Banked but not Hooked: Young people's attitudes to banking

A CSFI Report

CSFI
Centre for the Study of Financial Innovation

The Centre for the Study of Financial Innovation is a non-profit think-tank, established in 1993 to look at future developments in the international financial field – particularly from the point of view of practitioners. Its goals include identifying new areas of business, flagging areas of danger and provoking a debate about key financial issues. The Centre has no ideological brief, beyond a belief in open markets.

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or by calling the Centre on +44 (0) 20 7621 1056

Published by Centre for the Study of Financial Innovation (CSFI)

Email: info@csfi.org
Web: www.csfi.org

ISBN: 978-1-8381398-0-3

Printed in the United Kingdom by Heron Dawson & Sawyer

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Foreword

It seems to be a common misconception among us older folk that young people are risk takers, love technology and prefer the new to the traditional. This survey of people aged from the late teens to 35 shows a surprisingly conservative profile. A quarter, for example, reckon themselves to be more risk averse than their parents.

This should be good news for traditional 'High Street' banks, as they fight to hold on to their dominance of the personal banking market. They do, indeed, remain the main depository for salaries and they do retain 'trust'.

But the responses show two things that are not such good news for the traditional model. The first is weak demand for old-fashioned infrastructure, not just bank branches but call centres. This suggests expensive physical networks could become redundant even more quickly than expected – a trend the Covid-19 crisis may have accelerated.

The second is the absence of enthusiasm for banks, evidenced by the lack of interest in engaging with them. So, the utility of current accounts for deposits and payments goes without saying, but this is not enough to guarantee either customer loyalty or that a traditional bank will be the first port of call for more lucrative services.

Many of the respondents have a second bank account, and that is more likely to be with a purely digital provider. Technology has taken over to the extent that cash is almost redundant, and the preference for contactless payments exhibited by these young people has been amplified by the pandemic.

Of course, traditional banks also provide the cards, as well as the infrastructure, for the digital world. But maintaining the plumbing is often not the most profitable line of business. The results of this survey show they are vulnerable to cherry picking of services by digital-only providers (for foreign exchange, for instance).

The one perennial service where balance sheet heft matters for serving individuals remains mortgages. The desire of generation after generation of UK customers to own their own home never seems to dim.

A future survey would ask more questions about where young people are going for a wider range of financial services – from insurance to saving – and about where they go for advice. Who will end up exploiting – in the nicest possible way – the trust that is still so valued when it comes to dealing with financial institutions?

Jane Fuller
Co-director, CSFI

CSFI

Number 136 July 2020

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Summary

The CSFI conducted this survey to learn more about the younger generation's relationships with the banking industry, in particular to see whether new attitudes were evolving that might affect the future of the retail banking market.

The broad message is that while younger people favour modern methods of banking such as contactless cards and online banking, they still value traditional features such as trust and access to home ownership. Bank branches are little used, but cash still has a place.

The big five banks – Barclays, HSBC, Lloyds, NatWest/ RBS and Santander – plus Nationwide building society continue to dominate the current account market, which means they remain the most likely depositories for salaries. However, 63% of respondents have accounts with online or 'challenger' banks, either as their main bank or – more likely at this stage – in addition.

This survey showed a relatively small appetite for switching to the likes of Facebook or Amazon if the popular internet giants began to offer banking services.

Online banking is the big winner in this survey, but that can apply to the online services of the 'High Street' banks as much as to their online-only challengers. However, respondents show little enthusiasm for or keenness to engage with banks, which may signify weak customer loyalty.

The traditional needs of a banking customer remain clear: a safe place for salaries and from which to make payments. Future demand for mortgages looks secure thanks to the continued importance attached to home ownership. But the extent to which face-to-face contact is valued is moot, and where young people will go to satisfy the full range of their financial needs is up for grabs.

Personal profile

The survey was run from late 2019 to early 2020 via Survey Monkey and the respondents were self-selecting. It received 205 responses. Not all the respondents answered all the questions and the percentages referred to are of those who actually answered. The age range was from late teens to 35. Three quarters were in the 21-30 age group, with males accounting for just over half.

Those in the sample were well educated. Just over 80% had undergraduate or postgraduate qualifications – the latter accounting for nearly 30% of respondents. A third had financial qualifications.

They were relatively affluent, with 43% earning more than £40,000 a year. Reflecting the younger end of the age range, a fifth were earning less than £20,000. The sample could be broadly described as belonging to higher socio-economic groups.

To learn more about their personal make-up we asked respondents about their attitude to risk. About half described themselves as having the same level of risk aversion as their peers. Of the rest, significantly more (28%) said they were less risk averse than the number describing themselves as more so (22%). Comparing their attitudes with their parents', about 38% said they were less risk averse and about 36%, the same. A significant minority – just over 25% – were more risk averse.

The persistent desire to own a home was borne out by the 62% who said that this was important. Only one in five actually had a mortgage.

Banking relationships

The sample was well banked. Less than 10% said they did not have an account with a traditional or high street bank (some of these may have been with a 'challenger' only). The 174 respondents who listed where they held accounts had a total of 240 between them, an average of nearly 1.4 accounts each.

The big five banks – Barclays, HSBC, Lloyds, NatWest/RBS and Santander – easily had the biggest share with a total of 178 accounts. The building society, Nationwide, and 'other' institutions accounted for about a quarter of the total number of accounts.

But the scale of young people's interest in online and challenger banks was also clear in the 63% who said they had a current account with one of these. Asked to identify which one they were with, 60% of the 120 respondents listed Monzo and nearly 36% Revolut. There was no significant difference between age groups.

The endurance of banks as safe depositories for income was absolutely clear. Some 96% of those who were employed said that their salaries were paid directly into a bank account.

However, personal contact with their banks was low. A quarter never visited a branch and nearly half only once or twice a year. Only a handful did so more than 10 times. Again, there was no significant difference between age groups.

Even the use of call centres was relatively low: less than a quarter had contacted their banks by phone three times or more in the previous 12 months. More than a third said 'never'. The biggest group was the 43% who had done so once or twice – so a need is there but it is far from regular.

Payment methods

One of the striking findings of the survey was how little young people use cash. Asked how much cash they had on them at that very moment, nearly half said less than £5. Only one in 15 had over £50. Older groups tended to have more than younger groups.

The most popular means of payment for a coffee or snack was the contactless card from both high street and online banks, which 72% of respondents ranked first. Within that, contactless 'High Street' bank cards were more than twice as popular as those from 'online' banks. For a restaurant meal, the use of contactless cards, compared with cash or digital wallets, was even more pronounced.

While only a handful of respondents ranked cash first, nearly a third placed it second for both snacks and restaurant meals. Digital wallets, such as Apple Pay and PayPal, were first choice for 27% of respondents for a snack but dipped to 18% for the larger outlay. They were significantly more likely than cash to be ranked last.

Bank transfer was the most popular means of settling a small debt to a friend, followed by online payment apps and then cash. Paying by cheque was by far the least likely method. Younger people tended to go for cash more than older ones.

When travelling abroad, less than half obtained cash before departure. For those exchanging currency, bureaux de change were used by 62%. Once in a foreign country, over half used their debit cards and less than a quarter credit cards.

Attitudes to banks

On their attitudes towards banks, respondents were asked to agree or disagree with a number of statements.

1. High street banks are more trustworthy than online banks.

More agreed than disagreed with this statement at just over 33% compared with 21.5%. But with 45% neutral, this was hardly a ringing endorsement. It also reflects the dominance of the big five banks, plus Nationwide, in the accounts held numbers and as the places that salaries are paid into – a key sign that an institution is trusted.

2. Trust is really important in banking.

More than 80% agreed. This indicates strong support for a traditional banking value and is in line with the earlier points about risk aversion: only a minority said they were less risk averse than either their parents or their peers.

3. I really need someone at my bank whom I can talk to.

About 37% agreed with this statement, indicating continuing demand for the opportunity for face-to-face contact. Bearing in mind the low usage of bank branches, it is not clear that this contact has to be in person rather than on screen. Nearly a quarter disagreed – to the extent that they are seeking financial advice, they must be finding it elsewhere. With about 39% neutral, the majority are either happy with other, impersonal forms of communication with their banks or are disengaged.

4. High street banks really don't understand what I need.

Some 36% disagreed but, again, the high level of 'neutrals', at 56%, suggests a lack of enthusiasm on the part of young customers for the service they receive. The risk is that this translates into a lack of loyalty. There was, however, little evidence of strong dissatisfaction: fewer than 1 in 10 thought banks did not understand their needs.

5. I really don't need a bank at all.

There was strong disagreement – 87% – with this point. This suggests that young people still see a role for banks in their lives, particularly, as suggested by earlier responses, via current accounts as safe depositories for their salaries and for payments.

Asked in a separate question whether they would switch to the FANGs (Facebook, Amazon, Netflix or Google) if these internet giants began to offer banking services, three quarters replied "unlikely", though the younger age groups were more likely to than the older.

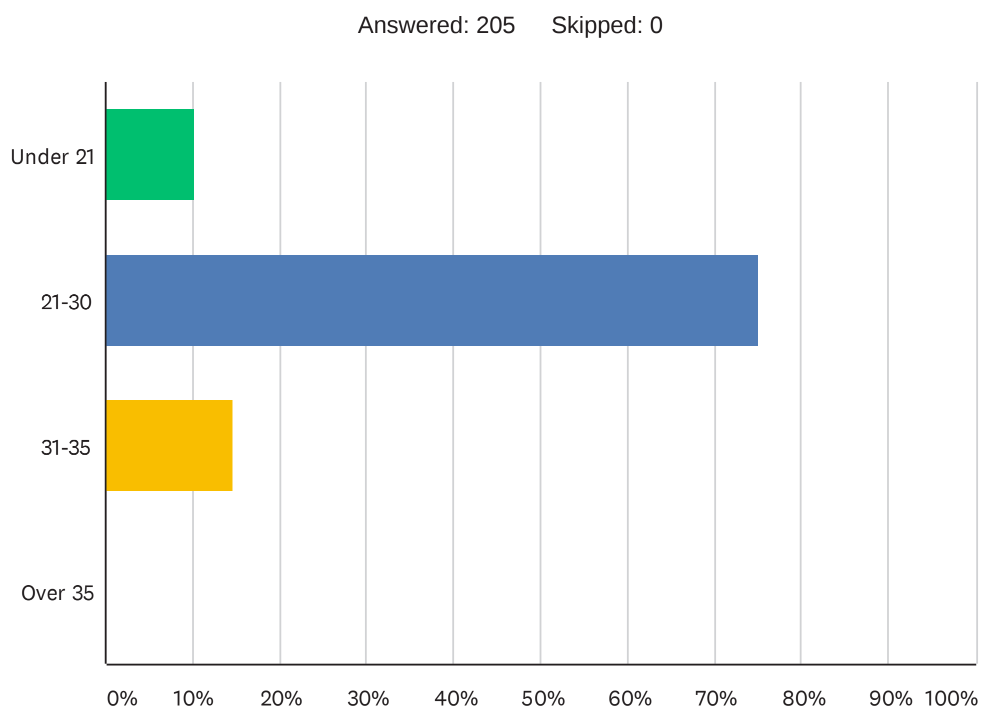
Detailed results and charts

1. Respondents

We received 205 responses.

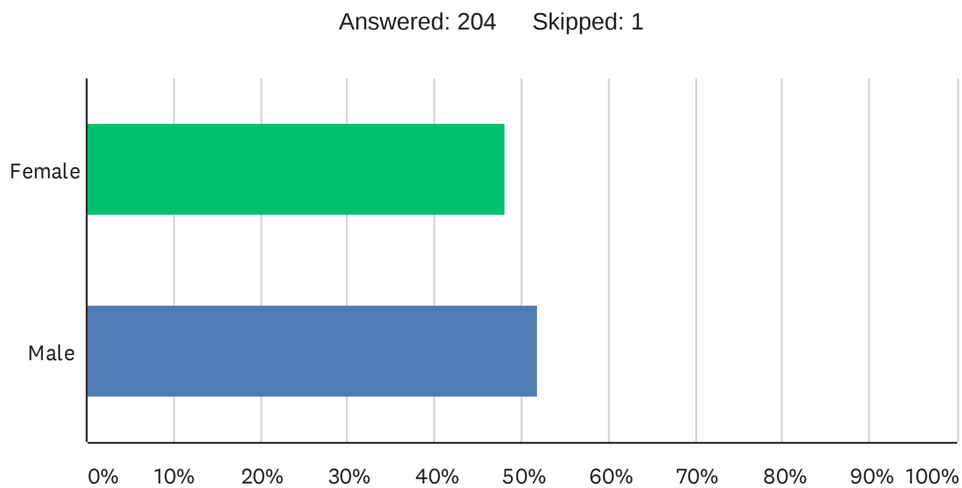
Please state your age.

Three quarters were in the 21-30 age group, 10% under 21, and 15% 31-35. The bulk were therefore in the early stages of work careers.



What is your gender?

There were slightly more male than female respondents.



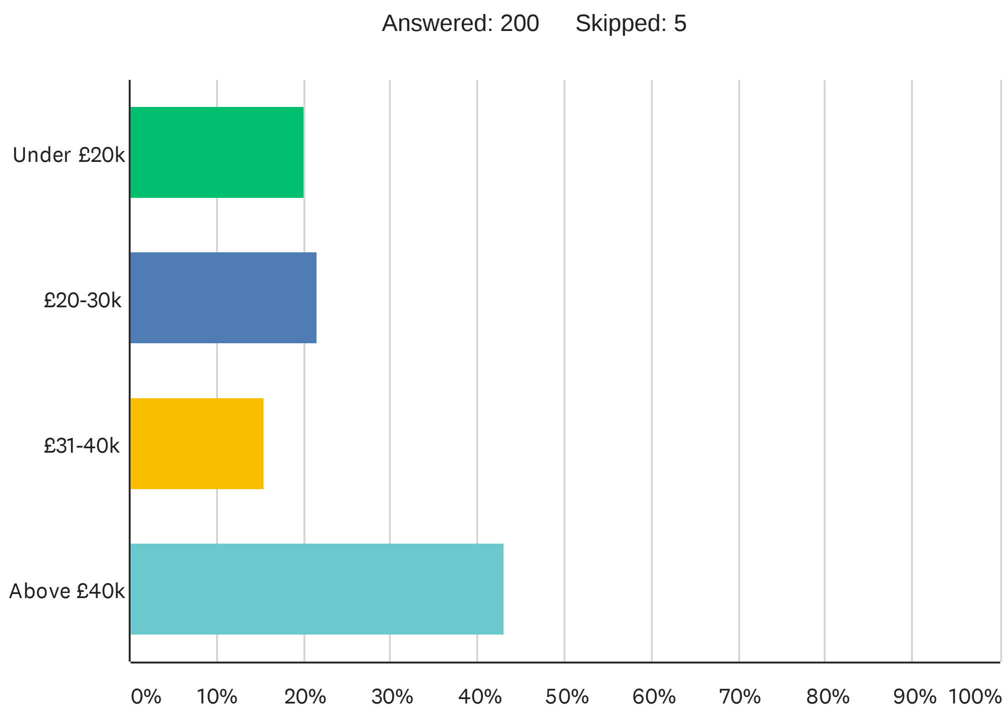
What is your country of origin?

Just under half the respondents declared their country of origin. Of these, the great majority (70%) were from the UK and Channel Islands. The response therefore can be taken to reflect conditions and attitudes in the UK.

2. Level of attainment

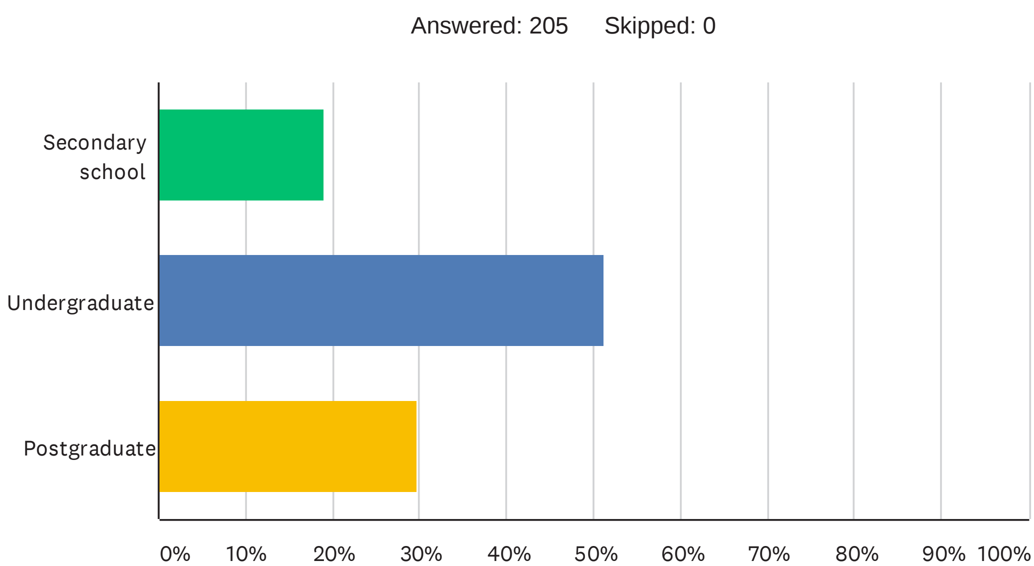
What is your annual pre-tax personal income? By 'personal income' we mean your total income received from all sources, including wages, bonuses, benefits or rents and before tax deductions.

The largest group of respondents earned more than £40,000 a year. These were in the higher age groups. No-one in the Under 21 age group earned more than £30,000 a year.



Please select the highest level of academic qualification you have completed.

The level of academic qualification achieved by the greatest number of respondents was university undergraduate. A significant proportion (30%) were postgraduates. The proportion of secondary school respondents was 19%. The response therefore reflects a mainly well-educated social segment.



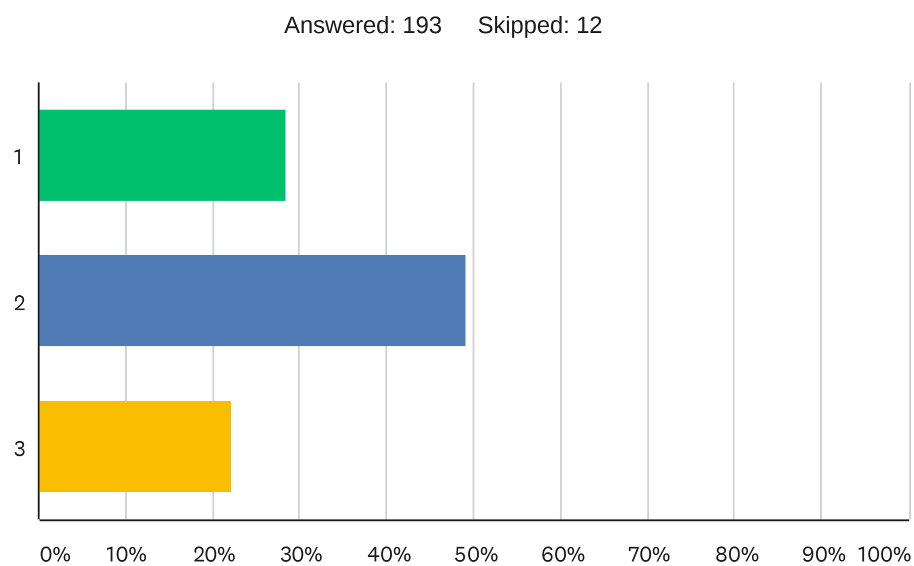
Financial qualification.

One third of respondents had financial qualifications. These included professional certificates, diplomas, MBAs etc.

3. Attitudes to risk

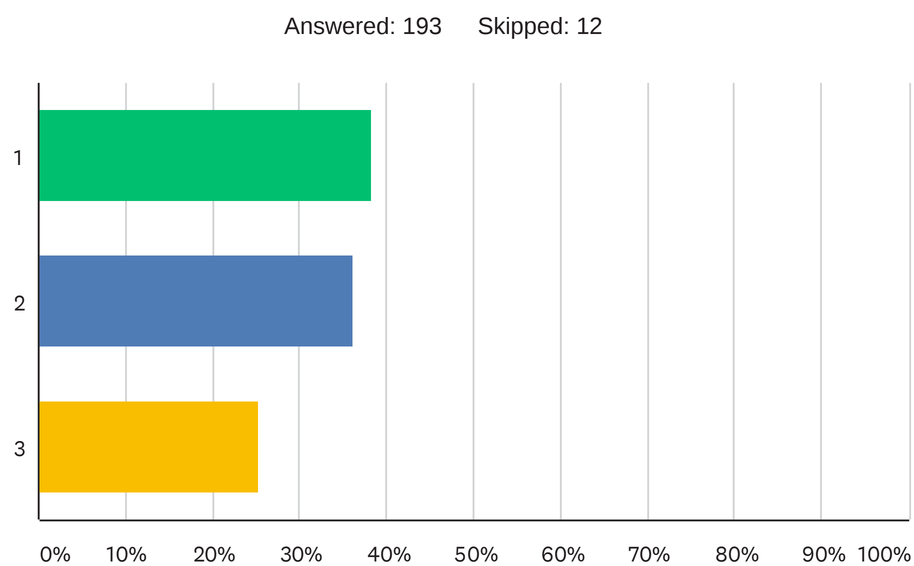
How risk averse do you consider yourself relative to your peers, where 1 is 'less risk averse', and 3 is 'more risk averse'?

The largest group considered themselves to have a similar attitude to risk to their peers. Smaller groups saw themselves as less or more risk averse than their peers. There was no clear connection between age and risk attitudes.



How risk averse do you consider yourself relative to your parents, where 1 is 'less risk averse', and 3 is 'more risk averse'?

The results suggested that young people are, broadly, a more adventurous generation. The greatest number saw themselves as less risk averse than their parents, though not by a large margin.

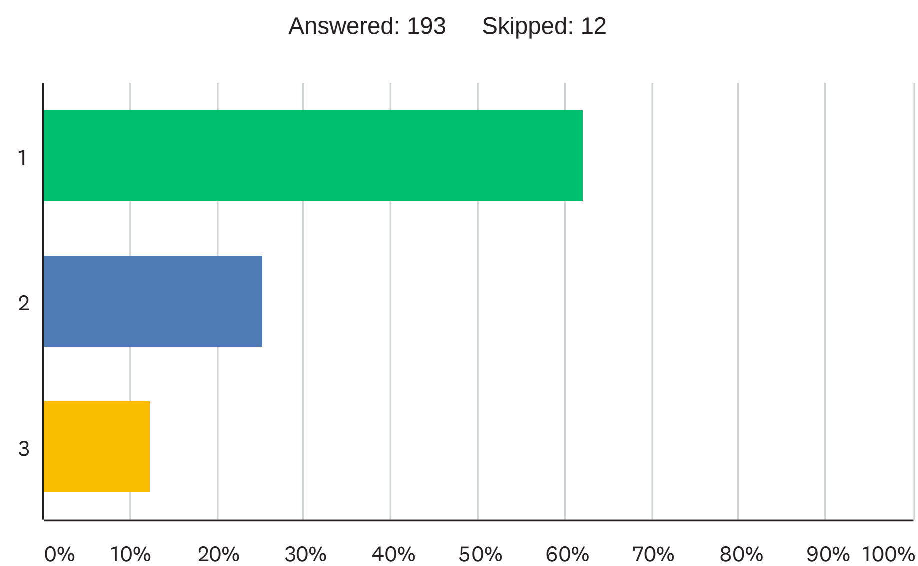


4. Home ownership

How important is home ownership to you, where 1 is 'important', and 3 is 'not important'?

Mortgages.

One in five respondents had a mortgage, all in the higher age groups. Just over 62% ranked home ownership as "important", the proportion rising with age.



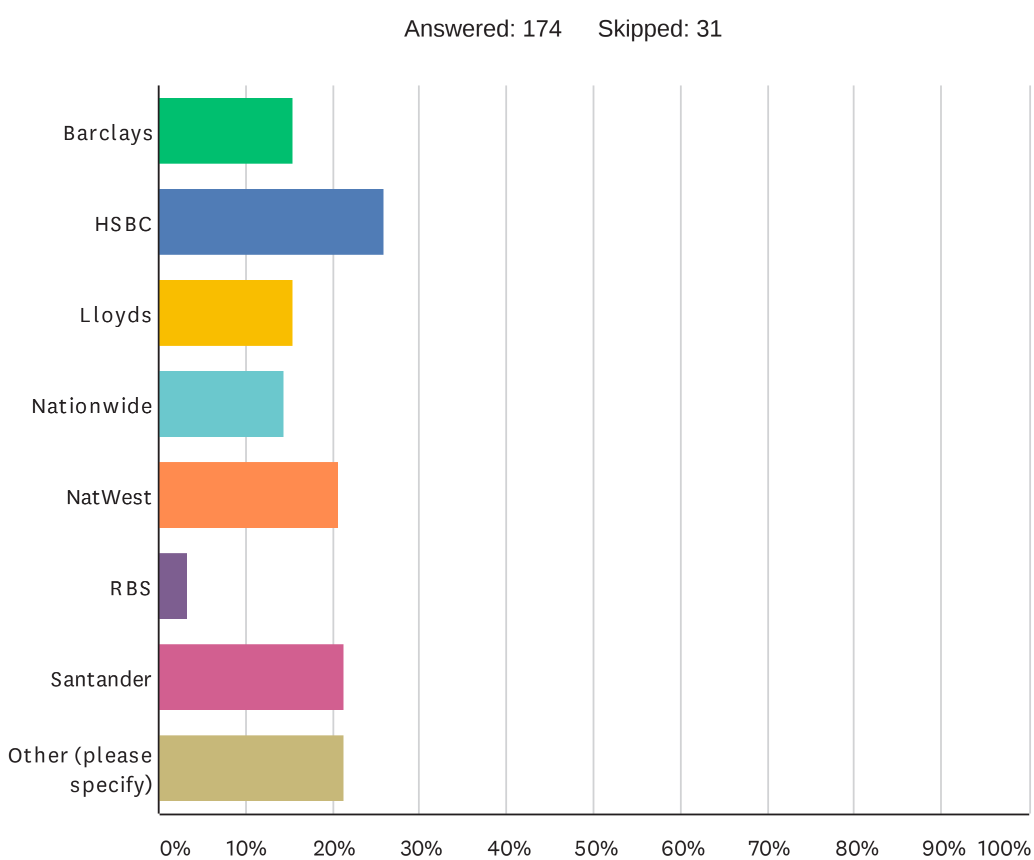
5. Banking relationships

Respondents were asked about their relationships with banks. The responses distinguished between traditional, or high street, and newer types of online or challenger banks.

High street banks

Which ones do you have a current account with? Select all that apply.

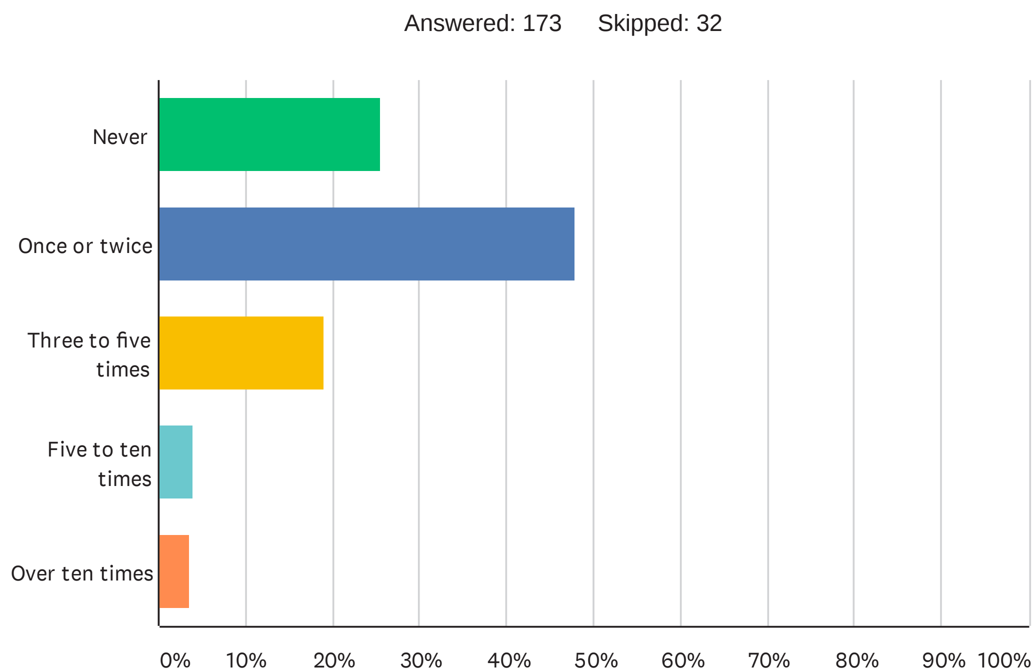
Nine out of ten respondents had a current account with a traditional or 'High Street' bank. The pattern was the same for all age groups. The banks were:



The "Other" category included Halifax, Metrobank and Citi.

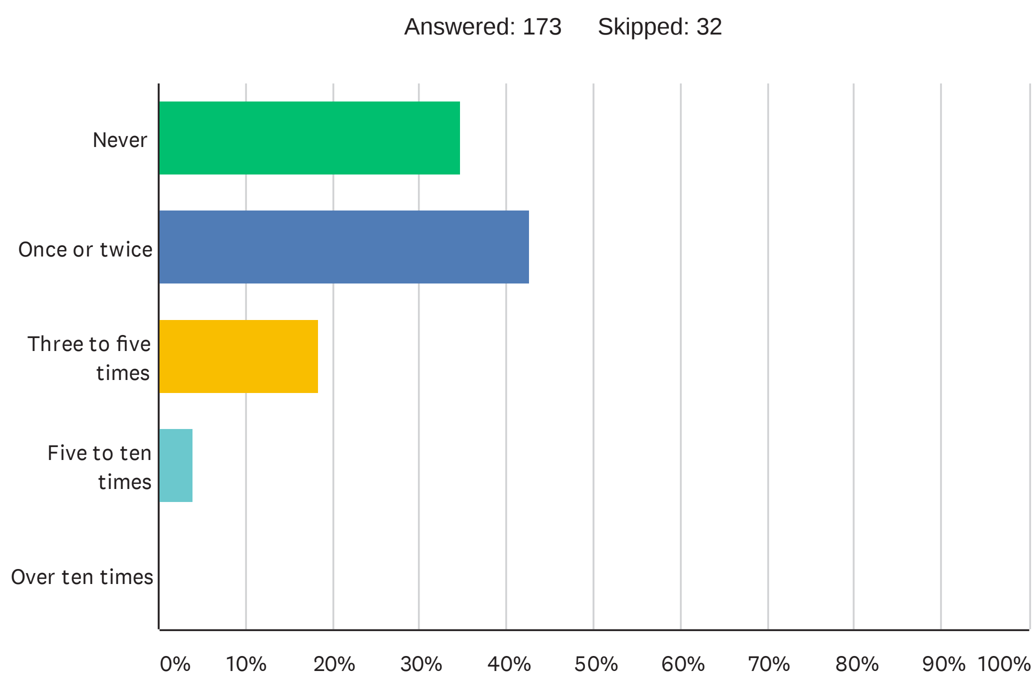
How often have you visited your bank's branch in the past twelve months?

Respondents had very little direct contact with their bank. Three quarters of them visited a branch once or twice a year or never at all. There was no obvious connection between age groups and visit frequency.



How often have you contacted your bank via a call centre in the past twelve months?

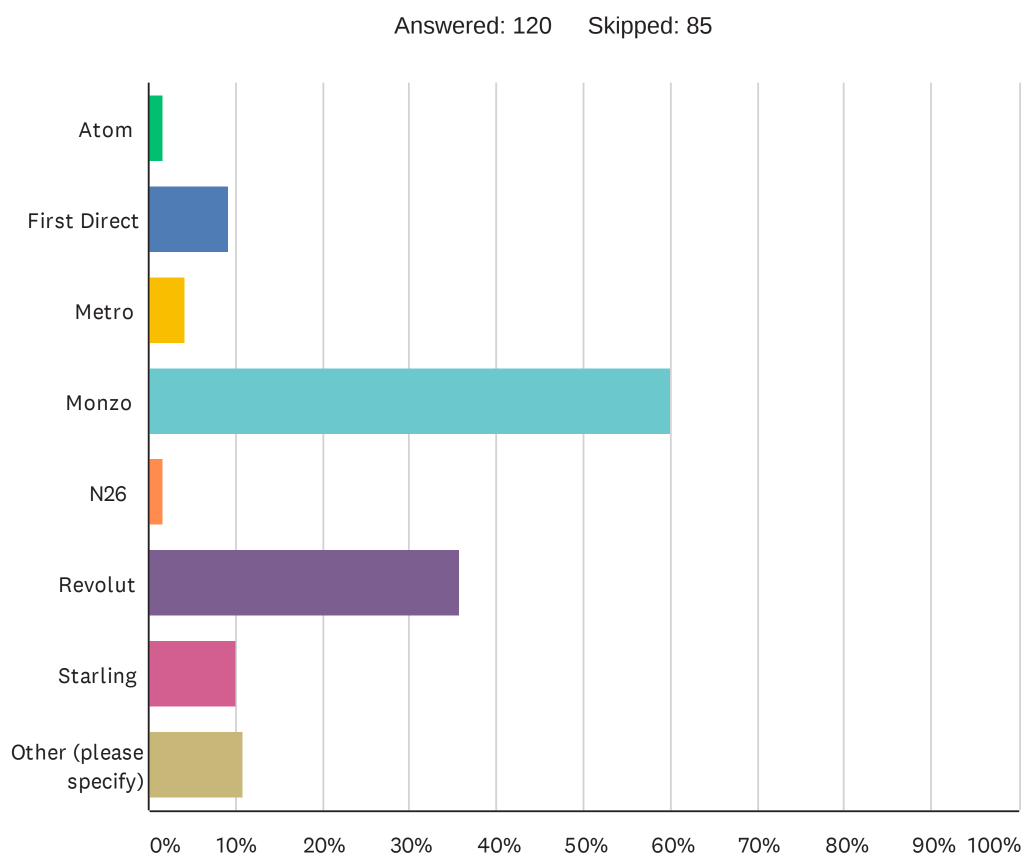
A similar lack of engagement is shown with call centres. Even more - nearly 35% - said they had never contacted one of these centres in the past year, and 43% only once or twice.



Challenger and online banks

Which ones do you have a current account with? Select all that apply.

Nearly 63% of respondents said they had accounts with an online or challenger bank. Older age groups were more likely to have an account than under 21s. The banks included:

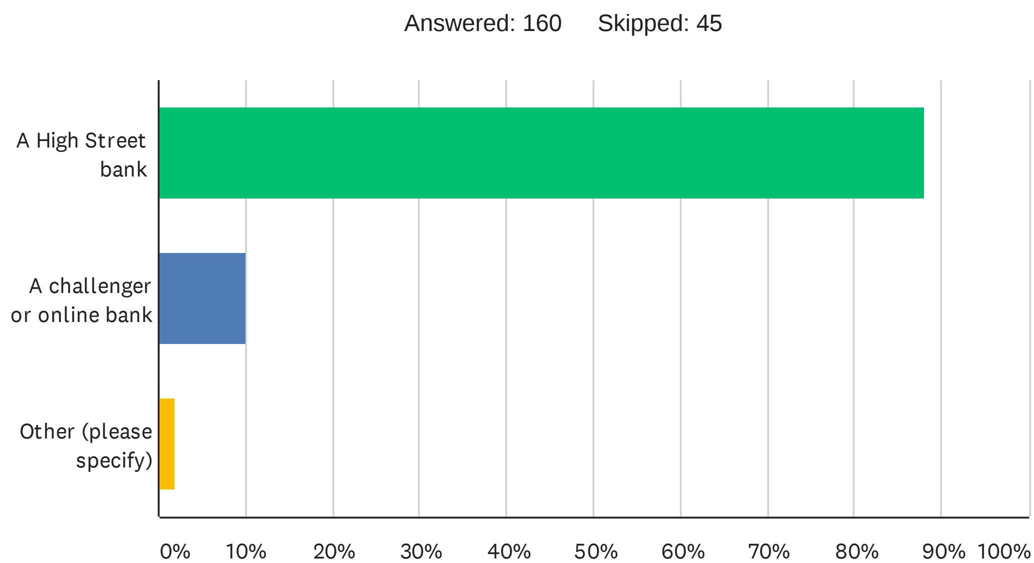


The "Other" category included Paragon, Tandem and Oaknorth.

Salary payments

Which kind of account is your salary paid into?

95% of respondents who were employed said their salary was paid into a bank, most often a high street bank.

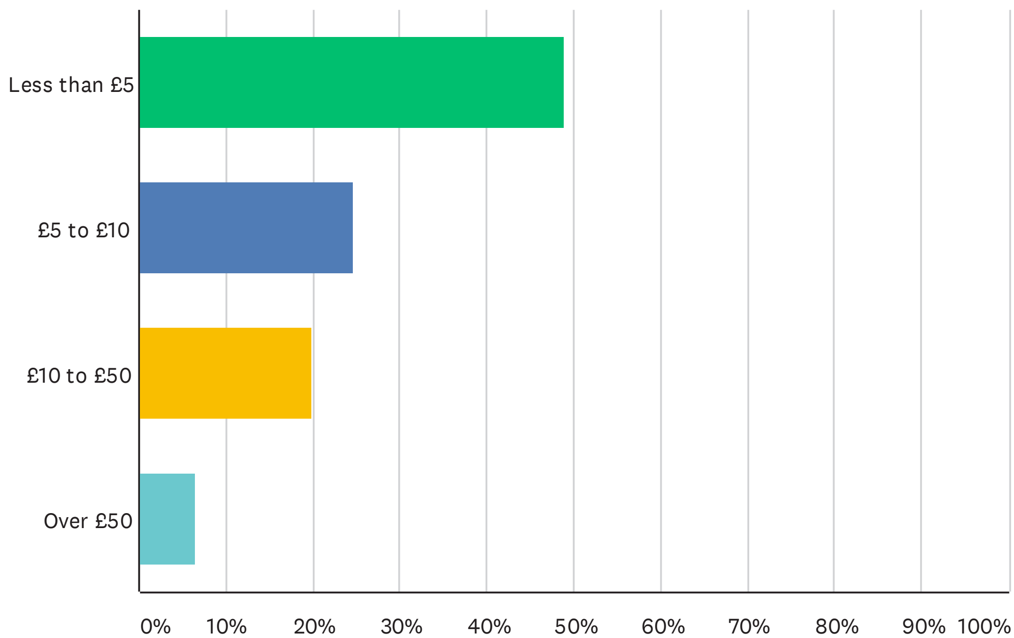


6. Payment methods

How much cash do you have in your wallet/purse/pocket at the present time?

Respondents made little use of cash. Nearly half of them had less than £5 on them at the time they responded to the survey. Older respondents tended to have more cash than younger.

Answered: 186 Skipped: 19



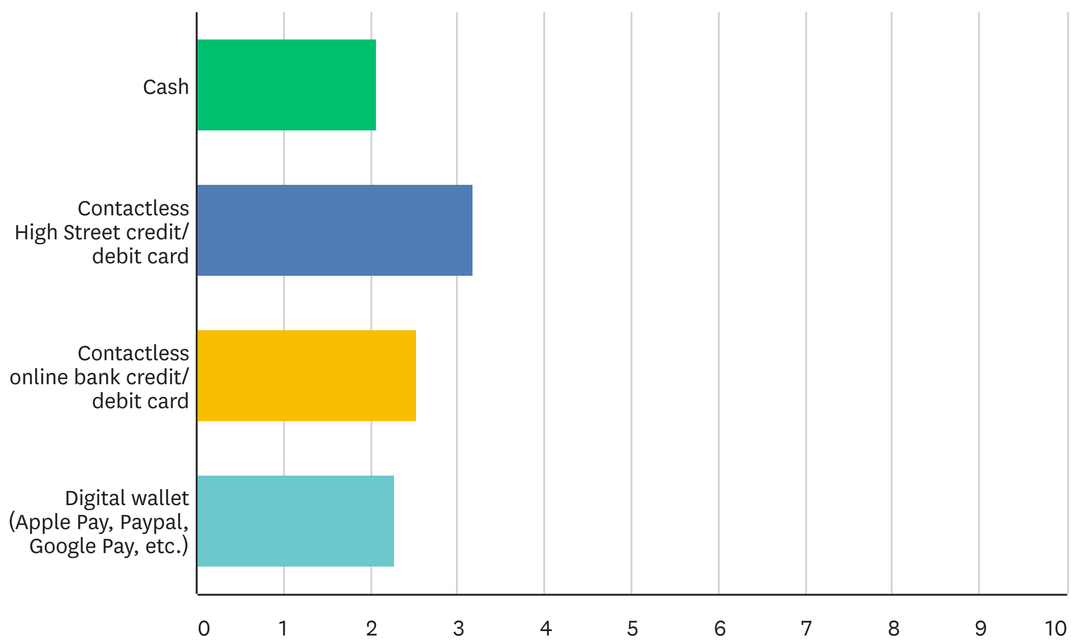
When you buy a coffee or a snack, how do you pay? Please rank the following payment methods in order of frequency:

The contactless card was the most likely method of payment used to buy a coffee or a snack, with 72% saying they used it most frequently. Within that high street credit/debit cards were ranked first by twice as many as online bank cards. As a first choice, digital wallet did much better than cash, but cash was much more frequently ranked as second choice.. The under 21s were more likely to use cash than older age groups.

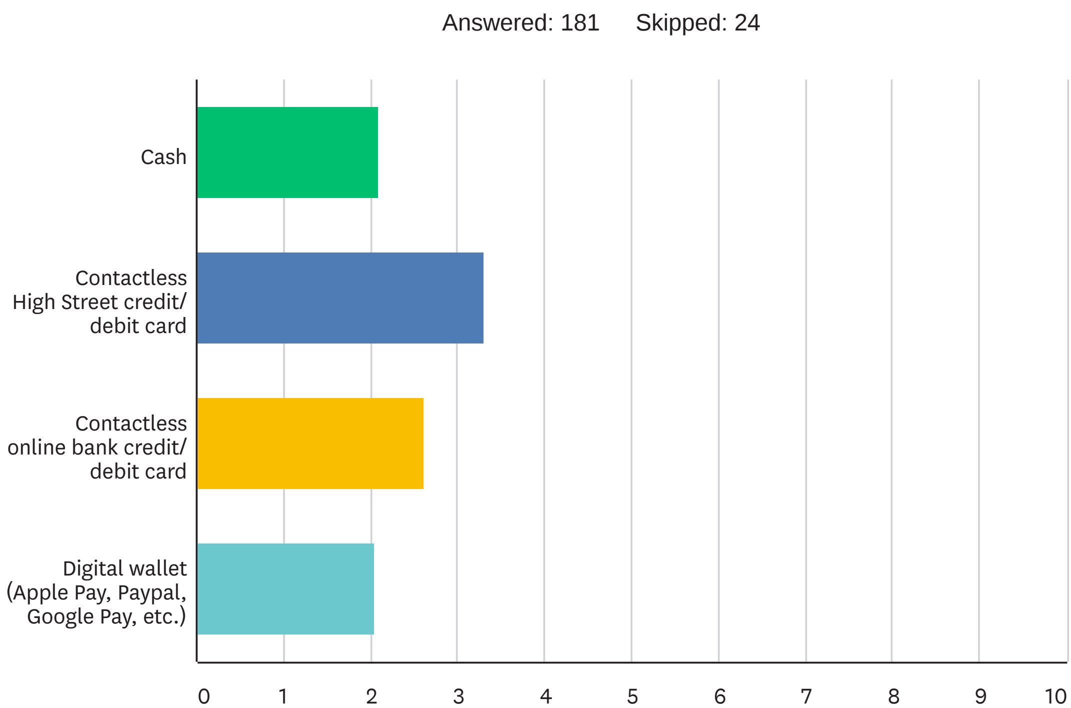
For a restaurant meal, the use of contactless cards, compared with cash or digital wallets, was even more pronounced.

The charts turn the rankings into a score, ranging in the first from 2.08 for cash to 3.19 for high street credit/debit cards. In the second, digital wallet comes fourth with a score of 2.06, compared with 3.31 for high street contactless.

Answered: 182 Skipped: 23

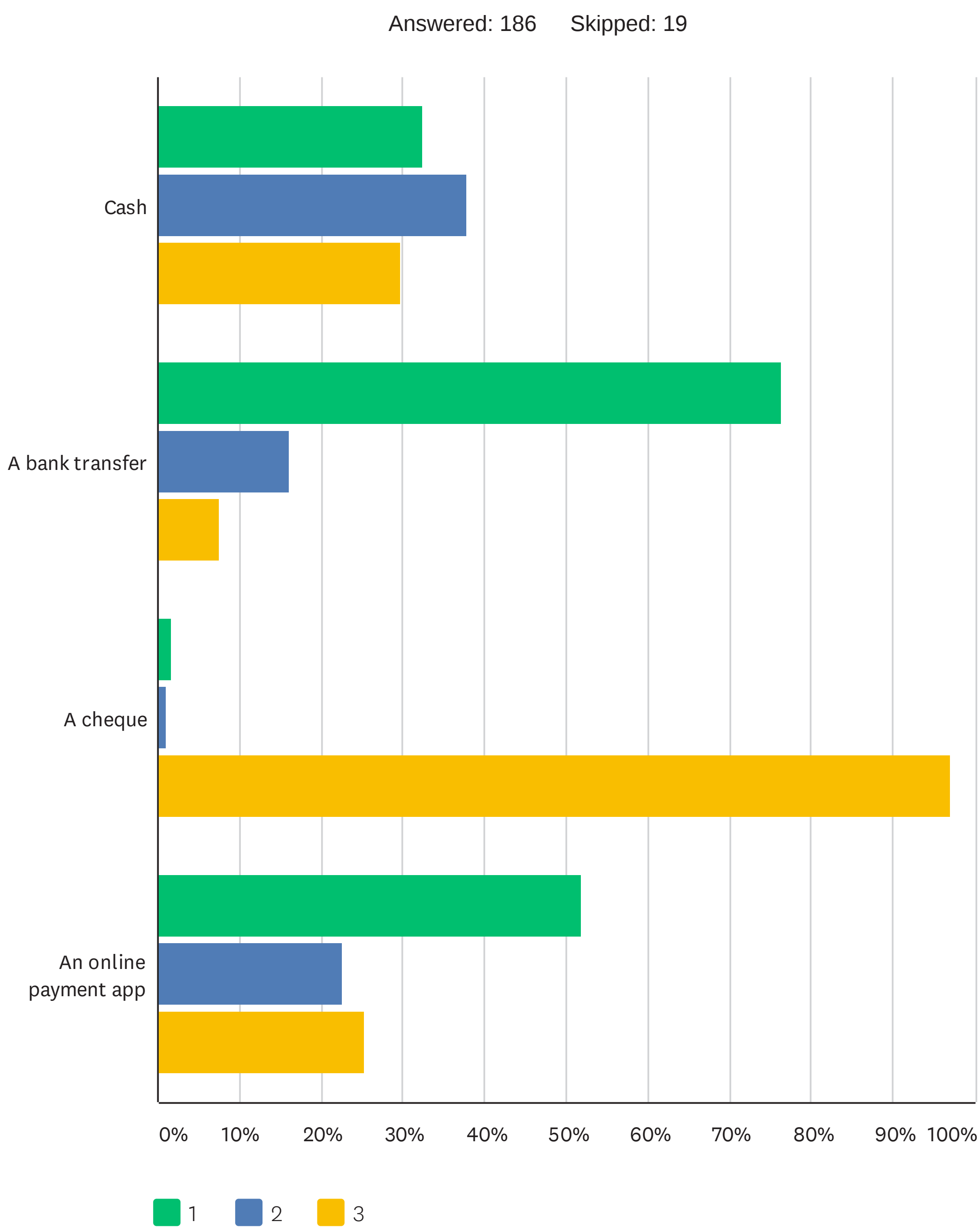


When you have a meal at a restaurant, how do you pay? Please rank the following payment methods in order of frequency:



Say you owe a friend £20. How likely is it that you would pay him or her back by each of the following methods, where 1 is 'likely', and 3 is'unlikely'?

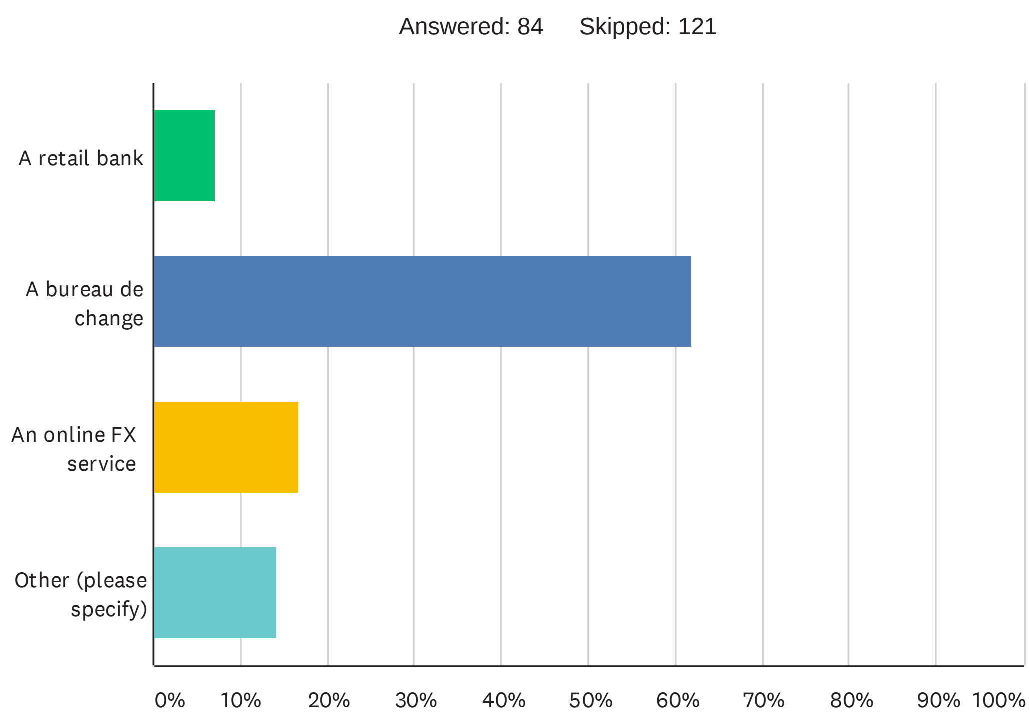
Asked how they would settle a £20 debt to a friend, respondents favoured the bank transfer where a score of 1 was most likely and 3 most unlikely. Cheques were considered "most unlikely", even by older age groups.



7. Foreign payment

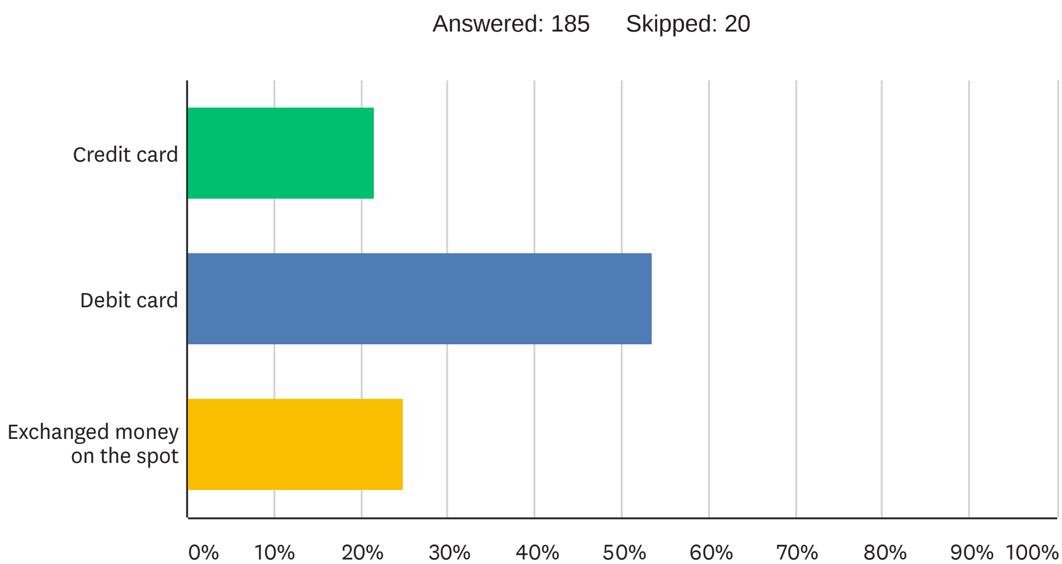
In order to exchange currency, did you use:

Asked whether, when travelling, they changed money before leaving, just over half of respondents said no, and just under half said yes. Asked where they changed currency, most replied a bureau de change. Only a small proportion said a bank. The "Other" category mostly cited the Post Office.



When you were abroad, how did you pay for goods and services?

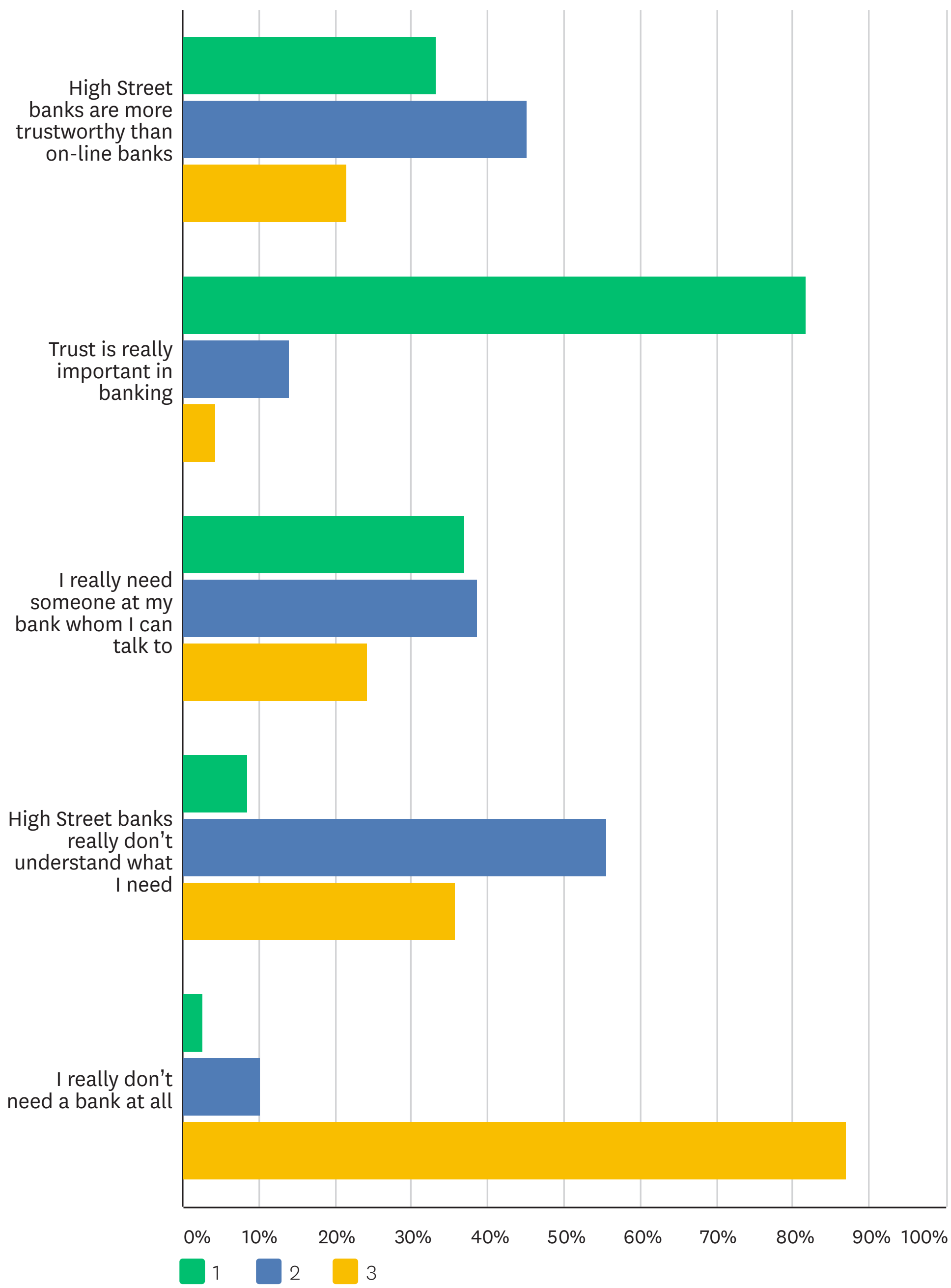
Paying for goods and services abroad. The debit card was the most popular method of payment.



8. Attitudes to banks

Respondents were asked to say whether they agreed or disagreed with a series of statements about banks. 1=Agree, 2=Neutral and 3=Disagree.

Answered: 186 Skipped: 19



1. *High street banks are more trustworthy than online banks.*

   The largest group of respondents gave a neutral reply, though the tendency was towards agreement

2. *Trust is really important in banking.*

   This statement received a very clear endorsement of a traditional value.

3. *I really need someone at my bank whom I can talk to.*

   Three quarters were neutral or agreed. A significant proportion of young people want contact with their banks, even if at present they make little use of their bank branches.

4. *High street banks really don't understand what I need.*

   Young people feel they get a hearing at their banks

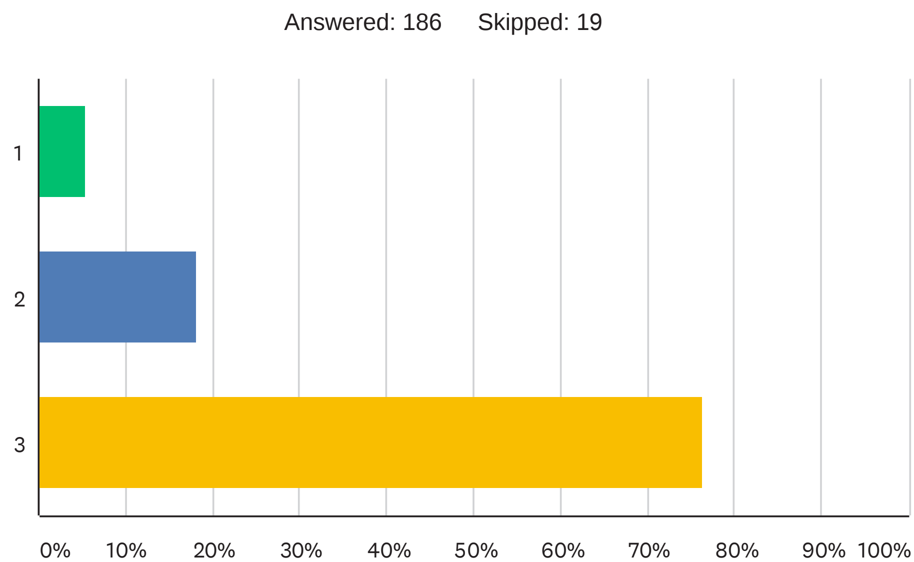
5. *I really don't need a bank at all.*

   Banks are seen to play an important part in young peoples' lives.

9. Switching to FANGs?

If FANGs (Facebook, Amazon, Netflix and Google) were to offer banking services, would respondents switch? 1 is ‘likely’ and 3 is ‘unlikely’

The answer was a resounding “unlikely”, with the strongest voice coming from the two older age groups.



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CISI
CMS
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Embassy of Switzerland
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ETF Securities
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The CSFI has also received support in kind from, *inter alia*

Allen & Overy
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