



White Paper

Acceleration in the Mobile Banking and Payments Landscape:
Insights and Perspectives from Financial Institutions



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Since mobile banking and payments first appeared on the financial services landscape over a decade ago, there has been considerable attention given to consumer demand and adoption of these services. In recent years, additional focus has turned to the initiatives mobile handset manufacturers, carriers and merchants are undertaking to facilitate mobile payments. In contrast, and with some surprise, little attention has been given to the role financial institutions might have in this arena.

In order to better understand financial institutions' perspectives on the mobile banking and payments landscape, as well as how they are planning for the future, Fiserv commissioned independent research firm Forrester Consulting to conduct a survey of decision makers at top U.S. banks and credit unions. This white paper provides a snapshot of current financial institution strategies with respect to mobile banking and payments, what is driving investments in these areas and what their plans are for the future. It also outlines considerations for banks and credit unions that want to develop a mobile payments strategy, and provides perspective on why now is the time to do so.

Executive Summary

In October 2010, Forrester surveyed 15 decision makers from top tier U.S. banks and credit unions to evaluate the current and future state of mobile banking and payments within their organizations. The results indicated that the majority of financial institutions have clear-cut mobile banking strategies. However, when it comes to mobile payments, most see themselves in the role of "fast follower" and are waiting for market changes and movement from "pace setters" before investing heavily. The key drivers for banks and credit unions to act more quickly and increase their investments in mobile payments include the emergence of more defined technology and process standards, increasing competitive pressure and a clear value proposition.

A "wait and see" attitude could prove costly for financial institutions as there is no doubt that mobile payments is a growth market. The time to develop a strategy for mobile payments is now – mobile carriers and other third-party players are aggressively pursuing the space,

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consumers have a growing affinity for mobile payment options, and the long-term return on investment could be considerable.

The State of Mobile Banking Today

To better understand the current state of mobile banking within banks and credit unions, it is important to understand what role mobile banking is taking within the organization, the functionality being offered and what markets, devices and access points are being supported.

Structure of Mobile Banking

Managed almost exclusively within the online channel, mobile teams are becoming a standard part of the operation and increasing in size. The typical mobile team consists of a strategic leader, user experience lead, business analyst and business strategist. The team members usually represent the credit card, payments and merchant acquisition groups for larger strategic initiatives, including mobile payments. While the mobile team's primary responsibility is strategy development, it also sets the goals for mobile banking and drives innovation.

Mobile Banking Offerings Have the Basics Covered, but Few Offer Next Generation Services

Thirteen of the 15 financial institutions surveyed have a mobile banking offering. In addition to account access, the most commonly offered services are transfers between accounts, ATM/branch locators and bill payment (see Figure 1). A handful of respondents offered contactless payments, person-to-person payments and transfers between institutions, along with a few other self-service capabilities, such as the ability

to search transactions. None of the surveyed institutions offered remote deposit capture, remote payments or trading as an integrated element of mobile banking.

Figure 1. "Which of the Following Services Does Your Institution Offer via Mobile Devices Today?"

	Yes	No
Account access - what account types? <small>Checking, savings, CD, mortgage, loans and lines of credit, and credit card</small>		
Transfers between accounts at your institution	13	0
ATM branch locator	10	3
Bill payment	9	4
Contactless / Point of Sale (POS)*	4	9
Self-servicing**	4	9
Transfers between institutions	2	11
Person-to-person (P2P) payments***	1	12
Remote deposit capture	0	13
Remote payments (including social media)	0	13
Trading	0	13

* For POS: Pilots only

** Self-servicing includes: Search transactions; Respond to messages in secured inbox; Send messages to customer

***For P2P, payments can be routed through email or mobile phone number (downloadable app only).

Base: 15 Mobile Strategists at large U.S. banks and credit unions.

Source: Mobile Banking and Payments, a commissioned study conducted by Forrester Consulting on behalf of Fiserv, October 2010.

Availability of Mobile Services Varies Across User Segments, Access Modes and Devices

All of the 13 financial institutions with a mobile banking solution offer the service to retail banking customers. Just more than half offer some type of mobile service to small business customers, while only three offer a mobile service to corporate customers.

Banks and credit unions are generally device agnostic, but see native or downloadable applications as the primary path to more sophisticated functionality. Downloadable applications are the most commonly supported access mode, offered by 10 of the 13 financial institutions. In most cases the surveyed financial institutions indicated that they relied on third parties for the development of their downloadable mobile banking applications.

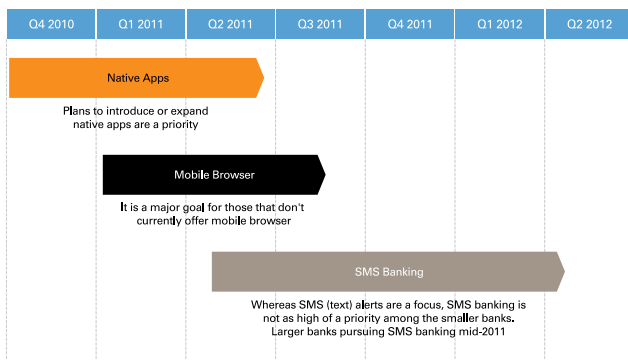
Eight financial institutions enable access via mobile browser (WAP) and six enable SMS (text) banking. In contrast to downloadable applications, most financial institutions indicated that they had developed these functionalities in-house.

The majority of banks and credit unions surveyed support smartphones today. Notably, support for Google Android is the top priority moving forward.

Accelerating Mobile Banking Roadmaps: 2010-2012

When it comes to mobile banking, banks and credit unions have clear and well-articulated strategies and roadmaps for the next 12 months, with some extending out as far as 18 months (see Figure 2). Over the next 12 months, financial institutions plan to further round out their capabilities across mobile banking access modes, introducing or expanding support for Google Android as well as other smartphone platforms, and to a lesser degree, tablets. Those financial institutions that do not already offer access via mobile browser will make that a priority in 2011. SMS (text) banking is a longer term priority overall, with SMS alerts as the focus.

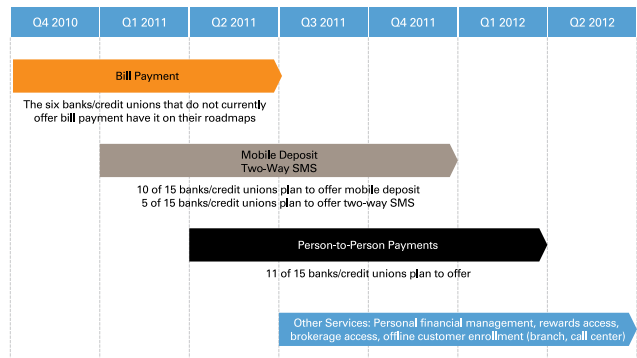
Figure 2. Mobile Banking Platform Roadmaps: 2010-2012



Base: 15 Mobile Strategists at large U.S. banks and credit unions. Source: Mobile Banking and Payments, a commissioned study conducted by Forrester Consulting on behalf of Fiserv, October 2010.

Financial institutions are also looking at enhancing the value of mobile banking by adding more robust functionalities (see Figure 3). The initial focus is on bill payment, for institutions currently not offering this service. Next on the list are mobile remote deposit capture and two-way SMS (text) alerts. Person-to-person payments are on the roadmap for 11 of the 15 financial institutions surveyed, followed by other services such as personal financial management, rewards access and offline customer enrollment.

Figure 3. Mobile Banking Functionality Roadmaps: 2010-2012



Base: 15 Mobile Strategists at large U.S. banks and credit unions. Source: Mobile Banking and Payments, a commissioned study conducted by Forrester Consulting on behalf of Fiserv, October 2010.

In general, financial institutions are looking to accelerate the rate at which they introduce new functionality to their customers. This is particularly important as segments most likely to utilize mobile financial services, such as smartphone owners and members of Gen Y, begin to make up a larger part of the financial institution customer base (see the sidebar “Who Uses Mobile Financial Services”).

Who Uses Mobile Financial Services

- The market segments more likely to use mobile banking include those who:
 - Used a personal financial management service in the previous 90 days (65 percent)
 - Use a smartphone (58 percent)
 - Made P2P payments using an online service (56 percent)
 - Fall into the Gen Y demographic (51 percent)
 - Opened 1+ accounts online (49 percent)
 - Opened 1+ accounts in the previous 12 months (47 percent)

Source: Fiserv Household Finance Survey, August 2010

Banks Envision a Role in Mobile Payments but are Taking a “Wait and See” Approach

In contrast to mobile banking, very few of the surveyed financial institutions have clear mobile payment strategies in place. And while all of the respondents currently offer or plan to offer mobile payments, they are split between being a driver (seven of those surveyed) or a facilitator (six of those surveyed) of mobile payments.

Mobile payments encompass several components including bill payment, person-to-person (P2P), remote retail (including social media) and point-of-sale (POS) or contactless payments. When asked how they have prioritized each of these mobile payment methods, banks and credit unions indicated they are most focused on bill payment and P2P with the other methods receiving less focus (see Figure 4). This is likely because mobile bill payment and P2P payments

are more closely aligned with financial institutions’ existing core competencies, and they already have the infrastructure in place to support these capabilities. Support for remote payments and POS payments however, will likely require greater investment.

Figure 4. “How Has Your Company Prioritized the Following Mobile Payment Methods?”

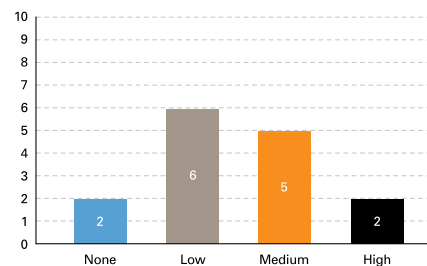
	1 (High)	2	3	4 (Low)
Bill Payment	13	2	0	0
P2P	2	12	1	0
Remote payments (including social media)	0	1	8	6
POS/Contactless	0	0	6	9
Overall Average	Bill Payment	P2P	Remote	POS

Base: 15 Mobile Strategists at large U.S. banks and credit unions. Source: Mobile Banking and Payments, a commissioned study conducted by Forrester Consulting on behalf of Fiserv, October 2010.

Investment Levels Reflect the Wait and See Attitude

Despite the overwhelming support for mobile payments, banks and credit unions are waiting on other variables before investing more heavily (see Figure 5). When asked what their investment level would be in mobile payments over the next 12 months, those who responded “none” indicated they would reevaluate for 2012 if a business case can be made. For the most part, financial institutions are waiting for others to set the pace of mobile payments.

Figure 5. “What Will be the Level of Investment Your Company Will Make in Mobile Payments in the Next Twelve Months?”



Base: 15 Mobile Strategists at large U.S. banks and credit unions. Source: Mobile Banking and Payments, a commissioned study conducted by Forrester Consulting on behalf of Fiserv, October 2010

What Will Drive Greater Investment?

According to the survey, the majority of banks and credit unions are struggling to build a business case to support mobile payments, and many are waiting for market changes to serve as a catalyst for additional investment. The following are the key market changes that banks and credit unions stated would make mobile payments a greater priority worthy of more investment.

Competitive Pressure: Respondents indicated increased competitive pressure around mobile payments would motivate them to move more quickly. Competitors were defined as other financial institutions as well as technology and payments companies, indicating that banks and credit unions are aware of the threat from non-traditional competitors in this arena.

Observed Consumer Demand: As banks and credit unions observe more customers demanding the convenience and flexibility of mobile payments, they will focus more time and energy on providing these capabilities. Respondents acknowledge that as the capabilities of mobile phones increase, consumers will begin to see the mobile phone as a compelling candidate to replace their physical wallet and demand for mobile payments will increase.

Established Revenue Opportunity: Many of the survey participants would like to see another company provide a benchmark from which to build a mobile payments strategy. Seeing someone else do it first, and successfully, could help banks and credit unions more easily establish a clear value proposition.

Emergence of Device and Process Standards: The development of a technology standard and/or the entry of an established technology player(s) with sufficient clout to dictate the use of a specific standard would

help financial institutions justify additional investment in mobile payments. The “one-off solutions” in the market and multiple models in play make it difficult to develop a comprehensive mobile payments strategy, and financial institutions are hesitant to invest in technology that quickly may become obsolete in the rapidly developing mobile payments arena.

Merchant Readiness: Banks and credit unions view merchant enablement as key to the adoption and success of next generation mobile payments. According to one respondent, “merchants will have to meet customer expectations” and once merchants are actually set up to receive mobile payments, financial institutions will be more inclined to invest additional time and money in mobile payments.

A flurry of announcements around mobile payment partnerships and pilots in recent months have heightened awareness and created a greater sense of urgency around mobile payments (see the sidebar “Competitive Pressure is a Reality”). These competitive developments may serve as a catalyst for increased investment.

In addition to considering the potential for revenue generation when determining investment levels, it would be wise for financial institutions to also consider the potential for lost revenue due to lack of a mobile payments capability. The loss of payment volume to third parties outside of the financial industry could have a significant detrimental impact on financial institution revenue over the long term.

Competitive Pressure is a Reality

The mobile payments space is currently an open playing field with new and established participants battling for the lead. Companies including Visa, MasterCard, Google and several large banks are testing contactless mobile payments and many expect to roll out mobile wallets in 2011.¹ In late 2010, AT&T, T-Mobile and Verizon joined forces with Discover and Barclays to form Isis, which is developing a mobile wallet that will allow consumers to store multiple cards, make contactless payments, check balances, receive coupons and receive rewards points at the point of sale.

Credit card companies and mobile providers aren't the only firms competing for space in the mobile payments arena. In January 2011, Starbucks launched a downloadable app that enables consumers to use their cell phone to purchase coffee and other goodies. Technology giants Google and Apple are currently working on incorporating Near Field Communication (NFC) technology, which swaps data over very short distances, into their phones while research analysts predict PayPal will strive to build mobile capabilities into its proprietary systems so as to maintain existing relationships and extend its reach.

Several startups are also staking a claim in the future of mobile payments. Square, a venture launched in 2009 by Twitter cofounder Jack Dorsey, lets mobile merchants accept credit-card payments on their phones. Venmo, a company based in Philadelphia, is testing an application that allows consumers to text each other money while Blaze Mobile and Bling Nation have introduced stickers with embedded NFC chips. By adding a sticker to

¹ Source: The end of credit cards is coming, CNN Money, January 24, 2011, Blake Ellis

their phone, consumers can use their phone to pay at participating merchants that have installed compatible NFC readers.

Researchers predict that NFC technology will be more widespread by 2012 and the battle lines in mobile payments will harden. But for now, it's anyone's game and financial institutions that move now have a solid opportunity to get in the lineup.

Building a Business Case for Mobile Payments

While there are distinct challenges associated with building a business case for mobile payments, several of the survey respondents recognize the potential of mobile payments and do have a strategy in place.

The development of a mobile payments strategy is typically led by an executive responsible for the online and mobile channels, with the involvement of multiple groups across the financial institution. Areas frequently cited for inclusion in strategy development included retail, commercial/corporate banking, credit cards, lending and mortgage, item processing, product development, information technology, risk and marketing.

When building a business case, respondents considered the impact mobile payments would have on multiple business lines in regard to the following:

Customer Retention and Profitability: Respondents point to the potential of mobile payments to reach emerging markets and to increase customer retention as primary benefits of offering mobile services. A study by mobile payment solution provider M-Com (now part

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of Fiserv) found the retention rates of Gen Y consumers transacting via the mobile channel improve from 85 percent to 93 percent.

In a separate study, Fiserv found that increased payment interactions deliver increased customer engagement and profitability. For example, consumers who routinely pay their bills electronically through their bank or credit union have almost twice the number of products (5.34 versus 3.21), deliver more than twice the annual profitability of the average retail customer and are 3.5 times less likely to churn.

Reduced Costs: While costs associated with processing checks and cash payments vary, it is well understood that electronic payments – including those carried out through mobile phones – have a direct positive impact on the cost structures of payers, payees and financial institutions. By shifting customers away from more expensive payment forms such as cash and checks, banks and credit unions can reduce their cost to serve.

Revenue Generation and Retention: As consumers begin to see the mobile phone as a compelling candidate to replace their physical wallet it is important for financial institutions to remain part of the payment loop. If consumers can link their phone to their credit or debit card, or bank account, financial institutions will continue to see revenue from those transactions. However, if third parties outside the financial industry provide mobile payment capabilities it is likely that financial institutions will miss out on those revenues, or at the very least be forced to share them.

Competitive Parity: As an increasing number of players enter the mobile payments space, financial institutions must stay in line with – or ahead of – the competition or they risk losing customers to organizations that provide mobile payments.

Increased Customer Experience and Engagement:

Respondents indicated that mobile payments will provide not only more (and better) payment options but also an additional cross-selling and customer service channel. One survey participant believes the mobile channel can be used effectively for cross-selling and staying in touch with customers because it enables a “physical presence with the customer all the time.”

Beyond servicing, banks and credit unions also envision unique opportunities (i.e. money and fraud management, authentication and customer service) associated with mobile payments given the mobile device’s proximity to customers.

The Time to Get Started is Now

Fiserv believes the time to develop a mobile payments strategy and to invest in technology that is capable of supporting mobile payments is now. Mobile payments is undeniably a growth market (see the sidebar “The Forecast for the Mobile Market”), and an opportunity for financial institutions to reduce costs, retain revenue, win client loyalty and potentially attract new customers and segments. As the mobile payments market becomes more crowded, banks and credit unions cannot afford to be only “fast followers” – they have to take a leadership role. Financial institutions that already offer mobile banking services are in a position to be leaders on the path to mobile payments, influencing consumer behavior through the services they offer.

As is the case with many new technologies, research suggests that security concerns are the single biggest barrier to consumer adoption of mobile financial services. Consumer education is essential to overcoming this barrier, and an incremental approach is an ideal way to build trust. By offering reliable information-based mobile financial services, such as

balance alerts or transaction history, financial institutions can grow trust among consumers while influencing the way they think about the mobile channel. Building an association between the channel and financial services will facilitate the adoption of transactional services such as mobile payment services in the future. Adoption data from banks that have mobile solutions supports this theory – financial institutions delivering mobile banking services have significantly higher adoption rates of mobile payment services than those that offer standalone mobile payments.

On a practical level, gaining true acceptance of mobile payments solutions will require financial institutions to offer incremental – or better still, transformational - functional value from payments. Examples of ways that financial institutions can deliver this value include:

- For bill payments, integrating payment alerts and enabling new ways to pay bills (such as photo based bill capture)
- For P2P payments, enabling payment to be sent using the recipient's phone number as the identifier, improving the speed and ease of personal payments
- For remote payments, eliminating the need for consumers to enter card data and using a simpler identifier – such as a mobile number – to facilitate payment
- For point-of-sale payments, integrating fraud alerts, rewards and merchant-funded offers into the user experience

It is only through transforming the payments user experience in a meaningful way that banks will establish themselves as providers of choices for mobile payments. This will lead to a broader adoption of the mobile channel, leading to better customer retention,

enhanced customer profitability and increased customer engagement. As such, this will enable decision makers to deliver on their business case commitments.

The Forecast for the Mobile Market

No matter what the source, the overall conclusions are the same – smartphone use will only continue to grow and more and more consumers will use them to conduct financial services.

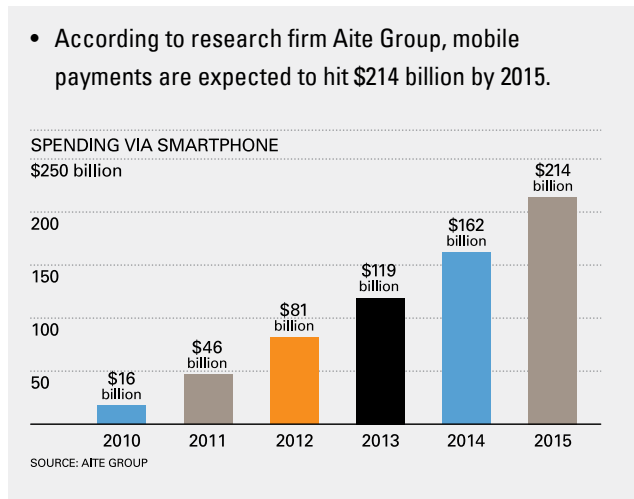
Smartphone Growth

- In the U.S., smartphones will surpass regular phones in 2011.
- According to research firm Javelin Strategy and Research, smartphone owners use mobile banking at a rate more than double that of all consumers: 36 percent versus 17 percent – among Apple iPhone owners, mobile banking rates are even higher with 57 percent using mobile banking.

Mobile Financial Services

- By 2015, more than 50 percent of American consumers, and almost 80 percent of those below the age of 35, will use financial services on their cell phones, according to a report by Mercatus LLC.
- Online Banking Report predicts there will be 38 million mobile banking households by 2015, or more than three times the number there were in 2009.

- According to research firm Aite Group, mobile payments are expected to hit \$214 billion by 2015.



Conclusion

Throughout this paper, we've identified several of the factors banks and credit unions need to consider when building a business case and strategy for mobile payments. Developing a strategy now will position financial institutions to move quickly when the catalysts for greater investment in mobile payments are in place. Speed is essential in the rapidly evolving mobile space, and even financial institutions that see themselves as "fast followers" should be thinking about how to deliver mobile payment capabilities that are suited to their institution and appropriate for their customers or members.

Fiserv can help you use the information set forth in this paper as well as additional industry research and consumer marketing insight to develop a comprehensive mobile banking strategy that includes mobile payments. If you have any questions regarding this paper, or would like to learn more about how Fiserv can help you get started in mobile payments, please contact your Fiserv representative.

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Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045

800-872-7882
262-879-5322
getsolutions@fiserv.com
www.fiserv.com

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415-11-11867-COL 04/11