FINTECH ADOPTION IN THE UNITED STATES: THE OPPORTUNITY FOR BANKS AND CREDIT UNIONS

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EXECUTIVE SUMMARY

Despite the attention that leading fintech startups get in the press, actual consumer adoption is quite low. Across a range of 50 leading startups, only a handful have reached 1% consumer penetration. Many bankers know that and tend to write off the startups as potential competitors. But the adoption numbers obscure the extent to which consumers would consider fintech startups if they were in the market for financial products.

To measure the overall adoption of fintech among U.S. consumers, Cornerstone Advisors computed a **Fintech Adoption Index** taking into account the percentage of consumers who have used a fintech startup (including neobanks, savings tools, lender, robo-advisors, insurtech firms and international remittance startups) or would consider one the next time they were in the market for a financial product or service. The **Fintech Adoption Index** is a measure of the acceptance of fintech startups as alternatives or adjuncts to traditional financial providers.

An index score of more than 85 indicates mainstream acceptance. For 2018, the Q2 **Fintech Adoption Index** stands at 46%, with a wide variation by generation, ranging from 27% among Baby Boomers to 63% among Older Millennials. At 54%, Gen Xers aren't far behind Older Millennials in the index and are significantly ahead of Younger Millennials at 37%.

Although many industry observers believe that fintech startups represent a disruptive force that will ultimately drive established institutions out of the market, there is an alternative path—one that's profitable (and perhaps preferable) to both financial institutions and fintech startups: Partnerships with banks and credit unions playing a central role. Many consumers—Older Millennials in their 30s and Gen Xers, in particular—say they would definitely use a capability provided by their bank or credit union to integrate fintech offerings.

OVERVIEW

Following the financial crisis of 2008 and the emergence of fintech startups, pundits predicted the death of banks. Books with titles like *The End of Banking and Bye Bye Banks?* were published. To be fair, it wasn't all doom and gloom—at least the author of *Bye Bye Banks*? put a question mark at the end of his title.

But banks didn't disappear, of course. The zeitgeist changed and the new mantra was bank/fintech partnerships and we began to see publications with titles like *Building a Better Bank Through Fintech Partnerships and Global Payments: How Fintech Partners Are Helping Banks Transform*. Few banks and credit unions can effectively partner with a meaningful number of fintech partners, however-they simply don't have the resources and competencies to do.

Even if they did, where would they start? Which fintech startups are gaining traction in the market and are worth partnering with? Do consumers even want their banks and credit unions to partner with fintech firms? And if they do, how would those financial institutions integrate those fintech startups, from both a product and technological perspective?

This report will help answer some of these questions. In Q3 2018, Q2 and Cornerstone Advisors surveyed 2,436 U.S. consumers between the ages of 21 and 72 who have a checking account and smartphone. We asked about their awareness, use and future consideration of fintech startups, as well as their behaviors and attitudes toward other fintech-related activities.

The objective of the study is to help financial services executives understand how deep fintech adoption and penetration is, identify which consumer segments are using (or would use) fintech services, and what that adoption and consideration means to banks and credit unions.

PERSON-TO-PERSON PAYMENTS

Despite offering person-to-person (P2P) payment capabilities on their online banking platforms for years, few banks and credit unions saw much digital P2P payment adoption. It's little wonder: Who wants to pay $1 per transaction to make payments? But that lack of adoption masked the account-to-account (A2A) transaction activity consumers were engaging in.

Today, the percentage of consumers using their bank to make P2P payments exceeds that of the popular P2P providers except for PayPal. Interestingly, across six of the most popular P2P payment methods, adoption among Older Millennials is higher than it is among Younger Millennials. In fact, across the payment methods, adoption among Gen Xers is nearly equal to that of the Younger Millennials (Table A).

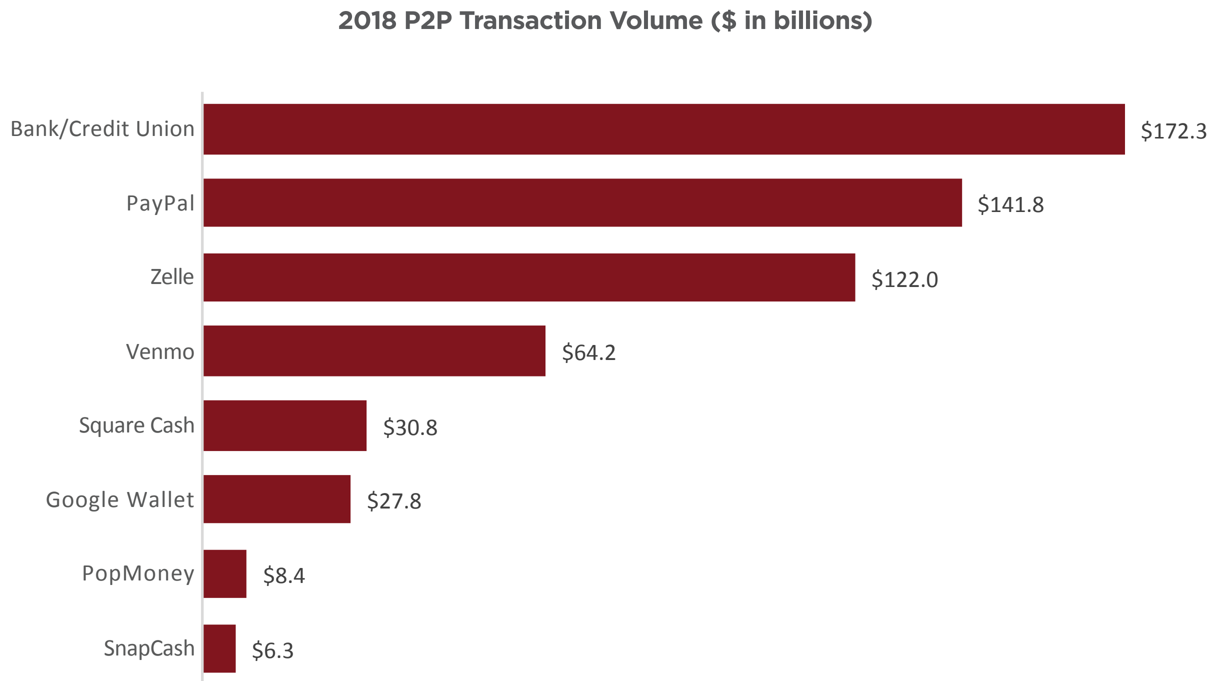
TABLE A: **Digital P2P Provider Adoption by Generation**

Digital P2P Provider	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)	All Consumers
PayPal	38%	64%	55%	31%	48%
Bank	26%	37%	30%	15%	27%
Venmo	26%	34%	25%	10%	22%
Google Wallet	14%	20%	16%	4%	13%
Square Cash	16%	17%	15%	4%	12%
Zelle	11%	20%	14%	5%	12%
PopMoney	10%	10%	8%	2%	7%
SnapCash	11%	10%	7%	1%	6%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Consumers will rack up roughly $478 billion in P2P payments in 2018—63% of that going through their banks or credit unions, either by A2A transfers, Zelle or PopMoney (Figure 1).

FIGURE 1: **2018 P2P Transaction Volume by Provider**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

A key behavioral difference across the generations is the number of P2P providers they use. Roughly half of consumers between the ages of 21 and 53 use three or more providers. In contrast, just about a quarter of Boomers do so (Table B).

TABLE B: **Number of Digital P2P Providers Used by Generation**

Number of Digital P2P Providers Used	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
One	25%	16%	13%	33%
Two	24%	38%	38%	43%
Three to four	22%	25%	31%	18%
Five to six	29%	21%	19%	6%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Despite lower adoption rates among Younger Millennials and Baby Boomers (compared to the other two generation segments), these two segments are accounting for higher dollar volume of mobile P2P payments (Table C). Why? Two theories: 1) Younger Millennials split rent and utility bills and pay each other for that, and 2) Boomers are sending money for school, rent, etc., to their kids.

TABLE C: **2018 Digital P2P Dollar Volume per Person by Generation**

Digital P2P Provider	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)	All Consumers
Bank/Credit Union	$2,080	$1,469	$1,307	$2,395	$1,631
PayPal	$1,660	$816	$857	$918	$943
Venmo	$874	$523	$293	$345	$427
Zelle	$49	$470	$328	$270	$326
Square Cash	$66	$248	$146	$363	$205
Google Wallet	$800	$107	$96	$157	$185
PopMoney	$104	$40	$69	$21	$56
SnapCash	$109	$36	$35	$28	$42
Total Digital P2P	**$5,742**	**$3,709**	**$3,131**	**$4,497**	**$3,815**

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Reports of Zelle's P2P volume emphasize a higher dollar per transaction than Venmo.[1] This is driven by the Gen Xers and Boomers. Conversely, P2P dollars per Venmo transaction are larger among Millennials than among Gen Xers and Boomers—supporting our theories about splitting rent and utility bills (Table D).

TABLE D: **Mobile P2P Dollars per Transaction by Provider and Generation**

Digital P2P Provider	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Bank/Credit Union	$130	$122	$131	$218
PayPal	$151	$43	$71	$115
Venmo	$175	$105	$73	$58
Zelle	$25	$94	$164	$270
Square Cash	$22	$83	$73	$121
Google Wallet	$40	$54	$48	$157
PopMoney	$52	$40	$69	-
SnapCash	$55	$36	-	-

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

SO WHAT

Mobile P2P payments isn't a winner-take-all game: Half of consumers below the age of 54 use three or more providers. Banks and credit unions are getting a share of the pie—and the expansion of Zelle may further drive volume to financial institutions—but they will have to operate in an environment where consumers make choices on which P2P provider to use on a transaction-by-transaction basis, and will have to learn how to provide value in a multi-provider world.

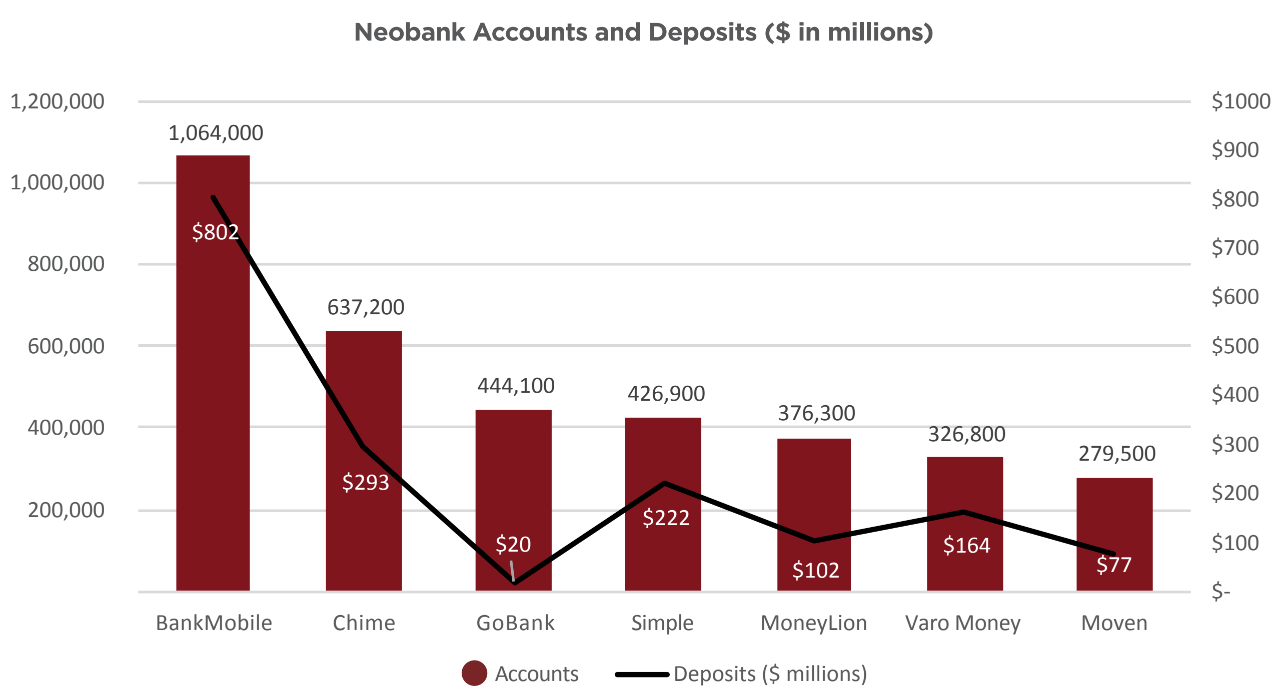
In addition, the rise of Zelle as a P2P payment force shouldn't surprise anyone. Much of the transaction volume going through the network simply reflects a relabeling of the P2P volume that was already being transacted by the member institutions.

NEOBANKS

The ratio of noise-to-activity was high when neobanks like Simple and Moven first appeared on the scene nearly 10 years ago. After some early boasting (and repudiation) of customer adoption, things quieted down for a while.

Neobank activity has (more) quietly picked up steam in recent years, however. BankMobile, launched in 2016, is currently the largest neobank in the United States with roughly one million accounts and $800 million in deposits (Figure 2). Deposits held at seven of the leading neobanks total $1.68 billion, about 0.014% of all deposits held in U.S. banks.

FIGURE 2: **Neobank Accounts and Deposits**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

The account and deposit number belie the interest certain consumer segments have in doing business with neobanks, and the numbers may be surprising. After the recent launch of Greenhouse, Wells Fargo's digital bank, Peggy Mangot, the Wells Fargo executive in charge of the effort, said:

> *"The app's target audience is younger consumers and students who are new to banking and learning about personal finance and budgeting."*

She and Wells may be surprised. When asked about their awareness, use and consideration of seven leading neobanks, it was Older Millennials and Gen Xers—not Younger Millennials—who expressed the most interest and involvement (Table E).

TABLE E: **Awareness, Use and Consideration of Neobanks**

Neobank	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
BankMobile	Not aware of this company	74%	65%	70%	89%
	Aware, no account, WOULD NOT consider	20%	23%	19%	8%
	Aware, no account, WOULD consider	5%	12%	10%	3%
	Have an account with this company	0.5%	0.9%	1.0%	0.2%
Chime	Not aware of this company	78%	59%	69%	91%
	Aware, no account, WOULD NOT consider	16%	29%	23%	7%
	Aware, no account, WOULD consider	5%	11%	8%	1%
	Have an account with this company	0.2%	0.6%	0.6%	0.2%
GoBank	Not aware of this company	79%	69%	74%	91%
	Aware, no account, WOULD NOT consider	16%	20%	17%	7%
	Aware, no account, WOULD consider	5%	11%	9%	2%
	Have an account with this company	0.1%	0.5%	0.4%	0.1%
Moven	Not aware of this company	84%	70%	78%	95%
	Aware, no account, WOULD NOT consider	12%	20%	15%	4%
	Aware, no account, WOULD consider	4%	9%	7%	1%
	Have an account with this company	0.1%	0.3%	0.2%	0.1%
Simple	Not aware of this company	78%	67%	75%	93%
	Aware, no account, WOULD NOT consider	18%	24%	18%	6%
	Aware, no account, WOULD consider	4%	9%	7%	1%
	Have an account with this company	0.4%	0.5%	0.3%	0.1%
Varo Money	Not aware of this company	81%	72%	78%	95%
	Aware, no account, WOULD NOT consider	15%	19%	14%	4%
	Aware, no account, WOULD consider	4%	8%	7%	1%
	Have an account with this company	0.2%	0.3%	0.3%	0.0%
MoneyLion	Not aware of this company	77%	61%	71%	91%
	Aware, no account, WOULD NOT consider	17%	26%	20%	7%
	Aware, no account, WOULD consider	6%	12%	9%	2%
	Have an account with this company	0.3%	0.4%	0.3%	0.1%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

SO WHAT

The debut of neobanks was heralded as the death of traditional banks. That didn't happen, of course. But consumers have opened more than 3.5 million neobank accounts—in addition to their existing checking accounts. Why? Consumers are "accessorizing" their checking accounts by adding, and often linking, accounts from neobanks (and, as we will see, from savings tools) to take advantage of better debit card rewards, personal financial management features, and higher savings rates.

SAVINGS TOOLS

As the interest rate on savings accounts languished near zero for the past few years, and as personal financial management (PFM) tools focused on budgeting instead of helping consumers save money and optimize their financial lives, new fintech savings tools emerged including:

- **Acorns.** Acorns takes "spare change" and invests it on behalf of its customers. The app encourages users to invest their spare change using a system Acorns calls "round-ups." Acorns monitors users' accounts and automatically invests the change from daily purchases.

- **Debitize.** Debitize makes credit cards behave like debit cards by automatically paying off credit card purchases from the user's checking account (although users can still use their credit cards even if they lack the funds to pay off the purchase right away).

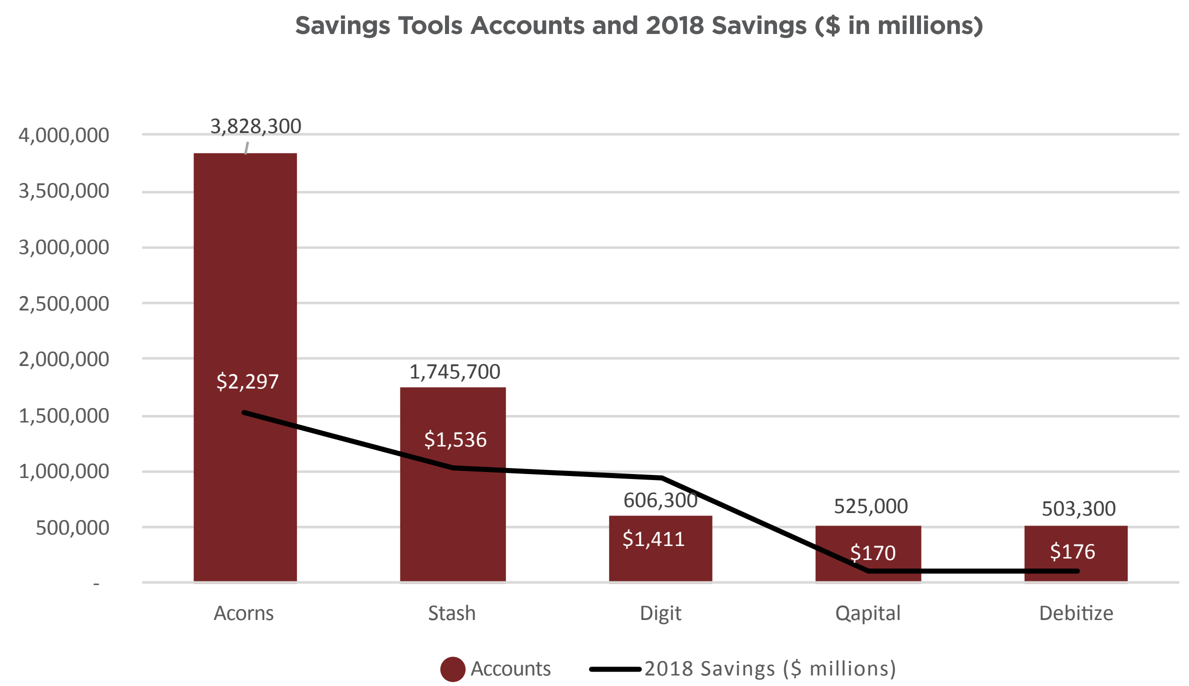
- **Digit.** Digit analyzes users' spending behavior, determines how much can be safely saved, and then automatically transfers small-dollar amounts from users' checking accounts to Digit-managed accounts on their behalf.

- **Qapital.** Founded in 2015, Qapital is a rules-based savings tool that enables users to set up rules—e.g., "Save a dollar every time I buy a coffee," or "Save $2 any time I use a credit or debit card"—to help users save more money.

- **Stash.** Stash trains people how to invest and save by doling out points and advice as they demonstrate certain behaviors. The firm's Smart Save savings account product analyzes users' spending and earning patterns and then automates savings on their behalf.

Across these five startups, consumers have opened roughly 7.2 million accounts. Users of these savings tools will save about $5.6 billion in 2018 (Figure 3).

FIGURE 3: **Fintech Savings Tools Accounts and 2018 Savings**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Similar to the neobank findings, Older Millennials and Gen Xers display higher consideration and adoption for savings tools than Younger Millennials (Table F).

TABLE F: **Awareness, Use and Consideration of Fintech Savings Tools**

Savings Tool	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Acorns	Not aware of this company	65%	49%	55%	77%
	Aware, no account, WOULD NOT consider	15%	15%	13%	12%
	Aware, no account, WOULD consider	14%	29%	27%	10%
	Have an account with this company	2.7%	3.5%	3.0%	0.85%
Debitize	Not aware of this company	84%	74%	81%	96%
	Aware, no account, WOULD NOT consider	12%	18%	12%	3%
	Aware, no account, WOULD consider	4%	8%	6%	1%
	Have an account with this company	0.2%	0.5%	0.4%	0.0%
Digit	Not aware of this company	82%	66%	75%	94%
	Aware, no account, WOULD NOT consider	13%	23%	17%	5%
	Aware, no account, WOULD consider	5%	10%	8%	1%
	Have an account with this company	0.3%	0.7%	0.4%	0.1%
Qapital	Not aware of this company	81%	72%	79%	96%
	Aware, no account, WOULD NOT consider	14%	18%	14%	3%
	Aware, no account, WOULD consider	5%	9%	7%	1%
	Have an account with this company	0.3%	0.5%	0.4%	0.0%
Stash	Not aware of this company	71%	55%	62%	87%
	Aware, no account, WOULD NOT consider	20%	30%	24%	9%
	Aware, no account, WOULD consider	8%	14%	12%	3%
	Have an account with this company	1.3%	1.2%	1.3%	0.3%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

SO WHAT

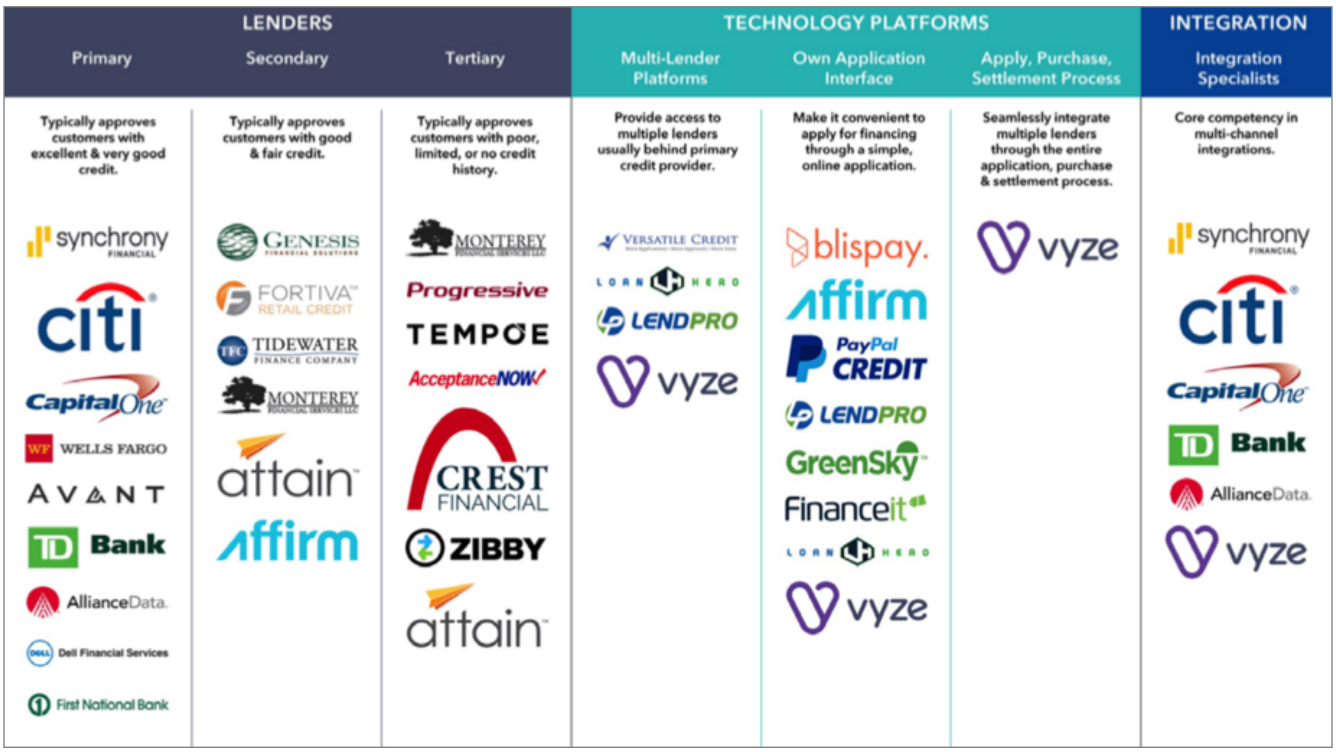
Fintech savings tools represent both threats and opportunities to banks and credit unions. On the threat side, these tools often take funds out of one bank and put them in another. On the opportunity side, financial institutions may be able to partner with, and integrate, these tools into their own offerings to expand their services offerings and keep the money in-house.

LENDING

POINT OF SALE FINANCING

New players have entered the point-of-sale financing (POSF) market in recent years, bringing not just digital capabilities to the table but new business models—platforms—to introduce efficiencies and opportunities to the market (Figure 4).

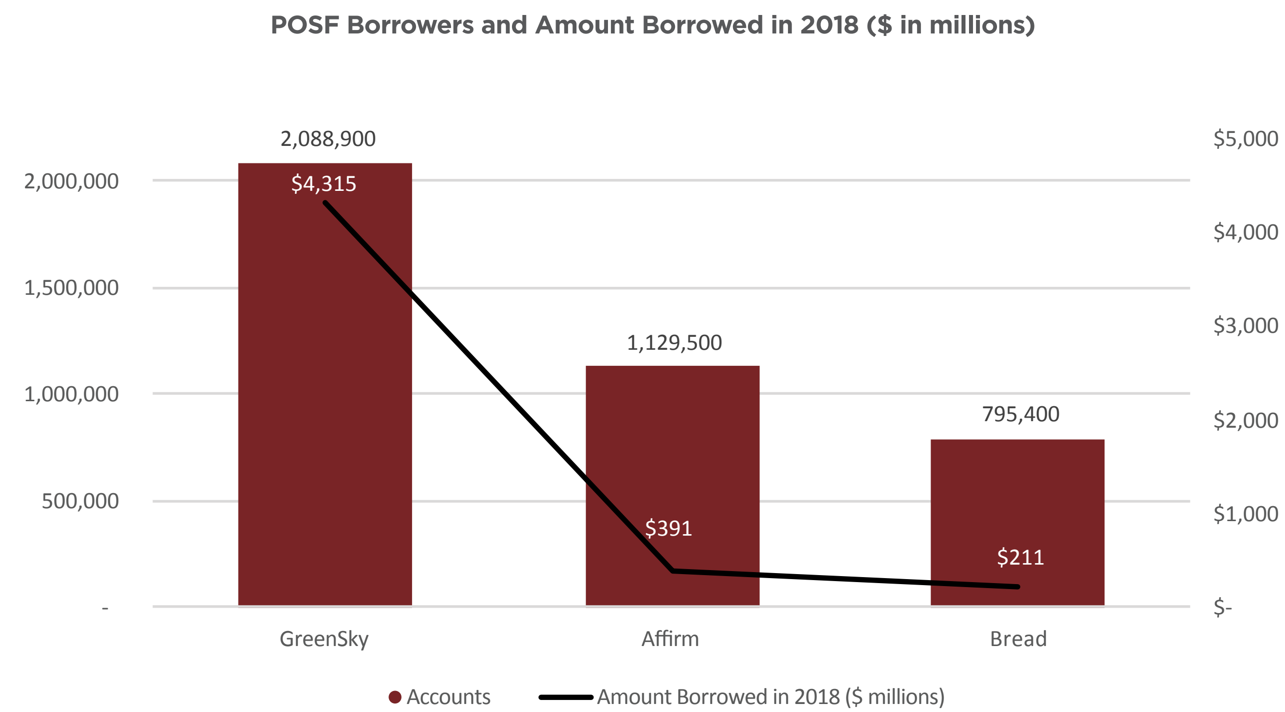
FIGURE 4: **The Point-of-Sale Financing Landscape**



Source: Vyze

Despite the historical dominance of large banks and providers like Wells Fargo and Synchrony Financial in this space, fintech startups like Affirm, Bread and GreenSky are gaining traction among consumers.

FIGURE 5: **Fintech Point-of-Sale Financing Borrowers and Amount Borrowed in 2018 ($ in millions)**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Once again, awareness, consideration and adoption are highest among Older Millennials and Gen Xers—except for GreenSky, which has attracted Younger Millennials (Table G).

TABLE G: **Awareness, Use and Consideration of POSF Fintech Providers**

Neobank	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Affirm	Not aware of this company	81%	71%	76%	94%
	Aware, no account, WOULD NOT consider	15%	19%	16%	4%
	Aware, no account, WOULD consider	4%	8%	8%	2%
	Have an account with this company	0.3%	1.2%	0.6%	0.2%
Bread	Not aware of this company	84%	75%	78%	96%
	Aware, no account, WOULD NOT consider	12%	17%	14%	3%
	Aware, no account, WOULD consider	4%	8%	7%	1%
	Have an account with this company	0.4%	0.7%	0.5%	0.0%
GreenSky	Not aware of this company	82%	72%	78%	94%
	Aware, no account, WOULD NOT consider	12%	18%	15%	4%
	Aware, no account, WOULD consider	4%	8%	6%	1%
	Have an account with this company	2.3%	1.9%	0.9%	0.3%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

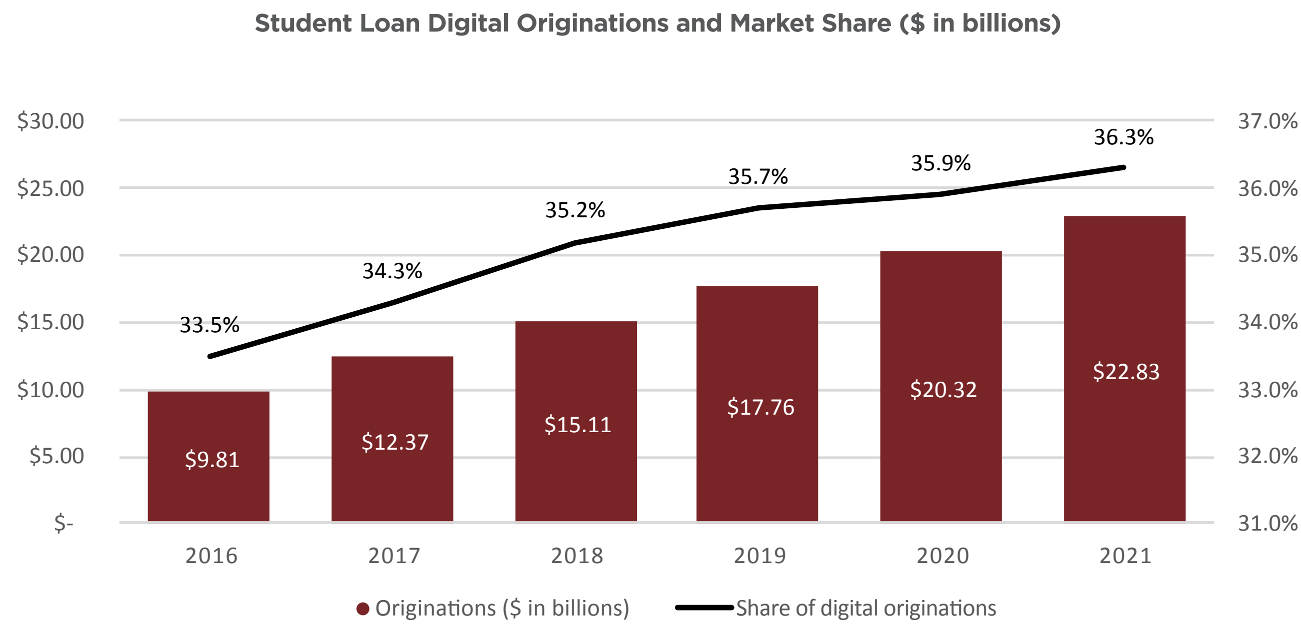
SO WHAT

Younger consumers are shifting payment behavior away from credit card spending (with unpredictable interest payments) to point-of-sale financing (with more predictable payment streams). The result is a potential loss in interchange revenue for banks and credit unions. As consumer loan growth has become a top priority for banks to diversify their loan portfolios (which is currently over-weighted with commercial loans), POS lending provides the portfolio diversification banks need.

STUDENT LOANS

Overall, digital student loan originations will more than double between 2016 and 2021, from $9.8 billion to more than $22.8 billion. As a share of all digital loan originations, student loans will grow from 33.5% to 36.3% of the loan volume (Figure 6).[2]

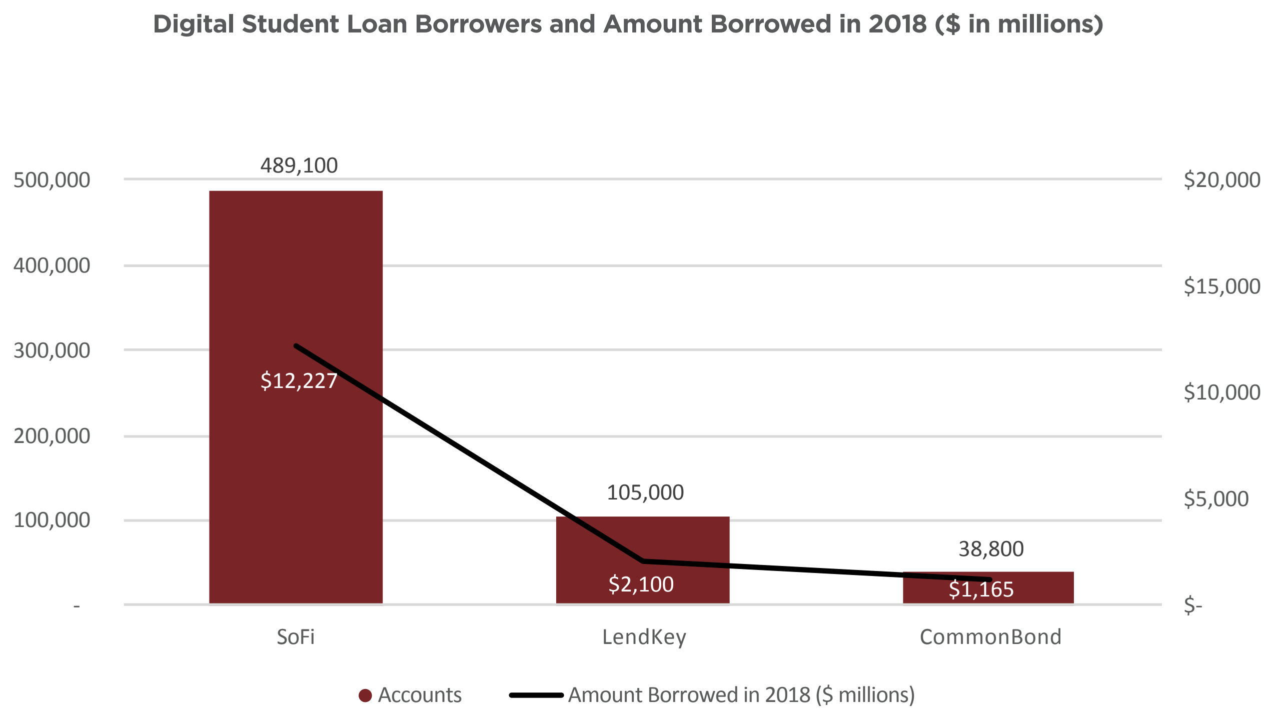
FIGURE 6: **Digital Student Loan Forecast**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Three fintech startups—each with a different business model—account for the lion's share of the 2018 estimate (Figure 7). SoFi burst onto the scene a few years ago, targeting graduates of the elite universities and focusing on helping them refinance their college loans. LendKey, on the other hand, has built a platform for financial institutions to offer private student loans and refis. Originally a lender to Master of Business Administration (MBA) students, CommonBond touts its social mission as a differentiator in the market.

FIGURE 7: **Digital Student Loan Borrowers and Amount Borrowed in 2018 ($ in millions)**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

With a 2018 ad budget of $200 million, SoFi is generating awareness, consideration and members—37% of Older Millennials and 32% of Gen Xers are familiar with the company (Table H).[3]

TABLE H: **Awareness, Use, and Consideration of Digital Student Loan Fintech Providers**

Neobank	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Common Bond	Not aware of this company	83%	73%	80%	96%
	Aware, no account, WOULD NOT consider	13%	19%	14%	3%
	Aware, no account, WOULD consider	4%	8%	6%	1%
	Have an account with this company	0.0%	0.0%	0.0%	0.0%
LendKey	Not aware of this company	86%	70%	76%	95%
	Aware, no account, WOULD NOT consider	10%	22%	17%	4%
	Aware, no account, WOULD consider	3%	8%	7%	1%
	Have an account with this company	0.0%	0.1%	0.1%	0.0%
SoFi	Not aware of this company	73%	63%	68%	82%
	Aware, no account, WOULD NOT consider	20%	25%	22%	14%
	Aware, no account, WOULD consider	7%	11%	10%	4%
	Have an account with this company	0.4%	0.4%	0.3%	0.0%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

SO WHAT

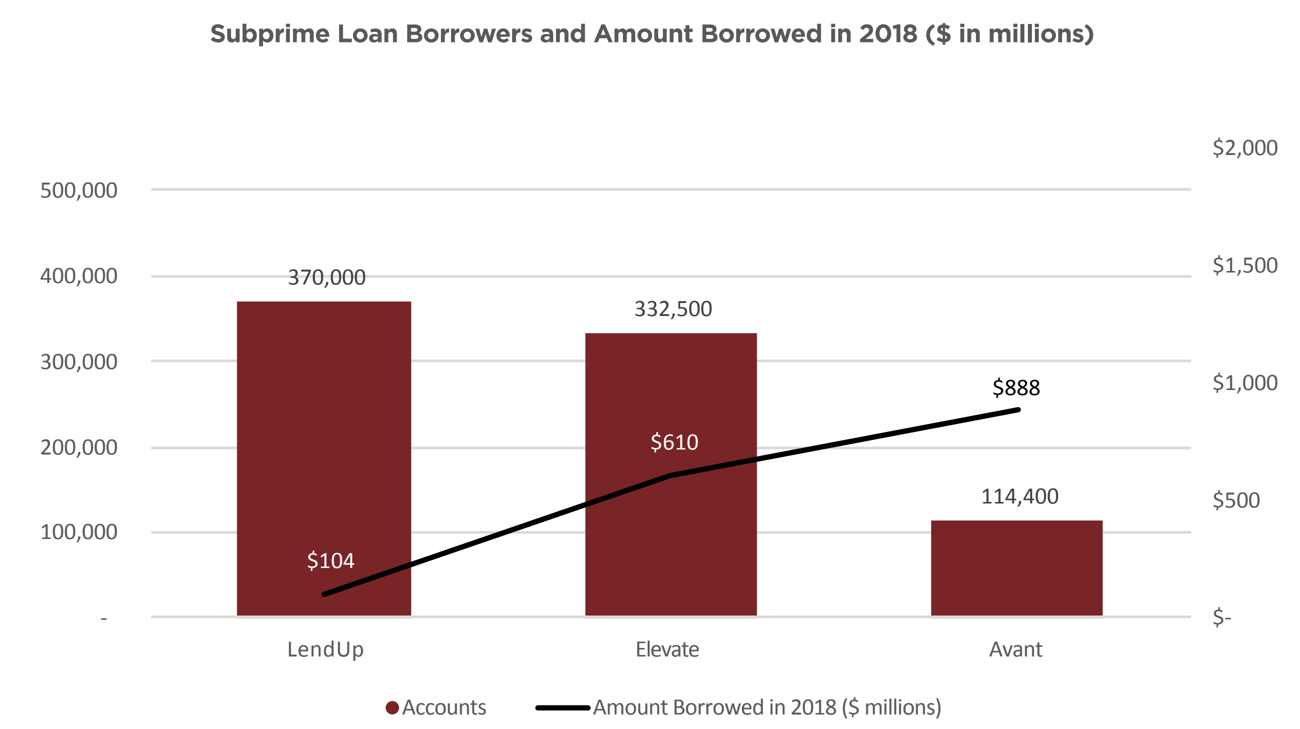
Talk of a student loan crisis often overlooks the distinction between federal and private loans. According to the Cleveland Federal Reserve, the increase in earnings from going to college more than offsets the cost of student loan payments for most borrowers. The business case for private student loans goes beyond the lending transaction, however. Two-thirds of consumers who take out student loans from their primary bank or credit union add additional products after the student loan, as did 60% of those who applied with an institution other than their primary institution.[4]

SUBPRIME LENDING

Fintech startups are stepping into a void left by credit card issuers: lending to customers with poor credit histories. Three have gained strong traction in the market over the past five years (Figure 8):

- **Avant.** Loans through Avant are geared toward borrowers with low credit scores who want to consolidate debt or need money for essential expenses.
- **Elevate.** Founded in 2005, Elevate offers three products: 1) Rise, a state-licensed online lender meeting their needs responsibly with unsecured installment loans and lines of credit; 2) Elastic, a bank-issued line of credit; and 3) Today, a Mastercard-issued credit card.
- **LendUp.** LendUp allows borrowers to earn points toward their next loan to access more money and lower rates where available. Points are earned by responsible borrowing behavior, like paying the loan on time and watching LendUp's credit education videos.

FIGURE 8: **Subprime Fintech Providers**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Among the three, Avant has particularly broad awareness among Older Millennials and Gen Xers, and, in fact, roughly one in five members of those demographic segments say they would consider the fintech if they were in the market for a loan (Table I).

TABLE I: **Awareness, Use and Consideration of Subprime Lending Fintech Providers**

Neobank	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Avant	Not aware of this company	77%	64%	68%	86%
	Aware, no account, WOULD NOT consider	14%	14%	12%	8%
	Aware, no account, WOULD consider	8%	22%	20%	6%
	Have an account with this company	0.06%	0.10%	0.07%	0.01%
Elevate	Not aware of this company	83%	71%	79%	96%
	Aware, no account, WOULD NOT consider	9%	11%	7%	1%
	Aware, no account, WOULD consider	8%	17%	14%	2%
	Have an account with this company	0.25%	0.38%	0.13%	0.04%
LendUp	Not aware of this company	83%	70%	75%	94%
	Aware, no account, WOULD NOT consider	10%	13%	10%	2%
	Aware, no account, WOULD consider	7%	17%	15%	4%
	Have an account with this company	0.21%	0.25%	0.25%	0.10%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

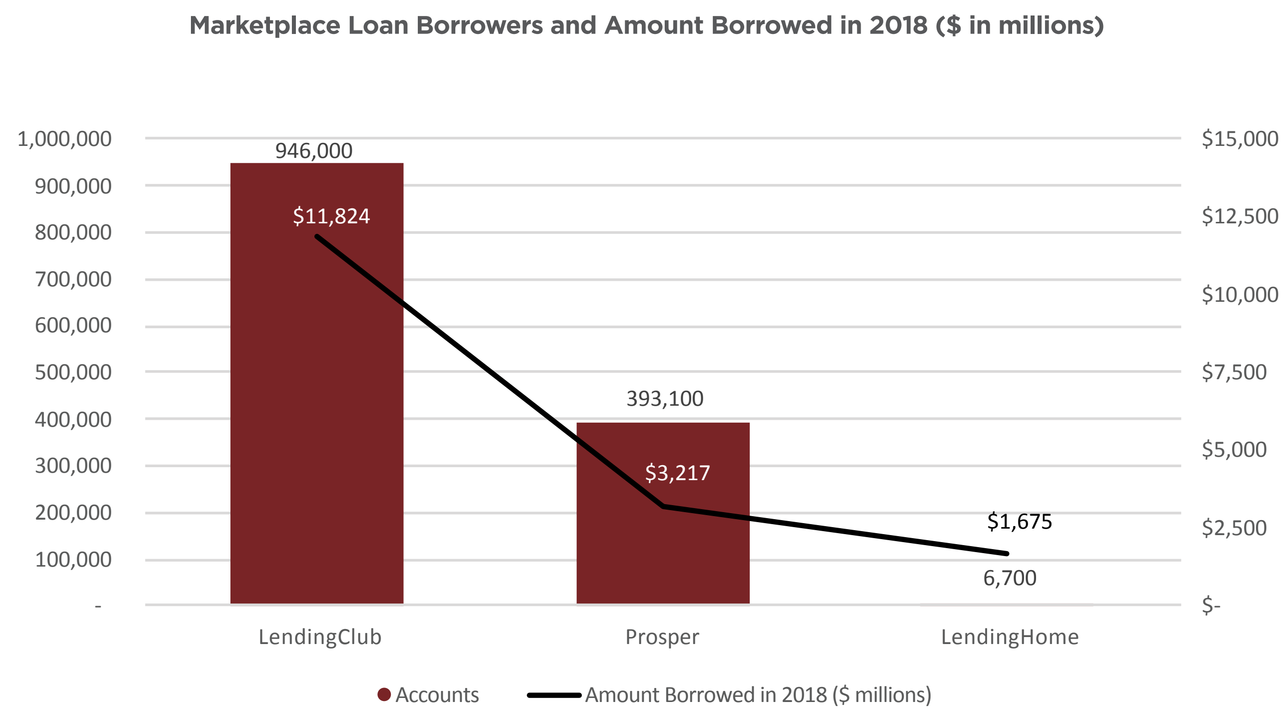
SO WHAT

Banks have (understandably) avoided the subprime market but can participate via partnerships with fintech startups in the space. Regions Bank, for example, has had a partnership with Avant since 2016. LendUp has partnered with Beneficial State Bank to offer the startup's L card.

MARKETPLACE LENDING

LendingClub and Prosper may be the granddads of the marketplace lending space, but in 2018, relative newcomer LendingHome will facilitate nearly $1.7 billion to 6,700 borrowers on its platform—half the expected dollar volume to be transacted on Prosper (Figure 9).

FIGURE 9: **Digital Marketplace Lending Providers**



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

More than a quarter of Older Millennials and more than a fifth of Gen Xers would consider LendingClub if they were in the market for a loan. LendingHome, with a narrow focus on home lending, would be in the consideration set for roughly one in five Older Millennials and Gen Xers (Table J).

TABLE J: **Awareness, Use and Consideration of Digital Marketplace Lending Providers**

Neobank	Have you heard of this firm? Do you have an account with them? Would you consider them if you were in the market for a new bank?	Younger Millennials (21-29)	Older Millennials (30-38	Gen Xers (39-53)	Boomers (54-72)
Lending Club	Not aware of this company	65%	57%	61%	70%
	Aware, no account, WOULD NOT consider	21%	16%	16%	17%
	Aware, no account, WOULD consider	13%	27%	22%	13%
	Have an account with this company	0.28%	0.63%	0.63%	0.48%
Lending Home	Not aware of this company	78%	64%	68%	85%
	Aware, no account, WOULD NOT consider	10%	16%	13%	10%
	Aware, no account, WOULD consider	12%	20%	19%	5%
	Have an account with this company	0.01%	0.00%	0.00%	0.00%%
Prosper	Not aware of this company	80%	69%	75%	89%
	Aware, no account, WOULD NOT consider	11%	12%	9%	7%
	Aware, no account, WOULD consider	9%	19%	16%	4%
	Have an account with this company	0.29%	0.20%	0.30%	0.09%

Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

SO WHAT

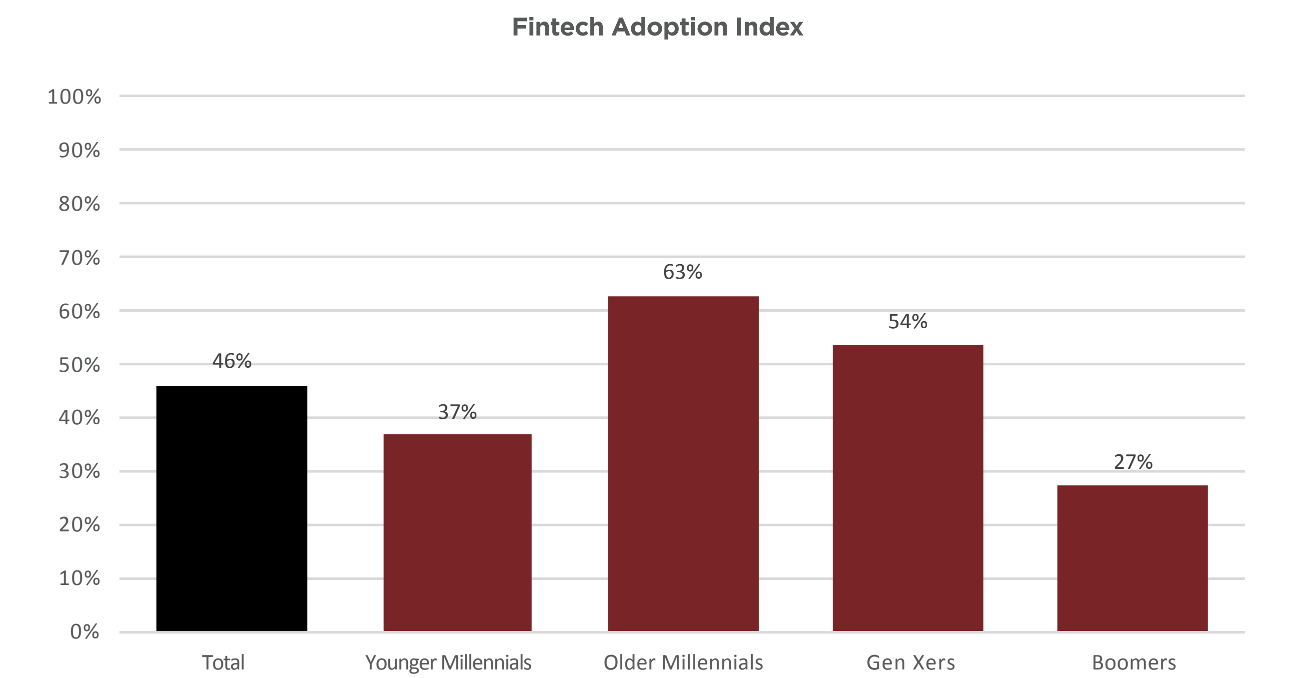
Despite the press and attention marketplace lenders have received over the past few years, consumer intention to borrow from leaders like LendingClub and Prosper is not significantly higher than it is for specialty lenders in the POSF and subprime segments. This has caused the marketplaces to shift strategies and become platforms, providing technology services for banks. Through the first half of 2018, banks accounted for 44% of LendingClub's loan originations.

FINTECH ADOPTION INDEX

To measure the overall adoption of fintech among U.S. consumers, Cornerstone Advisors computed a **Fintech Adoption Index** taking into account the percentage of consumers who have used a fintech startup (including neobanks, savings tools, lender, robo-advisors, insurtech firms and international remittance startups) or would consider one the next time they were in the market for a financial product or service.

For 2018, the Q2 **Fintech Adoption Index** stands at 46%, with a wide variation by generation, ranging from 27% among Baby Boomers to 63% among Older Millennials. At 54%, Gen Xers aren't far behind Older Millennials in the index and are significantly ahead of Younger Millennials at 37% (Figure 10).

FIGURE 10: **Q2 Fintech Adoption Index**



Source: Q2/Cornerstone Advisors

SO WHAT

The **Fintech Adoption Index** is a measure of the acceptance of fintech startups as alternatives or adjuncts to traditional financial providers. An index score of more than 85 indicates mainstream acceptance.

At a current score of 63, fintech is poised to become mainstream for Older Millennials by 2020. Although Gen Xers' **Fintech Adoption** score isn't far behind, we don't expect to see as rapid growth and adoption for Gen Xers as we do for Older Millennials.

We expect that many readers will be surprised at the relatively low index score for Younger Millennials. That will change rapidly over the next few years as their financial needs become more complex and they start looking for more products and services.

THE BANK AND CREDIT UNION OPPORTUNITY

Why are so many consumers opening accounts and using tools from fintech providers? One survey found the top reason to be the ease of setting up accounts (Figure 11).

FIGURE 11: **Top Reasons Consumers Adopt Fintech Solutions**

Source: Fintech Ranking

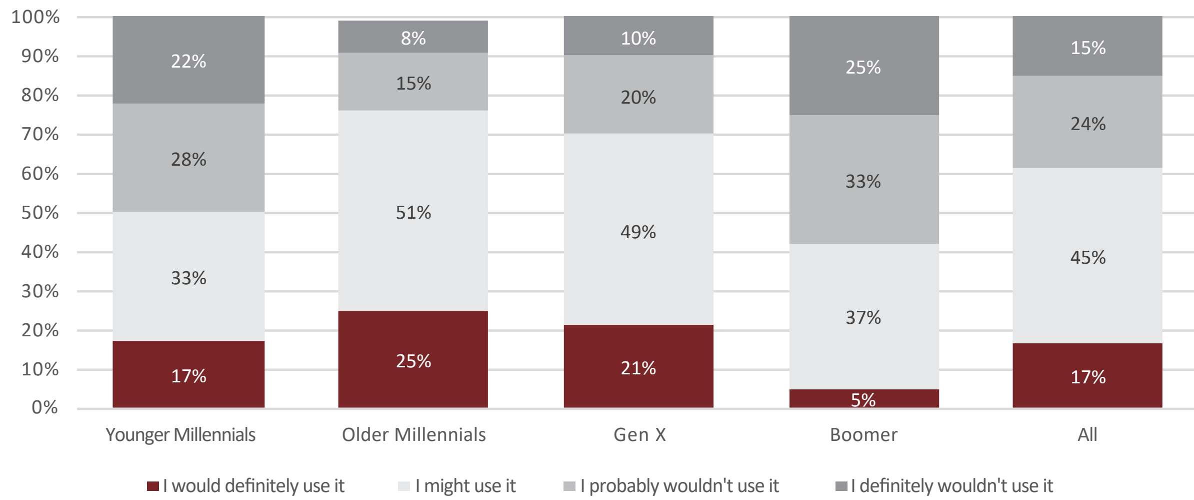
SO WHAT

That doesn't seem right. Consumers wouldn't open neobank accounts, use savings tools, apply for loans and invest their money in robo-advisor tools simply because those tools and accounts are easy to open. Instead, the more logical explanation is that they're looking to improve and optimize the performance of their financial lives.

Banks and credit unions can play a role in consumers' quest for better performance. As we have shown throughout this report, the bank/fintech relationship can be symbiotic—not necessarily antagonistic or competitive. Many consumers believe that, as well. One in four Older Millennials and one in five Gen Xers say they would definitely use a capability provided by their bank or credit union to integrate fintech offerings (Figure 12). And we believe that, over time, Younger Millennials will increasingly be interested in this capability as their financial lives become more complex over time.

FIGURE 12: **Consumer Interest in a Bank-Provided Fintech Integration Capability**

If your primary financial institution made it easy to integrate fintech companies' offerings with your existing account(s), how likely would you be to use this capability?



Source: Q2/Cornerstone Advisors survey of 2,436 U.S. consumers, Q3 2018

Financial institutions will need help to evaluate, integrate and operationalize fintech partnerships. The megabanks can afford to hire teams of people to perform these tasks, but mid-size banks and credit unions will need help from their core apps and digital platform providers.

JUMPSTARTING FINTECH PARTNERSHIPS AND COLLABORATIONS

Before turning to outside help, mid-size banks and credit unions can improve their ability to partner by developing a digital strategy and—potentially—by creating a Chief Digital Officer (CDO) position. *In How Do Banks Interact with Fintechs? Forms of Alliances and their Impact on Bank Value,* the authors of a study looking into the fintech-partnering behavior of banks found that:

> *A digital strategy increases the number of bank-fintech interactions [a bank has] three to four times. Employing a Chief Digital Officer increases the number of bank-fintech interactions by two to three times.*

This isn't to imply that appointing a CDO is a panacea. Instead, it means that having an explicit strategy for tying fintech efforts to the overall business strategy and having organizational accountability for fintech partnerships accelerates the collaborative efforts.

ENDNOTES

[1] https://www.emarketer.com/content/zelle-will-overtake-venmo-in-2018

[2] 2017 US Fintech Landscape, https://www.snl.com/web/client?auth=inherit#news/docviewer?id=42877606

[3] https://www.fastcompany.com/40539348/sofi-pays-premium-prices-to-acquire-its-prime-customers

[4] Hornuf, et. al., *How Do Banks Interact with Fintechs? Forms of Alliances and their Impact on Bank Value*, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3252318

[5] https://ssrn.com/abstract=3252318

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Cornerstone Advisors takes financial institutions from strategy to execution through an array of Solutions offerings, including Strategy, Performance, Technology, Mergers & Acquisitions, Payments, Risk Management, System Selection & Implementation, and Delivery Channels.

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