The Visa-RFi Group
Australian Payments Report:
The changing payments behaviour of Australian consumers and the impact on banking relationships
June 2015
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Executive summary

The Australian payments system has already seen considerable disruption over recent years.

The introduction of contactless payments has helped drive electronic payments into the low-value space, which has traditionally been the domain of cash. This transition towards electronic payments is expected to continue into the future, with consumers indicating in new RFi Group research commissioned by Visa that they intend to spend more via credit and debit and reduce spending via cash and cheques.

Australian consumers and merchants continue to embrace contactless, with the penetration of contactless cards and terminals expected to continue increasing in the future.

Additionally, contactless-enabled cards are paving the way for mobile payments – customers that have made contactless payments are more receptive to the idea of mobile payments, and the continued growth of contactless will further facilitate the adoption of mobile payments.

Payments are also shown to be a vital aspect of the banking relationship. Among main financial institution (MFI) customers, those that hold their primary credit and/or debit cards with their MFI are more satisfied, have higher advocacy intention and lower attrition rates than those that hold their primary cards with other institutions. Australians who hold a credit card with their MFI have a deeper product relationship with their MFI.

Moreover, if they hold both a debit card and credit card with their MFI, these customers have the deepest product relationship at 3.98 products with their MFI on average.

These benefits also flow on to other products; for example, customers that hold a primary card with their MFI have longer mortgage tenures than those that do not.
Advances in technology have also seen changes in how consumers interact with their MFI.

Digitally Engaged customers, those that interact with their MFI using a mobile device, are distinctly different from Less Digitally Engaged customers (those that only use online banking via a desktop or laptop) and Digitally Unengaged customers (those that do not interact with their MFI using any digital channels).

Digitally Engaged customers are more satisfied, have higher advocacy intention and lower attrition rates.

However, the opportunities presented by Digitally Engaged customers also come with unique challenges. Digitally Engaged customers demand omni-channel access, and on average use twice as many channels to interact with their MFI as Digitally Unengaged customers. Customer service is also a key driver of switching among dissatisfied Digitally Engaged customers, and banks need to focus on a seamless omni-channel experience in order to engage and retain Digitally Engaged customers.

Digitally Engaged customers are also the key segment in terms of mobile payment uptake. These customers are considerably more receptive to mobile payments across all merchant categories, with supermarkets, fuel and café-style purchases emerging as the key purchase categories for driving mobile payments.

This report suggests digitising product, customer service and origination has never been more important in the Australian market as customers migrate their preferred banking behaviour from physical to digital channels.

Banks that get the digital experience right could be rewarded in terms of new account acquisition, customer satisfaction and advocacy, while getting it wrong may prove to be costly over the coming years.
Introduction
Introduction

The Australian payments system continues to evolve at a rapid pace. Long-term trends have begun to accelerate, driven by the implementation of new technology and changing customer preferences, and new payment methods on the horizon threaten widespread disruption of the payments landscape.

This report examines the changing pattern of payments in Australia, bringing insights from RFi Group’s consumer surveys as well as leveraging data from Visa’s payments processing network, VisaNet. In addition to looking at existing payment patterns, the report covers potential disruption in the face of new technology and shifting consumer preferences, and looks at the impact of consumer payment channels on the wider banking relationship. The increasing importance of digital channels is also examined, both in terms of payments and from a total banking relationship perspective.
Introduction

Methodology

RFi Group methodology

The Visa-RFi Group Australian Payments Report is based on an online survey of over 2,000 Australian consumers. This survey has been conducted annually since 2011, and was most recently conducted in February 2015. The survey examines the relationship between Australian consumers and their banks, which payment products consumers hold and their usage of these products, as well as consumer attitudes towards existing and emerging payment mechanisms.

Visa methodology

VisaNet data has been applied in this report in two different ways. Firstly, by supporting identified key trends with transactional data and linking reported cardholder behaviour with actual cardholder behaviour. Secondly, to differentiate payment behaviours of Top of Wallet (ToW) cardholders vs non-ToW cardholders across credit and debit.

Visa’s ToW analysis is a statistical model that identifies, defines and provides insights into the behaviour of highly active cardholders. A number of variables are used to identify ToW status, including:

- Spend diversity (number of transactions, unique channels)
- Cross border usage
- Domestic and international eCommerce usage
- Visa payWave usage

Value cut-offs for each dimension are identified to arrive at ToW status. The result is to conclude that 10% of active credit and debit cards in Australia are defined as ToW. Further, ToW credit cards account for 31% of total credit card spend and 33% of credit card transactions, whilst ToW debit cards account for 35% of debit card spend and 38% of debit card transactions.

Terminology

Primary card is defined as the credit or debit card that the each cardholder spends the most on in a typical month.

Top of Wallet (ToW) card is determined using proprietary segmentation developed by Visa, which identifies the most valuable credit and debit cardholders based on a number of defining variables.
The changing Australian payments landscape
The changing Australian payments landscape

The shift to a new payments paradigm continues

Consumer payment behaviour continues to evolve. Recent years have been characterised by the rise of contactless payments, the consequent decline in cash, growth in debit card usage, and the emergence of mobile and digital payments. Consumers now have more payment choice, particularly for lower value purchases. They are also spending in new ways, with online retail growing significantly and online shopping now almost ubiquitous. RFi Group consumer research conducted for this report concluded that 86% of consumers have made an online purchase in the last 12 months. Comparing this result to those of previous surveys identifies an ongoing upward trend, with the steepest trajectory among younger consumers.
The future of Australian payments

When asked about the future, Australian consumers indicate their intention to continue their move towards electronic and digital payments, and to continue their transition away from cheques and cash. In particular, consumers call out an intention to spend more on debit cards, credit cards and BPAY over the next 12 months. On the flip side, consumers predict an acceleration in the decline in cash and cheque usage over the next 12 months.

<table>
<thead>
<tr>
<th>Scheme Debit Cards</th>
<th>Proportion of users that intend to spend less in the next 12 months</th>
<th>Proportion of users that intend to spend more in the next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>14%</strong></td>
<td><strong>24%</strong></td>
</tr>
<tr>
<td>Credit cards</td>
<td><strong>19%</strong></td>
<td><strong>21%</strong></td>
</tr>
<tr>
<td>BPAY</td>
<td><strong>8%</strong></td>
<td><strong>18%</strong></td>
</tr>
<tr>
<td>EFTPOS / ATM cards</td>
<td><strong>17%</strong></td>
<td><strong>17%</strong></td>
</tr>
<tr>
<td>Cheque</td>
<td><strong>27%</strong></td>
<td><strong>14%</strong></td>
</tr>
<tr>
<td>Cash</td>
<td><strong>26%</strong></td>
<td><strong>11%</strong></td>
</tr>
</tbody>
</table>

Source: Visa-RFi Australian Payments Survey, February 2015

The Top of Wallet view

Visa’s Top of Wallet (ToW) model (using VisaNet data from Jan 2014 to Dec 2014) identifies the most engaged and active credit and debit card holders.

- Overall, ToW customers spend and transact 3 times more than the average credit card holder and 4 times more than the average debit card holder.
- 88% of ToW credit card holders and 90% of ToW debit card holders use contactless, compared to 58% of non-ToW credit and debit cardholders.
- 100% of ToW credit cardholders use their card for online purchases compared to 80% for non-ToW credit cardholders. 98% of ToW debit cards are used online compared to 63% of non-ToW debit cards.
The changing Australian payments landscape

Jockeying for position: the battle for primary card status

As an increasing number of customers shift their payments habits towards electronic payments, fierce competition has erupted among credit and debit card issuers vying for the primary card position. With consumers becoming increasingly digital the stakes have been raised further, as business disruptors in this space pose an increased threat to financial institutions. Among credit card issuers, there has been escalation in the balance transfer space, particularly in terms of the incidence and duration of 0% balance transfers, as well as the migration of customers to more premium card products.

Competition in the debit card space is also heating up. Fringe benefits that have traditionally been limited to the credit card space have been introduced into the debit card market in an attempt to woo customers from competing institutions. This is due to the understanding that winning the primary transaction account relationship generally means winning the main financial institution (MFI) relationship as well. To this end, institutions such as ING DIRECT, UBank, Citibank and Bankwest have begun offering innovative transaction products with benefits including cash back, fee-free ATM access, rewards programs linked to spending and benefits linked to multiple product holding in order to increase their primary transaction account market share, with the end result being an intensification of competition in the debit card space.

The regulatory perspective

In the medium term, in addition to the evolution of contactless, there may be potential changes to the Australian payments system associated with the Financial System Inquiry (FSI) and Reserve Bank’s review of card payments. The government and regulator are considering a number of changes about who is regulated, interchange and surcharging; issues that the industry is actively consulting with regulators on.
Payments at the heart of the banking relationship
Payments at the heart of the banking relationship

Linking credit and debit cards to main financial institution (MFI) status

For consumers, payments are intrinsically linked to the main financial institution (MFI) relationship. Transaction accounts (TA) are a less ubiquitous product in Australia than in other comparable markets – RFi Group research indicates that Australian TA holders have an average of 1.36 unique TA relationships, compared to 1.38 in the UK, 1.49 in Canada, or 1.68 in the USA. Virtually all (96%) consumers in Australia that hold at least one transaction account with a linked debit card will hold such an account with their MFI, with just 9% of consumers holding debit card-linked transaction accounts with another institution. Transaction accounts without linked debit cards are also a reasonably good indicator of MFI status, with 90% of consumers that hold one or more of these accounts holding at least one with their MFI. However, the relatively low penetration of these accounts – only 16% of consumers hold one (without a linked debit card) – and the lower conversion to MFI status indicates that banks should focus on the debit-linked accounts in order to win the battle for MFI status.

Source: Visa-RFi Group Australian Payments Survey, February 2015
Cards at the heart of successful cross sell

Financial institutions that capture their customers’ card relationships are rewarded with the highest rates of cross sell. **Customers that hold both their primary debit card and their primary credit card with their MFI on average hold 3.98 products with that institution.**

Meanwhile, customers that hold their primary credit card with their MFI but who hold their primary debit card elsewhere hold fewer products with their MFI, 3.54 products on average. Without the primary credit card relationship, product holdings held with the MFI drop off considerably.

Customers that only hold their primary debit card with their MFI hold 2.37 products with that institution, while customers without any primary card relationship with their MFI hold an average of just 2.06 products there. This suggests that owning payment card relationships should be the primary focus of financial institutions, as the benefits of cross sell are more likely to be realised once these relationships are secured.

Number of products held with MFI

By card relationships with MFI

Source: Visa-RFi Group Australian Payments Survey, February 2015
Primary cards and the additional benefits to the banking relationship

As well as contributing to a deeper relationship, providing a customer’s primary card leads to a variety of other benefits for financial institutions.

The customer satisfaction benefit

RFi Group’s research confirms that a customer who holds both their primary credit and debit card with their MFI is more satisfied with that institution than a consumer who holds neither of these cards with their MFI.

Seventy-two percent (72%) of consumers who hold both their primary credit and debit card with their MFI report being highly satisfied with that institution, versus 61% of consumers who hold neither of these products with their MFI.
The customer advocacy benefit

In addition to being more satisfied, customers who hold both their primary credit and debit cards with their MFI also have the highest Net Promoter Score (NPS) of +11. In contrast, customers that only hold their primary credit card with their MFI report a NPS of -2, while customers with no primary cards with their MFI have a NPS that is lower still (-4).

These findings indicate that capturing primary credit and debit card relationships among MFI customers may be an effective means of supporting customer acquisition strategies. Card holding customers are likely to be more vocal advocates among friends and family members than non-card holding customers. Therefore, targeting multiple card holding customers for cross-sell is likely to be most effective.

Source: Visa-RFi Group Australian Payments Survey, February 2015
The retention benefit

In terms of retention, RFi Group’s research finds that customers that hold either their main credit card, their main debit card, or both their main debit and main credit cards with their MFI have relatively low stated attrition rates of 8%, 6% and 7% respectively. In contrast, customers that do not hold any of their primary cards with their MFI have more than double the rate of attrition. According to RFi Group’s research, 17% of consumers that hold neither their primary credit nor their primary debit card with their MFI say they are unlikely to maintain a MFI relationship with that institution for the next 12 months.

Customers who say they are unlikely to stay with their MFI for the next 12 months

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By card relationship with MFI

- Primary DC and CC: 7%
- Primary CC: 6%
- Primary DC: 8%
- No Primary Cards: 17%

Source: Visa-RFi Group Australian Payments Survey, February 2015
The mortgage benefit

Owning primary card relationships also contributes to an institution’s capacity to forge a mortgage relationship with a customer. One in five customers that holds a primary credit or debit card with their MFI also holds a mortgage with that institution. Customers that hold their primary credit and/or debit cards with their MFI maintain longer mortgage relationships than other customers, with an average mortgage tenure of 7.19 years compared to 6.68 years for customers that do not hold a primary card with their MFI. The overall long term value of striving to attain MFI status on customers’ debit or credit card is significant when the revenue derived from those products is considered in the context of the overall revenue generated across the mortgage product.
Unveiling the digitally engaged customer - engaged, satisfied and valuable
Evolution from contact to contactless to digital

Rapid growth in ownership, usage and acceptance of contactless cards has resulted in contactless becoming almost ubiquitous in the Australian payments system. Visa’s statistics show that in January 2015, contactless accounted for more than 60% of all face-to-face Visa transactions in Australia versus 40% in January 2014.¹ In January 2015, there were 75 million Visa payWave transactions. This compares to 40 million transactions in January 2014.²

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¹ VisaNet, January 2015 and 2014, respectively
² VisaNet, January 2015 and 2014, respectively
RFi Group’s consumer research data confirms the growth in contactless usage. The research reveals that 62% of cardholders have made a contactless transaction; furthermore, the proportion of contactless users making contactless transactions at least once per week continues to trend upwards, rising from 57% of contactless cardholders in 2014 to 63% in 2015.

This increase in usage is being driven by rapid declines in the proportion of infrequent users (those using contactless once per fortnight or less), which has fallen from 34% in 2014 to 26% in 2015.

Source: Visa-RFi Group Australian Payments Survey, February 2015
Do you have any concerns that prevent you from making contactless purchases, or that limit the number of contactless purchases you make?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>I am not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardholders who have made a contactless purchase</td>
<td>29%</td>
<td>62%</td>
<td>10%</td>
</tr>
<tr>
<td>Cardholders who have not made a contactless purchase</td>
<td>67%</td>
<td>28%</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>35%</td>
<td>56%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Visa-RFi Group Australian Payments Survey, February 2015
Among both those consumers that have used contactless and those that have not, the primary barriers preventing greater contactless usage are the perceived threats of theft and fraud. However, concerns regarding the general security of contactless are again considerably lower among contactless users than non-users.

Encouragingly, the proportion of consumers that do not use contactless because they do not understand how contactless payments work is extremely low, both among contactless users (4%) and non-users (5%). This suggests that the ‘nuts and bolts’ of contactless are being effectively communicated to cardholders.

The security of contactless

There are multiple layers of security that sit behind contactless payments including EMV chip technology, Visa’s Zero Liability Policy which protects cardholders from fraudulent or unauthorised transactions, a low transaction limit, a short read range and unique encryption, making cards virtually impossible to counterfeit. Visa and financial institutions also monitor transactions in real time to identify suspicious or unusual transactions and prevent fraud.

Making the transition to mobile payments

Although mobile payments are still in their infancy in Australia, there is the potential for explosive growth. Australia has high penetration of contactless-enabled terminals, high levels of smartphone ownership, and widespread use of contactless payments. Indeed, once consumers have made the transition to contactless card usage, they are on the evolutionary path to mobile payments. This ‘payments evolution’ sees consumers become increasingly digital and increasingly open to a mobile contactless experience.

This evolution can be seen when asking consumers whether they can envisage a scenario where their mobile phone becomes their primary payments mechanism. RFi Group’s research finds that among those consumers who are unaware of contactless or who are aware but have never made a contactless payment, the proportion that can envisage the aforementioned scenario is low (13% and 12% respectively).

However, among consumers that have made a contactless payment, this proportion rises to 20%, and among consumers that have already made a mobile payment the proportion more than triples to 72%. This suggests that strategies focused on expediting consumer uptake should focus on migrating customers along the payments evolution path, by using contactless as a stepping stone to make the move to mobile payments. Equally, at an absolute minimum any mobile payments experience needs to be just as easy, just as accessible and just as secure as a card-based transaction.
Can you envisage a scenario where your mobile phone becomes your most used method of payments?

By contactless/mobile payments awareness and use

<table>
<thead>
<tr>
<th>Category</th>
<th>Yes</th>
<th>No</th>
<th>I am not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaware of contactless and mobile payments</td>
<td>13%</td>
<td>65%</td>
<td>22%</td>
</tr>
<tr>
<td>Aware of contactless or mobile payments, but never</td>
<td>12%</td>
<td>77%</td>
<td>11%</td>
</tr>
<tr>
<td>used either</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contactless payments user, but not mobile payments</td>
<td>20%</td>
<td>67%</td>
<td>13%</td>
</tr>
<tr>
<td>Mobile payments user</td>
<td>72%</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>21%</td>
<td>67%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Visa-RFi Group Australian Payments Survey, February 2015
Digital payments and digital banking

Among smartphone owners, there is now high awareness of the opportunity to make mobile payments, with 70% of consumers now indicating that they are aware of the potential to make mobile payments. However, there is currently low conversion between awareness and uptake, with only 8% of consumers having ever made a mobile payment. Of the mobile payment services currently available, most currently restrict consumers to payments via the provider’s cards only or via particular devices. Once these limitations are removed, it is anticipated Australia is likely to see the uptake of mobile payments grow significantly.

Awareness and uptake of mobile payments among smartphone owners

RFi Group’s research finds that CBA’s Tap & Pay service is currently the most widely-used mobile payments service in Australia, with one-in-two mobile payment users having used this service.

What services have you used to make a payment in a store, café etc. by tapping your mobile phone against the payment terminal?

Customers that have made mobile payments

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBA Tap &amp; Pay</td>
<td>51%</td>
</tr>
<tr>
<td>Westpac Tap &amp; Pay</td>
<td>36%</td>
</tr>
<tr>
<td>Coles PayTag</td>
<td>24%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Visa-RFi Group Australian Payments Survey, February 2015
Unveiling the digitally engaged customer - engaged, satisfied and valuable

The notion of mobile phones becoming a primary payment device is becoming more realistic to Australian consumers. RFI Group’s research finds that the proportion of consumers that can foresee this happening within the next three years increased by two percentage points between 2014 and 2015 to 16%. However, while the proportion that can foresee mobile payments overtaking other payment mechanisms in the next 3 years has increased, the proportion that can foresee this occurring at any point remained static between 2014 and 2015. This indicates that, while there is a core segment of consumers that are seeing progress towards mobile payments, the majority of consumers remain uninitiated. As a consequence, financial institutions will need to demonstrate and reinforce the benefits of transitioning to mobile payments.

Can you envisage a scenario where your mobile phone becomes your most used method of payment? If yes, how far into the future do you believe this will be?

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Source: Visa-RFI Group Australian Payments Survey, February 2015
Unveiling the digitally engaged customer - engaged, satisfied and valuable

Whereas mobile payments are still in their infancy, digital banking has gained widespread traction among Australian consumers. However, the ability for consumers to interact with their bank either via the online banking site, the mobile banking site or the mobile banking app has led to discrepancies in how effectively consumers are being serviced through these channels. In general, financial institutions have excelled in providing effective online banking sites, accessed through desktop and laptop computers. Additionally, high levels of attention have been paid to the mobile banking app. However, only one in three (32%) customers that manage their products using a mobile device use an app exclusively, with one in four using mobile web as their only digital channel.

While similar to the online banking site, the mobile site is customised to navigation on mobile devices, which should lead to a more streamlined experience. In practice, however, consumers are less satisfied with the mobile site across a range of metrics including the general look and feel, the ease of use, and the reliability. This suggests that banks that want to engage with their main financial institution customers through the digital mechanism either need to invest in improving the mobile banking site experience, or encourage customers to abandon the mobile site in favour of using the mobile banking app. As consumers move more of their banking activities onto mobile channels, dissatisfaction with finding information and the ease of applications may limit acquisition and cross sell, indicating that financial institutions need to focus on improving applications through mobile channels.

Please indicate how satisfied you are with the following when using your main bank’s digital banking

<table>
<thead>
<tr>
<th>Proportion that are highly satisfied (8-10/10) By channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Banking</td>
</tr>
<tr>
<td>Its general look and feel</td>
</tr>
<tr>
<td>80%</td>
</tr>
</tbody>
</table>

Source: Visa-RF Group Australian Payments Survey, February 2015
Unveiling the digitally engaged customer - engaged, satisfied and valuable

Digitally Engaged consumers hold a wider breadth of products with their MFI

In Australia, banking customers fall into three distinct categories in terms of digital engagement.

- **Digitally Engaged:** customers that interact with their MFI using a mobile device
- **Less Digitally Engaged:** customers that interact with their MFI online via desktop or laptop, but not via mobile
- **Digitally Unengaged:** customers that have no online interaction with their MFI

Digital interaction promises a variety of benefits to a financial institution. The most tangible of these is the opportunity to use digital channels to deepen customer relationships - Digitally Engaged customers tend to hold more products than those that interact via more traditional mechanisms. Digitally Engaged customers hold an average of 2.8 product types with their MFI. In contrast, Less Digitally Engaged customers hold an average of 2.5 product types. Product holding among Digitally Unengaged customers hold an average of 2.2 product types with their MFI.

![Average number of product types](image-url)

*Source: Visa-RFi Group Australian Payments Survey, February 2015*
Unveiling the digitally engaged customer - engaged, satisfied and valuable

Digitally Engaged consumers turn to their MFI for new products

In addition to holding more products with their MFI, Digitally Engaged customers are the most likely to first approach their MFI if they need additional financial products in the future, across all product categories. This is particularly pertinent for loan products, with **twice as many (54%)** Digitally Engaged customers saying they would first approach their MFI for a loan product than Digitally Unengaged customers.

And which institution are you most likely to take out each of the following products with?

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Digitally Engaged</th>
<th>Less Digitally Engaged</th>
<th>Digitally Unengaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction accounts</td>
<td>58%</td>
<td>54%</td>
<td>54%</td>
</tr>
<tr>
<td>Savings products</td>
<td>39%</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>Credit and charge cards</td>
<td>58%</td>
<td>50%</td>
<td>52%</td>
</tr>
<tr>
<td>Mortgages</td>
<td>54%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>Loan products</td>
<td>54%</td>
<td>52%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: Visa-RFi Group Australian Payments Survey, February 2015. *Small sample size; indicative only
Digitally Engaged customers are the key to mobile payments

Customers that engage with their MFI via a digital device are significantly more comfortable with the concept of mobile payments than Less Digitally Engaged or Digitally Unengaged customers. The appeal of mobile payments to this segment extends across all merchant categories, although these customers are more comfortable making face-to-face payments via their mobile than using it to buy online. This suggests that financial institutions seeking to gain traction in mobile payments must first ensure that they are targeting the most digitally engaged consumers, as targeting consumers in other segments will initially be met with limited success.

Proportion of customers that would be highly comfortable paying via mobile payments

By merchant category

Source: Visa-RFi Group Australian Payments Survey, February 2015

The merchant categories in which Digitally Engaged customers would most prefer to make mobile payments are already contactless ready – 75% of active credit and debit cards made a contactless transaction in a supermarket or service station in 2014, while cards used to make purchases at quick-service restaurants have a contactless penetration of 73%. This suggests that these merchant categories are primed for the introduction of mobile payments.
Unveiling the digitally engaged customer - engaged, satisfied and valuable

Driving further digital engagement

In addition to product holdings and appetite for new products, Digitally Engaged customers have superior soft metrics compared to their Less Digitally Engaged and Digitally Unengaged counterparts.

Particularly in terms of **satisfaction and advocacy**, Digitally Engaged customers are considerably more engaged (75% and 68%, respectively) than either Less Digitally Engaged (68% and 57%, respectively) or Digitally Unengaged (70% and 58%, respectively) customers. This suggests that driving customers to engage through digital channels is an effective means of improving customer satisfaction, and banks should focus on transitioning their main financial institution customers towards interacting digitally.

![Proportion of customers highly satisfied/ likely to recommend/ unlikely to retain their current MFI](source URL)
Among Digitally Engaged customers that were intending to switch their main financial institution in the next 12 months, it is dissatisfaction with customer service that drives the Digitally Engaged customer out the door. This indicates that, despite these customers choosing to interact with their main financial institution through digital channels, they still demand adequate levels of customer support and will switch allegiance if they feel their needs are not being met.

This suggests that banks need to invest in a comprehensive omni-channel experience in order to successfully attract and retain Digitally Engaged customers, as simply focusing on digital channels will not drive customer satisfaction.

The importance of effective omni-channel presence to the Digitally Engaged consumer is also evident when looking at how they manage their existing accounts. Although this segment does not place as much importance on branch access as Less Digitally Engaged or Digitally Unengaged consumers, the branch is still the most important access channel for this segment. Digitally Engaged customers place a higher level of importance on all other banking access channels than Less Digitally Engaged or Digitally Unengaged customers, indicating that banks need to take a holistic approach to banking access in order to successfully engage Digitally Engaged customers.
Further evidence of the need for an effective omni-channel presence is found in the number of channels used to manage products held with the main financial institution. Digitally Engaged customers on average use 3.05 channels, considerably higher than their Less Digitally Engaged counterparts (1.76), and more than double the number of channels used Digitally Unengaged customers (1.38). Banks without an effective offering over a wide breadth of channels cannot hope to successfully engage with Digitally Engaged customers. Even highly digitally engaged customers see the branch as an important channel and expect the same personalised, convenient service they receive when using digital channels. Investing into an effective omni-channel experience should be a priority for institutions seeking to attract and retain Digitally Engaged customers.

Number of channels used to manage products held with main bank - By digital engagement

Digitally Engaged: 3.05
Less Digitally Engaged: 1.76
Digitally Unengaged: 1.38

Conclusion
Conclusion

Payments lie firmly at the heart of banking relationships.

According to the 2014 McKinsey Global Payments Report, the proportion of retail banking revenue derived from payments is expected to rise from 34% in 2014 to 43% in 2015. Banks that are successfully able to capture the primary credit and debit card relationships among their MFI customers are rewarded with higher cross sell, deeper engagement, better advocacy rates and less attrition. The benefits also flow on to other areas of the institution, such as longer mortgage tenure among customers that hold a primary debit or credit card with their MFI than those that do not.

The shift towards a new payments paradigm in Australia is well and truly underway, driven by the adoption of new technology and changing consumer preferences. The ongoing rise of contactless continues to be a key driver in the long-term decline of cash usage, and growth in usage is expected to persist as consumers continue to embrace contactless payments. The next step in the payments evolution is mobile payments – this is shaping up to be the next front line in the battle for consumers’ wallets, and with telcos and technology firms joining in the fray, competition is expected to be extremely fierce and the pace of innovation rapid.

As well as the impact on the payments system, digital banking has had a deeper impact on banking relationships. Digitally Engaged consumers, those that manage their products via a mobile device, are more satisfied, more likely to recommend their MFI, and have lower rates of attrition than those that do not use mobile channels.

These Digitally Engaged customers also hold more products with their main financial institution, are more likely to approach their MFI if they need to take out additional products, and are the most likely to make the jump to mobile payments. However, while these customers have higher potential, they are also more demanding. Digitally Engaged customers demand omni-channel access to their banking products, and on average use more than twice as many channels as Digitally Unengaged customers to interact with their main financial institution.

Overall, while there is considerable disruption on the horizon for players in the Australian payments system, there is a big opportunity for those that are able to adapt most effectively and leverage digital to drive customer outcomes.
About Visa

Visa Inc. (NYSE: V) is a global payments technology company that connects consumers, businesses, financial institutions, and governments in more than 200 countries and territories to fast, secure and reliable electronic payments. We operate one of the world's most advanced processing networks — VisaNet — that is capable of handling more than 56,000 transaction messages a second, with fraud protection for consumers and assured payment for merchants. Visa is not a bank and does not issue cards, extend credit or set rates and fees for consumers. Visa's innovations, however, enable its financial institution customers to offer consumers more choices: pay now with debit, ahead of time with prepaid or later with credit products.


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