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The future of mobile banking in Latin America

Insights from Argentina, Brazil, Mexico

Contents

Introduction

Mobile technology offers an unprecedented growth opportunity for retail banking in Latin America. As these economies continue to prosper, increasingly affluent consumers and underbanked segments may create demand for new financial products and services.[1] Many consumers in Latin America have mobile phones, but not bank accounts. The mobile channel therefore provides an effective way to attract them into the financial services marketplace.

These favorable attributes represent new opportunities for banks operating in Latin America. According to Deloitte Center for Financial Services[2] analysis, within the next several years mobile banking will be more of a necessity than a choice and it will likely become an integral component of a bank's business strategy. Realizing this, many banks in the region already have developed basic capabilities. Institutions behind the curve may wish to act soon or risk being left behind, and even market leaders may benefit from re-examining their strategies to fully integrate mobile banking into their operations. Those who accelerate their plans and develop innovative strategies could shape the mobile landscape to their advantage.

This paper addresses the current climate, future prospects, and possible challenges to the growth of mobile banking in the region, focusing on Argentina, Brazil, and Mexico. Though the final form may vary locally, we expect a rapid transformation in mobile banking and payments in Latin America throughout the next several years.

[1] In this document, the term "underbanked" refers both to those with limited access to financial services and those with no access at all.

[2] As used in this document, "Deloitte" means Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Latin America's potential

Mobile banking's potential for financial services

How can mobile banking in Latin America achieve its full potential? When one looks at the success stories globally, it becomes apparent that there is no single formula. Different countries and regions take different paths. (See below for examples.) However, these paths share some common characteristics: strategic focus, industry collaboration, up-front investment in technology infrastructure, and consumer interest. Banks will decide for themselves which examples are most relevant to their particular business context, but they should leverage the wealth of experience gained in other countries.

The potential benefits of mobile banking to financial institutions are often obvious, though realizing them may be a complex undertaking. Banks that take the lead may benefit from new revenues, cost savings, and improved customer experience.

There are several characteristics that together indicate a favorable climate for mobile banking growth in Latin America. First, the economies in the region are advancing rapidly, leading to growth in personal income. Second, there are millions of consumers who have yet to fully participate in the modern banking system and these underbanked segments represent a large body of potential new customers for banks. Third, mobile culture is already rooted in the region.

Increasing prosperity and mobile culture

Latin American economies are growing. The IMF estimates that the region will grow at an average rate of about 4% until 2016, fueled mainly by domestic demand.[4]

Global success in mobile banking-Kenya's example

M-Pesa, a mobile banking product offered by Kenya's Safaricom, is a powerful example of mobile banking's growth potential. Mobile solutions give a huge portion of Kenya's population access to financial services, unlocking the value in the underbanked segment. The mobile network operator allows customers to store money, make payments via SMS, and perform other account services such as airtime purchase. Registration is simple and facilitated by a wide network of agents, not formal branches. Research shows that in just two years, M-Pesa reached almost 40% of Kenya's adult population and that in four years two-thirds of Kenyan households used Safaricom's service.[3]

Though a mobile network operator (MNO), not a bank, led Kenya's mobile banking success, similar favorable background conditions in the country also seem evident in Latin America: rapid economic growth, reasonably high mobile phone penetration, and relatively huge underbanked populations.

[3] Jack, William, and Tavneet Suri. "Mobile Money: The Economics of M-PESA," NBER Working Paper No. 16721, January 2011.

[4] IMF World Economic Outlook Update, June 2011.

Figure 1: Mobile connections per capita

	Chile	Peru	Venezuela	Colombia	Argentina	Mexico	Brazil
Mobile connections per capita 2010	1.27	.81	1.02	.99	1.25	.81	1.02

Mobile penetration in Latin America increased at an impressive rate during the last few years. Gartner[5] estimated that in 2010 there were a total of 563 million mobile connections in Latin America, with Brazil accounting for just more than 200 million, followed by Mexico (91 million) and Argentina (52 million). (See Figure 1 for per capita numbers across the region.) This trend is likely to be maintained throughout the next several years, according to Business Monitor International (BMI) projections. (Figures 2A to 2C throughout the growth of mobile telephone use in Latin America.)

Figure 2A: Overall mobile penetration

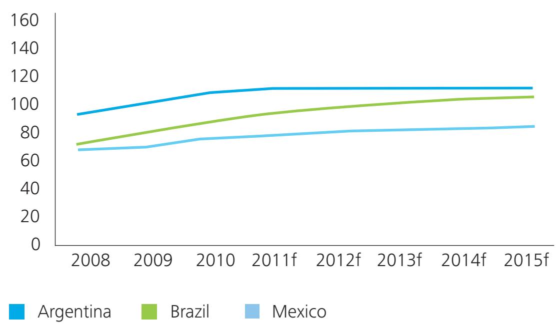
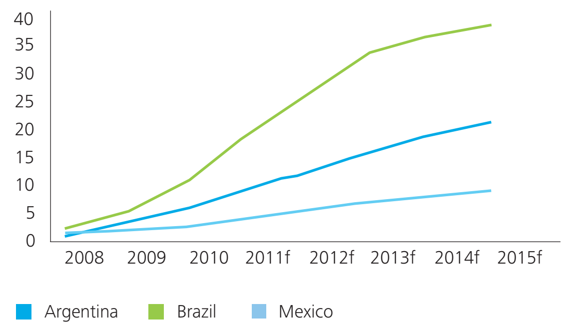


Figure 2B: 3G Usage



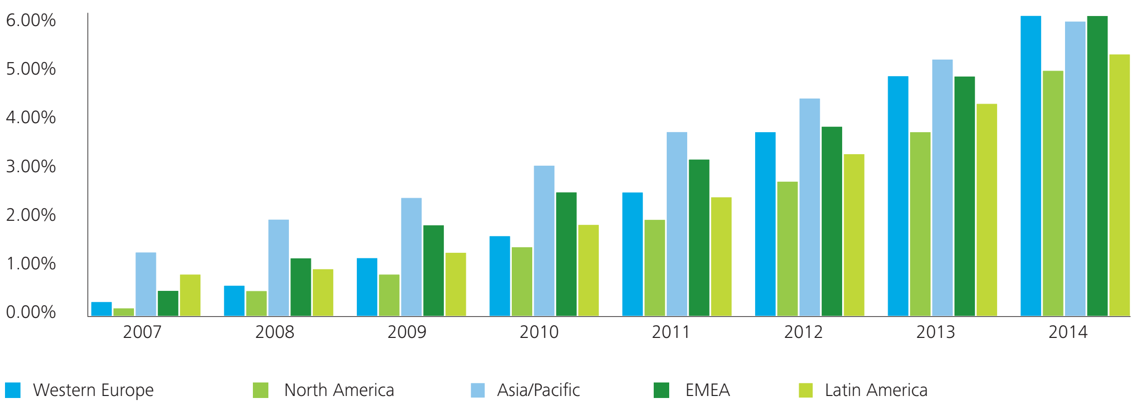
Sources: International Telecommunications Union, World Bank, and BMI (Note: 'f' refers to BMI forecasts)

[5] Mobile Connections, Latin America, Year-End 2010, Gartner, March 2011.

This pattern also is evident for advanced 3G mobile devices, an important indicator of growth potential for more sophisticated mobile phones. 3G penetration represents the relative size of the market for potentially higher value-added mobile financial products and services because they allow mobile web access and are more likely to include specialized mobile payments hardware.

Text-based mobile banking on older or less-advanced phones however, still presents enormous opportunity because the vast majority of potential users still rely on simple, often prepaid devices. Many of these users may not have access to financial services products, but banks can leverage these devices to bring these potential customers to the market.

Figure 2C: Mobile payment user penetration, 2007-2014 (percentage of mobile users)



EMEA: Eastern Europe, Middle East, and Africa

Source: Market Insight: The Outlook on Mobile Payment; May 10, 2011, Gartner

"Electronic payments promote economic growth and contribute to a stable trade system, helping to stimulate growth and generate jobs, besides allowing for a better financial control for consumers, business and governments. Consumers and companies are becoming increasingly aware of the efficiency, reliability and practicality of the digital currency when compared with other means of payment."[6]

[6] Ruben Osta, General Director of Visa Brazil, "Plastic Money Stories and Achievements," in Financial institutions in Brazil: Positioning for a New Scenario, pp 70-71.

“Mobile banking usage in Latin America is expected to see 65% annual growth until 2015, according to a report from Pyramid Research. They estimate that around 18 million mobile banking users are currently in the region and said this figure could grow to more than 140 million by 2015.”[7]

Financial access

For some time now, there has been a common desire among the region to increase financial access to the vast number of underbanked populations in Latin America. The advancements in mobile technology provides a channel to meet this opportunity.

There is still a long way to go before Latin American countries reach U.S. or European levels of financial access, as relatively low credit levels and deposit-account penetration (commonly used measures) show. (See Figure 3.) Other indicators confirm the relatively less developed financial system in the region: approximately 47 million credit and debit card accounts existed in Mexico as of March 2011, for a population of about 112 million.[8]

The underbanked population represents a sizable, nascent market for financial services institutions in Latin America. Designing profitable strategies to serve these consumers through the mobile banking channel will likely be an important component to the growth of retail banking in this region.

Figure 3: Credit levels and deposit-account penetration

	Countries			Regions		
	Argentina	Brazil	Mexico	Latin America & Caribbean	U.S.	Euro area
Domestic credit to private sector (% of GDP)	13.5	54.0	23.3	41.0	202.9	133.4
Deposit accounts per thousand adults (commercial and cooperative banks)	906.43	1065.35	1104.00		2745.67	

Source: International Monetary Fund, CGAP Financial Access 2010, and World Bank and OECD GDP estimates, 2009 (most recent available)

[7] "Latin American mobile banking usage seen growing 65% CAGR through 2015," *Business News Americas*, May 12, 2011.

[8] Banco de Mexico, Retail Payment Systems statistics, March 2011.

Mobile banking progress

Many Latin American banks do not ignore these trends, but only a few have made decisive investments or formulated comprehensive strategies to advance mobile banking. According to Comision Nacional Bancaria y de Valores in Mexico, just 14% of Mexican banks offered mobile banking services at the end of 2010.

Going mobile may increase banks' opportunities to unlock the inherent potential of the region. Through mobile banking, innovative leaders in this space can capitalize on growing income and widespread mobile ownership to drive new revenue streams, boost operational efficiencies, and enhance customer experience.

Benefit	Banks	Payment networks	Mobile carriers	Merchants
Increased revenues	• New customers from increased financial access • Additional opportunities to cross-sell and up-sell by leveraging increased customer data	• Increased fees from growth in electronic payments	• New customers (both prepaid and 3G) • Increased data and handset sales	• Increase in transaction volumes at point of sale • New customers from promotional campaigns • Product/serving tailoring opportunities (e.g., promotions)
Cost savings	• Shift routine customer interactions away from high-cost channels such as branches or call centers • Tailor channels to customer segments	• Reduced transaction and fraud risk because of superior authentication processes	• Increased scale allows streamlining of operations	• Per-transaction costs decline because of increased transaction volumes
Improved customer experience	• More convenient access to financial services may increase customer satisfaction • Increased customer awareness and usage of service offerings	• Targeted fulfillment of service promise	• Greater satisfaction with mobile services	• Ease of payment • Increased satisfaction from better product matching and promotions

Two attractive customer segments

There are two broad segments of customers that could drive mobile banking growth in Latin America: the underbanked, prepaid phone users and the more affluent smartphone users. As mobile banking continues to grow, banks may consider implementing a more refined segmentation approach based on additional data.

Leveraging the mobile channel to reach the underbanked

A significant underbanked population resides in Latin America. (See Figure 3). In the past, reaching out to this population was not economically attractive because traditional channels (i.e., branches) were comparatively expensive to manage relative to the estimated profits. But, many of these underbanked consumers already have a channel—mobile phones. Even though revenues from each individual customer may be smaller than revenues from other segments, the likely lower cost of the mobile channel could make them a major source of income.

Banks may choose to increase financial access through multiple channels, or by having a developed mobile strategy and strong traditional SMS-based offering to enhance potential to capture the market. Banks may want to consider financial education to maximize the potential in the underbanked segment, properly educating consumers will be key to their understanding of the benefits of entering the financial services marketplace.

Attracting affluent consumers

Affluent consumers are more likely to demand higher-value banking services; they also may be more likely to own or plan to own a smartphone. For these consumers, higher-functioning platforms based on near field communications (NFC) and 3G web applications may be more attractive than traditional SMS-based mobile banking. Banks who make the investment in more complex technology could attract these customers and, with appropriate service offerings, grow their business, with them.

Banks already devote enormous resources to identifying and classifying both current and potential customers for their traditional retail banking businesses. This same segmentation discipline may be needed for mobile banking services. While banks may choose to begin with the two segments discussed above, eventually it is possible that more complex product segmentation and advanced mobile banking solutions for the entire population may be developed.

These two segments could bring banks significant benefits—benefits achieved through new revenue streams from previously underbanked customer populations, improved customer retention among the affluent, and lower cost of service delivery. To reach these segments, banks may consider investing in appropriate resources, infrastructure, and technologies.

Using different technology to reach different consumers

Technology is key to unlocking the potential of mobile banking, but what technological platform the bank choses to utilize depends on the context, such as its current technology infrastructure, resource availability, or mobile banking strategy. There are many options available, each with strengths and weaknesses that make these platforms better suited for particular uses or customer segments—for example, universal and secure SMS for the underbanked, or more comprehensive and user-friendly mobile applications (app) for the affluent smartphone user. In addition, different technologies may serve to fill the same need. This is the case in the still-nascent field of mobile payments, where NFC, embedded credit cards and web- and java-based applications compete for investment.

However, NFC technology is considered to be the better choice for advanced mobile payments. A Deloitte LLP survey[9] recently revealed that in the United States 27% of respondents believe NFC will be the "killer app," and a significantly greater share than for any other platform. Investing in the right platforms and developing competencies around mobile technology management may therefore increase the likelihood of commercial success.

[9] Cell Me the Money: Unlocking the Value in the Mobile Payments Ecosystem, Deloitte LLP, 2011.

Though Latin America may adopt any mix of platforms, a two-pronged strategy might be the most effective way to reach widespread adoption of mobile banking.

SMS-based: Traditional mobile banking

SMS, or text messaging, is a standard mobile technology. This universality is a key part of its attraction as a mobile banking platform, and for that reason it remains the primary technology of first generation mobile banking. While other platforms may be more versatile, SMS-based banking will be essential for firms that wish to gain substantial market share with the underbanked segment in Latin America.

There are two service areas in banking that could benefit from SMS-based offerings:

- Account maintenance and service management: SMS services for these areas are the first-generation, basic mobile banking product. Customers send messages to their bank to perform simple operations, including balance inquiries and branch locations.
- Transactions: Using text messages, phone owners can arrange payments to other consumers, transfer money within a family, and purchase products. Text message-based solutions offer greater levels of security compared to other options, but decreased convenience in terms of transaction time and service options.

NFC and mobile web access: 3G solutions

A combination of NFC payment technology and mobile web access may be the primary platform in the future. Together, they present a quicker, more user-friendly mobile banking experience alongside more complex capabilities that might allow them to take on some of the activity of a bank branch or call center. Mobile web access allows firms to deploy applications for account and service management, while NFC technology can offer mobile payment services. Further, Latin American banks may be able to use mobile technology to leapfrog from cash-centric economies to widespread electronic payments without universal physical credit and/or debit card adoption.

- Account maintenance and service management: Mobile web browsing or dedicated mobile applications provide increased functionality and greater speed, making them a more capable, attractive, and user-friendly platform.
- Transactions: NFC works via a chip or antenna contained within a mobile device; half of all smartphones (one quarter of all mobile phones) shipped in 2015 will have this technology.[10] Customers tap or pass their phones over special point-of-sale terminals to make a payment.

NFC appears to be the most promising option because of its demonstrated effectiveness in other regions as well as its technological advantages. Nine of ten players interviewed by Deloitte United States see it as a game-changer.[11] NFC infrastructure involves larger upfront investment and in part depends on increasing consumer access to smartphones, but offers potentially greater rewards for all members of the ecosystem in the long run.

Banks could deploy both SMS-based technology to reach less affluent customers as well as NFC/mobile web technology to gain affluent, tech-savvy clients. Effective implementation of an NFC/mobile web solution could therefore be a key competitive advantage.

Security–Key to reassuring customers

Addressing security is critical to the growth of mobile banking in Latin America. Based on anecdotal evidence and regional experience with online banking, security is at the top of consumers' concerns regarding mobile banking. Per the Mexican Internet Association (AMIPCI), 47% of those who do not use online banking abstain because they do not believe it is sufficiently secure.[12] This may be a particularly strong concern among underbanked customers who may not have experience with secure traditional financial services.

[10] Gartner Research, "Near Field Communication is a Long Term Opportunity," 22 March 2011.

[11] Cell Me the Money: Unlocking the Value in the Mobile Payments Ecosystem, Deloitte LLP, 2011.

[12] "Banca Electronica 2011," AMIPCI presentation of survey results.

As with all of their services, banks must take steps to promote the security of their mobile products. However, the mobile banking channel may require additional ecosystem-wide efforts to integrate security infrastructure and manage customer perceptions.

One of the most difficult aspects of security is addressing consumers' perceptions. For mobile payments technology to gain widespread adoption, a consumer needs to feel that their information is completely secure and that their privacy will not be compromised. After identifying and securing target mobile banking customers, educating those customers regarding the security measures taken to protect their information will likely be critical. Though these steps may seem onerous, investment is necessary to change customer perceptions. This trust in the banks' ability to provide reliable security may create opportunities for expanding relationships. Once consumers feel reassured that they are dealing with a bank that spares no resources to maximize security, they will be more prepared to engage with the bank regarding other products and services.

Technology to provide a reasonable standard of mobile security exists, but implementation is important—banks may want to work internally first to find the most effective security applications and rigorously test them. Next, market research suggests working with members of the ecosystem to create a well-integrated overall system to reduce risk and improve time-to-market. Without cooperation among banks, telecommunications providers, payment networks, and merchants, adequate security in mobile banking transactions may not be possible. Companies might consider, in addition to their own efforts, working with security and communication specialists to make progress in this area.

If banks satisfy their own technical requirements and move to address perceptions about security, they could substantially improve their customers' experience and potentially increase customer loyalty to gain competitive advantage over less agile firms.

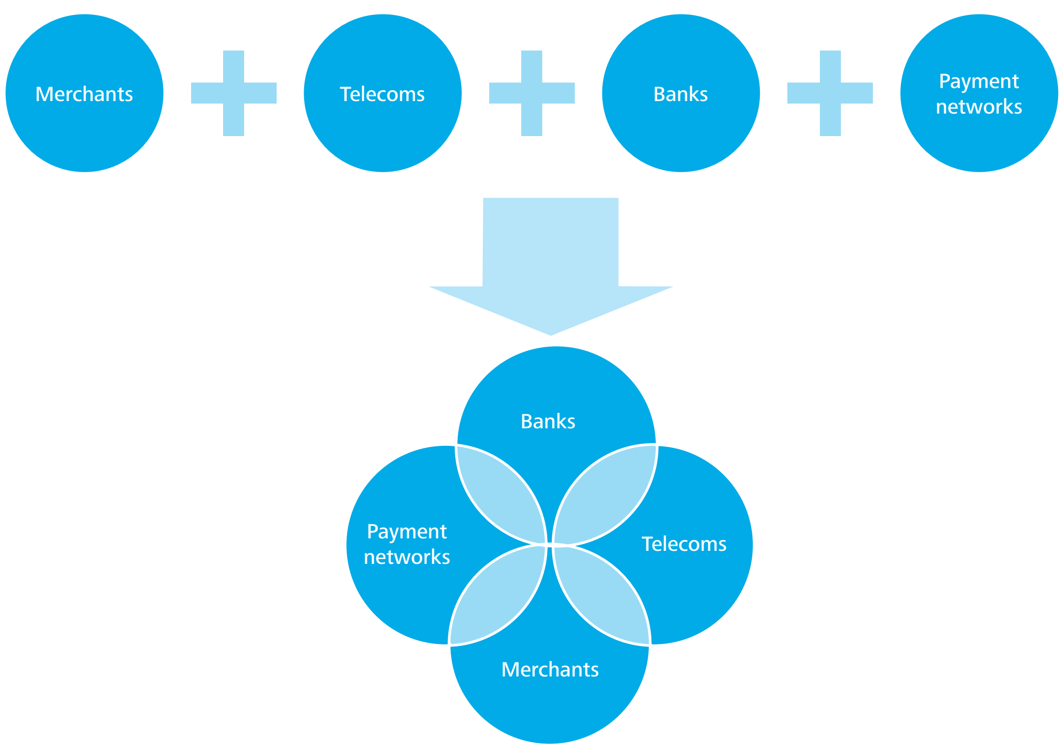
The mobile banking ecosystem

Banks in Latin America could derive an enormous benefit from the mobile banking channel, but they probably won't be able to do it alone. Highly positive outcomes will likely require cooperation among the members of the mobile banking ecosystem.

Mobile banking can open the door to increased revenues, cost savings, and improved customer experience for both banks and the other members of the mobile ecosystem: mobile carriers, payment networks, and merchants. (See appendix more for more details.) Though these are not the only players in the mobile banking arena, app developers, handset makers, and others also could play an important role depending on local context—these four players will play a key role in the evolution of mobile banking and payments. (See Figure 4.)

Collaboration will entail a few challenges to include members' ability to negotiate revenue-sharing and investment agreements, manage assets, integrate IT infrastructure, and make joint strategic decisions despite possibly differing priorities and goals. Many of the key players may find it difficult to agree on a common approach because of the risks of major commitments and sensitivity regarding revenue sharing and data ownership agreements. However, the potential benefits of partnerships are likely greater than the incidental obstacles—effective cooperation could increase the total size of mobile banking's market share, increasing the size of each player's piece.

Figure 4: Mobile banking ecosystem



Developing an end-to-end strategy and seeking agreements with other members of the ecosystem

To reap the full benefits of mobile banking, it is important that a Latin American bank carefully assess its goals prior to establishing relationships with other members of the ecosystem. Once prepared internally, banks should work with other ecosystem members to share information, develop strategies, and make further decisions about joint investments.

Once links to other ecosystem members are established, interested parties may work to determine revenue shares and the exact terms of cooperation, among other important issues. This is likely the most significant challenge for mobile banking implementation, but also perhaps its most essential step. Without multilevel cooperation with other ecosystem members, banks may find progress slow and difficult.

But cooperation may do more than make things easier—it could act as a multiplier for the benefits of mobile banking. For example, integrated offerings could improve the customer experience by making products and services quicker to access and more simple to understand. Collaboration also might lower costs by increasing economies of scale or sharing existing assets such as points-of-sale. In short, cooperative agreements could be key to strong market results and industry leadership.

Though hard data regarding mobile banking in Latin America are still scarce, evidence indicates that these benefits can indeed be real. According to the TowerGroup, the average cost per transaction of the mobile banking channel in the United States is two percent of branch-based transaction costs. At the same time, other regions—especially East Asia and Sub-Saharan Africa—demonstrate that the mobile channel can be a source of sustained revenue growth, cost reductions, and superior customer experience.

Regulation and mobile banking: Mexico's "great leap"

It is important to remember that although this document highlights four players in the mobile banking ecosystem, there are other entities that are important to its viability. First and foremost are regulators, who can play a foundational role by promoting common standards and reducing regulatory hurdles.

Outdated regulation may be a barrier to widespread mobile banking in Latin America. For example, rules about what data customers must provide to open a bank account, originally designed to combat fraud and money-laundering, might make offering mobile banking to lower-income consumers too costly for banks.

Policymakers are increasingly aware of their influence in this area, and regulators in Mexico announced a new framework that took effect in August 2011. The new system in Mexico builds on a set of 2010 reforms for low-risk accounts and will allow four different types of specifically mobile-based accounts. Each type will have more simple data and monitoring requirements than traditional bank accounts—the most basic account requires neither identification nor a visit to a branch to open, though this is limited only to small depositors.

Mobile banking is seen by Mexican authorities as a significant force for the reduction of inequality and promotion of financial inclusion. They also see it as a secure and fraud-resistant channel. While the results of the government and central banks' action are yet to be seen, policymakers anticipate that the new framework will have great benefits for society and the financial system. According to Agustin Carstens, Governor of the Bank of Mexico, the new mobile-minded rules will help "the Mexican banking system to reach its full potential."[13]

[13] "Telefonía Móvil, Catapulta Del Sistema Bancario Mexicano," (Mobile Phones, Catapult of the Mexican Banking System) El Financiero, July 22 2011.

Country focus: Insight from Deloitte member firms

Argentina

The level of mobile development in Argentina is broad yet shallow and likely to remain so in the immediate future. The current offerings of many key players are simple, non-transactional, and text-message based. According to Claudio Fiorillo, Deloitte Latin America Countries Organization (LATCO) partner and Region Leader, Financial Services, while most banks are interested in broadening their mobile offerings, they foresee a longer timeline—perhaps five years—for full implementation of the mobile channel. Adrian Favio Felicitato, Coordinador de Proyectos Dto. Desarrollo de Sistemas, Banco de Galicia, also notes the lack of investment in payment infrastructure and that the high cost of smartphone use may act as brakes upon the growth of a more complex mobile banking ecosystem.

Pablo Selvino, Deloitte LATCO Financial Services Consulting director, says that consumers also will be relatively conservative about embracing more complex forms of mobile banking because they continue to worry about the security of the channel. Increasing consumer confidence will thus likely be key to realizing greater revenues through more complex and transaction-based offerings. More importantly, they must work with policymakers to increase financial access, according to Selvino.

Despite these challenges, banks in Argentina can create new opportunities. They can take proactive steps to make handsets more affordable, refine customer segmentation, educate consumers about the benefits of mobile banking, and in general work with mobile carriers to reduce costs, according to Maria Gabriela Zaffaroni, Jefe de Desarrollo Comercial E-galicia, Gerencia Canales Alternativos, Banco de Galicia. Of these, consumer education will be especially important as many consumers lack financial literacy and knowledge about the benefits of card payments and mobile banking solutions. They therefore need access to the right information about security and service options banks can provide.

Progress in Argentina is likely to be slow. However, some banks may seek to gain competitive advantages by introducing more complex services with or without the cooperation of other ecosystem players. Banks concerned about their competitors' plans for disruptive gain could use this to their advantage by striking first.

Brazil

Brazil is clearly a regional leader in mobile banking initiatives. According to Marcia Ogawa Matsubayashi, Deloitte Touche Tohmatsu Brazil, Partner, "The largest banks have made mobile banking a priority and are already deploying mobile payment."

Jefferson Lopes Denti, Deloitte Touche Tohmatsu, Brazil, Senior Manager, also acknowledges that the major players in mobile banking services are still searching for the most effective mobile payment business model. Some discussions recently took place through the Federação Brasileira de Bancos (Febraban), involving other agents in the value chain. Until now, these discussions were restricted to the banks.

With these discussions in mind, banks are already developing strategic partnerships with retailers and telecommunications companies to be finalized in the next few years. Telecommunications companies play an important but secondary role in these bank-led efforts that focus on improving service to new customers.

Brazilian retail and services companies also are interested in implementing mobile payments. This interest is demonstrated by movements toward conversion of private-label cards into cobranded, higher-tech "chipped" cards to consolidate strong relationships with the financial service industry and reap the gains of mobile-enabled customer data collection. The efforts of retailers, just as of banks, focus on the underbanked segment, which is now the key focus for Brazilian banks because of the segment's increasing buying power and need for financial services.

Some firms also approach their mobile operations though increased mergers and acquisitions activity, indicating their willingness to invest in the channel up front.

Paulo Rogério Caffarelli, Vice President of Retail Banking Business of the Bank of Brazil and President of the Brazilian Association of Credit Card and Services Companies (ABECS), says that "the advance of mobile payment technology in Brazil, essential to developing the financial sector in the next years, is still dependent on overcoming some large challenges, such as the convergence of systems, processes, and strategies of the credit card and mobile phone industries, but the entire market is already clearly moving in the direction of a common objective."[14]

The government also is taking action. Brazil progressively implemented regulation that seeks to promote accessible services for a wide range of segments.[15] Regulators' continuing efforts to maintain an up-to-date, supportive regulatory environment may accelerate Brazilian banks' efforts in these areas.

The current focus on transactions could obscure some remaining groundwork in customer segmentation. According to Denti, many banks in Brazil currently segment their offerings based upon financial variables, not usage and stated preferences taking account of these important factors could be important to further adoption.

The most important challenge that Brazilian banks will likely address in the coming years is security. Brazilian companies have been discussing security issues for many years, according to Rogerio Roman Pozo, Deloitte Brazil, Senior Manager, so they are well aware of the need even if the issue remains. Security is an obstacle to continued progress in the mobile banking industry because of possible fraud risk as mobile payments grow and also consumer abstention due to worries or lack of knowledge about transaction security.

In the years ahead, Brazilian banks will continue to grow their operations, making mobile transactions a priority. To create this growth, banks and their allies should work together to solidify common platforms and make sure their target segments and customer relationships remain clear.

[14] Caffarelli, Paulo Rogerio, "The Leap in Mobility," in *Financial Institutions in Brazil: Positioning for a new scenario* (2010), p 58.

[15] CGAP Technology Program, "Country Note: Brazil," December 2010.

Mexico

In Mexico, there is not a clear strategy for mobile banking and the specific role of financial institutions within the mobile banking ecosystem remains undefined. According to Julian de la Paz, Senior Manager, Deloitte Mexico, increased dialogue between banks, payments institutions, merchants, and mobile carriers is critical for a viable Mexican mobile banking industry to grow. Unless these different ecosystem parts cultivate symbiotic relationships, implementation will be costly and difficult. Banks know they cannot go alone, but have not yet developed the agreements or institutions they need to make progress. There are some brighter spots, however: new regulatory and public policy initiatives announced in 2010 and 2011 may have cleared the way for banks to accelerate their mobile banking initiatives. (See sidebar on page 13: Mexico's "great leap.")

Mexican banks currently focus on first-generation mobile banking—account information and service management via SMS—but not mobile payment systems or advanced technology. The perception is that leaders in banking and other industries want to move forward with mobile banking, but are waiting for further development of payment systems and technological infrastructure before increasing their efforts to implement transactional mobile banking. Progress in these areas will likely depend on productive discussions with other ecosystem members.

Focusing on first-generation mobile banking will still offer a real opportunity for growth, enabling banks to reach unbanked households and the newly significant segment of 3G device users. Working with mobile carriers to reduce the cost of smartphones would accelerate this trend: according to Francisco Silva, Deloitte Mexico Partner, "The relatively high cost of smartphones remains a significant challenge to growing this high-value group."

The main challenge, as in other Latin American countries, will be to gain consumer trust. This begins with changing perceptions about the security and convenience of electronic banking and payments, an area of concerted effort for leading mobile banks during the next few years. According to Froylan Campos, Deloitte Mexico Director, "Banks also can help this process by simplifying access to services and internal account requirements. Dealing with this challenge will not be easy, especially if banks wish to capture the 13 million Mexican workers employed in the informal sector (INEGI)."

"The path to mature mobile banking in Mexico also will differ significantly based on the type of bank," according to David Goslin, Partner, Deloitte Mexico. Large banks may look to channel enhancement for increased revenue and lower costs, while smaller banks may look to differentiate themselves through superior mobile offerings.

The key players in Mexico's mobile banking ecosystem are aware of the need for cooperation and will move quickly to realize the risk-sharing and resource-pooling benefits of collaboration. According to Franciso Silva, Deloitte Mexico Partner, "Given the ecosystem core's willingness to act and strong support from policymakers, Mexico may be very well positioned for explosive mobile banking growth over the next three to five years."

Conclusion

Banks in Latin America have an enormous opportunity to leverage the mobile channel and accelerate business growth in the next several years through increased revenues, reduced costs, and superior customer experience. However, to make this a reality banks will need to work with other members of the ecosystem to overcome potential hurdles that include investment costs, technology, security, and customer concerns. Failure to do so could result in a competitive disadvantage.

Banks will be able to take advantage of widespread mobile ownership to widen their customer base and increase their revenue potential. Increased customer contact and new data may also give them additional opportunities to cross-sell and up-sell. Just as significant, banks will be able to achieve real cost savings by shifting customer interactions away from high-cost branches and call centers. They can use this shift to turn their branches into "sales floors" for high value-added products and services. As a result, this process of channel tailoring might lead to significant efficiency in gains.

The customers that banks reach through the mobile channel could be increasingly satisfied because of their increased ease of access to financial services (for some of them, for the first time) and the customized offerings that banks' mobile data collection can offer them.

These bank-specific benefits are by no means the only consequences of mature mobile banking. At an ecosystem level, it could provide benefits across the board. Payment networks may see increased fee revenues, mobile carriers increased data sales, and merchants higher transaction volumes and promotional opportunities, to name just some of the potential benefits.

In the long run, mobile banking also has the potential to change markets by broadening financial access, improving financial flows, and accelerating commerce. Though it is still too soon to tell, mobile banking may have a transformative effect within Latin America that could shape the future of financial services in the region.

Latin American banks have a range of options.

- The exact nature of their mobile banking efforts may differ according to their local market context, competitive position, and strategic priorities. The steps listed here are likely to be key to achieving the full benefits offered by this channel. Some banks may have already adopted these steps but it is likely few have executed all of the following:
  - Create or further refine their mobile banking strategies to fully leverage the power of the channel
  - Integrate the mobile banking channel into broader retail operations to provide a consistent level of service quality
  - Focus channel implementation efforts on the underbanked and the affluent segments
  - Initiate programs to address consumers' security concerns and improve customer experience
  - Determine which technology platforms are most effective in realizing the full promise of the mobile banking channel
  - Work with other members of the ecosystem to reap the gains of cooperation

Appendix

Types of mobile banking services

The table below shows three categories of services: account maintenance, transactions (including mobile payments), and service management.

Banks will decide for themselves which mix of services to offer, depending upon their individual priorities and strategic plans. Mobile banking solutions may vary in their complexity and focus. For example, an account maintenance-focused strategy might reduce costs by shifting client interactions costs from branches to the mobile channel, or a service management strategy might increase revenues through increased use of high-value services.

Service	
Account maintenance	• Access account information • View balances • View account activity • Receive alerts • Manage rewards • Find ATM or branch • Contact customer support
Transactions	• Transfer funds to another account • Transfer funds to another customer • Transfer funds to a non customer • Bill payments (water, energy, etc.) • Credit card payments • Mobile phone minutes (own device) • Airtime (third-party device)
Services management	• Sign up/cancel online banking services • Change password • Increase/decrease credit limit • Request/activate checkbook • Report lost checks • Manage investment accounts • Apply for a loan

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