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CloserLook

Mobile banking in a post-channel world: new vision and new strategies

Expanding mobile power

On April 16, 2014, Bank of America made a surprising announcement regarding its mobile banking initiatives: Ten percent of deposits made in Q1 2014 were via mobile devices.[1] Earlier this year, JPMorgan Chase reported that 41 percent of its customer households used mobile in 2013 — against just 14 percent in 2010.[2]

These are just two examples illustrating the growing power of mobile banking, a bright spot in a generally mixed retail banking outlook.

So should banks relax and congratulate themselves on a job well done?

Our research suggests not. The full potential of mobile technology remains largely unrealized, in no small part because banks persist in viewing mobile as a separate channel rather than an across-the-board enabler. This view is reflected in the way retail banking operations are structured and how resources are allocated.

In spite of growing usage rates, many customers have yet to adopt mobile banking. Perhaps more troubling, the industry remains stuck in a me-too mode: slight innovations, quickly replicated, bring no significant advantage to the pioneer.

Meanwhile, many banks have yet to go beyond cost control and drive revenues through mobile. And perhaps more importantly, banks haven't fully leveraged the mobile technologies available today, such as biometric authentication, video features, and location sensing. (Please see the report, "Mobile financial services: Raising the bar on customer engagement," for more details.)

The growing ubiquity of mobile devices, the proliferation of mobile endpoints, and the rapid evolution of mobile technology challenge banks to revisit old assumptions about mobile's role in customer interactions. In the not too distant future, the notion of "mobile" will evolve to include a multiplicity of devices, beyond smartphones and tablets. This will force banks to rapidly adapt to the "post-channel" world, where channel distinctions are less important and improving customer experience becomes the supreme goal, no matter where or how customer interactions occur, whether at a branch, an ATM, online, or via a mobile device.

In our view, a post-channel vision shares characteristics with the much-discussed omnichannel concept. But it goes further in visualizing the degree to which mobile can fuse with branches, ATMs, and other avenues to create new and seamless customer experiences.

This is a lofty vision, and one that banks will not realize overnight. To start, banks need to overcome some near-term barriers before the full potential of mobile can be unleashed.

Nevertheless, the basic plan is simple. Increase mobile adoption as a first step to maximize potential impact. Next, differentiate the mobile experience to boost customer loyalty. Differentiation and engagement, in turn, may enable banks to move beyond cost savings to monetization.

These steps won't complete banking's transition to the post-channel world, but they are critical foundational elements.

Fix security and perception issues to increase usage

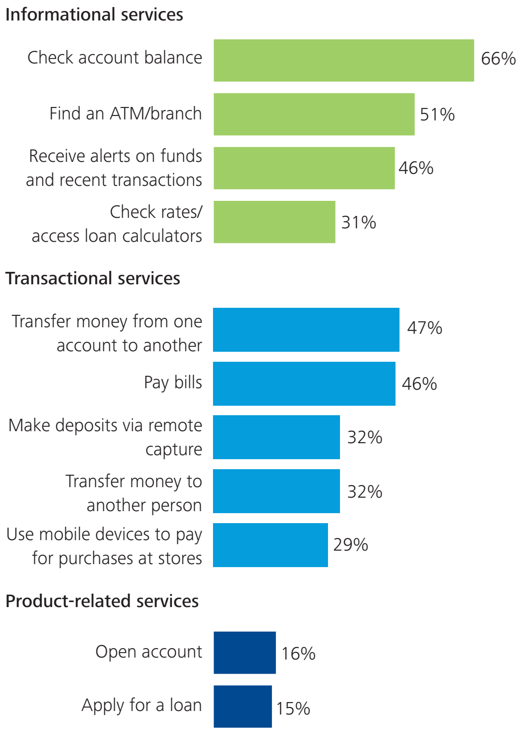
Banks need more customers to use mobile services to explore the full potential of mobile banking. Despite increasing adoption rates, many (especially older) customers have yet to use mobile banking for even simple services, let alone more complex interactions. According to a recent survey conducted by Deloitte, a third of customers don't even use mobile to check an account balance, one of the most basic features (see Figure 1).

About the survey

The Deloitte Center for Financial Services commissioned an online survey, conducted by Andrews Research Associates, in January 2014. A total of 2,193 smartphone users participated in the survey. Respondents were required to be at least 21 years old and have a bank checking account.

Produced by the Deloitte Center for Financial Services

Figure 1: Customers' use of mobile banking services



Source: Deloitte Center for Financial Services

The survey also reveals that security fears impede wider adoption. Nearly two-thirds of smartphone users are extremely or very concerned about the security of their mobile devices for banking activities, and more than 80 percent of these respondents say this worry has severely or moderately restricted use of mobile devices for financial services.

So what can banks do to overcome this concern? Educating customers to be vigilant about information protection, particularly on public WiFi networks, could alleviate some security concerns. Strengthening authentication methods (via biometrics, for example) could prove even more useful.

Perceptions of limited need for mobile banking services also appear to hinder use. For instance, more than 40 percent of surveyed customers who do not currently use remote deposit capture (RDC) feel they don't need the service. Likewise, half of those who do not currently receive alerts on their mobile devices feel they don't need such a feature. No doubt many banks are attempting to change these beliefs, but our data show they can do a better job convincing customers to use mobile banking.

Create mobile differentiation to win loyalty

Increasing mobile adoption is only the first step. To engage and retain their growing mobile-user base, banks should differentiate their mobile offerings.

So far, this differentiation is lacking. Large banks' apps may have more advanced features than those of small banks, but within each group the basic approach has been a me-too game of marginal improvements. Current offerings' homogeneity may render banks vulnerable to an aggressively innovative competitor, especially given relatively short development cycles. Already, innovations like RDC, cutting-edge not long ago, have become table stakes.[3]

At first glance, this differentiation problem may seem inconsequential, especially since 44 percent of surveyed current users are "very satisfied" with their primary bank's mobile services. Unfortunately, looking at the interplay between satisfaction and customer loyalty reveals a more troubling picture. According to our survey, some of the most engaged and satisfied groups — young, high-income customers — are also most likely to say they might switch to another bank with better mobile offerings.

So how can banks differentiate themselves to boost both customer loyalty and their brands? Unique offerings are obviously a good start. The key principle is high-value-added innovation, whether in personal financial management tools, biometric authentication, location sensing technology, or areas beyond.

But feature innovation can only go so far toward winning customer loyalty, and its advantages may be transient in the fast-changing world of mobile technology. In the longer term, differentiating the mobile experience should be the strategy. Using analytics to draw insights from customer data and facilitate relevant, contextual interactions may raise customer engagement.

Successfully integrating customers' mobile commerce transactions more seamlessly into the banking platform (and into the general experience of the mobile device) may further increase customer engagement. More generally, banks should seek to make mobile an integral part of many — perhaps almost all — interactions with the customer. Mobile can be combined with in-person interactions to deliver a substantially improved branch experience, or used to ease call-center interactions. Regardless of the specific use, integration of mobile with other modes will be a key aspect of the drive to differentiate.

Monetizing mobile: Not whether but how

The next big question for banks is how to drive revenues through mobile banking.

To date, most banks have seen mobile primarily as a way to save on costs. Given the still-limited functionality of mobile apps, this focus makes sense. At Chase, for instance, mobile deposits cost three cents per transaction — against 65 cents if made with a teller.[4] But as banks boost usage and invest in differentiation, they may also be able to generate new revenues.

At present, many bank customers say they are unwilling to pay for mobile banking services, perhaps due to limited understanding of its advantages. In our survey, 74 percent of respondents said they are not willing to pay any fees at all for mobile services. However, 27 percent of customers said they would be willing to pay for more "complex" services, possibly indicating a major opportunity.

The logic is simple: customers' willingness to pay depends on the value they perceive in the service. If more high-value-added services are offered, customers may be less price-sensitive. The greater the value provided by the mobile experience, and the greater advantage banks take of mobile's unique capabilities, the greater the ability banks will have to monetize mobile.

U.S. Bank's charges for RDC may demonstrate this principle.[5] And future higher-value services involving more complex features or unique services may be even easier to monetize.

As banks may profit from these developments, customers may also benefit from the increasing sophistication of mobile offerings spurred by revenue opportunities. But in seeking these revenues, banks should carefully manage customer perceptions: beliefs about value delivered will matter as much to banks' strategic success as will actual innovation.

Banks should also manage the tension between revenue and usage. Many institutions have chosen to keep services free to promote adoption. But as mobile services become more advanced and mobile devices become essential banking tools, this trade-off may diminish.

Beyond revenues from improved features in the mobile banking product, which will require substantial investments in either new technology or acquisitions, banks may find revenues in three other areas:

- **New customer acquisition:** As mobile-only customers become an increasingly sizable segment, they may also become a substantial revenue opportunity. For example, unbanked and underbanked customers may be more easily reached, and served more cost-effectively, via mobile offerings.
- **Cross-selling:** Mobile might also help banks deepen relationships with customers by increasing cross-sell opportunities, whether from location-specific alerts or better-targeted product offerings.[6]
- **Mobile commerce:** Banks can also experiment with non-traditional revenue sources in charging retailers and other companies for promotion or advertising partnerships.

Whether following these ideas or others, the key point is to radically rethink banking's revenue possibilities through mobile technology offerings.

Looking ahead: Making the transition to the post-channel world

The action plan presented here — increase usage, differentiate offerings, and move toward monetization — shows how banks can rethink their current mobile strategy. But as they shift strategies, bank executives should stay oriented toward the rapidly approaching future of mobile to prepare for the post-channel world.

Maintaining a seamless experience within the mobile ecosystem should be a priority. The expansion of mobility to wearable technology and the Internet-of-Things demands a device- and platform-agnostic approach to mobile banking. This strategy is consistent with banks' larger long-term goal: achieving the fluid integration of mobile and other channels. With its unique attributes, mobile has singular potential to break down banks' siloed approach to customers. We are nearing a world in which the sensing and communication capabilities of mobile technology allow phones, tablets, and other devices to become integral to every customer interaction; banks should already be actively investigating and investing in these technologies to create a superior and differentiated customer experience.

If banks can devise strategies inspired by this new vision, they should be well-positioned for the coming post-channel world.

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More data from the mobile survey is available upon request. Please contact your Deloitte client service professional or any of the contacts listed in this publication for more information.

Endnotes

1. Saabira Chaudhuri, "Mobile Banking Lifts BofA," Moneybeat (blog), *Wall Street Journal*, April 16, 2014, http://blogs.wsj.com/moneybeat/2014/04/16/mobile-banking-lifts-bofa/.
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3. Jim Marous, "Today's Mobile Banking Apps: Table Stakes or Cutting Edge," *The Financial Brand*, August 14, 2013, http://thefinancialbrand.com/38766/mobile-banking-apps-innovation-ranking-celent/.
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