White Paper

Next Generation Mobile Banking: Transactions Increase Potential Return on Investment

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To consumers, mobile devices are more than just phones. Smartphones and tablets provide connectivity to a world of friends, family, business associates, social media, commerce sites and transactional activities. The phenomenal growth of the mobile channel has grabbed the attention of financial institutions. Mobile banking now plays a key role in the growth strategies of leading players and the rollout of basic services has yielded success. As a result, many institutions are examining the value of expanding mobile banking to include a full complement of transactional and interactive services. Research provides practical insight and experiential data to help financial institutions project how next generation mobile banking capabilities have the potential to create both revenue opportunities and cost savings. By broadening mobile banking offerings, financial institutions will be positioned to increase mobile transactions, shift transactions away from higher-cost channels, and retain and attract more customers.

Tuning in to the Mobile Channel

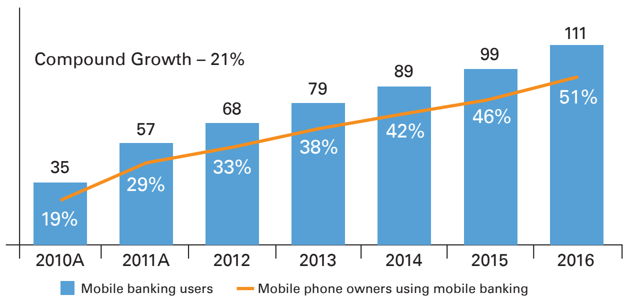
Consumers expect to be able to bank via any channel they desire, at any time of day, in person or while on the go. The "always on" nature of online banking has made it a preferred way for many consumers to manage their accounts and view and pay bills. Yet, transaction volumes indicate that the majority of consumers still also rely upon the branch, interactive voice response (IVR) and calls to the contact center for basic financial services, such as checking their account balances and transferring funds. With the advent of mobile banking via smartphones and tablets, valuable consumer segments have come to consider the mobile channel to be the preferred method to access basic services.

TowerGroup predicts continued growth of mobile banking to reach 17 billion transactions in 2015. As the financial industry makes additional mobile transactions possible, the potential return on investment (ROI) will increase as consumers shift to the faster, more convenient and less expensive mobile channel to pay bills and make deposits.

Phase One Now Complete: Mobile Banking Basics

Along with consumer adoption and usage of mobile devices, the demand for mobile banking and payments has grown. According to Javelin Strategy & Research, more than half of mobile phone owners will be using mobile banking by 2016 (see Figure 1). Financial institutions have responded by implementing solutions that allow customers to perform basic transactions via their mobile devices. According to a study commissioned by Fiserv and conducted by Forrester in 2011, most leading financial institutions offer introductory or "foundational" mobile banking services to enable their customers to conduct basic financial

Figure 1: U.S. Mobile Banking Adoption



U.S. mobile banking users in millions.

Source: Javelin Strategy & Research

tasks (see Figure 2). These services include access to account information and integrate tightly with core and/or online banking services.

Figure 2: The Basic Services are in Place

Which of the following services does your financial institution offer via mobile devices today?

	Yes
Bill payment	90%
Transfers between accounts at your institution	90%
ATM Branch Locator	90%
Contactless/Point of Sale (POS) (pilot only)	20%
Transfers between institutions	10%
Person-to-person (P2P) payments	10%
Remote deposit capture	10%

Base: Ten Mobile Strategists at top tier U.S. banks and credit unions. Source: "Mobile Banking and Payments Update," a commissioned study conducted by Forrester on behalf of Fiserv

Based on the services the respondents have almost universally deployed, foundational mobile banking services include:

- Check balances
- Make transfers between accounts
- View account history
- Pay household bills
- Locate ATMs and branches

In addition to these services, short message service (SMS) alerts that provide balance updates and inform about potentially fraudulent activities are also a commonly offered mobile banking service that can be considered to be foundational.

Many of the financial institutions that offer these foundational mobile banking services have seen immediate value from the mobile channel as evidenced by TowerGroup research published about mobile banking use at SunTrust Bank, detailed below.

Mobile Banking ROI at SunTrust Bank

In 2010, Atlanta-based SunTrust Bank investigated the relationship between mobile banking usage and customer profitability, results of which have been detailed in a TowerGroup research note, "SunTrust Consumer Mobile Banking Value Analysis." At the time, SunTrust Bank had foundational mobile banking services in place, including account balance inquiries, funds transfer, bill pay and alerts. In the study, mobile banking users were compared to one of the bank's most profitable segments – online banking users. Mobile banking users were found to have more institutional value than online users who had yet to use the mobile channel. The study determined that:

- Mobile Banking Users Less Likely to Leave – The attrition rate for all mobile banking customers was 40 percent lower than that of online banking users, and the attrition rate for customers using both mobile banking and bill pay was 53 percent lower than that of online banking users
- Mobile Banking Customers More Profitable – SunTrust found their customers using mobile banking were 32 percent more profitable and customers using mobile banking and bill pay were 46 percent more profitable than online banking customers
- Mobile Banking Generates Activity – Mobile banking customers used their debit cards more frequently after enrolling in the service, generating an average of 3.4 more transactions per month, resulting in more revenue for the bank

Thus SunTrust established that mobile banking had contributed to increased retention, incremental card revenue and reduced channel costs among the value-added benefits of foundational levels of mobile banking services.

Mobile Banking Phase Two: More Transactions and Interaction

Most institutions plan to offer more than basic mobile banking functionality to satisfy customer expectations, but establishing the business case and obtaining the budgets to implement these capabilities can be a challenge. To prove the value of investing in a full range of mobile banking capabilities, it is important to first understand the aspects of mobile banking that will drive measurable ROI. To project return on the mobile banking investment, financial institutions should focus on the following four value propositions:

- Customer Retention – Mobile banking customers have deeper relationships with their financial institutions and have been proven to be among the least likely to attrite. This increased customer stickiness can result in measurable recurring revenue for financial institutions.
- Reduced Channel Costs – Mobile banking enables the migration of customers from high-cost offline channels, such as the call center and branch, to the lower cost, higher convenience mobile channel. To project savings, financial institutions must first know the average transaction costs of each banking channel and determine how the expense will be offset by diversion to the mobile channel. According to Fiserv data (compiled from interviews with several financial institutions ranging from $2B to $28B in assets), a good rule of thumb is to assume that the potential exists for 20 percent of all transactions to migrate to the mobile channel over the course of a year.
- Transaction Generation – Mobile banking use encourages value-generating activities such as debit card usage. In the TowerGroup/SunTrust study, mobile banking customers demonstrated the propensity to make more debit card transactions per month, likely because they were better able to validate their account balances from mobile devices when making purchases at the point of sale (POS). Assuming results similar to the behaviors of SunTrust customers, if the active mobile banking user generates 40 additional debit card purchases per year at today's interchange rate of $0.06 per debit card transaction, additional card revenue could potentially equate to $2.40 (annualized) per active mobile banking user.

- Customer Base Expansion – Mobile banking can attract new customers by positioning the institution as innovative, in sync with the pace of today's households and the need for consumers to save time and make transactions on the go.

Next Generation Mobile Banking Transactions

Now that financial institutions have experienced positive results from early mobile banking forays, it is time to consider adding the next generation of transactional mobile banking services, including:

- Person-to-person (P2P) payments
- Remote Deposit Capture (RDC) of checks
- Personal offers from both the financial institution and/or merchants based on spending behavior
- Actionable alerts via SMS or push notifications (which allow users to respond in real-time to alerts received from their financial institution)
- Contactless payments at the point of sale

When incremental opportunities related to transactional services, such as two-way actionable alerts, P2P payments and remote deposit capture are also considered, the potential for ROI increases. Although contactless payments at the point of sale are still in the early stages of deployment and adoption, contactless payments offer another potential way for financial institutions to maximize ROI via the mobile channel. Expansion from foundational to the next generation of transactional mobile banking services creates opportunities for financial institutions to achieve an even higher ROI in two primary ways:

- Greater Mobile Adoption – The addition of each new feature, accessible by devices with the effective promotion of the new service, can lead to incremental adoption. The more customers a bank can shift away from higher cost channels to the mobile channel, the greater the potential cost effectiveness and ROI. Financial institutions also have the opportunity to increase adoption by supporting the use of tablets to conduct banking activities. Tablet support could attract additional mobile banking users and transactions from among those who prefer this format.
- New Revenue Sources – Financial institutions have the potential to derive new convenience fee revenue from consumers and merchants by offering value-added mobile services that provide a quicker, easier way to conduct transactions, including: emergency bill payments, P2P payments, remote deposit capture and merchant-funded offers.

Consumers who view next generation services as valuable may be offered these services for free, or be willing to pay for the convenience. Potential new revenue sources include:

- Remote Deposit Capture – Financial institutions can reduce direct branch costs by implementing this capability (typically by approximately $4.00 per transaction at a rate of approximately 15 deposits per year, according to Fiserv client interviews).
- P2P Payments – Consumers can be asked to pay a fee when they use their mobile device to make a person-to-person payment. According to responses from financial institutions, consumers may be amenable to paying $.50 to $1.00 per transaction. P2P payments – like bill payments – also increase customer loyalty in measurable ways. Once friends, family members and roommates are connected via

P2P, they can stop writing and mailing each other paper checks and transaction volumes can increase with a network effect.

- Merchant-Funded Offers – Merchants are willing to pay fees to financial institutions when consumers pay for their offers via their mobile devices.
- Cross-Selling – The mobile banking service provides the opportunity to cross-sell other banking products and services and provides a way to promote services through the mobile channel.

Maximize the Benefits of Mobile Banking

The potential to achieve a material, measurable return on investment from the mobile channel is real. The following recommendations will help organizations maximize the potential of mobile banking ROI:

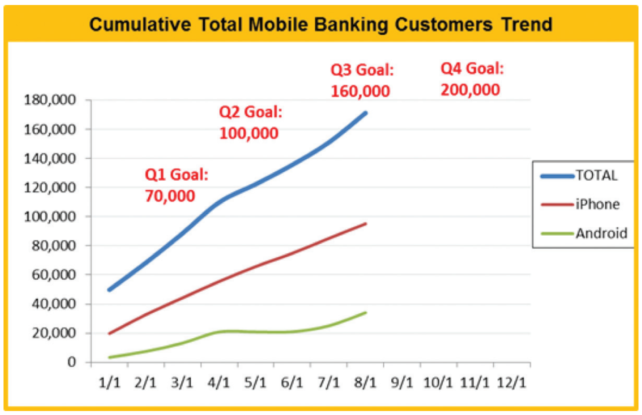
- Assess and Sell the Business Case – To determine and prioritize future investment in mobile banking financial institutions should consider the potential ROI of specific mobile channel products and features. To facilitate discovery, financial institutions can engage industry partners such as Fiserv to use proprietary ROI modeling tools that leverage actual financial institution data. Relying on the expertise of industry partners to analyze customer data will help financial institutions generate credible and quantifiable ROI projections specific to their own institutions.

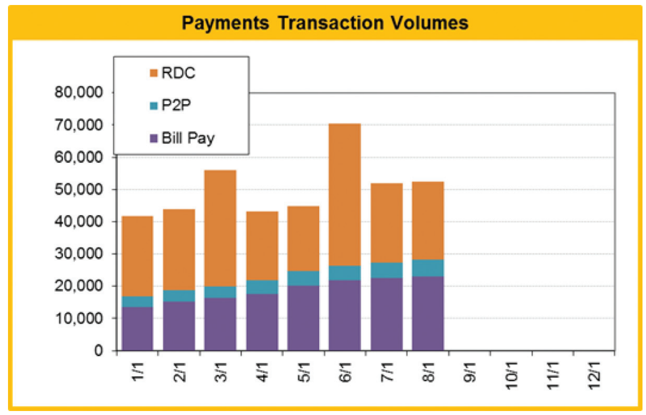
- Conduct Market Analysis and Research – Financial institutions should conduct primary and secondary research, particularly into new mobile banking features and functions, and discover how the features are perceived by distinct customer segments. The best market analysis can be conducted using a financial institution's own customers – whether via customer focus groups or surveys to the existing customer base – to identify preferred mobile banking offerings. Having recent transactional data will assist in making decisions about the features and functions to offer.

- Implement Focused Adoption Management Programs – In a recent white paper, Fiserv identified five factors that will drive consumer adoption of mobile banking: usefulness, accessibility, security, familiarity and ease of use. Ensuring that mobile banking services pass consumer adoption criteria will accelerate adoption and help maximize ROI. Reviewing industry thought leadership can help financial institutions design an effective product and marketing roadmap and compelling campaigns to drive adoption outcomes.

- Practice Effective Channel Management – Financial institutions should put the tools in place to capture data about the mobile banking behavior of customers. Using a mobile channel dashboard will enable financial institutions to monitor important performance measures, such as: percent of active users, percent of mobile banking users in relation to online banking users and mobile transaction volumes. By monitoring these metrics over time, financial institutions can note growth and where adoption and use are lagging in order to target mobile adoption marketing campaigns on specific consumer segments (see Figure 3).

Figure 3: Sample Mobile Channel Performance Measures





Source: Fiserv

Now is the Time to Leverage Transactional ROI for the Mobile Channel

Across the industry, financial institutions such as SunTrust Bank, are experiencing the ROI from foundational mobile banking services. However, although foundational services generate financial benefits for financial institutions, there may be more to maximizing the potential for mobile banking ROI. As indicators point to the continued growth of the mobile channel through the use of both smartphones and tablets it is likely that consumers will want additional functionality. The more features and functionality a financial institution offers, including P2P payments , remote deposit capture of checks, actionable alerts, push notifications and contactless payments, the more likely customers are to adopt and use mobile banking. The more customers a bank can shift to the mobile channel, and the broader the menu of ways in which those customers can transact, the higher the potential ROI for the financial institution.

So, now is the time for banks and credit unions to consider the robustness, scalability and availability of their mobile offering in order to get to the next level of profitability. By offering a full complement of mobile services, financial institutions will be positioned to derive increased value and return from customer relationships. In addition, through the promotion of mobile banking capabilities, financial institutions can attract new customers. As a result, there will more customers making more transactions through a lower-cost channel. The potential increase in revenue in tandem with the reduction in costs should more than prove the business case to fund support for next generation mobile banking services.

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