

# P E R S P E C T I V E

## Mobile Banking in the United Kingdom – What Lies Ahead?



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## Current Scenario

Mobile banking adoption in the United Kingdom (UK) has not lived up to expectations. While estimates of mobile banking penetration vary sharply, they clearly show that it has a long way to go. Historically, the usage of self-service channels in the UK has lagged markets like the US, Philippines or China, and of those currently available, Internet Banking is the most popular. That being said, UK leads Western Europe in self-service channel usage.

When it comes to adoption of evolving technologies, most markets follow global trends, and the UK is no different. However, service providers in the UK have taken a slightly different approach to the delivery of mobile banking. Rather than invest in proprietary facilities, banks have tied up with Monilink, a provider with a common shared services platform offering a standardized but sophisticated mobile banking service that can be readily 'branded' and deployed by subscriber institutions. The banks merely expose this platform to their customers who can avail of this facility as long as they use any of the mobile networks supported by Monilink. What's more, it is possible for the customers of all banks/telecom operators connected via the Monilink backbone to transfer money to each other over mobile. For instance, a Lloyd's TSB customer on the O2 telecom network can make mobile payments to a Natwest client using Vodafone.

Since Monilink only charges banks based on their transactions, the latter save substantial costs which would be otherwise required for setting up mobile banking infrastructure, not to mention time and effort. Therefore, it is not surprising that this company, which already facilitates the bulk of UK's high-end mobile banking activity, is predicted to grow and become a key driver of mobile banking adoption. Going forward, Monilink is expected to bolster its current suite of SMS and downloadable-client-based enquiry, transaction and bill payment services with comprehensive personal financial management tools.

## Future Trends

**Demographic factors:** The rising influence of young and educated Gen Y customers will intensify the usage of self-service channels. Since Gen Y will

look to do more than basic banking on their mobile phone, there is potential to extend this channel into an important conduit of commerce. Banking institutions must participate in this opportunity by offering value-added services that make it easy for customers to buy using their handsets. For example, they can tie up with various merchant establishments to extend special deals to their customers, and advise the latter about the closest location where the offers are available, through text messages. Should customers choose to buy, they can pay using their bank's mobile banking facility.

**Power of social networking:** Since social networking will play a bigger role in Gen Y consumers' buying behaviour, mobile banking services must allow easy access to applications such as blogs, reviews and communities for people to consult prior to making a decision.

**Fuller participation by banks:** Mobile payments, remittances and commerce will continue to grow. At present, the payment capability of mobile banking originates from the mobile operators and not directly from the banks. When customers make purchases on mobile, the transactions are routed through a number of aggregators who charge a fee for the service. However, if banks are to become bigger players in the m-commerce space in future, they must, on their own, connect customers to various mobile applications, debit their accounts and pay the concerned merchants. In fact, their customers would likely prefer this option, especially if it means paying a single lower fee to their bank than to a series of intermediaries.

Against this backdrop, it is very important to ensure the smooth closure of financial transactions at the banking end. By providing a simpler and cheaper mobile banking facility, banks can wean customers away from the platforms of third party aggregators.

**Independence from devices and networks:** At present, mobile banking in the UK is hugely device and network dependent, as a result of which not all applications work on all devices. Also, customers have a limited choice of handsets, linked to their mobile service. All of this is set to change. The expectation is that evolving technology will make applications device and network agnostic, enabling customers to enjoy uninterrupted access

to the latter, even after switching from one phone and mobile operating system to another. Also, mobile operators are likely to lose their control over device selection. This will encourage customers to switch handsets and networks more frequently.

**Influence of the app store:** There will be greater proliferation of downloadable applications. The UK will follow the US model where branded mobile banking applications co-exist with their generic equivalents on various app stores. While the Monilink service is already available on such websites, the future of mobile banking adoption will be driven by the banks' ability to create customized, user-friendly downloadable applications. This gives banks an opportunity to build their revenue stream by charging a small fee per application download, in addition to a commission on every transaction.

**Richer applications:** Going forward, customers will expect today's largely SMS-based mobile banking facility to become richer and more versatile. Hence, banks must do more than offering the usual enquiry, payment and money transfer facilities by extending the scope of mobile banking to personal financial management. UK customers, who are known to use third party online financial management tools to create budgets, track expenses, build portfolios etc. would welcome the convenience of being able to do all of these on their mobiles, especially if the tool could span all their bank accounts at one go. As mentioned earlier, banks must also enhance their m-commerce capabilities to offer mashed up applications, combining payment and location-based advisory services. It is easy for institutions in the UK to acquire new applications and expose them to their customers, thanks to Monilink, which allows them to pick and choose from a wide menu. Since Monilink charges banks based on their usage, the latter are not only spared the trouble of dealing with vendors of multiple applications, but also the expense of buying them outright.

**Cross-channel enablement:** Banking customers who frequently use multiple channels to consummate a single transaction, will persist with cross-channel usage. For instance, they might place a service request at a call centre and follow it up online. Therefore, they would expect their entire mobile banking activity to be instantly visible across all other banking channels. Hence, banks must ensure that their mobile banking applications

are multi-channel enabled and seamlessly integrated with other modes of delivery.

**Emergence of mobile marketing:** Apart from predicting the rising popularity of the mobile device for viewing financial information, UK's Mobile Marketing Association says that mobile marketing will gain momentum. Viral Marketing will play a big role with people using their mobile devices to spread the word about different products and services on social networks. This will set in motion a transaction cycle that can run entirely over a mobile banking platform. For instance, a favorable review of a movie placed on a social network using a mobile device could be read by other community members, who might go on to purchase tickets and pay for them through their phones.

**Cross-border banking:** At present, mobile banking only supports money transfers between various banks in the UK. In future, users will expect this channel to provide the same breadth of service as Internet banking, allowing instantaneous cross-border payments within Europe. This will require banks to upgrade their mobile banking facility to match, if not exceed the Internet banking service.

**Security issues:** The security aspect of mobile banking will remain an important concern of the conservative UK market, where, according to certain reports, nearly 1 in 4 Internet banking customers was a victim of fraud in 2008-09. Given the extra risk of device loss, mobile banking is considered even less secure than Internet banking. It is the responsibility of banks, telecom operators and handset providers to convince mobile banking users that the security of their identity, data and bank accounts will not be compromised even if they lose their phones. Towards this objective, banks must enable their mobile banking applications with stringent security measures such as multi-factor/biometric authentication, even as device manufacturers render handsets safer by adding secure firmware in the form of SIM or SD memory cards.

**Financial inclusivity:** Mobile banking will drive financial inclusivity. Recognizing that the penetration of mobile phones is higher than that of banks, the UK government's Department of International Development has earmarked £8 million towards development of technologies which enable the

unbanked to conduct financial transactions using their handsets. In another instance, CGAP, a microfinance institution has been asked to design applications that deliver financial services to those without access.

**Support for conventional banking:** Mobile banking may also make it easier to conduct traditional paper-based transactions in the UK, which continues to use paper cheques. If mobile handsets could be used to truncate cheques by capturing their image and forwarding those in place of the hard copies to the bank for clearance, it would save customers the time and effort of visiting a branch.

### Summary

Although mobile banking has made a slow beginning in the UK, it is now poised to take a big leap. While market trends are similar to that elsewhere, the U.K. mobile banking delivery model is different, dominated by a service provider called Monilink, which has tied up with all major network operators to create a common shared services mobile banking backbone. Most big UK banks have registered with Monilink.

Since Monilink offers a standardized white labelled service which can be branded by user banks, mobile banking is largely undifferentiated in the U.K. That being said, there are opportunities to position a particular mobile banking service separate from the rest by enriching the choice of applications, enhancing security, enabling end-to-end transactions and offering value added services such as location-based alerts and financial planning tools. A convenient and cost effective mobile banking service with the aforementioned attributes will be a winning proposition.

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