

## Mobile Banking: Opportunities for Increasing Revenue

### Introduction

Mobile banking gained general acceptance in 2009 and is now beginning to gain ground in usage. Statistics from Mercatus Advisory Group's tracking study show mobile banking adoption was 2 percent in 2007, 7 percent in 2008, and 11 percent in 2009.<sup>1</sup> Initially, banks positioned mobile banking in a tactical way as an extension of other channels. However, to take full advantage of the investments in mobile banking, banks will need to take a more strategic view of this form of banking and develop ways to generate revenue. This article reviews what mobile services banks are offering to their customers, assesses current mobile banking trends, and provides some insights into what strategies banks may develop for generating income from mobile banking products and services.

### Mobile Banking Services Currently Being Offered to Customers

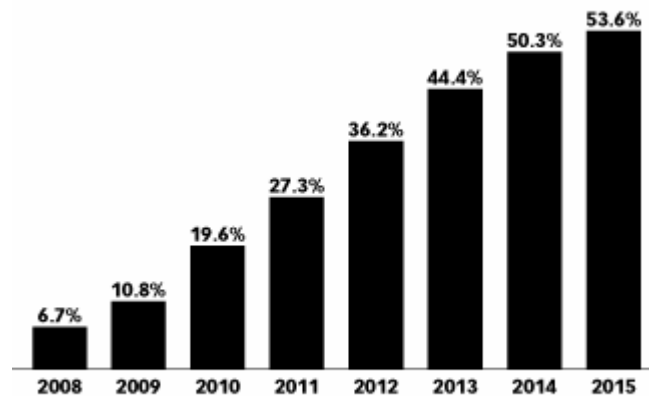
Mobile banking services currently being offered to customers have focused on meeting informational needs and extending the reach and functionality of online banking capabilities. For example, Wells Fargo Bank offers three types of mobile banking capabilities:

Applications	Capabilities
<b>Text Banking</b>	<ul style="list-style-type: none"> <li>• Receive short message service (SMS) alerts on transaction and account balance updates</li> <li>• Establish a primary account</li> <li>• View account activity on the primary account</li> <li>• Receive the balance of primary account/enrolled accounts</li> <li>• Locate the nearest ATM</li> <li>• View credit card payment information</li> <li>• Obtain bank contact information/banking tips</li> <li>• Receive a link to download a smart phone app</li> </ul>
<b>Mobile Website</b>	<ul style="list-style-type: none"> <li>• All text banking capabilities, <b>PLUS</b></li> <li>• Transfer money between accounts</li> <li>• Pay bills with Bill Pay</li> <li>• Transfer money to another bank customer</li> </ul>
<b>Banking Apps for Smart Phones</b>	<ul style="list-style-type: none"> <li>• All mobile website capabilities, <b>PLUS</b></li> <li>• Shortcut to sign-on from a home screen<sup>2</sup></li> </ul>

### Mobile Banking Trends

Currently only 19 percent of United States consumers have used mobile banking services<sup>3</sup>. Projections suggest that over half of U.S. consumers will be using mobile banking by 2014.

**Mobile Financial Services Penetration Among US Mobile Phone Users, 2008-2015 (% of total)**



Note: ages 18+

Source: Mercatus LLC survey sponsored by Visa Inc., December 3, 2009

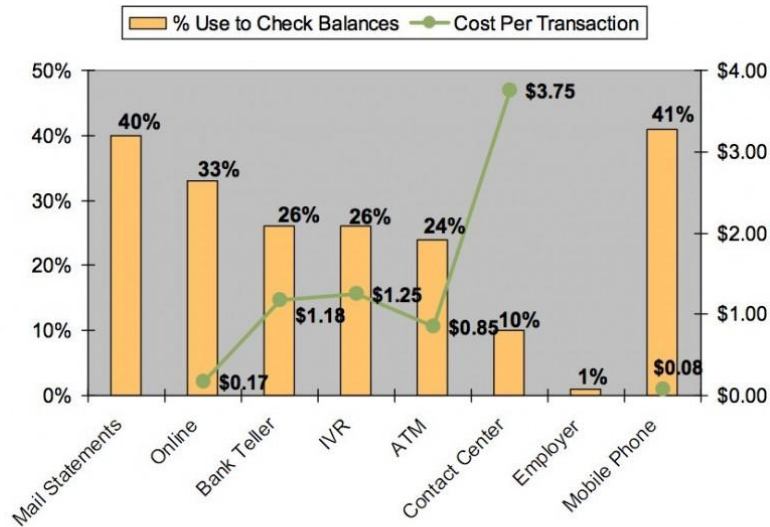
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www.eMarketer.com<sup>4</sup>

The drivers for the projected growth include increased functionality, convenient applications, easy layouts, and the rise in smart phone device market penetration.

- Smart phone users comprised 27 percent of the mobile-phone market in 2010, up from 20 percent last year
- 75 million smart phones are in use today in the U.S., up from 22 million in 2009
- Leading the way in smart phone mobile banking are products offered by Research in Motion (Blackberry), Apple (iPhone), and the makers of Android-powered devices<sup>5</sup>

As illustrated in the chart, below, one of the primary uses of mobile phones for banking services is to check account balances. A 2009 survey suggests that using a mobile phone for this purpose is not only more popular than using online banking, but is also provided to consumers at a lower cost to the bank.



How do you currently check your account balances and review recent transactions? Check all that apply.

Data Sources: M-Com for mobile costs and Tower Group 2009 Survey for all other costs and VeriSign, Fiserv, M-Com mobile banking study

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While mobile banking and payments are on the increase, one of the barriers to mobile banking usage, particularly as it relates to its adoption as a payments device, is consumer concern about security and potential exposure to a loss of a personal mobile phone. However, consumer confidence is rising. According to a KPMG Survey released in July 2010, U.S. respondents who said they were comfortable using their mobile devices for financial transactions grew to 16 percent, a 6 percent<sup>7</sup> increase from the prior year. Nonetheless, managing customer perceptions of -- and the reality around -- mobile banking/payments security remains critical to driving consumer comfort and usage.

In addition to the barrier in consumer adoption, banks may need to increase investment in mobile banking to provide a more robust back-end and payments integration to increase the services they can offer to consumers and thus enhance the customer experience.

### How Banks May Generate Income from Mobile Banking

Up until now, banks providing mobile banking services have mainly incurred new costs for developing this channel; new revenue growth has been very limited. With the recent regulatory changes impacting overdraft fees, banks need to look for additional ways to replace lost revenue. We believe that banks will focus resources on generating revenue from mobile banking products and services over the next 18 months. Areas of opportunity appear to be:

- Real-time and customizable alerts
- Bank facilitated person-to-person (P2P), Person-to-Business (P2B) and Business-to-Business (B2B) payments
- Mobile remote deposit capture (RDC) for consumer and small-business customers
- Location-based merchant offers (coupons, discounts, and reward programs)
- International remittances

For example, in July 2010, JPMorgan Chase became the first major U.S. bank to offer mobile remote deposit capture. The service allows customers to deposit checks with images captured on iPhone cameras.

Banks may want to consider that by not participating in mobile banking they could risk missing out on far more than potential incremental revenue: they potentially put at risk entire relationships. According to Javelin Strategy & Research, “7 percent of bank customers switched to banks that offered mobile banking, and more than 11 percent of USAA’s and Bank of America’s new customers joined the financial institutions because they offered mobile banking.”<sup>8</sup> In this context, banks may need to consider mobile banking as a way to attract and retain customer relationships. Hot new products such as RDC could be invaluable to success in this effort.

Before banks increase their investment in the mobile banking channel, they need to ask and answer a number of key questions in three critical areas:

- Strategic Analysis
  - How do we align our mobile banking strategies with the strategies of the other lines of business and with the enterprise?
  - How do we integrate mobile banking with other delivery channels?
- Customer, Product, and Service Analysis
  - Who are our customers?
  - What mobile banking products and services are they interested in? How can mobile banking add to the overall customer experience with our bank?
  - Should we target different customer segments to take better advantage of mobile banking potential?
  - What is the market potential for adoption and revenue?
- Integration Analysis
  - How do we integrate our back-end operations to provide a seamless customer experience?
  - How do we integrate our payment channels to manage risk and provide appropriate internal controls?

## **In Summary**

Mobile banking is beginning to increase customer utility and gain ground in customer acceptance and usage. To take advantage of this trend, banks will need to take a strategic view of products and services offered and develop ways to generate revenue and improve the customer experience. Before embarking on this path, banks should undertake thorough analysis to improve chances of success and minimize risk.

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*More information on the firm is available at [www.hitachiconsulting.com](http://www.hitachiconsulting.com).*

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