Digital Economy

Purchasing financial products online in Spain

Alfonso Arellano

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Purchasing financial products online is modest in Spain: only 9.8% of Internet users buy some financial product through Internet. Industry challenges in this context are conditioned by (digital) customer confidence, data usage awareness and transparency of information.

Approximation from the demand side

Purchasing financial products online constitutes one of the fundamental axes in the strategies of commercial banks in Spain. The available data provided from the entities (using their own customers) and from specialized consultancy firms show a positive view. According to the first term 2018 results, BBVA reported than above half of its customer base is digital in Spain. The consultancy firm Cocktail Analysis, based on online interviews conducted with Internet users in Spain on financial products and digitisation level, indicates that two thirds of the population have contracted a banking or insurance product in 2017.

Both examples reflect the success financial institutions have in the digitisation process they are undertaking, either due to cost reduction issues (also encouraged by the low interest rates in the Eurozone) or due to the entry of new agents (mainly linked to the so-called Information and Communication Technologies, ICT), whose great success is focused on increasing and improving the user experience. However, these approaches do not allow us to observe the aggregated behaviour of society in Spain on this issue. The Spanish National Statistics Institute (INE) conducts the Survey on Equipment and Use of Information and Communication Technologies in Households (TIC-H), which aims to provide a better understanding of how information society is developing in Spain.

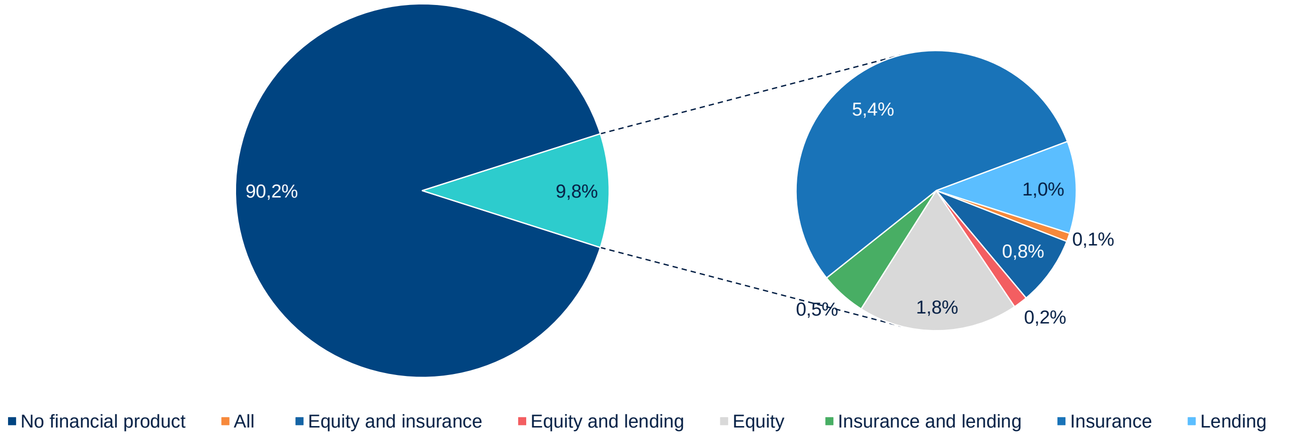
Internet use is a recurrent phenomenon. TIC-H data in 2017 indicate that 98.9% of those who report using the Internet have been online in the last year, and 97.2% have done so in the last month. However, the incidence of specific use of e-commerce is lower: 49.9% of the adult population and 58.6% of Internet users in 2017.

This percentage is even lower in the specific case of the implementation of financial activities for private purposes. In 2017, 9.8% of Internet users over 15 years old acquired, sold, subscribed or formalised at least one financial product online in the 12 months prior to the survey. This percentage has increased by two percentage points with respect to 2016, the starting year for which data on this type of product are available.[1]

As Chart 1 shows, the distribution among the three product groups considered (equity, bonds, funds or other financial investment products; insurance policies; and loans or credits from banks or other financial providers) is heterogeneous and has a high level of concentration in underwriting and renewing insurance policies (almost 7 out of 10 people who buy at least one financial product correspond to this type of product), as opposed to buying and selling equity and other financial investment products (nearly 3 out of 10) and taking out loans online (almost 2 out of 10).

1 For further details about adoption of digital banking in 2016, see Arellano, A. and García, J. R. (2017): "Determinantes de la adopción de la banca digital en España", Observatorio Económico de Economía Digital, BBVA Research, Madrid. Available at: https://www.bbvaresearch.com/publicaciones/determinantes-de-la-adopcion-de-la-banca-digital-en-espana/

Chart 1 Distribution of the population aged 15 and over who have connected to the Internet in the last 12 months by financial product, 2017



Source: BBVA Research based on TIC-H (INE)

Those who hire these financial products are not very different from the collective of people who use e-commerce more frequently[2]: this customer is characterized by being a male (more than 6 out of 10 Internet users who carry out these financial activities are men), between 35 and 54 years old (more than 1 out of 2 Internet users), with university education (above 6 out of 10), employed (more than 7 out of 10), with a medium-high and high income (above 6 out of 10), living in households with 4 members (more than 3 out of 10) and who has ICT at home and uses them daily or weekly (9 out of 10).

Challenges of the industry

The classic intersectoral barriers are becoming blurred as a result of the implementation and development of ICT in any area of the human condition, and traditional financial and insurance companies are increasingly conditioned by the incorporation of new agents, both within the sector itself (new fintech and insurtech companies) and outside the industry (such as the so-called Big Tech companies and those companies that sell these types of products in a complementary way, such as companies related to transport, travel and leisure activities), which use ICT to offer innovative solutions to the problems and (financial) needs of consumers in their daily lives.

One of the consequences of the past economic crisis was the loss of trust in traditional financial institutions. This fact has constituted a powerful argument that explains new digital players have a greater boost in demand, especially in those consumers (such as the digital natives) who use the Internet more frequently and show more dependence on its services. According to a survey conducted by the consulting firm Bain & Company in the USA in 2018, almost three out of four young retail banking users (18-24 years old) would be willing to buy a financial product from a technology company (such as Amazon) in the next five years, and the weight exceeds 60% among people below 45. However, the loss of trust (especially digital trust) can also be passed on to these new companies mentioned above through scandals such as the one that has been raised with Facebook recently.

The average level of consumer education in financial matters can clearly be improved: according to a World Bank report,[3] the financial literacy rate for adults in Spain was below 50%, while it was over 65% in Denmark, Germany and the Netherlands. This fact is more marked in younger people, since according to the last results presented in the PISA financial literacy report in 2017, one out of four (15-year-old) students in Spain does not reach the basic level of financial competence: they are unable to interpret an invoice and evaluate the financial information to make

2: For further information, see BBVA (2015): “Comercio electrónico en España: ¿qué compramos y por qué?”. Situación Consumo. First semester 2015, Madrid, BBVA. Available at: https://www.bbvaresearch.com/public-compuesta/situacion-consumo-espanaprimer-semestre-2015/
3: Klapper, L., Lusardi, A. and van Oudheusden, P. (2015), “Financial literacy around the world”: Insights from the Standard & Poor’s ratings services global financial literacy survey”, The World Bank Group, Washington, D.C.

a decision when making a purchase, such as applying value for money. The development of financial product comparators (as happens in insurance) seems to be an easy and agile solution to the problem of lack of access to information and the need to reduce certain consumer spending. However, these instruments may end up concealing costs for customers using these tools, such as details about coverage and obtaining information from customers that they provide to comparators to get the best deals.

The loss of confidence and the level of financial education represent to a large extent the two major barriers to the marketing of financial products The joint application of various regulations in the European Union will be decisive in the transaction of these types of product. Some of them mainly impact the financial system, such as the MiFID II directive and the MiFIR regulation on financial markets and instruments, and the PSD2 directive on payment services. Others have a broader framework of application, such as the General Data Protection Regulation on the processing of personal data and the free movement of such data. The previous experience of financial institutions with confidential customer data can be very useful in this context, taking advantage of regulatory changes. Raising customers' awareness of the importance of having full control of their data and the fair and responsible use of their data can be a good start in restoring trust with customers. Guaranteeing transparency in customer relations will be a basic tool in the process of hyper-personalization to which the formalization of financial products seems to go.

DISCLAIMER

Digital Regulation and Trends

Chief Economist for Digital Regulation and Trends Unit
Álvaro Martín
alvaro.martin@bbva.com
+ 34 91 537 36 75

Alfonso Arellano
alfonso.arellano.espinar@bbva.com

María Villar Ochoa
Mariavillar.ochoa.becas@bbva.com

Ana Isabel Segovia
ana.segovia@bbva.com

Noelia Cámara
noeiia.camara@bbva.com

Lucía Pacheco
lucia.pacheco@bbva.com

Edward Corcoran
edward.corcoran@bbva.com

Alicia Sánchez
alicia.sanchezs@bbva.com

Jesús Lozano
jesus.lozano@bbva.com

Javier Sebastián
jsebastian@bbva.com

BBVA Research

Chief Economist BBVA Group
Jorge Sicilia Serrano

Macroeconomic Analysis
Rafael Doménech
r.domenech@bbva.com

Digital Economy
Alejandro Neut
robertoalejandro.neut@bbva.com

Global Macroeconomic Scenarios
Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets
Sonsoles Castillo
s.castillo@bbva.com

Long-Term Global Modelling and Analysis
Julián Cubero
juan.cubero@bbva.com

Innovation and Processes
Oscar de las Peñas
oscar.delaspenas@bbva.com

nancial Systems and Regulation
Santiago Fernández de Lis
sfernandezdelis@bbva.com

Digital Regulation and Trends
Álvaro Martín
alvaro.martin@bbva.com

Regulation
Ana Rubio
arubiog@bbva.com

Financial Systems
Olga Cerqueira
olga.gouveia@bbva.com

Spain and Portugal
Miguel Cardoso
miguel.cardoso@bbva.com

United States
Nathaniel Karp
nathaniel.Karp@bbva.com

Mexico
Carlos Serrano
carlos.serranoh@bbva.com

Middle East, Asia and Big Data
Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey
Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia
Le Xia
le.xia@bbva.com

South America
Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina
Gloria Sorensen
gsorensen@bbva.com

Chile
Jorge Selaive
jselaive@bbva.com

Colombia
Juana Téllez
juana.tellez@bbva.com

Peru
Hugo Perea
hperea@bbva.com

Venezuela
Julio Pineda
juliocesar.pineda@bbva.com

CONTACT DETAILS:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain). Tel.:+34 91 374 60 00 and +34 91 537 70 00 / Fax: +34 91 374 30 25 - bbvaresearch@bbva.com www.bbvaresearch.com