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Banking and finance are facing a consumer-driven ‘frictionless’ revolution, ready or not...

Citing data from Roy Morgan’s Financial Intelligence System, social scientist Dr Ross Honeywill has declared in a new white paper that Australia’s banking and finance industry is on the precipice of a consumer-driven revolution. Certain new entrants into the financial market are perfectly designed to attract the hyper-valuable consumers who are at the forefront of the change, while traditional banks that fail to match their appeal risk being left behind.

An influential group of consumers is driving the consumer-led revolution. They’re not Gen Z, they’re not geeks or nerds, they are ‘future shapers’, and make no mistake, they are ‘hyper valuable’ as customers. There are 4.7 million of these future-shapers in Australia, characterised by very high discretionary spending coupled with a forward-thinking mindset.

Because of their confidence, curiosity, high aspirations and expectations, this powerful cohort of ‘future shapers’ is always right at the cusp of ‘what happens next’ – ‘new economic order’. They are often referred to as NEOs (deriving from the Greek word for ‘new’ and an abbreviation of new economic order).

Who are these NEOs?

Roy Morgan Single Source, the nation’s largest and longest-running database of consumer behaviour and attitudes, shows NEOs are 180% more likely than the general population to earn more than \$200,000 a year and 89% more likely to have over \$1 million in savings and investments. But they spend freely too. In fact, they spend three times as much as other Australians.

A distinctive mindset is just as important as money in identifying NEOs: they seek control in their dealings with the world; they want ‘frictionless’, hassle-free transactions characterised by flexibility and any-hour convenience; and they are tech-savvy quick adapters. When it comes to banking, 64% of NEOs say, “it would be ideal if I could conduct all my banking without ever having to go to a branch,” and 80% prefer to bank digitally.

Who is winning the hearts and minds of NEOs?

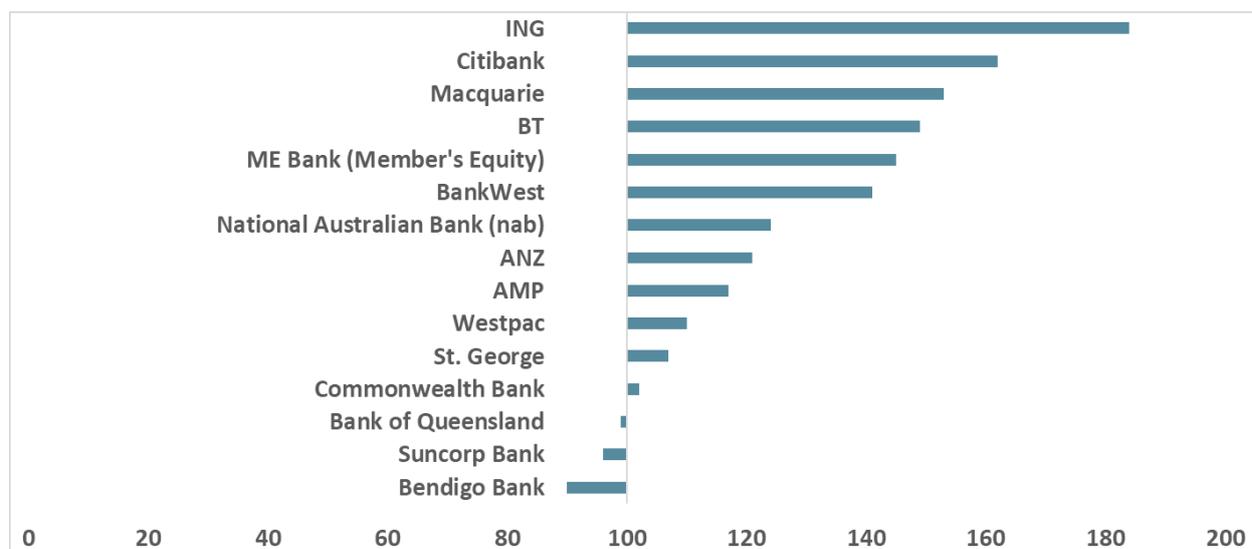
Hitting all the sweet spots for NEOs are new digital-only banks known as neo-banks or challenger banks. (The dual use of the word ‘neo’ might initially seem confusing, but NEO consumers or NEOs, were first described in 2001 while ‘neobanks’ is a much more recent coinage.)

Traditional banks have made efforts to meet the desires of NEOs, some more successfully than others, with ING at the top of the NEO list. Because it uses its parent corporation’s systems and infrastructure, ING isn’t a true neobank however it has been successful in attracting NEO customers: NEO Australians are 84% more likely than the general population to bank with ING.

The successful arrival of true neobanks into Australia has demonstrated that established banks, even ING, cannot afford to be complacent. Neobanks are still relatively few and small in reach, but NEOs are flocking to them. While the Big 4 banks collectively average 25% of NEOs as a proportion of their customers, Roy Morgan data shows that as of March 2020, almost half (46%) Australia’s neobank customers are NEOs.

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NEO Index (100=population)



Source: Roy Morgan Single Source (Australia). April 2019 – March 2020, n = 48,935. **Base:** Australians 14+.

NEOs are vital for Buy Now, Pay Later

NEOs are also a driving force in the Buy Now, Pay Later (BNPL) revolution. BNPL has been the fintech hit in recent years with Australian market leader Afterpay passing \$11 billion in sales in the 2020 financial year, followed by Zip with \$2.3 billion.

NEOs are 20% more likely than the average Australian to buy now and pay later and are driving the burgeoning sector into the fast lane of the two-speed recovery. NEOs particularly like Afterpay – its customers are 25% more likely to be NEOs.

But shares in both Afterpay and Zip dropped on 1 September when PayPal announced the imminent launch of its 'Pay in 4' BNPL service in the US. 'Pay in 4' will cost retailers less per transaction than pure BNPL brands, and PayPal is available through an estimated 500 times as many merchants as Afterpay and 900 times as many as Zip.

In a dramatically changing financial sector, more NEOs (42%) use PayPal than use a credit card (35%). But the upside for NEO-favoured BNPL remains enormous - the data reveals an untapped 87% of approving NEOs not yet using BNPL.

Roy Morgan CEO, Michele Levine, says:

"The evidence on NEOs is incontrovertible. We tracked them as they drove the post-GFC recovery and we're already seeing them driving the fast lane in the two-speed recovery. They are the future shapers."

"But they won't stop and wait for traditional business models to catch up, so this is a critical period for the banking and finance industry, with both neobanks and BNPL shaking things up."

"The real risk to the traditional banks is that neobanks and BNPL players will cherry-pick the profitable financial products and leave the heavily regulated traditional banks with unprofitable products."

Michele Levine is available for interview. Phone (03) 9224 5309

To find out more about the work done on NEOs and their impact on the economy by Roy Morgan in conjunction with Dr Ross Honeywill from the Centre for Social Economics, or about Roy Morgan's extensive data on the Banking and Finance industry, call (03) 9224 5309 or email askroymorgan@roymorgan.com.

About Roy Morgan

Roy Morgan is the source of the most comprehensive data on Australians' behaviour and attitudes, surveying 1,000 people in a continuous cycle that has been running for two decades. The company has more than 75 years' experience collecting objective, independent information. To go deeper on this or any other subject, ask Roy Morgan.

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