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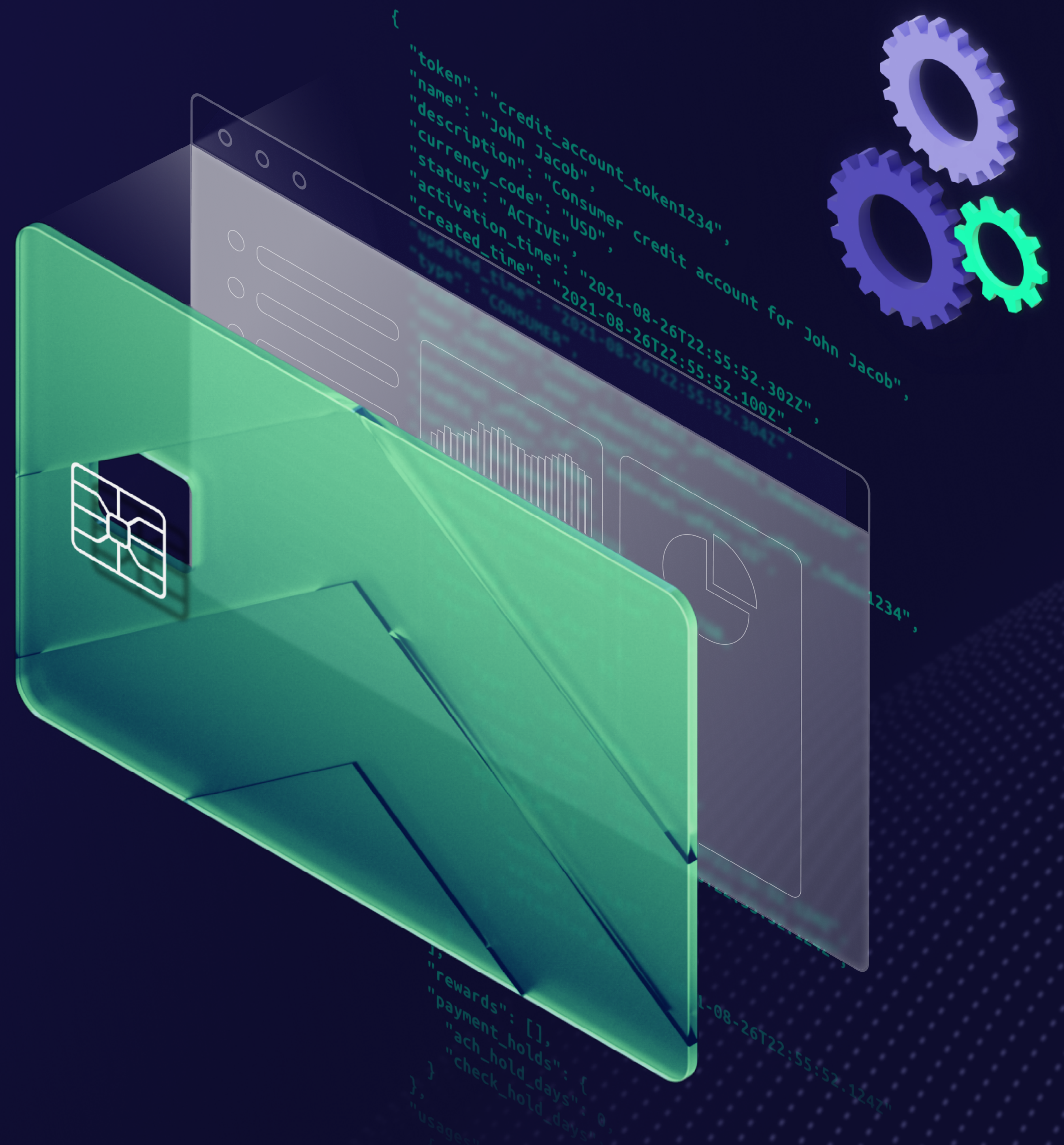

Marqeta 2023

State of Payments Report

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Introduction

The digital age has brought numerous innovations and benefits to consumers around the globe - from the birth and boom of ecommerce to social networking; from remote work to now, embedded finance. Increasingly, we have become accustomed to the speed with which we can acquire and share information, the range of services available to us, and the streamlined user experience that most offer. While online marketplaces and travel booking tools were quick to go digital, some industries, including financial services, have been slower to adapt.

The longstanding tension between the convenience and sleek user experience of the new age that we are all so accustomed to, and the traditions of the past has reached an inflection point. Emerging solutions and legacy systems have never been closer to converging. Perhaps still ongoing due to loyalty or habit - as this survey will reveal - financial services and the digital age have never been more intertwined.

Building on our 2022 State of Payments Report, this year Marqeta surveyed 4,000 people - 2,000 from the United States, 1,000 from Australia, and 1,000 from the United Kingdom – to explore the patterns in shifting consumer behavior, and assess if their financial decisions are being ruled by their thoughts or their feelings.

Key Adoption and Attitude Trends: 2022 v 2023

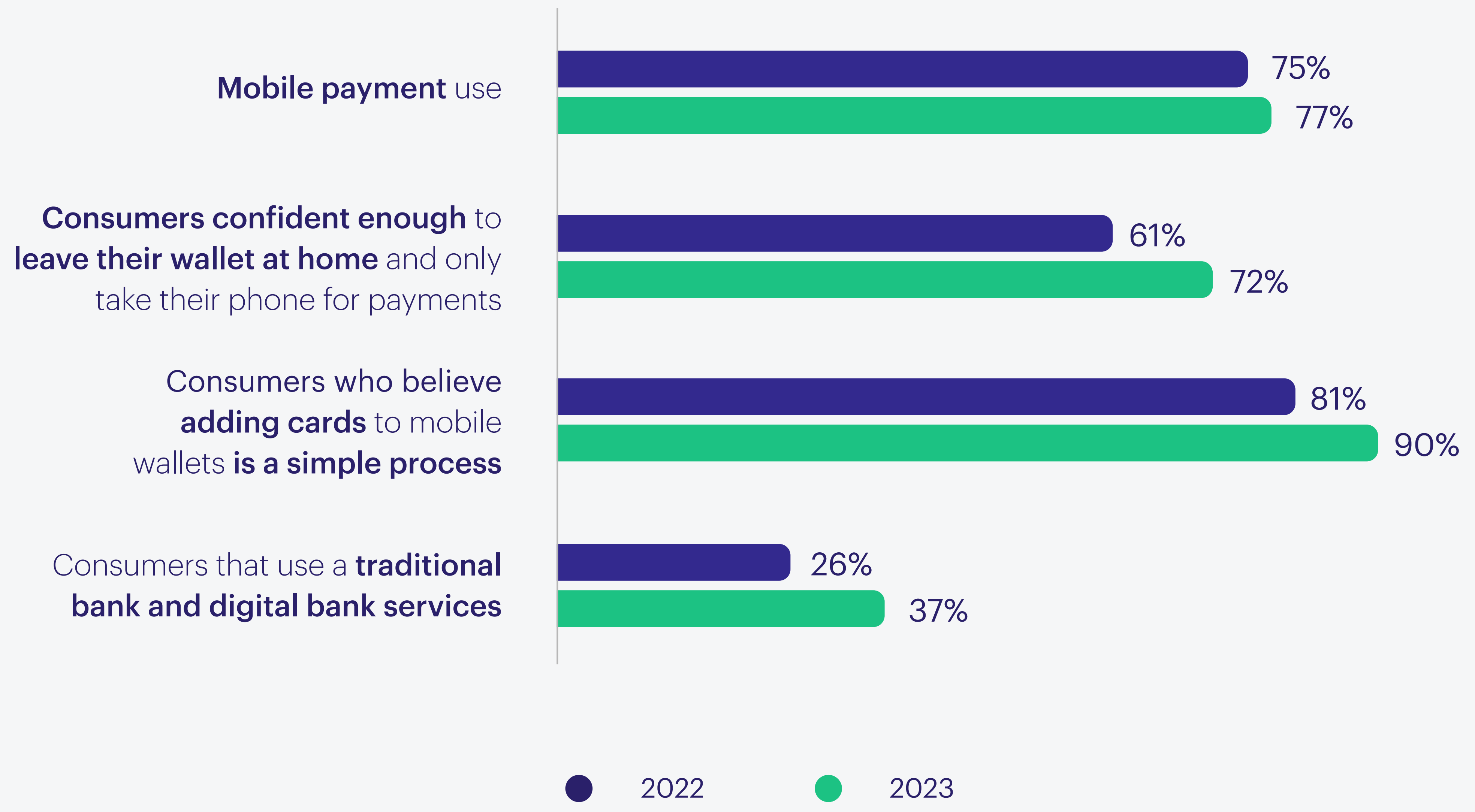


Figure 1

Part 1

Preference for a unified payment solution is driving the adoption of embedded financial services

Embedded financial services have never been more popular among consumers (and businesses). Embedded finance can be defined as the integration of financial services into non-financial products.

This would include, for instance, ride-sharing apps such as Uber or Lyft which allow you to pay your driver without handing over physical cash, Buy Now, Pay Later providers such as Klarna which enable users to obtain a loan at the point of purchase, and retailer's apps which allow users to order and pay from their phone.

Change typically happens in one of two ways. Gradually over time, such as with the introduction of chip and pin cards to enhance card security. Or all at once, as if a flip has been switched overnight, for example, the explosion in popularity and demand for contactless payments as a result of the outbreak of COVID-19.

When it comes to Embedded Finance, the rising popularity and demand has been gradual but steady. According to our research, 47% of consumers globally would consider getting financial services from a non-financial provider, up 2% from the previous year (45% in 2022).

Percent of consumers surveyed who would consider getting financial services from a non-financial services provider

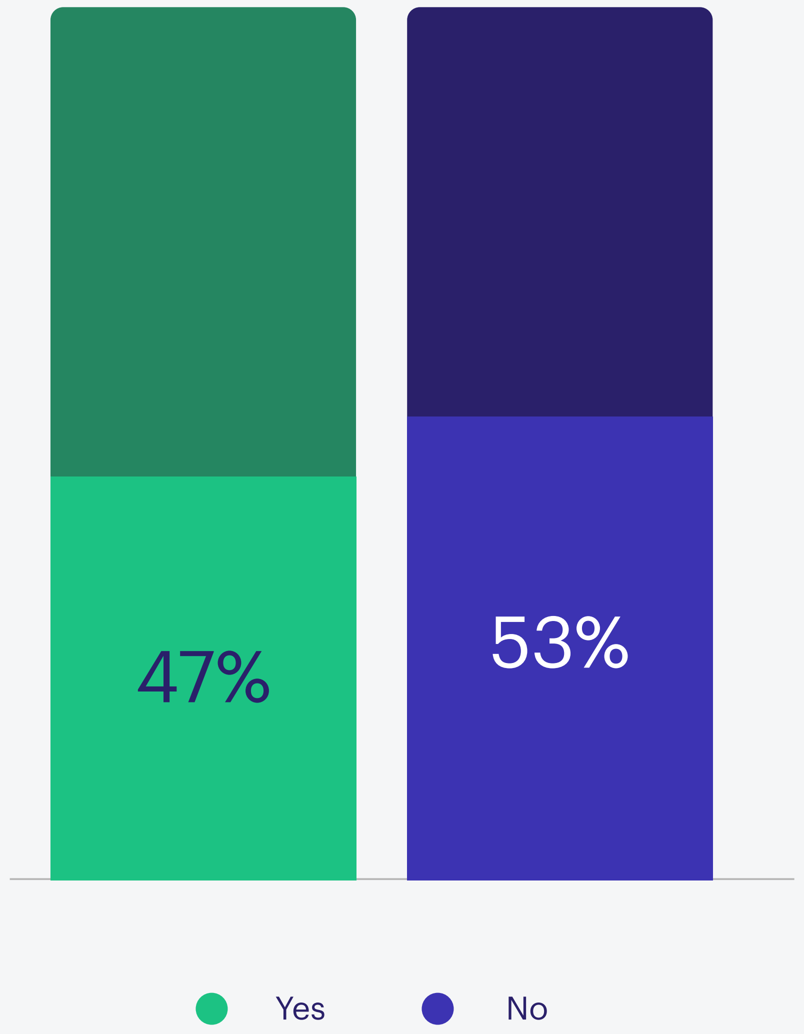


Figure 2

By its nature, embedded finance is designed to make the payment process more seamless for consumers. Enabling a single brand to control the entire user experience with no awkward transition from one provider to another at, for example, the point of checkout (the piece of the user journey that most brands leave to a third party). It is effortless, or at least it appears so on the surface. In reality, multiple connections are working in unison underneath the surface to make this seamless experience a reality.

But as complex as it may be behind the scenes, businesses are seeing huge potential in this space. Labeled as the 'next payments revolution' by McKinsey, the consulting firm estimates that embedded finance will be worth $40B in the next 3-5 years in the US alone.

Many businesses also seem steadfast in this conviction, and it's not without substance to back it up. Consumers are using embedded finance more than ever. **When asked if they make purchases through a retailer's mobile app, 76% of survey respondents said yes, up from 69% in 2022.**

As we reported in our 2022 State of Payments survey, consumers are craving convenience when it comes to their payments, and this is still the case. But now, they are gaining confidence in more than just traditional financial services players to provide this.

However, embedded finance doesn't appear to be immune to the fact that the older generation tends to be slower to adopt new technology compared to the 'digitally native' younger generation. With just 58% of those aged 51-64 years old stating they have made a purchase through a retailer's app, generations raised before the internet was wide-spread trail behind the global average.

Broken down by geography, US survey respondents (86%) were significantly more likely to have made a purchase via a retailer's mobile app than any other region, with 72% of those based in the UK, and just 60% of those in Australia having done so. It's almost universally accepted that there is a much stronger payments rewards ecosystem in the US, and this is likely a big driver of higher uptake.

Consumers surveyed that reported making purchases through a retailer's mobile app

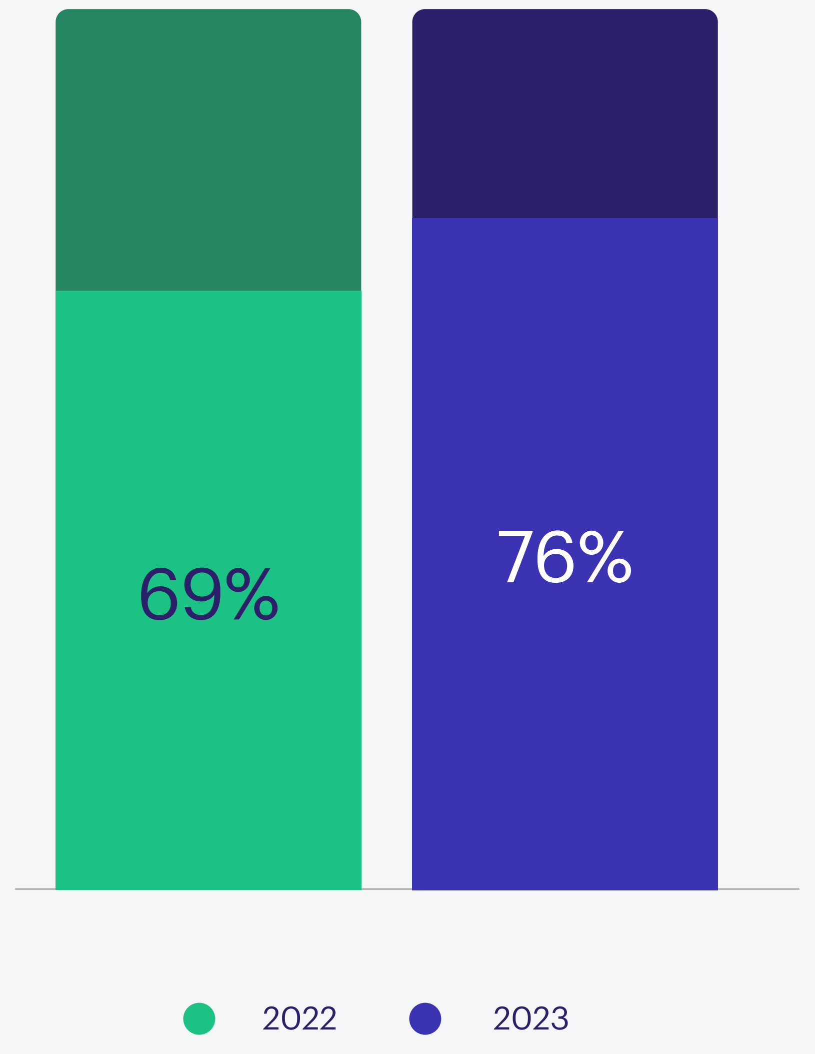


Figure 3

It's never been more important for businesses to ensure that their checkout process is frictionless.

In the digital age, consumers have the world at their fingertips. From the ability to book a worldwide trip, to browsing multiple suppliers looking for the same product. This increase in optionality means that it has never been more consequential for businesses to ensure that their entire user experience is seamless. Payments are a forgotten, yet crucial part of this. **Our survey revealed that 42% of consumers surveyed have abandoned a purchase because it required them to download a new app or payment method.**

This represents significant potential lost revenue for those businesses that have not yet taken the step to streamline their checkout processes. The Baymard Institute estimates that by implementing a sleeker checkout design and process the average large-sized e-commerce merchant can increase conversion rates by more than a third.

The willingness to walk away from a fragmented checkout experience is broadly consistent across all nationalities with 43% of US respondents stating that they had abandoned checkout due to a fragmented payment experience, and 42% of Australian respondents and 39% of UK-based respondents saying the same.

However, when we segment this data by gender, male respondents were far more likely to abandon a purchase because of a disjointed payment process compared to their female counterparts (49% vs. 38% respectively).

Overall it is clear that businesses need to do more than ever to retain prospective buyers. With consumers shopping more directly from brands and nearly half (42%) of people surveyed reporting abandoning checkout because it required them to download a new app or payment method, the payment optionality and user experience a business provides is clearly an imperative part of this.

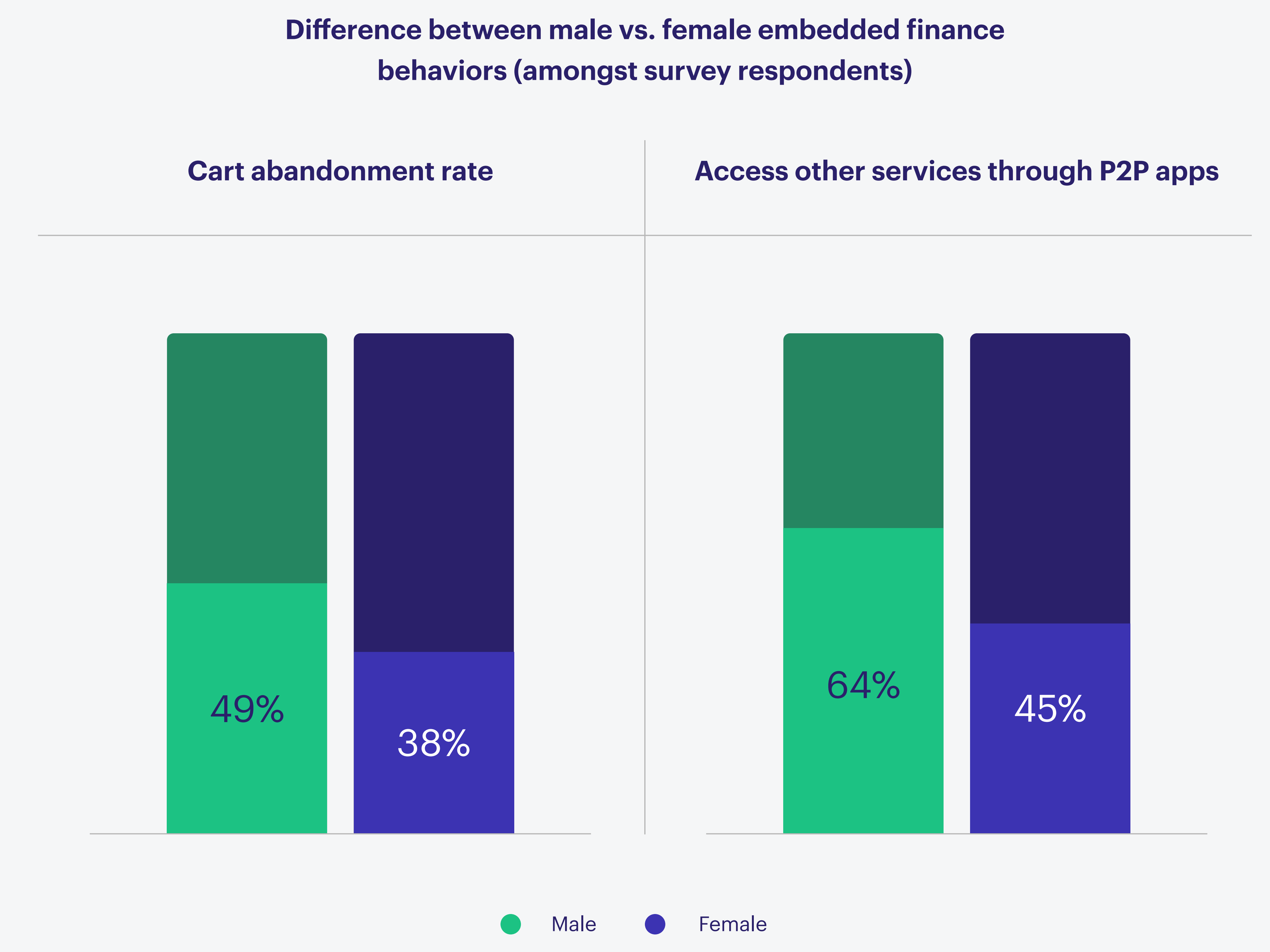


Figure 4

The popularity of P2P apps continues to rise as consumers long for an integrated solution

Definition

Peer-to-peer (P2P) payment apps enable users to send money to one another digitally via their mobile phone or desktop through a linked card or bank account. Examples of P2P payment apps include: Cash App, Venmo, and Zelle. One of the key benefits of P2P payments apps is how quick and easy they make sending money, and splitting bills with others.

Peer-to-peer (P2P) apps are as popular as ever. Three-quarters of survey respondents (75%) shared that they have used a peer-to-peer payment app in the last 12 months, approximately the same number of consumers who stated they had in 2022 (76%). While P2P usage was steady year-over-year, engagement remains meteoric: of those who had used a P2P app in the last 12 months, a huge 92% of people surveyed shared that their P2P app usage had increased or stayed the same over the last year.

Amongst the most well-known options, 88% of respondents reported using PayPal in the past twelve months (a 3% increase over 2022's results), while 39% had used Cash App, compared to 32% of those surveyed in 2022. The portion of respondents that reported using Venmo also increased, with 28% using the app in the past year, compared with 21% in 2022.

Survey respondents who reported engaging with individual P2P payment apps

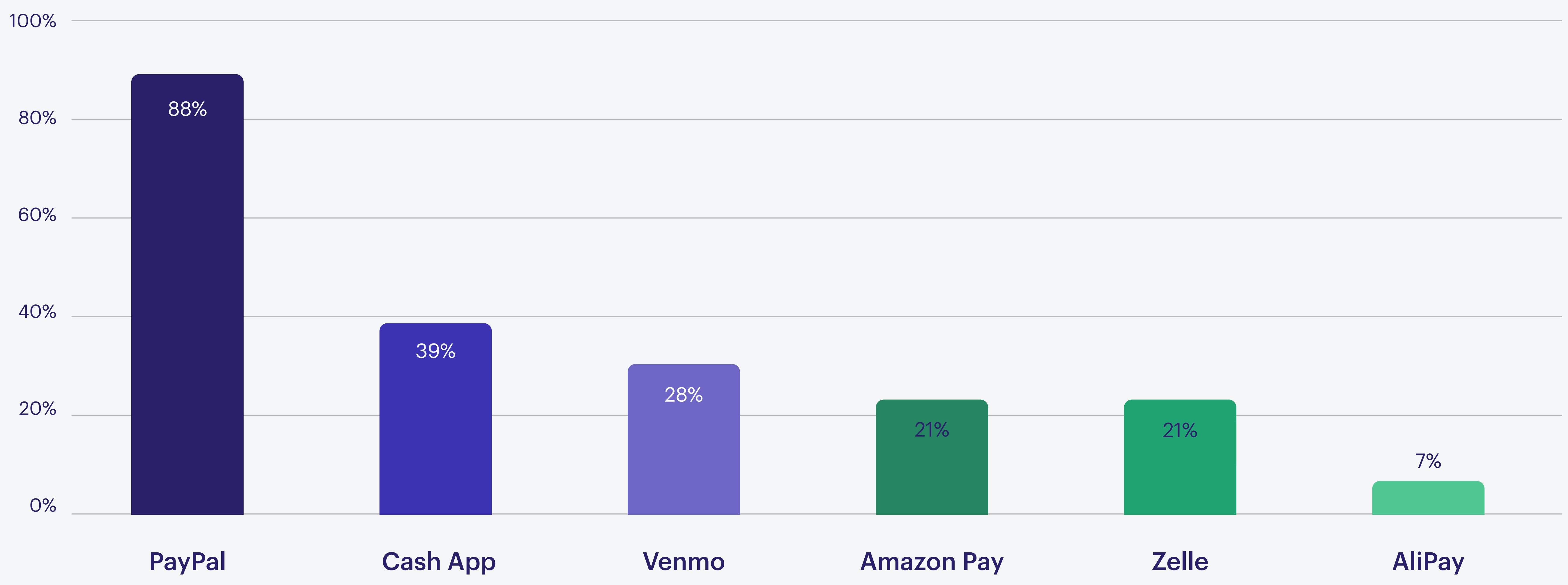


Figure 5

The popularity of peer-to-peer apps may be due to the fact that they can enable users to access such a broad range of services, from traditional tools like debit cards to more obscure services such as stock trading, all through a single platform. The convenience and flexibility they bring is certainly attractive - and with 46% of those surveyed stating they are doing much more than just sending money through peer-to-peer payment apps, the data certainly seems to agree.

Among those who reported accessing another service through a P2P payment app, 63% said they are using a debit card, while 41% said they are using credit cards. Digital banking services were also popular amongst respondents with 44% using savings accounts, 39% using checking accounts, 36% making direct deposits and 31% paying bills. Finally, consumers are showing interest in accessing investment tools through P2P apps with 23% of respondents using crypto trading solutions and 10% making fractional stock purchases.

Additional services survey respondents reported accessing through P2P payment apps

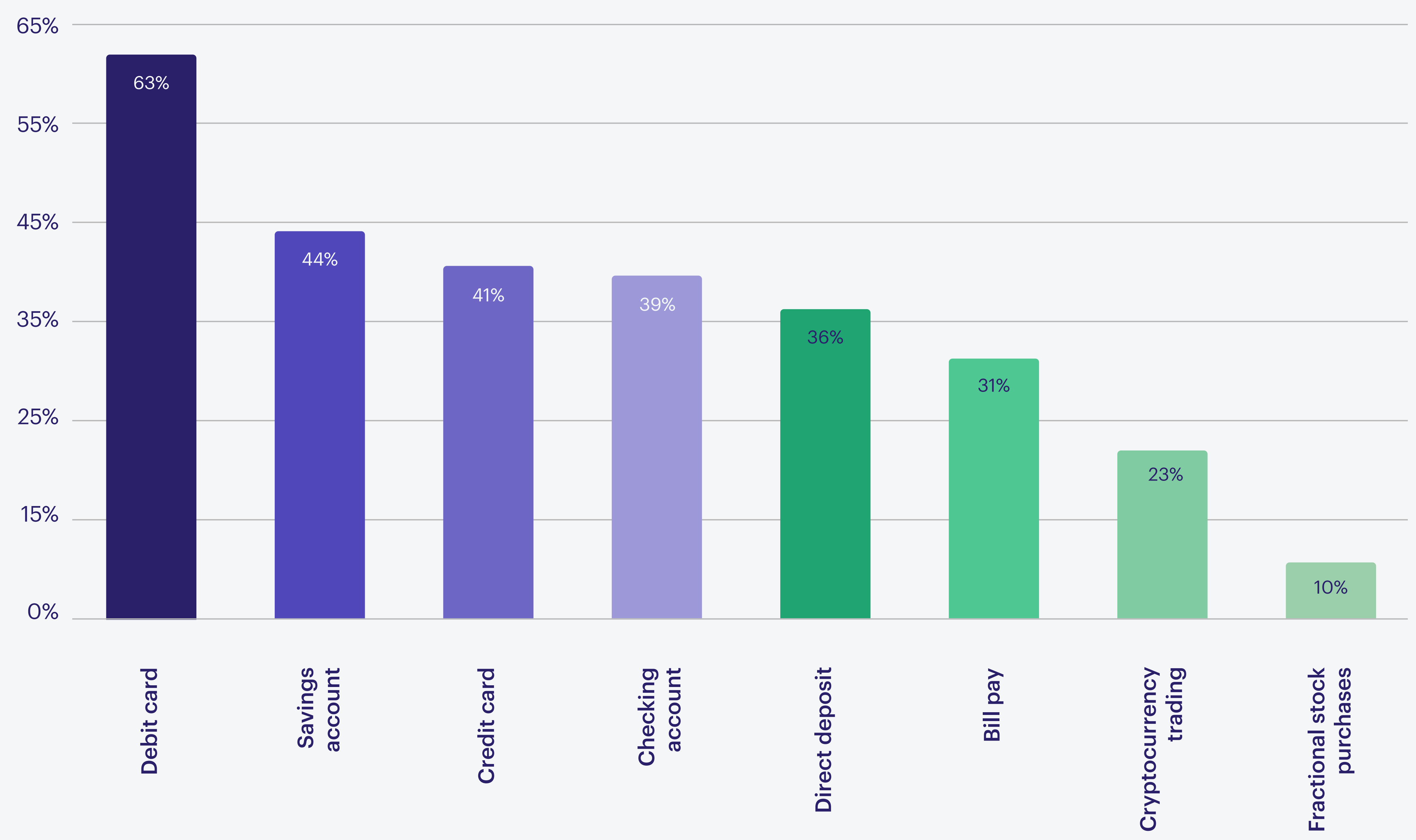
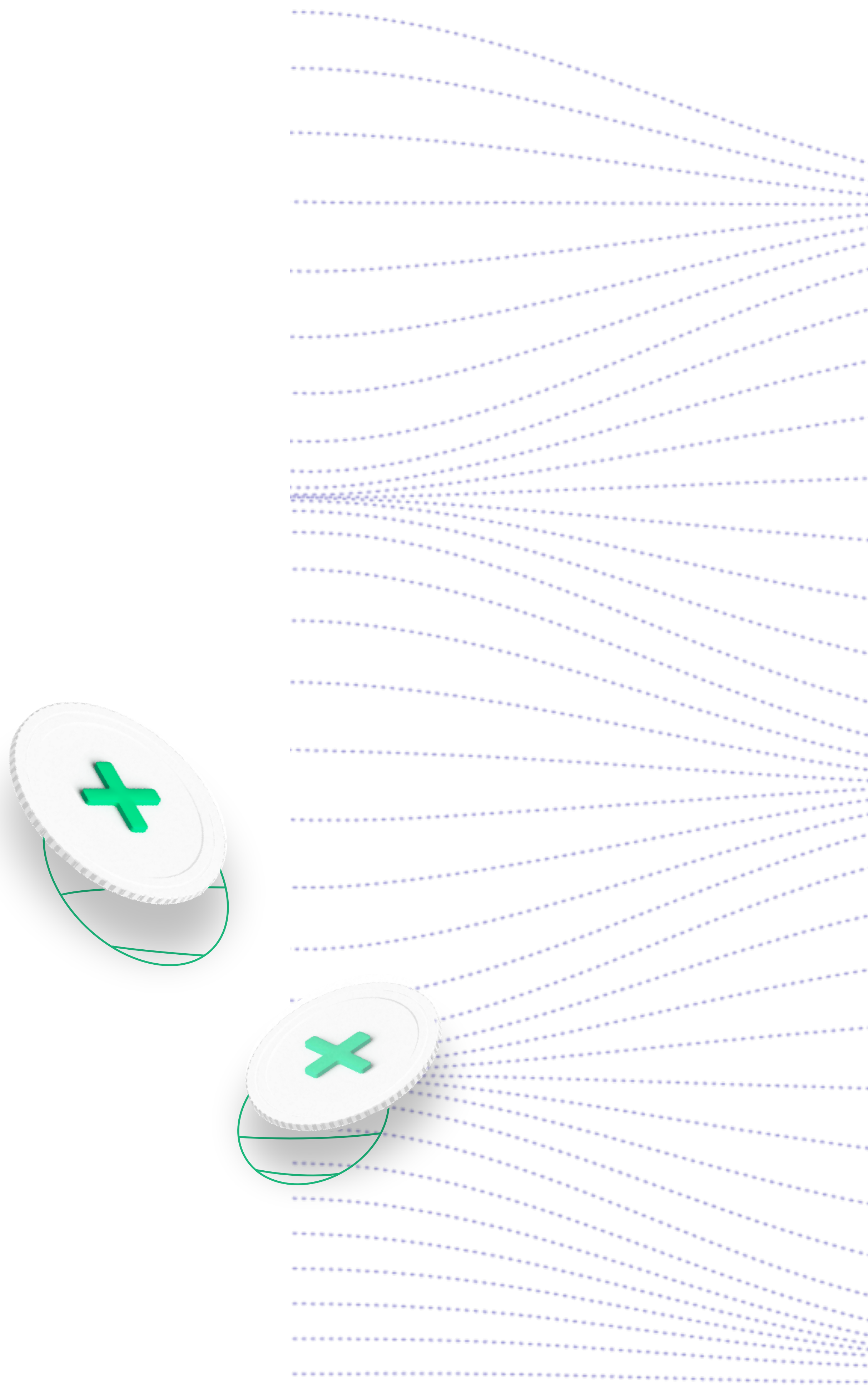


Figure 6

Female respondents were less likely to use embedded investment tools than male respondents with nearly twice as many men leveraging P2P apps for cryptocurrency (35% vs. 17%) and fractional stock purchases (17% vs. 8%). This is perhaps to be expected given that women in the US are less likely to participate in the stock market or purchase cryptocurrency regardless of platform - suggesting that although embedded payment solutions bring convenience and accessibility of financial services to many - they may not yet be a silver bullet to crossing the investment chasm.

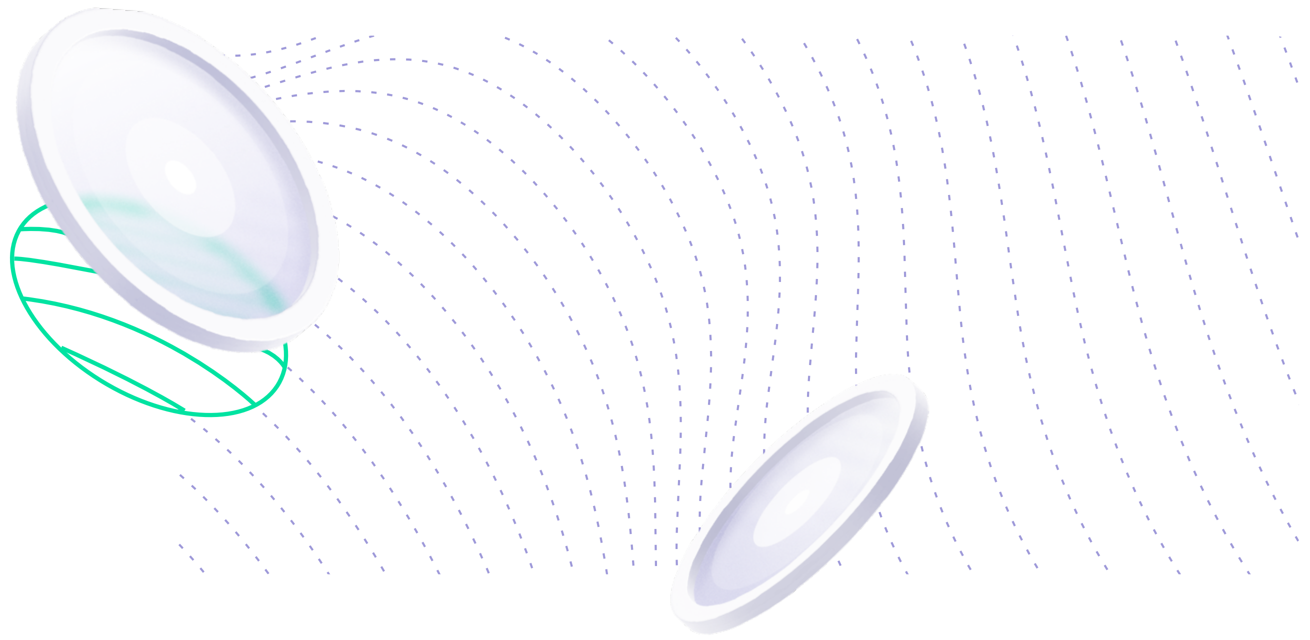
US consumers (54%) leverage other services through peer-to-peer payment apps more than any other nationality surveyed, with only 38% of those in the UK and 36% of those in Australia doing so. The US domestic banking and clearing system is far more fragmented than the tighter and more consolidated ecosystems in the UK and Australia, so it's no great surprise that peer-to-peer apps are more widely used in the US, with 80% of consumers surveyed reporting using them compared to the UK (73%) or Australia (65%).

There is a noticeable disparity in the use of embedded services via P2P apps among men and women, with 64% of male respondents indicating they use at least one additional service while only 45% of female respondents said the same. While significant, this difference is in line with what is a well-documented 'gender gap' across FinTech which is often attributed to a greater unwillingness of women to share personal or financial data with new entrants and financial institutions.



While consumers may crave the convenience that digital experiences bring, digital and physical commerce don't exist in isolation from each other.

An overwhelming majority of consumers in the UK and US are shopping online, with more than 80% having made an online purchase in the last 12 months. Australian consumers are considerably less likely to have made an online purchase in the same time frame with just 53% having done so. But given the fact that even one of the world's top online marketplace, Amazon, only launched in Australia in 2017 this is perhaps less surprising.



However, while most consumers may be shopping online more and more frequently, they are still clinging to in-store experiences. Over half (51%) of those surveyed said that they have visited a store before completing their purchase online. More than two-thirds (67%) of respondents said that they sometimes browse online first and in-store before making a purchase, 28% of consumers said they always check both online and in-store before making a purchase, while only 5% said they rarely or never do this.

Whichever way round consumers operate, visiting a store or online platform first, it is clear that they are not satisfied with using a single channel to complete their purchases. Whether this be because they want to assess the quality of an item in-store before looking for the best deal online, because they want to assess their options online before narrowing down their search, or for another reason entirely, it is unclear. But what is undebatable is that consumers' preference towards online shopping or in-store experiences is split. Rather than choosing between the two, they are treating in-store shopping as more of an experience and luxury, while online shopping as a means to an end.

How often do people surveyed report looking at products online and in person before purchasing

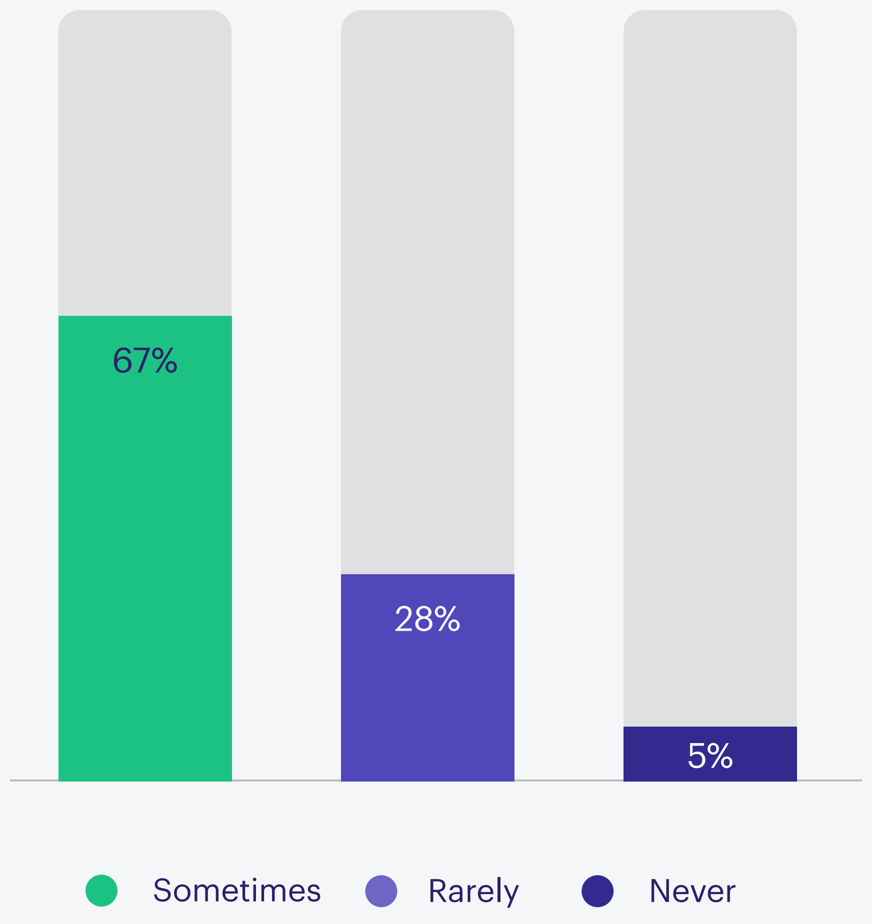


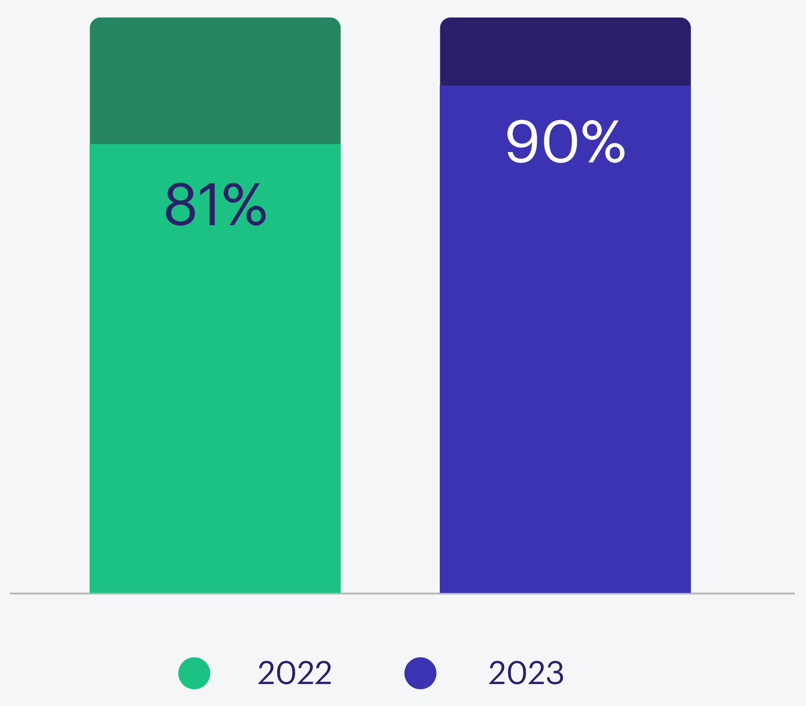
Figure 7

Part 2
Loyalty, habit and convenience

Consumer loyalty and habit are the biggest drivers of card adoption among consumers

Consumers are finding digital payment methods increasingly easy to use. A whopping 90% of consumers shared that they find adding a card to their digital wallet to be a simple process, up from 81% who said the same in 2022.

Consumers surveyed who reported finding adding a card to a digital wallet to be a simple process



Yet 59% of respondents report having just 1-2 cards in their mobile wallet, almost no different to the number of consumers (61%) who said the same in 2022. Highlighting that there may be some disconnect between how many consumers are using digital wallets, and how many cards they are using within them.

With access to a broader range of financial products than ever before, consumers don't appear to have an issue with signing up for multiple cards, whether they be through the same provider or not. On average, 32% of consumers surveyed use one payment card in a typical week, 45% use two, 16% use three, and 5% use four or more. When it comes to selecting which of these cards to use, behavioral motivators (rewards, cash-back, ease of use, habit) held more significance among consumers at 62%, compared to financial motivators (budget, spend control, purchase amount) at 38%. Suggesting that while consumers may be able to choose from a broader range of financial products than ever before, this doesn't always translate into their day-to-day actions due to the influence of habit and loyalty.

The influence of loyalty is also apparent in how consumers describe their banking preferences.

While we may be witnessing a shift to digital everything, the majority of consumers (81%) still use traditional banks as their primary provider (categorized in this instance as the bank in which consumers receive their paycheck or hold the majority of their funds). In fact, globally, more than half (53%) of consumers report having never changed their primary banking provider at all.

The majority (54%) of respondents reported having used their primary banking provider for more than 6 years, and a mere 10% said they had begun working with their primary bank less than a year ago. Interestingly, US respondents were the least likely to have been with their primary bank for more than 10 years (22%), while twice as many consumers in the UK (42%) and Australia (47%) said the same. Bank switching incentives are far more attractive for consumers in the US than those in the UK or Australia, with better financial incentives such as cashback and rewards being more common. There is also a much smaller pool of alternatives as well as a greater standardization across services in the UK and Australia. Less choice, smaller incentives, and negligible differences between institutions create a much more 'loyal' customer base.

Over one-third of respondents (38%) stated that they chose their primary banking provider based on the convenience and proximity of local branches in their community. While 29% stated that they chose their primary banking provider based on a recommendation from a friend or family member. Although people are leveraging numerous digital solutions, they still place huge value in traditional banking.

Nearly two-thirds (64%) of those surveyed reported keeping the majority of their money with their primary bank. Overall, nearly three-quarters (74%) of respondents were not considering changing banking providers.
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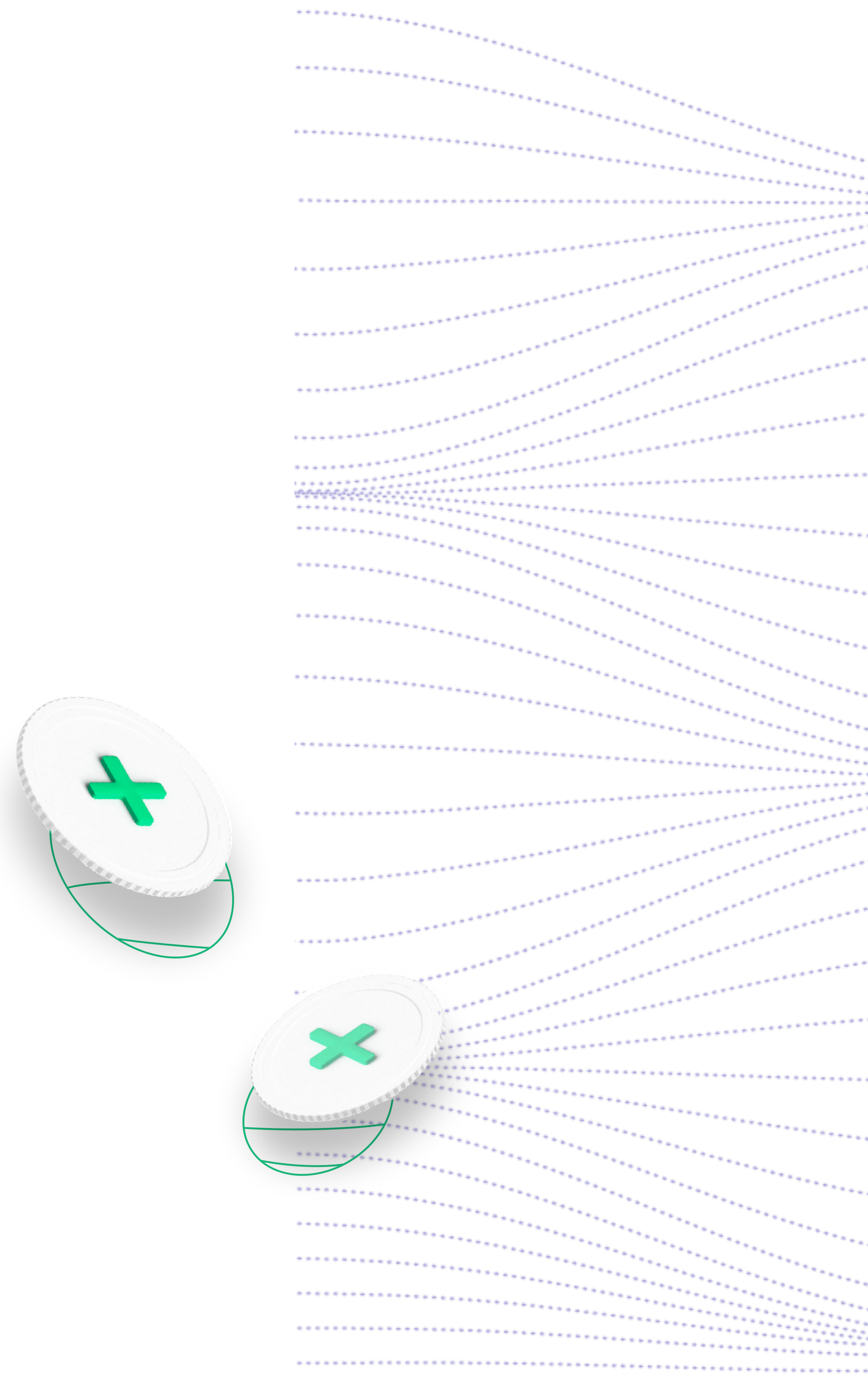


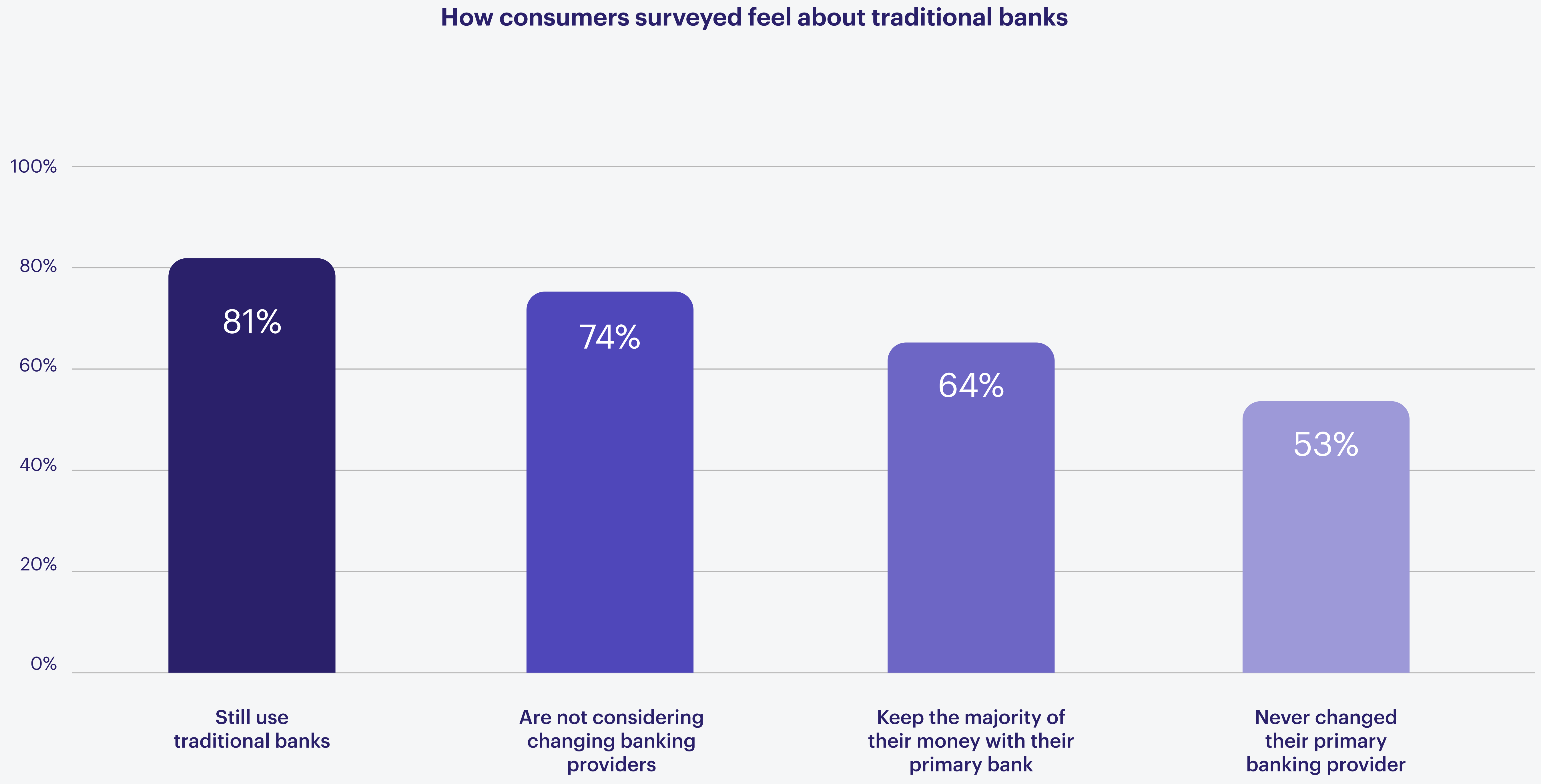

How consumers surveyed feel about traditional banks
100%
80%
60%
40%
20%
0%
81%
74%
64%
53%
Still use traditional banks
Are not considering changing banking providers
Keep the majority of their money with their primary bank
Never changed their primary banking provider

Figure 8

But habit still reigns supreme when it comes to digital wallet use

Although mobile wallet usage may be booming, there still remains an adoption gap, with not all consumers are adding their cards to their wallets straight away. The good news is that this gap is decreasing. When asked if they automatically add their new debit or credit card to their mobile wallet, 25% of consumers said they do not. While this may be a significant decrease from the previous year, with 37% of consumers having said the same in 2022, indicating an increase in consumers' appetite for digital wallets, it still represents a significant gap in adoption.

Habit isn't just limited to when consumers add new cards to their wallets. It also extends into how they use them. Ease of use was cited as the single most motivating factor (23%) when choosing which card to use by consumers. This perhaps explains why consumers typically spend four times more on their easy-to-reach top-of-wallet card than other payment methods.

This presents a serious problem for card providers. Losing top of wallet status can result in cardholder inactivity, which in turn ends in around 40% of customers being lost to other banks or payment methods. This represents a significant potential loss of revenue that card providers will be scrambling to understand how to plug.

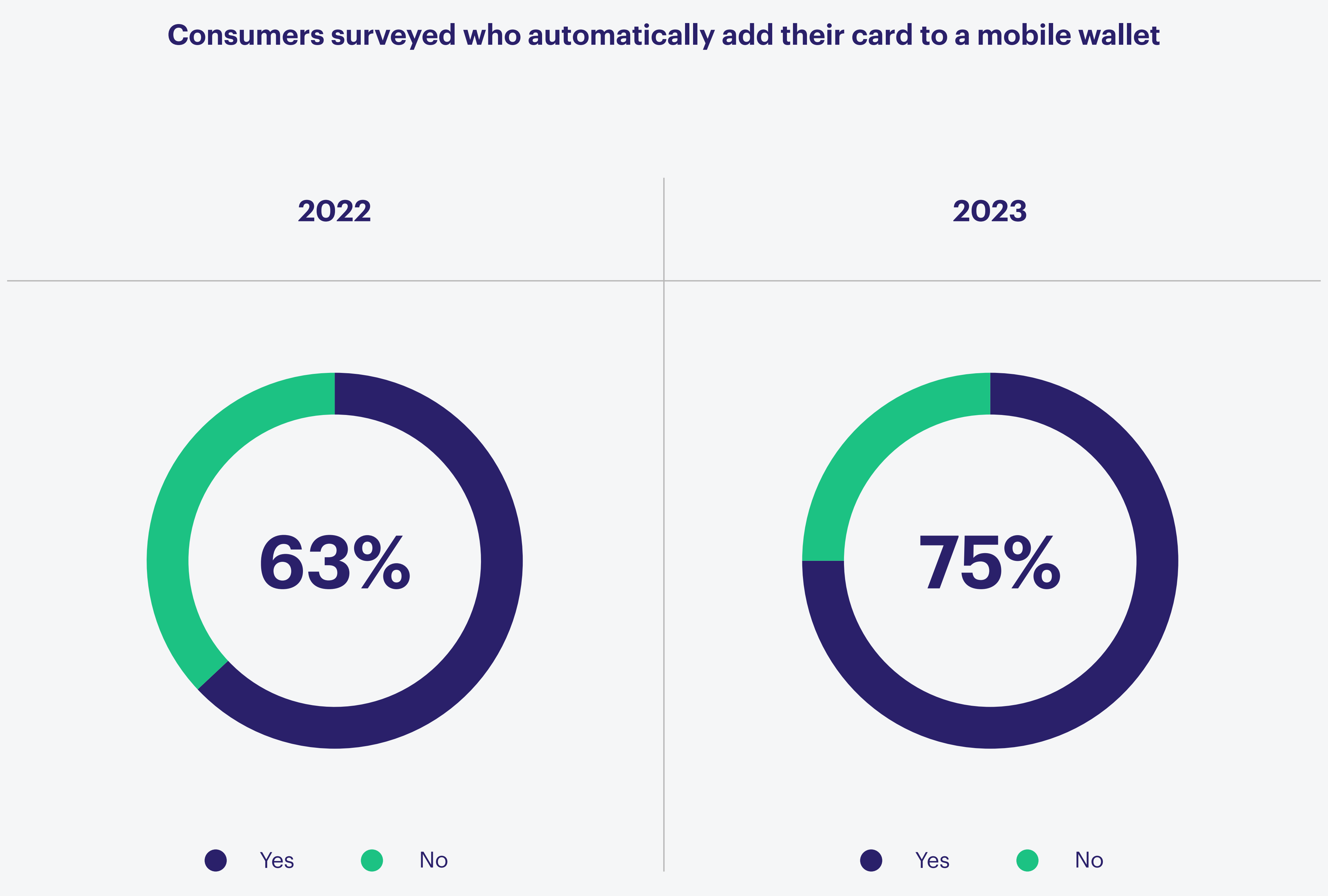


Figure 9

Part 3

Consumers are facing an internal battle: convenience and optionality vs. loyalty and habit.

The battle between thought and feeling is especially clear in respondents' banking choices.

Consumers are having their cake and eating it. When faced with the choice between optionality and convenience vs. loyalty and habit - they refuse to choose. Instead, they're opting to stick with traditional banking options while also leveraging other tools.

This trend is especially clear in respondents' banking choices. 81% of those surveyed reported that their primary banking partner is a traditional bank. Nearly two-thirds (64%) are also storing the majority of their funds in these primary accounts. And they aren't showing any signs of moving away from their traditional banking provider any time soon. 74% of survey respondents shared that they aren't even thinking about changing banking providers, with a further 72% stating that they are satisfied with their current provider.

However, one in three (37%) consumers shared that they also use a digital-only bank in addition to their primary banking provider. US respondents were more likely to be using both traditional and digital banking providers than any other region at 42%. UK and Australian survey respondents were less likely to leverage both with 37% and 29% doing so respectively. Of those who have made the step to accessing additional financial services outside of their primary bank, more than half (51%) reported using three or more providers. While at the upper end of the spectrum, 13% reported using more than six banking providers. Clearly, consumers are getting something from digital banks that their traditional banking providers just aren't providing.

In addition to your primary bank, do you also use a digital-only bank?

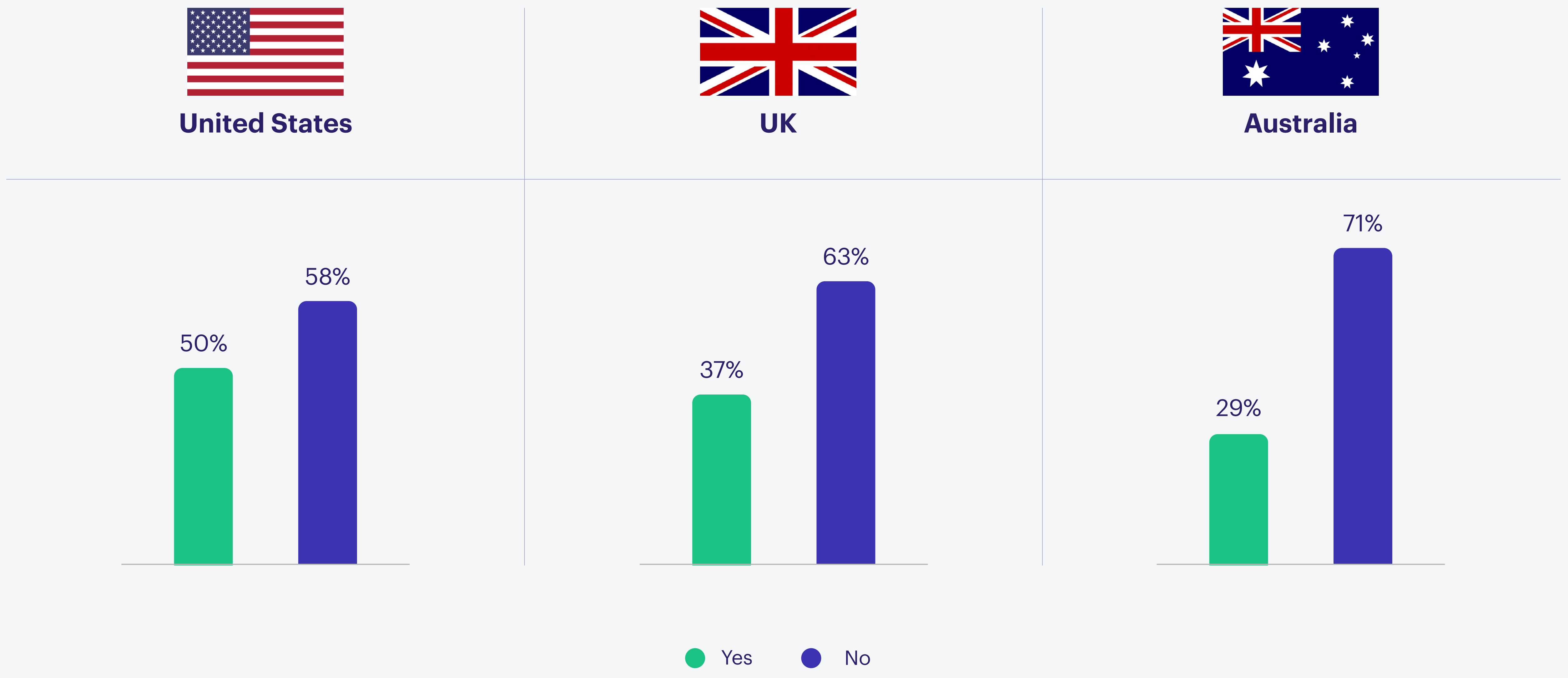


Figure 10

When asked to choose factors that would sway them to make a digital bank their primary provider, a better mobile app (22%) was the most popular reason. This was closely followed by cash incentives or a switching bonus (21%), and more modern banking features such as access to savings recommendations and better security (20%) with all almost equal in popularity.

It seems reasonable to assume that these factors may also be what are drawing consumers to leverage digital banking as well as traditional banking services.

Gender disparities are clear when it comes to the uptake of digital banking, specifically in regard to accessing additional financial services such as P2P services, additional checking accounts, credit cards, and retirement accounts not provided by an individual's traditional primary bank. In both instances, men are more likely to have adopted the additional services than women. In fact, male respondents were more than twice as likely to utilize additional financial services compared to female respondents (25% vs. 11%). Similar figures are seen when we consider digital banking usage with more than half of men (52%) using digital-only banks compared to just under a third (32%) of women.

What factors would sway consumers surveyed to make a digital bank their primary provider

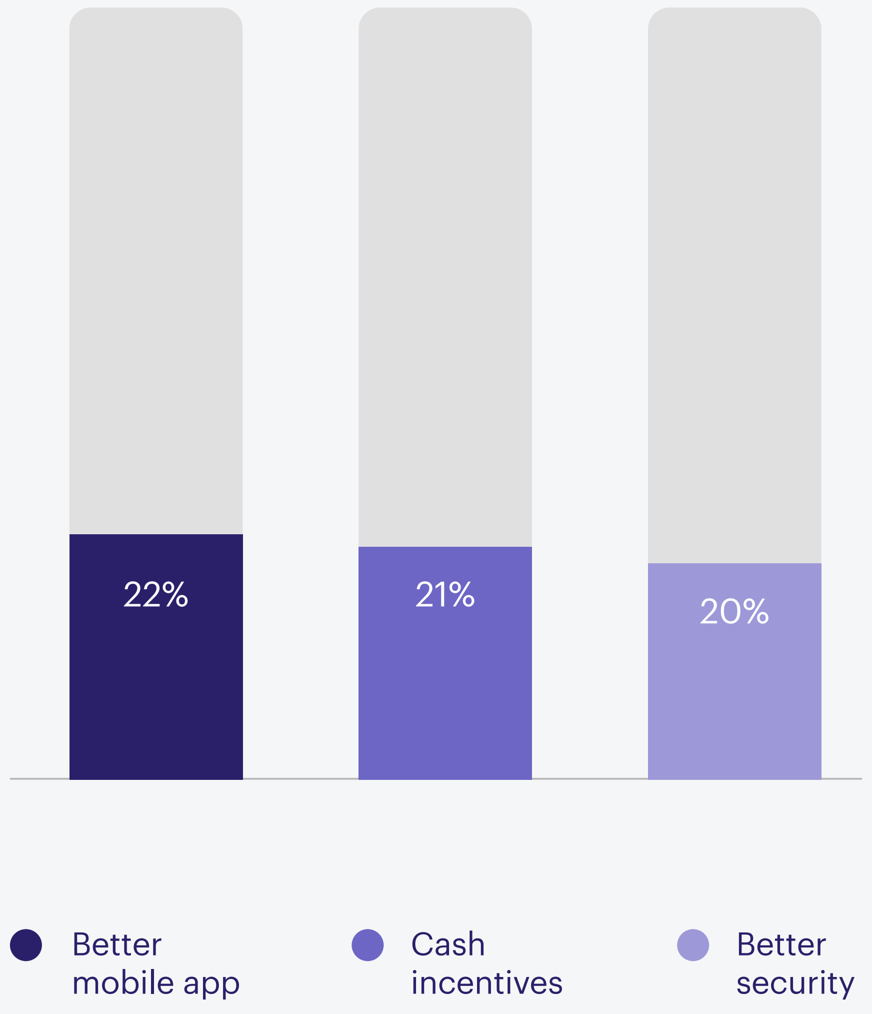


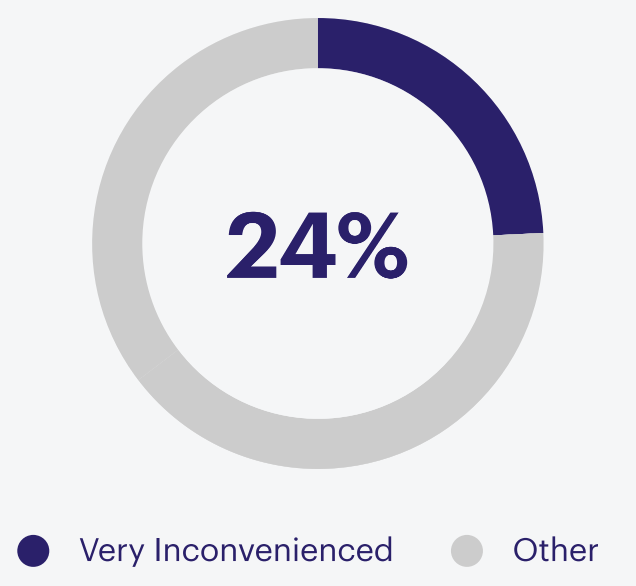
Figure 11

Although consumers recognize the convenience of digital banking, they are still loyal to traditional financial institutions

While consumers are relishing the benefits that digital banking provides, 44% said they would not consider moving all of their resources to a bank without physical branch locations. Among consumers aged 51-65, this preference was especially pronounced, with 64% saying they would only be comfortable keeping less than a quarter of their wealth in a digital-only bank. However, nearly half (49%) of consumers were on the fence with 26% saying they would consider moving all of their banking to a digital-only bank, and 23% stating that they were unsure. Just 7% reported already having made the transition to banking solely with a digital bank.

When asked how inconvenienced they would be if all bank branches closed tomorrow, 24% of consumers said they would be very inconvenienced,

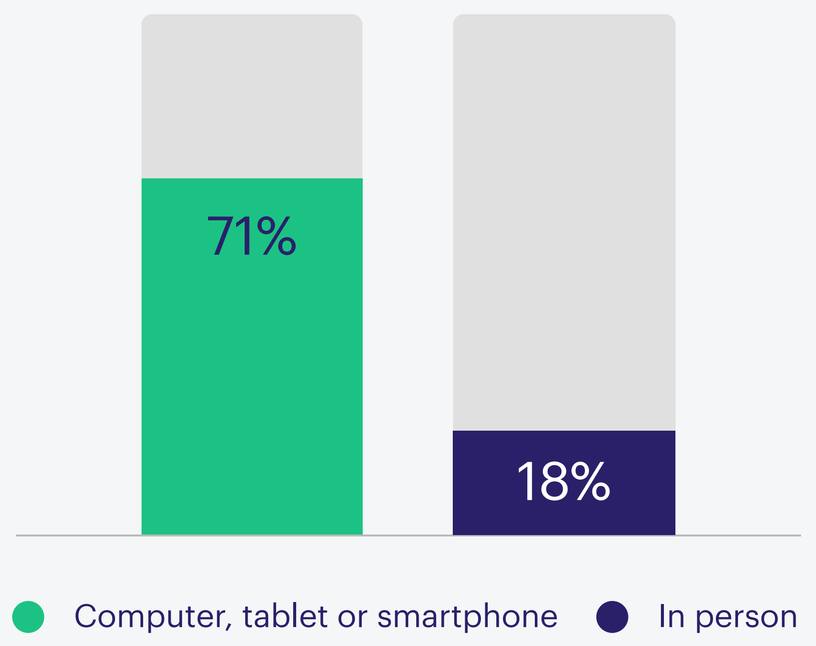
Inconvenience caused to consumers surveyed if all physical banks shut tomorrow



holding relatively steady on 2022's survey results in which 22% of respondents said the same. American consumers revealed that they would be the most significantly inconvenienced by branch closures with 28% claiming they would be very inconvenienced, while 22% of UK and 20% of Australian consumers agreed. Given that US consumers (25%) were twice as likely as UK (12%) and Australian (13%) consumers to say they visited a physical bank branch within the last 7 days, this is perhaps understandable. As we explored in our 2022 State of Payments report, banking infrastructure is more fragmented in the US than in Australia or the UK. With over 4,000 FDIC Insured commercial banks in the US, and a complex ecosystem with differences between federal or national banks, as well as large numbers of state or regional banks, many of which don't have well-developed and fully featured mobile and digital products, there is a heavier reliance on using bank branches to facilitate banking needs.

However, some contradictions exist between respondents' attitudes to in-branch activities and their actions. When asked how they complete most banking transactions only 18% of consumers said in person at a branch, while the overwhelming majority (71%) revealed that they complete most transactions via a computer, tablet or smartphone. Interestingly, this was the most reported answer across all age groups.

Where consumers surveyed do most of their banking

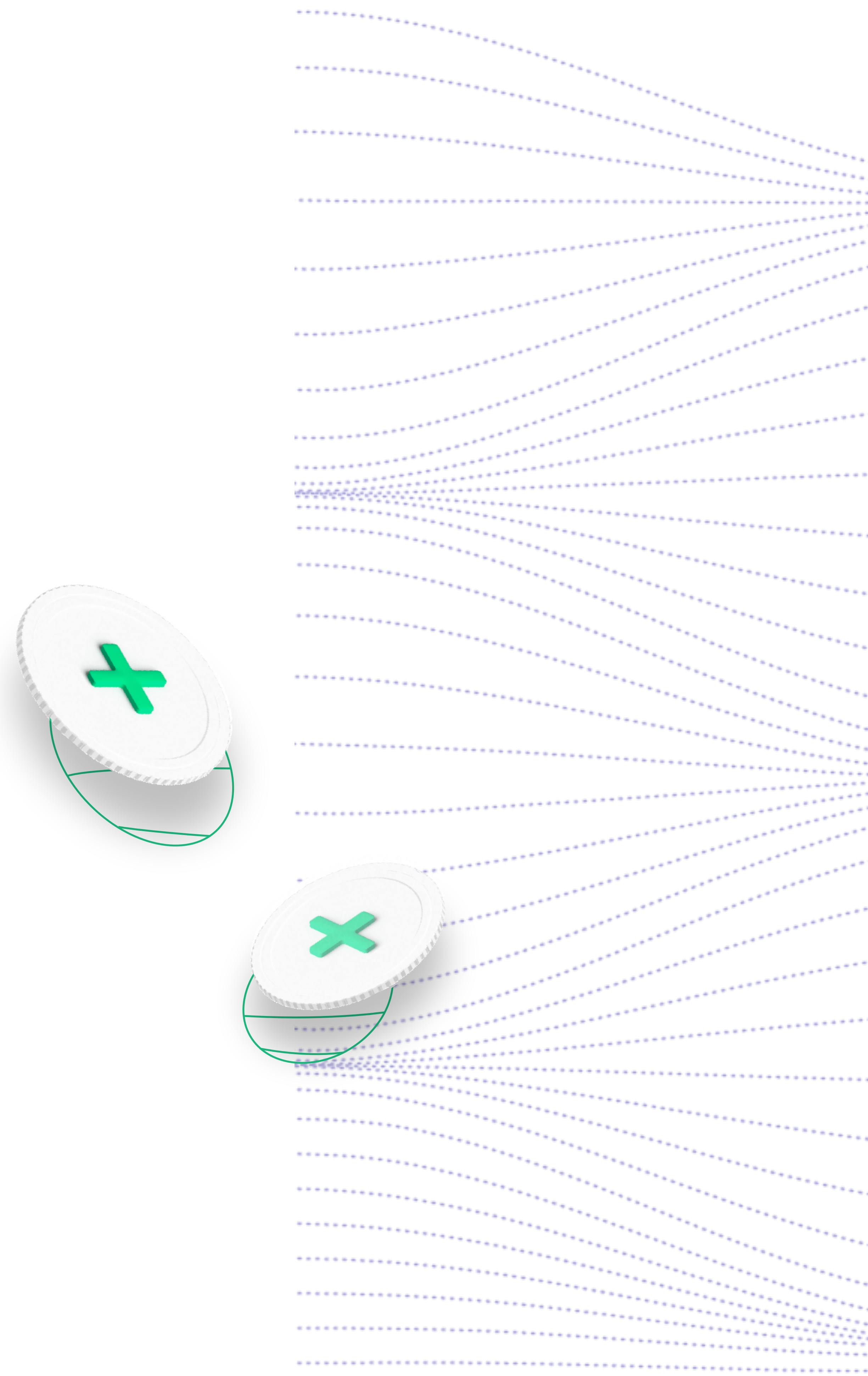


When we asked consumers which tool they most frequently used to deposit money such as a check or cash into their bank account, the results revealed that the older generation was almost twice as likely to do this in a branch than the younger generation however. Half (49%) of 51-64 year-olds shared that they would visit a physical branch to deposit funds, compared to just 26% of both 18-25 and 26-34 year-olds. 35-50 year-olds sat somewhere between the two with 36% of those surveyed reporting the same. Those aged 51-64 years old were also twice as likely to deposit their wealth in a branch than they were to do it through a bank's mobile app (49% vs. 24%) or an ATM (49% vs. 19%), and six times more likely to visit a branch for this purpose than deposit through a third party retailer affiliated with their financial services provider (49% vs. 8%).

So while people may be going digital when it comes to banking (some generations at a faster pace than others), they are still holding on to the comfort and security of a brick-and-mortar branch - especially when it comes to depositing funds. While they may recognise that the process itself is full of friction compared to going digital, they aren't yet willing to give it up.

The balance between loyalty and superior user experience is tense when it comes to consumers selecting which payment method to use

While the adoption of digital payment methods has skyrocketed in recent years, traditional payment methods, cash and debit cards, have been used by almost all consumers (95% and 93% respectively) at least once over the course of the year. More modern options like P2P transactions (83%) and contactless payments (80%) are a close second, followed by mobile payments (77%) and credit cards (70%). This highlights that the race between traditional and more modern digital payments has never been closer.



Usage of each payment method over the past 12 months among consumers surveyed

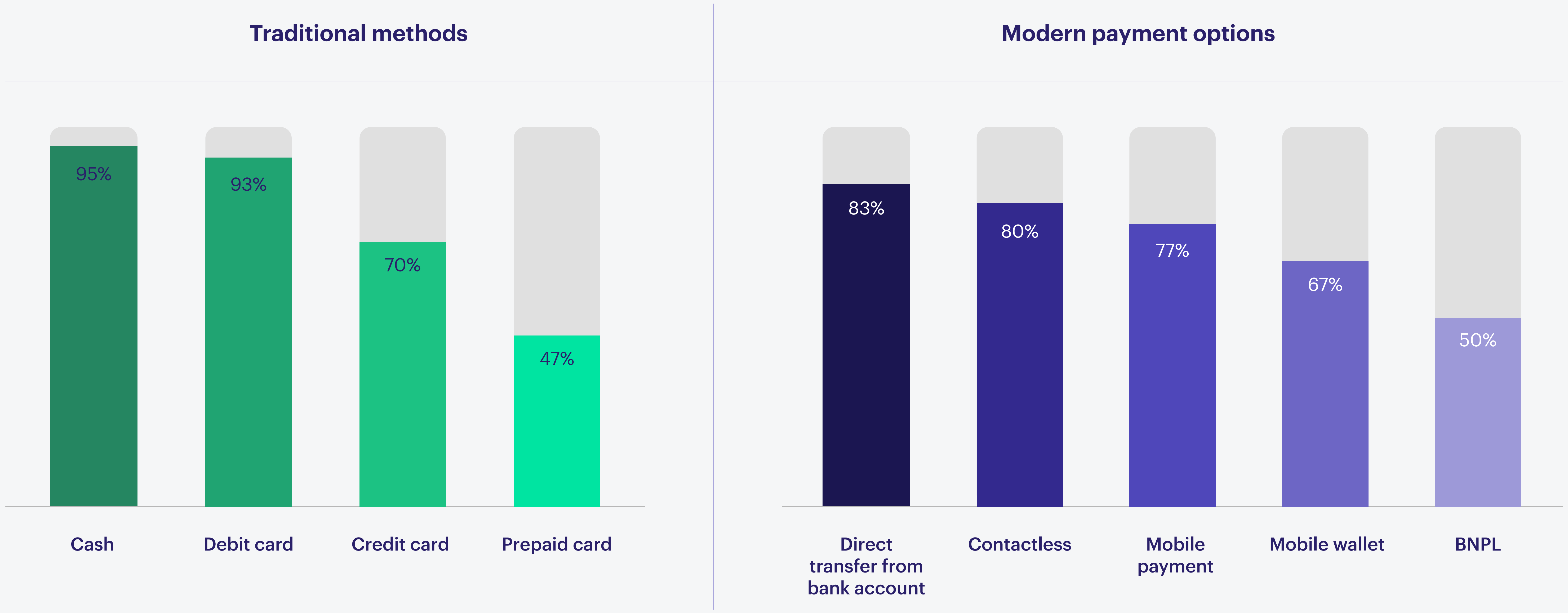


Figure 12

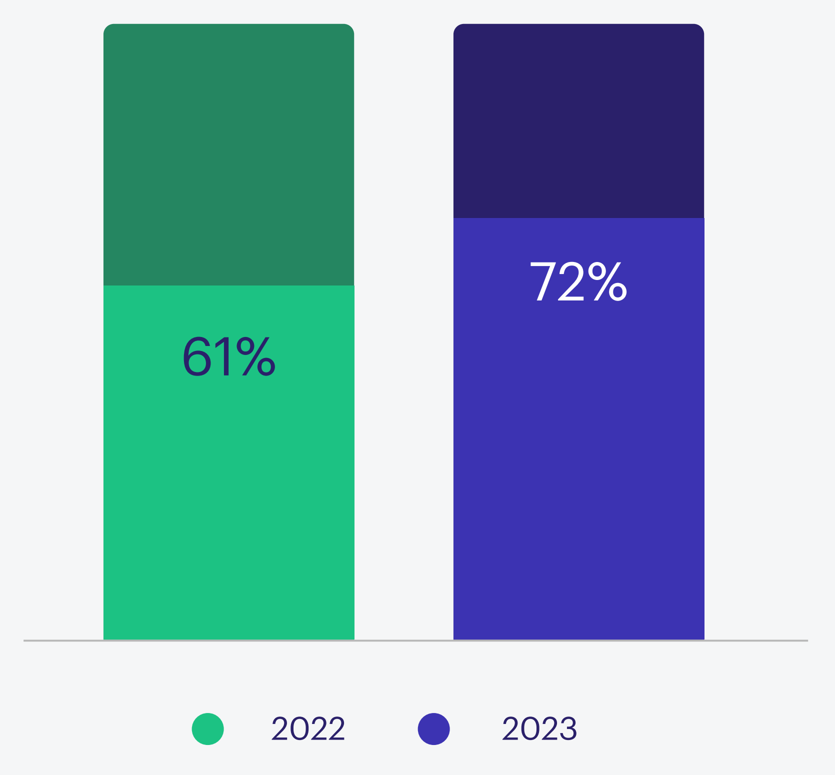
Confidence in digital technology and embedded finance is growing to the point where consumers feel confident leaving home without their wallets

The strong behavioral alignment consumers have with mobile payments didn't just happen naturally. It has been the result of incremental shifts such as the introduction of contactless payments on the London Underground, and global shifts such as the hyper-awareness around hygiene leading to contactless everything, forcing adoption. Once implemented, consumers were quick to recognise the convenience they provide. Of the 67% of consumers who had used a mobile wallet in the past 12 months, 93% shared that they find it convenient to make purchases on their mobile phone, up from 87% in 2022. Consumers' perceptions of ease and reliability, coupled with high conviction around acceptance rates have in turn driven high adoption rates.

Digital payment processes are becoming less daunting to users of mobile wallets. 90% of people reported that adding their card to their mobile wallet was much simpler than they had initially thought, up from 81% in 2022. As a result, close to two-thirds (59%) of consumers have between 1-2 cards in their mobile wallet, and less than 5% have zero.

Consumers are also more confident than ever when it comes to mobile wallet usage and acceptance. Almost three-quarters (72%) of mobile wallet users shared that they would feel confident enough to leave their wallet at home, and just rely on their phone for making payments - up from 61% who said the same in 2022.

Consumers surveyed who would be comfortable leaving their wallet at home and relying on their phone for payments



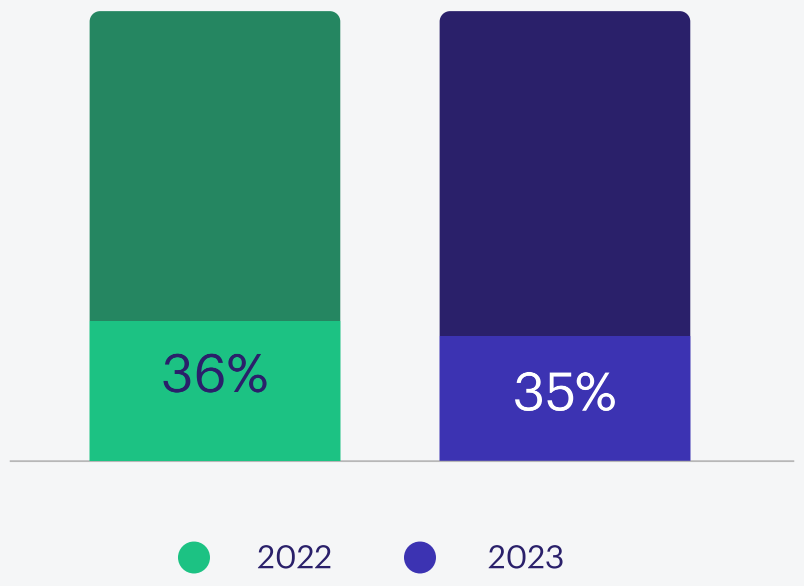
Australian consumers were the most confident of all with 77% saying they'd be happy to leave their wallet at home, while 74% of UK respondents and 68% of US respondents said the same.

However, not all age groups surveyed were feeling equally confident. There was a large discrepancy generationally with only 50% of 51-64 year-olds who had used a mobile wallet in the past 12 months agreeing that they'd be comfortable leaving their physical wallet at home and relying on their mobile wallet, compared to 70%+ across every other age group.

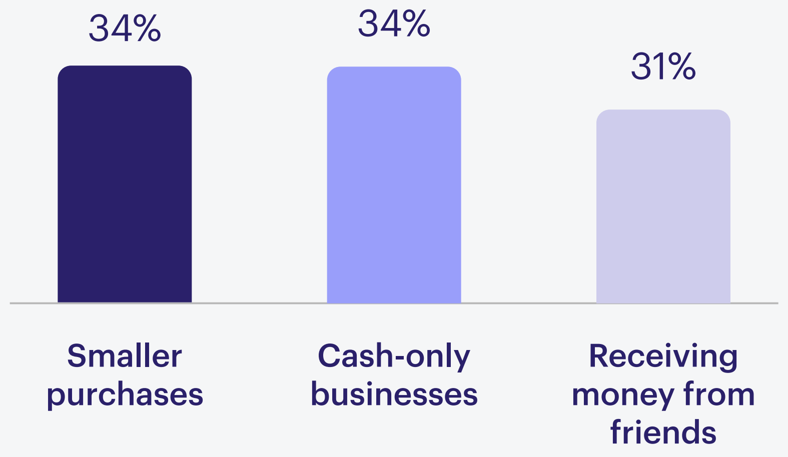
Out with the old, in with the new: As consumers continue to use less cash, they're looking for new tools that allow them to access their bank balances without a visit to the ATM

Surprising to no one, cash use is continuing on a steady decline. 35% of consumers surveyed revealed that they use cash less than they did one year ago, holding remarkably steady on our results from 2022 when 36% of survey respondents said the same.

Consumers surveyed who reported using cash less than one year ago



Reasons for still using cash among consumers surveyed



Given that 2021/2022 were peak pandemic years this decline in cash usage is fairly predictable. But the fact that this has continued into 2022/ 2023 highlights that the shift originally forced by hyper-awareness around hygiene, lack of acceptance of cash, and the boom of contactless payments is perhaps here to stay. consumers' attitudes and preferences have shifted, and the seamless user experience P2P apps provide is sticky.

Among those consumers who reported using cash in the last year, the most common reasons given for carrying or using cash were for informal transactions such as making smaller purchases in cash rather than card (34%), making purchases at cash-only businesses (34%), or receiving money from friends for a split restaurant tab (31%). However, the use of cash in such circumstances is being challenged by P2P apps which are also capable of doing this, just in a digital format.

Conclusion

A transition seems to have taken place. Consumers appear to no longer treat embedded financial services as a novelty, but instead see the value that they, P2P apps, and other modern financial tools can bring to their everyday lives. Whether it be a seamless user experience, more optionality, or better financials, these digital tools are unlocking something for consumers that traditional banks simply haven't.

While consumers may still be hesitant to ditch traditional financial services altogether, they seem to be equally reluctant to give up embedded financial services too. Instead, they have found a way to make the two coexist, balancing loyalty and habit with convenience and seamless user experiences. The two have become sides of the same coin - while intertwined they are in many cases non-competing. People are using traditional and legacy providers for the 'serious' requirements of bills and payroll, whereas embedded or innovative new solutions are being used for 'lifestyle' spending such as shopping, travel and budgeting. It will be interesting to see if the balance tips in favor of traditional or digital moving forward.

While it's impossible to predict the future, it's clear that traditional financial institutions have a considerable challenge ahead as they work to keep up with consumers' increased expectations for user experience. Modern digital banking options are at their fingertips, and consumers aren't afraid to make use of these emerging services. As our research revealed, consumers are being tempted away from traditional institutions by better technology and user experiences (58%), and financial incentives (40%). However many traditional institutions are addressing this already through strategic acquisitions and product development. As we've seen with Goldman Sachs acquiring BNPL platform Greensky, UK-based banking giant Lloyds Banking Group acquiring digital insurance and asset protection agency Cavendish Online, as well as wealth management platform Embark. Likewise, digital and modern providers are trying to cross over into more 'mature' financial services and remove the shackles of being seen as just a 'lifestyle' card - such as Starling Banks repeated acquisitions of mortgage books.

Whether the large, incumbent institutions will be nimble enough to match the emerging players such as CashApp, Paypal and Starling to name a few is yet to be seen. But the bigger question is, how can they compete with the likes of Starbucks? Embedded Finance is enabling brands to become more than just another shop - they're enabling them to become financial services providers, who can offer their users a seamless experience throughout. They can capture loyalty, habit, reward, and convenience - plus with many having a cult following already, confidence is already taken care of.

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