Banking on the go

Identifying and capturing value in mobile banking

The mobile phone is now one of the most important items consumers in Western markets – and increasingly in developing regions – carry with them. As some banks begin to exploit the mobile phone to offer customers services characterized by a previously unimaginable level of accessibility, convenience and personalization, a profound transition in the relationship between people and their finances is underway. This paper looks at how banks can convert this opportunity into value for their customers and shareholders.

Internet access for a mobile generation

One of the most striking aspects of the Internet's recent development is the increase in the number of users accessing the Internet from a mobile device. In China, for example, which recently overtook the US as the country with the most Internet users, 29% of new users do not have a PC at all and access the Internet through their mobile phone instead. Among younger people, the mobile phone is regarded as an indispensable tool for many day-to-day activities, including taking photos, listening to music, checking e-mail, playing games and surfing the Web, not merely as a communication channel.

Following the trend set by this new generation of Internet users, the behaviour of bank customers is changing, with a significant decrease in branch use and a steep increase in the use of electronic channels. The intensity of this change varies from country to country, with the US, Japan and the Nordic region in Europe leading the way. Similarly, adoption varies widely among countries, with factors such as education level appearing to be among the most significant drivers.

Another emerging trend is that of different attitudes on the part of different groups of customers towards mobile-enabled services: while self-sufficient, highly technically literate customers compare prices and products across channels, and demand high levels of transparency and efficiency, the mass market expects more support, convenience and hand-holding from service providers.

First steps in mobile

The use of the mobile phone as an electronic channel for banking was initially limited by the relative clumsiness of the device for uses other than voice calls, and therefore usually limited to simple transactions such as checking an account balance.

However, mobile phone devices have become more powerful very quickly and now come with larger screens, making them more comfortable to use for longer periods. In addition, developments in mobile web browsing technology, from more compliant, faster browsers, to Java, make more complex interactions and friendlier user interfaces possible. Meanwhile faster, more reliable mobile data networks and broader coverage have made the mobile phone comparable to other channels such as Internet and phone banking, with the added convenience of a device dedicated to a single person and carried all the time by the owner.

In this technological environment, and after a few false starts, some financial institutions are achieving interesting success in carrying out complex transactions and introducing novel ways to reach customers through the medium of the mobile phone.

Banks such as First Direct in the UK and Société Générale (SG) in France, for example, have signed up a large proportion of their online customers (two-thirds in SG's case) for a paid-for service consisting of text messages (SMS) alerting users that their account balance has reached a certain limit, or comprising regular mini account statements.

Similarly, Barclays in the UK is adding SMS functionality to energize its browser-based solution which has had poor uptake since its launch in 2007. Many banks are coming to the conclusion that browser- and text-based mobile banking should co-exist, with the latter allowing for broader coverage and ease of use, and the former being the next step, for more complex interaction and transactions.

Another notable example is Bank of America, in the US, which has over one million customers signed up for a browser-based service used by each customer, on average, once a week, not only to check account balances and review transactions, but also to transfer funds and pay bills.

Market forecasts[1]

The worldwide number of users of mobile banking and related services is forecast to grow from 20 million users in 2008 by 89 percent p.a. to reach 913 million users in 2014. Asia-Pacific is expected to become the most important regional market, accounting for 65 percent of the total user base. Mobile banking will also play a key role in bringing financial services to people in the Middle East and Africa. Europe and North America will use it predominantly as an extension of existing online banks nonetheless attracting 110 and respectively 80 million users by 2014.

1 Berg Insight

Reaching maturity?

Given the diversity and breadth of banks and mobile services, it is likely that some degree of standardization would increase ease of use for consumers, as well as address their concerns about security and confidentiality.

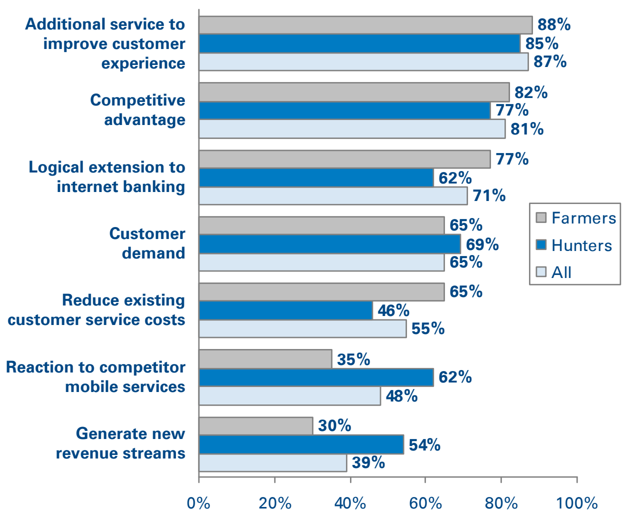
Industry groups understand this, as can be seen in the recent publication of 'Best Practices and Guidelines for Mobile Financial Services', a document which results from a voluntary effort by US wireless carriers to provide a framework for protecting customer information, complying with regulatory requirements and ensuring the overall safety of banking transactions executed via the mobile channel.

Another sign of mobile banking's coming of age can be seen in the mobile phone being recognized as a valuable tool for providing practical, affordable financial services to people in poor countries by the Bill and Melinda Gates Foundation, through its recent grant to the Mobile Money for the Unbanked (MMU) program.

What now?

Research shows that there are many forces driving the development of mobile banking (see figure 1), as well as different strategies: "farmers" focus on getting more revenue from existing customers, "hunters" look to grow their customer base through innovative offerings such as m-banking. In the near future, these will be helped by the convergence of fixed and mobile communications, as is already apparent in the increasing number of consumers accessing the Internet via mobile devices.

Figure 1: Reasons for introducing mobile banking



Source: Sybase

As these devices become more capable, with larger screens and better input devices, more complex interaction will become possible, thereby increasing the range of services that banks can provide and improving ease of service use. This is true for both browser-based solutions, which increasingly mimic their computer/Internet counterparts, and custom applications, downloaded and installed in the device.

The growing concern about security due to the risk of fraud, theft, etc., may also provide a boost for the mobile phone as a banking platform, since their technology already addresses some of these concerns (SIM-card pins, operator-controlled functions, etc.) Understandably, there are other security concerns which are intrinsically associated with a mobile platform.

Another common trend on the part of operators in some markets is the introduction of sophisticated chips built into the handsets, which can communicate with nearby devices and provide advanced authorization and processing services (commonly referred to as NFC – *Near-Field Communications*). This technology has undergone trials in many markets. The recent trial in London of the O2 Wallet, a combination of m-payment and transport card for use on the city's public transport network, showed that NFC technology could eventually co-exist with cash and credit cards as a commonly accepted payment medium. The emergence of such mobile-based payments in the coming years is another indication of the convergence of banking and the mobile phone: as more people become used to banking on their phones, paying with them becomes more natural; this can even have the opposite effect of mobile payments adding to the attractiveness of mobile banking.

Finally, it is usually a sign of the maturity of a product that intermediaries begin vying to make a business out of facilitating its provision. One instance of this happening in mobile banking is the case of Citibank and the SK Telekom subsidiary, Mobile Money Ventures, which is an enabler of mobile financial services platforms. Berazy, a Swedish company, is another example of an intermediary, in this case in the mobile payments business.

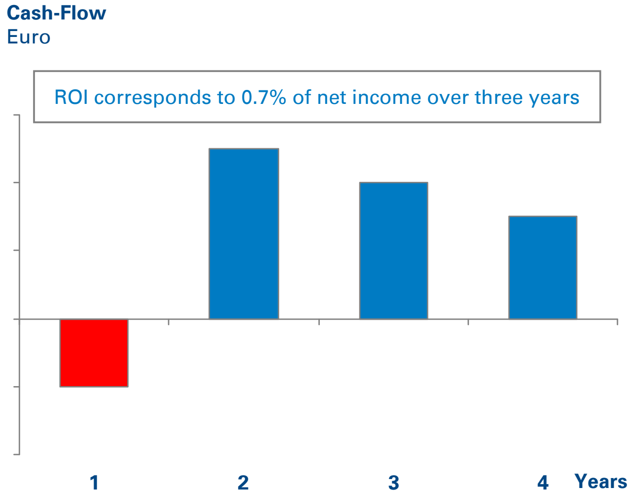
The rationale for m-banking

So far, successful experiences with mobile banking have tended to be based on simple services, given away free of charge or at a low cost, in an attempt to test the market and reap some of the immediate benefits. Now, a trend characterized by increasing experimentation and greater sophistication of mobile banking services is emerging, fuelled by the maturity of the financial industry and the resulting pressure to find new ways to retain customers and develop new sources of revenue.

At a glance, mobile banking offers several benefits to banks, both quantitative and qualitative, that seem to overcome the set-up and operating costs. Among these benefits are the lower channel costs (both for information provision and transactions) incurred by diverting call centre queries to an automated and therefore intrinsically cheaper platform. It is worth noting that half of the participants in a BancorpSouth mobile banking pilot reported that they would make less calls to the call centre if they had mobile access.

Furthermore, m-banking provides opportunities to capture revenues from services based on location and personalization,

Figure 2: Example business case for mobile banking

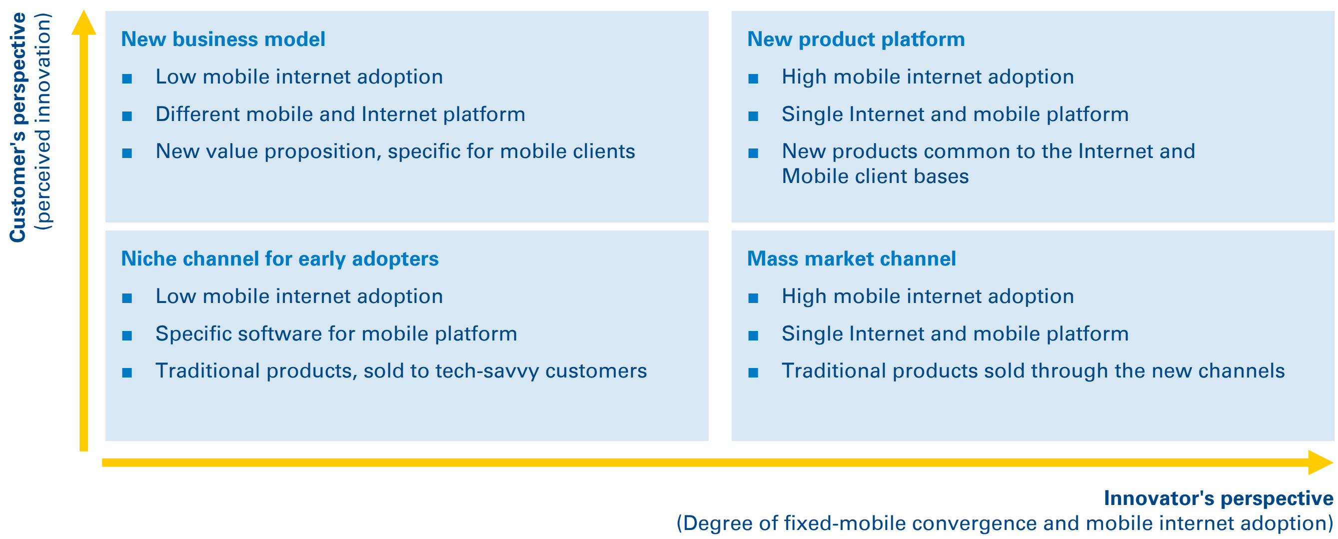


while also being a tool for customer acquisition (for example in niche segments that value mobility and real-time control of their finances). Additional revenues may be derived from the channel's potential to support mobile advertising campaigns, mobile payments, mobile loans and other innovative products.

Finally, mobile banking can also be an instrument to improve brand image, increase customer satisfaction and contribute to customer retention by enhancing the bank's quality of service to its customers.

From a cost perspective, the main drivers are the investment in the technology platform and the SMS/data access fees. Since it is likely that the former can be based to a great extent on the Internet platform, mobile banking can in fact be a way for banks to extend the value of existing investments. Operating service costs, which include SMS and data access fees paid to telecom operators, have been decreasing steadily in recent years, and

Figure 3: Mobile banking development framework



therefore should not compound the equation overmuch, either for the customer, who is increasingly paying for these services on a flat-fee basis anyway, or the bank, which can leverage volume to access more attractive fees from mobile operators.

An Arthur D. Little analysis shows that the incremental nature of this investment means that positive, significant results can be achieved even in conservative scenarios, improving the risk-return ratio of a move that can yield many other benefits, such as youth segment penetration and innovative positioning (see figure 2 overleaf). Our research estimates that, for example, a mid-sized European bank, would quickly recover the investment and generate an interesting return (e.g. 0.7% of net income in a conservative scenario), if it explored the benefit of being an early mover into a sustained mobile-banking strategy.

Making it happen

While many financial institutions have at some point made some investment in mobile banking, whether by adapting their Internet site or providing customers with a specific application or SMS interface, many industry players have failed to establish a comprehensive strategy for the channel, including evaluating alternative scenarios and then selecting the one that they see as most realistic and/or that fits their organization and market best.

Our framework for mobile banking strategies highlights two key variables for scenario definition: the customer's perspective and the innovator's (or bank's) perspective (see figure 3 overleaf).

Having identified where they stand within this framework, banks can then define their m-banking service portfolio, including how it should be phased, and also assess its value to customers, so that an appropriate pricing (or subsidy) strategy can be established.

Having laid this foundation, it is also important to determine possible constraints and identify the technology requirements, making sure that the main customer concerns are addressed, including security, convenience and ease of use, among others.

A final step before launch is to plan carefully how customers, both current and new, will be attracted to the platform in order to make it successful.

Conclusion

As with many trends related to technology and business, the organizations that succeed will be those that balance the strengths of the technology with those of the business (including its influence in the market and market rules) and are faithful to the core economics of the business.

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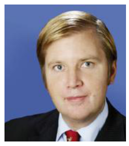

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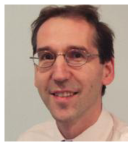

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