AMERICANS’ SHADOW FINANCIAL LIVES:
The Mobile Apps Banks Don’t Know They Use

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AMERICANS’ SHADOW FINANCIAL LIVES

It’s not clear when the term “shadow economy” was first used, but it has certainly become part of today’s lexicon. Definitions of the term vary, often referring to illicit or illegal economic activity. One definition we find useful says the shadow economy is:\footnote{1}

“Those economic activities and the income derived from them that circumvent government regulation, taxation or observation.”

We like this definition because we believe it helps to describe an emerging consumer behavior: shadow financial lives.

Consumers’ shadow financial lives aren’t illegal, nor do they circumvent taxation. They’re “shadow” because consumer behaviors evade observation from the legacy financial institutions with which they do business.

This report, based on an October 2020 survey of 3,016 U.S. consumers, will quantify Americans’ shadow financial lives and identify the ramifications of this emerging trend on incumbent financial institutions.

About the Data

In October 2020, Cornerstone Advisors conducted an online survey of 3,016 U.S. consumers. The sample was representative of the overall U.S. adult population in terms of age, gender and ethnic background. The survey probed for many details about the providers consumers use for checking accounts, credit cards, mobile and online payments, and investing. The margin of error is 2% at a 95% confidence level.
CHECKING ACCOUNTS

If you’re over a certain age (we won’t say what that number is), you may remember the days when consumers had one checking account from an institution they considered to be their primary bank. Today’s consumer behavior is very different.

Overall, 35% of consumers have more than one checking account, led by the 42% of Millennials who have two or more accounts (Figure 1).

FIGURE 1: Consumers With More Than One Checking Account

The reasons for having more than one account are all over the map, and no single reason was mentioned by more than 18% of consumers (Figure 2). The most frequently cited reason—wanting a bank with branches closer to them—implies that many consumers have their primary account with a bank whose closest branch isn’t anywhere near where the consumer lives or is branchless altogether.

The least frequently cited reason—a bad customer service experience with another provider—suggests that consumers aren’t opening additional accounts because they don’t like their existing bank or credit union. This makes it harder for incumbent institutions to recognize this behavior when there is little to no account attrition going on.
Americans keep a lot of their money in their additional accounts. On average, consumers with two checking accounts keep about two-thirds of their deposits in their primary account and one-third in their secondary account. Consumers with three or four checking accounts only keep about half of their funds in their primary account, however. Of those with three accounts, their money is nearly evenly split between their second and third accounts. Among consumers with four account, 27% of their total deposits sit in their third and fourth accounts (Figure 3).
The Rise of the Challenger Banks

In and of itself, the increase in the number of consumers with more than one checking account helps fuel the shadow financial life story. Another contributing factor, however, is who the additional accounts are opened with.

Challenger banks—often referred to as neobanks or digital banks, most of which don’t have their own banking license or charter—are gaining market share among consumers. This is true not just for consumers’ additional accounts, but for their primary accounts as well.

Led by Chime with nearly 9 million customers overall, challenger banks are now the primary bank for 15.3 million Americans, an 8% market share. The challenger banks have an even higher share of consumers’ second and third accounts (Figure 4).
This market share increase has been three years in the making. Between July 2017 and July 2020, digital banks’ share of checking account applications tripled from 6% to 18%. (Figure 5).

**FIGURE 4:** Challenger Bank Market Share

**FIGURE 5:** Share of Checking Account Opening by Type of Institution

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

Source: Cornerstone Advisors survey 3,004 US consumers, Q4 2020
Four things are driving the challenger bank adoption trend:

- **Rates and fees.** No surprise here. Roughly three in 10 challenger bank adopters chose a digital bank to get better interest rates on their deposits or lower rates on their accounts.

- **Customer experience.** About one in four challenger bank customers chose one of the digital banks to do business with because they were looking for a better online and/or mobile banking experience.

- **Featurization.** A number of consumers are choosing challenger banks for specific reasons or features. For example, one in five Chime users opened an account with the fintech because they wanted early access to their paychecks. Anecdotally, a community bank executive we spoke to said she has an account with Revolut, a European-based challenger bank, specifically for its international money transfer capabilities.

- **Affinity (or specialization).** Challenger banks like Aspiration, Joust and Tenth focus on serving specific niches of the market: environmentally conscious consumers, gig workers and African Americans, respectively.

Regardless of why consumers are doing business with challenger banks, these consumer relationships generally fly under the radar of the traditional banks and credit unions and don’t show up as challenger bank accounts in FDIC reports.

What won’t show up in any FDIC or government agency report are consumers’ views of the value they get from these challenger banks. On a 10-point scale, consumers rated the value they get from Chime at 8.63, in second place behind USAA and ahead of credit unions. Other challenger banks (grouped together because of sample size) scored 7.81, ahead of Citibank, community banks and Wells Fargo (Figure 6).

**FIGURE 6:** Checking Account Value Ratings

On a 10-point scale, how would you rate the value you get from these companies?

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>USAA</td>
<td>9.00</td>
</tr>
<tr>
<td>Chime</td>
<td>8.63</td>
</tr>
<tr>
<td>Credit unions</td>
<td>8.30</td>
</tr>
<tr>
<td>Bank of America</td>
<td>7.94</td>
</tr>
<tr>
<td>Chase</td>
<td>7.87</td>
</tr>
<tr>
<td>Challenger banks</td>
<td>7.81</td>
</tr>
<tr>
<td>Citibank</td>
<td>7.72</td>
</tr>
<tr>
<td>Community banks</td>
<td>7.70</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>7.53</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
CREDIT CARDS

The checking account isn’t the only product whose use by consumers is increasingly in the shadows. Consumers are migrating to shadow credit card issuers as well.

By “shadow” we mean non-traditional, non-financial institution providers—specifically, Big Tech (e.g., Apple, Amazon, Google) and fintech companies (e.g., Chime, Ally).

Almost 12% of all credit cardholders in the United States have a credit card from PayPal—and consider it to be one of the top three cards in their wallet. Amazon’s share is slightly lower at 10%. This shouldn’t be surprising—six in 10 Americans are Amazon Prime customers, and 60% of consumers with a smartphone have the PayPal app installed on their device.

What may be more surprising is the market share of two other providers:

**Apple.** Considering the press attention and hoopla the card received on its launch in mid-2019, the Apple Card’s market share is just 1.3%.

**Fintech companies.** Startups like Chime and Petal—as well as more established fintech players like Ally—have grown their share of the credit card market to 2.5%, not far behind more established brands like Barclays with 3.2% share and US Bank with 3.6% of the market (Figure 7).

**FIGURE 7:** Big Tech and Fintech Credit Cardholder Market Share

<table>
<thead>
<tr>
<th>Big Tech/Fintech Credit Cardholder Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>PayPal</td>
</tr>
<tr>
<td>Amazon</td>
</tr>
<tr>
<td>Fintech</td>
</tr>
<tr>
<td>Apple</td>
</tr>
<tr>
<td><img src="image" alt="Graph showing market share" /></td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
As with checking accounts, the shadow providers get high ratings from consumers for the perceived value they provide (Figure 8).

**FIGURE 8: Credit Card Value Ratings**

On a 10-point scale, how would you rate the value you get from these companies?

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Tech/Fintech</td>
<td>8.11</td>
</tr>
<tr>
<td>Bank of America</td>
<td>8.07</td>
</tr>
<tr>
<td>Discover</td>
<td>8.01</td>
</tr>
<tr>
<td>Capital One</td>
<td>7.98</td>
</tr>
<tr>
<td>Chase</td>
<td>7.78</td>
</tr>
<tr>
<td>Citibank</td>
<td>7.72</td>
</tr>
<tr>
<td>American Express</td>
<td>7.68</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>7.59</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

Credit-Builder Credit Cards

Contributing to the success of the fintech companies in the credit card market is another shadow-like factor: credit-builder cards. Fintechs like Chime and Petal already offer credit-builder credit cards. Launched in June 2020, 15% of Chime’s customers already have its credit-builder credit card or are on the company’s waiting list for the card. According to TechCrunch:

“Chime users add money to their Chime Spending Account and then charge their purchases using the credit card. At the end of the month, Chime’s Safer Credit Builder feature automatically pays off the credit card balance from the secured account and reports the payment to the major credit bureaus.”
New entrants are coming to market like:

- **Petal.** Founded in 2016, Petal assesses creditworthiness of applicants by looking at their cash flow, not credit scores, to determine their ability to handle credit. In September 2019, the company reported it had 50,000 customers, two-thirds of whom were Millennials and Gen Zers.

- **Cred.ai.** For cardholders that agree to let Cred.ai manage their spending, the company says its algorithms will ensure the cardholders won’t pay interest or late fees—and that they will increase their credit score.

- **Upgrade.** This new fintech—started by Lending Club founder Renaud Laplanche—offers cardholders 1.5% cash back on purchases. Unlike other cards, however, rewards are credited when cardholders pay off their monthly balances, not at the time of purchase.

Credit-builder cards promise to be popular with consumers under the age of 50. About three in 10 Millennials, a quarter of Gen Xers, and one in five Gen Zers express strong interest in this type of card (Figure 9).

**FIGURE 9: Consumer Interest in Credit-Builder Credit Cards**

A new credit card is being launched that helps its users quickly build their credit score. How interested are you in a credit card like this?

<table>
<thead>
<tr>
<th></th>
<th>Very interested</th>
<th>Somewhat interested</th>
<th>Not interested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen X</td>
<td>27%</td>
<td>34%</td>
<td>39%</td>
</tr>
<tr>
<td>Millennial</td>
<td>31%</td>
<td>40%</td>
<td>29%</td>
</tr>
<tr>
<td>Gen Z</td>
<td>19%</td>
<td>47%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
PAYMENTS

In addition to the shift to the shadows of checking and credit card account ownership, there are four emerging payment behaviors with shadow activity: 1) mobile payments, 2) merchant mobile apps, 3) buy now, pay later (BNPL) purchases and 4) cryptocurrency purchases.

Mobile Payments

It’s been widely reported that the pandemic has increased consumers’ use of mobile payment apps like Apple Pay and Google Pay. That, in and of itself, isn’t really shadow behavior. What pushes some of the new mobile pay behavior into the shadows is the fact that many consumers don’t link their primary debit and credit cards to their mobile payment apps.

Roughly three in 10 Apple Pay users and four in 10 Google Pay users link a secondary or other debit or credit card to their mobile pay app (Figure 10). As a result, the increase in mobile payments during the pandemic may have caused an inadvertent shift in payments from primary to shadow accounts.

FIGURE 10: Linked Accounts to Mobile Payment Apps

Which account is linked to your mobile payment apps?

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
We don’t have an estimate of total mobile payment dollar volume by payment app, but PYMNTS.com estimates that Apple Pay was used for $46 billion of purchases in the United States in 2019.¹ It’s a good bet that number will be larger for 2020, but to be conservative, let’s use that number for 2020—and assume Google Pay’s volume is in the same ballpark.

With 28% of Apple Pay users linking their app to non-primary accounts and 39% of Google Pay users doing the same, roughly $30.8 billion of Apple Pay and Google Pay purchases were made on shadow accounts.

**Merchant Mobile Apps**

Three-quarters of consumers with a smartphone have at least one merchant’s mobile app installed on their device—the three most popular apps coming from Amazon, Walmart and Starbucks. Using merchant mobile apps isn’t shadow behavior—but loading funds on the app for future purchases is. In any given week, Americans have roughly $3.2 billion sitting in 10 of the leading merchants’ mobile apps. Amazon leads the pack with more than $1 billion—32% of the total—sitting in customers’ apps (Figure 11).

**FIGURE 11: Merchant Mobile Apps**

<table>
<thead>
<tr>
<th>Merchant</th>
<th>Total Amount ($ in millions)</th>
<th>Average Weekly Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>$1,024</td>
<td>$34</td>
</tr>
<tr>
<td>Walmart</td>
<td>$731</td>
<td>$26</td>
</tr>
<tr>
<td>Starbucks</td>
<td>$452</td>
<td>$30</td>
</tr>
<tr>
<td>Uber</td>
<td>$18</td>
<td>$13</td>
</tr>
<tr>
<td>Dunkin’</td>
<td>$18</td>
<td>$15</td>
</tr>
<tr>
<td>Chick-fil-A</td>
<td>$13</td>
<td>$11</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>$17</td>
<td>$13</td>
</tr>
<tr>
<td>CVS</td>
<td>$93</td>
<td>$67</td>
</tr>
<tr>
<td>Panera</td>
<td>$93</td>
<td>$34</td>
</tr>
<tr>
<td>Wendy’s</td>
<td>$93</td>
<td>$31</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
Buy Now, Pay Later

Buy now, pay later services have been a hot topic in 2020. Overall, 6% of U.S. consumers have made a BNPL purchase in 2020—virtually unchanged from 2019—with Millennials far outpacing other generations in adopting this form of payment (Figure 12).

**FIGURE 12: Buy Now, Pay Later Adoption by Generation**

<table>
<thead>
<tr>
<th>Generation</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Z</td>
<td>6.4%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Millennial</td>
<td>17.6%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Gen X</td>
<td>8.7%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Boomer</td>
<td>1.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Senior</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

What has changed, however, is the amount of money consumers are spending when using this installment payment option. In 2019, Americans purchased $20.3 billion worth of goods and services using BNPL options, an amount that will rise to $23.9 billion in 2020, an 18% jump (Table A).
Cryptocurrencies

Ownership of cryptocurrencies isn’t mainstream—but it’s getting there. About one in nine U.S. consumers now holds some form of cryptocurrency like Bitcoin or Ethereum—including 20% of Millennials and 16% of Gen Xers. Another 12% plan to purchase or invest in cryptocurrencies in the next 12 months (Figure 13).

**FIGURE 13: Cryptocurrency Ownership**

Do you currently hold any cryptocurrency assets (e.g., Bitcoin, Ethereum)?

![Pie chart showing cryptocurrency ownership](image)

78% No, and I don’t have any plans to
12% Yes, but I plan to in the next 12 months
11% Yes

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

**TABLE A: Buy Now, Pay Later Volume by Product Price Range**

<table>
<thead>
<tr>
<th>Product Price Range</th>
<th>2019 $ in millions</th>
<th>2020 $ in millions</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100 to $500</td>
<td>$1,244</td>
<td>$1,737</td>
<td>6.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>$501 to $1,000</td>
<td>$3,458</td>
<td>$3,739</td>
<td>17.0%</td>
<td>15.6%</td>
</tr>
<tr>
<td>$1,001 to $5,000</td>
<td>$6,895</td>
<td>$11,095</td>
<td>33.9%</td>
<td>46.4%</td>
</tr>
<tr>
<td>More than $5,000</td>
<td>$8,670</td>
<td>$7,236</td>
<td>42.6%</td>
<td>30.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$20,337</strong></td>
<td><strong>$23,927</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020
Cryptocurrencies aren’t just being held as speculative assets. Half of consumers who have Bitcoin or other cryptocurrencies have used them to purchase $31 billion worth goods or services in the past year. And that number is poised to increase because:

1) 63% of current cryptocurrency holders plan to use Bitcoin to make purchases in the next year or two, and
2) 50% of consumers who plan to invest in cryptocurrencies intend to use them to make purchases.

Shadow Payments

Across the four types of payments, a quarter of a trillion dollars—$252 billion—are estimated to be shadow payments (Figure 14).
INVESTING AND SAVING

One-third of Americans have an investment or brokerage account (excluding their 401k) that they can trade stocks from. Nearly three in 10 of these investors are now trading stocks with a digital brokerage or robo-advisor. Robinhood leads the pack with 12% penetration into the pool of investors followed by Acorns and Stash with around 6% adoption (Figure 15).

FIGURE 15: Robo-Advisor Adoption

Which of the following companies do you have an investment account with (excluding 401(k) accounts)?

- Robinhood: 11.9%
- Acorns: 6.4%
- Stash: 5.6%
- Personal Capital: 3.1%
- Betterment: 2.0%
- Wealthfront: 1.3%

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

Robo-advisors aren’t replacing traditional investment houses and brokerages just yet. Only 7% of robo-advisor users have all of their investment funds with a robo-advisor, and only a quarter of the investors with robo-advisor or digital brokerage accounts keep half or more of their total investment portfolio with these companies. Overall, however, among investors with accounts at robo-advisors, 30% of their total investment funds are in the shadow.
Automated Savings Tools

In addition to robo-advisors, there’s a new breed of fintech gaining traction with consumers: automated savings tools. These tools analyze consumers’ income, savings and spending and make recommendations on how much consumers should save—or increasingly, automatically move the money to an account.

Fueled by way-above-market interest rates on savings over the past few years and helped a bit by an annual $100 million marketing budget (sarcasm), Marcus has nearly six million customers in the United States (Figure 16). Not all use the company’s automated savings tool (which came via the Clarity Money acquisition), however.

Other tools like Acorns, Qapital and Digit focus more on their automated savings capabilities and have attracted millions of users. Consumers save—above and beyond their existing level of savings—on average, between $475 and $1,000 a year using these tools.

**FIGURE 16: Automated Savings Tools**

![Automated Savings Tools Users and Savings](chart)

Depending on how the individual tool works, it could help or hurt incumbent institutions. Some of the tools move money from a user’s existing account to an account at a different institution with which the savings tool has a relationship. In other instances, the tool is beneficial to the incumbent because it moves money into the user’s existing savings account.
THE IMPACT OF SHADOW FINANCIAL LIVES

Overall, 34% of Americans have at least one shadow financial account or engage in a shadow financial activity. Nearly half (47%) of Millennials and a little more than a third (36%) of Gen Zers and Gen Xers engage in shadow financial activities, in contrast to 21% of Baby Boomers and 14% of Seniors.

Beyond the age differences, however, there are demographic similarities between the shadow consumers and the two-thirds of Americans who aren’t in the shadows. A little more than four in 10 of each segment have a college degree or higher, and the shadow group has an average annual income of about $75,000, slightly higher than the $66,000 average among the non-shadow consumers.

Their assessment of the performance of their financial lives diverges, however, implying that their shadow financial behavior is having a positive impact. Consumers engaging in shadow financial activities rate their overall financial performance higher than other consumers over the past three years, and report less of a negative impact in 2020 (Figure 17).

FIGURE 17: Financial Performance of Shadow Financial Consumers

On a 100-point scale, how would you grade the performance of your money over the past few years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Shadow Consumers</th>
<th>Other Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>60.7</td>
<td>59.6</td>
</tr>
<tr>
<td>2019</td>
<td>62.0</td>
<td>59.0</td>
</tr>
<tr>
<td>2020</td>
<td>58.9</td>
<td>54.3</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

In addition, robo-advisor users report benefits of their shadow investing behavior: 1) 36% say robo-advisors have helped them improve their overall return on investments, and 2) 19% say robo-advisors have helped them simplify their financial lives.
The Dark Side of... The Dark Side

Consumers have their reasons and rationale for using shadow accounts and making shadow payments. But (as the saying goes), we don’t know what we don’t know, and in this case, what Americans might not know is that their shadow banking behaviors may have negative effects on their financial lives:

1) **More checking accounts = more overdrafts.** While this is true across generational segments, it was most prevalent among Millennials (who had the highest percentage of consumers with more than one checking account). Among Millennials with one checking account, the percentage that has overdrawn their account increased from 28% in 2018 to 33% in 2020. Among those with two or more accounts, however, the percentage that has overdrawn grew from 35% to 46% between 2018 and 2020 (Figure 18).

**FIGURE 18: Overdrafts**

Percent of Millennials That Have Overdrawn Their Checking Account(s)

<table>
<thead>
<tr>
<th></th>
<th>Millennials with One Checking Account</th>
<th>Millennials with Two or More Checking Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>28%</td>
<td>35%</td>
</tr>
<tr>
<td>2019</td>
<td>32%</td>
<td>42%</td>
</tr>
<tr>
<td>2020</td>
<td>33%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: Cornerstone Advisors survey of 3,016 U.S. consumers, Q4 2020

Having the money isn’t the big problem, however. Among the overdrafters with more than one account: 1) 41% said they overdrew because they failed to keep track of their account balance, and 2) 20% said they overdrew because they didn’t transfer funds from other accounts in time.
2) Many BNPL users are late on their payments. Critics of BNPL accuse the programs of leading consumers to take on debt they can’t afford. There may be some truth to that: 43% of BNPL users say they have been late at some point on their BNPL payments. But—as with overdrafts—not having sufficient funds may not be the problem. Among those who have been late with a BNPL payment, 66% said they were late because they lost track of when the bill was due.

3) Credit card line reductions are more prevalent among Big Tech/fintech cardholders. Among consumers with a credit card from a shadow issuer (i.e., Big Tech or fintech), one in four has been hit with a credit line reduction in the past year. Among cardholders of traditional issuers, that figure is just 11% (Figure 19).

4) Robo-advisors have a downside. More than a third of robo-advisor investors said that robo-advisors helped them improve their overall ROI, and one in five credits the fintechs for helping them simplify their financial lives. But others have a different perspective: 13% said the new companies have made their financial lives more complex, and 9% blame the companies for causing a decline in their overall ROI.
CONCLUSIONS

Based on the research on consumers’ shadow banking and payments activity and behavior, we conclude:

• **You don’t know Jack (or Jill).** Or most of your other customers and members for that matter. Increasingly, Americans’ financial account activity and behavior is “off the radar,” i.e., not reported by governmental agencies or credit bureaus or tracked by traditional means. As a result, financial institutions have a limited view of consumers’ financial relationships and true activity.

• **The role of the checking account has changed dramatically.** While there has been talk in the press about the “unbundling of the bank,” a more accurate description would be the “unbundling of the checking account.” Consumers are using multiple accounts to get specific functionality that is superior to the features and functions in their existing accounts. But they don’t close out and switch accounts—they simply add another account.

• **Consumers don’t want a savings account—they want to save more money.** This may seem like an empty distinction, but it’s not. Banks aren’t wrong in thinking consumers want the best rate they can get on their savings. But getting 1.0% on $1,000 isn’t as good as getting 0.5% on $2,500. The new shadow tools on the market help people save more money, while banks are still focusing on the rate of return on that money.

• **Primary status ain’t what it used to be.** From a banker’s perspective, having “primary” account status was important because it was believed to be a stepping-stone to deepening the customer relationship. Today, consumers choose best-of-breed features, not accounts. That leads consumers to have a primary P2P tool, primary savings tool, etc.

• **Services—not accounts—deliver value.** Traditional financial institutions focus their marketing efforts on selling accounts—checking accounts, savings accounts, brokerage accounts, etc. Younger consumers don’t relate to these distinctions—they just want to pay, save and invest. The ability to do those three things—pay, save and invest—are the “services” that provide value to consumers, not the accounts themselves.
Recommendations for Incumbent Financial Institutions

It’s far from game over for established banks and credit unions. There are strategies these institutions need to pursue and deploy to combat the threats of shadow financial behavior:

• **Deploy new products and services through fintech partnerships.** What’s that saying? If you can’t beat ‘em, join ‘em? That’s what incumbent institutions need to do, and fintech partnerships are the way to do it. Fintech partnerships that integrate shadow financial activities—e.g., bill negotiation, subscription management, cryptocurrency investing, data breach and identity protection services, and wealth transfer management—should be at the top of the list of partnership opportunities.

• **Develop a data ecosystem.** Incumbent institutions have spent a lot of time and money over the past 15 years attempting to get a “360-degree view” of their customers. If this study proves anything, it’s that financial institutions have nowhere near a 360-degree amount of data about their customers—regardless of whether they can integrate and “view” it. Incumbents need a more explicit strategy for data acquisition (and then analysis and integration) that feeds product and service deployment.

• **Balance centralized decisioning and agile execution.** Some banks have horror stories to tell about their “360-degree view of the customer” efforts. The horror aspect isn’t just about the time and money spent—it’s about what happened after they supposedly integrated the disparate customer data sources. Centralization of data access caused process execution cycle times to grow to unacceptable levels. To combat the growing threat of the spreading shadow, incumbents will need to make investments in marketing execution and decisioning tools that enable agile responses to changing market conditions.
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Cornerstone Advisors delivers consulting services, industry insights and executive forums aimed at helping financial institutions improve their profitability and performance—quickly and efficiently. Armed with nearly two decades of experience, the philosophy that financial institutions can't improve what they don't measure, and an authoritative database of performance metrics and vendor contract data, Cornerstone can show banks and credit unions how laser-focus measurement can lead to more competitive business strategies, better vendor contracts, educated technology decisions and purposefully re-engineered processes.

FICO's groundbreaking use of Big Data and mathematical algorithms to predict consumer behavior has transformed entire industries. FICO provides analytics software and tools used across multiple industries to manage risk, fight fraud, build more profitable customer relationships, optimize operations and meet strict government regulations. Many of the company’s products reach industry-wide adoption—such as the FICO® Score, the standard measure of consumer credit risk in the United States. FICO solutions leverage open-source standards and cloud computing to maximize flexibility, speed deployment and reduce costs. The company also helps millions of people manage their personal credit health.
ENDNOTES


2 https://techcrunch.com/2020/06/30/u-s-challenger-bank-chime-launches-credit-builder-a-credit-card-that-works-more-like-debit/


4 https://www.pymnts.com/apple-pay-adoption/

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