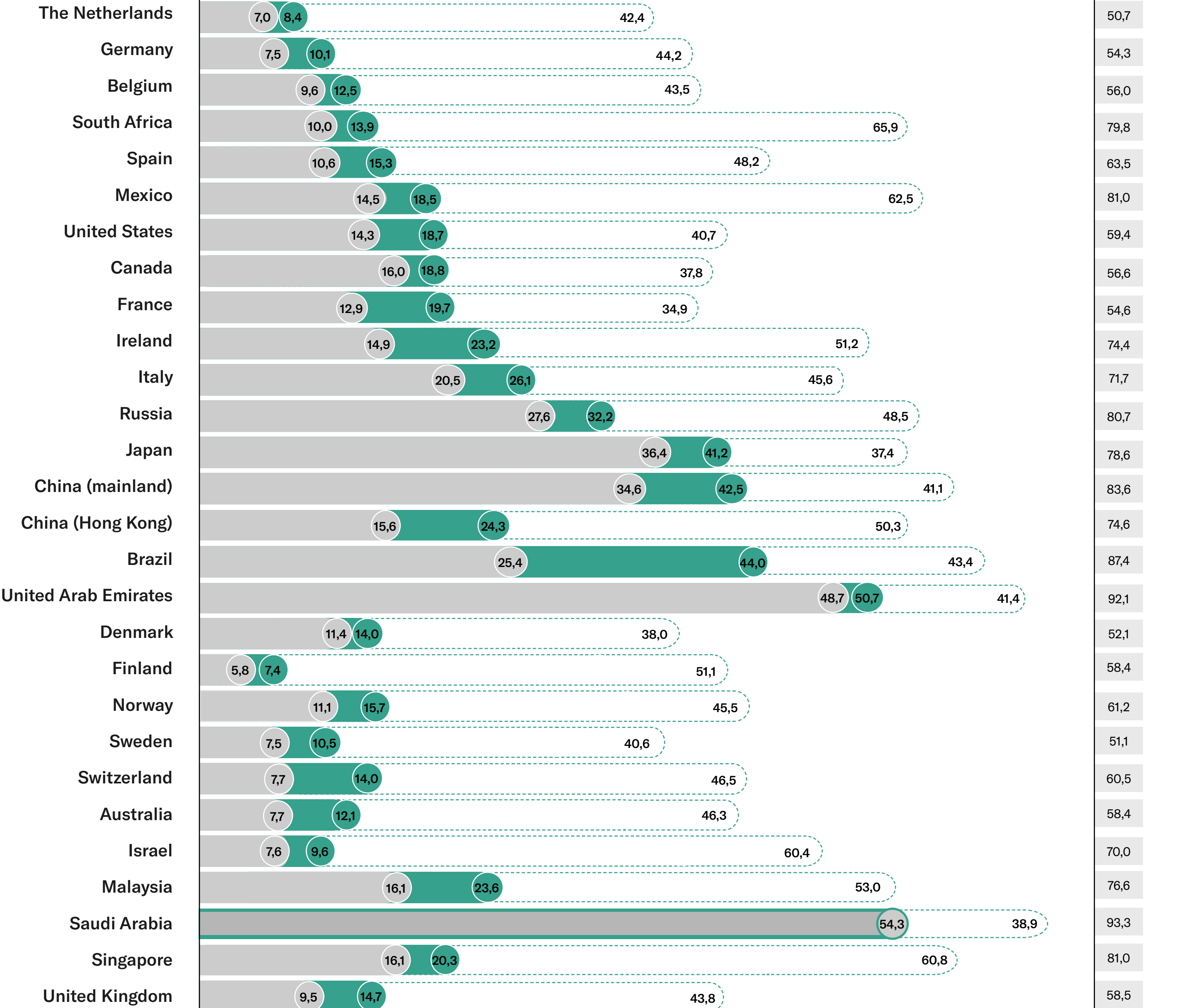
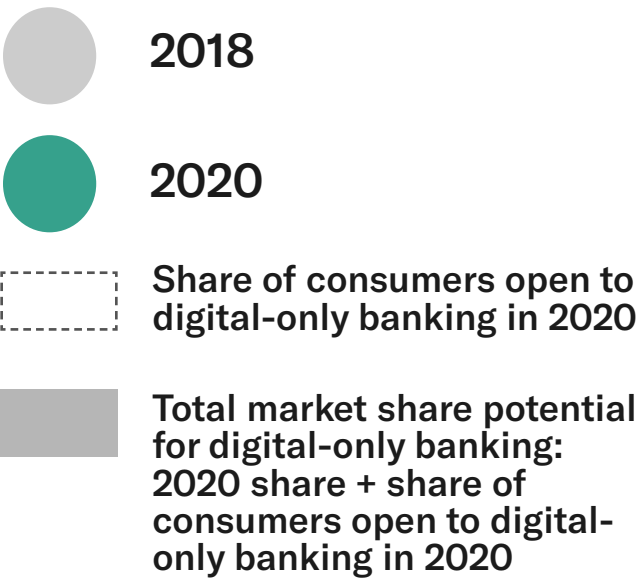
The potential for digital banking varies significantly from country to country, depending on a variety of factors. In addition to openness to digital banking, a critical factor is obviously the size of the population. The research shows that China has the largest absolute number of digital bank customers: approximately 392 million in 2020. Its growth rate is lower than those of other leading markets (23% in mainland China), but because of its large population it has added more customers than all the other 27 markets combined.

Based on estimated growth potential, we believe there are approximately 771 million attainable digital bank customers in China.

Other countries ranking among those with the greatest potential for large-scale digital banking adoption are the US, Brazil, and Japan—each having more than 40 million customers in 2020 and showing positive growth trajectories. We estimate the potential US market share comprises 148 million digital-only banking customers.

Exhibit 2. Banking digitalization conversion trends in studied countries

The share of banking customers with a digital-only banking account in 2018 and in 2020, and openness to digital-only banking (in %).



Europe starting to gain ground

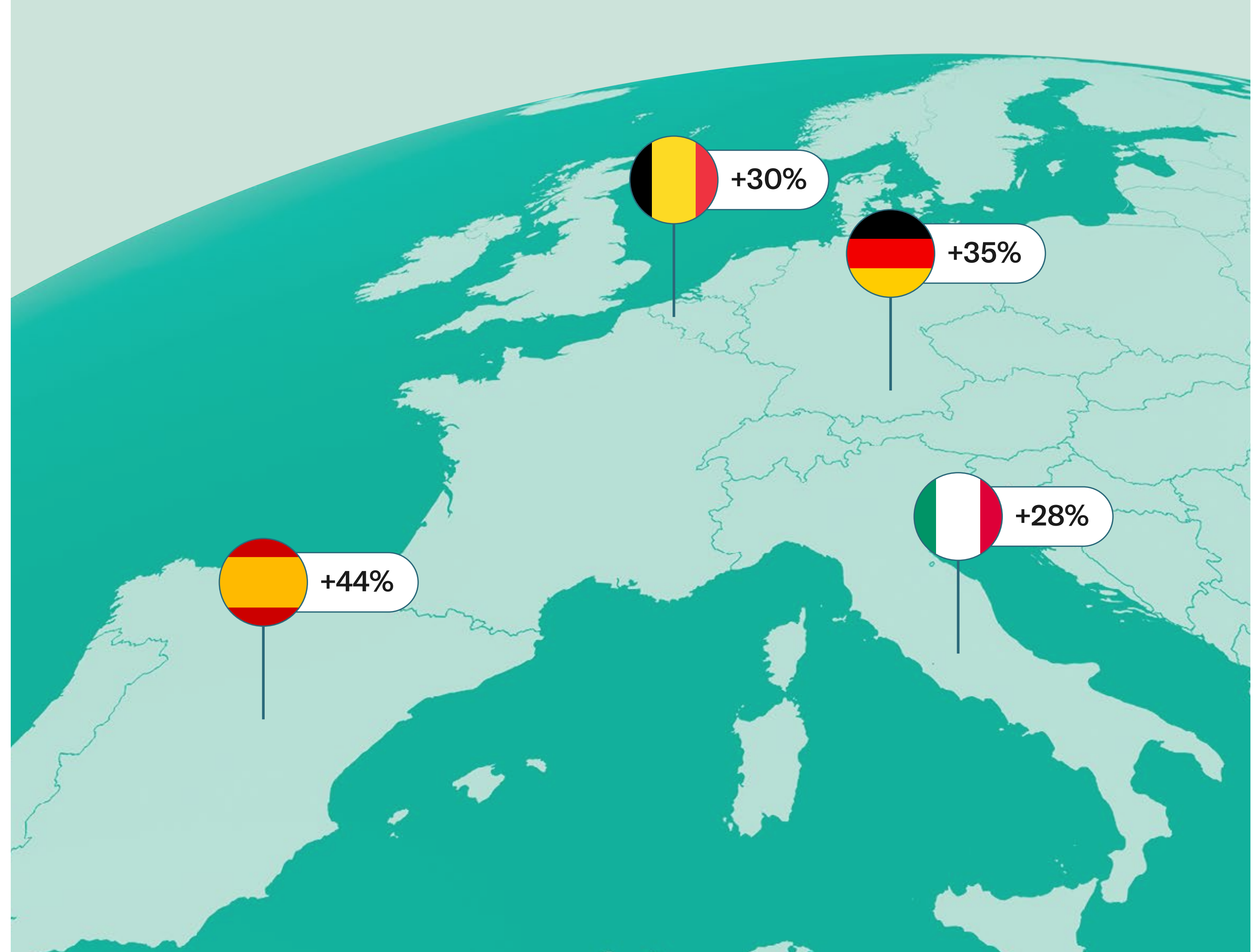
Europe is experiencing slower growth than other regions—Belgium (13%), Germany (10%), and the Netherlands (8%) were among the countries with the lowest digital-only banking adoption in 2020. Some of the larger European markets, like France (20%) and Spain (15%), also have significantly smaller shares of digital-only banking customers.

Key trend

Growth in digital banking in Germany has accelerated by 35% since 2018, despite previously low adoption.

However, despite their relatively low levels of adoption, it's clear that Western European countries are catching up quickly. Between 2018 and 2020, the number of digital-only banking customers in Spain increased by 44%, in Germany by 35%, in Belgium by 30%, in Italy by 28%, and in the Netherlands by 20%.

Although 35% of financial services customers in Europe say the typical digital features would not be sufficient to motivate them to open a digital-only bank account, the remaining 65% could potentially be converted by a compelling value proposition—which, according to the consumers surveyed, includes a simple design and user experience, good value for money, and clear and simple communication.



The impact of digital banking on the future of financial inclusion

What makes customers turn to digital banks?

Trust appears to be a very important driver of consumer acceptance of digital banking. Brazil leads the way, with over 78% of digital-only bank customers stating they trust* digital banks with their data. Next is the US with 68%. In Europe, Ireland has the highest levels of trust with 68%, while Germany (54%), Spain (53%) and France (53%) show positive results for over half of their digital bank users.

Trust in banks is, broadly speaking, on a downward trajectory. The percentage of customers who trust their bank “a lot” to look after their long-term financial wellbeing declined from 43% in 2018 to 29% in 2020. Similarly, those who trust their bank “a lot” to look after their data declined from 51% to 37%.

The erosion of trust is due to a multitude of factors, but an important one is probably the weakening of customer relationships as banking shifted from mainly face-to-face to online. This points to a big opportunity for banks that succeed in infusing intimacy and humanity into their digital channels. It also highlights the challenge facing digital-only banks: incumbents that manage to combine their traditional strength—their role in customers’ lives as a caring financial partner—with a newly developed digital capability are unlikely to yield their market share without a fight.

* Includes “I trust them a little” plus “I trust them a lot”.

Other key drivers of digital banking adoption across global digital-only banking populations are a simple, convenient mobile app or website experience (38%), clear and simple bank communications (27%), and competitive pricing (34%).

When traditional bank customers were asked what keeps them from switching, almost 1 in 2 said they were happy with their current provider (47%), while 42% said they were unfamiliar with what digital banks were offering.

The research shows that typical digital-only bank customers are more likely than traditional bank customers to:	Digital-only bank customers	Traditional bank customers
• Use their smartphone daily to connect with a bank or insurer to learn about new offerings.	26%	15%
• Post daily to social media.	32%	22%
• Shop online daily.	13%	5%
• Be confident with new technology.	24%	16%
• Be willing to take risks to improve their lives.	14%	8%

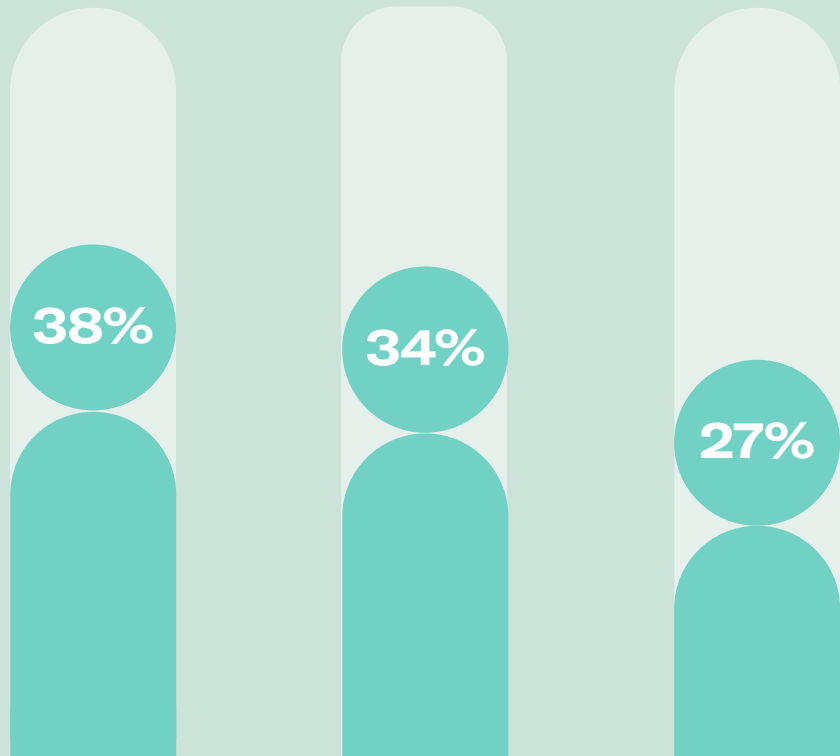
Exhibit 3. The factors driving and inhibiting banking customers from switching to a digital-only bank.

ADOPTION DRIVERS

Which of the following features do you like most about using your digital-only bank? Which of the following features would most likely cause you to use your digital-only bank for the majority of your banking transactions?

(%-share where reasons are within the top 3)

Simple, convenient mobile app or website experience Good value for money / competitive pricing Clear and simple bank communications

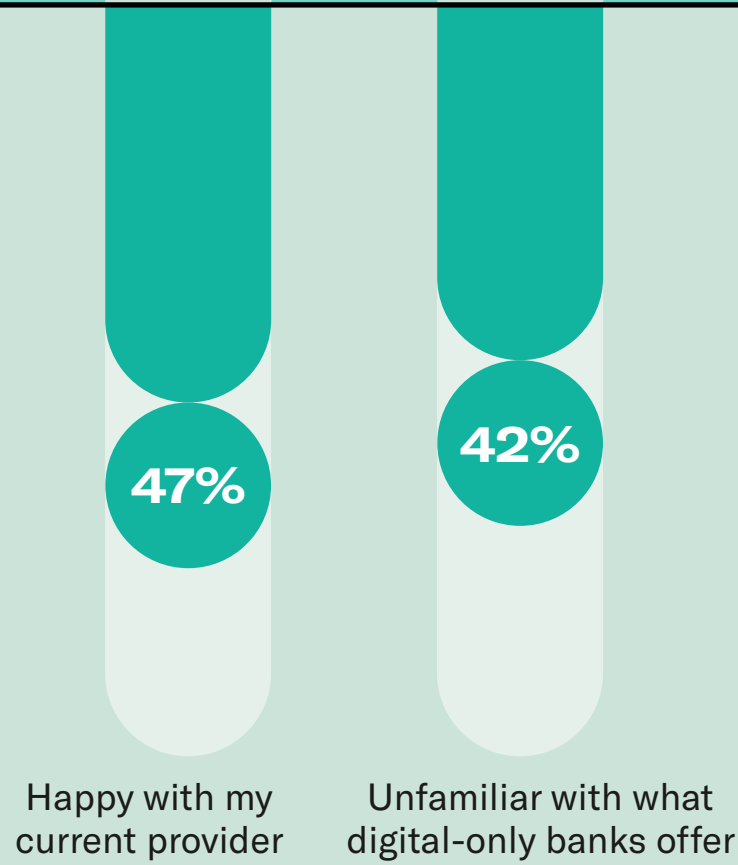


vs.

ADOPTION BARRIERS

What are the main reasons why you don't have an account with a digital-only bank?

(%-share where reasons are within the top 3)



I trust digital-only banks a lot to look after my data





04

A LOOK INTO THE FUTURE OF DIGITAL BANKING

Reach a more diverse range of customers.

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Key trend

Brazil will soon have the largest share of digital-only bank customers among all the countries surveyed.

Brazil a haven for digital bank value proposition

According to Accenture's survey, Brazil not only has the second-highest number of digital-only bank customers; it is also the second-fastest-growing market (73% between 2018 and 2020). If it maintains this rate, it will soon have the largest share of digital bank customers among all the countries surveyed.

Brazilians also use their mobile devices more than the global average, which in turn drives a high rate of adoption of mobile-first banking. According to the research, consumers in this country perceive their lives as being too busy, and often prefer to focus on achieving a healthy work-life balance.

If consumers around the world emerge from the pandemic showing trends similar to those in Brazil—high mobile phone usage, a preference for remote interaction, and a desire for more time—then digital banks will be well positioned to offer an appealing solution. Ease of use and efficient access could prove to be decisive differentiators.

Will women drive the next wave of digital banking?



Key trends

Brazil, an emerging leader in digital bank adoption, has slightly more female (52%) than male (48%) digital banking customers.

In Italy, almost one in every two digital banking customers is 45 years of age or older (45%).

More and more consumers across a broad spectrum of demographics are using digital-only banks today. Globally, men make up the biggest share: 59% vs. 41% for women. To date, digital banking customers have more often been young, male, high-income earners who are mobile-first tech enthusiasts. They're more likely to be comfortable taking risks, which may predispose them to adopt digital banking sooner than others. The US is an example of this, where the majority of digital-only banking adopters are higher-

income earners (63%), male (66%) and aged between 25 and 44 years (57%).

Brazil, on the other hand, has marginally more female (52%) than male (48%) digital banking customers. It also has a more even balance among low and middle-income customers, likely because digital banking is recognized as accessible and relevant across all levels of society.

Will other markets follow in Brazil's footsteps? Many European countries are on the verge of leveling their gender balance—such as Italy (where 45% of digital bank customers are women), Denmark (44%), Sweden (44%), Ireland (43%), and Spain (42%).

While digital banking is typically considered a service that appeals to younger generations, in the European market we see that this is no longer the case. In Italy, almost 1 in every 2 digital banking customers (45%) is 45 years of age or

older. Similarly, in France, there are as many digital banking customers over the age of 55 as between 18 and 24 years old—1 in 5 in both cases.

When it comes to the income of digital-only bank customers, in all the surveyed markets the majority have medium or high incomes. Spain is the EU country which has the highest level of adoption of digital-only banking among its middle class (55% of digital-only customers have medium incomes) closely followed by Italy (53%).

The future of banking is digital

In recent years, the world has witnessed a dramatic rise in the adoption of digital banking. Digital-only banks have blazed ahead, offering cool, convenient and innovative services that deliver great value for money. There is no doubting this has forced incumbents to accelerate their digital transformation, putting them in a stronger position to retain their customers. At the same time, the pandemic has effectively wiped out their branch network, potentially hampering their ability to maintain intimate customer relationships. Perhaps most tellingly, it has dragged banking customers of all descriptions into the world of digital experiences, many of whom will never return to their old ways.

This research shows that the functionality and price of digital-only banks have great appeal. However, both are replicable and are rapidly becoming table stakes for all banks.

Herein lies the opportunity. Banks that succeed in bolstering the trust of their customers, and making digital banking a more human and empathetic experience, will enjoy a powerful advantage. Challenger banks will be able to move beyond simply acquiring millions of customers, to persuading these customers to adopt them as their primary bank. And digital incumbents will be able to boost their revenue by offering personalized advisory services, at scale, for which trust is indispensable.



What, then, is the future of digital banks, and of digital banking? There can be little doubt that the future of banking is digital. But who will own the future? We believe that as everyone converges on a digital end-game, the leaders with the strongest customer experience, trust and organizational agility will come out on top. This group will include both traditional and challenger banks.

Digital is already insufficient to guarantee success. There are likely to be many digital-only banks that thrive in the future—there is no gainsaying the popular demand. But the winners will be those banks that develop clear and detailed strategies that deal effectively with the disruption that is shaking the entire

industry. This includes recognizing that roles are changing, and deciding what role to adopt in the new landscape—alone or in partnership with other players. It also includes, as mentioned above, establishing intimate, trust-based relationships with customers, understanding and communicating effectively with them, and making the digital advantage pay.

Digital banks have the potential to make their mark in the world of retail banking. In the process they will blaze a path that all banks will follow; one that will improve the banking experience for all customers, for all time.

N26 stands for banking that is as mobile and flexible as their customers. N26 offers a 100% digital banking experience that is designed to be simple and transparent. Centered around the customer, the app integrates the most innovative technology to make life easier and enables customers to live and bank their way.



About N26

N26 is building the first mobile bank the world loves to use. Valentin Stalf and Maximilian Tayenthal founded N26 in 2013 and launched the initial product in early 2015. Today N26 has welcomed more than 7 million customers in 25 markets. N26 has a 1,500-strong team of 80 nationalities based across the globe. It has 10 office locations: Amsterdam, Berlin, Barcelona, Belgrade, Madrid, Milan, Paris, Vienna, New York and São Paulo. With a full European banking license, state-of-the-art technology and no branch network, N26 has redesigned banking for the 21st century and is available on Android, iOS, and desktop.

- Website: n26.com
- Twitter: [@n26](https://twitter.com/n26)
- Facebook: facebook.com/n26
- YouTube: youtube.com/n26bank

About Accenture

Accenture is a global professional services company with leading capabilities in digital, cloud and security. Combining unmatched experience and specialized skills across more than 40 industries, we offer Strategy and Consulting, Interactive, Technology and Operations services—all powered by the world’s largest network of Advanced Technology and Intelligent Operations centers. Our 624,000 people deliver on the promise of technology and human ingenuity every day, serving clients in more than 120 countries. We embrace the power of change to create value and shared success for our clients, people, shareholders, partners and communities.

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Thank You

