



monitiseTM

MOBILE BANKING CROSSROADS:

INVESTING IN NEXT GENERATION MOBILE PLATFORMS
TO SUPPORT CHANGING BUSINESS MODELS



EXECUTIVE SUMMARY

Mobile presents tremendous opportunities – customer acquisition and retention, revenue generation and market share gains – for financial institutions (FIs) that differentiate their mobile offerings.

Simply offering basic mobile banking capabilities is increasingly perceived by consumers as mere table stakes in FI choice. Mobile differentiation by continually introducing new feature innovations at a frequent cadence is the key for FIs to reap the benefits.

The considerable challenge faced by many FIs – particularly those with mobile solutions from their core processing vendors – is that their mobile platforms are not designed to compete with those of larger, national FIs, making differentiation a formidable task.

This white paper outlines the difficulties faced by FIs that lack competitive mobile platforms and details the mandatory elements for a next-generation mobile platform that will empower FIs to drive customer acquisition and retention, revenue generation and increased market share.

01 ENORMOUS PRESSURE ON FINANCIAL INSTITUTIONS TO KEEP CUSTOMERS AND FIND NEW REVENUE SOURCES

Due to recent federal legislation and the growing threat of customers switching from their primary bank or credit union, financial institutions (FIs) face tremendous pressure to retain their customer or member base and uncover new sources of revenue.

A recent U.S. court decision rejected a Federal Reserve regulation that limited swipe fees – the money retailers pay to banks that issue payment cards – to 21 cents per transaction, ordering that the cap must go lower. As a result of the new ruling, which is related to the Durbin Amendment (part of the Frank-Dodd Act governing credit cards and interchange fees), FIs stand to lose billions of dollars in revenue that they once reaped from these fees.

Compounding the problem for FIs is eroding customer loyalty. According to the World Retail Banking Report 2013, 10 percent of retail banking customers say they will likely leave their bank over the next six months, and an additional 41 percent say they are unsure if they will stay or go. That translates to one out of every two banking customers at risk of switching FIs.¹

A recent analysis of demographic and wealth data suggests that “switchers” – customers who have changed their primary FI in the last 12 months – are too valuable for FIs to lose, as they possess vast untapped potential. Switchers are more likely to earn at least \$75,000 in annual household income, have a college degree and have more children than “loyalists.” On the other hand, loyalists tend to keep more cash deposits and investments with their primary FI. Thus, an FI’s ability to capture switchers and convert them into loyalists represents a significant financial opportunity.²

The convergence of these issues is rapidly escalating the need among FIs to focus on customer retention and acquisition while finding new revenue-generating opportunities by adhering to a mobile-focused technology strategy.

1. World Retail Banking Report 2013, Capgemini and Efma, April 2013

2. Gallup, U.S. Retail Banking Industry survey, May 2013

02 MOBILE OFFERS VAST OPPORTUNITIES FOR FIs THAT DIFFERENTIATE THEMSELVES

Given today's margin-compressed environment, it becomes critical for financial services providers to address mobile-oriented consumers -- who prefer lower cost-to-serve channels and have a more attractive financial profile. Our research continues to highlight the attractiveness of consumers who use mobile services and the importance for banks to focus on attracting and retaining those consumers.

Teresa Epperson

Managing Director,
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Along with keys and wallets, the mobile phone is now one of the three most important “must-carry” items most people never leave home without. For many people, their mobile handset – whether a smartphone, feature phone or tablet – is the first tangible way in which they conduct financial services and interact with their FI.

Indeed, the opportunity for Mobile Money – defined as mobile banking, mobile payments and mobile commerce – is massive. Gartner forecasts that worldwide mobile payment transaction values will reach \$721 billion by 2017, with over 450 million mobile payment users globally.³ Juniper Research predicts there will be over 1 billion mobile banking users by the end of 2017⁴, and that mobile commerce transactions will exceed \$3.2 trillion in four years.⁵

Moreover, an advanced mobile offering can play a significant role in driving customer acquisition and retention, inasmuch as mobile is quickly growing beyond simply another “channel”. According to a study by AlixPartners, 39 percent of consumers say that having a mobile offering is either “extremely important” or “important” in their decision to switch primary FIs. Additionally, when comparing the set of features for choosing a new FI between consumers who currently use mobile banking and those who do not, mobile played a decisive role in mobile banking users’ bank selection decision.⁶

As mobile banking adoption continues to grow, there is increasing pressure on FIs to differentiate themselves by identifying and deploying key mobile apps that will attract and retain customers. Innovative features such as mobile remote deposit capture, peer-to-peer payments and digital wallets will drive FI customer switching as part of a mobile-focused technology strategy.

3. Gartner, “Forecast: Mobile Payment, Worldwide, 2013”, June 2013

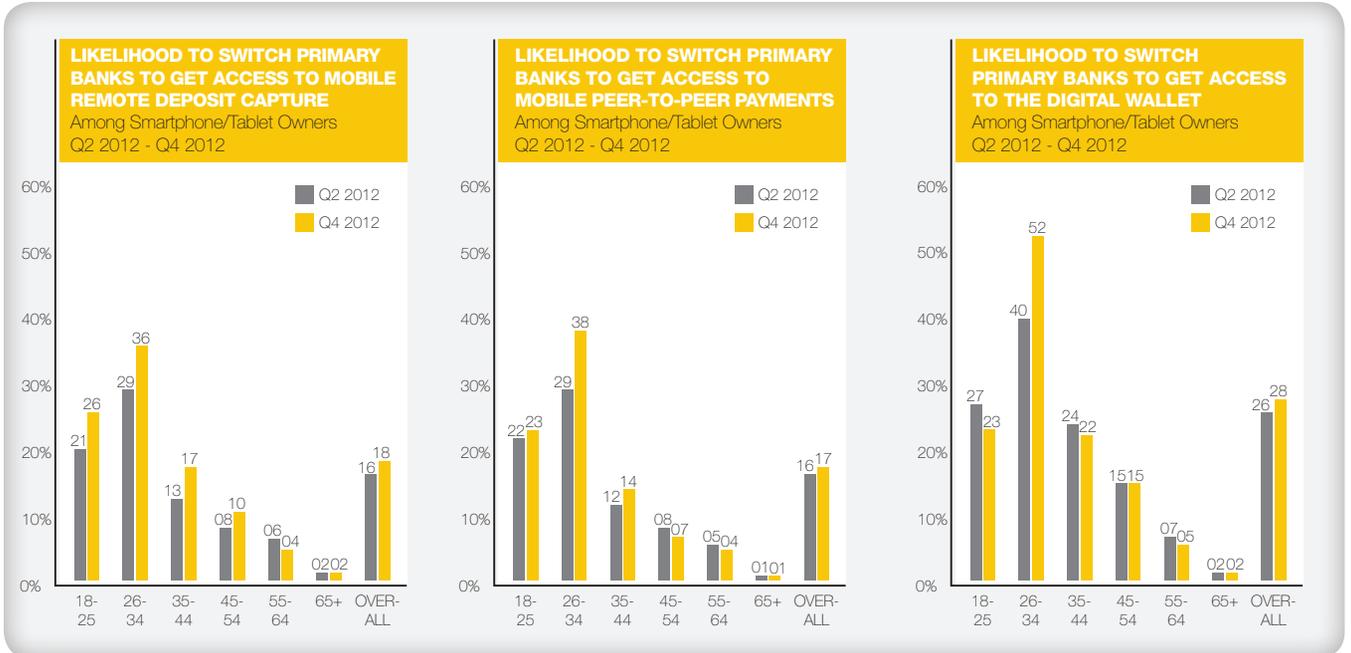
4. Juniper Research, “Mobile Banking: Handset & Tablet Market Strategies 2013-2017”, January 2013

5. Juniper Research, “Mobile Commerce Markets: Sector-by-Sector Trend Analysis & Forecasts 2013-2017”, June 2013

6. AlixPartners, “Mobile Financial Services Tracking Survey”, February 2012

02 MOBILE OFFERS VAST OPPORTUNITIES FOR FIs THAT DIFFERENTIATE THEMSELVES (CONT.)

FEATURE RELEASE CADENCE IN MOBILE IS DRIVING SWITCHING BEHAVIOR



Source: AlixPartners Mobile Financial Services Tracking Studies 2012-2013

More and more, simply offering basic mobile banking capabilities is perceived by consumers as mere table stakes in FI choice. Differentiation in the mobile channel – by continually introducing new feature innovations at a frequent cadence – is the key to attracting and retaining customers and reaping the resulting revenue benefits.

Mobile Banking Users are Highly Attractive Customers

FIs should focus on acquiring and retaining mobile banking users, as they are:

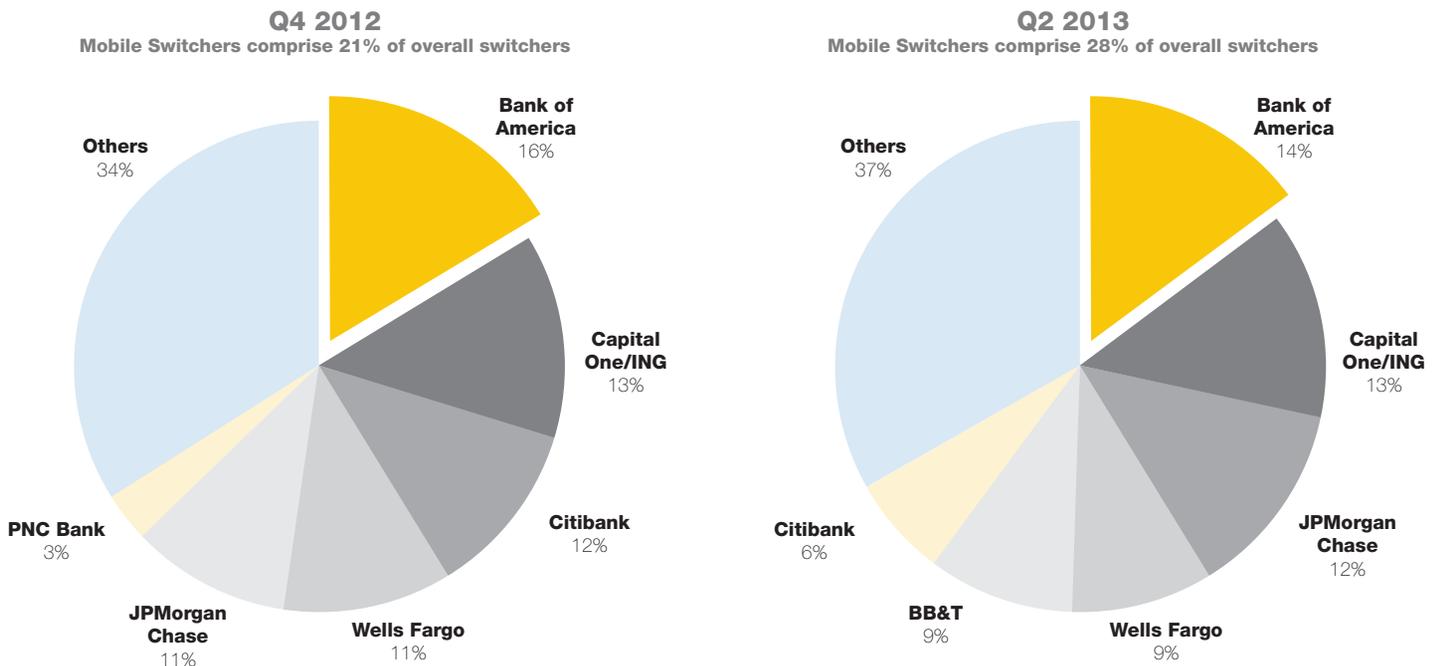
- **Younger:** 55% of mobile banking users are between 18 and 34, vs. 25% for non-users;
- **More affluent:** Average income for mobile banking users is \$71,000, vs. \$59,000 for non-users;
- **Buy more financial services products:** Mobile banking users hold 3.1 products with their bank, vs. 2.8 for non-users.

Source: AlixPartners, "Mobile Financial Services Tracking Survey", February 2012

03 MOST FIs LACK THE PROPER PLATFORM TO EXPLOIT THE MOBILE OPPORTUNITY

As evidenced by the frequent cadence of press releases announcing their new mobile features, large, national FIs clearly recognized the importance of mobile, have invested in it aggressively and are now experiencing market share increases from customer switching. Mobile is essentially turning market share gains into a zero-sum game, with larger FIs taking customers from smaller FIs due to their superior mobile offerings.

MARKET SHARE GAINS FROM CUSTOMER SWITCHING DUE TO BETTER FI MOBILE OFFERING



Source: AlixPartners Mobile Financial Services Tracking Studies 2012-2013

The considerable challenge faced by regional and community banks and credit unions – particularly those with mobile solutions from their core processing vendors – is that their mobile platforms are not designed to compete with those of larger, national FIs, resulting in:

- Lack of Rapid Feature Innovation:** FI switchers are constantly assessing the best mobile banking offerings and making their FI choices accordingly; 12-18 month release cycles are insufficient to deliver the new mobile features that customers want and expect.
- Low Engagement:** On average, competitive mobile platforms deliver 26 engagements per customer every month; smaller FIs typically fall well short of that figure.
- Minimal Adoption:** Many mobile banking platforms at smaller FIs are tied to online banking (OLB), which inherently limits adoption. Mobile enrollment is limited to customers using OLB, which is normally a small subset of the FI's total customer base and a less frequently-used channel (6 inter actions per customer per month, on average).
- Inability to Measure Mobile Channel Effectiveness:** Lack of reporting or analytical capabilities prevent smaller FIs from truly assessing the value of their mobile solution or determining where to invest to be competitive.
- No Roadmap for Growth:** OLB-tied mobile platforms are not purpose-built for mobile expansion, as they are designed simply to view into an FI's enterprise data system in order to obtain and display information. As such, the platform does not offer a path to digital wallets and other revenue-generating opportunities.

04 MANDATORY ELEMENTS FOR A NEXT GENERATION MOBILE PLATFORM

In order for an FI to adequately attract and retain customers, uncover new revenue sources and gain market share, its mobile platform should include the following elements:

Platform Capability	Description	Business Value
Modular Architecture	A mobile system composed of separate components that can be connected together. The advantage is that any component (module) can be replaced, upgraded or added without affecting the rest of the system.	<ul style="list-style-type: none"> • Rapid deployment of new feature sets. • Deploy based on business case and/or market need.
Segmented Application Experience	Mobile platform supports differentiated user experiences, matching mobile banking features to specific customer demographic segments (e.g., age, income, gender, etc.).	<ul style="list-style-type: none"> • Maximize adoption by tailoring user experience to unique consumer segment's needs. • Deliver from same platform to consolidate system management.
Revenue Generating Content	New, value-added capabilities such as national and local merchant offers, gift cards, loyalty and reward programs, etc., from third-party sources can be easily incorporated into the mobile banking experience.	<ul style="list-style-type: none"> • Revenue diversification. • Cloud delivery model reduces FI deployment and management risk.
Engaging User Interface	User interface should be visually appealing and easily navigable.	<ul style="list-style-type: none"> • Positively impacts user experience and, by extension, the FI's brand. • Encourages frequent use, resulting in increased stickiness and usage of FI-issued card.
Analytics and Reporting	Platform should include reporting and analytics capabilities so FI can assess how mobile is performing in terms of adoption, customer engagement, time spent with the app and other factors, in order to make improvements or adjustments as needed.	<ul style="list-style-type: none"> • Optimize experience for continued investment. • Measuring adoption and utilization allows focused investment.

THE VALUE OF SEGMENT MANAGEMENT

Just as retail banks segment consumers to improve their product cross-selling and acquisition efforts, they can apply similar tactics to their mobile strategies.

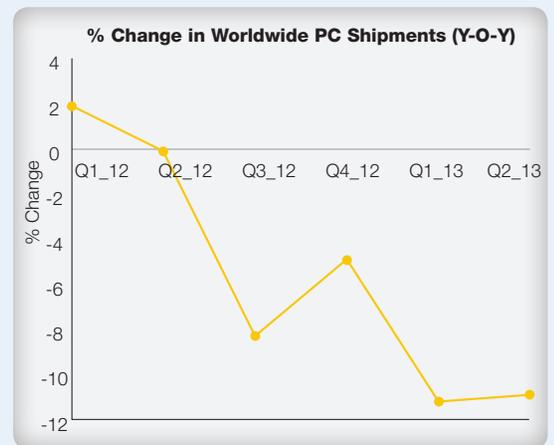
Adopting a segmentation framework can help retail banks develop a needs-based approach, and enable greater success by tailoring preferred products and services in the mobile space according to the unique needs of specific customer segments.

To learn more, download the Monitise-Cognizant white paper, "Segment-Based Strategies for Mobile Banking.

PC VS. TABLET & THE DECLINE OF OLB

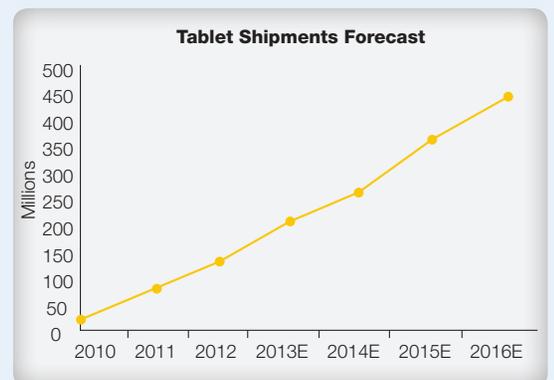
OLB solutions from core processing vendors are not purpose-built for mobile. Yet,

PC Sales are Declining



Source: Gartner

While Tablet Sales are Exploding



Source: BI Intelligence

This is why a mobile-focused technology strategy is vital.

FIs need to assess where to strategically invest for growth.

CONCLUSION

Given the important role mobile plays in customer acquisition and retention, revenue generation and market share gains or losses, FIs should seriously ascertain whether or not their current mobile platform and existing mobile offering are adequately supporting their business goals. All parts of the enterprise – not just Digital Channels and IT, but also Retail Banking, Marketing, Small-Medium Business, Wealth Management and other key business areas – should be consulted to determine if their mobile business needs are sufficiently being met.

If the FI concludes that its mobile platform is underperforming on supporting its business goals, it should strongly consider re-aligning its mobile investment to a next-generation mobile platform that will drive customer acquisition and retention, revenue generation and increased market share.

As the proven, global leader in Mobile Money solutions, Monitise is deeply experienced with empowering many of the world's most respected FIs with its next-generation mobile platform. To learn more about how the Monitise can help your FI to attract and retain customers, uncover new revenue sources and gain market share, contact Monitise today.

MONITISE - THE GLOBAL LEADER IN MOBILE MONEY SOLUTIONS



Financial institutions and partners



Registered users



Transactions annually



Mobile Money experts



Value of payments/transfers annually

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