

A background image of a young woman with blonde hair, looking down at her hands. The image is overlaid with a green and blue gradient. On the right side, there are several white, rounded rectangular shapes of varying sizes, some with green square accents, resembling a mobile app interface.

BRIDGING SOCIAL AND BANKING

Why banks must use social to capture the millennial-driven mobile P2P money transfer market.

MAY 2017

CONTENTS

Introduction	3
Aims & Approach	4
Millennials: The Smartphone & Social Network Generation	5
The Rise Of Mobile P2P Money Transfers	6
Market Validation: Non Traditional Competitors Loom Large	8
Banks Are Losing Out	8
It's Not All Bad News	9
The Way Forward: Bridging Social & Banking	10
About PayKey	11

INTRODUCTION

Millennials are all grown up now and driving massive changes in the way we transfer money. Hungry for instant, seamless and contextual money transfer experiences, millennials are turning to non-traditional mobile P2P transfer providers for a variety of everyday tasks.

For the banking industry, growing millennial demand for mobile P2P transfers brings both challenges and opportunities. Current P2P facilities offered by mobile banking apps are counterintuitive, out of context and require a number of information fields to be filled out, making them unappealing to millennial lifestyles. There is also the looming presence

of non-traditional competitors with large and established millennial user bases such as Facebook, Venmo and Google Wallet steadily gaining market share. Banks are not only losing out on a growing mobile P2P transfer market but also missing a golden opportunity to connect with a financially important generation of customers.

There are also opportunities. While non-traditional competitors are gaining traction, the mobile P2P transfer market is massive and still wide open for banks to make their mark. In addition, despite dissatisfaction with many traditional services, banks stand well placed to harness millennial demand for mobile

P2P transfers. Mounting research suggests millennials would prefer to use a mobile P2P payment service provided by their bank which they view as a more secure option than a third party provider. There is also a high level of frustration among millennials who seek an efficient and unfragmented way to pay their friends and family instantly but are overloaded with payment options. Banks have a genuine opportunity to capitalise on favourable millennial perceptions and growing frustrations by partnering with social payment solutions like PayKey to help deliver millennial-friendly solutions. Banks that meet millennial demands can stand out as industry leaders and retain valuable millennial customers into the future.



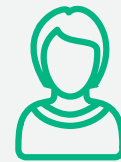
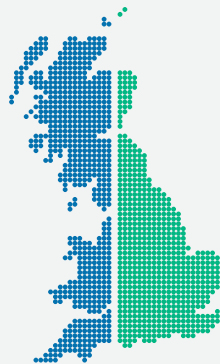
AIMS AND APPROACH

To more intimately understand rising millennial demand for mobile P2P money transfers, PayKey conducted the following online survey:

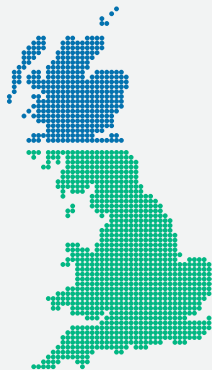
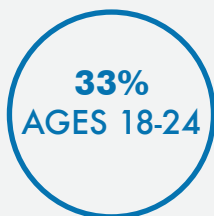
500 UK MILLENNIALS



52%
MALE



48%
FEMALE



The specific aims of the survey were to:

1

Assess the need for P2P money transfers among millennials.

2

Identify how & why millennials make P2P money transfers.

3

Identify the demand for P2P transfer facilities within social networks & messaging apps.

4

Identify millennial perceptions toward mobile P2P transfer facilities offered by banks & non-bank providers.

MILLENNIALS: THE SMARTPHONE & SOCIAL NETWORK GENERATION

Millennials have grown up during a digital age defined by smartphones, social media and the instant availability of information and services. With immediate access to almost everything, millennials have come to expect a level of convenience far greater than generations that preceded them. Delays, even minor in nature, such as the need to fill out an information field or switch apps are viewed as

serious inconveniences and can be enough to irritate and alienate millennial consumers.

Out of the variety of digital devices available, smartphones lead the way for millennials as an indispensable part of modern living where uninterrupted connectivity is a necessity. In a comprehensive Vocalink research survey of 5027 US millennials, 98 percent of

respondents were found to use a smartphone while 69 percent said they couldn't live without their mobile device.¹ In a separate Vocalink study of 4000 European millennials, almost all survey respondents found to be smartphone users. When asked if they couldn't live without their smartphone, 61 percent of British millennials agreed.²

SOCIAL, INSTANT MESSAGING & ENTERTAINMENT APPS DOMINATE ENGAGEMENT

Although millennials engage with a broad range of mobile applications, a handful of dominant apps command most of their attention. According to Comscore's 2016 US Mobile App Report, social and entertainment content, owned by a few of the largest Internet companies dominate mobile app engagement, representing 60 percent of time spent on apps.³

Within the social media and entertainment app ecosystem, Facebook's flagship mobile app followed closely by Facebook Messenger lead all others in total engagement and audience reach among millennials.⁴ Snapchat also has impressive engagement data, reaching 41 percent of US 18 to 34 years olds every day, according to a Nielsen study commissioned

"Today, people around the world spend on average more than 50 minutes a day using Facebook, Instagram and Messenger...and that doesn't count WhatsApp."
Mark Zuckerberg, CEO & Founder Facebook

by the company. In the UK, 59 percent of the population are active social media users with Facebook leading the way.⁵ WhatsApp reigns supreme as the most used messaging app in the country.⁶ Its popularity among UK residents is reflected in PayKey survey results with almost half of all respondents choosing Whatsapp as their favourite messaging app. Despite

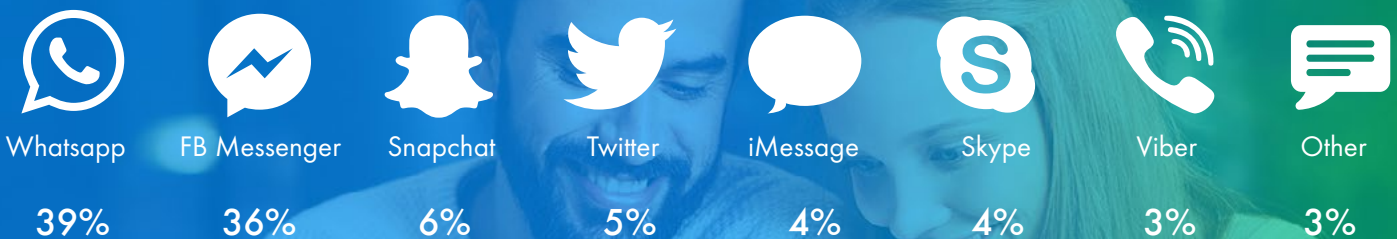
its proliferation, Whatsapp is the only social network (out of the big 5) that doesn't provide any payment options. Banks that enable their P2P payment facilities to be accessible through Whatsapp have a tremendous opportunity to stand out from the competition and potentially attract scores of millennials who use the app on a daily basis.

¹ <https://www.vocalink.com/downloads-and-media/research/millennial-research-usa/>
² <https://www.vocalink.com/downloads-and-media/research/millennial-research-europe/>
³ <https://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/The-2016-US-Mobile-App-Report>

⁴ <https://www.comscore.com/Insights/Presentations-and-Whitepapers/2016/The-2016-US-Mobile-App-Report>
⁵ <http://wearesocial.com/uk/special-reports/digital-in-2016>
⁶ <https://www.similarweb.com/blog/worldwide-messaging-apps>

PayKey Survey

What is your favorite messaging app?



THE RISE OF MOBILE P2P MONEY TRANSFERS

As millennials spend countless hours on their mobiles socialising and communicating with their peers, smartphones are becoming an increasingly popular platform to make P2P money transfers. According to BI Intelligence forecasts, mobile P2P will grow to \$174 billion or 30 percent of total P2P payment volume by

2020, up from \$5.6 billion, or just 1 percent in 2014.⁷ In the UK, P2P payments have surpassed innovation and early stages of adoption and are now in the early majority stage at 34 percent.⁸

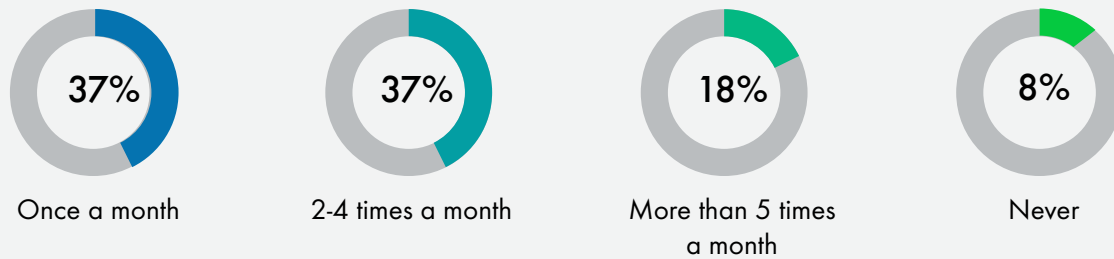
PayKey survey results show that UK millennials are conducting P2P transfers on a regular

basis and for a variety of reasons. The most common reasons related to shared housing expenses (rent/utilities), loan repayment and entertainment. As PayKey discovered, 77 percent of survey respondents transfer amounts of £25 or more.

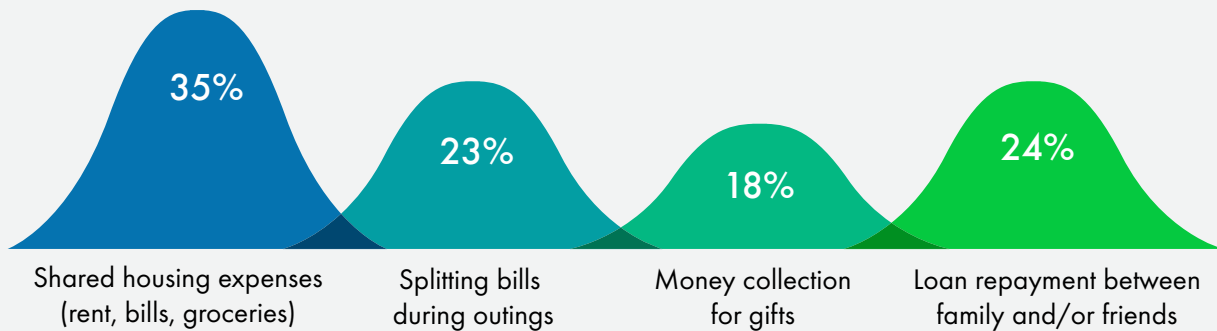
55% OF RESPONDENTS TRANSFER MONEY BETWEEN 2 AND 5 TIMES OR MORE A MONTH

PayKey Survey

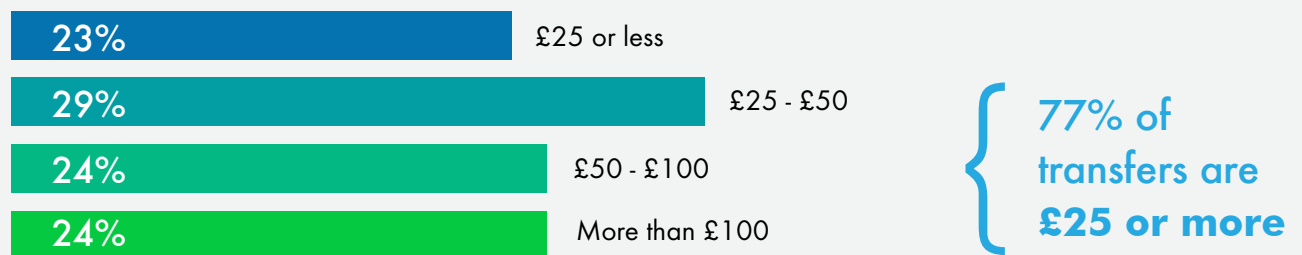
On average, how many times a month do you transfer money between friends and/or family?



On what occasions do you usually make money transfers?



Typically, what is the amount of transfer?



⁷ <http://www.businessinsider.com/mobile-fintech-is-here-to-stay-with-banking-and-payment-services-2016-12>

⁸ http://tsys.com/Assets/TSYS/downloads/rs_2016-uk-m-payment-and-p2p-payment-consumer-study.pdf

Despite the entrance of non-traditional competitors into the P2P money transfer market, only 6 percent of PayKey survey respondents were found to be using non-bank mobile solutions for P2P transfers. Banks have an opportunity to capture large numbers of millennial consumers who have not yet turned to non-traditional payment solutions. But that's not all. PayKey survey results show that 70 percent of respondents use cash, checks or

banking websites to transfer money to their friends and family. There is substantial room for growth in the mobile P2P market for banks that can shift millennial customers who use cash, checks and bank websites for P2P transfers toward mobile banking applications.

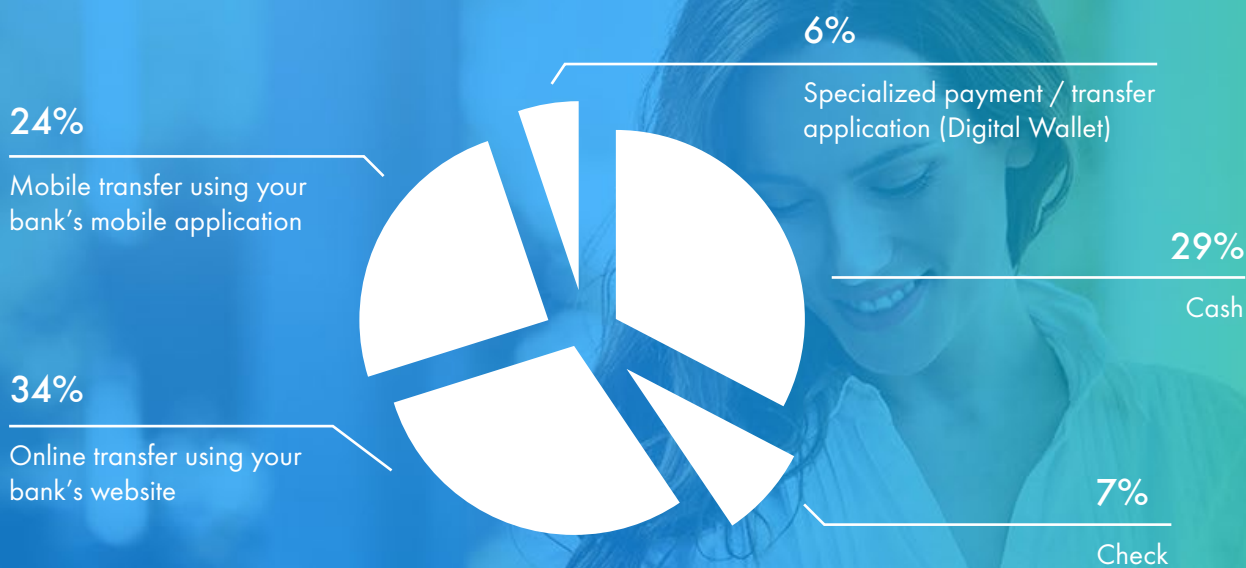
Banks can also access growth by attracting their existing mobile app customers to start using their banking application for P2P

transfers. Although 86 percent of PayKey survey respondents use their mobile banking app at least once a month or more, only 24 percent reported to use it for P2P money transfers. A more millennial-friendly transfer experience would enable banks to tap into their existing customer base that doesn't use their banking app for P2P money transfers but does, however, use it regularly for other financial services.

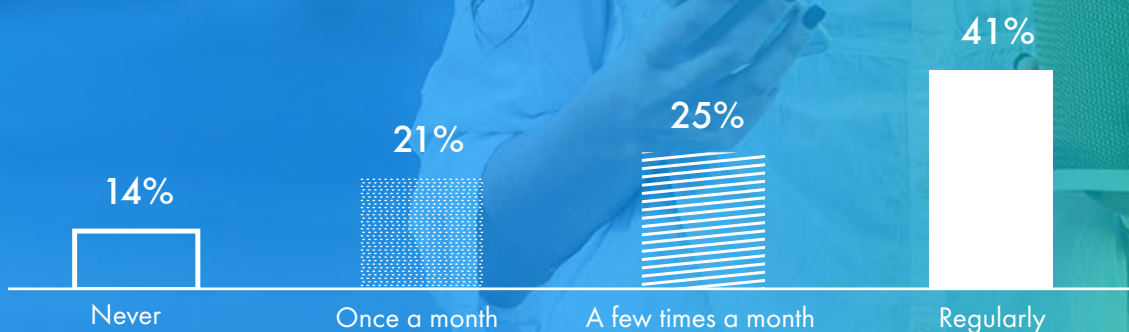
Although 86 percent of PayKey survey respondents use their mobile banking app at least once a month or more, only 24 percent reported to use it for P2P money transfers.

PayKey Survey

When you need to, how do you usually make money transfers?



How often do you use your mobile banking app (for any financial service)?



MARKET VALIDATION: NON TRADITIONAL COMPETITORS LOOM LARGE

Recognising a millennial demand for immediate and contextual transfer solutions, a host of non-traditional players have begun to move into the market. New P2P providers have reached staggering success in a relatively short period. Market leader Venmo processed four billion in P2P payments in Q2 of 2016 alone, up by 141 percent year over year. According to a FICO Millennial Banking Insights and Opportunities report, over 50 percent of millennials are already using or considering non-traditional payment companies like PayPal or Venmo.⁹

In addition to a number of new dedicated P2P providers moving into the market, many of the world's largest social media companies are also entering the space. Social media giants like Facebook and Snapchat are utilising their large millennial user bases to deliver instant

and contextual payment experiences where millennials spend most of their time. Four out of the five biggest messengers have added payment platforms. In 2015 alone, WeChat processed an estimated \$550 billion in payments. Facebook has been particularly keen to push into the mobile payments space. The company appears well on their way to becoming a new kind of bank, acquiring e-money licenses in countries like the US and more recently Ireland, which will enable the company to offer its payment services in all of the EU member states.

Search giants Google have also moved into the market. In 2015, Google Wallet relaunched with a specific focus on mobile P2P money transfers. Adding to the competition is Apple, the world's most valuable company, who are already involved in mobile payments with

Apple Pay, however, are now looking into the growing mobile P2P money transfer market. The company is investigating the possibility of adding the functionality of its Siri virtual assistant to its iMessage service that would enable hundreds of millions of iPhone users to perform P2P payment transactions. Apple's flagship texting service, which processes 200,000 messages a second is already being utilized by Circle payment app, which provides iOS 10 users the ability to send US dollars, euros, pounds and Bitcoin to anyone via iMessage.

With PSD2 enabling bank customers in the EU to use third-party providers to manage their finances and a changing regulatory environment in the US and Asia as well, banks can expect a lot more competition in payment services. This is just the beginning!

BANKS ARE LOSING OUT

Increasing competition from new P2P providers, technology companies and social media giants combined with growing millennial demand mean banks must act quickly to adapt their mobile P2P offerings. Many new competitors have entered the market with vast and well established millennial user bases and are widely believed to be leaders in design, usability and front-end customer experience. Current mobile banking apps require users

Making challenges even more severe is mounting research that shows millennials are not as loyal to their bank as generations that preceded them. A survey by Norcross, Georgia-based Synergistics Research found that millennials are open to using a wide variety of non-traditional organisations for banking services.¹⁰ According to Facebook

to leave the social applications where they spend the vast majority of their time, log into a dedicated app and fill in several data fields to make a simple transfer to a friend or family member. The transfer process via mobile bank application is filled with friction points that frustrate millennial customers. When compared to the instant, convenient and contextual transfer solutions now offered by non-traditional P2P providers, P2P banking facilities are no match.

market research, 45 percent of millennials would switch banks, credit cards or brokerage accounts if a better option came along.¹¹

Growing competition combined with lacklustre P2P bank facilities and a millennial openness to try non-traditional providers make up a lethal trio of threats that banks cannot afford

“You know your customers, but you’re not treating them as if you do.”
Facebook IQ

to ignore. Banks are not only competing with other banks but also a variety of non-banking brands that offer superior transfer solutions. Banks must either adapt to millennial demands or lose out on a growing mobile P2P transfer market and a strategically important generation of customers.

⁹ <http://www.fico.com/millennial-quiz/pdf/fico-millennial-insight-report.pdf>

¹⁰ <http://synergisticsresearch.com/millennial-relationships-grabs/>

¹¹ https://fbinsights.files.wordpress.com/2016/01/facebookiq_millennials_money_january2016.pdf

IT'S NOT ALL BAD NEWS

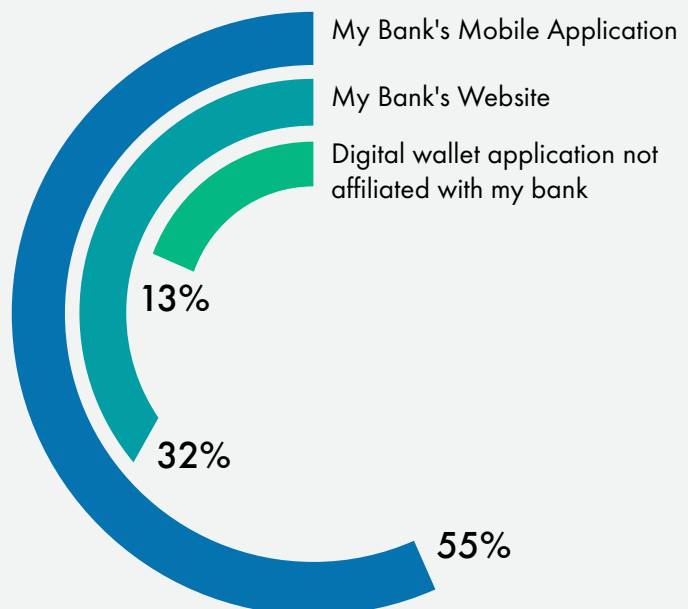
While the non-traditional finance revolution has already begun, banks still have the option to make their mark. Despite inferior mobile P2P transfer facilities and an increasingly crowded market, banks have reasons to be hopeful. PayKey survey results show that millennials view mobile banking apps as far more trustworthy and secure compared to non-traditional P2P mobile solutions. Only 13 percent of respondents felt that digital wallet applications not affiliated with their bank are secure to use for P2P money transfers.

Another reason for banks to be hopeful is the existence of growing millennial frustration toward the plethora of payment options available.¹² Millennials are overloaded with payment options and don't want to juggle between several payment apps with different functionalities. Furthermore, non-bank mobile P2P solutions are not integrated into a customer's online banking experience causing further fragmentation in the user experience. Banks that can deliver all the required financial services from one easily accessible mobile application that contextually interacts with customers will solve this frustration and be rewarded with loyal millennial customers.

Millennials want security over the latest mobile P2P technologies. That's good news for banks!

PayKey Survey

What do you feel is the most secure way to make money transfers?



"Millennials enjoy more payment options than any previous generation and while they clearly welcome the convenience and speed of some of the newer options, particularly contactless payment, there is also a degree of frustration about the plethora of choice and differences in the 'functionality' or quality of some options."

Vocalink, The Millennial Influence 2016 study

¹² <http://www.fico.com/millennial-quiz/pdf/fico-millennial-insight-report.pdf>

THE WAY FORWARD: BRIDGING SOCIAL AND BANKING

Banks have a genuine opportunity to retain and attract millennial customers and take a slice of the growing mobile P2P money transfer market. By providing millennial customers with mobile P2P transfer facilities where they spend most of their time - engaged in social media and messaging, the payment experience becomes intuitive, contextual and simple.

PayKey survey results indicate a clear demand for banks to provide their P2P transfer facilities within a social context. An impressive 64 percent of respondents would like to have a solution like the PayKey payment button while chatting on Whatsapp or other messaging apps.

“Leveraging media channels for P2P payments is all about finding a place in customer’s everyday life. An average consumer is not on a constant lookout for another app for collection but is affectionate to a seamless experience with services through channels of preference. Instead of trying to squeeze another app into consumers’ smartphones, companies should be really looking for ways to use established customer-preferred channels.”

Elena Mesropyan, Market Research Analyst, *Lets Talk Payments*

PayKey Survey



When you need to pay somebody and you're chatting with him on Whatsapp or another messaging app, would you like to securely pay him by using a payment button on the keyboard, provided by your bank?

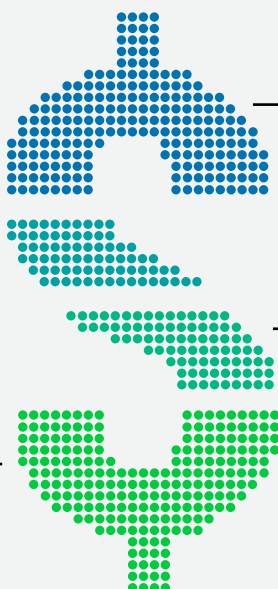
64% of respondents feel positive about the payment keyboard solution

20%

Sounds cool!
I'm likely to use it

36%

Not sure I need it



24%

Great idea!
I've got to have it!

20%

Interesting. I would definitely give it a try

Millennials expect instant convenience in every aspect of their lives. Banking is no different. By bridging the gap between the social networks where millennials spend most of their time and mobile banking applications, banks fit in with millennial lifestyles and send a clear message to customers that they are important and understood. Banks that offer their services through social networks will not only regain P2P transactions lost to new competitors but also be rewarded with loyal millennial customers into the future.

ABOUT PAYKEY

PayKey is a social payment solution that enables bank customers to send money to friends and family within any social network and messaging platform. With Paykey everyday banking becomes simple and frictionless. Users enjoy trusted, instantaneous, and contextual money transfer capabilities

while chatting with friends and family. There is no need to open a dedicated app in order to transfer money, one payment button supports all apps. With Paykey, banks can regain P2P transactions that are now lost to digital wallets and dedicated solutions.

PayKey is already working with leading financial institutions including:



CONTACT

www.paykey.com

info@paykey.com