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Introduction: The Evolution of Channels and Journey to Mobile Banking

Defining Retail Bank Delivery Channels

Banks started as single location entities, typically located in temples, palaces or centers of trade. Branches, in different forms, were the first step in the evolution of banking channels. Branches made access to banks more convenient, both in terms of time and distance travelled to the bank. Subsequent evolution of retail banking channels continued on this basic theme—make banking services available closer and at hours that are convenient to customers.

However, it was only in the 1960s that civilization saw the arrival of a new banking channel - ATMs. ATMs brought cash delivery closer to customer. After starting as standalone devices, ATMs were networked before the end of the decade. ATMs subsequently evolved to provide additional services including deposit of cash or checks.

The next channel to emerge was call centers, providing customers extended access to a banker. The concept of a dedicated call center took shape in the 1980s, and was greatly aided by the toll free number service from phone companies.

1980s also saw the beginning of online banking, a precursor to modern internet banking.

However, despite these advances, branches have remained the central point of retail banking channels.
Evolution of Mobile Phones and Networks

Mobile phones started their journey in the early parts of the 20th century. Car phones, a precursor to the modern wireless phones, emerged in the 1960s. Parallel and yet symbiotic advancements in mobile networks and mobile phone devices have enabled mobile phones as we know them today.

Table 1 examines the evolution of mobile networks and how these advancements allowed availability of newer services to customers.

Similarly, phone devices underwent a significant transformation—moving from basic voice capability to the smartphone. Smartphones represent mobile phones that are always on, have an ‘all day’ battery life, have 2.5G/3G connectivity, and include a multitude of features. These phones are a computer in their own right with an operating system, memory, external memory slots, and processing capabilities. Table 2 brings out the ever increasing range of features that smartphones have supported over time.

A study by Citi Investment Research projects that a very high percentage of phones in the US, by end of 2011, will be smartphones. Another study by Analysys Mason Research (2008), projects 75% subscription of 3G or higher services by US mobile phone users.

Mobile Banking Channel – Journey Thus Far...

The utility of mobile phones, as a banking device, did not emerge until the arrival of 2G networks in the 1990s. 2G supported Short Message Service (SMS) Text Messaging, a small yet powerful addition to banking. The SMS service provided banks the ability to alert, provide positive confirmation and reach customers even in remote areas. The evolution of 3G networks provided support for data heavy applications, including mobile browsers. The evolution of the smartphone provided consumers the ability to download bank applications on their mobile phones.
In parallel, we have emergence of new technologies - like NFC, easy availability of finger print scan on computing devices, camera and video functions, and ability to work on multiple tasks on mobile phone.

Advancements in smartphones (advancement in devices), a new generation of mobile networks (3G/ 4G – advancement in networks) and advancements in technology are making the mobile phone a game changing retail banking channel. Banks, for their part, showed some intent by providing alerts through text messages and enabling their internet sites for mobile phones. They have followed this up by rolling out downloadable applications (pre-loaded or through app stores), and setting up internet sites for the mobile channel. However, efforts so far mask a fundamental issue: Most banks still see the mobile channel as an offshoot of the internet banking channel. Thus, the focus has remained on enabling internet banking on the mobile phone. This has prevented banks from taking advantage of the uniqueness of the mobile channel and building a value proposition for mobiles as a standalone and, over time, core retail banking channel.

### Making Mobile Banking Channel Core to the Retail Bank Channel Strategy

**Unique Advantages Brought by the Mobile Channel**

The mobile phone supports all the traditional benefits of a retail banking distribution channel. In addition, it opens up an amazing set of possibilities:

1. Closer to the customer – Mobile phones are the closest that banks can get to a customer.
2. Anytime access – ‘Always on’ nature of mobile phones takes connectivity to a higher level compared to even computers.
3. Channel of choice for younger generation - The Mobile Marketing Association reports that 24% of surveyed 18-34 year olds in the UK are already using mobile banking. Getting the mobile strategy right will be key for banks to attract and retain this customer segment.
4. Security – Mobile phone security is an evolving topic. However, the possibility of biometric scanning, voice recognition, etc., makes it a very suitable candidate for two factor authentication (applying something you know and something you are).
5. Capabilities that were supported by multiple channels can be supported from a single mobile phone:
   b. Email or SMS alert – for immediate alerts even in low signal areas.
   c. Anytime access to account information – through downloaded/ pre-loaded application or internet, thus avoiding the need for a computer-based access.
   d. Replace plastic – NFC/ contactless chips can enable functions currently supported by plastic cards. Contactless readers have started appearing in mainstream retail shops and beside quick serve counters at parking lots, gas stations and drive through services. This will provide higher acceptance for mobile phones in payment space.
   e. Cash dispensing – As more customers are shifting to cash back at point-of-sale, ATM usage is declining. POS transactions can be supported by contactless/ NFC chip on mobile phones.

6. Location awareness in real-time – Banks spend significant effort in targeted marketing. Location awareness from mobile phones can help in making campaigns more timely and contextual.

7. Personalized services and assistance – Mobile phones support video (clip, or real-time), audio and text (SMS or documents). This makes them ideal for helping customers during a banking transaction.

What Banks Should Do to Fully Leverage the Potential of Mobile Phones

Banks must make some strategic changes to make full use of this powerful channel and take a leadership position moving forward.

1. **Recognize** mobiles as an independent delivery channel

So far, the mobile channel has been limited to being an offshoot of the internet banking channel. It will be important for banks to leverage the full potential of the mobile banking channel and develop solutions specifically for mobile channels.

2. **Revisit** channel strategy

Branches will remain part of a bank's channel strategy. However, reduced transaction volume has reduced their return on investment and value in the minds of customers. Branches are being repurposed as sales and advisory channels. ATMs will move to more prominent locations and reduce in numbers. Internet banking is continuing to grow and will remain the key growth channel. Mobile banking, besides its unique advantages, provides an extremely cost optimized channel for the bank. Multichannel integration also needs to be a core focus area.

Banks first made attempts at mobile banking in the late 1990s. At that time, the percentage of the population with a mobile phone was less than 10%. Limited adoption, along with slower networks and basic devices, made this attempt a failure. Over the last 10 years, mobile adoption has moved up from...
approximately 10% to over 80%, and mobile phones are becoming mainstream for data access. This has made banking on mobile natural and integral to most customers.

Thus it is important for banks to refresh their channel strategy and include mobile as a standalone core distribution channel.

3. **Revise** channel performance metrics

Revising channel strategy, in turn, necessitates the need for banks to relook at metrics that are used to measure performance of distribution channels. Banks have traditionally followed channel metrics that are focused on a single channel. Among the channels, branches were core to a bank’s channel strategy and have dominated the dashboards with metrics like deposit, footprint or sales per employee. Branches also typically account for 50-60% of channel cost.

It will be important for banks to revitalize their channel effectiveness metrics to reflect comprehensive customer experience and relationships with banks.

This will move banks more in line with traditional retail metrics—like cross sell, customer retention and experience across channels (ability to complete transaction across channels, having same access and services across channels, etc.).

4. **Innovate** to create mobile-specific products

It will be important for banks to leverage the full potential of the mobile banking channel and develop solutions specifically for mobile channels. Some opportunities lie in:

a. Remote Deposit Capture (RDC) for consumers – Banks are making a push for moving deposits from branches to ATMs (envelope-free ATMs). However, a shorter path may be to enable RDC for retail consumers through mobile phones. Most mobile phones come with a good camera and processing/storage capabilities. This can enable check deposits, similar to the RDC service offered to small business clients. By building an additional security layer, banks can significantly reduce the need for an expansive revamp of ATMs.
b. Leverage mobiles for real-time updates (fraud and fee prevention, etc.) – Banks can provide real-time updates - through SMS, or voice calls - on mobile phones. These updates can be used for fraud prevention. Another possible usage can be to alert customers about the possible fee implication of a customer transaction in progress. Banks can look to make up some of the lost fee by making offers - like temporary credit, alternate product/services, etc. This will improve customer satisfaction, without compromising the fee revenue.

c. Bill payment (regular and expedited) – Banks can provide reminders for upcoming bill payment through voice or SMS. The same call or SMS can include the ability to initiate payment for an additional fee. This will help customers avoid late fees or potential impacts to their credit score at a lower charge. It enables banks to make money from bill payment offerings that are currently mostly free.

d. Contactless or Near Field Communication (NFC) mobile payments – Mobile phones have the potential to replace plastic by enabling contactless payments through use of contactless or NFC chips. Banks can preserve their card acquirer or originator revenue by rolling out contactless and NFC payment options.

e. Person-to-Person (P2P) mobile payments – Banks are starting to offer P2P payment capabilities, both within bank and across banks. Providing this feature through mobile phones will enable customers to use this feature at point-of-need. This will also enable the replacement of checks as the primary mode of P2P payment. Another important usage lies in enabling international remittance.

f. Location-based services – One of the most powerful features that mobile phones offer is location awareness. Banks can take advantage of this by offering services like branch/ATM locator, coupons/advertisements or flagging/stop transactions that do not seem feasible, based on originating location of the transaction.

5. Partner with other key players in mobile ecosystem

Banks also need to help the advancement of the mobile channel by building a win-win partnership with mobile carriers. Unlike other channels, where banks have full control of the channel, mobile carriers can control placement of the bank’s mobile offering on mobile phones. They can also offer competing services. It will be important for banks to build a business model that enables banks to provide the service, while also benefitting the carrier for providing the medium.

Another important area of need is partnership with security solution vendors. A key deterrent sighted by consumers in adoption of mobile banking is security. It will be important for banks to partner with security solution vendors and mandate them to continually evolve security on mobile phones.

Conclusion

Mobile phones have gained acceptance at an unbelievable pace (as evidenced by over 80% mobile subscription in US and over 70% globally). Their growth has far exceeded the growth of computers in its heyday. Banks need to make full use of this wide presence to build a powerful retail banking distribution channel.

Advancement in device, network and technology has created the perfect timing for banks to make mobile banking core to their channel strategies.
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