2016 U.K. M-Payment and P2P Payment Consumer Study
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Introduction
“As is the case in so many disruptive events, the winner will be the consumer, who will receive lower prices, more innovative products and better service in a transformed banking world.”

– Andres Wolberg-Stok, Global Head of Emerging Platforms and Services at Citibank®

The TSYS® second annual United Kingdom mobile payment (m-payment) and peer-to-peer (P2P) payment consumer study reveals consumers’ payment preferences and offers new insights on topics such as mobile banking, P2P payments and location-based services (LBS).

Aligned with our brand promise that “Payments should revolve around people and not the other way around,” the goal of this consumer research is to understand how consumer attitudes and concerns influence how people use m-payments and P2P payments. We also set out to monitor the evolving landscape to identify consumers’ changing attitudes and behaviours.

We focused on the following key questions:

- From an end-user perspective, what has changed in mobile banking apps and m-payments since last year?
- How well do consumers understand and use in-app payments, in-store m-payments and P2P payments?
- What is the consumer attitude toward LBS?
INTRODUCTION

The financial services industry is challenged by legacy infrastructure, an erosion of public trust, consumers’ difficulty accessing credit and the lack of speed with new products offerings. All of these factors have led to new entrants, creating a more dynamic environment with financial technology (fintech) start-ups with innovative services, products and revenue models.

Until relatively recently, fintech and banks were seen as competitors. Today, there exists a natural opportunity for meaningful cooperation and partnership.

Until relatively recently, fintech and banks were seen as competitors. Today, there exists a natural opportunity for meaningful cooperation and partnership. By their very nature, fintech players lack an established reputation for stability, loyalty and knowledge of data security and financial fraud, banking regulations and risk management—which can mean new opportunities for a future relationship with traditional banking partners.

The proliferation of fintech start-ups is a global phenomenon: Nearly 66 percent of the world’s consumers are using products/services from fintech firms. And the number of these start-ups is growing exponentially. According to Forbes magazine, in Asia, fintech firms number approximately 2,500, whereas in the U.K. and the U.S., they account for a combined total of 4,000. Furthermore, the investments made within the fintech environment have grown by a CAGR of 65 percent between 2010 and 2015.

While emerging payments and fintech products like m-payments and P2P payments have reached only the very minimum stages of maturity, they do, however, allow for meaningful consumer insights to be captured. In the U.K., m-payments are gaining traction with consumers. In terms of m-commerce value, eMarketer predicts a CAGR of 17 percent between 2016 and 2019, reaching £38 billion in 2019. Both TSYS and MasterCard consumer research indicate British consumers are likely to pay for a significant part of their in-store payments via their smartphone in the coming years. The in-market presence of both AndroidPay and Apple Pay will continue to catalyse significant adoption of m-payments in the near future.

The value and volume from some of the U.K. P2P players are encouraging. Paym, a P2P payment provider, enjoyed a 2015 year-to-year increase of 362 percent in transaction volume. "TransferWise", a U.K.-based P2P money transfer service, reports that its users now move over £500 million a month on its platform. These are encouraging indicators showing the growing traction of P2P payments among consumers.

Despite the positive data coming from the payment ecosystem, m-payments and P2P payment markets are still in their early stages. However, there’s a strong need to monitor consumers’ attitudes and behaviours — a key step to developing customer-centric strategies that will address concerns related to security and create a seamless payment experience.
Fintech are entering the banking and payment scene in a big way, driven by a wave of innovative services, products and revenue models. However, that also means there’s no established reputation for stability, loyalty and knowledge on data security, financial fraud, banking regulations and risk management — all of which can open new opportunities for a future relationship with traditional banking partners. In the past, fintech and banks were seen as competitors. Today, there exists a natural opportunity for meaningful cooperation and partnership.

Out of the myriad developments in fintech, two areas stand out for their relative maturity: m-payments and P2P payments. These are the focal points for this study.

**U.K. M-Payments Scenario**

U.K. m-payments are gaining traction. In terms of m-commerce value, eMarketer reports a CAGR of 37 percent between 2014 and 2015. It also predicts a CAGR of 17 percent between 2016 and 2019. Moreover, consumer research from both TSYS and MasterCard found that British consumers are likely to use their smartphones to make a significant number of in-store m-payments in the coming years.

![M-commerce Actual and Potential Value](chart)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Value ($ billions)</th>
<th>Potential Value ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>14.6</td>
<td>20.1</td>
</tr>
<tr>
<td>2015</td>
<td>20.1</td>
<td>24.9</td>
</tr>
<tr>
<td>EST 2016</td>
<td>24.9</td>
<td>29.8</td>
</tr>
<tr>
<td>EST 2017</td>
<td>29.8</td>
<td>34.0</td>
</tr>
<tr>
<td>EST 2018</td>
<td>34.0</td>
<td>38.0</td>
</tr>
</tbody>
</table>

**U.K. P2P Payments Scenario**

Relative to P2P payments, the value and volume from some of the U.K. P2P players are encouraging. Paym, a P2P payment provider, has witnessed a 2015 year-to-year growth of 362 percent in transaction volume.

![Top 3 Most Trusted P2P Payment Platforms](chart)

<table>
<thead>
<tr>
<th>Category</th>
<th>Platform</th>
<th>Trust Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Paym</td>
<td>63%</td>
</tr>
<tr>
<td>Payment Scheme Card (e.g., Mastercard, Visa)</td>
<td>Paym</td>
<td>63%</td>
</tr>
<tr>
<td>Specialist P2P Payments Provider (e.g., Paym, PayPal)</td>
<td>Paym</td>
<td>56%</td>
</tr>
</tbody>
</table>

**Worldwide Fintech Investment & Consumer Usage Level**

Investments in the fintech environment have grown by a compound annual growth rate (CAGR) of 65 percent between 2010 and 2015.

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$1,791</td>
</tr>
<tr>
<td>2011</td>
<td>$2,537</td>
</tr>
<tr>
<td>2012</td>
<td>$3,175</td>
</tr>
<tr>
<td>2013</td>
<td>$4,590</td>
</tr>
<tr>
<td>2014</td>
<td>$12,688</td>
</tr>
<tr>
<td>2015</td>
<td>$22,265</td>
</tr>
</tbody>
</table>

**Fintech Ecosystem Country Potential**

The U.K. leads the global fintech field due to four specific factors: capital (e.g., access to the public markets, start-up capital and grown capital); demand (e.g., adoption by local consumers, corporates and SMBs); talent (e.g., availability of technical, financial services and entrepreneurial talent) and policy (e.g., taxation policy, government programmes).

Given German consumers’ stubborn preference for cash and their low adoption of digital banking, it is interesting that Berlin has emerged as such a hub of fintech energy. With the fallout from Brexit yet to play out, could Berlin move up the ranks at the expense of London?
Key Insights
KEY INSIGHTS

Eight insights from our study:

1
Within the next two years, 68 percent of the respondents are likely to use m-payments for in-store purchases.

2
The adoption of mobile banking apps no longer remains the exclusive domain of "digital natives."
As forecasted in 2015, mobile banking adoption shows a significant increase, to 67 percent (2016) from 58 percent (2015).

3
The adoption level of in-store m-payments, at 24 percent, falls behind that of P2P payments at 34 percent.
Considering both methods have the same level of consumer awareness, in-store m-payments show great potential.

4
Thirty-nine percent of respondents made an in-application (in-app) m-payment in the last six months.
The awareness level of in-app m-payments is extremely high at 75 percent.
5. When it comes to in-store m-payments, consumers trust financial institutions more than any other type of organisation to safeguard their personal financial information.

6. Security and fraud protection would be the primary factors influencing consumers to use in-store m-payments.

7. When it comes to P2P payments, consumers hold a similar level of trust with financial institutions, card schemes and digital wallet providers.

8. A significant percentage of consumers, 52 percent, would be likely to use a location-based service to receive offers or discounts on their smartphone from a restaurant, merchant or coffee shop when in close proximity.
Findings & Insights
Segmenting the Respondents by Digital Capabilities: Rogers’ Diffusion of Innovation Theory

According to Rogers’ diffusion of innovation theory, there are five different types of technology adopters: Innovators, Early Adopters, Early Majority, Late Majority and Laggards. For this study, we combined these groups to create three categories according to their usage of mobile banking apps. Our categories, together with Rogers’ theory, provide us a predictive framework for making conclusions regarding emerging trends.

- **Hyper Digitals** represent the “Innovators” and “Early Adopters” categories. These consumers are the first to use and value an innovation—helping to diffuse a new technology. These are the respondents who use a mobile banking app daily.

- **Accomplished Digitals** represent the “Early Majority” and “Late Majority” segments. This group follows the “Innovators” and “Early Adopters” once a technological trend gains a foothold. In our context, they are the respondents who use a mobile banking app less than monthly to a few times a month.

- **Emerging Digitals** represent Rogers’ “Laggards” segment. This group is the last to try and potentially adopt a new technology. For the purposes of our research, they are the respondents who use a mobile banking app less than once a month or have never used it.

Particular attention should focus on Hyper Digitals, who are the pioneers of new banking features. A positive user experience among this segment means other consumers — “Accomplished Digitals” and “Emerging Digitals” — will mostly follow their lead, based on customer satisfaction, loyalty and word-of-mouth advocacy.
Mobile Banking Apps: From "The Marmite Effect" to a Growing Movement

We investigated how often U.K. consumers digitally interact with mobile banking apps relative to more traditional channels like online banking, ATM, bank branch and telephone banking. For the purposes of this study, we defined a “mobile banking app” as an app that allows customers of a payment provider to conduct a number of financial transactions — viewing account balances and transactions, moving money between accounts, making payments to new and existing payees, choosing how to receive account statements, etc. — through a mobile device such as a mobile phone or tablet.

According to the consultancy firm CACI®, the number of branch visits in the U.K. is set to decrease over the next four years as people turn to mobile banking. Surprisingly, they also predict online banking usage to drop.

While the TSYS study did not show a decline in online banking, the findings suggest that consumers are moving away from traditional banking channels such as bank branch and telephone banking. Instead, customers are seeking out self-service channels such as "Online Banking," "ATM," and "Mobile Banking App." (See Graph 1.)

OMNI-CHANNEL GROWING RELEVANCE

While non-traditional channels are gaining ground with consumers, insights from our study confirm that consumers increasingly expect consistent service across all channels. Engaging customers with an omni-channel approach can guarantee a seamless and consistent banking experience. Furthermore, this is crucial for banks in order to optimise their strategy toward more profitable customers.

Graph 1:
How often do you use each of the following methods to access your banking services?*

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
<th>Variation from 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Banking</td>
<td>83%</td>
<td>+3%</td>
</tr>
<tr>
<td>ATM</td>
<td>75%</td>
<td>+1%</td>
</tr>
<tr>
<td>Mobile Banking App</td>
<td>56%</td>
<td>+12%</td>
</tr>
<tr>
<td>Bank Branch</td>
<td>35%</td>
<td>+6%</td>
</tr>
<tr>
<td>Telephone Banking</td>
<td>23%</td>
<td>+11%</td>
</tr>
</tbody>
</table>

* Percentage of those who use a specific channel more than once a month.
FINDINGS & INSIGHTS

THE YEAR OF THE MOBILE BANKING APP

When compared to the previous year’s study, consumers’ usage of “ATMs” and “Online Banking” remained steady, while “Mobile Banking” experienced a significant increase of 9 percent. In 2015, we noticed the “Marmite effect” with m-banking apps whereby people use them a lot or not at all. During the course of the past year, mobile banking app usage has rendered this effect obsolete. Rather, 2016 just might be the year of the mobile banking app, reflecting consumers’ increased understanding of the benefits offered by m-banking apps.

M-BANKING APPS NO LONGER EXCLUSIVE DOMAIN OF MILLENNIALS

Data from our study dispels the popular belief that m-banking apps are the exclusive domain of millennials, those often characterised as digital natives. (See Graph 2.) Across our three segments, including Digital Immigrants — those aged A-B, the usage level of banking apps is over 50 percent. Seventy-one percent of respondents aged 35-44 reported using an m-banking app. Only those aged 55 and older showed a usage below 50 percent. In comparison to last year’s study, all age groups have increased their m-banking app usage. What used to be exclusively the domain of digital natives is now embraced by a wider audience.

Key Observation: Further analysis reveals that consumers living in London and the South East who own an Apple smartphone and hold a higher level of education are more likely to use m-banking apps.
MOST POPULAR M-BANKING ACTIVITIES

Among respondents who downloaded the m-banking app, we identified the most popular actions undertaken in the last six months.

Consistent with 2015 findings, the top reason for using a banking app is to “Verify balance” (82 percent), which confirms its high popularity for more passive activities. Surprisingly, “Transferred money between accounts” (72 percent) has outpaced one of the most popular actions of 2015, “Verify recent transactions” (69 percent), with an 8 percent increase over 2015. Our findings suggest U.K. respondents hold increased confidence levels with conducting financial transactions via mobile devices, confirming the growing trend of mobile banking and payment management functionalities.

NEW OPPORTUNITIES TO ENGAGE CARDHOLDERS

The popularity of activities such as “Verify balance” and “Verify recent transactions” suggests an opportunity exists to proactively engage cardholders with alerts. According to the TSYS 2016 U.K. Payment Study, cardholders value deciding when and how they receive alerts, whether that is when their balance falls below a predetermined threshold or after each card-not-present transaction. (See Graph 3.)

Graph 3:
Using your mobile phone and banking app, which of the following have you done in the past six months? Please select all that apply.
**Leading Reasons Consumers Are Not Using M-Banking Apps**

The top reason respondents gave for not using m-banking apps is "My banking needs are being met without mobile banking." (Graph 4.) This is consistent with responses regarding the usage level of specific banking services. (See Graph 1.) In effect, ATM and online banking have higher usage levels than that of m-banking apps. It’s also evident that security is one of the most significant factors attributed to consumers not using mobile banking apps — whereas the screen size and lack of ability have the lowest impact. Banks should deliver a secure experience and educate customers about it.

Opportunities exist for banks to improve engagement with those customers reporting no or low usage of mobile banking apps. Engaging these no- or low-use segments would help drive loyalty, and correspondingly retention rates. Payment providers should develop marketing messages with relevant and personalised recommendations based on customer data including purchasing habits.

Graph 4: There could be many reasons you chose not to use a mobile banking app. Please indicate your agreement or disagreement with the following statements.*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>My banking needs are being met</td>
<td>83%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>I am concerned about potential hacking</td>
<td>74%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>I am concerned about the security of mobile banking apps</td>
<td>70%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>The mobile phone screen is too small</td>
<td>53%</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>I am concerned about my lack of technical knowledge</td>
<td>18%</td>
<td>32%</td>
<td>49%</td>
</tr>
</tbody>
</table>

*Among the 33 percent of respondents reporting to not have an m-banking app.*
An Encouraging M-Payment Trajectory

Over the last two years, the 5 percent CAGR of m-commerce has outpaced the 2 percent witnessed by e-commerce. Moreover, according to the global market research firm TrendForce®, the penetration of major smartphone brands — such as Apple and Samsung® — into payments has propelled the worldwide revenue of mobile payments to reach $450 billion in 2015. Revenue forecasts for 2016 are expected to experience a 37.8 percent increase, translating to $620 billion. The Financial Times reports m-payment apps are soaring in popularity in both the U.K. and the U.S. Pingit®, Barclay’s mobile payments app, reached 1 million business transactions in January 2016, up 10 percent from the prior year.

According to research firm TrendForce, the penetration of major smartphone brands — such as Samsung and Apple — into payments has propelled the worldwide revenue of mobile payments to reach $450 billion in 2015.

In this year’s study, we explored the behaviour and attitudes of U.K. consumers in the area of two types of m-payments: in-app m-payments, a payment consumers make directly from their smartphones to buy something online through a merchant app such as Amazon®, and in-store m-payments, the use of a mobile device to make a purchase at a physical point of sale.
AWARENESS LEVELS AND USAGE OF IN-APP M-PAYMENTS

Our study found the vast majority (75 percent) of respondents are aware of in-app payments. Further, almost 40 percent have made an in-app m-payment in the last six months. As anticipated, the Hyper Digitals have the highest percentage of usage (66 percent), followed by the Accomplished Digitals (56 percent) and Emerging Digitals (6 percent). (Graph 5.)

Key Observation: From the study data, we found that those making in-app m-payments tend to be younger, more highly educated and inclined to own an iPhone. (Graph 7.)

Graph 5: Awareness Level versus Usage Level of In-App M-Payments

Awareness Level: 75%

Usage Level: 39%

Graph 6: Usage of In-App M-Payments in the Last Six Months Across Digital Adoption Segments

<table>
<thead>
<tr>
<th>Digital Adoption Segment</th>
<th>Usage Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hyper</td>
<td>66%</td>
</tr>
<tr>
<td>Accomplished</td>
<td>56%</td>
</tr>
<tr>
<td>Emerging</td>
<td>6%</td>
</tr>
<tr>
<td>Overall</td>
<td>39%</td>
</tr>
</tbody>
</table>

Graph 7: Analysis of in-app m-payment usage

In-App M-Payment Usage by Age

- 18-24: 55%
- 25-34: 56%
- 35-44: 40%
- 45-54: 30%
- 55-64: 11%
- 65 & older: 3%

PROFILE OF AN IN-APP M-PAYMENT USER

- Age: 26
- Phone: Apple
- Education: Graduate

In-App M-Payment Usage by Smartphone Type

- Apple: 50%
- Android: 35%
- Others (e.g. BlackBerry): 17%

In-App M-Payment Usage by Educational Level

- Below GCSE / 0-Level: 20%
- A-Level or Equivalent: 35%
- Bachelor or Postgraduate: 45%
FINDINGS & INSIGHTS

TYPE OF PURCHASES MADE WITH IN-APP M-PAYMENTS

Among the 39 percent of respondents reporting usage of in-app m-payments, Graph 8 shows the most common type of purchases made.

The usage level of in-app payments has increased, with “Purchase clothes online” ranked as the most popular type of purchase with a 5 percent increase over the past year. The growing popularity of in-app m-payments may be attributed to e-tailers like Amazon who have integrated “one-click” functionality into their mobile experiences. Doing so supports an easy, fast and secure way for consumers to pay and avoids the hassle of inserting personal details with every purchase. Following the launch of Amazon Echo®, a voice-enabled wireless speaker developed by Amazon.com®, it will be interesting to watch the usage of this payment feature.

Other in-app m-payment scenarios ranked high by consumers include “Pay utility bill” (48 percent), “Purchase transportation tickets” (46 percent) and “Purchase digital content” (46 percent), with the first two increasing by 5 and 16 percent respectively. We attribute this increase to the growing trend of m-banking apps, e-wallets and transport apps (e.g., TPExpress app and First Bus) that offer a frictionless and seamless payment experience for customers. In fact, among in-store m-payment in-app users, 48 percent of Londoners have used the apps for purchasing transportation tickets.

Scenarios that ranked lower include “More complex purchases”, “Higher value purchases”, “Lack of well-developed infrastructure for m-payments”, “The relatively low relevance of mobile online or in-app environment”.

Graph 8:
Please indicate how often you used your smartphone over the last two months to make an in-app mobile payment in the scenarios listed below.

*Respondents reporting to have made an in-app m-payment in the listed scenarios at least three times over the two months prior to survey
CONSUMERS’ DEVICE PREFERENCE WHEN SHOPPING ONLINE

When shopping online, U.K. consumers favour their PC/laptop, immediately followed by the smartphone, then the tablet. (Graph 9.) Consumers’ preference for shopping with a PC/laptop is consistent with their perception that it is more secure than shopping with other devices. In contrast, the Hyper Digitals are more likely to use a smartphone when shopping online. As Rogers’ diffusion of innovation theory suggests (see page 11), in the near future we should expect an increase in consumers using smartphones to shop online.

IN-STORE M-PAYMENTS

Study findings show, while 81 percent of respondents are aware of in-store m-payments, only 24 percent have made such a payment in the last six months. Of those who have made an in-store m-payment, 74 percent reported a ‘Good’ to ‘Excellent’ level of satisfaction. (Graph 10.) Hyper Digitals are the segment leading adoption with a 49 percent usage rate.
**FINDINGS & INSIGHTS**

**STATISTICAL ANALYSIS RELATED TO IN-STORE M-PAYMENTS: PROFILE OF TYPICAL U.K. USER OF M-PAYMENT IN-STORE**

*Key Observation:* People interested in in-store m-payments tend to be younger males who hold a higher level of education, live in London, and own an Apple smartphone. As expected, iPhone users outpace others, given that Apple Pay launched in the U.K. well before other m-payment platforms were established in-market.

**Graph 11:**

*Analysis of in-store m-payment usage*

**In-Store M-Payments Usage by Age**

<table>
<thead>
<tr>
<th>Age</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>35%</td>
</tr>
<tr>
<td>25-34</td>
<td>40%</td>
</tr>
<tr>
<td>35-44</td>
<td>23%</td>
</tr>
<tr>
<td>45-54</td>
<td>13%</td>
</tr>
<tr>
<td>55-64</td>
<td>4%</td>
</tr>
<tr>
<td>65 &amp; older</td>
<td>3%</td>
</tr>
</tbody>
</table>

**In-Store M-Payments Usage by Regions**

- London: 40%
- Rest of the U.K.: 60%

**In-Store M-Payments Usage by Smartphone Type**

- Apple: 36%
- Android: 16%
- Others (e.g., BlackBerry): 12%

**Profile of a Typical In-Store M-Payments User**

- Age: 26
- Phone: Apple
- Education: Graduate
- Region: London
- Gender: Male
The most popular in-store m-payment transaction is ‘Purchase coffee’ (69 percent). Most likely this is driven in part by the success of the Starbucks’ digital wallet and its loyalty programme.

The surprisingly high rankings of other activities such as clothes and electronics purchases may be attributed to the increasing number of POS terminals accepting contactless payments, Apple Pay’s reach among a broader set of U.K. banks and the emerging mobile strategy of banks incorporating an in-store m-payments option into their m-banking app, such as Barclay’s m-banking app.

**Key Observation:** Among the 24 percent to have used in-store m-payments, a correlation exists between region of provenance and in-store m-payments made for transportation tickets – 67 percent of Londoners have used in-store m-payment for transportation tickets versus 43 percent coming from other U.K. regions. Also, Hyper Digitals showed significantly higher usage levels for the overwhelming majority of in-store m-payment scenarios. (See Graph 12.) Considering the Rogers’ diffusion of innovation theory, the Hyper Digitals’ behaviour indicates long-term attractiveness for in-store m-payment transactions.

*Among the 24 percent of respondents reporting to have used an in-store m-payment in the listed scenarios at least three times over the six months prior to the survey.
FINDINGS & INSIGHTS

WHAT MIGHT DRIVE HIGHER IN-STORE M-_PAYMENTS IN THE COMING YEARS?

Our study findings revealed features that would attract consumers to in-store m-payments. ‘Security and fraud protection’ at 88 percent is the most compelling feature, followed by self-direction initiatives, with 81 percent expressing an interest in the ‘Ability to instantly check my balance.’ (Graph 13.) As with our previous study, immediacy and security functions represent compelling features that should further propel usage of in-store m-payments.

Loyalty incentives are attractive features too, which have gained popularity with over 70 percent preferring “Special offers or discounts provided at the time of purchase” and “Ability to install all my loyalty cards in the phone.” We believe loyalty programmes can significantly boost the use of in-store m-payments, especially in the U.K. market, where 94 percent of the population belongs to a loyalty scheme.14 Additional support for in-store m-payments is shown by U.K. consumers’ preference for “The ability to scan items in store” (72 percent) and “Not having to enter the PIN in the presence of clerks” (71 percent).

Graph 13: How influential would the following features be in attracting you to use mobile payments in-store on your smartphone?

<table>
<thead>
<tr>
<th>Feature</th>
<th>2015 Percentage</th>
<th>2016 Percentage</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security and fraud protection</td>
<td>87%</td>
<td>88%</td>
<td>+1%</td>
</tr>
<tr>
<td>Ability to instantly check my balance</td>
<td>77%</td>
<td>81%</td>
<td>+4%</td>
</tr>
<tr>
<td>Special offers or discounts provided at the time of purchase</td>
<td>67%</td>
<td>75%</td>
<td>+8%</td>
</tr>
<tr>
<td>Ability to install all my loyalty cards in the phone</td>
<td>68%</td>
<td>74%</td>
<td>+6%</td>
</tr>
<tr>
<td>Not having to enter my PIN in the presence of clerks</td>
<td>66%</td>
<td>72%</td>
<td>+6%</td>
</tr>
<tr>
<td>The ability to scan items in the store and check out on my smartphone</td>
<td>65%</td>
<td>71%</td>
<td>+6%</td>
</tr>
<tr>
<td>Reward program associated with the specific mobile app</td>
<td>65%</td>
<td>70%</td>
<td>+5%</td>
</tr>
<tr>
<td>Ability to leave my physical wallet at home</td>
<td>54%</td>
<td>65%</td>
<td>+11%</td>
</tr>
<tr>
<td>Instant application and approval of a new credit card account directly from your phone</td>
<td>49%</td>
<td>64%</td>
<td>+15%</td>
</tr>
</tbody>
</table>

*Percentage of respondents selecting “Somewhat Influential,” “Influential” and “Very Influential.”
FINDINGS & INSIGHTS

U.K. CONSUMERS’ PROPENSITY TO USE IN-STORE M-PAYMENTS

Although the current usage level of in-store m-payments is 24 percent, the potential is promising. Sixty-eight percent of respondents reported an expectation to use in-store payments in the next two years, and 45 percent of these respondents would use in-store m-payments for at least 50 percent of their purchases. While interest does not always translate to behaviour, respondents remain bullish with their attitudes for short- to mid-term usage of in-store m-payments. (Graph 14.)

TYPE OF PAYMENT METHOD WITH IN-STORE M-PAYMENTS

The 68 percent of respondents likely to use in-store m-payments in the next two years were asked how apt they would be to use different methods for making them. “Debit Cards” and “Credit Cards” ranked highest with 72 percent and 65 percent of the sub-segment indicating they would be “likely” or “very likely” to use them. “Direct from your bank account” came in at 55 percent and “Prepaid Card” at 40 percent. (Graph 15.)

Taking into account both the U.K. consumers’ security concerns with in-store m-payments and the secure nature of credit cards, we were surprised to discover that debit card outpaced credit card for most likely payment method.

*Percentage of respondents selecting ‘Somewhat Likely’ or ‘Extremely Likely’
Authentication technologies continue to advance, particularly with the steady emergence of new fintech players. When it comes to using m-payment apps for in-store payments, respondents trust their payment providers to safeguard their personal financial information more than other types of companies. However, consumers’ sentiment has dipped slightly over the course of the past year. (See Graph 16.)

While many mobile device manufacturers and fintech start-ups are launching new apps promising users a secure and easy mobile payment experience, banks should act now to leverage this position of trust before it is eroded by newer entrants.

Graph 16:
There are a number of sources from which you can get an app for your smartphone to facilitate making a mobile payment. Whose mobile payment app would you most trust to safeguard your personal and financial information?

<table>
<thead>
<tr>
<th>Source</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>My primary financial institution/bank</td>
<td>62%</td>
<td>54%</td>
</tr>
<tr>
<td>Payment card scheme (e.g., Visa, Mastercard, American Express)</td>
<td>18%</td>
<td>26%</td>
</tr>
<tr>
<td>Mobile device manufacturer (e.g., Apple, Nokia, Samsung, Blackberry, etc.)</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Online retailer (e.g., Amazon, Ebay, Argos, ASOS, etc.)</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Mobile network operator (e.g., Vodafone, EE, O2, Three, etc.)</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Mobile device operating system provider (e.g., Android, Microsoft, etc.)</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>High street retailer (e.g., Currys, M&amp;S, Boots, etc.)</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>
The Potential of P2P Payments

P2P payments are the method where cardholders can transfer funds from their bank account or credit card to another individual’s account via the Internet or a mobile phone. They can allow people to transfer money more efficiently and at a lower cost, eliminating the need to visit a money transfer agency, using cheques or finding an ATM for cash. Business Insider forecasts global growth of P2P transfers and remittances at a CAGR of 45 to 50 percent between 2016 and 2018. This represents a potential global market value of nearly £700 billion.\(^{15}\)

Our study found that 81 percent of respondents claimed familiarity with P2P payments and 34 percent claimed to have used them. Again, Hyper Digitals lead the way, being the most active users of this technology. (Graph 17.)

**Key Observation:** Reported P2P usage, at 34 percent of respondents, is outpacing in-store m-payments by 10 percent.

---

**Graph 17: Usage and Awareness Levels of P2P Payments**

<table>
<thead>
<tr>
<th>Awareness Level</th>
<th>Usage Level of P2P Payments in the Prior Six Months Across Digital Adoption Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>81%</td>
<td>Hyper: 51%</td>
</tr>
<tr>
<td></td>
<td>Accomplished: 43%</td>
</tr>
<tr>
<td></td>
<td>Emerging: 14%</td>
</tr>
<tr>
<td></td>
<td>Overall: 34%</td>
</tr>
</tbody>
</table>
After explaining the concept of P2P payments to the 66 percent who had not used it, only 24 percent indicated they would be “Likely” or “Very Likely” to use P2P payments in the next year. (Graph 18.)

**Key Observation:** Our findings indicate that 15 percent of respondents use both P2P and in-store m-payments. (Graph 19.)

**Usage Level of P2P Payments by Sociodemographics and Smartphone Ownership**

**Key Observation:** For P2P payments, we saw a correlation between usage level and different sociodemographic factors. Younger consumers with a higher level of education, who earn a higher income and who own an Apple smartphone tend to be more likely to use P2P payments.

We also identified the percentage of overall U.K. respondents reporting to have used both P2P and in-store m-payments. We discovered that 15 percent of U.K. respondents used both of the above mentioned payment methods. Moreover, we found a significant association between the two payment methods. It means that people that use P2P payments are likely to use m-payments in-store and vice versa.
Graph 20: Analysis of P2P payment usage

### Profile of a Typical P2P Payment User

- **Age:** 28
- **Education:** Graduate
- **Income:** £55,000

#### P2P Payment Usage by Age

- 18-24: 52%
- 25-34: 42%
- 35-44: 36%
- 45-54: 27%
- 55-64: 16%
- 65 & older: 0%

#### P2P Payment Usage by Income Level

- Less than £20,000: 31%
- £20,000 - £30,000: 26%
- £30,000 - £50,000: 38%
- £50,000 - £75,000: 37%
- £75,000 - £125,000: 50%
- £125,000 or more: 53%

#### P2P Payment Usage by Educational Level

- Below GCSE / O-Level: 24%
- A-Level or Equivalent: 27%
- Bachelor or Postgraduate: 42%

#### P2P Payment Usage by Smartphone Type

- Apple: 43%
- Android: 29%
- Others (e.g., BlackBerry): 24%
CONSUMER TRUST LEVEL BY P2P PAYMENTS FACILITATOR

Key Observation: The top three sources consumers trust for P2P payments are “My primary financial institution/bank (Mobile banking app)” (63 percent), “Payment card scheme” (63 percent) and “Specialist digital wallet provider” (56 percent). (Graph 21.) The level of trust consumers place in digital wallets such as PayPal and Paym is interesting. Consumers’ trust met by a positive customer experience could encourage adoption, helping P2P payments reach a tipping point.

Graph 21: There are a number of sources that facilitate making P2P payments. How likely would you be to trust the following types of organizations to safeguard the payment transaction?

*Percentage responding either “Likely” or “Very Likely.”
**FINDINGS & INSIGHTS**

**Drivers of P2P Payments Growth**

Our study found that the number-one feature that could influence consumers to use P2P payments is “Guaranteed security and fraud protection” (61 percent) followed closely by “Guaranteed reliability” (58 percent) and “Presence of an established consumer protection regulation” (55 percent). (Graph 22.) This is consistent with findings detailed in Graph 21. When it comes to P2P payments, consumers would be more likely to trust players with an established and reliable reputation in the banking and payment ecosystem such as banks and payment card providers. Other influencers that could play a crucial role are related to the immediacy and convenience (low or zero commission transfer fee).

Currently, a high level of uncertainty surrounds the P2P payments as they relate to reliability and regulatory oversight. Until this is resolved, established banks should take steps to understand how to leverage this technology and their enviable position of trust.

*Percent responding either “Influential” or “Very influential”*
Location-Based Services (LBS)

LBS use real-time geo-data from a mobile device or smartphone to provide information, entertainment or security. Some services allow consumers to “check in” at restaurants, coffee shops, stores, concerts, and other places or events. Today, companies use LBS in several ways, from store locators and gaming to fraud-location for credit cards.

**PIONEERS OF LBS: UBER, STARBUCKS AND, YES, POKÉMON GO**

One of today’s most popular apps relying on LBS is Uber®, Based on the location of one’s phone when in use, the app is able to signal a car and suggest how quickly the driver can reach the designated pick-up location. The coffeehouse chain Starbucks represents an example of how to apply an LBS marketing strategy. In the U.S., Starbucks uses location-based communication to enhance the customer experience by providing personalised promotions and offers on customers’ mobile devices. Pokémon Go®, a gaming app launched in the U.K. in July, has been met with phenomenal popularity. The smartphone app uses LBS to allow users to travel between real and virtual Pokémon® worlds and merchants are racing to incorporate their physical locations into the gaming experience. For payment providers, the explosive rise of Pokémon Go has brought heightened awareness to LBS and is set to help marshal in a new era in which consumers accept and indeed expect LBS offers.

**THE POTENTIAL OF LBS**

Considering the treasure trove of data held by banks, LBS offers the potential for partnership marketing agreements between banks and merchants, programmes commonly referred to as card-linked offers. This year, our study asked questions related to LBS to assess the potential within this new revenue stream.

Our research findings reveal that 52 percent of U.K. consumers would be open to receiving offers/discounts on their smartphone from restaurants, merchants or coffee shops when they are within close proximity. (Graph 23.)

Graph 23:
How open would you be to receiving offers/discounts sent directly to your smartphone from a restaurant, merchant or coffee shop when you’re in the vicinity?

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely likely</td>
<td>17%</td>
</tr>
<tr>
<td>Somewhat likely</td>
<td>35%</td>
</tr>
<tr>
<td>Neither likely nor unlikely</td>
<td>25%</td>
</tr>
<tr>
<td>Somewhat unlikely</td>
<td>8%</td>
</tr>
<tr>
<td>Extremely unlikely</td>
<td>15%</td>
</tr>
</tbody>
</table>
**Key Observation:** People living in London and the South East and those owning an iPhone would be more likely to use LBS. Beyond those two characteristics, however, it is too early to identify a “typical” profile of a U.K. LBS user. This is interesting since in the past adoption of such technologies was often associated with the younger and better-educated consumers. In the digital era, this may no longer be the case. When it comes to loyalty and discount programmes, consumers of all walks tend to be more motivated to share their personal data and even sacrifice their privacy in return for something of value to their individual lifestyles. (Graph 25.)

The high propensity to use LBS prompted us to seek a deeper understanding of which consumer segments would particularly embrace such options.

**FACTORS INFLUENCING CONSUMERS TO USE LBS**

As expected, the primary factor driving consumer adoption of LBS is “Consumer privacy protection” (61 percent). Also, when it comes to LBS, consumers ranked discounts and loyalty rewards high at 58 and 56 percent respectively. Finally, preferential customer treatment has a lower impact on consumers’ decision-making process related to LBS. (Graph 25.)

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**Graph 24:**
Statistical analysis related to LBS

**Graph 25:**
When it comes to location-based services (LBS), how influential are the following features to you?

- Consumer privacy protection: 61%
- Discounts: 58%
- Loyalty rewards: 56%
- Free WiFi: 52%
- Preferential customer treatment (e.g., Jump the queue): 48%

*Percentage responding either “Influential” or “Very Influential”*
Conclusion
The Impact to Payment Providers

As indicated in the **2016 U.K. Consumer Payments Study**, the Hyper Digitals will spur the tipping point with the adoption of new technologies. Monitoring their attitudes and behaviours will help payment providers develop forward-looking strategies aligned with the market’s trajectory.

Payment providers should pay attention to early adopters, as their behaviour can be predictive of industry trends. Analysing early adopter attitudes toward many different payment features and scenarios in their relationship with payment providers can reveal strong indicators of how consumers are shaping a market’s direction. Delivering features and functionality that delight early adopters today will put payment providers in a better competitive position.
CONCLUSION

TAKE ADVANTAGE OF FIRST-MOVER ADVANTAGES TO PARTNER WITH FINTECH.

New entrants in the fintech community are making inroads on the consumer end of the payments value chain, at the user experience and interface level. However, they still fall short with security and compliance.

When it comes to digital payments, the longstanding imperative to balance security and convenience has never been more critical. Consumers are less willing to accept trade-offs between security and convenience, they expect both. This is opening up new opportunities for collaboration and partnership between established payment providers and nimble fintech players who excel at user experience while investing in the latest risk technologies.

STIMULATE CONSUMERS’ NEED TO BE IN CONTROL.

The most used feature of the mobile bank is transferring money between accounts, allowing consumers to control their finances. Payment providers should look for new ways to extend additional controls to their consumer base, whether monitoring and controlling spending on specific categories or helping the consumer manage within their own limits and enabling alerts to help them stay on top of their financial position before reaching a consumer-defined barrier.

REASSERT BRANDS INTO THE IN-APP PAYMENT PROCESS.

App fatigue is a growing likelihood, as consumers will likely find it increasingly inconvenient to have a different app for each distinct activity. Furthermore, in-app payments could lead to brand erosion, and payment providers who poorly present these in-app payment experiences will find themselves missing on a key touch point.

Providers not content with their current role in the in-app payment experience should look to reassert their brand into the payment process. As the payment itself is pushed to the background, it will be important for payment providers to leverage their relative position of trust to re-engage cardholders through increased loyalty initiatives.

EMBRACE P2P PAYMENTS TO REMAIN RELEVANT.

Payment providers that ignore P2P payments do so at their own peril. Paying friends and family quickly, with no fuss, is increasing in take-up. This experience will help to educate consumers on the benefits of m-payments, and mobile banking in general. As certain P2P apps gain traction with consumers, there’s an increased likelihood that consumers will experiment with m-payments from alternate providers, rendering m-banking apps to also-rans that are just for passive activities like balance inquiries.

LEVERAGE THE UNIQUE OPPORTUNITY TO DRIVE MARKETING-BASED REVENUE.

Increasing real-time and context is key for both communication and payments. Location-based services (LBS) is poised to play an increasingly critical role with cardholder engagement, especially when coupled with the value of transactional data. In light of the constant revenue pressures that payment providers face, LBS presents an interesting proposition with potential card-linked offers between banks and merchants. Geo-targeted offers can fulfill the promise of delivering the right offer at the right time to the right person – putting payment providers in a highly competitive position. While most any merchant or service provider can come along with beacon alert technology, the payment provider’s ability to leverage purchase data and consumer location is a powerful proposition that could make contextual marketing complete.
Study Methodology

This research is based on an online survey of 522 U.K. residents. The respondents covered diverse sociodemographics, including gender, age, income, occupational status and level of education.

To obtain a more representative sample of the target population, we applied a stratified random sampling approach. This involves dividing a population into smaller groups known as stratae. The stratae are formed based on members’ shared attributes or characteristics.16

We can say with 95 percent confidence and a margin of error of +/- five percent that our sample size of 522 respondents represents the approximately 32 million of people in the U.K. population that meet the following criteria:

- Hold a debit card
- Hold a credit card
- Own a smartphone
- Are 18 years of age or older

Graph 26:
Comparison between U.K. population over 18 that own a smartphone and TSYS sample
Graph 27: U.K. adult cardholders and smartphone owners

- **49 million** Debit card cardholders
- **51 million** U.K. population over 18 years old
- **32 million** Credit card cardholders
- **33 million** Smartphone owners over 18 years old

*Graph not to scale*
Sources

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11. eMarketer, (2015). UK Retail Ecommerce Sales to Reach £60 Billion This Year. [Online]. Available at: http://www.emarketer.com/Article/UK-Retail-Ecommerce-Sales-Reach-60-Billion-This-Year/1012963
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Before joining TSYS in 2008, Morgan spent 15 years in sales and marketing positions in the U.S. and Latin America. He’s worked at start-ups and Fortune 500 companies.

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Dean has been in cards and payments for more than 10 years and approximately 20 years in information technology. Dean’s blue chip background includes start-up experience, and his speciality today is emerging technologies such as P2P, mobile payments, immediate payments, digital banking, tokenization, and alternative payments styles.

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