

P E R S P E C T I V E

Mobilizing Customers: Mobile Banking in the US



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Introduction

Your customer is in a queue waiting to board a plane when she remembers that she forgot to pay her utility bill. Ordinarily, she would have to wait till she reached her destination and pay her bill through the online banking route once she obtained access to the internet. And she would risk having the electricity cut off at her flat because of the delay. But now, she carries her bank in her pocket – it's her mobile phone. She pulls it out, connects to her bank and pays her bill in seconds. She then boards her plane.

Mobile banking is fulfilling what more and more customers want: truly anytime, anywhere banking and a satisfying, seamless experience. That ubiquitous extension to the human ear, the mobile phone, offers the convenience and speed of on-the-go banking to customers, often on the move. With this mobile bank, they can perform all banking transactions they usually do online – check their accounts, pay bills, transfer funds and even book tickets. Moreover, they can avail of alert message services that warn them of possible fraud and low cash levels.

Online banking has already proved that customers able to service their own demands are more likely to be satisfied with their experience and hence less likely to take their business elsewhere. In addition, with mobile banking, the bank enjoys cost savings in these difficult times and enhances brand equity, which helps attract more customers with new, innovative products and services.

According to a research firm 2008 will be 'build year' for mobile banking in the US. Most of the top 50 banks will launch some form of mobile banking service during the year. By the end of 2010, it is predicted that 35 percent of all online banking households will engage in mobile banking.

With the anticipated network neutrality legislation which will free bandwidth from the demands of communications providers, mobile banking in the US can reach the tipping point. No longer will mobile banking be constricted by the demands of the telecom operator and state laws.

Banks need to take advantage of this now to be prepared for the expected surge in demand.

Mobile Banking: Global Overview

All over the world, people are experiencing the convenience of mobile banking. A reputed research firm estimated that there would be 33 million mobile payment users worldwide in 2008, expecting this number to triple to 103.9 million users in 2011.

Mobile banking is taking off because it is easy, fast, simple, and secure. Moreover, it is a cost effective option for banks. The people adopting it come from across the demographic spectrum – from the unbanked to the affluent.

The mobile phone is having a dramatic effect on the lives of the unbanked and is proving to be a life-transforming device. The mobile phone is a key economic driver and the unbanked in Asia, Africa and Latin America use the speed and cost advantage offered by mobile banking in areas where brick-and-mortar banks have not penetrated. Through innovative and hugely successful services such as M-Pesa in Kenya, Smartpay in China, and the GloFirst card in Nigeria, the hitherto unbanked draw cash, transfer money, make purchases, and even check their bank statements through the mobile phone.

However, mobile banking is not restricted to the unbanked. The economically strong in Europe and Asia are also embracing mobile banking, using it for everything from payments and funds transfers to requesting account statements, mobile commerce and e-ticketing.

Mobile banking enables several out-of-the-box payment solutions. These include Japan's DoCoMo, which has incorporated a credit card into a mobile phone and has attracted 3 million subscribers so far. This innovation followed on from phones that could withdraw cash from a cash point without the need of a bank card. Embedded with microchips, DoCoMo's handsets can be used to pay for items such as coffee, newspapers or a taxi ride by being passed over a scanner. London commuters could soon be using their near-field communication-enabled (NFC) mobile phones as a travel pass. Swiping the phone against card readers will enable them to pay for tickets.

Singapore has taken a conscious decision to move to a cashless society. The Board of Commissioners of Currency, Singapore that controls currency issues aims to give e-money and cash equal status

with the eventual phasing out of notes and coins. Singapore's mobile operators are channeling efforts into enabling contactless payments. Smart cards, debit and credit cards and mobile transactions have been embraced and banks have seen their profits grow. A case in point is Singapore's OCBC Bank which reports that since the June 2006 launch of its mobile banking services, it has seen its mobile phone banking customer base and dollar value transaction grow eight-fold.

The US Perspective

In contrast with the rest of the world, mobile banking in the US took some time to take off. One of the primary reasons was the legislative hassle involved. By tying a bank's mobile service to particular telecom service providers, banks lost control over the application's pan-American availability and its look and feel which were essential to brand identification. Moreover, differing state laws made providing mobile banking to customers across the US a near impossible experience. Mobile banking in its initial stages also suffered from a lack of compelling features and consumer friendliness and limited device support, poor network availability and slow speeds.

However, with the network neutrality legislation expected to be passed in the US Congress, the mobile banking experience is set for an overhaul. The long-awaited Broadband Investment and Consumer Choice Act, expected to be passed by the US Congress, will do away many current federal and state rules for the delivery of voice, video and data services. It aims to level the playing field between telephone, cable and satellite companies while opening the door for the delivery of emerging broadband services.

It calls for removing state and local franchise requirements for all video providers, including telephone companies. Most significantly, the bill states that consumers may not be denied access to any legal content provided over the facilities used for broadband communications. Broadband services are largely freed from federal and state regulation at both the wholesale and retail levels. Communication services in the US are going to be modernized – finally. And, as legal roadblocks to mobile banking are removed, mobile banking is set to become even more popular.

Today, the mobile banking channel in the US is no

less important than online banking was in the late 1990s. This growth is attributed to improvements across wireless networks, handsets and applications, and marketing and technology investments being made by top banks to increase consumer awareness.

With a mobile subscriber base of 255.4 million subscribers, mobile device penetration at an all time high of 84.06%, and legal and market dynamics shifting, mobile banking is set for takeoff. It is estimated that mobile penetration in the US will touch 100% by 2013. Even a relatively low-key acceptance of mobile banking services among mobile subscribers can result in impressive numbers. Further, consumers are demanding mobile banking, spurred by the advantages it offers in terms of convenience, control, self-service and immediacy.

According to a July 2008 report the demand for internet-enabled services is strong and consumers are looking to access the internet, with the added convenience of mobility. It forecasts that innovation in wireless products is accelerating, and wireless data take-up rates will increase. Mobile banking is likely to see a surge in such a scenario.

Surveys have been conducted that show US consumers will respond to mobile banking if they feel banks will support a broad range of devices with good security and a simple user experience. An ever-greater number of consumers are taking to mobile banking in the US and even more are expected to join in over the next couple of years. Survey estimates that up to 30% of online banking users will adopt the mobile channel in the next five years. However, mobile banking is also likely to appeal to a segment of the banking population that accesses services via ATMs, but is not willing to use or is comfortable with online banking.

Competitive pressures from banks that have entered the m-banking market, vendor solutions, and demand from corporations will be important drivers. It was estimated that 8 of the top 25 banks will have a solution out in 2008, and 14 of the top 25 would address this channel in one way or another by the end of 2009.

Banks will increasingly adopt the mobile banking channel because of the varied advantages it offers in terms of customer satisfaction and retention, cost effectiveness and revenue growth.

The numbers suggest that mobile banking is set to transform the financial services industry by providing convenient solutions for access to a wide range of financial services while on the move.

Once mobile banking becomes popular, it's likely to pave the way for e-wallet transactions where the mobile phone is used to make payments at physical points-of-sale (PoS) terminals.

Perhaps the most exciting development will be the use of mobile wallets to allow overseas remittances. This constitutes a significant market in the US.

As the market for mobile banking expands, let us look at how banks in the US can leverage it to their advantage.

Customer Empowerment

The mobile puts the customer in the driver's seat. She can control her finances in accordance with her needs. The 'always on, always have' feature that mobile phones possess, make transactions convenient, simple, easy, and immediate. The banks in turn can use the mobile phone to gain and retain customers.

True 24x7 Banking

Mobile banking offers a range of advantages to customers by introducing them to a variety of products and services. What is better is that customers can avail themselves of these offerings at any time.

While this offers total convenience to the customer, the banks need to ensure that they offer true 24x7 banking across time zones – realtime transaction processing and enquiry capabilities – uninterrupted by batch processing and account reconciliation. This can be attained by centralizing back-office operations.

Device-agnostic Banking

With myriad handsets available in the market, delivering an optimal mobile banking experience that can work as well on all devices is difficult – but critical. Banks must offer a device-agnostic service and a context-agnostic view which can include all customers irrespective of the handset's capabilities. The mobile banking service delivery must be rich and satisfying with all phones, regardless of manufacturer and model. Eager to turn mobile phones into a new channel,

banks in the US were working on specialized applications to reach customers even before carriers had shown much interest in supporting the technology. But this approach, where applications were designed to reach customers of a single bank, failed to get broad consumer acceptance. Now, banks are tying up with multiple carriers to reach more customers.

Some carriers are preloading certain mobile banking applications on some of their phones, some let users download certain applications, and other users can reach their banks through the browsers built into their phones. However, carriers do not want to give up control over the look and feel of a mobile banking offering. Thus, unless a bank has tied up with a telecom operator, the mobile banking icon is often buried in the application.

Mobile banking is currently limited to three main technologies: SMS, or text messaging; mobile internet and downloaded or pre-loaded programs. However, these systems are not interoperable. Some telephone carriers support only one technology. Some phones support only text messaging, not internet access. Banks too may offer their solution compatible with only one technology. Interoperability is a challenge that must be addressed not only by banks, but by telephone carriers and handset manufacturers as well.

Risk Mitigation

Banks can offer their mobile banking customers a very useful alert service. This is an event-based alert to the customer about unusual account activity, say informing her that her debit card has been used or that she has overdrawn her account. An alert can also be sent to a customer of a sweep-in account. It may inform her about the decreasing dollar rate, advising her to collect the maturities in euros and thus help her make more money. Such technology can provide an enhanced customer experience and go a long way in retaining customer numbers.

Authentication

In spite of the great advantages offered by mobile banking, customers may not adopt it if they do not deem it to be secure. New research finds that the most critical driver for the successful evolution of mobile banking will be banks' ability to balance ease of use with security. Both the bank and its consumers demand secure transactions and protection against fraud and phishing.

While user authentication is essential to both the bank and the customer, it needs to be user-friendly to find acceptance. One way to ensure this is by providing authentication through the mobile phone by means of a token to control transactions. It can be authenticated by the customer at the PoS for the sale to go through, thus ensuring secure transaction.

Partner Empowerment

Checking balances and paying bills is not the beginning and end of mobile banking. Once mobile banking becomes popular, it's likely to pave the way for e-wallet transactions where the mobile phone is used to make payments at physical Risk Mitigation Authentication Partner Empowerment points-of-sale (PoS) terminals. This functionality will make mobile banking distinct from online banking and attract more users. Moreover, it will allow banks to generate greater revenue. Mobile contactless payments are estimated to make up 10% of the contactless market by 2010.

Time and event-based rewards and various promotional banking offers will also become part of the equation, spurring payments activity. Mobile phones will be equipped with NFC chips to leverage the contactless payment infrastructure.

While such e-wallet transactions can empower customers, mobile banking also empowers partner merchants by leveraging their ecosystem more effectively. Mobile banking needs to support both customer and merchant-initiated payments. Let us say a customer comes to a merchant, requesting to buy a product on installment. The partner merchant may ask for immediate approval of the loan via a mobile phone, thus making an easy sale. Or, a customer may send an SMS about buying a product at a point of sale and the bank sends an authentication SMS to both the customer and the merchant.

Similarly, a customer may obtain information about the availability of funds even as she is at the PoS. She may then enable a transaction after authentication even as she receives an alert from the bank to inform her that a transaction has been carried out.

Cost Management

In this age of hyper-competition and sliding margins,

banks need to do everything possible to manage costs. Mobile banking is a cost-effective channel, helping banks reach more customers with less expense. And, the costs keep on decreasing with increasing usage.

For one, the channel has a lower cost of entry and a lower total cost of ownership. Mobile banking service reuses capabilities built for online banking. Banks have to invest much less, than say, in putting up an ATM network. The scalability and automation of mobile banking make it a cost-effective channel for banks. Banks can reach a greater number of customers easily, thus reducing time to market and increasing agility even as transaction costs come down.

Moreover, transactions on the channel are driven by self-service and, therefore, operational costs come down dramatically. As more customers move to this cost-effective channel and participate in more advanced tasks, such as payments and remittances, banks can also collect higher revenues.

Conclusion

The banking environment is a tough one in the best of times. The current economic situation is not helping. Thus, banks need to look at a channel that can help add value to customer relationships in a cost-effective and efficient manner. The answer lies in that phone which everyone carries as an object of necessity. The mobile phone, by its nature of being available at all times, is most ideally suited to ensure customer convenience. Banks ready to grab this opportunity and exploit its synergies can increase value to customers while increasing their revenue.

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