

P E R S P E C T I V E

Succeeding in U.K. with the
Bank-focused Model of Mobile Banking



YOUR INNOVATION PARTNER

There are several indications that mobile banking is making a comeback in the United Kingdom. Interested participants including financial institutions, telecom operators and other service providers have entered the market through a variety of arrangements. This paper examines the bank-focused mobile banking model, its challenges and opportunities.

As per the Mobile Marketing Association, 1 in 7 adult Britons banked using their mobile phone in 2009. It also indicated that young consumers in the age group of 18-34 are most likely to use mobile banking. From a financial institutions' perspective, it presents an excellent opportunity where the young population is becoming an early adopter.

Various research surveys by mobile money specialist Monitise revealed that the U.K. mobile banking industry was growing at 30% per annum, outpacing credit cards, ATMs and online banking in mass market penetration. A large majority of U.K. customers now have access to mobile banking offerings and are making good use of the facility, to perform sophisticated transactions more frequently.

The growth of mobile remittances has been equally spectacular and is forecasted to touch £6 billion by 2012, largely riding on the demand from a growing immigrant community. The community shares a special bond with the device as it can be used to stay in touch with relatives and friends as well as transfer money on regular basis. The success of a leading financial institution tie up for NFC-based contactless payments at terminals is testimony to its popularity; already over 8,000 retailers have equipped themselves to accept mobile-based contactless payments based on this system.

Much of this growth can be attributed to the availability of smart phones and other 3G enabled handsets as well the development of high speed 3G data networks that together enabled the delivery of a secure, smooth and rich user experience. To illustrate, a leading U.K. financial institution launched a free iPhone application for its mobile banking users after research indicated that 1 in 4 wanted to transfer money, receive fraud alerts or deposit a cheque using their phone.

Different Approaches to Mobile Banking

Financial institutions in the U.K. are deploying different modes of mobile banking, from simple SMS to secure downloadable applications, to attract customers. Although still in its infancy, the mobile banking landscape is dotted with a variety of players from the financial services, telecom and handset space which have established their presence by adopting one of the following business models:

- Bank-focused model wherein a financial institution provides a banking service to its customers over a self-service channel such as the mobile phone. For instance, Barclays' .mobi domain online banking service provides a customized online banking user interface that allows customers to access the Barclays internet banking site over mobile web. Interestingly, the use of a .mobi domain makes for better branding of mobile banking, since customers immediately recognize that the site has been optimized for mobile access and is therefore likely to provide a superior experience.
- Bank-led collaboration model which enables a bank to reach out to a wider audience by allying with other participants in the mobile banking value chain, such as mobile network operators, money transfer agencies and handset companies. An example of this model is Monilink, a joint venture between technology firms, financial institutions and telecom providers offering a common mobile banking platform.
- Non-bank-led model wherein the financial institution might just hold the funds in a transaction or not be involved at all. An example of this is Payforit, a payment system launched jointly by mobile operators Orange, Vodafone, T6 Mobile and O2 that allows subscribers to make small value purchases using their mobile phone and pay for them out of prepaid credit or along with their monthly phone bill.

Challenges Facing the Bank-focused Model

Financial institutions keen on taking a share in the

U.K. mobile banking segment must keep pace with its evolution and meet its challenges before mining its opportunities. The bank - focused model, in particular, has the following challenges to be addressed, both from the users' and institutions' viewpoint:

Primary Concerns of Mobile Banking Customers

- **How is the Customer Experience?**

Customers look for an easy-to-use interface that they can navigate intuitively. Indeed, research studies have highlighted that a poor prior experience on the mobile web makes users reluctant to visit the site(s) in question again. Sub-optimal layout and display are strong causes for dissatisfaction. A large U.K. bank learnt this lesson the hard way, having to redesign its mobile banking site more than once before it received the approval of its users. Thankfully, the effort paid off in terms of improved adoption rate and brand equity. Hence, while introducing a mobile banking offering, banks must pay close attention to the quality of user experience.

- **How Secure is the Network?**

The bugbear of online transactions - risk of identity, data or financial theft pose challenges in mobile banking adoption. While certain financial institutions have tried to address these fears by integrating best-in-class partner solutions dealing with security free of cost, the measures are inadequate, providing defense against malware and viruses on the mobile web and for mobile phone identity management, but nothing by way of protection against phishing, pharming and other sophisticated forms of identity fraud. The need of the hour is to provide total security through strong multi-factor authentication coupled with robust fraud detection and analysis. Banks can collaborate with top-of-the-line security technology vendors to ensure adequate and uninterrupted safety of their customers' transactions.

- **Is the Service Readily Available and Reliable?**

Customers should be able to access the service from any part of the world on a 24/7

basis, 365 days a year. In order to achieve the desired performance levels, financial institutions can tie up with aggregators (payment/sms) or technology companies providing almost 99.9% uptime with minimum latency across geographies.

- **Can Customers Personalize the Service?**

The facility to personalize mobile banking usage significantly improves customer experience. While the option to set favorite accounts adds to customers' convenience, being able to receive an instant payment or transaction alert enhances confidence. The technical capability required to enable personalization can be easily acquired by partnering with mobile technology companies.

Primary Issues Faced by Financial Institutions

- **What is the Level of Technical Expertise Required?**

Mobile banking applications use Java or .Net frameworks that run on top of a variety of operating systems such as iPhone OS, Symbian, Android and Windows Mobile. Since financial institutions lack the technical expertise to build, manage and support an online banking framework on their own, they must rely on the capabilities of a trusted mobile technology partner that can ensure uninterrupted delivery of the mobile banking service as well as crunch the time required to market new offerings.

- **What is Scalability of the Service?**

Having the capability to serve existing customers is not enough; banks must be prepared to cater to an ever-growing base of mobile banking users comprising their own and their competitor banks' customers. Performance and uninterrupted availability of the service under severe loading conditions are equally important. By partnering with mobile phone and network companies, financial institutions can extend their scale of operations by acquiring new customers, just as Monitise has done through their tie up with Carphone Warehouse to provide 'pre-seed' mobile currency and banking software on the new handsets of the latter's customers.

- **How Attractive is the Value Proposition?**

A report by a leading mobile network operator suggested that customers in the U.K. did not feel the need for mobile banking, given the extensive ATM network in that country. And although there is acceptance of mobile banking as another channel, it appears that it is a result of marketing push rather than demand pull. Banks must convince customers about the attractiveness of this channel by clearly communicating its benefits and formulating supportive market strategies.

- **What is the Cost of Service?**

Establishing a full-fledged in-house mobile banking service in all its forms requires investment in human resources, technology etc. In the current scenario, majority of financial institutions are resorting to cost cutting as a means to achieve operational excellence and corporate sustainability. Since investing in an in-house service might turn out to be a risky proposition for the inexperienced, banks should take the judicious option of partnering with mobile technology companies.

- **Where is the Regulation?**

At present, the mobile banking market is largely ungoverned, although that may change in future. Under current conditions, it is hard for financial organizations to envision a structured approach towards setting up an in-house banking service all by themselves. Hence, it makes better sense to partner with existing mobile technology vendors and network carriers to ensure that standardized service is delivered.

The Double-edged Sword of Customer Empowerment

Today, banks across the world offer online financial planning tools to empower customers to take better financial decisions independently. In the U.K., the provision of such a facility resonates with market need – a survey by U.K.'s largest retail bank found that half of adult mobile users wished to track their accounts, a similar number were interested in transferring money and about one-third believed that mobile banking would be

useful in financial planning. This insight is consistent with the higher usage of comparator tools among banking customers in the U.K. compared to other European markets.

The demand for financial planning tools has created a flurry of parallel offerings from third-party sites such as mint.com.

While customer empowerment is a laudable idea in principle, it carries the risk of incorrect decision making, especially in the hands of inexperienced users. Therefore, it is prudent that banks continue to perform an advisory role in the financial planning process to ensure better results for their customers and greater loyalty and brand equity for themselves.

Summary

After a tepid first attempt, mobile banking is making a strong re-entry in the U.K., largely driven by the burgeoning handset and 3G market and the demand for mobile remittances. Statistics on internet usage, mobile banking adoption and the growth of online remittances point to the market's acceptance of this medium as a high convenience-low cost transaction option. Various players, financial and otherwise, have moved in on the opportunity with a slew of mobile banking, transaction and payment offerings. Some banks have chosen to go it alone whereas others have collaborated with technology and telecom companies to put forth a joint offering. That being said, U.K.'s mobile banking is still in its infancy, and both incumbent and new players can gain much by taking judicious action such as devising future implementation strategies and identifying potential partners as soon as possible.

In particular, practitioners of the bank-focused mobile banking business model must anticipate challenges and launch a timely remedial response. To start with, they must address their mobile banking customers' concerns regarding ease of use and security. Besides these, the banks themselves may have constraints of technology, scalability and budgets. Many companies in the U.K have circumvented these problems by allying with the right technology vendors, and in the bargain acquired new customers, gained technical expertise and improved regulatory compliance.

The future success of participants in the value chain hinges on their ability to keep pace with demand, overcome challenges and take advantage of new opportunities such as mobile remittances, contactless payments and financial planning.

References

- Mobile Banking - The Outlook for Servicing Banking Customers on the Move, Price Waterhouse Coopers, 2008
- UK Mobile Banking Market Grows 30% in a Year
<http://www.cellular-news.com/story/40904.php>
- NatWest Launches m-banking iPhone App, 11 November 2009
<http://www.finextra.com/fullpr.asp?id=30905>
- Models of Mobile Banking
http://en.wikipedia.org/wiki/Mobile_banking
- Monitise, Carphone Warehouse Form Mobile Banking Partnership
http://www.bobsguide.com/guide/news/2009/Mar/24/Monitise,_Carphone_Warehouse_form_mobile_banking_partnership.html
- Mobile Internet Usage and Attitudes Study, May 2008, dotMobi & AKQA
http://mobithinking.com/sites/mobithinking.com/files/dotMobi_and_AKQA_Mobile_Usage_and_Attitudes_Study.pdf
- Financial Comparison Sites are Here to Stay, 04 Sept 2008, Forrester
- UK Mobile Marketing
<http://mmaglobal.com/region/emea/united-kingdom>

Author

Shekhar Kapoor

Consultant – Product Strategy, Finacle
Infosys Technologies Limited



YOUR INNOVATION PARTNER

PERSPECTIVE

Universal Banking Solution | System Integration | Consulting | Business Process Outsourcing

Infosys Technologies Limited

Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India
Tel.: + 91 80 28520261, Fax: + 91 80 28521747, e-mail: finacleweb@infosys.com
www.infosys.com/finacle

Join us on Twitter, LinkedIn and Finacle Whiteboard at www.infosys.com/finacle/networking.asp

"COPYRIGHT NOTICE: Copyright ©2009 Infosys Technologies Limited, Bangalore, India. ALL RIGHTS RESERVED."
Finacle logo is a registered trademark of Infosys and Infosys acknowledges the proprietary rights of the trademarks and product names of other companies mentioned in this document. Infosys believes the information in this publication is accurate as of its publication date; such information is subject to change without notice.