Youthquake: The State of Young Adult Banking in Latin America

MAMBU

Contents

Executive Summary

So where do today's youth go for financial services in Latin America? Are they happy with their choices, and will they stay that way?

Bottom line is (and the top line for that matter as well): are younger banking customers loyal?

Earlier in 2021, Mambu surveyed more than 1,250 people aged 18 to 35 across six countries to find out, and the answer is a resounding yes – for now.

Understanding the minds of younger generations has long been a primary task among marketeers, including those in the financial services industry. Our survey sought to find out more on the topic by addressing four key umbrella topics:

1. The State of Young Adult Banking in Latin America
2. How do Young Adults in Latin America Choose Their Financial Service Providers?
3. What Products and Services do Young Adults in Latin America Use?
4. What Does the Ideal Experience for Young Adults in Latin America Look Like?

In this first report of four, "The State of Young Adult Banking in Latin America", we'll unveil data revealing that young adults across the region are largely satisfied with – and are very loyal to – their financial institutions, namely traditional banks and neobanks over lenders. Still, our survey found that since younger adults are financially and technologically savvy, financial entities who hope to retain these clients and offer them increasingly more value-added products as they age must remain flexible and agile to meet shifting demands. All it takes is a swipe of a thumb on a smartphone screen to edge out those who fail to satisfy their customers. Rigidity is the death knell in today's industry.

Key lessons from the research include

- Challenger institutions have gobbled up market share held by incumbents for decades, though youth in Latin America tend to remain loyal to incumbents if their digital offerings are convenient. Some 85% of our respondents said they were banked by either a traditional institution or neobank.
- More young adults are tapping financial services than ever before. In fact, the number of individuals we surveyed who said they do not have a bank account stood at just 12%, a very low figure when considering that the percentage of the total unbanked Latin American population stands at 45%.
- The pandemic, not surprisingly, sped up this trend. During lockdowns, many sought new ways to buy groceries and a wide array of goods and services to be delivered home. Moreover, government stimulus payments and other benefits were often distributed via digital channels such as new bank cards, which essentially banked a good portion of the broader population for the first time.
- Most were satisfied with the products and services available to them. When asked to rate their satisfaction with the products they use from their bank or neobank, 75% said they were either extremely satisfied (21%) or satisfied (54%).
- Demand for one-stop-shopping was strong but not etched in stone: 66% prefer to do business with the same institution, while 81% prefer one app.

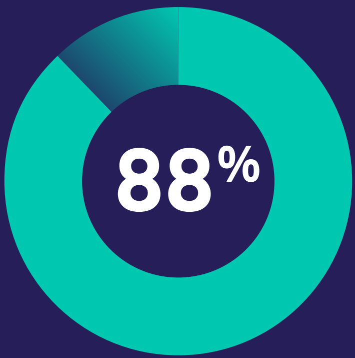
85%

of our respondents said they were banked by either a traditional institution or neobank.

66%

prefer to do business with the same institution, while 81% prefer one app.

A look at banking and technology penetration among young adults



of our survey recipients enjoy access to some type of financial services.

Latin America's banking sector is becoming increasingly digital thanks to the rise of challenger institutions who have seized market share once held chiefly by incumbents in consumer segments. That trend is especially prevalent in the younger demographic groups, 99% of which are armed with smartphones.

Financial inclusion has long hampered sustainable development in Latin America, a region in which half of the population has gone unbanked for decades.

Our data, however, have revealed some good news – this trend has diminished noticeably among younger demographics.

88%

Some 88% of our survey recipients said they had access to some type of financial services, while

85%

85% said they were banked by either incumbent institutions or neobanks.

Thus, the percentage of the outright unbanked surveyed participants stood at 12%, well below the total average for the region of roughly 45%. It should be noted that this segment – Generation Z and younger Millennials – represents about 30% of the region's total population.

The good news amplifies itself even further when considering that Latin America is a youthful area of the world.

According to the World Bank, just shy of a third (30%) of the region's population falls into the millennial or Generation Z category. Generation Z is classified between the ages of 18 to 24, and Millennials, who run from 25 to 35.

12%

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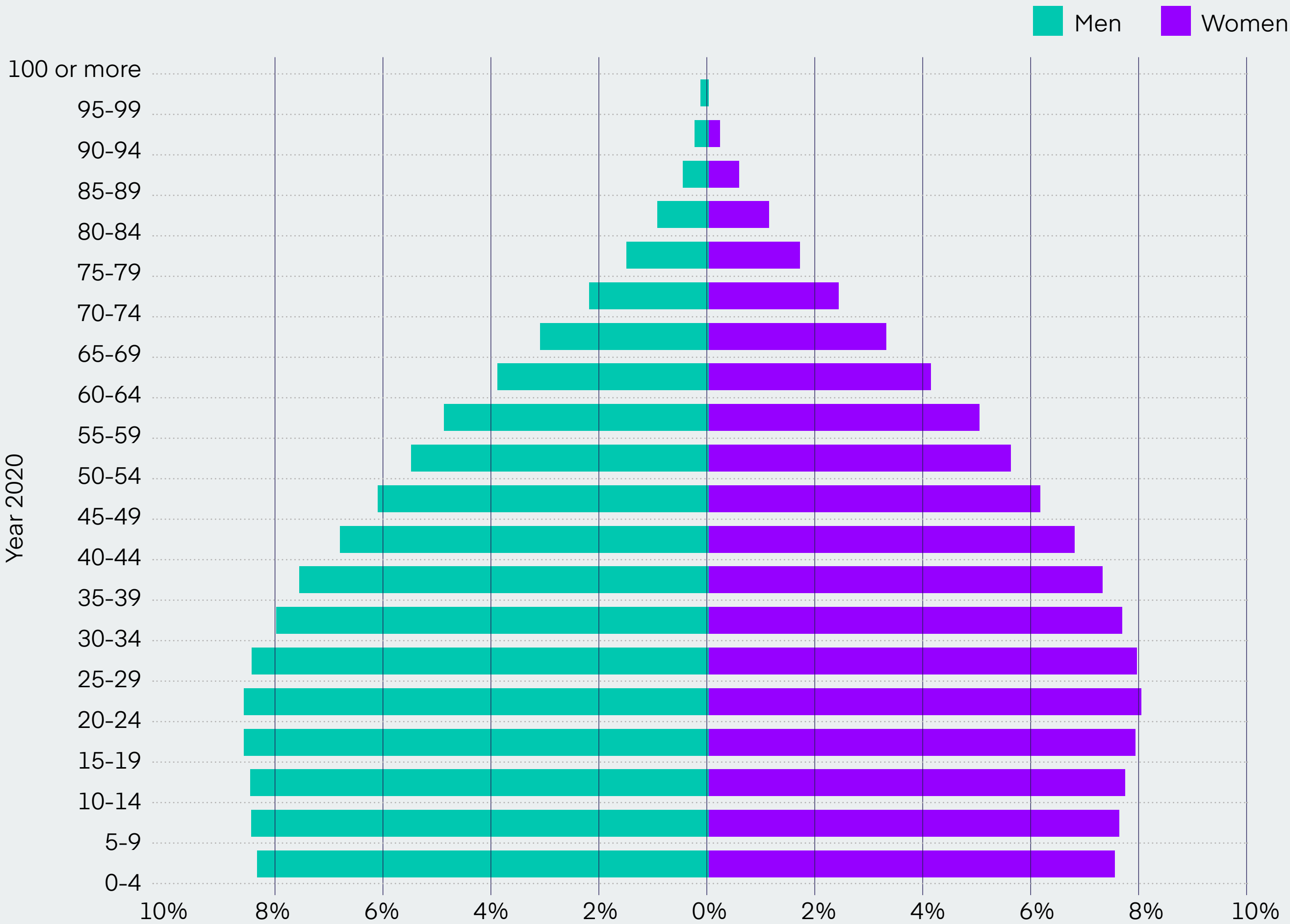


Figure 1.a Millennials and Generation Z make up about a third of Latin America's total population. (Source: World Bank).

77%
of the total participants reported they use a traditional bank, while

28%
reported that they use a neobank, and

18%
said both.

According to our research, when asked with whom they conducted business, 77% of our total survey respondents (both banked and unbanked) said they had done business with a traditional bank, while 28% said likewise regarding a digital bank (See figure 1.b). Another 18% said they did business with both and only 3% said they had only tapped the services of a lender.

Some overlap is apparent, which suggests that competition is on the rise. Neobanks (i.e., completely independent digital financial entities as compared to digital banks, which are often subsidiaries or spinoffs from traditional institutions) are clearly gaining in popularity among younger age brackets, especially in Brazil.

Type of financial institutions participants bank with

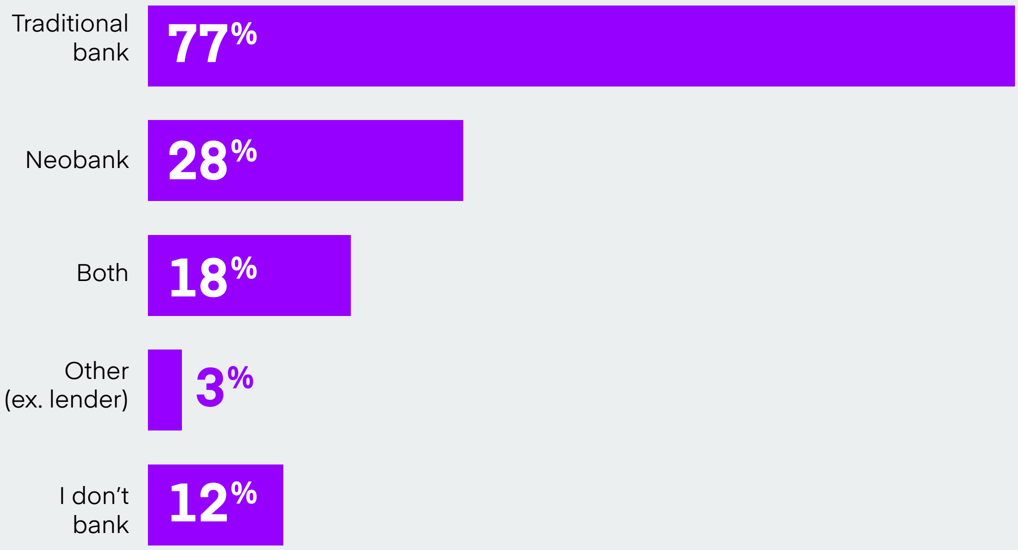


Figure 1.b The vast majority of Latin Americans aged 18-35 are banked.

Brazil bucks trend, shows preference for neobanks

Chile and Peru were home to the highest percentage of the banked individuals who said their principal banks were traditional institutions (97%). On the flip side, however, Brazil was the only country where preference for neobanks eclipsed that for traditional banks among young users in this category (46% used traditional banks as their primary provider compared to 54% using a neobank). See figure 1.c for more information.

Neobanks are fairly new to the global financial system, in Latin America especially, meaning they have room to grow. But when considering that 89% of young adults have a bank app on their phones (not to mention that virtually all banked youth have smartphones anyway), digital banking channels seem poised to remain the preferred choice.

Whoever delivers these services – be they neobanks or traditional banks employing digital offerings – must strive to keep their clients happy and not deleting their apps in search of something more convenient.

Maintaining a reputation for good customer experiences must remain steadfast. Despite wave after wave of technological disruptions and an increasingly competitive roster of banks, fintechs and lenders competing for business with savvy marketing teams, few things beat word of mouth.

Primary bank choice of young consumers Traditional versus Neobank

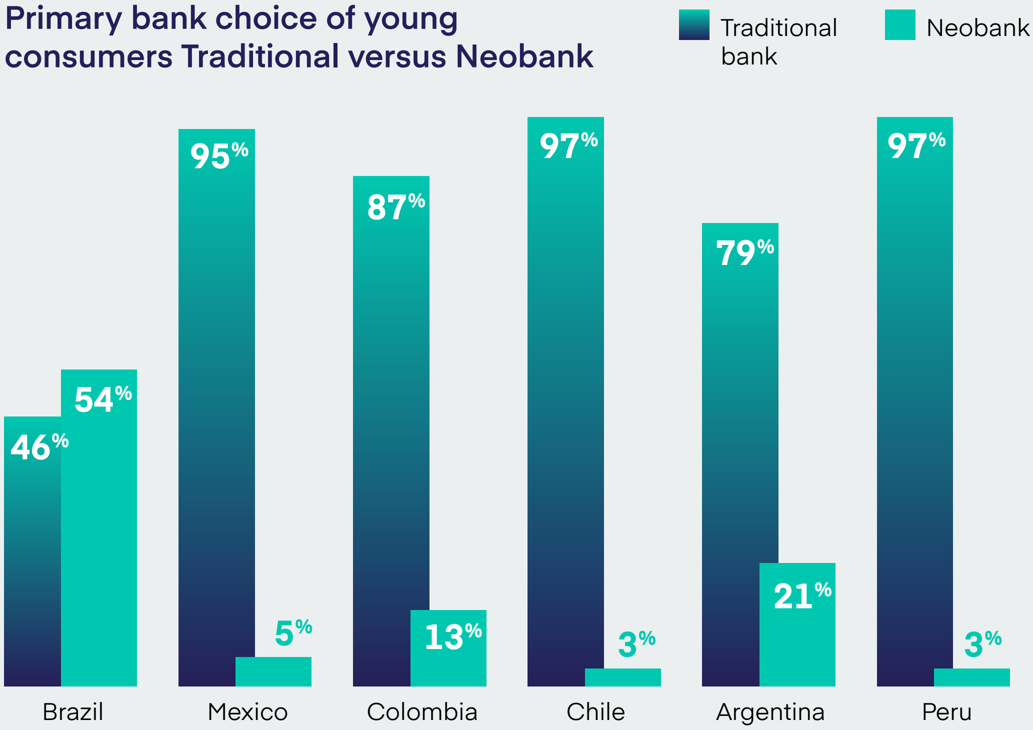


Figure 1.c Traditional banks command loyalty across Latin America except in Brazil, where neobanks have edged out their incumbent competitors.

Turn on, tune in and shop away – on mobile phones that is

Not surprisingly, the distribution of smartphones has opened up opportunities for both challengers and incumbents, especially with the world stuck at home with little to do save online shopping.

Compared to pre-pandemic days, consumers increased the number of mobile online purchases they made during the lockdown. According to the survey, 10% of participants made over eight (8) purchases a month, double the amount before the onset of lockdowns. Interestingly, those who reported they only made one purchase during a period of one month dropped in number significantly when the pandemic arrived, which suggests that people were no longer making purchases on their phones sporadically, but rather, they were doing so several times in a given 30-day period. In any event, the data indicate noteworthy potential for those involved in digital payments. See figure 1.d for more information.

10%

of participants, according to the survey, made over eight (8) purchases a month, double the amount before the onset of lockdowns.

Monthly purchases on mobile phones

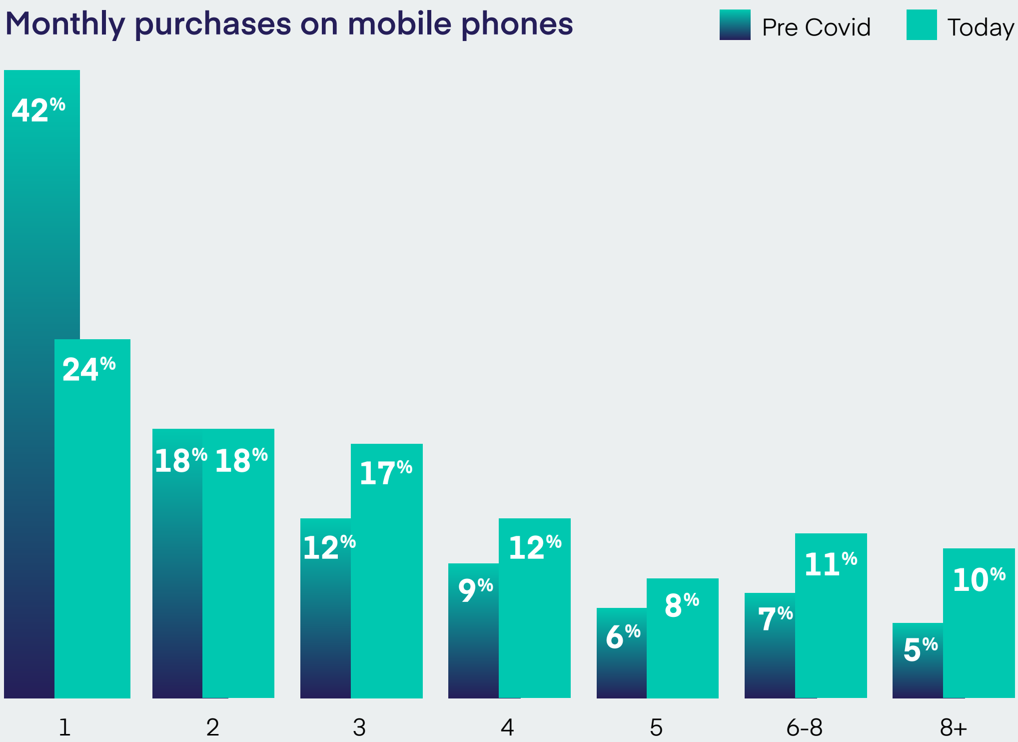
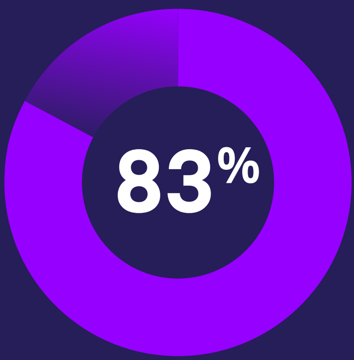


Figure 1.d The number of people making eight (8) or more purchases a month on their phones doubled with the arrival of the pandemic, while the number of those making one purchase a month dropped, suggesting increasing reliance on technology to engage in consumer spending and other demand.

A look at the distribution between digital and traditional banks



of banked participants said their *principal* financial institution was a traditional bank

As stated earlier, most of our survey respondents were banked by either a traditional or neobank, though when asked where they have done business, 77% cited traditional banks, 28% reported neobanks and 18% said both.

When we asked the banked segment of our pool directly which kind of bank was their primary bank, 83% said traditional banks, while 17% said neobanks.

To delve further into this trend by age, we split our survey respondents into two groups: Generation Z, classified between the ages of 18 to 24, and Millennials, who run from 25 to 35.

Of the Generation Z group, **77%** said their principal institution was a traditional bank versus **22%** who cited a neobank.

Of the Millennials, **86%** said their principal bank was an incumbent, while **14%** cited a neobank.

While both demographics tended to prefer traditional banks, demand for neobanks is growing when it comes to specific digital services such as electronic wallets, though card use still remains firmer at traditional banks (27% confirmed having credit cards to 17% of the users of the neobanks).

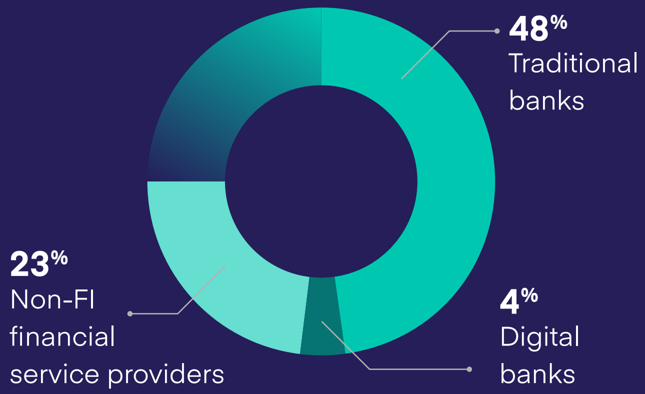
Both groups of consumers tended to agree that services such as online shopping, paying bills and grocery shopping were instrumental in choosing their financial institution.

Consumers are increasingly used to – and they remain interested in – receiving personalized offers and content by providers. Therefore, the ability to leverage data analytics, to compose differentiated and personalized experiences that understand consumer demand is becoming increasingly more important for FSPs to remain competitive.

Traditional bank	Online purchases	Access to credit	Purchasing groceries
Neobank	Online purchases	Access to credit	P2P transfers
Both	Online purchases	Access to credit card	Bill payments
No bank	Bill payments	Online purchases	Purchasing groceries
Other	Online purchases	P2P transfers	Purchasing groceries

Figure 1.e A breakdown of different services as differentiated by consumer segment.

A look at the role of Non-FI service providers



In the market for digital financial services, traditional banks hold a 48% share, followed by 4% by digital banks and 23% by non-FI financial service providers.

Investments in ever-disruptive technologies that improve customer experiences and bolster financial inclusion have fueled an explosion in digital banking.

All this points to the trend that while younger Latin Americans prefer digital services and apps offered by traditional banks, non-financial services entities are making their presence known.

As stated above, in the market for digital financial services, 48% is held by traditional banks, 4% by digital banks, 23% by non-FI financial service providers, including 16% in investment venues and 8% in loans. (Larger banks offer a greater array of products and services, often through fintechs).

Neobank users said they relied on a higher number of financial institutions, which illustrates that fintechs and neobanks – on their own – offer a less expansive supply of products and services than banks do. As a result, consumers eventually rely on multiple financial entities to meet all their needs.

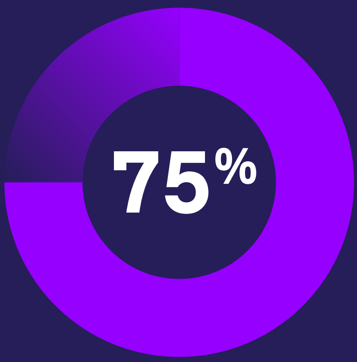
According to our survey, 9% of neobank customers reported doing business with over five (5) financial institutions compared to 2% in traditional banks.

Moreover, the results showed that	**40%** of traditional users have one financial service provider compared to	**22%** for neobanks.

Since interoperability among apps is sometimes limited, consumers often must physically click around several apps to access different services. Apps that integrate a wide product offering (across verticals) with excellent customer service arguably foster greater loyalty with their consumers.

In the current landscape, traditional banks provide more goods and services that better attend to increasingly diverse consumer needs. However, many such offerings remain grounded in product-centric molds, and as a result, user experiences, product relevance and customization often leaves much to be desired, which is critical to maintaining users.

A look at customer satisfaction



When asked to rate their satisfaction with the products they use from their bank or neobank, 75% said they were either extremely satisfied (21%) or satisfied (54%).

While the supply for credit/debit cards, payments options and even financing seem to be growing exponentially, younger customers are satisfied with their chosen providers.

When asked to rate their level of satisfaction for their institution's app (either traditional bank or neobank), 77% said they were either extremely satisfied (26%) or satisfied (50%).

Only 10% expressed any degree of dissatisfaction.

When asked to rate their satisfaction with the products they use from their bank or neobank, the numbers were strikingly similar – 75% said they were either extremely satisfied (21%) or satisfied (54%).

Only 8% expressed any degree of dissatisfaction.

Broken down by age, the younger Generation Z respondents were largely satisfied with their bank apps and services as well.	**30%** were extremely satisfied with their apps, while **46%** were satisfied.	**22%** were extremely satisfied with their financial products while **52%** were satisfied.
The elder Millennial counterparts echoed those sentiments:	**24%** were extremely satisfied with their apps, while **54%** were satisfied	**20%** were extremely satisfied with their financial products, while **56%** were satisfied.

Neobank users are more likely to recommend their bank to a friend than traditional users (96% of neobank users said they would as such versus 91% at banks).

The survey also found that 69% of bank and neobank customers said they would not leave for another institution when asked, a figure that is solid but not sky high. Still, the numbers do not show room for complacency. In fact, the survey respondents suggested the opposite – loyalty today doesn't guarantee loyalty tomorrow. When asked why they would defect if they ever did, respondents said better benefits & pricing, better customer services & digital tools, and better products & services were the main things to consider – all of which tie into user experiences to some degree.

The message: banks and fintechs have done a good job of attracting younger customers these days, and most are loyal – 79% of neobank users and 66% of traditional banks users said they will not consider leaving.

However, it doesn't take much to lose that loyalty, which would suggest the need for increased agility, flexibility and attention to customer needs and experiences going forward.

Traditionally, incumbent bank users are more loyal than neobank users, and age may have been a factor there: The average age of traditional bank users was 28, while neobank users was 25, according to our research.

Despite their slightly higher age group, traditional bank users reported having their bank account with their principal banks for a longer period that of neobanks (31% had a bank account for over 5 years, while only 3% of neobank users did). See figure 1.f for a more detailed look at age and loyalty.

The point is that loyalty seems to wane slightly among the younger segments of our survey, which suggests that as more and more teens grow into young adulthood – as younger adults move into their late twenties – financial entities must work harder to keep their clients from closing their accounts and going elsewhere.

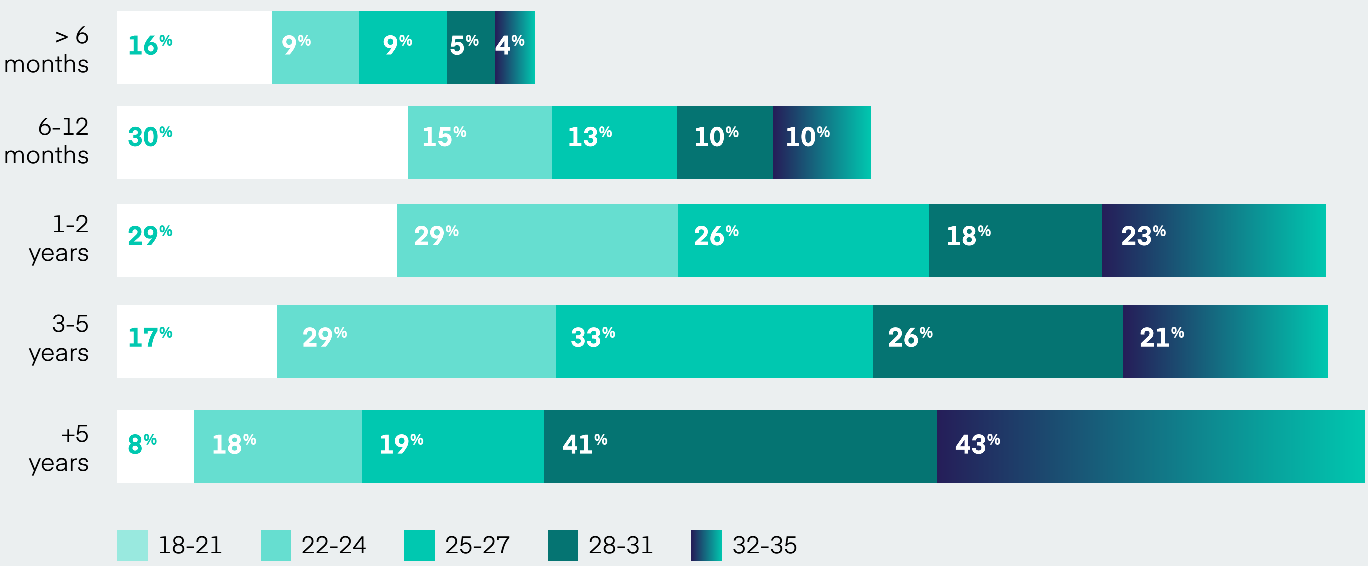
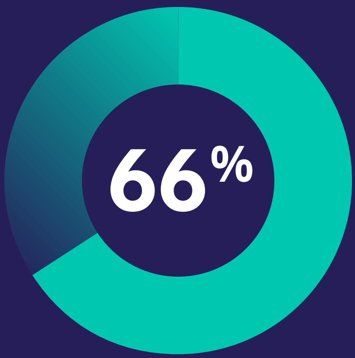
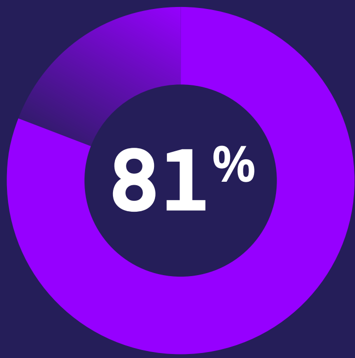


Figure 1.f Latin America's banking clients are loyal to their institutions. That loyalty is not guaranteed.

A look at one-stop shopping. How important is it to younger customers?



prefer to do business with the same institution



while 81% prefer one app

With the supply of financial services growing, and with so many options available for download on a phone, most say they would prefer a one-stop-shop solution.

According to the survey, 66% of all participants said they would like to conduct their banking with the same bank. Moreover, 81% said they would prefer to conduct all their banking with the same app.

Young Millennials (25-27) expressed the greatest interest in banking within the same bank and app, coming in at 73%, and 84%, respectively. See figure 1.g for more information.

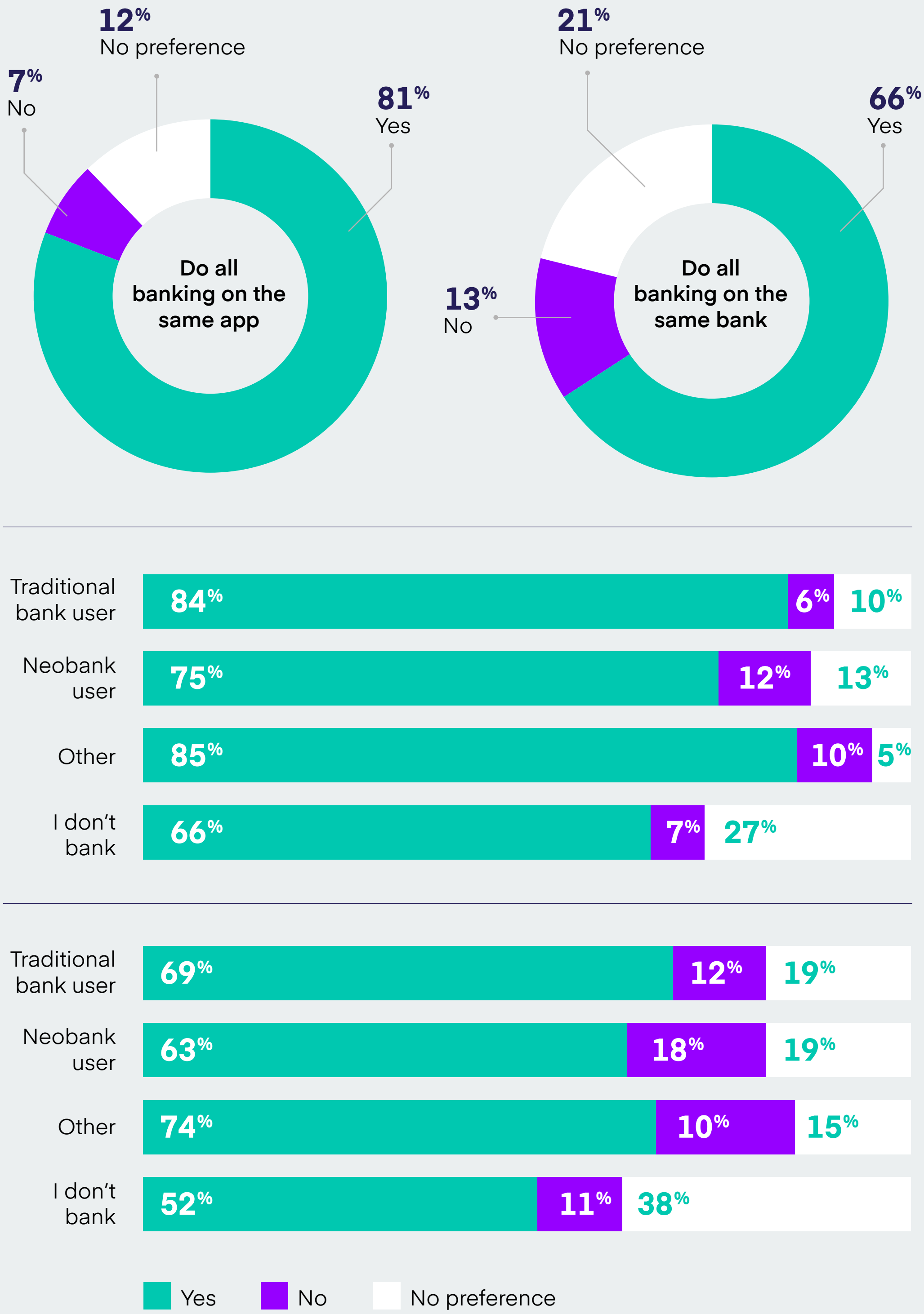


Figure 1.g Our survey found that most would prefer their provider of financial services to act as a one-stop-shop.

Conclusion

Traditional banks and their digital challengers are doing a good job enticing younger customers into their folds and retaining them as well. Financial inclusion among the region's more youthful demographics is much better when compared to the entire population, with younger customers expressing loyalty to their banks or neobanks.

Only 12% of our survey participants said they were unbanked, which points to a bright future for the banks, fintechs and lenders in a region where just under half of the broader population is excluded from the financial sector.

Most are pleased with their financial institutions of choice. In fact, when asked to rate their satisfaction with the products they use from their bank or neobank, 75% said they were either extremely satisfied (21%) or satisfied (54%).

Similar sentiments held true for apps as well.

Still, loyalty cannot be taken for granted.

Some 69% of bank and neobank customers said they would not leave for another institution when asked, though attitudes can change in the blink of an eye in today's market. When asked why they would ever switch institutions, the respondents cited a slew of reasons, including better benefits & pricing, better customer services & digital tools, and better products & services.

Traditional banks and their digital challengers can pat themselves on the back for banking the future of Latin America, but they better not do it for long. Competition to entice bank generations who have yet to be born will be tough. Furthermore, the needs of today's tech-savvy youth will grow in sophistication as they enter life's new stages down the road. Only the most flexible and agile of institutions will thrive in such evershifing market, economic and demographic landscapes.

69%

Some 69% of bank and neobank customers said they would not leave for another institution when asked.

How can we help you?

Composability allows for innovation and customisation in scenarios that institutions cannot possibly predict yet. More opportunities to differentiate. This is the time to personalise services, it is becoming the new norm. As an API-driven SaaS platform, Mambu is uniquely positioned to support your ambitions. If you can dream it, we can help you build it.

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