Mobile banking: make it compelling, competitive and cost-effective
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Roger Park
Leader, Digital Transformation, Ernst & Young LLP
To be a viable competitor today, a bank has to offer a robust mobile banking service. Full stop.

Most major banks are already into their second or third iterations of mobile banking. The “rush to market” during the past three years has been so swift and so dramatic that the big banks simply took the plunge and went ahead, even if they couldn’t justify it with the traditional, financial business case. What has been clear is that – with the rapid adoption of mobile devices and smartphones – customers want to be able to do basic banking whenever they choose, wherever they happen to be. Providing a mobile banking service is a given, even if it’s not a big revenue generator. At least, not yet.

As mobile banking moves out of its infancy, banks now need to develop their service offerings to meet customer expectations and accelerate growth. Reaching maturity in mobile banking will call for focus across three dimensions:

- Pleasing yet protecting customers
- Meeting business needs
- Enhancing technology

Although interrelated, each of these dimensions encompasses its own set of complexities and challenges.

Pleasing yet protecting customers

Pleasing customers today is no easy feat as the bar has been set very, very high for financial services institutions. According to Roger Park, Leader, Digital Transformation, Ernst & Young LLP, customers have become accustomed to the kind of experience they have when they interact with Google or Amazon, and that’s what they want from their bank.

“That’s a tall order for a monetary transaction that requires trusted data security,” Park says. Further, customers expect a consistent level of service across all banking channels, including mobile, online, in person at the branch, on the phone or at the ATM.

“Traditional bankers’ hours don’t make sense anymore. People are logging in and calling at 10 o’clock at night, so banks always have to be available,” he adds.

Not only must banks constantly be accessible, they must also deliver services that are faster and more effective than before. The proliferation of mobile applications has created the expectation that features and functions will be refreshed frequently. If the customer doesn’t see any new features or multiple application updates during a single year, he or she may be inclined to seek other institutions for a different or more satisfying experience.
As a consequence, banks have to balance the pace at which they introduce new and innovative features with the need to keep the data safe from hackers. That compels banks to employ the same level of rigor and scrutiny to mobile banking as they do to ATMs, online banking, branches and other traditional channels. Hardware and operating systems that are now available for mobile banking are new enough that the level of security may not be as “hardened” as that of online banking, for example. Hackers haven’t exploited the “softer security” so far because the critical mass to make the attempt truly lucrative hasn’t yet been reached. However, banks will need to strengthen preventive and monitoring strategies to mitigate emerging threats and to maintain customer trust.

Pleasing yet protecting customers will also require new servicing procedures. Bank personnel in call centers, service centers and branches will have to understand mobile features, functions and devices so they can be explained effectively to customers. Training employees so they can encourage customers to use the new, low-cost mobile services — as well as helping them to troubleshoot — will be essential to increasing adoption rates.

Other key servicing procedures relate to fraud and anti-money laundering. How banks monitor for fraud that could be generated with mobile or person-to-person payments may not be materially different from how they police other fraudulent behavior, but behavior patterns have to be watched.

“Ensuring that consumers have all the safeguards established in traditional banking will be one of the biggest concerns about mobile banking from a regulatory perspective,” says Stefan Walter, former Secretary General of the Basel Committee and now Chair of Ernst & Young’s Global Regulatory Network.

“Regulators will want to see that customers are getting the same disclosures as with other services and the same protection of their information.”

Consider, for instance, what happens if a customer’s phone is stolen.

“If a credit card is stolen, the process of how it gets reported is pretty clear: the customer calls the bank that issued it,” says Jason Lambertson, an Ernst & Young LLP advisor on digital transformation.

“But how does a call center representative react to a lost or stolen phone?”

If the bank has partnered with a third party to create a mobile application, the answer becomes more complex. Does the customer call the bank first or the third-party supplier? Anticipating these kinds of situations and preparing appropriate responses are critical for banks that offer mobile services.
Meeting business needs

So far, mobile banking isn’t even close to rivaling online banking or ATM and branch use. While half of the customers of the largest banks now use online banking, only a fraction of those also use a mobile platform. When those numbers are rolled up into a profit and loss statement, they comprise only a small percentage of the overall business.

Even though the cost-benefit can’t be calculated explicitly, the future value of mobile banking is widely recognized. Consider the simple act of depositing a check. Compared to an in-branch transaction or one at an ATM, where the cost of the facility, salaries and so forth is evident, the cost of the same transaction via a mobile platform is perceived to be less.

As the volume of mobile banking transactions escalates, the financial benefits will become more apparent, and the benefit to the bank can be calculated more readily. Therefore, it behooves banks to move customers from traditional channels to mobile ones. This can be done through the customary promotional channels that increase customer awareness: scripts and training for branch and call center employees, statement stuffers and take-one fliers, as well as newer approaches, such as quick response (QR) codes that lead to videos demonstrating how to use a mobile application.

“Mobile is an efficiency play. It can drive down costs,” Lambertson says. But, he notes, creating a compelling mobile experience is also an opportunity to retain current customers and acquire new ones.

“Mobile can be used as a driver for why I stay or go as a customer, so banks must evolve it as part of their total proposition to any client,” he says. “This attitude will grow exponentially as generational shifts increase tech-savvy customer bases and the overall adoption of everyday smartphone use.”

Ernst & Young’s Tariq Khatri, who focuses on smart commerce, takes it a step further, calling mobile banking a defensive play for banks.

“Banks face straightforward threats to revenue from substitution of credit card payments with funding of mobile wallets direct from bank accounts,” he says. “As digital wallets take off, they will form the nucleus of new forms of payment that threaten the banks’ dominance in the current account market and eventually reduce banks’ revenue from account balances.”

Financial institutions will need to move quickly with newer, better mobile banking options in the face of growing competition from many corners, including start-ups and smaller banks. Because their size makes them more nimble, it’s easier for a start-up or boutique to use mobile and digital services as carrots to encourage customers to switch organizations. A superior mobile service can be bundled with something else — a prepaid card or a higher certificate-of-deposit rate, for example — to entice customers to change institutions altogether and enable smaller players to make money on deposits, fees and other traditional streams of banking revenue.

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Leader, Smart commerce, Ernst & Young LLP

Enhancing technology

Among the most immediate challenges for banks to address is how to integrate services and systems so that the right information gets to the right people at the right time.

The volume of data to which banks have access is expanding dramatically due to the growth of online commerce, mobile devices and regulatory requirements regarding data storage and reporting. Mobile devices capture exponentially more information
than a transaction in a branch does. If users allow it, a mobile device can determine where they are, what they’re doing and what kind of device they’re using. It can also reveal their online activity: what kind of research they’ve done, what links they’ve clicked, what their browsing behavior on other sites was, how many times they visited a transaction page before taking action and so on. All this is in addition to the other information the bank has about its customers through traditional channels.

However, because the data doesn’t reside in one place, banks aren’t able to synthesize it in ways that will give them insight into, for instance, what their customers’ next financial service or product might be. The ability to do that is complicated by the need to ensure that the security of the data isn’t compromised and all the necessary safeguards are in place to satisfy regulators and give customers the confidence to use the new channels.

What banks need now is new architecture to aggregate the data and analyze it in real time so they can anticipate their customers’ next purchase and offer relevant, desirable products and services on the spot. They also need the ability to make changes to their applications quickly, easily and cost-effectively. This requires stepping up the pace of change.

“Banks have these two wonderful things in front of them, trust and data. Those that can bridge the gap first will be the winners.”

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Quicker turnaround times are driven by the necessity for banks to compete in the face of innovation. The check-deposit application whereby the customer can take a picture of a check via smartphone is one example. When it was introduced, all banks had to respond with similar technology or risk falling behind.

The ability to respond on a dime requires a bank to have a forward-looking view of where it wants to be in three years. Its architecture should be built around this view and it should be component-based. This is what Park terms “future proofing architecture.”

“Designing your architecture so it’s flexible and component-based gives you the ability to change without redesigning the whole solution. It allows you to compartmentalize the unknown, the yet-to-be determined emerging technology,” Park says. Using this approach, when something has to be changed, the bank can modify the component and reassemble the solutions rather than rebuilding the entire architecture, which is time-consuming, costly and more prone to defects and risk.

An example would be mobile devices themselves. Some banks have separate technology solutions for every device: BlackBerries, iPhones, Androids, non-smartphones, tablets and so forth. Each time a new device is introduced, a new solution has to be created. Each time new features are added, each type of device has to be upgraded individually. Instead, a component-based, future proof architecture is a single platform that is consistent across the range of devices. This reduces complexity and development costs, shortens time-to-market and gives banks more control over the process. There’s also less exposure from a data and security perspective.

There are other technology and business decisions for banks to consider, such as how to evaluate new and untried vendors, how to anticipate and react to new regulations, or whether to build, buy or collaborate with other providers in the smart commerce ecosystem.

While banks have a number of key advantages and capabilities, depending on their ambitions, they may need to access others to compete effectively, Khatri says.
Ernst & Young collaborated with Knowledge@Wharton to publish a video-enhanced e-book entitled, Mobile Banking: Financial Services Meet the Electronic Wallet. This e-book offers a detailed look at the mobile-money revolution and explores what banks need to consider to compete effectively and profitably. This enhanced e-book includes text, video interviews and extensive analysis by Wharton faculty, Ernst & Young professionals and experts from the banking and technology industries. To download it to your mobile device or desktop, please visit http://knlg.net/eymobilebanking. To speak to an Ernst & Young mobile banking professional, please contact mobilebanking@ey.com.

"The more defensive banks will allow access to mobile payment services provided by others or white-labeled from others. The more ambitious may decide to develop their own mobile payment solutions and may do this in partnership with a technology company to increase speed to market," he says.

“The most ambitious, however, will look to develop mobile wallets with integrated loyalty, promotions, vouchers and other services to enhance the shopping experience for customers and merchants in ways we can’t even imagine yet.”

The bottom line at this juncture is that banks need a mature, stable set of people, processes and technology to operate a mobile banking offering that is compelling to consumers, competitive in the market and capable of delivering a return on investment.

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