Mobile Banking: Top Trends to Watch

Institutions of All Sizes Gaining New Customers Via New Solutions

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Advice for those banking institutions still weighing whether to get into the mobile game: Do it. Now.

There are new customers and deposits to gain via mobile, say industry observers. And an added bonus: Mobile customers can prove more profitable than traditional bank customers. These are just two of the trends being watched by industry experts and practitioners, who see big growth in the demand for mobile banking services.

How Big is Big?

In 2007 there were 400,000 mobile banking users, observers say. In 2008, there were an estimated 3.1 million users.

Now, in 2009, TowerGroup has forecast that number will more than double to at least 7 million users - and could reach 10 million by year's end. Further, Tower forecasts 53 million active users by 2013 -- a whopping annual growth rate of more than 50 percent.

"A lot of the top tier larger banks have come back and have begun to reassess their position in the mobile space and what their needs are," says Calvin Grimes, Manager for Mobile Money solutions at Fiserv, a major core service provider for the financial services industry. Grimes says that mobile banking trends show that, in the last two years, there have been significant developments in mobile banking. In some cases, institutions are beginning to replace their first-round solutions, while many other banks and credit unions are jumping onboard for the first time. By Grimes' estimate, the top 300 banks are either in mobile banking or on the outside, looking to get in.

"The institutions are looking for something more robust," he says, "but also [are] very confused and very distracted by all the solutions out on the market and all of the solution providers' noise," he says.

Grimes suggests that institutions not lock themselves into a single solution -- a WAP, app or text solution - but rather "Get all three to offer your consumers, plus show a compelling return on investment."

The ROI: Mobile Users More Profitable

Just how profitable are mobile banking users vs. the traditional bank customer?

Ask Brandon McGee, Vice President and Senior Product Manager of Mobile Banking at Huntington Bank, a Columbus, OH-based institution. He says the mobile banking customer -- in particular the text mobile phone customer -- is 13 percent more profitable to the bank than the average client.

"If the average customer is worth 'X' too us, if they add online banking they become more profitable, if they add online bill pay, even more so," McGee says. "If they add mobile banking, it goes up further -- they're at the top of the chart."

Huntington rolled out its mobile banking solution in July 2008 and has seen its profit numbers swing upward. "Not saying that text banking is driving profitability," McGee says, "but that the clients using text banking are the clients we want to hold on to."

McGee's experience is echoed in what others have seen in user acceptance and return on investment. Huntington hit the expected number of users it had projected for the first year within two months. The bank now has 25,000 mobile banking users and 28,000 text messaging users. "We looked at **Bank of America's** numbers, and we're pleased with our progress so far." Bank of America's mobile user numbers in 2008 were more than 500,000, according to the bank's website.

Mobile Trends: Text is King

The plan for Huntington Bank was to roll out a three-channel solution, and the mobile banking solution was followed with a text banking platform at the end of January 2009. "We built some of it in-house, but used VeriSign's solution and used them as an aggregator to get messages out to the clients," McGee says. The numbers the bank predicted for one year of text banking were reached in 30 days, he notes.

The demographics of mobile banking customers at Huntington Bank show that the average mobile and text users are 10 years younger than the average bank customer. "But an interesting twist to this is what we've found so far is that Gen Y customers have pulled the Gen X and their parents into the mobile space," McGee explains. "We've got substantial numbers in all age groups, which tells me mobile is the future for banking."

When Huntington first began looking at the mobile banking solutions, McGee remembers "We thought it would be driven by age or income, that the younger, more affluent users would be using it. What we're finding -- and there's been some research on who is embracing mobile - it's based on the type of handset the client has. If they have a smart phone (Blackberry, iPhone, or others), no matter their age, household income, they're more likely to adopt mobile banking," McGee notes.

The third channel the bank will look to add is the downloadable application for banking. McGee says the bank hasn't set a time to introduce this yet, and instead is focused on the text messaging portion of the mobile offering.

"We see text alerts as a catalyst to drive mobile acceptance even higher," McGee observes. Customers can see balance and transaction alerts, letting them know they need to take action, making them almost instantly involved in decision making, he says. "This gives customers a text message they can act on," and is a powerful fraud detection mechanism as well.

Because of the recession, customers have become so much more diligent about monitoring their bank accounts and spending, he says, so fraud detection and monitoring will be driver of mobile banking. "Fraud protection is in their hands with a mobile phone," McGee says.

Grimes sees Huntington's gains as the "sweet spot" for financial institutions. Simple, straightforward services such as balance checks, recent transactions - this is information that can very easily be made available through the mobile text delivery model. There are some easy ways to offer these services to customers and at the same time snag some huge cost savings for institutions, he notes.

Another overlooked benefit of mobile is the retention story. Grimes observes some banks have seen significant reductions in their customer attrition rates when they've rolled out mobile financial services. In one study, the attrition rate decreased from 15 percent to 7 percent at one financial institution when they rolled out mobile services. M-Com, a Fiserv partner, has experience with one financial institution on a mobile solution. The institution saw a 50 percent reduction in churn in the older Gen Y and younger Gen X demographic.

The Next Big Thing: Mobile Payments

Huntington's McGee is watching closely the mobile payments arena, and is still figuring out the right move to take. He sees that before mobile payments arrives, that "peer-to-peer" money transfers will emerge. Peer-to-peer payments can be best described as the parent using their mobile device to give money to their teenager. "This is the next evolution in mobile," McGee predicts. Another scenario McGee describes: Four co-workers go to lunch. Instead of running to the ATM to repay the person who paid for lunch, the other three co-workers send money via their mobile phone to that person's bank account.

Even some international money movement can be done over mobile, "and is less expensive than traditional money wire transfers," he notes.

The evolution of banking, Grimes notes, can be seen in the progression. Mobile banking is the first critical step in mobile payments. The first step was online bill pay via a mobile device, and the peer-to-peer payment comes next. PayPal's move to make peer-to-peer transactions a no-charge transaction if made via an ACH transaction is the one of many to come.

"Its part of the popular culture, 'there's an app for that,'" Grimes notes. "This is also going to change the way payments are made, because before manufacturers had a stranglehold on how applications made it onto the mobile device. Now everyone will offer an application to use their system to transact and impact payments, storing their credit card information in an encrypted solution on their mobile phone."

Face of the Future

To those institutions not yet fully integrated into the mobile banking space, Grimes offers four areas to watch:

1. Evolutionary Mobile Devices

Keep an eye on the evolving mobile device space. Two years ago, the iPhone first generation was just coming out. "Look how far we've come in just two years and how much that has changed the industry," Grimes says. "That won't be the only time that happens. I think the next time will be with net books, carrying around something that's bigger than a mobile, but not as large as a laptop, complete with connectivity and applications." Keep an eye on the evolution, and make sure your solution can roll with the changes and offer service to these new technologies and their capabilities.

2. Offline Banking

Make sure you have access to offline consumers. "Don't lock yourself into offering mobile services to only those online banking customers. Make sure you can get to that 50 percent of your customers who aren't doing online banking," Grimes notes.

3. Integrated Solutions

Around the back office systems, make sure there are good customer support and reporting systems in place. This includes analytic and billing systems that allow the institution to know and understand how customers are using their mobile banking solutions, along with all the other delivery methods. "What we've seen is an institution will go to multiple vendors for all of these solutions, and [then] their databases won't talk to one another. Bring it to as much a single point of contact as possible, because you need that information to be shared," Grimes notes.

4. Mobile Payments

Mobile payments are coming. Grimes sees there is an opportunity in mobile payments, yet many institutions aren't acknowledging it. "I don't disagree with them for right now," he says. "But later, capabilities of many of the downloadable applications will be the main way that customers will get their credit card information onto their mobile phone, and they'll be using the mobile devices for payments. Then [the banks] will find themselves in a bad place, because consumers will vote with their feet and go to those institutions that are offering mobile payment solutions."

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