



DIGITAL ADOPTION REVOLUTION



Introduction

The adoption of digital banking services by consumers has enabled economies to function during the pandemic but it is also being cited by banks as a reason for branch closures. Whether digital adoption is seen as a positive or a negative the banking industry has embraced digital adoption in recent years to meet the changing demands of customers who now expect convenient, fast, and secure financial services.

This article looks at digital adoption in 10 countries, assessing the digital capability of the payments and banking against the Digital Maturity Curve. Where we refer to 'digital adoption' we mean the increasing use of digital technologies in banking to improve customer experience and increase efficiency. This includes the use of online and mobile banking, digital payment solutions, and digital channels for customer service.

We are using the following 4 phases as parameters to measure digital maturity.

1. Infrastructure

- Digital infrastructure plays a critical role in the growth and development of modern economies, as it supports activities such as e-commerce, online banking, and digital communication. This infrastructure includes Wi-Fi/internet access as well as software and data storage systems.

2. Transactional capabilities

- The ability to pay and receive digital payments such as contactless payments, digital transactions, and mobile wallets.

3. Integration with payments systems

- How banks, fintech's and technology companies work together to support digital payments.

4. Integrated customer ecosystems

- Looking at the customer journey from start to end. Having an integrated system that provides value to customers at every stage.

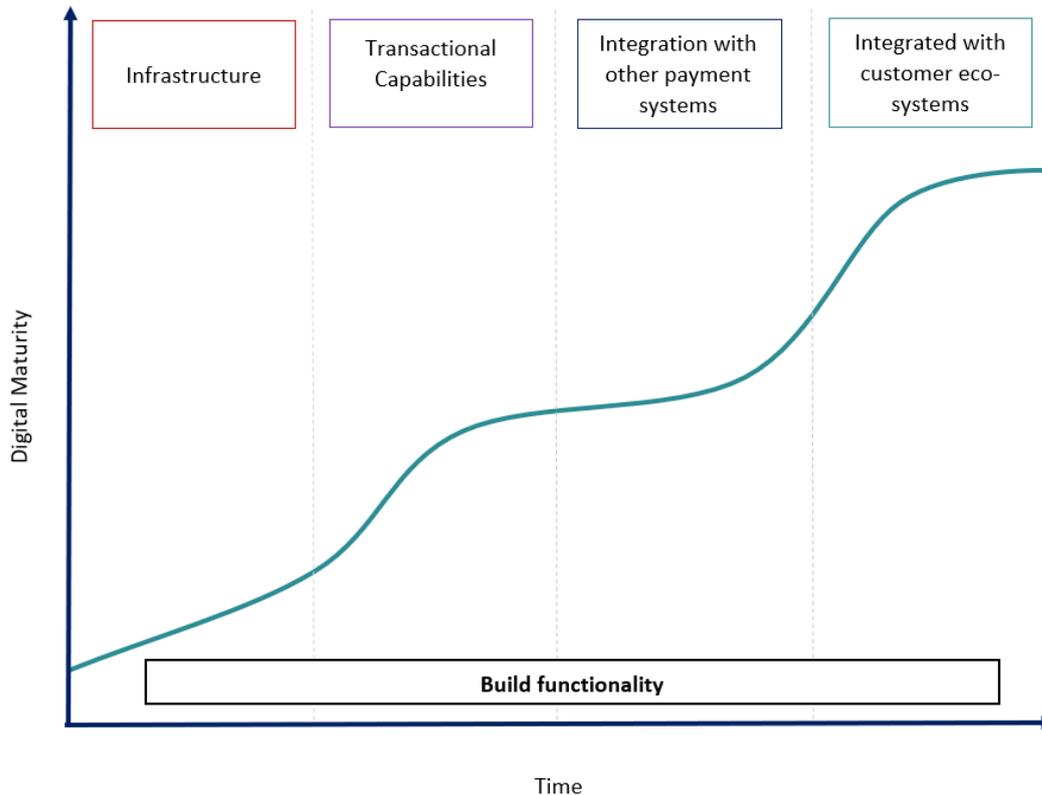


Fig. 1 Shows the four phases of digital maturity, and the hypothesised curve that countries follow

What factors would move a country up the curve?

We have identified five factors that are indicators of changing preferences within a country's population and economy. By analysing these factors and the rationale for each, we can form a view of digital maturity:

- % of population with internet access
- % of population who use online banking services – data that is available by world region, rather than specific countries
- % of payments that are made electronically
- % of people who use mobile wallets
- Integration of financial services bringing together a combination or choice of providers or services

While digital infrastructure is certainly an important enabler of transactional capabilities, it is not always the driver. In some cases, transactional capabilities are driven by factors such as market demand – for example, increased smartphone usage resulting in mobile wallets – as well as regulatory requirements and technological advancements that are independent of digital infrastructure. When referring to the integration of tech companies we have looked at tech giants such as Meta, Amazon and Alibaba that have established integrated payment platforms and are pushing the boundaries of digital maturity. Considering these factors, we will be assessing digital maturity in 10 selected countries across Asia, Africa, North America, South America and Europe.

Our Research

We selected 10 major economies from across the world to explore the differences in digital maturity.

	UK	Spain	Norway	US	Brazil	Nigeria	South Africa	China	India	Australia
Adult Population (m) 2021	53	39	5	209	162	109	44	1,130	803	20
GDP (\$bn) 2021	3,131	1,427	482	23,315	1,609	440	419	17,734	3,176	1,553
Number of Banks 2021	344	141	129	4,236	174	24	18	4,602	33	97
Number of Neobanks 2022	47	29	19	66	33	6	6	7	15	15
Internet access	94.8%	93.2%	97%	90.9%	81.3%	35.5%	70.0%	70.4%	43.0%	78.9%
Online bank usage (Region)	48%			41%	17%	31%		54%		n/a
Electronic payments transactions 2022	76.3%	44.7%	91.0%	81.0%	26.8%	6.1%	42.3%	77.5%	10.2%	81.2%
Mobile wallet usage 2022	37.9%	42.0%	32.3%	49.9%	66%	69.2%	50.1%	84.4%	90.4%	46.9%
Cash transactions 2022	13.6%	52.7%	2.5%	17.9%	57.1%	76.3%	56.2%	17.9%	45.3%	12.7%

Fig. 2 Comprehensive table displaying all data shown throughout this report

According to The World Bank, in 2020 around 60% of the global population were using the internet. Over the past decade, the number of internet users has been steadily increasing due to the spread of internet-connected devices and the growth of mobile and broadband networks in many countries.

Many reports have highlighted a global trend in the reduction in the use of cash accelerated during the Covid-19 pandemic. However, in 2022 cash is still viewed by many as a 'secure' payment method given cyber security concerns. Some economies are even seeing cash usage rise again and this is often the case in times of financial hardship.

The data below looks at each countries capabilities by measuring transactions made vs. transactional spend in 2022.

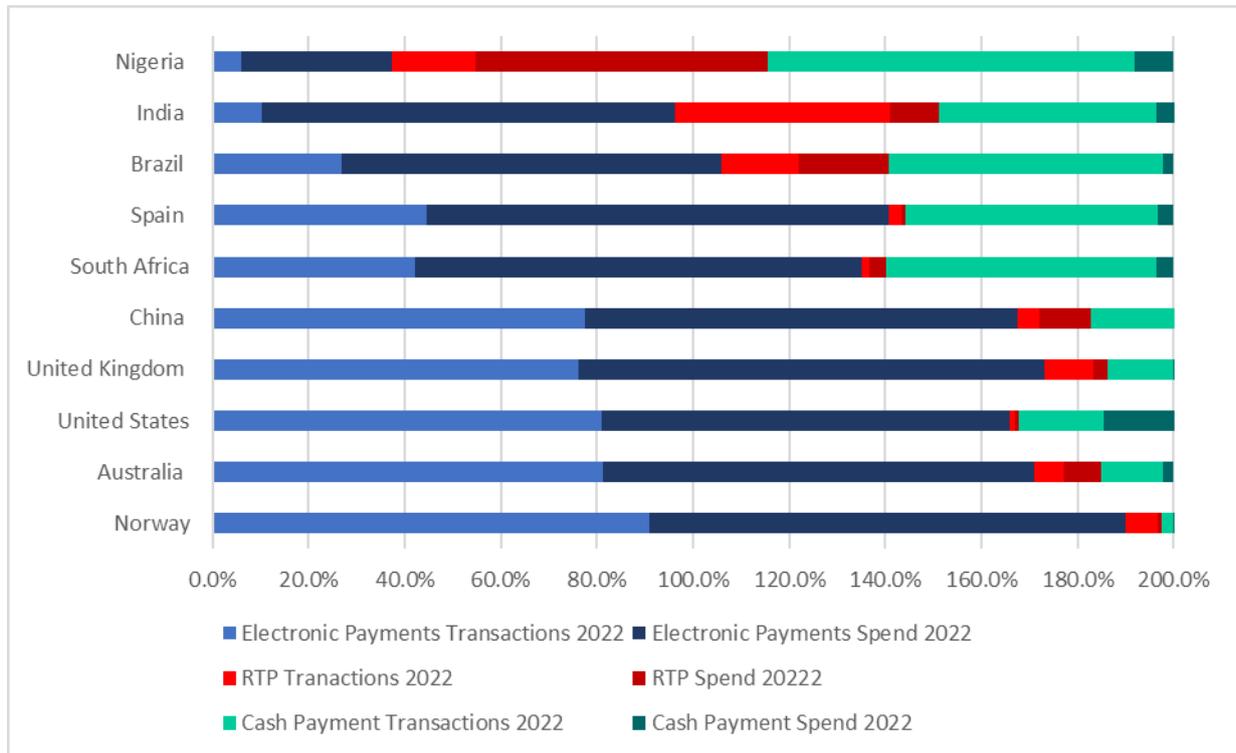


Fig. 3 Shows the % of transactions made compared to the spend value of these transactions

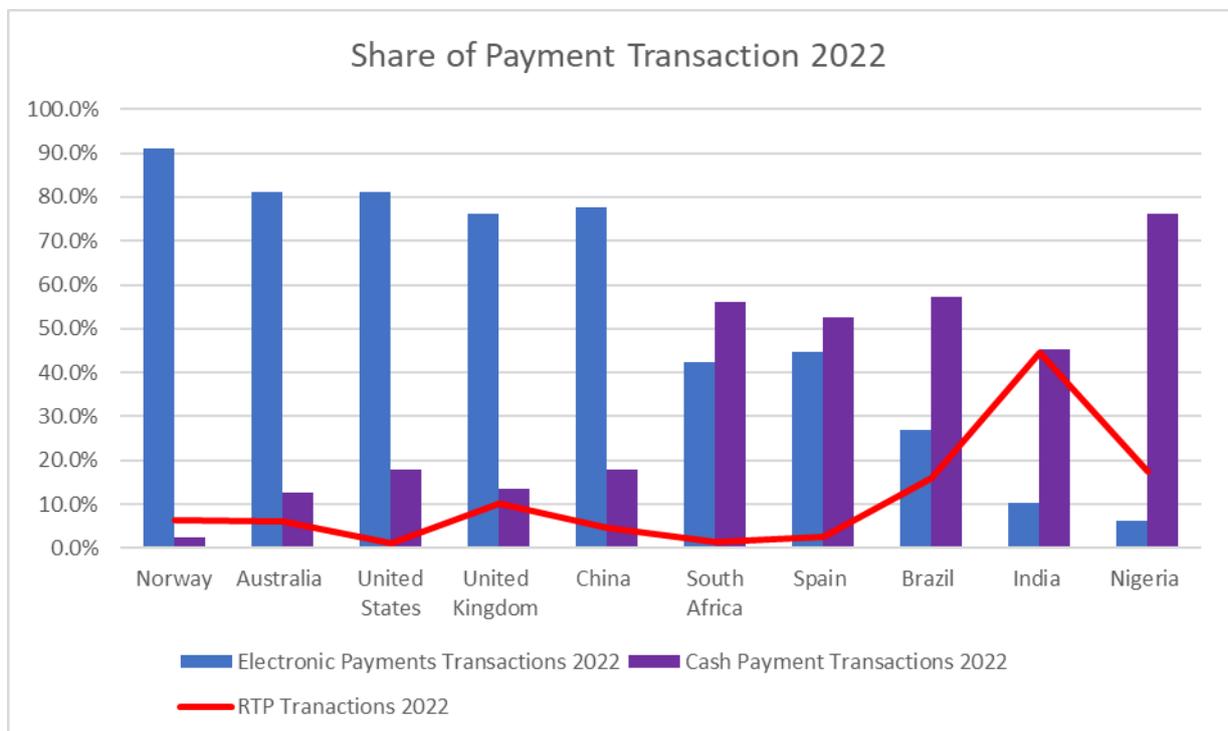


Fig. 4 Shows a comparison of transactions made across Electronic, Cash and Real Time Payments

To consider the disparity between the countries reviewed we looked at data on the number of internet users per country, compared to the number of electronic payments made in 2021.

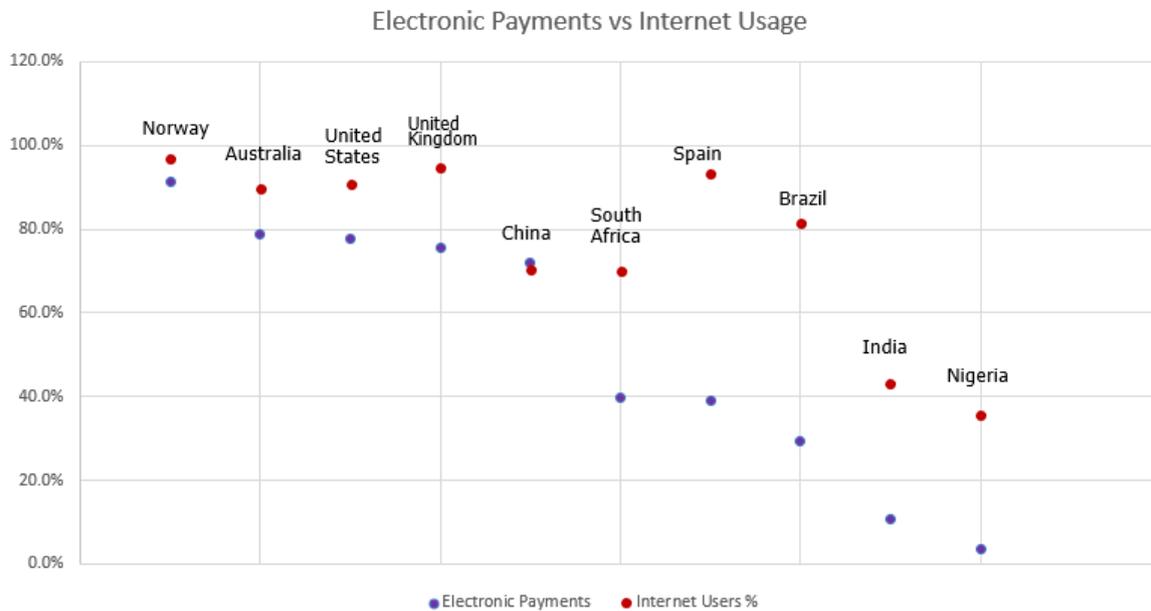


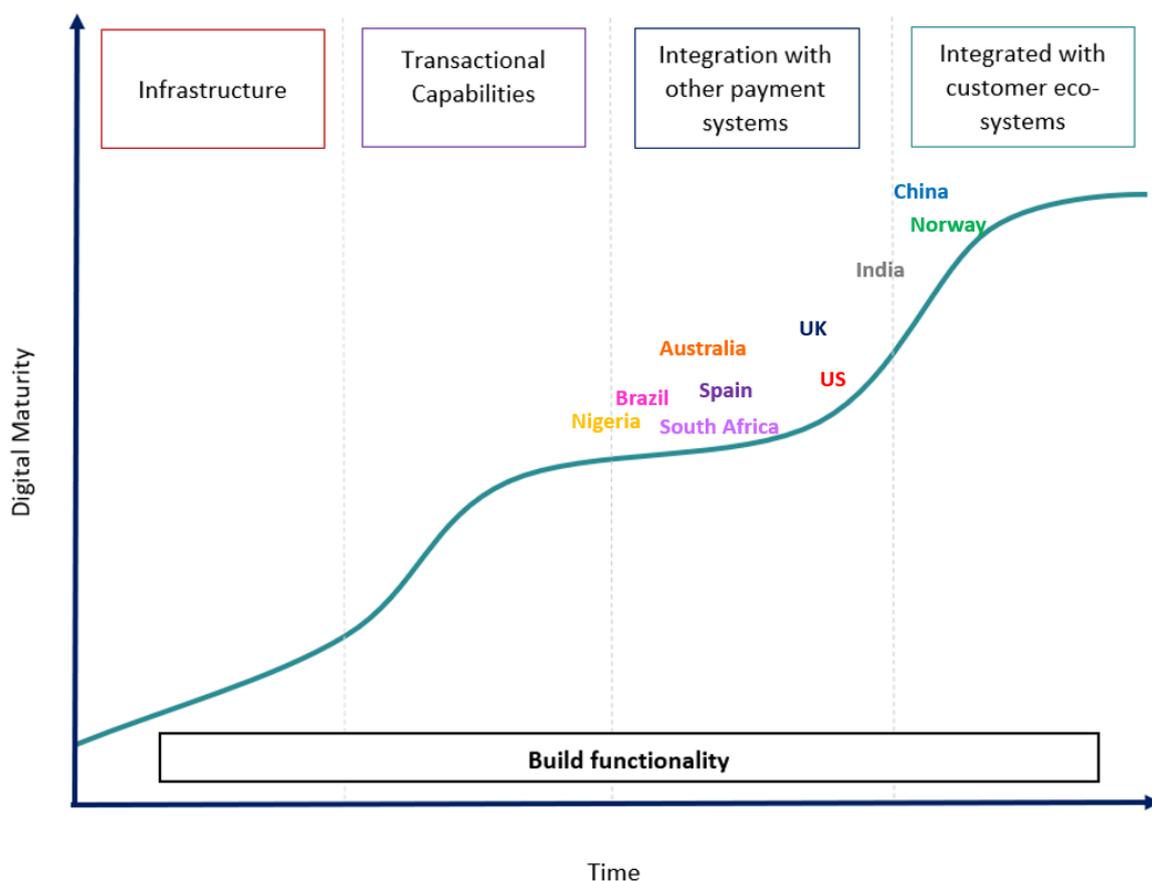
Fig. 5 Shows % of electronic payments made and % of the population with access to internet

The UK, like most countries on the map, has a higher number of internet users compared to those that make electronic payments. This suggests that while people have access to the internet, there may be some barriers to accessing digital payments.

The gap in China is much smaller indicating a strong correlation between those that have access to internet making digital payments. While the UK has a higher percentage of electronic payments, China's infrastructure and transactional capabilities appear to be more closely connected.

On the other hand, Spain, which has a high level of digital infrastructure, also has one of the biggest gaps between internet usage and electronic payments. Despite ranking high on the maturity curve for infrastructure, Spain has not followed a linear path with digital transaction capabilities.

1. Case Studies



The following case studies relate to countries and explore their digital capabilities and the rationale behind why they are where they are on the curve.

Norway

Norway is one of the most 'cashless' societies and is currently regarded as one of the most digitally mature countries in the world. They have strong digital infrastructure with almost all the country's population having access to internet, supported by the comparative wealth of the country and consumer willingness to adopt digital services and products.

However, mobile wallet payments volumes are low and this may be due to the high standard of digital and electronic payment options. Real Time Payments (RTP) are the second most used payment type after electronic and can be easily accessed by a mobile app, however the number of RTP are still relatively low as seen in Fig. 2, which is unsurprising when looking at the low uptake in mobile wallets.

Norway is currently in the process of preparing for further digital adoption by working on an integrated ecosystem for RTP to work with other payment apps, and in turn create the world's biggest digital wallet. Norway is one of the frontrunners in the adoption of digital payments and is currently the most 'cashless society' from our case study list.

China

China has significantly invested in digital infrastructure, transactional capabilities, and integrated systems. We can see this by the close correlation between users' access to internet vs. electronic payments (Fig. 5). Whilst the data confirms that this digital infrastructure is being utilised, it is important to note that a country as large as China has many rural areas, where digital infrastructure is more limited, and is why cash usage is also high (Fig. 2).

Furthermore, China has developed successful integrated customer ecosystems through tech giants such as Alibaba which has ecommerce platforms and payment platforms, as well as being at the forefront in developing a Central Bank Digital Currency (CBDC). CBDC may be the next step for economies to become more digitally mature, and currently other countries are watching China closely as a leader in this technology.

India

India has seen rapid growth in digital adoption over the last decade. Much like China, India has a huge population and many rural areas do not have access to the same level of digital infrastructure as urban areas. The data confirms high cash usage, however India is also making a number of developments that will rapidly improve the country's transactional capability.

With increasing smartphone usage, mobile payment platforms are growing in popularity (Fig 2) and India has the highest usage of mobile wallets, as well as Real Time Payments (RTP's). These are becoming increasingly popular in India, as the country aims to increase financial inclusion and provide more convenient and accessible payment options to its citizens. The implementation of the Immediate Payment Service (IMPS) by the National Payments Corporation of India (NPCI) in 2010 was a significant step in the development of RTP's in India. With the growth of mobile devices and digital financial services, it is expected that real-time payments will play a growing role in the Indian payment landscape in the years to come.

United Kingdom

The UK has a high level of digital adoption, with a substantial proportion of the population using digital services and technology daily. The country has a well-developed digital infrastructure, including high-speed internet access and a robust mobile network, which has contributed to digital maturity.

Many commentators predict that the UK is moving towards a cashless society and like many countries there has been a trend in branch closures by traditional banks despite a significant proportion of the population still using cash, especially for low-value payments. Over 90% of Britons use online banking as of 2022, but only 27% have accounts with Neobanks such as Monzo and Revolut. Of that 27% many will still have their primary bank account, to which their salary or wages are directly credited, with an incumbent bank.

Debit cards are the most popular payment method in the UK, with around 97% of the adult population holding a debit card, and a third of payments being contactless. The use of contactless payments and online banking is increasing, and contactless technology is widely available and allows for payments of up to £100 at a time, making grocery or retail shopping easy. Furthermore, all bank issued payment terminals support contactless payments, and mobile banking apps and websites have continued to improve and offer quick, easy to navigate services for consumers to make payments and transfers on the go.

It is unlikely that the UK will be a completely cashless society for some time as cash will continue to make up a small percentage of overall spending. As the most popular method of payment is debit

and credit cards, further development in the infrastructure of low value contactless transactions should be made available as currently some merchants have a minimum card spend due to transaction fees on their side, which encourages low value cash spend as an alternative.

Whilst not among the leaders in digital maturity, the UK is seeing considerable investment in digital transactional capabilities by traditional and new providers. Integrated payment offerings such as Buy-Now-Pay-later are widely available at online check out and the UK Treasury and Bank of England are undertaking research into a digital pound. The UK is therefore on a trajectory to continue moving up the digital maturity curve.

Brazil

Brazil has more digital bank accounts than people in the country as well as a high number of electronic transactions made in 2021, however over 60% of the population still have a traditional bank account. Brazil has a huge market for e-commerce, as well as strong appetite for mobile payments as seen in fig. 2.

Real time payments have been around in Brazil since 2002, however the instant payment platform Pix launched by the Central Bank in 2020 has been increasingly popular as it allows for instant 24/7 transfers using QR codes, mobile numbers and email addresses. This allows for convenient and easy options for consumers to manage their finances and has seen Brazil rapidly make significant advancement within the transactional capability phase of the maturity curve.

Brazil is successfully adopting technology at a rapid rate and has the largest Neobank in the world, Nubank. With the central bank initiative and with neobanks and mobile payments working successfully, it will be interesting to see how ecosystem integration is going to develop and if incumbent banks or big tech have a role to play in this. MercadoLibre, dubbed as “The Amazon of Latin America”, is the dominant in Brazil where they have 27% market share and that represents approximately one third of all e-commerce volume in Latin America.

Nigeria

Typically, we see that economies that favour cashless payments first need to have a form of integrated digital banking and increased digital adoption, compared to a slower development seen by cash-favouring economies. This however is not the case for Nigeria.

As shown in the data above, Nigeria has one of the higher cash payment transactions, largely due to lack of infrastructure in rural areas. However, like India, the growing use of smartphones and the e-commerce market has created the digital infrastructure for quick, low-value digital payments, such as mobile wallets and RTPs.

Fintech platforms such as M-Pesa capitalise on Nigeria’s growing smartphone use and enable consumers to use their mobile phones to transfer money, pay bills and easily access other financial services. Accessibility, affordability, and quality are key drivers for digital adoption, and mobile wallets fulfil these criteria for many in Nigeria leading to high adoption of the transactional capabilities offered.

Conclusion

We estimate that all 10 countries we have studied have reached the third phase of digital maturity, however of that group, only China and Norway have fully entered phase 4.

Digital capability in banking has become a crucial factor for financial institutions to cost effectively acquire and service customers. Furthermore, digital adoption by consumers and their increased expectation of convenient, fast, and secure financial services will mean providers will need to continue to evolve if they are to remain relevant and competitive.

This evolution will mean banks will need to fully embrace phase 4 and integrate with the ecosystems that consumers are increasingly embracing. This probably needs a cultural shift on the part of many banks as rather than seek to sit at the centre of a customer's financial matters, instead they may aim for a place in the ecosystem, alongside other financial services providers.

As we have already commented upon, it is currently the big tech companies that are paving the way and creating integrated customer ecosystems. Clearly, they have the vision and the technical capability, but it is not a given that the multinational big tech business will find it easy to fully enter and replace the incumbent banking providers, due to the highly regulated nature of the banking industry.

Banks should develop strategies to avoid marginalisation and in doing so learn from big-tech and fin-techs, in how they have provided innovative, intuitive, personalised and user-friendly services at scale. Placing their target customers, rather than their products, at the centre of their thinking is at the heart of this decision.

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