EY FinTech adoption index – Germany

Key findings
Introduction to EY’s FinTech adoption index

Overview

► Assessment focusing on end consumer adoption of FinTech services
► Survey of over 12,000 online users across seven markets – 2,014 users from Germany
► Respondents were asked about their awareness and usage of a range of online financial services products
► Careful explanation of products (avoiding jargon, using brand names)
► Questions on reasons why/or why not use the services
► Key topics covered in the study:
  ► Who is using FinTech?
  ► What services are being used?
  ► Why are they using it?
What is FinTech?

“Organisations combining innovative business models and technology to enable, enhance and disrupt financial services”
FinTech demonstrates that the barriers to entry to financial services have been fundamentally lowered

Digital structural change is made more possible by increasing penetration, lower costs and greater technological connectivity.

- **90%** Drop in cost to launch a tech startup: $5m in 2000, $0.5m today\(^1\)
- **100+** Innovative businesses helped by the FCA’s Project Innovate\(^3\)
- **Supportive government policy**
- **3x** Global FinTech investment tripled between 2013 and 2014\(^2\)
- **50%** Millennials believe that tech startups will overhaul banks\(^4\)
- **50%** Positive customer sentiment

The digital revolution has reduced the cost of capital and provided alternative funding routes such as venture capital and incubators.

Regulators are engaging with start-ups to establish policies and initiatives promoting an encouraging, open environment for innovation.

- Millennials (Gen Y) are redefining public sentiment towards financial services with decreasing trust and brand loyalty.

Source:

1 – Commuter Club
2 – Accenture, Future of FinTech and Banking
3 – FCA Data Bulletin Issue 2
4 – Goldman Sachs socialisation of finance
Our analysis covered up to 10 products across the markets surveyed

<table>
<thead>
<tr>
<th>P2P lending</th>
<th>Equity and rewards crowdfunding</th>
<th>Online investments</th>
<th>Online budgeting/planning</th>
<th>Online stockbroking/spread betting</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2P borrowing</td>
<td>Online foreign exchange</td>
<td>Overseas remittances</td>
<td>Non-banks to transfer money</td>
<td>Telematics/health insurance premium aggregators</td>
</tr>
</tbody>
</table>

**FinTech user = 2 or more products**
Who is using FinTech?
FinTech adoption is highest in Hong Kong – Germany is slightly below the average

Observations
- At 12.3%, Germany’s adoption index is lower than the average adoption of 15.5% across the 7 markets.
- Hong Kong is at the forefront with more than a quarter of participants using FinTech
FinTech use is much higher in urban areas, especially in New York and Hong Kong

Observations
► Strong correlation with age and income
► FinTech firms are engaging with their urban user groups. Physical meetings and events are commonplace
► Marketing costs are lower in cities and there are important network effects to be utilised

FinTech adoption in urban areas
Percentage of FinTech users in major urban areas covered by the survey
FinTech adoption is greatest among younger, high income groups

Who are they?
Breakdown of FinTech users by age and income group, and by current usage and intention to use FinTech in the future.

### Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>18 to 34</th>
<th>35 to 54</th>
<th>55+</th>
</tr>
</thead>
<tbody>
<tr>
<td>US $150,000+</td>
<td>52.4%</td>
<td>64.6%</td>
<td>30.2%</td>
</tr>
<tr>
<td>US $70,001 – US $150,000</td>
<td>32.7%</td>
<td>56.7%</td>
<td>23.5%</td>
</tr>
<tr>
<td>US $30,001 – US $70,000</td>
<td>24.0%</td>
<td>48.8%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Less than US $30,000</td>
<td>10.6%</td>
<td>30.6%</td>
<td>9.4%</td>
</tr>
</tbody>
</table>

Observations

- Respondents across all age groups and income levels said they intend to use FinTech in the future.
- If they behave as they say they intend to, almost 60% of respondents earning US $150,000+ will be FinTech users within the next 12 months.
FinTech users in Germany are young and earn US $70k or above

Who are they?
Breakdown of FinTech users by age group and income.

<table>
<thead>
<tr>
<th>Age</th>
<th>Global</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 – 34 years old</td>
<td>22.5%</td>
<td>18.6%</td>
</tr>
<tr>
<td>35 – 54 years old</td>
<td>16.5%</td>
<td>14.7%</td>
</tr>
<tr>
<td>55+ years old</td>
<td>4.9%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

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<td>24.0%</td>
<td>27.7%</td>
</tr>
<tr>
<td>US $150,000+</td>
<td>44.1%</td>
<td>41.2%</td>
</tr>
</tbody>
</table>

Observations

- Early adopters of FinTech services tend to be young, with the 18-34 age group being the most active group. While across markets, the group above 55 years is quite inactive, it seems that in Germany, those users are more open towards innovations in financial services.
- Consistent with the other markets surveyed, the highest adoption rate is seen among those with a high income.

1. All Global data in this analysis excludes Germany.
FinTech adopters are no more likely to use an internet-only bank

Type of main bank used by respondents

<table>
<thead>
<tr>
<th>Type of Bank</th>
<th>All Users</th>
<th>FinTech Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional bank with branches and</td>
<td>89%</td>
<td>78%</td>
</tr>
<tr>
<td>internet banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditional bank with branches and</td>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td>NO internet banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet-only bank</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Observations

- Data indicates that FinTech users are not just pro-internet customers
- Nearly 1 in 5 FinTech users currently use a main bank with no internet banking service, compared to less than 1 in 10 of all users
What FinTech products have the fastest adoption rate?
Although average adoption is highest for payments, in most markets, investment prevails.

Observations
- Money transfer and payments has the highest average adoption rate across all markets, closely followed by savings and investment.
- Germany’s adoption rate for savings and investments is the lowest out of the markets surveyed.
InsurTech as well as borrowing are still in its infancy

Observations
► Apart from in Hong Kong and the US, adoption of InsurTech and borrowing services are very low
► Germany has a lower than average adoption rate in all areas except in money transfer and payments
Payments are leading the adoption index, largely due to integration into e-commerce

What products types are they using?
Percentage of FinTech users who have used each product type

1. All Global data in this analysis excludes Germany
Across all segments, adoption is highest among high-income users earning US $150k+

Observations

► Lower income groups make greater use of money transfer/payments products than higher income groups
► Higher income groups make greater use of borrowing through FinTech providers (typically these are prime loan products)

FinTech product use by income group (average across all markets)
Why is FinTech use growing?
Why is FinTech gaining traction?

Why use FinTech?
The top reasons FinTech users give.
(Total responses: 623)

Observations

► Based on the responses given, FinTech’s main consumer appeal is its easy user experience.

► In Germany, almost a third of FinTech users cite ease of setting up an account as the number one reason they use these products.

► Access to new services plays a major role for users in Germany.

► Neither trust nor product differentiation are key reasons consumers choose FinTech services over a traditional institution, indicating that traditional providers should focus on replicating FinTech’s easy account setup and user experience to be able to compete effectively.

1. All Global data in this analysis excludes Germany.
Why are respondents not using FinTech products?

Reasons for not using FinTech services

<table>
<thead>
<tr>
<th>Reason</th>
<th>Global</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Was not aware they existed</td>
<td>53.2%</td>
<td>29.0%</td>
</tr>
<tr>
<td>Did not have a need to use them</td>
<td>32.3%</td>
<td>47.0%</td>
</tr>
<tr>
<td>Prefer to use a traditional financial services provider</td>
<td>27.7%</td>
<td>27.0%</td>
</tr>
<tr>
<td>Don't understand how they work</td>
<td>21.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Do not trust them</td>
<td>11.2%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Have used a FinTech provider in the past but don't want to use one again</td>
<td>0.8%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Observations

► Need of use is the main hurdle to consumer adoption of FinTech products
► Compared to other markets, German users are quite aware of the existence of FinTech services
► Trust is not a major barrier
Users seek independent online research nearly as much as friends and family to select FinTech

Sources used to select FinTech provider

- Friends and family (offline): 46%
- Independent online research: 43%
- Friends and family through social networking sites: 36%
- Comparison sites: 31%
- Media reports: 30%
- Online advertising: 30%
- Financial adviser: 26%
- Offline advertising (e.g., TV, magazines, billboards): 12%

Observations
- Customers are using independent online research almost as much as advice from friends and family (offline) when selecting a FinTech provider.
- In fact, when looking at specific FinTech products, independent online research is used slightly more than advice from friends and family (offline) as a source for finding all products, except for P2Ps and non-banks to transfer money.
Summary of key findings for Germany

- **Overall adoption is below average:** Germany has a lower adoption index than the average of the surveyed markets. It shows that FinTech activities in Germany have developed later and that the penetration of new products and solutions in this market are delayed in comparison to other global markets.

- **FinTech users are young:** 18 to 34 year olds can be described as the most active user group, even though the 35 to 54 age group is not far behind.

- **Adoption is highest among high-income earners:** consistent with all other markets, the highest adoption rate is among high-income users (US $150,000+) at just above 40%, which is just below the average across all markets. This is in line with the high money transfer and payments adoption rate, an area which has partially been smoothly integrated into everyday life by service providers such as PayPal and other online solutions. This group also has the funds and the incline to take more risks when it comes to investing money, thus, making savings and investments the second most popular segment among this group.

- **Payments is leading:** money transfers and payments shows the highest adoption index rate among users – which is also shown in the UK, while in all other markets, the highest adoption rate is perceived for savings and investment products.
Implications for banks and corporates

Threats to banks and corporates

► Increased customer churn due to FinTech start-ups
► FinTechs are offering more customer-centric and convenient services
► Traditional players are often constrained by their culture: product silos, legacy product suites and pricing structures, as well as legacy core IT systems
► These factors result in cumbersome user interfaces underpinned by complex and manual processes
► Traditional providers cannot use the same flexibility and iterative design approach for their products but will have to find a way to adapt their products to meet user expectations (i.e. convenience)

Opportunities to become engaged in the ecosystem

💡 Re-think design

Apply design tools to research and test services:
► Customer experience laboratories
► Rapid-prototyping
► Innovation labs

🤝 Partner

Work with FinTech providers to leverage their ideas and processes:
► Inclusion of FinTech solutions as well as partnerships with FinTechs to improve customer experience will be viable to maintain and increase customer satisfaction

💉 Incubate

Incubate FinTech operations within the institution:
► Since the market is still in a nascent stage, it is still possible to gain ground through active engagement in the market scene
► Set-up of venture capital arms, accelerator/incubator programs
Methodology

EY surveyed 12,145 online users.

- The survey was conducted via English language online questionnaires in 7 markets, being Germany, Australia, Canada, Hong Kong, Singapore, the UK and the USA.

- The survey targeted end consumers only. Respondents were asked about their awareness and usage of a range of online financial services products. All products were briefly explained to respondents and reference was made to major brands present within the market.

- They survey was pre-tested in the UK, with re-design work undertaken in certain areas to address limitations.

- All financial questions referenced local currency and were standardised into US dollars.

- The average time taken to complete the online survey was three minutes and forty seconds.

- The data was collected from September 2015 to December 2015.
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