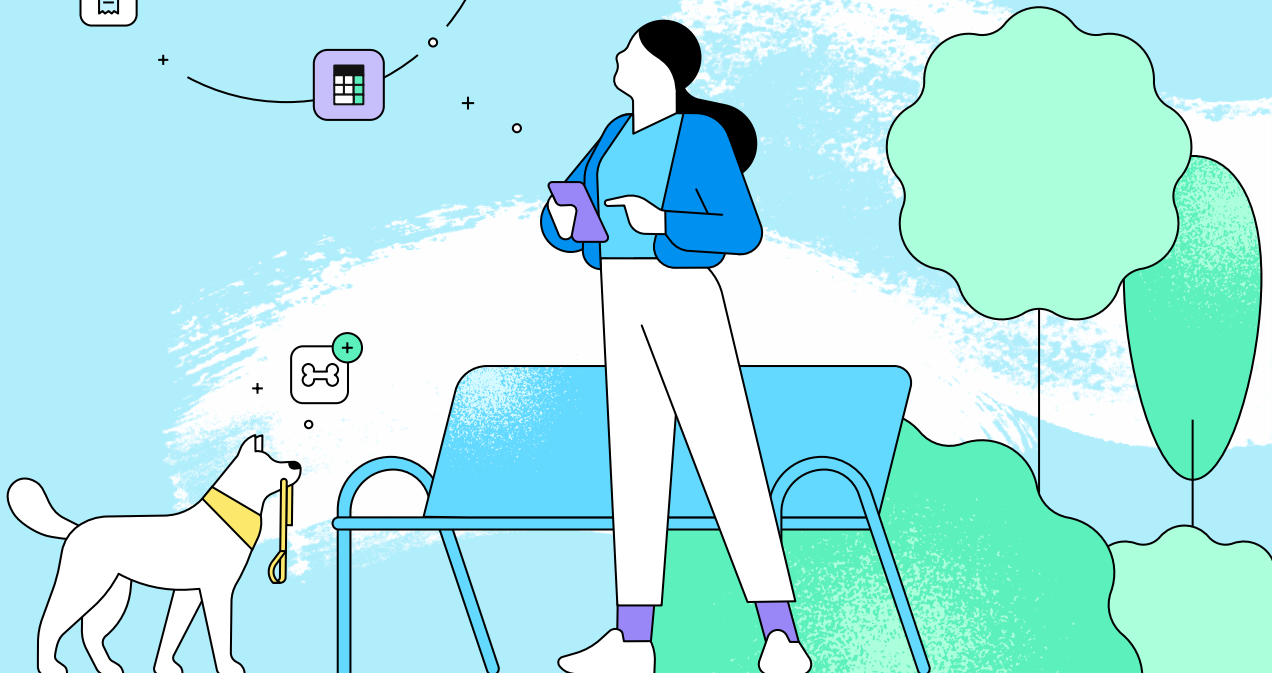
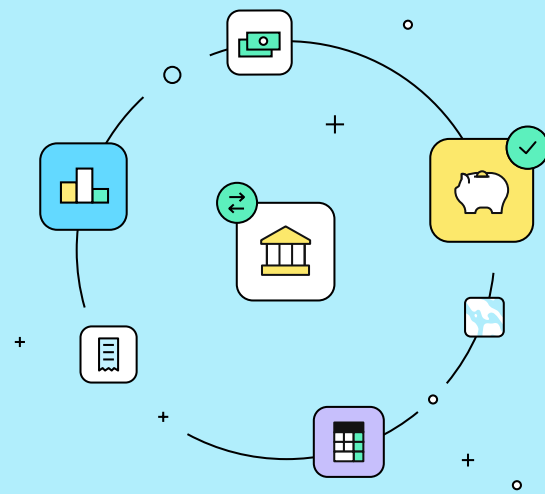


**2020 FINTECH REPORT**

# The Fintech Effect

Consumer Impact and the Future of Finance



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**W**elcome to **The Fintech Effect**, a new Plaid research series designed to provide insights and analysis about fintech's impact on consumers. This inaugural report establishes a benchmark for fintech adoption, perceptions, and trends to be measured over time.

Americans face serious financial challenges: Three quarters live paycheck-to-paycheck.<sup>1</sup> Four in ten can't cover a \$400 emergency expense without selling something or borrowing money.<sup>2</sup> Only a quarter report being financially healthy.<sup>3</sup> Consumers' financial issues aren't limited to dollars and cents, either. Money is consistently the number one source of stress for Americans, affecting consumers physically as well as psychologically.<sup>4</sup> Now in the midst of the COVID-19 pandemic and economic crisis, consumers' financial issues are more pressing than ever.

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### **What is fintech?**

*Fintech is the intersection of financial services and technology. It refers to any digital tool a consumer uses to manage their money. This includes digital interfaces provided by traditional banks (the Chase, Wells Fargo, or Bank of America app), products and services built by new entrants (Venmo, Robinhood, Coinbase, and Square), and connected financial capabilities built into the consumer experiences of other systems and applications (Microsoft Money in Excel).*

In the past decade, as more consumers adopted digital tools, financial technology arose as a way to help consumers address those challenges and make progress toward financial goals. As fintech adoption continues to accelerate, especially as a result of COVID-19<sup>5</sup>, consumers have come to rely on fintech to manage their financial lives. It's incumbent on us now to determine whether and how fintech is working for them, and what that means for the future of financial services.

As a provider of the data connectivity powering the fintech ecosystem, Plaid wants to understand how consumers use fintech, how they feel about it, how it impacts their lives—and how that might vary among different demographics. So we partnered with The Harris Poll to ask them.

<sup>1</sup> CareerBuilder

<sup>2</sup> Federal Reserve

<sup>3</sup> CFPB Financial Well-Being Survey

<sup>4</sup> SSRN

<sup>5</sup> Plaid

Consumers told us three things:

- Fintech improves their financial well-being
- Fintech expands their access to the financial ecosystem
- Fintech creates a virtuous cycle of experimentation, results, and confidence

The findings in this report suggest that fintech is a force for good in consumers' lives. It's not just about convenience; fintech saves them both time and money. They use fintech to address their most pressing financial challenges. Once they get started, they find that it gives them greater control over, reduces anxiety about, and increases confidence in their finances. The survey also suggests that as people use more fintech, they realize more benefits.

As more consumers adopt fintech and see its benefits, they expect to continue using it going forward. Just as mobile banking and online banking were table stakes for consumers in the 2000s and 2010s, fintech is now the new normal for consumers in this next decade. It's where they turn to manage all parts of their financial lives, from everyday banking to long-term planning. They expect innovation to produce better, more customized products that have a real impact on their financial outcomes. That shift in consumer expectations creates opportunities for incumbents as well as new entrants to find new ways to deliver on fintech's ability to make money easier for everyone.

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### **What is Plaid?**

*Plaid helps people connect their bank accounts to the apps and services they want to use. We power thousands of the most widely used fintech apps and connect with more than 11,000 financial institutions in the US, Canada, the UK, and Europe. Learn more at [plaid.com](https://plaid.com).*

## **1 Fintech improves consumers' financial well-being**

Fintech saves consumers time and money and delivers positive emotional benefits.

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Consumers making under \$100,000 annually say fintech saves them \$360 per year in interest and bank fees. Fintech helps Americans feel more in control of their finances (73%) and reduces financial anxiety (68%).

## **2 Fintech expands access to the financial ecosystem**

Underserved consumers use fintech to enter the financial mainstream and to address their most pressing money challenges.

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14% of low-income people started banking for the first time with fintech. 64% of consumers making under \$50,000 annually say they get better results with fintech.

## **3 Fintech enables consumers to engage more deeply with their finances**

Consumers use fintech to explore new financial products and services. Those who use it more get better results.

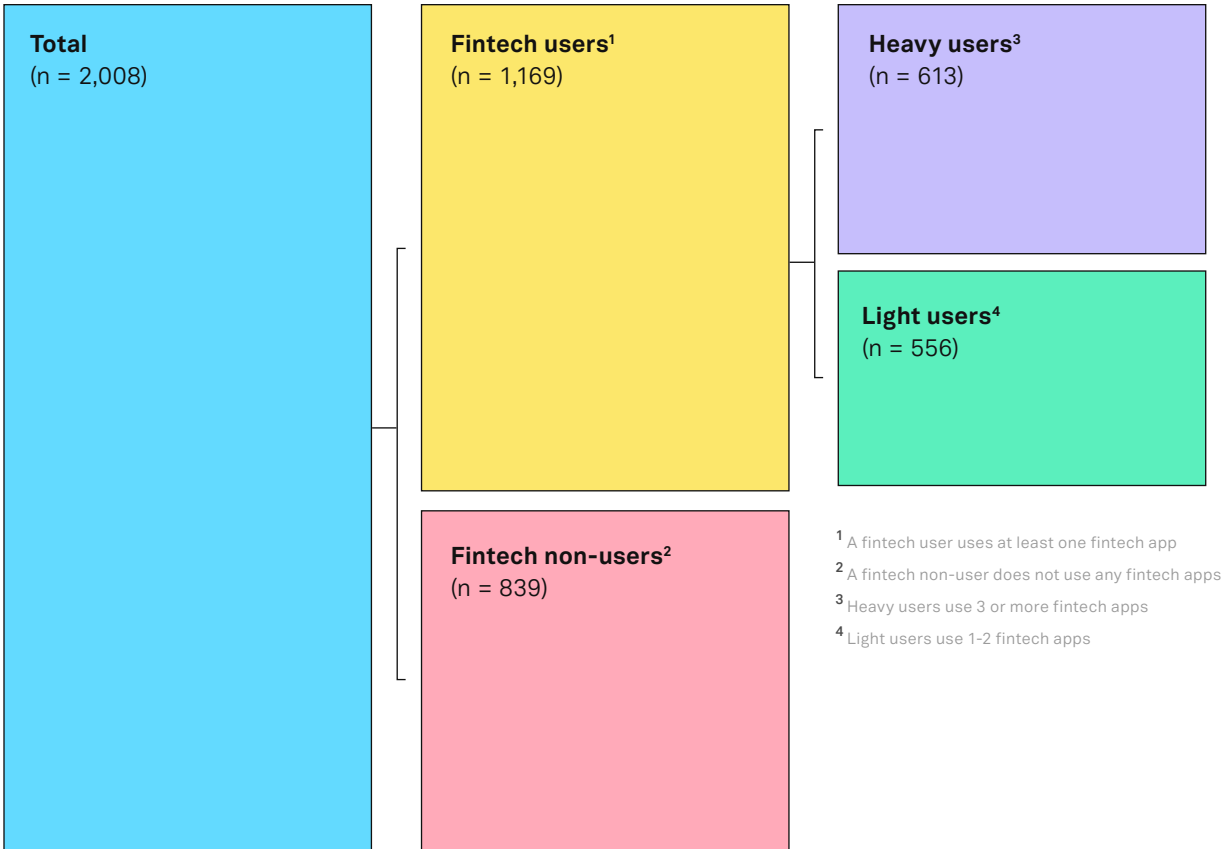
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76% of Americans said technology makes it easier to try new financial areas. Once consumers start using fintech, 89% say they plan to continue using fintech to address their financial challenges.

**This survey was conducted online within the United States by The Harris Poll on behalf of Plaid from July 16-27, 2020, among 2,008 adults ages 18 and older.**

In addition to the key populations outlined below, results were analyzed by age, gender, region, urbanicity, ethnicity, income, assets, employment, marital, and parental status. Data were also evaluated by events such as a respondent’s financial history and personal experience with COVID-19. The data have been weighted to the population of the U.S. This online survey is not based on a probability sample and therefore no estimate of theoretical sampling error can be calculated.

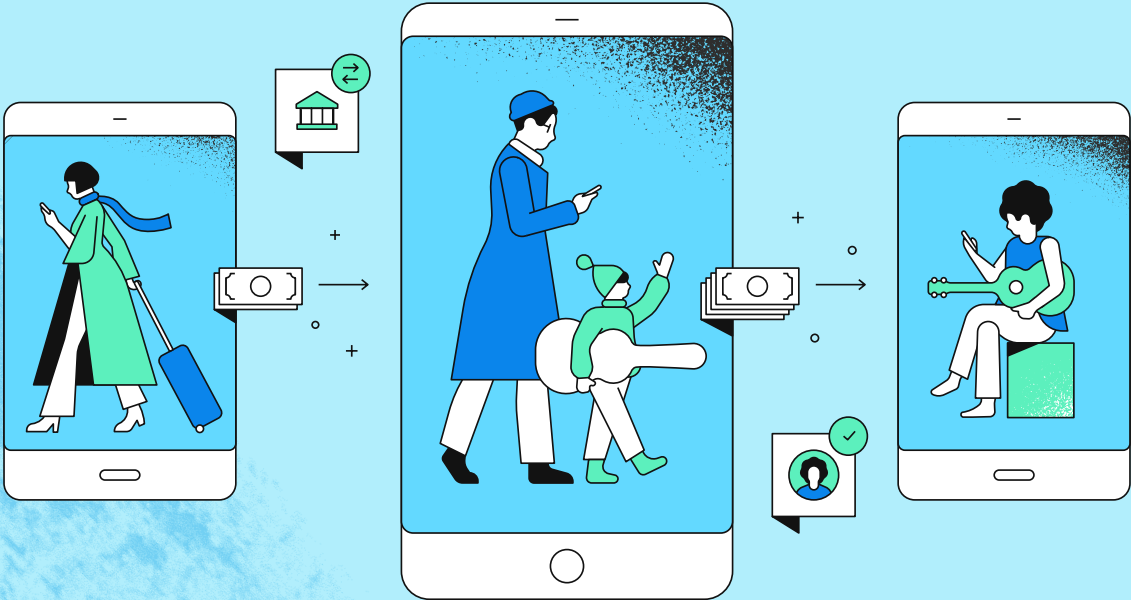
In February 2020, we also held two 90-minute immersive discussion groups among American consumers. Hosted in Austin and New York City, each group consisted of 6-8 members, with a mix of representation by gender, age, ethnicity, income, and fintech literacy, among other factors.



# 1 Fintech improves consumers' financial well-being

Consumers pointed to three ways fintech improved their financial well-being:

- Reduced stress and increased confidence
- Increased financial control and understanding
- Saved time and money



**F**inancial well-being isn't just about how much money a person makes, but also about answering the question, "How am I doing?" Can consumers pay their bills on time? Save for a rainy day or retirement? Invest and build wealth?

Unfortunately, most people are focused on making ends meet. Only 29% are financially healthy<sup>6</sup>, and the average consumer scored just 54 out of 100 on the CFPB's Financial Well-Being survey<sup>7</sup>. Fintech innovators saw consumers' unmet needs and used them as the impetus to build a set of financial products and services to address them. In turn, consumers adopted fintech and today are reaping its benefits.

The vast majority of consumers say they get better results when they use technology to manage their finances (82%). They say fintech makes managing money easier (77%) and gives them more control over their finances (73%). Perhaps most importantly, fintech saves them money: consumers earning less than \$100,000 annually say fintech saves them an estimated \$360 a year on bank fees and interest. In an economy in which 40% of people don't have \$400 saved for an emergency<sup>8</sup>, fintech provides material benefits that improve financial well-being.

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## \$360

Consumers earning less than \$100,000 report saving **\$360 per year** on bank fees and interest with fintech

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### **What is financial well-being?**

According to the CFPB, financial well-being involves an individual having:

- Control over their finances
- The capacity to absorb a financial shock
- Financial goals and being on track to meet those goals
- The ability to make choices that allow one to enjoy life

<sup>6</sup> Financial Health Network

<sup>7</sup> CFPB's Financial Well-Being Survey

<sup>8</sup> Federal Reserve



**Benefits of using technology to manage money**



**☑ Fintech improves consumer’s financial well-being**

**Fintech provides increased financial control and understanding**

- Three-quarters of Americans say fintech gives them more control over their finances (73%)
- Four in ten started using fintech to get a full picture of their finances (42%)
- Four in ten say fintech helps them better understand their finances (39%)

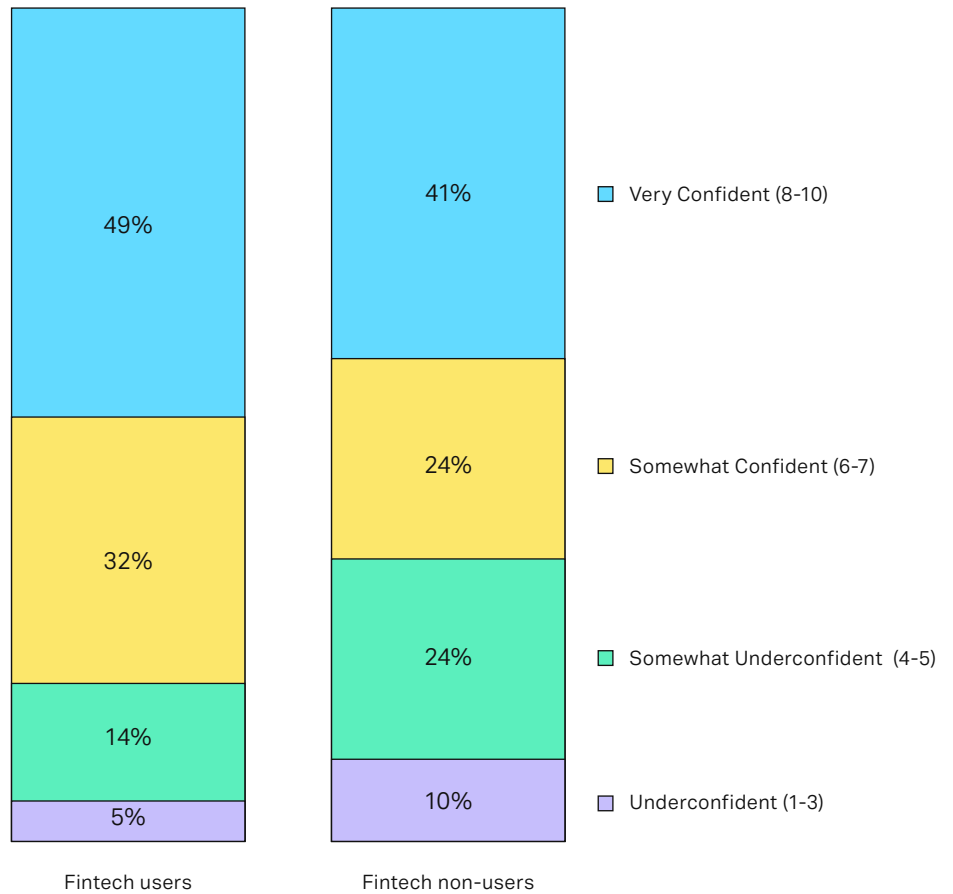
**Fintech saves consumers time and money**

- More than half of fintech users say it has helped them save time (55%), and a similar number say it has helped them save money (45%)
- Americans reported using fintech to deposit, on average, \$60 per month into savings
- Americans reported saving a median of four hours per week because of fintech

## 🔗 Fintech relieves financial stress and boosts financial confidence

- 68% of consumers say it helps them reduce financial anxiety
- Fintech users are more financially confident (81%) than non-users (65%)
- 37% of consumers say their financial outlook is more optimistic because they use fintech

Confidence in relationship with money overall



“I had a lot of money fear... but really having technology showed me, ‘Oh, this is something that you can do.’ And if you educate yourself, you can actually make wise financial decisions.”

—Focus Group Participant

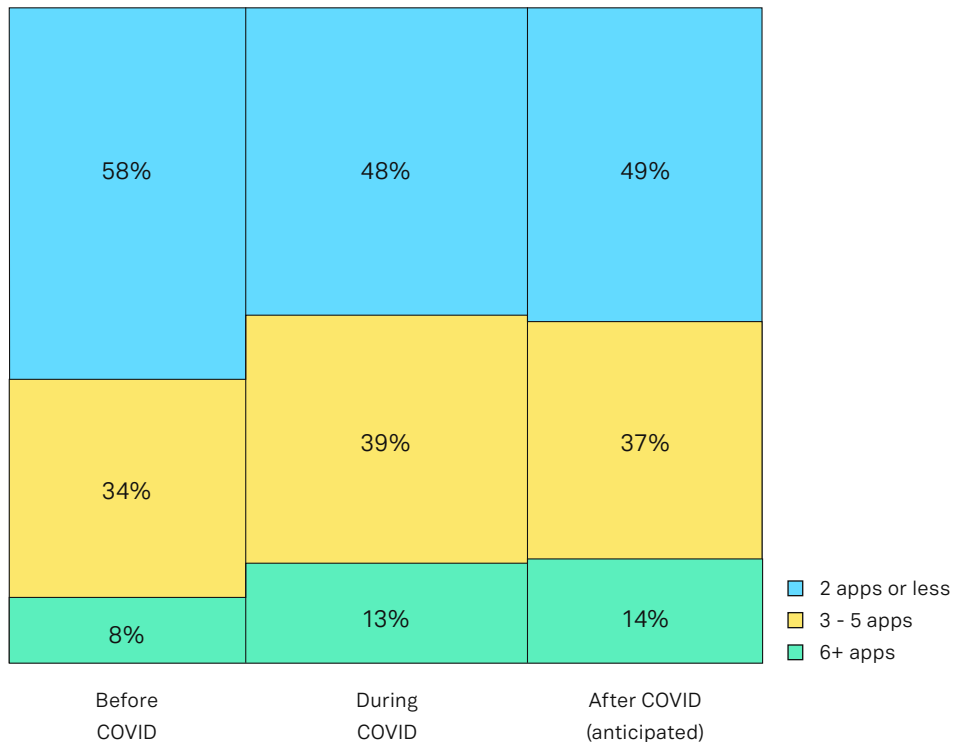
## SPOTLIGHT ON COVID



### The global pandemic accelerated consumer's fintech adoption, leading to a new normal

- **Fintech use has increased dramatically over the past few months.** A majority of Americans (59%) say they use more fintech to manage their money as a result of COVID-19. Two-thirds also say they plan to use fintech more often for at least one financial task, from budgeting and saving to investing and paying off debts, as a result of the pandemic (66%).
- **Fintech has become the “the new normal” for managing money.** Americans estimate that they currently manage 62% of their finances with technology, and the vast majority say fintech is their new normal after COVID (73%)
- **Two thirds of Americans (69%) say it's been a “lifeline” during the pandemic.** In fact, 86% of users access fintech apps at least once a week. More than half (56%) say they could not have kept up with their finances during COVID-19 if it weren't for digital apps, products and services.

#### Number of digital apps used to manage money



2

## Fintech expands access to the financial ecosystem

Consumers told us that fintech expands their access to the financial system in three important ways:

- Fintech breaks down barriers to access for vulnerable populations
- Fintech helps underserved consumers address their most pressing challenges
- Fintech serves minority communities in an egalitarian way





**F**inancially vulnerable populations often struggle to access financial services.<sup>9</sup> One in five Americans is either unbanked or underbanked.<sup>10</sup> Even when traditional financial institutions offer products to low-income consumers, those products often come at a higher cost. As one example, consumers living paycheck to paycheck paid \$17 billion in overdraft fees to major banks in 2019.<sup>11</sup>

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47%

**Half of consumers** living paycheck to paycheck plan to use fintech to address their financial challenges (47%).

Fintech is helping underserved consumers access the financial system. Having a bank account is often seen as the first step to a healthy financial life,<sup>12</sup> but not all consumers are equally banked. Lower-income consumers in particular are far less likely to be banked: 93% of unbanked households make less than \$50,000 annually.<sup>13</sup> So it's significant that one in seven consumers making less than \$50,000 annually started banking for the first time using fintech (14%). Lower-income consumers are also more likely to live paycheck to paycheck, which introduces short-term financial challenges like aligning bills with payday. Half of consumers living paycheck to paycheck report that they plan to use fintech to address their financial challenges (47%).

As the United States continues to reckon with racial inequities, fintech presents an opportunity to address access issues that continue to plague our financial services system.<sup>14</sup> Fintech usage appears to be more egalitarian among several key demographics than traditional banking: Where access to traditional financial services falls starkly along racial and ethnic lines (17% of Black households are unbanked, compared to 3% of whites),<sup>15</sup> Blacks (59%) and Latinos/Hispanics (62%) reported using fintech at even greater rates than whites (56%).

<sup>9</sup> Federal Reserve Bank of Boston

<sup>10</sup> FDIC

<sup>11</sup> Oliver Wyman

<sup>12</sup> Wharton School

<sup>13</sup> Kansas City Fed

<sup>14</sup> The Color of Money: Black Banks and the Racial Wealth Gap

<sup>15</sup> FDIC

## 👥 Fintech breaks down barriers to access for vulnerable populations

Lower-income consumers pointed to several barriers fintech broke down for them:

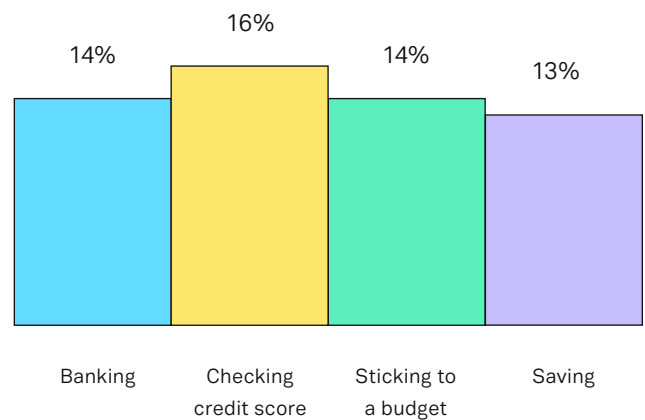
- **Reduced complexity:** Four in ten low-income consumers who used fintech to start building an emergency fund said they previously didn't know where to start (40%).
- **Affordability:** One quarter of those who started banking for the first time with fintech said they previously couldn't afford the fees associated (23%), such as penalties for not holding account minimum balances, overdraft fees, and ATM fees.
- **Enabling better habits:** More than a third of those who started a savings habit with fintech said they didn't feel the need to do it beforehand (35%). One in five started using fintech to get a better picture of their finances.

“Your parents don't teach you, the school doesn't teach you. So I was an adult at 20-something-years-old when I first learned about financial concepts.”

—Focus Group Participant

## ☰ Fintech gives consumers an on-ramp to financial services

- Especially among those making less than \$50,000 annually, fintech helps people access financial services for the first time.
- A percentage of consumers making less than \$50,000 a year say they never did the activities on the right at all before using fintech.



## **Fintech helps underserved consumers address their most pressing challenges**

### **Short-term: Living paycheck to paycheck**

Three out of four Americans live paycheck to paycheck (74%), which introduces short-term strain on finances.<sup>16</sup> Consumers report that fintech provides tools for addressing these challenges and gives them greater control over their financial situation.

- 47% of consumers living paycheck to paycheck plan to use fintech to address their financial challenges
- One in four say they plan to use fintech to build an emergency fund and achieve financial security (24%)
- 50% rely on payment apps like Venmo, CashApp, and Zelle

### **Medium-term: Saving for emergencies**

Building rainy day savings is a critical challenge for consumers up and down the income ladder. It helps them avoid financial shocks and focus on long-term goals. Half of Americans don't have an emergency savings account, yet people with emergency savings accounts are twice as likely to be confident in their long-term goals.<sup>17</sup>

- 50% of consumers who say building savings is their biggest financial challenge plan to use fintech to build a savings habit
- 32% of all consumers said that they did not know how to start building a savings habit before they used fintech

### **Long-term: Building retirement savings**

People are living longer, making retirement savings more important than ever.<sup>18</sup> But in the U.S., one in five consumers has less than \$5,000 saved for retirement.<sup>19</sup>

- 48% of consumers concerned about saving enough for retirement say they've increased their savings using fintech
- Consumers using fintech to address retirement savings challenges report that they set aside \$1,200 more in savings each year

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64%

*of people making under \$50,000 a year say they get better results when using fintech.*

<sup>16</sup> American Payroll Association

<sup>17</sup> AARP

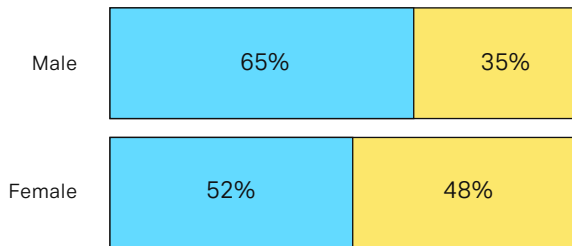
<sup>18</sup> MassMutual

<sup>19</sup> Northwestern Mutual

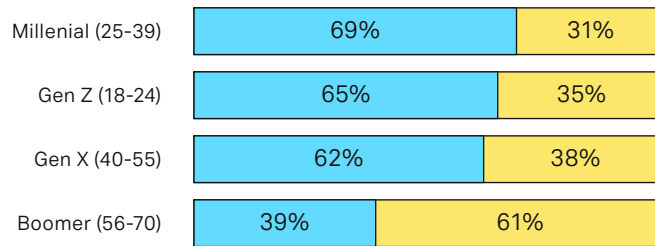
## 👤 Different demographic groups access fintech in an egalitarian way

■ Fintech users ■ Non-users

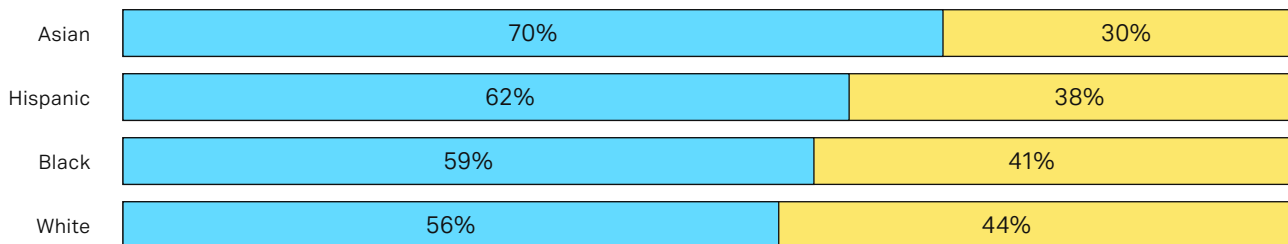
### Gender



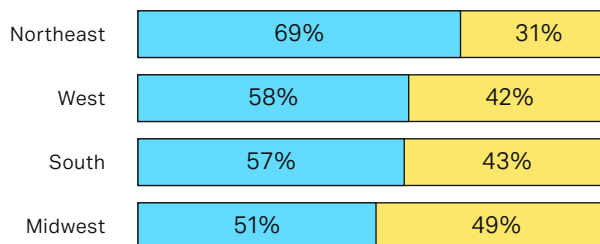
### Age



### Ethnicity



### Region



**Fintech use is evenly distributed among different genders, ages, regions, and ethnicities.** Women use fintech slightly less than men (52%, 65%), but in both groups just about half of consumers are fintech users. The Northeast region has the greatest proportion of fintech users, but the South, Midwest, and West use fintech equally.

**Nearly half of Blacks and Latinos/Hispanics who used to bank manually (by phone, by mail, or in person) now do it digitally (46%, 49%).** Blacks in particular reported that fintech lowered cost barriers to accessing tools like savings products. Nearly half of Blacks said savings habits were too expensive until they started using fintech (47%).

**Rural consumers use fintech apps at nearly the same rate as urban consumers.** That includes banking (45%, 50%), fintech payment apps (52%, 59%), and investing apps (23%, 26%). Four in ten rural consumers said they did not know where to start investing before fintech, as compared to just three in ten urban consumers.



## SPOTLIGHT ON POLICY



### **Consumer data rights enable consumers to benefit from fintech**

#### **Consumers are able to use fintech products when they have control of their financial data.**

Financial data powers many of the fintech products consumers use to improve their financial lives. They connect their bank and investment accounts to fintech applications, which provide solutions using the financial data consumers choose to share. For example, a budgeting tool needs to see a consumer's transactions in order to help them manage their spending.

Connecting a financial account to a fintech app or service depends on the consumer's ability to digitally access their financial information: things like account and routing numbers, rates and fees, recent transactions, and account balances.

#### **Ensuring that consumers can access their financial data will help everyone reap the benefits of fintech. Data rights provide that assurance.**

Without a strong consumer data right, Americans will have inconsistent access to fintech. Depending on where people hold financial accounts, they may or may

not be able to access the data they need to use fintech products. By contrast, establishing a strong consumer data right will help ensure that everyone can access the tools they need to manage their money.

The Consumer Financial Protection Bureau grants consumers a data right with Section 1033 of the Dodd-Frank Act. Both the CFPB and other financial regulators have the opportunity to support the implementation of that right. This would help ensure that all US consumers can benefit from fintech tools, regardless of where they hold their financial accounts.

#### **Policymakers have the opportunity to strengthen data rights for all Americans.**

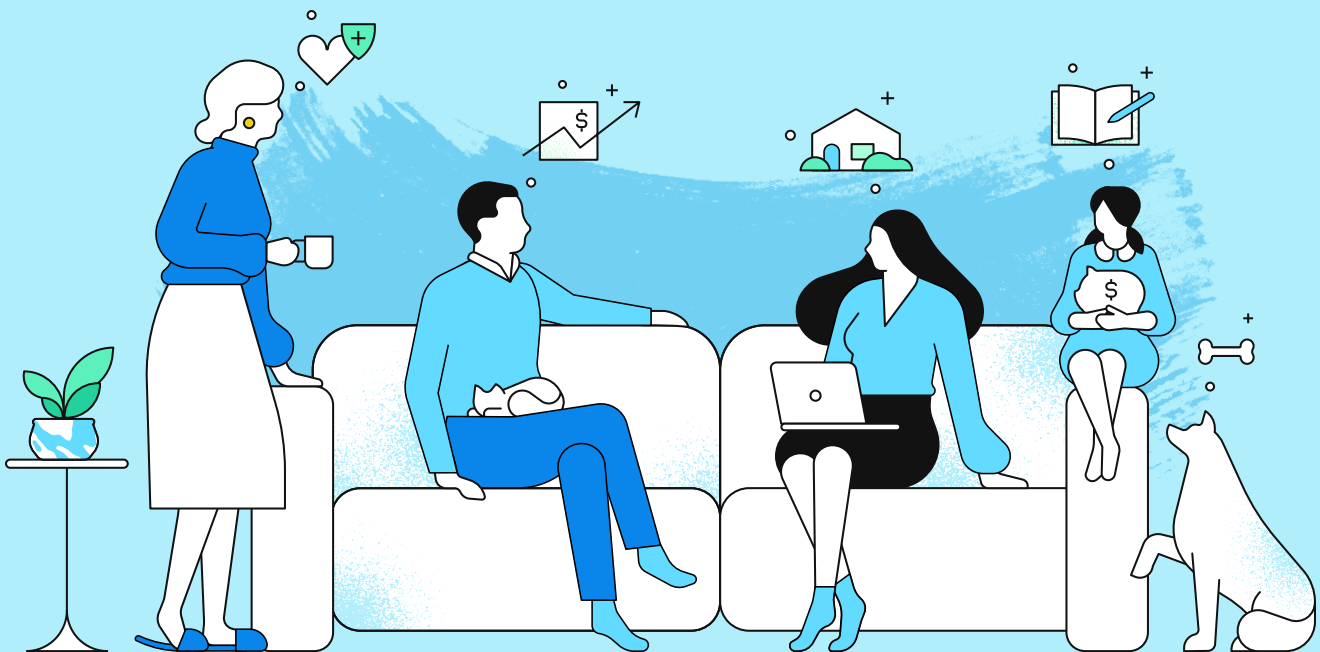


3

## Fintech enables consumers to engage more deeply with their finances

Consumers told us three reasons they return to fintech to engage with their finances:

- Experimentation and frequency
- More fintech, better outcomes
- Increased confidence



**A** ccording to a Financial Health Network survey, 39 million consumers are “financially unengaged,” meaning they have low levels of awareness of their financial situation.<sup>20</sup> Fintech makes an impact by helping consumers deepen their engagement with their finances, which our survey findings suggest can help drive better financial confidence and results.

Consumers use fintech to explore new financial products and services. Those who start using fintech feel more confident about their money. Consumers who use more fintech apps and services, as well as those who use them more frequently, report obtaining better results than those who use them less.

**Experimentation and frequency:** Consumers say technology makes it easier to try new financial areas. Consumers who have more fintech tools say they engage with those tools more frequently.

**More fintech, better outcomes:** Consumers who use more fintech apps report seeing better results from using technology to manage finances than those who use fewer apps.

**Increased confidence:** Daily fintech users say they are more confident and less stressed about their money.

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84%

*Daily fintech users feel more confident in their financial outlook than the general population (84%, 74%).*

<sup>20</sup> Financial Health Network

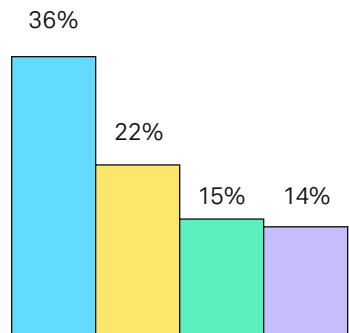
**💡 Experimentation and frequency**

**Consumers start using fintech because they want a holistic view of their finances.** The main reason consumers start using technology to manage their money is to see all of their financial accounts in one place (42%). Once users start leaning into technology, they report that it becomes the preferred method for managing most financial tasks.

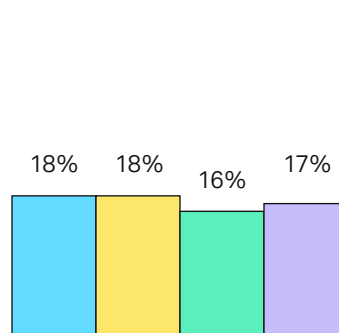
**Consumers who have more fintech apps engage with them more frequently.** Consumers who use three or more apps are more likely than those who use two or fewer to engage with fintech daily (60%, 46%).

**Reasons consumers used technology to try a financial task that they hadn't previously been doing**

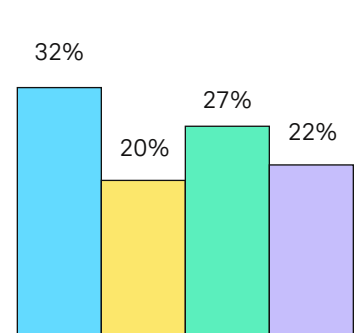
- I didn't know where to start
- I thought it would take too much time
- I couldn't afford the upfront costs / there were too many fees associated with it
- I didn't know about it in the first place



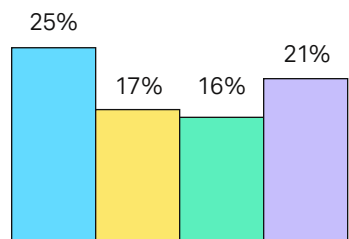
**Making / sticking to a budget**



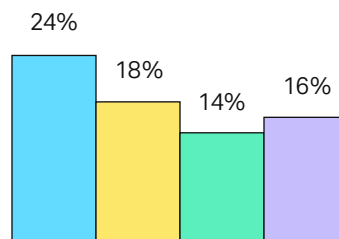
**Banking**



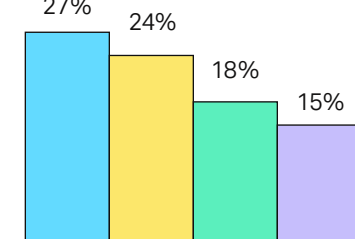
**Investing**



**Starting a savings habit / Saving more**

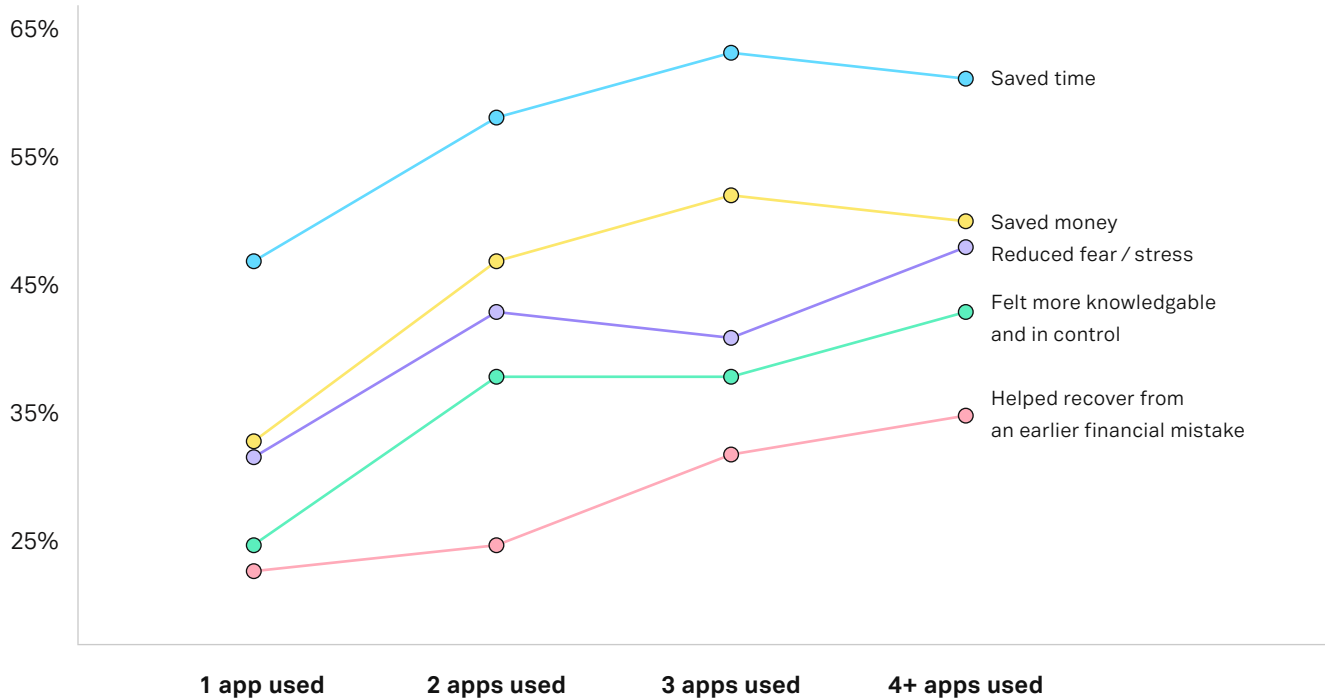


**Checking and improving credit score**



**Building an emergency fund**

Benefits of using technology to manage money, according to consumers



### More fintech, better outcomes

**Consumers who use more fintech tools report better results.** Heavy fintech users (3 or more apps) report higher levels of time and money savings than light users (1-2 apps). Nearly nine in ten consumers who use three or more fintech apps say they get better results with technology (86%), as compared with two-thirds who use just one fintech app (67%).

**Consumers who use fintech regularly report better results than those who use it less frequently.** Nearly half of daily fintech users say they've put more money into savings or saved money on financial services as a result of using fintech (46%), as compared to just over a third of non-daily users (34%). Daily users are also more likely to say they've made progress toward financial goals with fintech (42%) than non-daily users (32%).

### Increased confidence

**Consumers who use fintech frequently report feeling more confident and less stressed about their finances.** Daily fintech users feel more confident in their financial outlook than the general public (84%, 74%). This group is also more likely than the general public to say they feel more confident about their financial outlook since using fintech (41%, 37%). A greater proportion of daily users say they've experienced decreased financial stress since using fintech than total users (35%, 31%).

## SPOTLIGHT ON FAMILIES



### Families turn to fintech

#### **A distinct set of financial challenges**

As parents know, raising a family means that time and money are frequently scarce resources. The need to balance spending for today and saving for the future introduces complicated choices. Parents are one example of how fintech users don't fit any one stereotype. In fact, parents said they benefit more from fintech than people without kids.

By using fintech, nearly eight in ten parents report feeling more control over their finances (78%), and three in four get better results (76%). Parents manage a higher proportion of their finances digitally and represent a higher proportion of heavy fintech users (5 or more fintech apps) than their child-free counterparts.

#### **Parents and COVID-19**

The COVID-19 pandemic hit parents particularly hard, with 70% saying the pandemic has hurt their family finances.<sup>21</sup> According to the Urban Institute, more than a third of parents reported problems paying for basic necessities like food and shelter in April 2020.<sup>22</sup> As parents struggled to manage their finances, many turned to fintech.

- 77% of parents say fintech has been a “lifeline” during COVID-19
- 64% say they could not have kept up with their financial situation in these times without fintech
- Parents say they save \$600 a year on fees and interest with fintech, versus non-parents who report saving \$300 annually.

#### **A stronger foundation for our future**

These findings suggest that fintech isn't just a tool for young, child-free people. Parents start using fintech to get the full picture of their finances (35%), to stay on top of their budget (29%), and to save for emergencies (22%). Fintech provides parents a broad set of tools to control their finances and ensure they can manage them today and into the future.



<sup>21</sup> [Parents.com](#)

<sup>22</sup> [Urban Institute](#)

## Conclusion

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**T**en years into the existence of fintech, the evidence suggests that the industry is making a meaningful difference in people's lives, their financial outcomes, and their emotional well-being. Fintech is the new normal, and continued adoption will incentivize new entrants and established players to meet rising consumer expectations.

This will require concerted efforts from all stakeholders: financial institutions, fintech companies, and policymakers. Fintech is making a positive impact across demographics, but there is work to be done to ensure lasting value for people and a continued commitment to serving the underserved.

**Fintech has the opportunity to reorient financial services around consumer well-being.** A new landscape with well-being at its center stands to benefit consumers individually, and our economy as a whole, as we rebuild from the economic devastation of COVID-19. To build upon the positive momentum, there is opportunity for policymakers to give consumers greater control over their financial information, and for the industry to provide even better personalization and products centered around positive consumer outcomes.

**Greater choice and flexibility benefits consumers.** The growing fintech ecosystem is creating a more competitive financial environment. Consumers have more options and greater flexibility to choose services that best fit their specific needs. Digital finance allows providers to expand their services and reach new types of customers, including populations that are financially vulnerable and historically underserved.

**Fintech has the opportunity to define the future of finance.** The opportunity to create a more efficient, accessible, and equitable financial system is wide open. The global pandemic has accelerated fintech adoption—growth projected to take years has taken place over mere months—but the true digital transformation of finance is just beginning.

In the future, every company will be able to incorporate fintech to benefit its customers. Innovation will come from traditional financial companies, new entrants, and established companies from outside of finance. Trust will be paramount. The winners will be those who lean into building connected and consumer-centric fintech experiences and help people live better financial lives.