

Mobile Banking Creates a Bright Spot Within the Struggling Financial Services Industry



by Jon Paisner, Andy Castonguay and Christopher Collins | June 2009

Executive Summary

In an era of nearly unprecedented financial upheaval, bank consolidations and federal bailout programs, mobile banking services are demonstrating remarkable growth within tech-savvy, higher-income customer segments and providing solid potential for greater expansion into broader consumer segments. The confluence of bank-led mobile initiatives, impressive growth of smartphones, outstanding increases in consumer mobile data usage and the burgeoning mobile applications market have aligned to generate mobile banking penetration of approximately 6.5 percent in North America, according to the Yankee Group Anywhere Consumer: 2009 Survey Suite, Wave 1-3. In contrast to many international markets that have generated broader mass appeal with mobile banking solutions, the early-stage developments of mobile banking services in the United States and Canada have resonated most strongly with younger, affluent, tech-savvy smartphone users, who are a strategic constituency of banking segmentation and an important bellwether group in terms of technology adoption. With smartphones quickly becoming a primary standard among mobile-data-hungry North American consumers, financial institutions (FIs) will have a highly interactive and expanding palette of mobile devices through which they can better serve, understand and engage their customers.

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I. The Past, Present and Future of Mobile Banking

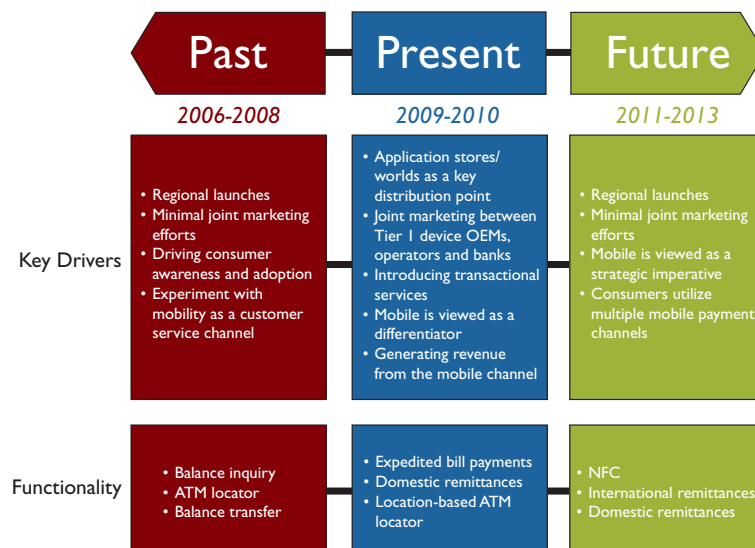
The January 2008 Yankee Group white paper “Mobile Banking in the United States: Taking First Steps Towards Capitalizing on Anywhere Banking” demonstrated that the emerging mobile banking space would deliver consumer value by initially delivering key account information, advance into more transactional activities and finally evolve into a smart channel for financial institutions to cross-sell and up-sell services. As the landscape of networks, devices and consumer attitudes has evolved in the past few years and with the emergent dominance of application storefronts as a prominent distribution channel for many mobile financial services solutions, mobility is now considered a strategic product for many North American financial institutions.

As the distribution for mobile banking applications has changed and transitioned to the off-portal world of application stores, FIs have begun to transform their thinking about the monetization of the channel. For the first time in 2009, the mobile channel has become a viable channel to generate revenue based on a number of key market drivers (see Exhibit I). Since 2007, innovative FIs have invested in mobile solutions to create a dynamic relationship touchpoint with customers while others have responded with mobile services simply because the market and competitive environment demanded it. However, many of the less strategically minded FIs focused primarily on the cost side of their business and, unconvinced about the revenue opportunity of the mobile channel,

have not yet shifted to more dynamic channel models. In 2009, in the context of the financial market upheaval, FIs have a unique opportunity to lay the building blocks for mobile banking to become a revenue-generating channel in the near term.

Exhibit I.
Mobile Banking Evolutionary Pace Quickens Despite Economic Recession

Source: Yankee Group, 2009



Although the potential opportunity to generate revenue from the mobile channel is substantial, what banks will actually be able to realize will depend on the composition of their customer base. For example, even in a developed market like the United States, only about 49 percent of consumers have a checking or savings account, leaving a large unbanked population that is accustomed to paying expensive check cashing and bill payment fees on a monthly basis. Attracting these unbanked customers to the mobile channel presents a solid opportunity for banks to acquire these customers in a profitable fashion and leverage mobility to further extend that relationship over time. In this fashion, banks can extend the reach of mobile services beyond the early adopter segments of today into a broader base of consumers.

II. Consumer Interest in Mobile Banking Is Increasing

The ubiquity of sophisticated mobile devices suggests the potential reach of mobile banking solutions far outstrips the reach of online banking and traditional branch and ATM networks. Consumer interest in mobile banking is growing. According to the Yankee Group Anywhere Consumer: 2009 Survey Suite, Wave 1-3, a third of respondents said they were interested or very interested in mobile banking but only if—and here's the catch—the service was free. (Just 4 percent of respondents indicated interest in a paid mobile banking service.) Given that 260 million American have mobile phone service, this represents a potential audience of more than 85 million consumers. But as with most behavior transitions, the early adopters of mobile banking in the U.S. represent a largely distinct population of tech-savvy, higher-income individuals that have long been the target of Tier 1 bank campaigns. Yankee Group consumer surveys provide insights into the composition and characteristics of current mobile banking customers that banks, operators and device manufacturers can leverage to focus their marketing and product development efforts effectively. These insights include:

- **The majority of mobile bankers are smartphone users.** 54.8 percent of respondents who have used mobile banking in the past three months have smartphones, compared to only 18.6 percent of the total base of respondents.
- **The key age segment for mobile banking is 25-to-34 years old.** Even though mobile banking usage was reported across all age groups, 25-to-34 year olds comprise the largest group (31.1 percent) out of the total base of m-banking users.

This figure is significant because this age group represents only 16.6 percent of the total sample. Respondents in the 20-to-24- and 35-to-44-year-old groups also overindexed compared to their actual representation in the total sample (12.3 percent/7.7 percent and 19.6 percent/18.7 percent, respectively), but not nearly at the same pace. These strong instances of overindexing overlap cleanly with two of the most important characteristics of mobile banking usage: technical savvy and banking activity. Banks should continue to focus on this age group to drive better awareness and take advantage of the technical familiarity and greater mobility common in these users. Clearly, the usage of mobile banking is still in its nascent stages in North America, but the current banking crisis in the U.S. can generate an important opportunity for banks to leverage the mobile channel to expand their connection to the growth customers of the future.

- **Mobile banking users are more affluent.** 62.4 percent of mobile banking users have incomes of more than \$50,000, with those with salaries of more than \$75,000 consistently overindexing. No overindexing exists for those with salaries of less than \$50,000. Affluence and greater bank interaction go hand in hand because much of the existing mobile banking usage is being generated by smartphone users on data plans, which correlates to higher incomes generally. These users represent the best early targets for banks to attract, but the North American market still must transition this activity into more revenue generation.
- **Men outpace women.** Early adopters of mobile banking in North America are predominantly male, representing 61 percent of the base, distinctly overindexing the sample's slightly higher base of female respondents (51 percent female to 49 percent male). Current marketing activity for mobile banking has clearly succeeded in appealing to male clients within the segments detailed here. Generating greater growth of mobile banking services will require banks to focus more heavily on messaging that targets women specifically.

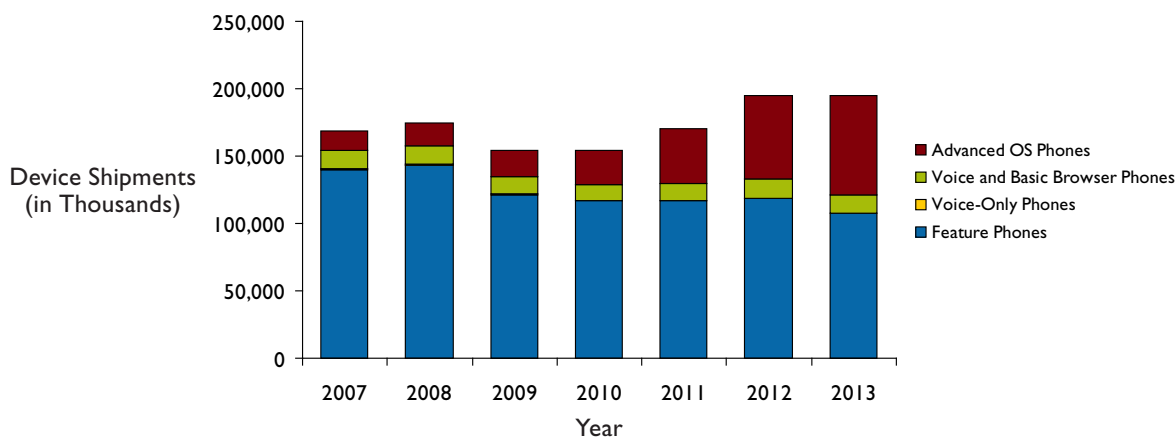
III. The Growth of Smartphones and Application Stores Paves the Way for Mobile Banking

Despite the global recession and expected decline of worldwide mobile device sales, the smartphone category continues to outperform the market. As user demand for mobile multimedia and data services continues to grow, the industry's high-end, advanced OS device offerings have never been more robust or plentiful. More than 308 million advanced OS handsets were sold globally in 2008. As demonstrated in Exhibit 2, advanced OS device sales in North America are growing at an impressive speed and the variety of device platforms to choose from is also expanding. Top-tier operators such as AT&T and Sprint have declared that up to 75 percent of the device portfolio will have QWERTY keyboard inputs by the end of 2009, which in turn will drive even greater adoption of advanced OS handsets. As a result of these trends, Yankee Group expects the market share of advanced OS devices in the U.S. to increase from 15.1 percent in 2008 to 39 percent in 2012, representing one of the fastest growing markets for these high-end devices. As the preferred device among early adopters of mobile banking services, the smartphone's rise will continue to act as a key catalyst for greater adoption of mobile banking services and provide a more consolidated set of device OS platforms on which to develop specific mobile banking applications. This will not only reduce the develop cycle time frame, but also generate better channel management for application distribution and customer care efficiencies.

The boom of smartphone demand is sparking the swift creation of adjacent markets to leverage the scale and functionality of those devices. The expanding production scale has fundamentally changed the economic dynamics of software development for mobile OS platforms and enabled apps to serve as a differentiator for platforms and a reason for users to upgrade to a smartphone. For the short term, in the face of growing competition in the applications space, solutions that combine iconic advanced OS devices, dynamic brand position, massive marketing budgets and open development characteristics will fare well. For financial institutions, the tremendous expansion of the mobile applications space, growing marketing around the application stores and exploding downloads signal a welcome shift in marketing channel strategy for distributing mobile banking applications. Prior to the recent frenzy around mobile application stores, banks were largely relegated to directly market their mobile services to their clients with some limited partner participation from operators. Because the success of the application markets has made these stores a destination site for both mobile and computer browsers, banks can now develop and deploy their applications much more efficiently to an audience that is already predisposed to try and use mobile applications. Although mobile application marketplaces have existed for more than five years, the recent wave of name brand stores from top device manufacturers represents a fundamental shift in both opportunity and distribution strategy that will catalyze mobile banking activity among smartphone users.

Exhibit 2.
Smartphone Growth in North America Expands Mobile Banking Palette

Source: Yankee Group Link Data: Global Mobile Device Monitor/Forecast, April 2009



IV. Case Study: The Success of Bank of America's Mobile Banking Solution

Bank of America (BofA) is a textbook example of how the intersection of increasing consumer interest and smart mobile banking product design can yield immediate and impressive adoption and usage. BofA launched its mobile banking efforts in May 2007 with a mobile Web solution, instead of adopting an SMS or custom software client approach. The bank focused on the mobile Web for three important reasons. First, BofA wanted to give their customers access to the product via the widest possible range of device, OS and carrier choices—which consumers have largely embraced now that BofA has extended the solution to more than 800 handsets. Second, it wanted to provide a consistent, “horizontal” experience to its successful online banking platform. Finally, BofA was extremely conscious of security considerations because of its desire to enable mobile transactions, not just provide mobile bank account management.

Since launch, BofA has attracted 2.4 million active mobile banking customers, the largest mobile banking base in North America. Doug Brown, BofA vice president of mobility, explained, “the first million customers were ‘early adopters’ but the second million are much more mainstream. People don’t buy a phone specifically to bank, but once they have a smartphone with a mobile banking app, one of their top five activities will be banking.” BofA’s strategy has been to target customers who already use the bank’s online banking platform and have a smartphone, because this segment is the most comfortable with mobile banking behavior.

BofA found that once people start to use mobile banking, they increase the intensity of their banking activity during the first three to six months and eventually reach, on average, 12 to 14 activities per month. According to Brown, this increased frequency is driven by a “moment of truth” where mobile banking saves the day for a customer (for example, when a customer can transfer money to a family member to complete a purchase). These moments of truth drive BofA’s growth in four key areas:

- Managing account balance (e.g., seeing if a deposit cleared) is the top banking activity (99 percent of users), because people want the peace of mind to immediately know if they have money available
- Check transaction activity (e.g., seeing if a check has been cashed) is the next most popular activity (90 percent of users)
- Fund transfer is the third most popular activity (50 percent of users)
- A small, but growing percentage of users take advantage of location functionality (for example, looking up ATM locations)

For BofA, the biggest benefit is increased customer satisfaction, followed by the increase in banking activity. (There is some customer service “deflection” out of BofA’s call center, but that is less important to BofA than the increase in customer satisfaction.) Doug Brown sums up the success of Bank of America’s mobile banking solution in just a few words: “We offer a solution that is simple, meets our customers’ needs and is available on all devices and platforms.”

V. Moving Banks from Inquiry to Revenue

Many new technology implementations have focused on improving the efficiency of key banking processes such as transitioning customer interactions away from the costly IVR channel to reduce costs and improve customer satisfaction. In this way, mobile banking solutions can reduce, but not fully eliminate, certain operating expenses (opex). The cost to serve between the IVR and the mobile channel is vastly different. Yankee Group estimates the numbers at \$0.56 per interaction for the IVR and \$0.40 for mobile. Mobile can also provide other benefits to the financial institutions, such as fraud prevention or overdraft warnings, which not only contribute directly to the P&L, but also increase customer satisfaction levels. However, going through 2009, because mobile banking adoption levels have already surpassed 4 million customers, FIs must find a way to move beyond account-based inquiry and generate needed revenue from this channel. To transition consumers beyond balance inquiry to revenue-generating activities, FIs must first launch functionality that saves customers money (by helping them save on the fees associated with late bill payments). After introducing bill payment functionality that saves consumers money and generates revenue for the FI, the next step is to expand into other forms of payment such as remittances and presence payments at the point of sale.

Expedited Bill Pay Is the Easiest Way to Monetize Mobile Banking Services

Consumers typically set aside time each month for paying bills so transitioning consumers from online bill pay to mobile bill pay will be quite difficult because the experience is not quite the same. However, if changing consumer behavior for regular bill payments is too difficult, then FIs should not focus on driving mass adoption of mobile bill payments. FIs should target consumers that have forgotten to pay a bill and would rather pay an expedited bill payment fee than get charged a late fee and have a late payment affect their credit report. A typical bill payment fee for an unbanked consumer can range anywhere from \$10 to \$15 per transaction or more than 15 percent APR on your credit card.

Peer-to-Peer Payments to Attract Generation Y, the Unbanked and Underbanked

Customers under the age of 25 are less concerned about security, are less likely to have a bank account of their own and are often charged ATM fees. As a result, banks can generate revenue by offering peer-to-peer domestic remittances to this important future customer base. By completing an automated clearing house (ACH) transaction at a cost of \$0.15 and charging the end customer a fee of \$0.25, banks can create a win-win situation. In certain scenarios, for example when a child is away at college, a parent can add funds to a child's bank account at another bank for a nominal fee. At the same time, the child does not have to pay exorbitant ATM fees and can quickly and easily transfer money

between the parent's bank and child's if they happen to be different. The best way to drive consumer value and interest is to enable this transfer service between existing bank accounts and not force consumers to create yet another account with another password and debit card.

Although launching a remittance network, whether internationally or domestic, will provide financial services products to market segments that traditionally are not the target market for financial institutions, the unbanked and underbanked market represents 49 percent, or 106 million consumers, according to the Center for Financial Services Innovation. The consumer opportunity only becomes viable if a distribution channel of cash-in and cash-out points is established. These distribution points represent the ability for consumers to use a debit card to obtain cash from traditional ATM networks or money transfer networks, or the ability to top up existing accounts through a carrier's distribution network, retail storefront or bank account.

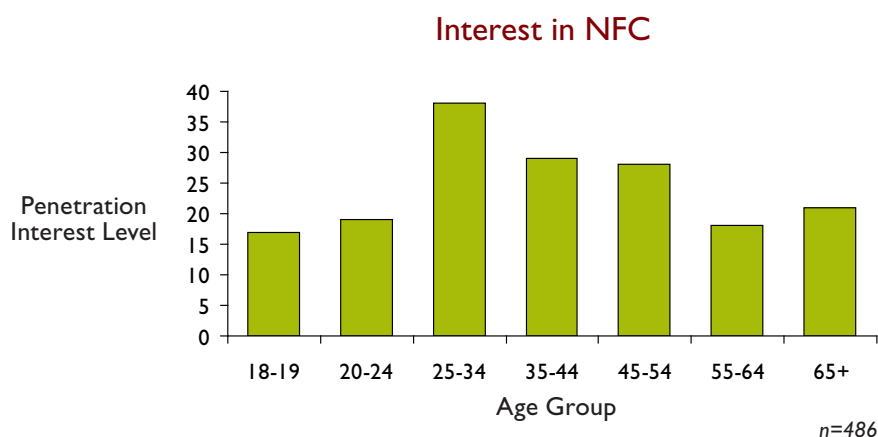
NFC Won't Contribute to Earnings Until 2013 But Represents the Largest Revenue Opportunity

The largest revenue opportunity provided to financial institutions from the mobile channel lies with near-field communications (NFC) payments. Not aimed at the retail banking division so much as at the credit and debit card issuing divisions, NFC has the potential to drive incremental electronic transaction volume in new areas such as micropayments and public transit systems, among others.

Exhibit 3.

Consumer Interest in NFC Outpaces Supply and Ecosystem Readiness

Source: Yankee Group Anywhere Consumer: 2009 Survey Suite, Wave 1-3



Although NFC is expected to achieve a penetration of 50 million NFC-enabled handsets in North America and Europe by 2013, FIs should not expect significant revenue contribution from this technology in the short term. Recent Yankee Group North American survey data conducted in the first quarter of 2009 shows consumer interest levels spike in the 25-to-54-year-old age group even though NFC technology is not available in the marketplace and has limited awareness in the minds of consumers (see Exhibit 3 on the previous page). Currently, the technology is simply not in the hands of enough consumers to generate significant revenue streams. For banking institutions, the other mobile banking solutions detailed here represent a more immediate revenue-generating opportunity (e.g., peer-to-peer payments/remittances) and better channel for client relationship development.

VI. Recommendations for Banks

- **Bundle SMS into your fraud prevention solutions.** Providing consumers the ability to create personal fraud profiles based on individual transaction sizes or account balances is critical. FIs should deliver these alerts through SMS while providing consumers single-click-to-call functionality if a suspicious transaction is identified.
- **Lay the groundwork to monetize the mobile channel in 2009.** FIs should launch expedited bill payment first. Not only is it a way to generate revenue quickly and offset the investment to build out Java applications and mobile Web access, but it also provides FIs with the peace of mind that the current evolution of mobile banking is not the same as the failures in 2001 and 2002.
- **Create the hub and spokes to facilitate peer-to-peer remittances.** Whether domestic or international remittances, a trusted third-party clearing house hub is necessary. Enabling FIs of any size to interconnect and complete transactions, whether initiated by an SMS, MMS, Java application or mobile Web session, will enable a potentially profitable connection between consumers.

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