

**White Paper**

How to Achieve a Compelling ROI from Mobile Financial Services



# The Business Case for an Enterprise-Wide Mobile Financial Services Strategy

Every significant technology investment that financial institutions make should have clear business objectives and a solid plan for achieving strategic value. However, in today's challenging economic climate, this isn't always the case.

Mobile banking is a case in point. The industry buzz has driven many institutions to take a tactical, "just try something and get it up and running quickly" approach to mobile banking over the last several years. By taking this route, some financial institutions may meet the needs of a tactical line of business or a single channel, but they run the risk of running into dead-ends later on as they seek to take advantage of new mobile applications, functionality and access modes.

For financial institutions, the current financial crisis provides a unique opportunity to sharpen their focus on implementing mobile financial services solutions that enhance the banking experience of their customers, while reducing channel costs and achieving a compelling return on investment. This will require a dramatic shift in emphasis from simply enabling basic transactions through cell phones and other mobile devices to adopting a more holistic, enterprise-wide mobile financial services strategy.

This white paper will examine current mobile banking adoption and deployment trends, offer lessons from the online banking adoption cycle, and provide a roadmap to help financial institutions achieve strategic value from the mobile financial services channel.

## **The Market: Timing is Right**

An estimated 58 percent of adult Americans today use a mobile device to perform non-voice data activities such as texting, e-mailing, taking a picture, looking for directions or recording video.<sup>1</sup> That fact – let alone the myriad capabilities that the average mobile device provides today – would have been unimaginable, even astounding, to many people a decade ago. Indeed, consumers' increasing use of mobile devices for non-voice communications is one of the key drivers for mainstream adoption of mobile financial services.<sup>2</sup>

**SMS Text Messages Surpass Mobile Voice Calls  
Among U.S. Subscribers Age 44 and Under**

The average mobile subscriber, age 44 and under, sends and receives more SMS text messages than voice calls. Younger consumers in the 13-17 age group send and receive over seven times as many text messages as voice calls.

Average Monthly Calls Made/Received and Text Messages Sent/Received per U.S. Mobile Phone Subscriber, by Age

	<b>Calls</b>	<b>Texts</b>
<12	137	428
13-17	231	1,742
18-24	265	790
25-34	239	331
35-44	223	236
45-54	193	128
55-64	145	38
65+	99	14
<b>Total</b>	<b>204</b>	<b>357</b>

Source: "Nielsen: Texting Now More Popular Than Calling,"The Nielsen Company, Sept. 22, 2008

**Momentum is Building**

The emergence of revolutionary BlackBerry®, iPhone™, and Android™ devices has greatly expanded the universe of what consumers can do and what they can imagine doing with their mobile devices: listen to music and podcasts, watch YouTube videos and television programs, send text and e-mail messages, surf the Web, play games, even read an e-book. These smart phones transformed primarily voice-based wireless communication cell phones into multifunction digital texting, browsing, e-mailing and voice communication devices that consumers carry with them everywhere 24/7. It is these transformative and continually evolving devices, supported by high-speed, pervasive wireless infrastructures, that have helped set the stage for the consumer adoption of mobile banking and payments occurring across the globe.

While still in the early adoption phases, mobile banking is gaining strong momentum. A recent survey showed that among the largest U.S. financial institutions, 59 percent indicated that they would likely purchase or replace their mobile banking application.<sup>3</sup> Among community banks, mobile banking was recently cited as the first technology priority.<sup>4</sup>

More banks and credit unions are turning these intentions into reality: The number of U.S. banks offering mobile banking is expected to jump to 614 in 2009, about 4 percent of all banks in the country, from 245 in the prior year, according to Aite Group.<sup>5</sup>

As an expanding roster of banks and credit unions offers access to mobile banking services, consumer interest and adoption are growing rapidly.

Among the online population at large, consumer interest in mobile banking and payments services offered by financial institutions has increased significantly – from 49 percent in 2006 to 75 percent in 2008.<sup>6</sup> During 2008, mobile adoption grew about six-fold to more than three million households. By the end of 2009, a projected 7.5 million households, about 6 percent of total U.S. households, are expected to use some form of mobile banking.<sup>7</sup>

The longer-term horizon for mobile banking is even brighter: By 2012, 108 million consumers are expected to use mobile banking.<sup>8</sup> That projection encompasses use of mobile devices for everything from receiving mobile financial alerts and monitoring account balances to viewing statements and transferring funds between accounts.

## A Global View

By 2011, the number of mobile phone subscribers that use their devices to conduct mobile banking and payments transactions is expected to reach 150 million globally.<sup>9</sup>

With nearly universal use of wireless devices for voice and non-voice communications in North America and Europe, consumer use of mobile financial services is poised to one day surpass the numbers of those accessing online banking services through Internet-connected computers.

In emerging markets such as Africa, India and China, the ratio of mobile devices to online users is far greater. In these markets, mobile financial services is a cost-effective and more profitable way to fill a largely unmet need for remote access to banking and payment services among unbanked or underbanked populations that lack access to online banking services.

Technology experts believe that the global credit crunch may delay the shift from payments using cash, cards or checks to those being made by mobile devices.<sup>10</sup> Still, industry analysts generally agree that the United States and Europe remain several years behind many parts of the world, particularly East Asia, when it comes to deployment of mobile banking and mobile commerce technologies. A recent study found that the mobile banking and payments market is most advanced in the Far East, but that growing numbers of mobile banking services are being offered in North America and Western Europe.<sup>11</sup>

Here are just a few global examples of mobile banking and commerce already well underway:

- Japan has more than 40 million handsets in use that are capable of making payments at the point of sale.<sup>12</sup>
- Absa Group Limited, one of South Africa's largest financial services firms, signed up more than a million

mobile banking account holders, representing more than 25 percent of their total customer base and twice the number of customers accessing their banking from the Internet, in a three-year period.<sup>13</sup>

- Today, South Koreans can check their bank balances in real time, make bill payments, and pay for items in the check-out lane using their mobile devices.<sup>14</sup>
- Leading financial institutions in the Asia-Pacific region have built a solid revenue model for mobile banking by charging customers for mobile banking services. The bank has also reduced costs by diverting customers, particularly those in the Generation Y age group, from more expensive channels such as the call center to the mobile channel. Financial institutions that offer mobile banking also have significantly lower churn rates on average.<sup>15</sup>

In the United States, mobile banking is still in the early stages of adoption as more tech-savvy consumers begin to learn how to access banking services on their cell phones and other mobile devices. In the near term, mobile banking primarily provides strategic value for U.S. financial institutions as a relationship building and retention tool. It also enables financial institutions to position themselves for the longer-term revenue opportunities of person-to-person and contactless mobile payments.<sup>16</sup>

In the not-too-distant future, the mobile device will gradually morph into a ubiquitous payment device, both for remote and proximity-based point of sale payments, in the U.S. and throughout the world. By implementing an enterprise-wide mobile financial services platform today, financial institutions will be better positioned to take full advantage of the revenue-generating opportunities that mobile payments will provide when the much-touted future of m-commerce and the mobile wallet finally arrive in the U.S. market and across the globe.

### Increasing Use of the Mobile Channel for Digital Applications in the U.S.

The Pew Internet & American Life Project Survey demonstrated that U.S. consumers are increasingly using the mobile channel for digital activities. Overall, 58 percent of all Americans used mobile devices for non-voice data communications on a typical day. Hispanics, African-Americans and young adults led all demographic groups in their use of mobile devices for data activities such as sending text messages. These survey results suggest that the mobile channel has the potential to reach more consumers than online banking.

### Mobile Data and Communications Activities: By Race

Those who have a cell phone or personal data assistant who have *ever* done one of listed activities

	White	Black	Hispanic
Send or receive text messages	53%	68%	73%
Take a picture	56%	57%	71%
Play a game	23%	36%	35%
Send or receive mail	17%	19%	25%
Access the internet for news, weather, sports, or other information	18%	27%	22%
Record a video	15%	21%	30%
Play music	13%	27%	30%
Send or receive instant messages	14%	26%	27%
Get a map or directions to another location	12%	12%	20%
Watch video	9%	10%	17%
Percent who have done at least one of these activities	73%	79%	90%
Median number of activities ever done	2	2	3
Number of cases	1,304	158	129

Source: *Pew Internet & American Life Project Survey*, December 2007, n=1,704 for those with cell phones or PDAs. Margin of error is +/- 3 points. Survey conducted in English.

### The Mobile Generation Will Lead the Way

Not surprisingly, many of the early adopters of mobile banking and payments are younger consumers – particularly Generation Y (those born between the early 1980s and 2000), but also Generation X (those born roughly between 1961 and 1982).

Born at the dawn of the digital age in the early 1980s, the oldest among Generation Y have never known a world without personal computers and video games. The youngest of these so-called Millennials are still in their early teens, using their cell phones for texting more than talking and counting their “friends” on MySpace®. Millennials may not have the most money or be the most profitable to banks – not yet, anyway. But one day Generation Y, the largest U.S. generation since the Baby Boomers, will outnumber their parents’ Boomer generation and control the lion’s share of financial assets in the U.S. By 2018, Gen Y will represent 28 percent of the U.S. population and earn \$3.39 trillion in income.<sup>17</sup>

For many of them, mobile banking is becoming a key criterion for where they choose to bank. Fifty percent of Generation Y respondents indicated that mobile banking would be somewhat important to very important in choosing a financial institution.<sup>18</sup>

Gen Y is often described as the Mobile Generation because of their obsession with all things mobile and digital, and they are embracing mobile banking in large and ever-growing numbers. Once they try it, these Gen Yers are also more likely to make mobile banking a habit. Nearly one out of every three Gen Y consumers had conducted a mobile-banking transaction in the past month, about three times the rate for consumers overall.<sup>19</sup>

Mobile banking also seems to hold strong appeal for those in Generation X. This consumer segment shares many of the same usage characteristics of Gen Y, but has higher incomes, higher account balances, and uses more bank and credit union services than the younger group. They also are particularly heavy users of bill pay services. Given these characteristics, Generation X may have a greater need for more mobile transaction capabilities such as mobile bill pay and account transfers than Generation Y.<sup>20</sup>

Younger consumers may flock to mobile banking in larger numbers than Baby Boomers and seniors, but ultimately the biggest driver for adoption of mobile banking may be the sophistication of the devices that consumers use. Mobile users equipped with iPhones or other touchscreen-enabled smart phones are far more likely to use the devices for mobile financial services than those with ordinary cell phones, regardless of age.<sup>21</sup>

**“The growth in the mobile channel represents a new wave in online banking adoption. An estimated 20 percent of the total growth in online banking usage in 2009 will be new adopters because of the mobile channel, and it will become their sole way of using and accessing online banking.”**

*Online Banking Report, Online and Mobile Banking Forecast, January 2009*

The economic downturn could also help drive faster mainstream adoption among the population at large. Nearly three-quarters of consumers surveyed recently said they were keeping a closer eye on their finances than before the economic crisis hit. Further, consumers said they were increasing their usage of online banking more than their use of any other banking channel. Consumers expressed a strong interest in receiving financial alerts to help them better control their finances and being able to pay bills on the date they are due – two capabilities that lend themselves well to the 24/7 immediacy and portability of mobile devices and mobile banking.<sup>22</sup>

Financial institutions have an unparalleled business opportunity and responsibility to help their customers weather the crisis. Mobile banking can play a key role by providing customers with immediate access to needed banking services, while “right-channeling” customers from high-cost contact centers and branch operations to lower-cost mobile services.

Driven by the near-universality of the mobile channel, a growing attachment to their mobile devices and an intense focus on their personal finances, consumers seem poised to adopt mobile banking in greater numbers over the next decade.

The growth in the mobile channel represents a new wave in online banking adoption. An estimated 20 percent of the total growth in online banking usage in 2009, (800,000 to one million households) will be new adopters because of the mobile channel, and it will become their sole way of using and accessing online banking.<sup>23</sup>

By some estimates, mobile will surpass all delivery channels by 2025 to become the most heavily used way to interact with financial institutions.<sup>24</sup>

### **The Fallacy of the Ad Hoc Approach**

As mobile banking and payments mania reached a near-fever pitch in recent years, financial institutions scrambled to implement solutions that would allow their customers to start performing basic transactions via their cell phones and other mobile devices. These early implementations often were “one-off” pilot projects that sought to deliver a single application through a single mode – text (SMS for short messaging service), mobile browser (wireless application protocol for WAP) or downloadable application.

At this stage, the industry debated endlessly about which vendor approach and which mobile access mode – SMS, mobile browser or downloadable application – would win the day. But the debate largely fell by the wayside as industry leaders gradually recognized the value of each access mode for reaching certain customer segments and performing certain kinds of secure transactions on devices ranging from the most basic of cell phones to the latest smart phones.

As institutions moved to embrace the multiple access mode strategy, it led to successive waves of new pilot projects. Financial institutions extended their initial implementations into new access modes – for example, from SMS to mobile browser, or from downloadable application to SMS.

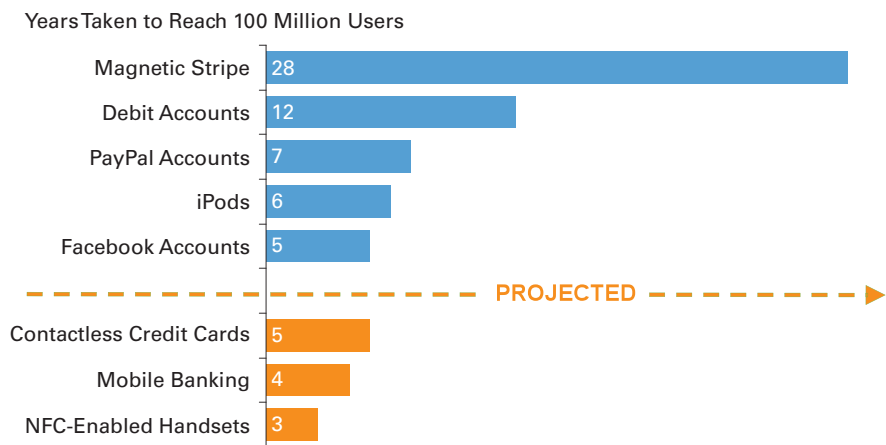
In their haste to be among the first banks or credit unions in their geographic footprint to deliver mobile banking and payment solutions and extend their initial pilots to new access modes, some financial institutions were banking on the assumption that just providing consumers with the ability to perform basic transactions would be enough to keep up with the competition and the market hype. According to this thinking, they could make ad hoc enhancements to their mobile banking offering over time to take advantage of advances in technology and to meet emerging consumer needs.

## 10 Key Criteria for Selecting a Mobile Financial Services Solution

- 1) Flexible Enrollment: The ability to enroll customers offline, via mobile and the online channel allows the enrollment of customers at their point of preference and enables institutions to drive customers from more expensive bank channels to mobile self-service.
- 2) Triple-Play Solution: You should be able to deliver banking services via multiple access modes, including SMS, WAP and downloadable applications from one provider, natively integrated, and built on one platform.
- 3) Consolidated Enterprise Platform: You may start with deploying customer-initiated and institution-generated SMS alerts, but you should not have to acquire a separate vendor's solution to deliver mobile banking via a downloadable or WAP application. The platform should enable you to deploy multiple mobile financial services and capabilities across multiple lines of business.
- 4) Adaptable and Scalable Solution: A comprehensive mobile financial services solution enables you to take advantage of new capabilities, support new channels and evolutionary changes in devices, or serve diverse customer segments and lines of business through integrated, multichannel banking processes.
- 5) Extended Functionality: Your enterprise mobile financial services solution should allow you to extend tailored functionality to meet the needs of diverse customer segments and multiple lines of business. This is particularly true for emerging mobile payment models.
- 6) Mobilizing and Streamlining Business Processes: You should be able to support multiple banking channels and "mobilize" enterprise banking processes to reduce customer care costs while improving efficiency and customer satisfaction. These are best automated through one- or two-way mobile alerts.
- 7) Proven for Premium Services: Your enterprise solution should provide all the basic banking transaction capabilities you expect in a mobile banking solution but, should scale to meet your customers' expanding expectations. The solution should have proven built-in mobile payments capabilities and offer the ability to take advantage of new capabilities in support of peer-to-peer payments, contactless payments, downloadable applications, expedited payments and channel marketing programs, among others.
- 8) Integrated: Your mobile financial services solution should be built on an integrated platform that lowers the total cost of ownership and interfaces with core banking, online banking and electronic billing and payment systems. The solution should provide the institution with a holistic view of customer needs through consolidated customer care and comprehensive reporting across the online and mobile channels, incident diagnosis, security monitoring and customer support.
- 9) Bank-Centric: Financial institutions should look for a solution that extends the institution's brand attributes across the mobile channel while leveraging the existing security infrastructure, including existing credential management capabilities.
- 10) Multiple Deployment Options: Your bank or credit union should have the flexibility to choose the mobile banking deployment option – in-house software or hosted ASP version – that best meets your institution's needs.

**Reaching the 100 Million Mark of Adoption Isn't What It Used To Be**

With technology adoption cycles becoming ever shorter, consumer adoption of mobile banking and payments is expected to grow exponentially.



Source: TowerGroup Projections and First Data, *The Risks & Opportunities in a Mobile Commerce Economy*, 2008

**Lessons From Online Banking**

However, many financial institutions in the 1990s took a similar ad hoc approach toward Internet banking. They cobbled together online banking and bill-pay functionality from different vendors – often with surprisingly little thought given to integration, user experience, flexibility, features and scalability. Once again, some in the industry thought it was enough to “check the box” and provide basic online banking functionality – without having an overall online channel optimization strategy.

In time, this fragmented approach rarely leads to success. Not surprisingly, institutions that lacked a cohesive online channel strategy and a platform for providing an integrated online experience saw lagging consumer adoption trends and failed to leverage the online channel early on to drive increased customer acquisition and retention. Research has proven the value of the online channel for financial institutions. In a recent study, online bill payers delivered 271 percent more profit to their bank and were 76 percent less likely to leave their institution than non-bill-paying households.<sup>25</sup>

Of course, as with mobile banking today, some institutions had the foresight to avoid just throwing an online banking initiative up on the wall and hoping it would stick. Instead, these institutions took a more strategic approach to the emerging online channel from the late 1990s to the present. Those institutions that invested early on in best-in-class online banking and bill payment services, and continued to enhance their online channel into a more integrated and streamlined user experience, have

been generously rewarded for their strategic vision with significantly higher online adoption rates and improved customer acquisition, retention and profitability.

Today, similar trends are playing out in the mobile banking and payments arena. Some vendors are offering so-called “triple-play” solutions built on multiple technology platforms, often from different vendors. Like early stages in Internet banking, many mobile banking solutions have largely been cobbled together. But this fragmented approach significantly increases the cost and complexity of implementation and maintenance at a time when most financial institutions are instead looking to simplify their technology infrastructures.

Both then and now, this approach has proven to be fundamentally flawed. Many financial institutions regarded the online channel in isolation to their overall multichannel strategies – just as they do today with the mobile banking channel.<sup>26</sup>

At the same time, sometimes institutions may assume that “trying a few things” is the more sensible course to take when it comes to an emerging technology like mobile banking and payments. However, in the long run, lacking a comprehensive strategy usually doesn’t end up being a competitive business advantage. Clearly, those institutions that map out a cogent mobile financial services strategy are likely to be the winners, and those that don’t are likely to be the industry laggards in the long run.

Besides, a cobbled-together approach may not work for a revolutionary technology such as mobile financial

“Mobile banking applications that offer a subset of online banking capabilities on the mobile device do not take into account the preferences and experiences of consumers who don’t bank online. Therefore, the solution misses the opportunity to increase the proportion of self-service retail banking customers.”

Gartner, *How to Get Started with an Enterprise Mobile Retail Financial Services Approach*, February 2009

services. Mobile financial services have the potential to transform not only the way consumers interact with their financial institutions, but also to radically change the way they pay for goods and services and exchange money with other individual consumers.

In addition, technology adoption cycles are getting shorter. For example, it took 28 years to reach 100 million mag-stripe credit card accounts and 12 years to reach 100 million debit accounts (please see diagram on page 6). Industry analysts project that it will take just four years to reach that many mobile banking users. Indeed, in 2008, mobile banking usage rose six-fold to 3.5 million U.S. households, or one of every 13 online banking households, and penetration is expected to more than double in 2009.<sup>27</sup>

While some institutions were piloting a few mobile banking projects over the last several years, other banks and credit unions were sitting on the sidelines taking a cautious, wait-and-see approach. Some of these institutions still seem to regard mobile banking as optional, and sometimes it is in the short run. In reality, a mobile banking implementation may well be optional this quarter or next. However, over the long haul, mobile banking is not going to be optional. The longer that institutions wait to get started down the path of mobile financial services, the longer it will likely take them to catch up with the industry’s early adopters.

### **The Economic Imperative**

Against the backdrop of the economic downturn, many banks and credit unions are aggressively scaling back technology investments, delaying initiatives and proceeding only with “quick-hit” and “one-off” projects that will deliver results immediately. However, in some institutions, mobile banking has escaped the budgetary

axe because it’s seen as a gap in current capabilities they must rush to fill out of competitive necessity.

The current economic challenges we face have reinforced the importance of taking a longer view of technology investments to ensure they drive strategic value and return on investment for the institution. These investments shouldn’t just “check-the-box” in terms of today’s functional needs, but should also position our institutions to emerge stronger as the economic recovery takes hold and a period of growth returns.

As we saw with the early phases of online banking, those institutions that invest intelligently based upon clear business objectives and an integrated multichannel strategy are likely to be those that reap the full benefits of increased customer acquisition, retention and profitability from mobile banking and payments down the road.

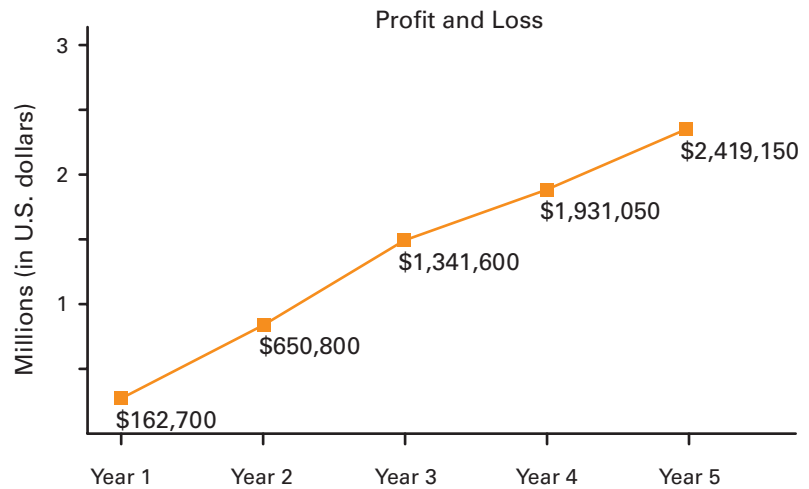
### **A Roadmap for Enterprise Mobile Financial Services**

Today, there are probably more financial institutions that view mobile banking as a new way for consumers to access online banking functionality than those that see mobile as an essential component of a holistic multichannel strategy. That’s probably not altogether surprising since many of the early implementations largely focused on replicating basic online banking functionality on mobile devices, such as viewing balances, transactions and statements, paying bills and finding branch and ATM locations.

Financial institutions are beginning to realize that they must move beyond this short-term vision of “mobile banking” and adopt a more comprehensive enterprise mobile financial services strategy in which technology and functionality are leveraged in order to deploy enterprise-wide banking services to mobile devices.<sup>28</sup>

### Mobile Banking Projected Return on Investment Study

This base case example is for a financial institution with 250,000 retail customers that adopts a “triple-play” mobile financial services solution. It assumes that 40 percent of the institution’s customers already use online banking. The institution migrates 10 percent of its customer base to the mobile banking channel. At year three, this institution will achieve a projected annualized return on investment of US \$1.3 million from cost reductions. In this ROI study, approximately 51 percent of these cost savings result from the migration of customers from higher-cost channels to the mobile channel, while 29 percent are achieved through improved customer retention and 20 percent from process automation.<sup>29</sup>



Source: Based on ROI study by Fiserv and M-Com, 2009.

This broader vision encompasses the support and integration of customer activities across multiple bank channels, including mobile. These mobile financial services can integrate transactions, payments and content in novel ways, generating revenue for the bank or credit union, and delivering functionality to diverse customer segments ranging from retail to corporate and small- to medium-sized businesses.<sup>30</sup> In doing so, institutions can tap into mobile’s potential to help them achieve the organization’s broader strategic goals around cost reduction, right-channeling, and deposit gathering.

To drive the highest levels of adoption and usage, financial institutions need an integrated mobile financial services platform that delivers an optimized experience for consumers using an ever-growing array of device types. Institutions need a scalable and integrated end-to-end enterprise mobile financial services platform that can deliver native support for multiple access modes (SMS, WAP and downloaded application). It should also provide a flexible application platform that facilitates future growth and expansion of capabilities such as mobile payments.

Ideally, a mobile banking and payments platform that is tightly integrated with core banking, online banking and electronic payments systems can offer customers a more consistent and richer user experience. At the same time, institutions can gain a single cross-channel view of their customers for improved customer care and efficient

enrollment and billing. Whatever the approach taken – integrated product suite or a diverse product architecture – institutions should look for flexible, integrated mobile banking platforms. Institutions should be able to deploy functionality using multiple access modes across multiple lines of business (for example, retail, small business, corporate) that adapt and expand their offerings over time as the market becomes ready for mobile payments and mobile commerce.

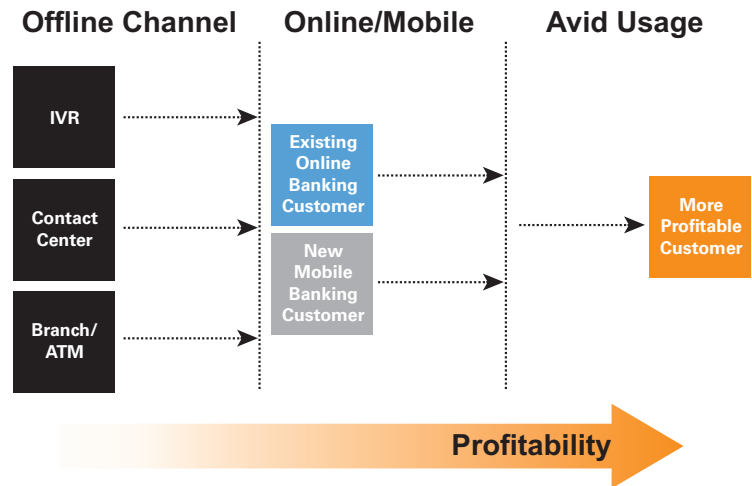
### Multichannel Strategy

An integrated, multichannel mobile banking strategy begins with an understanding of the behavior and needs of distinct customer segments. It should be based on a knowledge that customers “behave in an integrated way, rather than in channel- or product-specific ways.”<sup>30</sup> These customer insights should help the institution deliver targeted services to these segments – consumers, small-to-medium-sized businesses (SMBs), unbanked and underbanked populations, and corporate customers, among others.

Institutions that look at mobile banking as merely an extension of online banking and roll out a mass-market solution run the risk of ignoring the needs of overlooked, but important customer segments such as those who don’t bank online and the underbanked. In this way, banks and credit unions can miss opportunities to drive retail banking customers to lower-cost, self-service and virtually universal channels such as mobile.

**Migrating Customers from Costly Offline Channels to the Online Channel**

Through a proactive channel migration strategy, institutions can leverage mobile banking as a new, more cost-effective way to serve the non-online banking population and to reduce banking channel costs.



By the same token, an integrated mobile financial services platform allows institutions to support additional customer segments such as SMBs or take advantage of emerging functionality – without requiring the acquisition of niche solutions that can bring added costs, integration complexity and time-consuming implementations. The mobile channel can also provide both a targeted acquisition and retention tool. As we have seen, the availability of mobile banking services is a key criterion for Generation Y in their choice of a financial institution.<sup>32</sup> Mobile banking also helps improve loyalty: One financial institution was able to boost customer retention from 85 percent to 93 percent in a six-month period after implementing mobile financial services.<sup>33</sup>

Like online banking before it, mobile banking is a ‘sticky’ service that can increase customer loyalty and profitability. Institutions can also offer value-added services to their customers through the mobile channel, such as alerts, merchant offers and mobile remittances. Across the globe, many banks in Europe, Asia-Pacific and other markets are charging fees for mobile transactions and access, most industry analysts don’t expect this to be a sustainable strategy in the U.S. Some banks may charge less-profitable customer segments for the privilege of accessing their accounts via their mobile device, and others may focus on generating new revenue streams from innovative applications such as person-to-person payments, merchant offers and expedited bill payments. As competition intensifies, the mobile channel is likely

to become just another cost of doing business.<sup>34</sup> Just as with online banking, the promise of deeper customer relationships and improved retention rates may be reason enough for most institutions to justify their investment in mobile banking.

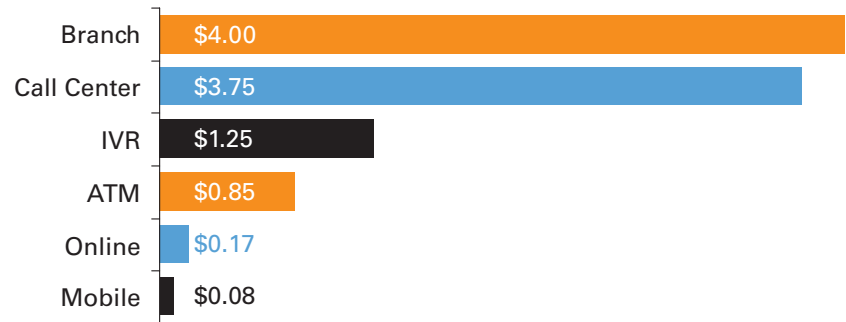
**Lowering Channel Costs**

Just as with any channel, mobile banking will have built-in cost structures associated with it based on the cost of maintaining the technology and infrastructure. Mobile banking introduces new operational costs, but it is by far the lowest-cost channel in place today. Further, it provides more potential functionality than some other bank channels such as ATMs or interactive voice response (IVRs).

Many financial institutions are focused on converting online banking consumers to mobile banking consumers. However, recent research has shown that those who use online banking were less likely than the unbanked to use mobile banking services.<sup>35</sup> In addition, since online banking is already the lowest-cost channel on a per-transaction basis (please see chart on page 10), this focus on moving those who use online banking to mobile banking will fail to lower the institution’s overall cost to serve. A more effective approach is working to convert non-online banking and less profitable customers from more costly channels such as ATM, contact center and IVR to the mobile channel. Through a proactive channel migration strategy, institutions can leverage mobile banking as a new, more cost-effective way to reach the non-online banking population while lowering channel

### Per-Transaction Costs by Banking Channel

Mobile is the lowest-cost banking channel to serve on a per-transaction basis.



Source: TowerGroup, Fiserv/M-Com Data: Mobile transaction costs based on actual data from M-Com, the international mobile banking and payments solutions provider and Fiserv partner whose technology powers Mobile Money from Fiserv.

**“When it comes to mobile banking and mobile payments, banks ignore non-online bankers to their own detriment.”**

**Javelin Strategy & Research, *Mobile Channel Usage Forecast: Setting the Stage for Revenue Opportunities*, February 2009**

costs.<sup>36</sup> For example, consumers continue to use ATMs for simple inquiry functions, and much of the ATM transaction growth is driven by services that can easily be rendered less expensively via mobile banking and alerts.

Many consumers today still leverage the bank’s or credit union’s contact center to receive staff-assisted access to information such as balance inquiries. Not only is this expensive, but it also overlooks the contact center as an effective channel for selling the value of mobile financial services and directly enrolling consumers in mobile banking.

By providing customers with the flexibility to enroll in mobile banking through the channel of their choice – mobile, the branch or contact center – rather than requiring all enrollments via the online channel, financial institutions can effectively channel customers from offline to the lower cost-to-serve mobile channel, while tapping into a new targeted customer segment and maximizing their return on investment.

For example, one bank used the branch and contact center to convert more than 40 percent of its regular contact-center customers to mobile banking users

through a four-minute enrollment process. As a result, approximately 30 percent of these inbound interactions and 55 percent of the outbound interactions ultimately converted to the mobile channel.<sup>37</sup> By providing a convenient and accessible alternative to the online channel, mobile enrollment also provides additional cross-selling opportunities.

Like any other banking channel, mobile banking introduces new costs. However, in our experience, by the end of the second year of providing a comprehensive mobile financial services offering, financial institutions have been able to manage fully loaded net annual costs to \$7 to \$8 per active subscriber (including solution, infrastructure, messaging, personnel and marketing costs). For the equivalent cost of two branch visits by a subscriber, you could cover the annual cost of providing mobile banking to each subscriber.

When mobile banking is provided as a free service, the average consumer will make more than 100 transactions annually. Based on actual data from implemented customers, if appropriately managed, an estimated 30 percent of those transactions will be migrated from alternative channels.

By migrating customers from higher cost channels such as ATMs and contact centers, financial institutions can realize savings of between \$12 and \$22 per active consumer per year.<sup>38</sup> At a time when banks and credit unions are aggressively looking to cut costs, the mobile channel can help institutions achieve efficiencies across their channels while boosting customer retention.

## **Beyond Banking, Deriving Strategic Value**

Financial institutions underestimate the value of the mobile channel when they regard it as just a newer, cooler way to check account balances, transfer funds and pay bills – somewhat akin to what ATMs represented to consumers in the 1970s. And the strategic value from mobile payments will be even more significant. Unlike the ATM example, mobile banking isn't just a new way for consumers to perform transactions on the go or during off hours when the branch is not open or an Internet-connected computer is not immediately available for accessing online banking.

Mobile banking is also a brand new way for financial institutions to interact with their customers and deliver a wide range of valuable banking services and processes such as customer service, support and alerts, and cross-channel security authentication, to name a few examples.

In this way, the mobile device can become a potential point of convergence that integrates and streamlines customer processes and activities across multiple bank channels. The mobile channel may provide a supporting role for a banking process that may start and/or end in another bank channel. For example, one- and two-way mobile alerts may notify a customer of the current status of a loan application or the need to update mailing address information in the case of returned mail. These mobile alerts can speed up response times and improve bank process efficiency, and result in average cost savings of \$1 to \$2 per transaction.

## **Approaching the Tipping Point**

Mobile banking is approaching the tipping point as consumers increasingly regard cell phones as multifunction mobile communication and computing devices. Given the universality of mobile devices, it stands to reason that the adoption cycle for mobile banking will be much shorter and swifter than it was for online banking back in the late 1990s through the first decade of the 21st century. Financial institutions that embrace a holistic multichannel financial services strategy will be better positioned to drive increased consumer acquisition, adoption and retention across all banking channels and customer segments. At the same time, an enterprise mobile financial services strategy will enable institutions to support new applications, generate new revenue streams and mobilize payments in novel and yet-unimagined ways. As a result, this will enable banks and credit unions to achieve a compelling and quantifiable financial return from their investments in the mobile channel.

# Notes

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# About Fiserv

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