

RESEARCH 2016

THE MILLENNIAL INFLUENCE

HOW MILLENNIALS OF EUROPE WILL SHAPE
TOMORROW'S PAYMENTS LANDSCAPE

INTRODUCTION

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We have undertaken this research into European millennials' payments behaviour as part of our ongoing commitment to both inform and shape the discussion about the future of payment systems.

We have been at the forefront of developments in our industry for 60 years and see proprietary research, market analysis and opinion sampling as central to our offering. As providers of the infrastructure through which so much of business and personal commerce is conducted, we are uniquely well-placed to explore and offer insight on emerging trends and behaviours in the way people and organisations want to access and move their money. And, of course, customer insight is at the heart of our own product and strategy development, so this research serves a dual purpose - to support the industry and to enlighten our own innovation.

Millennials are coming of age - the oldest of them are hitting the peak of their economic productivity and their greatest purchasing power. Their choices, their behaviours and their concerns will profoundly shape developments across every spectrum of business and commerce, and nowhere more so than in the way they move and exchange their money.

The first phase of our research focused on the US. This report looks at Europe, and our next will examine the views and behaviours of millennials in South East Asia. Our purpose is to understand how millennials feel about how they pay and are paid, and, in particular, to take their temperature with regards to mobile payments, the next major development in banking and one in which are heavily invested.

Having looked at what US millennials are saying, and now hearing from their European counterparts has been fascinating. With so much rich data to review it's tempting to jump straight in and start making comparisons and drawing conclusions about the differences between the US and Europe. But that is for another day. Before we make those comparisons, it's absolutely vital that we let the region and market-specific insights land properly; let them sink in so that we appreciate the nuances and can reflect on what they mean in the context of these individually huge markets. We will do the same with the South East Asia phase of our project and then we will start to make comparisons and contrasts. You only

have to consider the endurance, almost obstinate persistence of the cheque in the US while it dies in other markets to see that drawing universal conclusions is a dangerous game.

One thing is certain, technology is on the march and this group of consumers are more in tune with it than any of their predecessors. These are the people for whom taxi means Uber, hotel means Airbnb, and shopping means having it now, anywhere. What's available now influences what people expect and for that reason alone, tomorrow will not be like today.

I hope you find these insights and themes both interesting and useful and encourage you to continue the debate through our online thought leadership hub VocaLink CONNECT.

CARA O'NIONS
MARKETING AND CUSTOMER
INSIGHT DIRECTOR

WHAT ARE WE TALKING ABOUT?

This is, by definition, a technical subject so let's start by being clear about our references and meanings.



LAPTOP OR PC

This term is used as a general term to describe all conventional home or office-based desktop and laptop computers, specifically including Apple's Mac range of PCs and laptops.



MOBILE PAYMENT

A mobile payment is any payment made from or via a mobile phone. This could be using an application that sits on top of a contactless payment system such as Apple Pay, usually used to pay for low value goods in a store. It could also be buying an app, music, digital content or shopping through a mobile phone. In this way, most of us who have smart phones have made mobile payments at some point.

Mobile payments therefore offer, and are increasingly being valued as, an alternative to conventional payments methods such as cash, cheque and credit or debit card.



MOBILE BANKING

This means accessing and managing your bank accounts via a mobile phone - simple as that. For the purposes of this paper, if a person accesses their account via a tablet while out and about - in a coffee shop for example - that isn't mobile banking, it's online banking.

It is also possible to make a digital interbank payment via a mobile banking app, but that wouldn't count as a mobile payment either. In this study, mobile payments refers to payments services operated under financial regulation and performed via a mobile device. So, while all mobile payments are digital, not all digital payments are mobile.



MILLENNIALS

For our purposes, millennials are the generation of people born between the early 1980s and the years leading up to 2000 i.e. those who approached adulthood at or since the turn of the millennium and who are now 18-35.

P2P

Peer-to-peer

P2B

Person-to-business

B2B

Business-to-business

OUR AIMS AND APPROACH

4,033
MILLENNIALS
TOOK PART



GERMANY
1,008



THE NETHERLANDS
1,009



ITALY
1,014



UK
1,002

Much has been written and said about the millennial generation - their attitudes and expectations, ambitions and concerns and, perhaps most of all, their behaviours.

They are, above all else, digital natives - they've never known a world without the internet and increasingly they can't imagine a world where most people didn't carry a phone in their pocket or bag. And, given that there are so many millennials - they are the largest generation since the baby boomers of the mid-1940s - mid-1960s - it's not surprising to see the digital world tracking their behaviours closely and looking for signs of what will be the 'next big thing'.

The dramatic spread of mobile phone technologies around the world, in both developed and developing economies, and the rapid pace of developments in

the payments industry, prompt some important questions: How do millennials pay for goods and services? Why do they choose these methods? And, how do they see behaviours and preferences evolving as technology continues to advance and offer new alternatives?

As a pioneer in the development and integration of new payments systems, VocaLink has an important role to play, both in understanding the perceptions and behaviours of millennials, and also in helping the wider financial and commercial world to understand how millennials' preferences will impact their demands for products, services and the infrastructure that supports commerce.

So, we set out to research how millennials are using the payment technologies and methods currently available to them. Earlier in the year we looked at the US market and now we are turning our attention to Europe and South East Asia.

For this report, we held focus groups with millennials - men and women aged between 18 and 35 - and surveyed the opinions and behaviours of just over 4,000 participants across Germany, The Netherlands, Italy and the UK through the leading market research provider Ipsos MORI.

The specific aims of the study were to:

- Understand how technology and social media influences the lives of millennials
- Explore attitudes and trends in millennials' current payment behaviour - and examine how this may evolve in the future, looking in particular at: banking behaviour; how money comes in and goes out of their accounts, including P2P, regular financial commitments, transport and day-to-day consumption
- Explore how millennials see payments to operate in the future.

MILLENNIALS AND THEIR TECH



46%

OF UK MILLENNIALS
USE AN IPHONE



68%

OF GERMAN MILLENNIALS
USE A LAPTOP OR PC



9%

OF ITALIAN MILLENNIALS
USE A WEARABLE

Anyone familiar with millennials as a demographic will know that one of the defining features of this population is its comfort with digital technology. Millennials are the first true digital natives and, not surprisingly, they have quickly adopted the current pinnacle of digital evolution – the smartphone.

By definition, almost all millennials in our sample are smartphone users. As the smartphone market has matured, two brands – Apple and Samsung – have emerged as leaders in Europe. However, European millennials are not quite as enamoured with the ‘cool chic’ of the iPhone as their US counterparts: in Germany, Italy and The Netherlands, Samsung is the market leader with 44%, 41% and 39% share respectively while Apple’s iPhones trail with 28%, 33% and 35% respectively. However, when it comes to the latest models the iPhone 6 and iPhone 6+ (correct at the time of survey), is the favourite in all markets. Only in the UK does iPhone ownership eclipse Samsung’s smartphones, with the 46% of UK millennials using iPhones and just 30% using Samsung models.

Interestingly, whilst Windows phones show weak signs of life in Europe, ranging from an 8% share in UK to just 1% in Netherlands, other Android-

platform phones show much stronger signs of challenging the big two than in the US. Thirty per cent of Italians, 29% of Germans, 24% of Dutch and 23% of UK millennials use non-Samsung Android smartphones. In the US it’s just 19%.

LAPTOPS AND PCS HANG ON

Despite, or perhaps because of their love of mobile communications and their enthusiastic adoption of smartphones, millennials continue to use laptops and PCs more than they do tablet computers. In Europe this effect is most notable in Germany, where 68% of millennials continue to use a laptop or PC and 41% use a tablet – a gap of 27 percentage points. In The Netherlands and Italy, the gap is 19 percentage points, while in the UK the gap is just 13 points with 52% of UK millennials using a tablet, with the largest proportion of these using an iPad of some sort.





68%

OF DUTCH MILLENNIALS AGREE THEY COULDN'T LIVE WITHOUT THEIR SMARTPHONE

75%

OF UK MILLENNIALS LIKE TECHNOLOGY THAT ALLOWS THEM TO TAILOR THINGS TO FIT THEIR NEEDS

80%

OF ITALIAN MILLENNIALS AGREE THAT TECHNOLOGY GIVES THEM MORE FREEDOM OF MOBILITY

WEARABLES ARE STILL NOWHERE

Wearable technology, from the Apple Watch to the Fitbit, has not penetrated the European market in the same way that it has the US. While one in five (20%) US millennials are now sporting some form of wearable technology, none of the countries we looked at have broken 10% for wearables. Italy with its famous passion for fashion is the highest at 9%, while UK and German millennials lag behind at 6% and the Dutch at 4%.

TECHNOLOGY THAT MAKES LIFE EASIER

European millennials love their smartphones. In fact, 71% of Italian millennials say they couldn't live without them. That may be a figure of speech, or a reflection of the famously open and emotional national personality, but when 68% of their Dutch counterparts and 61% of Brits also agree with the statement, it's clear that smartphones are now a major part of everyday life for millennials. Only our German sample demurred: just 54% of them said they 'couldn't live without my smartphone'.

Technology is empowering and for millennials this is important. Across the board, at least three in five millennials agree that 'technology gives me more freedom of mobility' and that they 'like technology that allows me to tailor things to fit my own needs.' This sentiment is most strongly expressed by Italians.

The convenience and control that millennials so value in technology is broadly reflected in their attitudes towards mobile banking. Sixty nine per cent of Italian and 67% of Dutch millennials find mobile banking easy to use - which chimes with their engagement with mobile technology - though only 56% of Germans share this view. This pattern of Italian approval and German ambivalence continues through respondents' views on the functionality they value.

While Italians embrace the freedom to 'make instant payments/pay bills regardless of which bank it is' (67%) and the option to 'see available balance to spend when I make a payment with mobile phone' (71%). Germans do not value these kinds of services as highly,

at 56% and 50% respectively while the Dutch take a position roughly half-way between the two. In fact, across the board, Germans have lower desire for enhanced functionality from their banks: they have the lowest level of agreement with 'I'd prefer to be able manage all of my accounts on one mobile app/ one website' at just 36%, followed by the Dutch (47%), Brits (54%) and Italians (65%). However, it's worth noting that while still the weakest reaction among our surveyed groups, 56% of German millennials would 'like to be able to make instant payments, regardless of which bank it is'.

// I'm not entirely sure what I would do if you took my phone away from me for a day. I probably check my phone every time I have a break of some description. // Italy 18-25

SOCIAL MILLENNIALS

60%

OF ITALIAN MILLENNIALS AGREE THAT SOCIAL MEDIA IS AN ESSENTIAL METHOD OF COMMUNICATION

50%

OF DUTCH MILLENNIALS HAVE CONCERNS ABOUT THE AMOUNT OF INFORMATION AVAILABLE ABOUT THEM ON SOCIAL MEDIA

50%

OF GERMAN MILLENNIALS AGREE THAT SOCIAL MEDIA IS AN ESSENTIAL METHOD OF COMMUNICATION

Alongside the boom in digital communication, and supported by it, social networking is the other great behavioural shift that millennials have pioneered.

Connected in ways that have never before been possible, millennials around the world have enthusiastically embraced social media and now regard it as an integral part of their lives - to the extent that for many, digital relationships are seamlessly woven into and indistinguishable from other forms of interaction.

However, European millennials are less dependent on social media than their counterparts in other regions. Nonetheless some 50-60% in each country surveyed said that 'Social networking is an essential method of communications to me'. This raises a paradox, in that Europeans also have concerns about information security'. Italians, 60% of whom say social networking is essential, are also the most concerned about information security. Sixty three per cent are 'concerned about the amount of information available about me on social media'.

The situation appears to be a little different in Germany. Whilst 50% of German millennials see social networking as essential, a similar proportion (48%) are concerned about the amount of information available

about them on social media'. Are Germans less concerned because they have a smaller investment in it? Possibly, because it's striking how closely aligned these two sets of figures are - lower reliance, lower concern, higher reliance, higher concern. Interestingly, our research groups also hinted at the potential role social media may play in broadening the use of new payment methods. Because millennials are so active on social media this has become one of the primary ways that they learn about new developments, both from their friends and from advertising.

Social media covers an ever widening group of companies and platforms so we looked at the leading social media channels in Europe. Unsurprisingly, given its global dominance Facebook is far and away the most-used channel at least daily: 58% of German millennials use it at least this often, rising to 68% in The Netherlands and 79% in Italy. Instagram is the next most used channel in all three countries with use following the same pattern - Italy 29%, The Netherlands 19%, Germany 12%. The third spot goes to Snapchat in The Netherlands with 14% of millennials using it at least daily, while in Italy and Germany the third most popular social



GERMANY



FACEBOOK INSTAGRAM



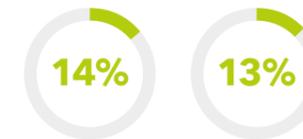
SNAPCHAT TWITTER



THE NETHERLANDS



FACEBOOK INSTAGRAM



SNAPCHAT TWITTER



ITALY



FACEBOOK INSTAGRAM



SNAPCHAT TWITTER

media channel is Twitter at 17% and 8% respectively, with Snapchat trailing at 8% in Italy and 7% in Germany.

Typically, younger millennials - 18-24 year-olds - are heavier users of social media than those in the 30-35-year-old bracket. Facebook is the most commonly used channel across the entire spectrum of millennials - even in Germany where social media seems to play less of a role in millennial's lives (which also came through in the focus groups), it is still used daily by more than half of 30-35 year-old respondents. However, use of other channels is slightly more concentrated in the younger part of our sample and this is especially true of Instagram and Snapchat in The Netherlands. In both cases, 28% of 18-24-year-olds use these channels daily but at the top end of the age range, use falls to 11% and just 2% respectively.

Aside from offering insights into the importance of individual social media channels to different ages and nationalities, this data points to an important and all-too-easily overlooked fact: millennials aren't all the same. The tendency to aggregate insights about this important demographic risks creating a one-size-fits-all view when in fact this is a very broad grouping.

At the younger end of the measure, millennials are starting their first full-time jobs or heading off to university whereas millennials in their early 30s may have children and be rapidly advancing in their careers. Equally, the term 'millennials' has come to be associated with sophisticated, educated metropolitans - but this is a cliché. In cities, millennials are just as likely to be in the front seat of an Uber car doing the driving as they are to be in the back seat being driven, and outside cities they may be farmers just as easily as they are factory workers - or they may be unemployed.

Millennials are defined only by the artificial parameters of age brackets, and by the coincidence of the times in which they live and the technologies with which they live.

However, as we have seen, there are some identifiable sub-divisions within the millennial block. The first, as we have seen, relates to which social media is most heavily used. The second, is a broad observation that ties in with the more nuanced picture of millennials outlined above. Younger millennials have more complex incoming payments - the result of multiple jobs, student loans, payments from parents, selling

online etc. - and relatively simple outgoings. Older millennials typically have simpler incomings - stable jobs etc. - and more complex outgoings associated with home ownership, loan repayments, utilities, family expenditure etc. And these differences inevitably impact on their attitudes towards and need for methods of payment - in and out. But, again, we should be wary of reading too much into the uniqueness of millennials here - this pattern echoes down the generations.

What is different is that millennials, for the first time, have a real choice about how they pay, and increasingly about how they are paid - a choice that will become broader as new forms of mobile payment come on stream.

MILLENNIALS AND THEIR MONEY

With behaviours and barriers shifting so dramatically among the world's first truly digital generation, we wanted to understand how their financial attitudes and behaviours might be changing as they benefit from new technologies and new functionality in payments and financial management.

MONEY MANAGEMENT

The advent of online banking and banking apps offers users enormous benefits in terms of flexibility and convenience. How have millennials responded?

Millennials in Europe have embraced online banking enthusiastically and now do the majority of their banking this way. Across all the territories researched typical banking and payment activities are conducted online, particularly via laptop/PC, rather than at branches or via ATMs. This effect is most pronounced in The Netherlands where physical or voice interaction with banks seems to be almost dying out.

Even the paying in of cheques – arguably a throwback activity in itself and widely regarded as an annoyance rather than a convenience (see below), although cheques remain stubbornly popular in the US – is increasingly conducted online using scanning technology. In The Netherlands, 27% of millennials who deposit cheques now do so using laptop or PC, and 27% use their mobile phones. In Germany the figures are 21% and 11% respectively, and in Italy they are 11% and 6%.

In fact, while other Europeans use laptops and PCs, Dutch millennials now use their mobile phones as financial management tools just as much as they do their computers. Of the populations



ONLY 6% OF DUTCH
MILLENNIALS USE CHEQUES
VS 70% IN THE US

15% OF GERMAN
MILLENNIALS USE CHEQUES
VS 28% OF ITALIANS

that we explored, Germans are the least likely to have used their mobile phones for banking, using laptops and PCs instead, and by a significant margin, to conduct their everyday financial management. Perhaps unsurprisingly, the use of tablet computers trails behind mobile phones, except in Germany where it's broadly on a par with the low use of phones.

// I sent my brother a cheque last year, but purely as a joke to make him wait for his money. // UK 18-25

THE FINAL CHEQUE?

The use of cheques has been in decline for years, initially in response to the advent of direct debit and then as a result of innovations in payments that offer greater speed, convenience and enhanced security. While cheques doggedly cling on in the US, where even millennials continue to embrace them – 70% of US millennials write cheques –

Europeans look like they may be closing their cheque books for the last time quite soon. Just 15% of Germans write cheques, and a measly 6% of Dutch millennials use them. More than a quarter of Italians (28%) still write cheques – but given Italians' apparent comfort with new payments channels, particularly mobile payments, this may not last.

What is interesting to note is that millennials who do use cheques really use them – Germans cheque users write an average of 18 cheques per month and Dutch cheque users write 14. For many millennials in Europe and around the world, that kind of behaviour is either quaint or bizarre.



HOW MILLENNIALS LIKE TO PAY

Millennials have already shown themselves to be comfortable with the emergence of new technologies in finance and their financial behaviour with regards to payments reflects this.

When it comes to making P2P payments – friends, family and other individuals – cash remains king, with bank transfer the second most popular method. But, in line with millennials’ love of the new, mobile payments are being adopted, with 13% of Dutch and 14% of Italian millennials who make payments to individuals using them.

When those individuals happen to be abroad, the pattern changes and millennials either use conventional bank transfer – 45% in the UK and 43% in The Netherlands – or use PayPal. In fact, a third (32%) of Italian millennials use PayPal to make international P2P payments, with 29% of Germans, 27% of Brits and 17% of Dutch sharing this comfort with what is still a relatively new international payment channel. Some of this traffic is, of course, commercial in nature – PayPal is the de facto payment route for a significant volume of eBay and other ‘auction-style’ transactions, many of which are P2P.

When it comes to everyday consumption – groceries, snacks and lunches, entertainment and dining out – millennials who make these types of purchases pay by credit or debit card or cash. That’s not surprising, but what is striking is the extent to which Germans prefer cash in these situations: 70% of them pay for groceries with cash vs. 61% by card, and 79% and 78% pay for

everyday eating and drinking and going out and dining out by cash, with just 27% and 36% respectively using credit or debit cards. In our focus groups, withdrawal of cash with some millennials was also seen as a key budgeting tool, where there were definite examples of parental influence in this in-grained habit.

Within this preference for credit and debit cards is another unfolding story – the advent of contactless payment is causing a mini-revolution. Millennials in the UK are fully embracing contactless payment and, anecdotally at least, are finding transaction via Chip and PIN – itself a relatively recent innovation – increasingly irksome:

// I actually get annoyed now if it’s chip and PIN. // UK 18-25

// I use contactless all the time, it’s so quick and easy, some people might be worried about security, but I think it’s better as you don’t need to use a PIN, which I think is actually safer. // UK 26-35

However, in other European markets, contactless has been slower to take off, with reservations centring on security and ubiquity – whether stores and others payment venues offer it as an option.

// I just don’t see how it could be as secure as putting your pin in. // Germany 26-35

// I’ve seen contactless in some shops but it worries me that if it is so good then why is it not everywhere? // Italy 26-35

At the same time, the advent of services such as Uber, which is a cashless ‘taxi’ proxy, is serving to both underline the value of non-cash payments, and also to present a more pressing case for adopting payments that do not require time-consuming and fiddly data entry. UK millennials in particular value the cashless aspect of Uber.

In line with their behaviours in other types of transactions, Germans have yet to really begin to embrace mobile payments (5% or less) for these kinds of everyday transactions. Italians by contrast are already adopting mobile payments with 10% using mobile payment for everyday eating and drinking, dining and going out, and 11% for entertainment such as going to the cinema, concerts and sports events.

In the UK the picture is very similar, with credit and debit cards dominating and cash coming a significant second. It would appear though, that Brits are a little more comfortable with mobile payments than their German counterparts – 8% are making mobile payments for ‘everyday eating out/drink’ and 8% use mobile for purchasing digital media, presumably for consumption on their phones.

70%

OF GERMAN MILLENNIALS PAY FOR GROCERIES WITH CASH VS. 61% BY CARD

1 in 11

BRITISH MILLENNIALS ARE NOW PAYING FOR CAR PARKING USING MOBILE PAYMENTS

50%

OF ITALIAN MILLENNIALS SEND INTERNATIONAL PAYMENTS, WITH 20% PAYING WITH MOBILE

53%

OF DUTCH MILLENNIALS WHO USE PUBLIC TRANSPORT PAY ON CARD VS THOSE 18% WHO USE CASH

68%

OF THE UK MILLENNIALS THAT PAY THEIR UTILITY BILLS USE DIRECT DEBIT, WITH 17% USING BANK TRANSFER

29%

OF GERMAN MILLENNIALS WHO SEND INTERNATIONAL PAYMENTS, USE PAYPAL FOR THIS

That willingness to switch to mobile payments is also reflected in the way Italians pay for larger-scale, more routine outgoings. While the Dutch and Brits are more likely to use Direct Debit to pay their utility bills and rent or mortgages, and Germans favour bank transfer, Italians use a more balanced range of payment methods, including credit and debit cards as the most frequently mentioned way of paying utility bills at 41%. Corresponding figures for The Netherlands and Germany are in the low teens. But even more noteworthy is the proportion of Italians who use mobile

payments to pay their utility bills (15%) and their rent or mortgage (13%). That means that Italian millennials are more likely to pay rent, mortgage or utility bills by mobile than they are to buy a drink or sandwich or pay for a meal out with this method.

On public transport, the patterns are different again, with the Dutch most likely to use credit or debit card payments, and the Germans and Italians far more likely to use cash, although again, Italian millennials show a growing comfort with mobile payments – 16%

of them pay for public transport this way. Brits use cash and credit and debit card more or less equally and 8% are now using mobile payments to pay for public transport. Nearly one in 10 are now paying for car parking using mobile payments, a figure that probably reflects the launch and take up of dedicated parking apps such as RingGo, not to mention the convenience of not having carry pockets full of loose change.

GERMANS AND PAYPAL

While much of the findings of this survey indicate a slighter more conservative attitude to banking and payments among German millennials than other Europeans, their use of PayPal stands out. Our focus groups revealed that Germans are using the PayPal – whether online or via mobile – for more than simply buying and selling online. A number of services now require payment via PayPal and this appears

to be driving wider acceptance of the platform. Parking, for example, is generally paid via PayPal, where in the UK it’s by cash or RingGo, and others indicated that they now use PayPal to settle debts with friends and family.

// My friend and I often use PayPal to send money to each other. It’s so much easier as all you need is an email address rather than IBAN codes and things like that. // Germany 25-35

PayPal is also regarded by some as being free of the perceived security risk of mobile payments:

// PayPal feels safer to me as my details are being stored on something that can’t be lost. // Germany 25-35

THE MILLENNIAL INFLUENCE

TECHNOLOGY



SOCIAL



Use Facebook at least once a day in the Netherlands

MOBILE PAYMENTS

1 in 4

of UK millennials who are currently making mobile payments



55% of German millennials have never tried Mobile Payments

EUROPEAN MILLENNIALS AND THEIR MONEY



50%

of Italian millennials send International payments, with 20% paying with mobile



88%

of British millennials receive their salary by Bank Transfer, with 6% being paid in cash

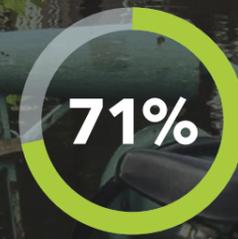


45%

of Dutch millennials sell goods online, 78% by bank transfer and 16% via mobile payment



of German millennials have concerns about the amount of information available on them on social media



of Dutch millennials have heard of iDeal, with 20% using it

58%



of UK millennials would be more likely to use a new mobile payment service if provided by their own bank



6%

of Dutch millennials use cheques vs 70% in the US



70%

of German millennials pay for groceries with cash vs. 61% by card



1 in 11

British millennials are now paying for car parking using mobile payments



More than half

of millennials in all four countries surveyed agreed that they 'would like to be able to make instant payments'



42%

of British and German millennials agree that they would use eye scans to verify payments



67%

of Italian millennials would like to be able to make instant payments, regardless of which bank

THE FUTURE

HOW MILLENNIALS LIKE TO BE PAID

So if the picture of money out is mixed, how do millennials in Europe like to receive payment – what are their money-in preferences?

Salaries are, as you might expect, overwhelmingly paid by bank transfer. However, the detail of the small proportions of millennials who are paid by other means reveals a picture that will be worth monitoring. In Germany for example, 5% of millennials are paid via PayPal while in Italy it's 7%. Eleven per cent of Italian and 6% of German millennials are paid in cash. More surprising still is the fact that 8% of Italians, 7% of Dutch and 4% of Germans are paid via App or other mobile phone functionality.

Interestingly, given what we saw about P2P payments, when it comes to payment for goods sold on internet auction sites, PayPal is important but not dominant, possibly because of the delay in settling that is built into its offer. Forty-five percent more Germans use bank transfer than PayPal in these circumstances, while in the Netherlands PayPal is not even the second most used

channel. The Dutch are more likely to receive payment by bank transfer (78%), then cash (20%) and then payment via an App (16%) above PayPal (13%) – although it's worth noting that PayPal may also be used as a mobile payment App. Only in Italy is PayPal the dominant payment channel.

In the UK our study extended to a wider variety of incoming payments, revealing a changing picture as millennials adapt to the availability of new payment options. In a generation of flat and house-sharing, we looked at how UK millennials group their rent and mortgage payments. Unsurprisingly, of those who receive money from others as a contribution to housing costs, half rely on bank transfer and other online payments, but a healthy 9% now receive payment by App or other mobile phone functionality, and 6% receive contributions towards utility bills this way. Landlords [and those sub-letting

rooms] are also beginning to embrace mobile payments with 6% receiving payment this way.

A footnote to the UK payments story is a confirmation of the demise of the cheque. Cheque use is now low among millennials and where they are used it is typically in cases where the payee dictates the method of transfer – best exemplified by the gift from parents and grandparents: 16% of Brits still receive gifts of money or a loan this way from someone they know personally or socially. Cheques are not only no longer popular, they have actually become something of an irritation:

// I get my premium bonds payments by a cheque. It's a massive hassle. I need to go to the bank, need to queue, and then need to wait at least five days for it to clear. // UK 26-35

76%

OF ITALIAN MILLENNIALS RECEIVE THEIR SALARY BY BANK TRANSFER, WITH 11% BEING PAID IN CASH

20%

OF BRITS STILL RECEIVE GIFTS OF MONEY OR A LOAN BY CHEQUE FROM SOMEONE THEY KNOW PERSONALLY OR SOCIALLY

63%

OF GERMAN MILLENNIALS SELL GOODS ONLINE, 46% BY PAYPAL BUT 67% BY BANK TRANSFER



MILLENNIALS AND MOBILE PAYMENTS

We've already seen that millennials, particularly those in Italy are beginning to embrace the idea of mobile payments.

But we wanted to look in more detail at their perceptions of this rapidly expanding channel - which platforms did they know about, which ones do they actively use and, critically, what factors govern their willingness to further adopt these emerging technologies?

BIG BRANDS, LOW UPTAKE

Perhaps unsurprisingly given what we already know about the way European millennials are using PayPal, the brand's platform is the most widely known mobile payments in both Germany and Italy. However, a local platform, iDeal, is even better known in The Netherlands with 71% of Dutch millennials aware of the brand. In the UK, the best-known mobile platform is Apple Pay with awareness of 84%, with PayPal at 74%.

But while Google Wallet and Apple Pay are the next best-known brands in each country, the levels at which they are recognised outside the UK are surprisingly low. Just two fifths of millennials in Italy and Germany have heard of Apple Pay and in The

Netherlands it's less than a third (29%). Fifty seven percent of Italians recognise PayPal as a mobile payments platform and in Germany and The Netherlands the figures are lower still - even though usage is relatively high, compared to other providers, especially in Germany where it is becoming the norm for paying car parking fees. While Samsung is ahead in the phone wars in Germany, The Netherlands and Italy (but not the UK), it is trailing in the mobile payments market and Android Pay, which works across multiple phone brands, and achieves similar brand recall in all three markets.

If awareness of mobile payments brands is surprisingly low, especially outside the UK, actual take up of mobile payments is startlingly low. In this, the most connected, most digitally active generation ever, the uptake of the latest, fastest and most convenient means of payment has barely begun. Apple Pay, by far the most heavily promoted platform is used by 2% of millennials in Italy and the UK, and just 1% in Germany and The Netherlands.

Surprisingly, PayPal which is already an established brand in payments, particularly for internet auctions and purchases, and international transfers, this brand equity has not yet transferred to their mobile payment service. It's currently used by a mere 3% in the UK, 4% in Germany and The Netherlands and 5% in Italy.

There is, however, one ray of sunshine for mobile payments - iDeal, which achieved brand recognition far higher than any other brand, has succeeded in converting that recognition to take up. It is used by 20% of Dutch millennials - four times more than any other mobile payment platform across the territories we looked at.

iDeal came about in the Dutch market as an industry answer to limitations with using their debit cards through e-commerce channels. As payments have evolved into mobile, iDeal solution has been well placed to move with the times seamlessly.

CURRENT MOBILE PAYMENT USERS



GERMANY



THE NETHERLANDS



ITALY



UK



IF YOU WERE TO PAY FOR ITEMS USING YOUR MOBILE PHONE, WOULD YOU BE MORE OR LESS LIKELY TO USE THIS NEW PAYMENT SERVICE IF IT WERE PROVIDED BY EACH OF THE FOLLOWING?

	UK	GERMANY	THE NETHERLANDS	ITALY
Most preferred provider	 Bank 58%	 PayPal 54%	 Bank 53%	 PayPal 62%
Second most preferred provider	 PayPal 49%	 Bank 52%	 PayPal 29%	 Bank 58%

But while mobile payment use is currently low, it seems unlikely to stay that way so we asked millennials who they would feel most comfortable with as a provider of a mobile payment service.

// I will use Apple Pay whenever I want to. If I've got my phone out, why not? // UK 26-35

In all four territories, millennials would prefer to see mobile payments services delivered by either their banks (The Netherlands and the UK) or, perhaps echoing where it was the most recognised mobile platform, by PayPal. What's interesting here is that the margin of preference is small - nine percentage points or less - except in The Netherlands. Here, even though the preference for banks as the provider is comparable to the other territories at 53%, PayPal comes a poor second at just 29%, compared with 49% in the UK right up to 62% in Italy.

What's also interesting in all of these territories is that the least preferred provider of mobile payments services would be a new-to-market company. European millennials appear to take comfort from known brands when it comes to money, which perhaps goes some way to explaining PayPal's relative success.

With awareness of mobile payments brands so much higher than use, we wanted to understand what the obstacles to mobile payment take

up might be: what is stopping digital natives, more than half of whom say they 'couldn't live without my mobile phone', from embracing a payment channel that so closely reflects their desire for convenience, freedom and personalisation?

Current usage of mobile is low, but not as low as the figures about individual platforms might suggest. It's worth remembering here that mobile payments means payments made from or via a mobile phone, including via applications that sit on top of a contactless payment system such as Apple Pay, and buying an app, music, digital content or shopping through a mobile phone. With this definition, use of mobile payments looks a little healthier:

- UK - 25%
- Germany - 21%
- The Netherlands - 36%
- Italy - 37%

Perhaps more enlightening are the figures relating to lapsed users - people who have tried mobile payments and then stopped using them.

- UK - 20%
- Germany - 21%
- The Netherlands - 19%
- Italy - 24%

In each country, between a fifth and a quarter of millennials have tried and

then abandoned mobile payments. Why? The simple answer is concerns about security, ranging from the risk of physically losing a handset carrying financial information to the risk of hacking and other forms of fraud.

Millennials also cite 'technical issues' as a major reason for abandoning mobile payments, with 23% of Germans who have tried mobile payments giving this as one of the reasons for stopping. 'Technical issues' is a broad category covering a variety of issues including not knowing how to use the equipment at point of sale, not understanding how to use the App itself, the sales assistant not knowing how to process mobile payment and the technology itself not functioning as it should.

Among those who are still using mobile payments, life isn't plain sailing either: 78% of Italians, 73% of Germans and 54% of Dutch millennials who make contactless payments using their smartphone in store or in person have experienced problems - although the fact that they continue to use this channel suggests that these problems were not deal-breakers. While 32% of German users and 30% of Italians say 'feeling hassled' is a problem when trying to use these platforms, and a further 32% and 40% respectively say they experienced problems with the staff member not knowing how to use the technology, or the business not accepting it, these are issues of familiarity not function. On this point there is good news.

71%

OF DUTCH MILLENNIALS HAVE HEARD OF IDEAL, WITH 20% USING IT

But it's not just security and technical issues that frustrate potential users of mobile payments platforms. In the UK at least, respondents articulated frustration over the delay between payment and money leaving their accounts when using Apple Pay and welcomed the instantaneous nature of some current and prospective mobile payment channels and the control they offer.

Not everyone experiences problems: 46% of Dutch users say their experiences have been trouble free, while just 27% of German users and 22% of Italian users agree. One might expect that to feed into much more positive responses about the future but when we asked millennials about the future, it was Italian users who were most enthusiastic with 76% of current users saying they were

55%

OF GERMAN MILLENNIALS HAVE NEVER TRIED MOBILE PAYMENTS

likely to increase their usage in future, and 57% of non-users saying they were likely to make mobile payments in the future. In Germany and The Netherlands the corresponding figures were 61% and 31%, and 56% and 34% respectively. That means that around two-thirds of current non-users of mobile payments in Germany and The Netherlands don't expect to start using them.

But, the bigger story here is the difference between the future use expectations of users and non-users of mobile payments. Among current users of mobile payments, between a half and three-quarters indicate that they are likely to increase their use of this payment channel, while among current non-users the figures are much lower. Only in Italy do more than half of

1 in 5

UK MILLENNIALS THAT HAVE TRIED MOBILE PAYMENTS, HAVE LAPSED

current non-users say they are likely to use mobile payments in the future. That may seem obvious but what it's really saying is that, even with concerns about security, technical issues and other obstacles, millennials who start paying by mobile are likely to keep going and increase their use of mobile payments services. The challenge then is to get them to start.

And in many ways that shouldn't be as hard as these figures might suggest because, despite the numbers of millennials who have abandoned mobile payments or who have never tried them, millennial Europeans - from 56% in Germany to 69% in Italy - say that 'mobile banking is easy to use'. Is it just a matter of time.

UK MOBILE AWARE AND RECEPTIVE

Awareness of most mobile payment platforms is significantly higher in the UK than in other European countries researched. Apple Pay, for example is recognised by 84% of Brits, while in Italy, where it is next most-well-known, the figure is just 42%. The most notable exception is Samsung Pay where the gap in brand awareness is just four percentage points - UK 40% awareness, Italy 36%.

However, even in the apparently burgeoning UK market, take up and current use of mobile payments by millennials is strikingly low. With 46% of our UK study group using iPhones of one sort or another, and the known willingness of millennials and Apple users alike to adopt new, technology-

related behaviours, it is surprising to see that just 2% of our sample currently use Apple Pay.

Arguably, Barclays, which operates a mobile platform called Pingit has achieved greater success. It has achieved the same level of use as Apple Pay, but on much lower awareness (43%). In this instance it would appear that the association with a bank may be driving usage more effectively than with a tech company, even the uber cool giant Apple. That in itself may serve as evidence of the degree to which millennials want to see mobile payments delivered by the banks.

// If I have dinner with my boyfriend and he picks up the bill, I'll just Ping him the money afterwards - he's set

up as a payee in my mobile app and the money gets there instantly. // UK 26-35

And Paym, a mobile payment platform offered by a number of banks, has achieved take up of 1% despite reaching just 26% brand recognition.

Other payment apps, such as CAKE, which is designed for splitting bills amongst multiple payees and AllPay, which enables users to determine when payments are triggered and was used by some of our respondents to control their rent payments, were also mentioned in the UK. However, despite recent publicity at the time of the research about its launch delivering brand awareness of 44%, Android Pay is used by just 1% of UK millennials.

	UK	GERMANY	THE NETHERLANDS	ITALY
I expect my card provider to provide me with technical support for mobile payments	65%	55%	44%	77%
I expect my bank to provide me with technical support for mobile payments	65%	64%	73%	77%
I expect my mobile phone network provider to provide me with technical support for mobile payments	58%	50%	48%	65%
I wouldn't know where to go or who to speak to if a mobile payment went wrong	55%	49%	40%	61%
I'd always go to the bank to educate me on new banking/payment technology	34%	22%	31%	64%

One thing that may certainly help to accelerate the adoption of mobile payments is better education.

A large number of millennials in all the countries we looked at – from 40% in The Netherlands to 61% in Italy – say they wouldn't know who to speak to if a mobile payment went wrong. At the same time, they are at best confused about who should provide technical support – the bank, the mobile network provider or the card provider.

While this doesn't give a clear indication of who should take the lead, it does say, loud and clear, that millennials are

confused about who is responsible for mobile payments – and this lack of clarity can only serve to erode confidence. Interestingly, millennials certainly don't automatically assume that problems with their payments are issues to be raised with their bank. This finding underlines the degree to which the introduction of new technology, and payment systems offered by global technology giants is fragmenting the market – or to put it another way, shaking things up. In the UK, when asked which kind of provider would make them more likely to use mobile payments, banks came out on top at 58%, but card providers and PayPal were right behind at 50% and

49% respectively. But, in both Germany and Italy, the most preferred provider was PayPal at 54% and 62% respectively, slightly ahead of the banks.

One third of UK millennials preferred the idea of mobile payments from a service provider recommended by their bank, and when taken together with those who preferred provision directly by their banks, this gives a net 61% of UK millennials more likely to use mobile payments if they were in some way operated by or under their banks' brand. For the UK at least, that appears to provide a signpost to the future.

ITALIAN CONTRADICTIONS

Across this survey Italian millennials show themselves to be more open and welcome to advances in payments and arguably more willing to adopt mobile payments. They exhibit the strongest positive feelings about the benefit of technology and are much more enthusiastic about using the most advanced technology available: 73% agree with the statement 'I prefer to use the most advanced technology available' compared with 40% The Netherlands, 55% Germany and 56%

the UK. However, they model most powerfully the paradox of European millennials and mobile payments:

- 67% of Italians agree they are 'concerned that there is too much personal information about me stored on my phone'
- 57% of Italians agree that 'technology always seem to fail at the worst possible time'
- 37% of Italians have never tried mobile payments

- 24% of Italians are lapsed users of mobile payments

- 39% of those Italians who have tried mobile payments have security concerns

At present, Italian millennials, and to a lesser extent their European counterparts, are talking the talk about mobile payments but not yet walking the walk.



FREEDOM TO CHOOSE

If, as we have seen, millennials value the liberating nature of technology and the way they can tailor it to support their lifestyles, the converse is also true.

Millennials seem to resent anything that requires them to pay or be paid in particular way. And for small transactions or between individuals, this serves to support the enduring universality of cash:

// Some places, small shops, still have a limit for when you can use a card so you have to pay cash. // UK18-25

// When you go into a shop you have to pay the way that they want you to it's not something you can negotiate. Some of my friends are like that too although cash is the fall back in all instances. Cash is always accepted. // Germany 26-35

FRAGMENTATION FRUSTRATION

Millennials enjoy more payment options than any previous generation and while they clearly welcome the convenience and speed of some of the newer options, particularly contactless payment, there is also a degree of frustration about the plethora of choice and differences in the 'functionality' or quality of some options.

// I am happy with a few things, but I don't want to be using cash, card, Apple Pay, Facebook - it's too much, it's an overload. // UK 26-35

Perhaps understandably, millennials articulate a desire to take and homogenise the best elements of a number of payment options - the speed and immediacy of online payments or cash for example, with the convenience of contactless.

Cash has one universal quality that people value - you can only spend it once and when it's gone it's gone; there is no challenge to remember how and where you spent it. Some millennials seem to value this 'old-school' simplicity even as they simultaneously value the slick portability and security of newer payments. The feature that seems to most irritate millennials is 'delay'. For a generation that is used to immediate and near universal access to shopping, music and entertainment, fast food and 24/7 convenience, even relatively minor delays to the transfer of payment are objectionable. Clearly that applies to the cheque, but mobile and contactless also attract negative comment:

// I've found myself going back to cash (from card and contactless) for that reason because I've got so fed up, not knowing how much money I have. I check my balance and I have that much, and I'll spend money but then find out that I don't have that money. // UK 26-35

// I've had situations where money hasn't come out straight away and I've become overdrawn. Eventually it will happen. // UK 26-35

So while contactless has taken off rapidly, especially in the UK, and arguably because it is an extension of a familiar use of a familiar device, there is certainly appetite for payment systems that are immediate, like cash, but secure, like cards. But, and it's a big but, new payment channels will have to be interoperable. One of the major obstacles to the take up of mobile payments appears to be the experience, real or perceived, of payments systems and apps that don't or won't talk to each other: 'I think it only works between other people with NatWest'; 'It only works if someone has a Halifax account'.

And it's not just the payment channels that draw fire. Companies that benefit, or appear to benefit from delaying payment are also in the firing line.



MILLENNIALS AND THE FUTURE



MORE THAN HALF OF MILLENNIALS IN ALL FOUR COUNTRIES SURVEYED AGREED THAT THEY 'WOULD LIKE TO BE ABLE TO MAKE INSTANT PAYMENTS'



56% OF GERMAN MILLENNIALS WOULD LIKE TO BE ABLE TO MAKE INSTANT PAYMENTS TO OTHERS AND PAY BILLS, REGARDLESS OF WHO THEY BANK WITH



71% IN ITALY AGREE THEY WOULD LIKE TO BE ABLE TO SEE THEIR AVAILABLE BALANCE TO SPEND WHEN MAKING A MOBILE PAYMENT

While millennials have shown some reluctance to get to grips with mobile payments as they stand now and have indicated that security is their primary concern, there is strong evidence that they are interested in new ways of verifying payments that draw on emerging technologies to enhance security.

Fingerprint verification, already an option with some payment platforms, is the most-preferred alternative to signature or PIN, both for mobile and card payments in all countries. This is especially the case in Italy where 57% and 62% of millennials prefer to adopt this measure for payment by mobile and cards respectively.

In fact, as we have seen already, Italians appear to be enthusiastic to press ahead with technological developments, including 57% who say they would prefer using eye scans to verify payment over the conventional signature or PIN. Dutch millennials are the least enthusiastic about biosecurity measures, but 42% would prefer to use fingerprints to verify payments by phone and 43% by card. Eye scans are also popular among Germans and Brits with 42% preferring these to conventional verification.

WHAT'S NEXT?

But, whether they are accessible by fingerprint, eye-scan or voice recognition, what will the next generation of services be like - what do millennials want that is not easily available or which they do not readily access now?

- At least half and up to 71% in Italy agree they would like to be able to see their available balance to spend when making a mobile payment.
- Between 56% (Germany) and 67% (Italy) would like to be able to make instant payments to others and pay bills, regardless of which bank that means.
- From 29% in the Netherlands right up to 67% in Italy would like to have 'more control over the way people pay/reimburse/send money to me'
- 65% of Italians would like to be able to store their medical prescriptions on their phones - just 35% and 31% of Germans and Dutch want this facility.
- Half of Germans and nearly three quarters of Italians would like their phones to be able to automatically recognise loyalty schemes when making purchases.



42% OF DUTCH MILLENNIALS WOULD PREFER TO USE FINGERPRINT SCAN TO PAY BY MOBILE



42% OF BRITISH AND GERMAN MILLENNIALS AGREE THAT THEY WOULD USE EYE SCANS TO VERIFY PAYMENTS

Millennials in all of the territories we surveyed want more from their smartphones and more from their banks via their smartphones - more information, more control, more convenience and more flexibility.

While the level of usage of mobile payment platforms is currently relatively low, millennials' love of convenience, and their perception that technology provides it, seem set to change this. In this most connected generation, where smartphones are both ubiquitous and increasingly regarded as essential life-aids - offering tools for so many of life's everyday challenges - millennials seem likely to embrace the control and accessibility of paying through the one object that is always to hand.

There are obstacles, and the challenge for banks and other providers is to

support millennials - on either end of the transaction - in learning how to use the platforms, and to convincingly address their concerns about security. But, given the frustration that going to the bank now seems to cause, perhaps it may be that growth will come through payments in as much as it will through payments out, where cards - both contactless and otherwise - already meet so many of millennials' needs and which don't require such a shift from current behaviour.

It's also clear that some markets may be more willing and faster to respond. Italy and the UK both seem more open to new forms of payment - and more frustrated with the ones they currently have. Statistically, their German and Dutch counterparts seem slightly less dissatisfied with the status quo and more cautious about adopting new

technologies but our research groups suggest this may be pragmatism as much as conservatism.

Above all, it would appear that the proliferation and prominence of social media will both deepen millennials' relationships with their smartphones, and help to normalise finance-by-phone behaviour of all kinds - from settling shared bills in restaurants to complex money management.

Throughout the findings, what is clear is that it's impossible to treat European millennials as one category or group. Each country has its own ingrained culture influencing the younger generations payment behaviour and the rates of change in adoption of innovative payment methods will always have their differences.

TECHNICAL NOTE

This research has been conducted in partnership with Ipsos MORI and has been commissioned by VocaLink.

The first stage of the research consisted of six face to face focus groups across Hamburg, Milan over 18 and 19 May, and London on 22 June. The groups were split by age (18-25 and 26-35 year olds) and restricted to those people who are holders of a bank account and a smartphone.

This was followed by the quantitative phase of the study which was conducted via the Ipsos Mori's online global panel. Nationally representative samples of 1,008 in Germany, 1,009 in the Netherlands, 1,014 in Italy and 1,002 in the UK. Please note that the UK survey was a lot shorter, less detailed snapshot so there are not corresponding UK figures for all areas covered by main survey.

Quantitative fieldwork was completed for the UK from 4 May to 10 May 2016, and the remaining European markets from 4 July to 15 July with millennials being defined as 18-35 years of age and respondents had to hold bank accounts and be able to access smartphone or tablets. The data has been weighted to match the known national profile for online millennials.

This is the second part of wider global study looking into the payments behaviour of the millennial generation.

For any further questions on the research, please contact:

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A CONTRAST OF CULTURES

While millennials everywhere generally want 'more', Italians and, to a lesser extent Brits, want a lot more while Germans and Dutch seem happier with the status quo.

61% of Italians agree that they actively 'want more services on their mobile banking apps' but just 34% of Germans and 36% of Dutch share this enthusiasm.

65% of Italians agree they 'prefer to be able to manage all of their accounts via one mobile app or website' - just 36% of Germans share this preference.

64% of Italians agree they 'wish they had more control over the way people pay or reimburse them'. The Dutch don't: just 29% agreed with this statement, and Brits aren't looking for more control either - only 37% agreed.

But perhaps most striking of all is the contrast in attitudes about how to learn about new developments in payments. Almost two-thirds of Italians agree that they would 'always go to the bank to educate me on new banking/payments technology'. This suggests a degree of trust and open-mindedness that is not shared in other territories. In fact,

in Germany just 22% of millennials, and in The Netherlands 31%, look to their banks for guidance, which suggests banks in these countries will have to adopt markedly different marketing approaches as they seek to extend awareness and penetration of mobile banking services.

One thing they can all agree on though is speed: more than half of millennials in all four countries surveyed agreed that they 'would like to be able to make instant payments'. That desire alone may be enough to unlock the door for mobile payments.



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