Mobile banking
A catalyst for improving bank performance

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Introduction — mobile banking at the tipping point

Mobile banking is on the cusp of transformation from a niche service for the technologically elite to a mass-market service demanded by all customer segments.

As banks develop their strategies for giving customers access to their accounts through cell phones and other mobile devices, they should also regard this emerging platform as a potential catalyst for generating operational efficiencies and as a vehicle for new revenue sources.

Moreover, the Dodd-Frank Wall Street Reform and Consumer Protection Act and other regulatory changes are transforming the economics of banking, creating additional incentives for banks to serve customers in a better, yet more efficient, manner. Additionally, these new and convenient products and services provide banking institutions with a way to reconnect with their customer base and regain some of the trust that was lost as a result of the financial crisis.

At the same time, banks must prepare to defend their franchises against threats from not only other financial institutions, but also mobile carriers, credit card processors, and other nonbank competitors that want to help consumers conduct financial transactions wherever they — and their mobile devices — are.

A confluence of factors

Bankers have been talking about using cell phones as a channel for consumer banking almost as long as energy companies have been trying to make solar power affordable, but it has taken a confluence of factors to make mobile banking a reality:

Rapid adoption of smartphones

Over the past several years, consumers have made smartphones their preferred mobile devices. Smartphones allow users to make calls, send and receive e-mail and text messages, browse the Web, and perform many other tasks by downloading free or low-cost software applications or "apps." According to published reports, the number of smartphones sold in the United States rose more than 60%, from 26 million in 2008 to 42 million in 2010. Another 25 million consumers are expected to purchase smartphones by 2012, bringing the total number of units in use to 67 million, or 50% of market share[1].

Shifts in consumer preferences

Like automated teller machines "ATMs" and online banking services, smartphones are giving consumers more options. By being able to access account information and perform transactions without requiring access to bank branches, ATMs, or computers, consumers are able to "bank" wherever and whenever they want — and they are learning to expect such convenience.

A significant capability build-out

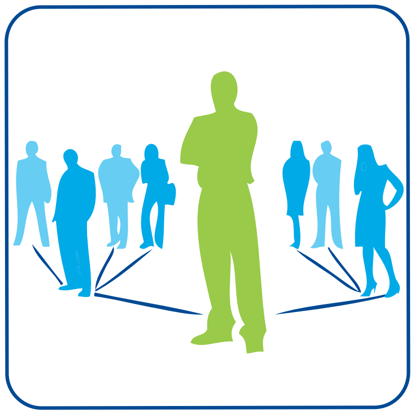
Most large banks have made substantial investments in mobile banking capabilities, and smaller financial institutions are not far behind. In addition, mobile network carriers, credit card processors, and online personal finance services that allow consumers to aggregate their accounts on a single Web site or app are among the many nonbanks jockeying for position in this fast-growing space.

Product and service innovation

The mobile channel allows banks to offer customers features they cannot find online, such as remote check deposit, person-to-person (P2P) payments, and real-time fraud notification. Such features make mobile banking a richer experience and will drive adoption over the next few years.

[1] Source Yankee Group as Cited by Internet Retailer, March 2009; eMarketer calculations March 2009

The demographics of mobile banking



Mobile banking is growing at a fast clip among U.S. consumers.

From 2005 to 2010, mobile banking usage increased at nearly a 100% compounded annual growth rate[i], with most of that growth occurring after 2007, the year that Apple Inc. introduced its revolutionary iPhone and App Store.

According to Deloitte's research, approximately 10% of mobile phone users conduct some banking transactions by phone. Chief among these users are the members of Generation Y, who were born between 1979 and 1994. Also known as "millennials," these youngest adult consumers represent the fastest growing segment of today's workforce and 25% of the global population:

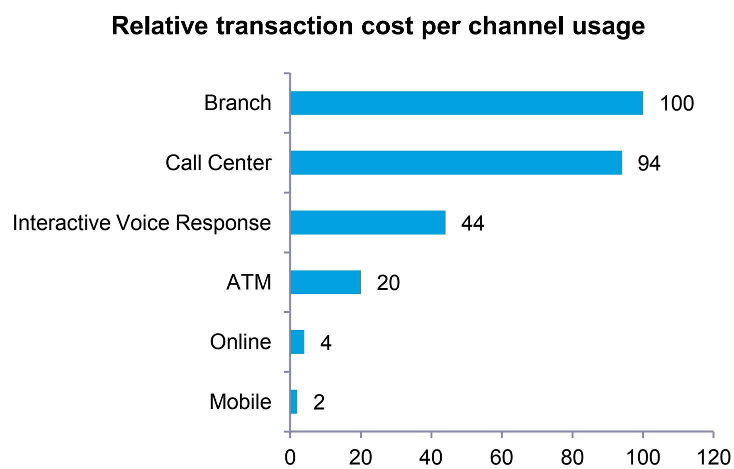
- Early technology adopters: Generation Y consumers are digitally sophisticated and hyperconnected to one another. Half send an average of 50 text messages per day[ii], 97% are active on Facebook and other social networking sites[iii], and 80% are active online banking users[iv]. Smartphone users, including many Generation Y consumers, are three times more likely than consumers with traditional feature phones to use mobile banking and more importantly are significantly more active users — behavior that translates into greater loyalty, stickiness, and, eventually, stronger banking relationships.
- Significant earnings capacity: While Generation Y consumers currently earn approximately $215 billion annually, their annual income is expected to reach $3.4 trillion by 2018 and eclipse baby boomers' earnings[v]. Additionally, millennials are expected to inherit more than $1 trillion over the next decade[vi]. making them an attractive target market with an increased appetite for banking services.
- High-growth/high-potential market: In the United States, approximately 20 to 25 million Generation Y consumers will potentially become new banking customers over the next five years[vii].

While the members of Generation Y are leading the charge in the adoption of all things mobile, we expect baby boomers and older consumers to increase their usage of mobile banking as it becomes an established and familiar channel. Based upon our analysis, **we believe that mobile banking will surpass online banking as the most widely used banking channel by 2020 — if not sooner**. And, as mobile banking grows, so, too, will opportunities for banks to increase revenues and gain operating efficiencies.

Opportunities for operational efficiencies

Banks can realize operational efficiencies by adopting an integrated channel strategy that includes mobile banking. As shown in Figure 1, the cost of processing a transaction via mobile phone can be as much as 10 times lower than via an ATM and as much as 50 times lower than via a branch.

Figure 1



Source: Tower Group

According to our analysis, a bank with a footprint of 100 branches and 250 ATMs, and an average daily deposit/withdrawal volume of 165 branch transactions and 65 ATM transactions, could expect to save about $5 million annually if the bank were able to convert 20% of those branch and ATM transactions to its mobile channel. Features such as remote check deposit or P2P will enable those transactions to take place through the mobile channel — and reduce dependency on branches or ATMs.

The more transactions that banks can drive to mobile phones, the greater the possibility that they can close poorly performing branches and increase operating efficiencies by shifting the focus of branch employees from transactions to more advisory-type services that will lead to greater sales or cross-selling rates.

Opportunities for revenue growth

Mobile banking offers banks several opportunities for increasing revenues. These include monetizing the value of customer analytics, delivering greater real-time access to products and services, and conducting targeted marketing campaigns based upon the knowledge of consumer preferences that banks collect.

Expanding distribution and coverage models

Mobile banking gives banks the potential to expand beyond their geographical footprint as well as ability to cross-sell and up-sell products to existing customers. Banks that harness these additional mobile financial services capabilities can see a profound impact on the nature of the banking relationship.

Monetizing the value of customer analytics

Unlike supermarkets, department stores, and other businesses that see only one dimension of consumers' spending habits, banks have a broader view of what their customers buy and where they like to shop. This puts banks in a specific position to develop a new line of business focused on bundling data analytics for retailers and other entities vying for customer intelligence — while maintaining the privacy of individual customers' information.

Merchants could employ such aggregated information to target customers more effectively than they might through other means. In addition, banks could use this knowledge of their core customers to strengthen their own abilities to acquire new customers, cross-sell existing customers, improve decisioning capabilities, and provide better customer service — resulting in significant value streams for banks.

Delivering greater real-time access to products and services

Mobile banking could provide bank customers with the ability to compare options at time and place of purchase. At the same time, banks could offer these shoppers complementary services, such as financing or leasing options, insurance quotes (through partnerships), and more.

Offering discounts and purchasing incentives to bank customers

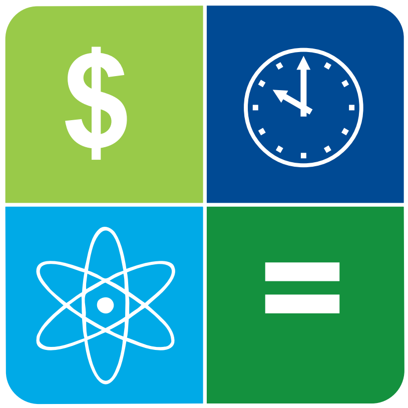
By establishing relationships with manufacturers and retailers that could offer bank customers discounts while they research product options at the point of sale, banks can position their mobile channel as something more than just a convenient way to pay.

Conducting targeted marketing campaigns

Similarly, banks could conduct a variety of targeted marketing campaigns to customers who use mobile banking. For example, banks could pinpoint shoppers' physical locations to make relevant offers to their customers, such as offering them temporary line increases. In addition, banks could leverage the mobile banking interface as a real-time, tailored advertising engine by using behavioral analytics they compile to develop campaigns tailored to customers' shopping preferences.

Additionally, banks might be able to offer their customers "smart" coupons while customers are in stores shopping for a flat-screen television or digital camera. The coupons would come from alliances banks form with the products' manufacturers and/or retailers — and banks would receive a fee for each coupon used.

Key challenges in mobile banking



The continuing evolution and adoption of mobile banking requires that banks overcome challenges and potential roadblocks — most of which can be mitigated by taking a disciplined and focused approach. As is the case with many emerging markets, the speed of change is rapid, and banks must be prepared to adapt accordingly.

Customer experience and awareness

Despite the popularity of mobile banking among younger market segments, many customers are unaware of the powerful value proposition that mobile channel affords. Banks need to educate their customers to the benefits of mobile banking and make sure they differentiate themselves from other competiting solutions, such as account aggregation services by providing advanced features.

Platform scalability

Banks and third-party developers need to create software applications that support multiple mobile operating systems (including iOS4, Android, BlackBerry OS, Windows Mobile, and Symbian), multiple form factors (smartphones, iPads, and tablet computers), multiple telecommunication standards, and can be easily upgraded to support new features and advancements.

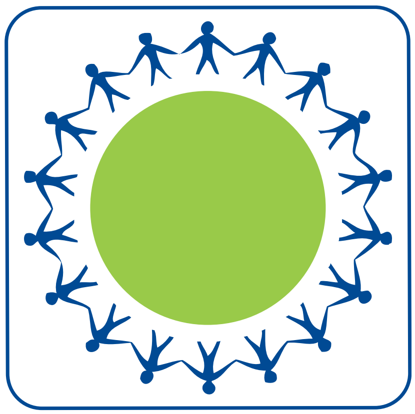
Complex integration and partnership model

To achieve operational efficiencies and realize the full growth potential, banks will need to integrate their existing bank platforms — including core banking, customer relationship management, and payment hubs — with mobile banking solutions. Banks will also need to manage a multitude of partners, such as telecommunication providers, social media outlets, data analytics providers, retailers, payment networks, mobile device manufacturers, and many other stakeholders. Banks will also need to foster retail relationships to push mobile payment solutions to merchants and educate them on the benefits of installing terminals at the point of sale to enable customers to pay with mobile phones equipped with near field communications chips.

Increasing pressure from competitors

Differentiating capabilities from other banks and service providers is increasingly difficult. However, early adopters of mobile banking may still gain a competitive advantage in attracting new customers. Moreover, banks will face growing competition in the coming years from telecommunications providers and other nonblank payment processors offering services that compete with mobile banking. Consequently, banks should take steps to differentiate mobile banking from alternative services so that consumers regard banks' offerings as superior.

The future is now



The tipping point for mobile banking is here.

The rapid pace of change in the mobile telecommunications industry is prompting banks around the world to ask a number of questions about mobile banking:

- How do we most effectively organize to drive a mobile agenda?
- Where should we focus our investments in mobile banking?
- How are regulatory changes impacting mobile banking strategies?
- How can we continue to attract more customers to this channel?
- How does this channel fit into our integrated customer experience?

The marketplace will soon be crowded with competition from a variety of sources. Banks have a window of opportunity to establish a leadership position in the marketplace, but they will need to act swiftly.

The future of mobile banking, which once looked so far away, is now.

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[iii] Constantine, Greg, "Tapping Into Generation Y: Nine Ways Community Financial Institutions Can Use Technology to Capture Young Customers," April 2010, **http://www.firstdata.com/downloads/thought-leadership/geny_wp.pdf**

[iv] "Fiserv Gen Y Research Reveals Fiscal Responsibility and Digital, Mobile Mindsets," March 1, 2010, **http://investors.fiserv.com/releasedetail.cfm?releaseid=447863**

[v] Constantine, op. cit.

[vi] Weiss, Michael J., "Great Expectations," Advertising Age, May 1, 2003, **http://adage.com/americandemographics/article?article_id=44795**

[vii] CensusScope, **http://www.censusscope.org/index.html**, Deloitte analysis