Mobile Banking Adoption: Where Is the Revenue for Financial Institutions?

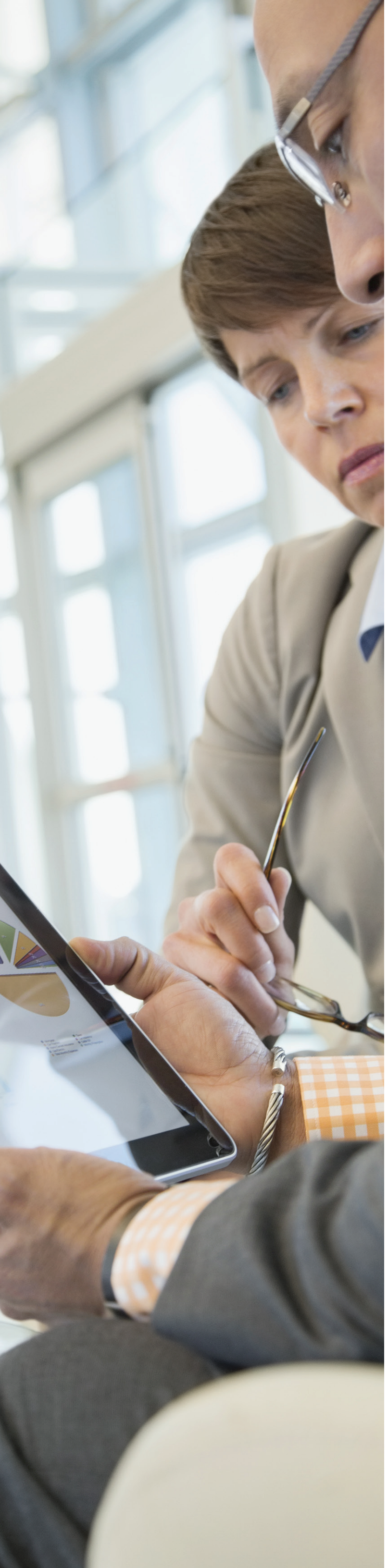
Understanding the Value of Engaging Consumers in the Mobile Channel

It goes without saying that mobile is an important channel and mobile bankers are valuable consumers. Or does it? Unlike credit card offerings, mortgages and other financial products, mobile banking's worth is sometimes not perceived as tangible or direct. Instead, mobile banking's influence and value can be seen in retention, purchase behavior, card usage, product ownership and interchange revenue.

Digital banking is integral to a successful financial institution's strategy. But what is the value from current mobile banking users and what would be the scenario if a financial institution increased adoption? An aggregated analysis of select Fiserv clients quantified the value of mobile banking and engaged mobile bankers, as well as what it means for financial institutions to maximize adoption and usage.

Today's consumers are living their lives always on and always on the go – and they expect financial services to fit into the pace of their mobile lives. Mobile banking usage continues its steady climb; the 13th Annual Fiserv Consumer Trends Survey shows mobile banking adoption increased 17 percent between 2013 and 2014. Increases in smartphone ownership are driving growth in mobile banking usage, with 48 percent of smartphone-owning households using mobile banking in the month prior to the survey.

It is important for financial institutions to understand the drivers of mobile banking adoption and the role they play in measuring a return on investment.



About the Survey

Fiserv commissioned a study of select financial institutions using the Mobiliti™ mobile banking and payments solution from Fiserv to pinpoint the tangible returns generated by mobile banking, as well as the potential incremental benefit to be gained by driving higher adoption. The study sought to assess specific return on the mobile investment.

Survey Details

The study spanned 12 months in 2014 and 2015, and involved eight credit unions and nine banks of varying asset sizes. It compared product usage, transaction frequency, attrition rates and revenue generated among three groups: mobile banking users, online users and branch-only users. For mobile banking users, data was from those who had active engagement – including bill pay, person-to-person payments, transfers or deposits – through the mobile channel. Fiserv analyzed the three months before and after consumers enrolled in mobile banking to understand the impact of engaged mobile users.

Of the 240,000 credit unions members in the study, 27,000 were mobile banking users – 11 percent of the total membership. The credit unions in the study operate on three unique Fiserv account processing platforms and three online banking platforms. Among the banks studied, mobile banking users make up 14.4 percent of the entire customer base of 283,721. The banks analyzed operate on one Fiserv account processing platform.

The study was conducted by Fiserv research teams in conjunction with Raddon, using industry best practices in data analytics. Statistical modeling was used to find attributes, correlation and causal factors of mobile engaged users. The majority of the financial institutions participated anonymously and in aggregate.

Who Are
Mobile Banking Users?

Consumers in the study who use mobile banking are among the most active and engaged – and most profitable. Although mobile bankers can be found in every generation, usage skews younger with millennials and Gen X leading the way. They are apt to use mobile to track purchases, and manage cash flow, balances and financial products, such as loans and credit cards, more effectively.

53% are under age 55

Multiple product holdings

Payroll accounts

More debit and credit card usage

High transaction counts

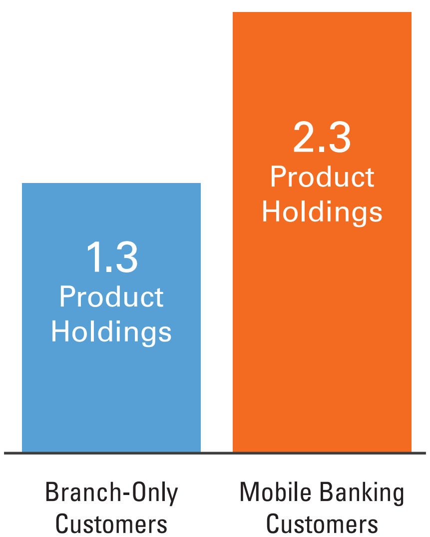
ROI Analysis

To understand the value mobile banking generates for financial institutions, Fiserv analyzed customers and members in the three months before and three months after their adoption of mobile banking. Mobile banking usage impacted increased ROI in several ways.

Increased Product Holdings

The average number of product holdings, including loans, certificates of deposit, credit cards and mortgages, immediately increased after consumers' adoption of mobile banking.

- Among banks in the study, the average unique product holdings – the number of different products held by a customer – increased by **12%** in the three months after adoption of mobile banking
- Average total product holdings increased by **11%** post-adoption



Deepening the Relationship

Mobile banking customers at the banks in the study – not just new adopters – have higher product holdings at 2.3 products vs. 1.3 for branch-only customers. The results are similar for credit unions. Why do mobile bankers typically use more financial institution products than those who don't use mobile banking? Consumers who use mobile are likely more engaged with their financial institutions. As the relationship between consumers and financial institutions deepens, it enables other types of engagement. If customers have savings accounts, auto loans and mobile banking with a bank, for instance, they're more likely to think of that financial institution when they need mortgages or other financial services products. As consumers use more products, they turn to mobile banking to help them manage increasingly complex financial lives. This may lead them to specifically seek out mobile banking capabilities as part of an overall financial relationship.

Increased Transaction Frequency

Consumers with a high number of point-of-sale (POS) transactions are more inclined to use mobile banking, and of course, increased debit and credit card usage means more incremental interchange revenue for financial institutions. Although existing mobile banking users account for 14.4 percent of the customer base in the banks studied, they drive more than 39 percent of the total POS spend. Transaction frequency is higher among existing mobile banking users in the financial institutions studied, compared to consumers who don't use mobile banking. In the credit unions studied, 40 percent of existing mobile banking users averaged more than 10 ATM transactions per month.

The correlation between mobile banking and transaction frequency could be because immediate mobile access to financial information, including balances, may influence additional transaction behaviors, including POS transactions, and ATM withdrawals and deposits. When consumers can check their balances on their smartphone when they're out and about, it may lead to increased spending of available funds.

In the three months after adoption of mobile banking, consumers in the study significantly increased both the number and value of their transactions.

Debit and Credit Card (POS) Transactions

19% increase in the number of average monthly POS transactions for credit union members

46% increase in the number of POS card transactions for bank customers; average transaction value also increased 46% – from $550 to $801 per month

ATM Transactions – Including Withdrawals and Deposits

25% increase in number of ATM transactions for credit union members

26% increase in number of ATM transactions for bank customers; 27% increase in the average value of withdrawals

Assumption is that high frequency ATM transactors check their balance before or after the ATM transaction

ACH Transactions

32% increase in total transactions for bank customers

13% increase in the number of bill pay transactions for credit union members on one core platform

In an analysis of credit unions on a different core, members who used Mobiliti had 70% higher number of bill pay transactions than members who only used online banking

Decreased Branch Transactions Drive Potential Cost Savings

Due to the self-service nature of the mobile channel, a drop in branch transactions after adoption of mobile banking is not surprising.

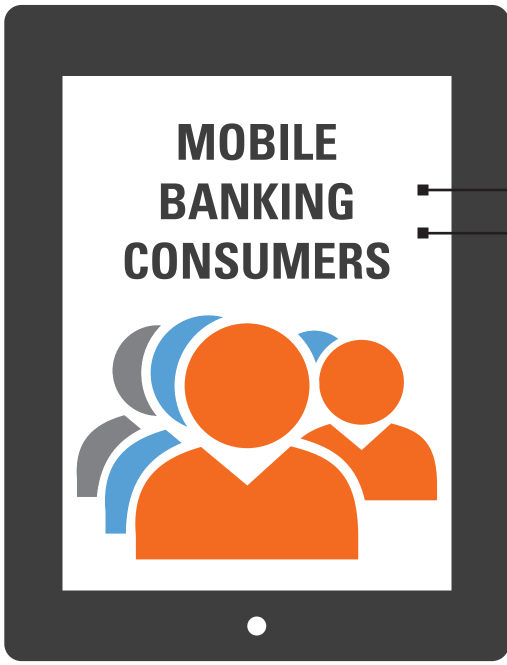
In the three months after adoption of mobile banking, there was a 32 percent decrease in branch transactions for credit union members, from 4.4 to 3 transactions per month.

The drop in branch visits is likely because simple transactions – depositing checks, transferring funds, making a loan payment – have moved to the mobile channel. Although consumers who adopt mobile banking are less likely to go into the branch, that doesn't mean the branch isn't valuable to them. They will likely return to perform high-touch, high-engagement transactions with staff, such as asset management, loan origination and resolution of potential fraud activity. This shift in interaction types may even be a catalyst for optimization of the retail space.

Javelin Strategy & Research found the average cost per mobile transaction to be just 10 cents, while an in-person transaction at a physical branch is $4.25. Of course, these figures do not mean every mobile transaction saves $4.15. However, much of the overhead in retail banking could potentially migrate to the mobile and digital channels, which would result in cost savings for financial institutions.

Lowered Attrition

In most instances, consumers with mobile banking are less likely to leave their financial institutions. Attrition rates were lowest for mobile banking users when compared to online and branch-only users.



CREDIT UNIONS

4.9% Attrition Rate

for members who used mobile banking from large credit unions, compared to **13.4%** for members who weren't enrolled in mobile or online channels.

Among medium and small credit unions in the study, attrition rates were even lower at **2.8%** for mobile bankers.

BANKS

Bank branch-only customers **more than two times** more likely to attrite than mobile banking users.

Mobile banking provides an extra point of engagement and satisfaction for consumers. The message is clear: drive consumers to mobile banking if you want to better retain them. Lost customers and members equate to a potentially significant drop in revenue for financial institutions.

Higher Average Revenue

Mobile banking users in the study generated higher average revenue vs. branch-only consumers. Revenue equals interest income from various types of loans and various fees, such as interchange fees, late fees and finance charges.

For mobile users at the credit unions in the study, revenue was 36 percent higher than branch-only users.

For the banks in the study, mobile bankers generated $209 in 12 months in interchange and account and service fees while offline bankers generated $59.

Mobile bankers generated 72 percent higher revenue than branch-only customers at the banks studied.

Opportunities to Maximize ROI

Leaders in the industry, including large national banks and credit unions, report mobile banking adoption rates of 30 percent or higher of their total customer or member base. The financial institutions in this study reported mobile adoption rates of 10 to 14 percent. As these financial institutions move closer to the 30 percent adoption mark, the potential impact of the mobile channel on their organizations will grow.

ROI Projections by Higher Mobile Banking Adoption

To calculate incremental value, the study compared current metrics for mobile banking users – transaction frequency, attrition, revenue generated – to potential incremental returns from increased adoption of mobile banking, based on adoption rates of 30 percent of the total customer or member base.

Credit Unions in the Study	Banks in the Study
• Up to **$1.6 million** in incremental annual revenue per credit union in the study	• Up to **$2 million** in incremental annual revenue per bank in the study
• Up to **$8 million** in incremental point-of-sale purchases with proportional increase in interchange fees	• Up to **$38 million** annually in incremental point-of-sale purchases with proportional increase in interchange fees
• Up to **20%** reduction in overall member attrition	• Up to **12%** reduction in overall member attrition
• Potential cost savings from decreased branch traffic	• Potential cost savings from decreased branch traffic

Strategies for Driving Greater Mobile Banking Adoption and Usage

Mobile banking product attributes and marketing programs impact adoption and usage of mobile banking. Financial institutions can focus on target marketing and product investment to drive adoption and increase return on the mobile investment.

1

Consumers expect a wide range of mobile banking features that enable anytime, anywhere access to financial services. Robust features and functionality – mobile deposit, tablet banking, person-to-person payments, actionable alerts, instant balance – will enable greater adoption and usage.

2

Financial institutions should be proactive in marketing the strong value of mobile banking by capitalizing on organic online and in-person traffic. Cross-sell mobile banking with promotions that display when consumers log in to online banking or bill payment. Address security concerns by outlining security measures in place at the financial institution. Most importantly, tell how mobile banking is relevant to consumers' needs, challenges and lifestyle.

3

Engage front-line staff in promotion of mobile banking. For instance, when debit cards are issued, it's a good time to talk about mobile banking since most mobile banking users have a debit card. In addition, social media channels should be an integral part of any mobile banking marketing campaign. Compelling imagery, short videos and links help increase the effectiveness and reach of posts.

The value of mobile banking users is incrementally higher. However, if a consumer enrolls in mobile banking and never transacts on the channel, that value is lost. Once consumers are enrolled in mobile banking, strategies should focus on getting mobile bankers to use mobile bill pay or person-to-person payments, transfer money or make a deposit.

The mobile landscape is changing. As more features and functionality are added to the mobile channel, many consumers will find their own way to mobile banking. However, financial institutions should not be content with the low adoption numbers brought on by this passive approach. Increased mobile adoption and usage will net a larger ROI for financial institutions that proactively work to build a robust mobile channel – one that serves the needs of the highly valuable mobile banking consumer.

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