



Mobile Banking Focus

The Rise of Mobile Banking

**Credit unions are in the unique position
of spurring the adoption of this cutting-edge
communications platform**



Introduction

The rise of mobile banking—an advance in its own right, but also a precursor to mobile finance—is being driven as much by the changing economic landscape as it is by technological innovation.

Growing consumer confidence in wireless security and comfort with the idea of managing finances on smartphones are two critical factors in increased adoption of emerging mobile banking technologies. In addition, the move provides a much-needed solution for the “sandwich generation,” as Baby Boomers and Generation X find themselves taking on responsibility not only for their own finances but for those of their aging parents. Finally, consumer and business interests converge as international travel and international commerce, including e-commerce as put into practice even by small and medium businesses, make mobile banking and mobile finance essentials in the 21st century global marketplace.

Then there’s the cool factor. Some of the newest mobile banking capabilities, like remote check deposit, have a downright futuristic feel that’s equal parts convenience and just plain fun. And anyone who owns a smartphone that’s equipped with a 2 megapixels or higher camera already has all the hardware necessary to complete remote check deposits, which are made by photographing the front and back sides of a paper check and sending the images to the bank by email.

Remote Deposit and Speeding Adoption

“Remote check deposit can be a game changer, especially for credit unions,” says David Eads, founder of Mobile Strategy Partners LLC and a featured speaker at June’s Mobile Banking and Emerging Applications Summit. Until now, consumers “might do day-to-day banking with a big bank that has branches on every corner” but also belong to a credit union for access to things like car loans, insurance, and savings accounts that offer better rates. Once that credit union offers this innovative technology, which isn’t available at that big bank on the corner, the credit union becomes more attractive as a full service financial institution.

That’s precisely what happened at USAA, the first financial institution to offer remote check deposit. “It really turned the tables on the traditional brick-and-mortar banks because it allowed them to become the primary institution for a lot of their members. And the reviews are pretty strong. Their deposits have gone up tremendously, they’re seeing their membership grow, and their costs are going down.”

Advances of this kind are spurring accelerated adoption throughout the world. In June, Gartner, Inc. projected, “The number of mobile payment users worldwide will exceed 108.6 million in 2010, a 54.5% increase from 2009, when there were 70.2 million users.”

And KPMG LLC finds U.S. consumers increasingly ready to get in on the trend. Results of its fourth annual Global Consumers and Convergence survey, released in July, show that while only 10% of U.S. consumers surveyed had used a mobile device to buy something from a retailer’s mobile site, that was double the percentage recorded in the 2008 survey.

FAST FACTS

Smartphone Sales

According to Gartner, 54.3 million smartphones were sold worldwide during the first quarter of 2010. Global sales of all mobile phones totaled \$314.7 million. For the quarter, smartphone sales represented 17.3% of all handset sales, up from 13.6% in the first quarter of 2009.

“In the first quarter of 2010, smartphone sales to end users saw their strongest year-on-year increase since 2006,” said Carolina Milanese, research vice president at Gartner, in a statement the company released in May.



Mobile Banking: Redefining Consumer Apps

These trends are unfolding in tandem with the rise of the smartphone as a consumer device. Its utility has grown beyond business people who needed round-the-clock access to email and connectivity with the home office. With the ascendance of iPhone, Android, and more consumer-oriented Blackberry models and apps, smartphones are being integrated into the way people live as well as the way professionals work. At the same time, as people become more accustomed to using mobile devices for leisure pursuits, they're becoming more comfortable with the idea of using them to make purchases and conduct other financial transactions.

In August, The Nielsen Company announced that smartphones represented 25% of the U.S. mobile market in the second quarter of 2010, up from 23% in the first quarter. And the upward trend is expected to continue as consumers accept that they can conduct mobile transactions securely. Based on its data, the company predicted that by the end of 2011, smartphones would "overtake feature phones in the U.S. market."

Doug Lokrantz, Product Development Manager at PSCU Financial Services, says the key is for financial institutions to educate consumers about the state of the technology. "Mobile devices are actually deemed to be more secure than your PC right now," he says. "Years of experience with fraud prevention measures for web-based PC applications has paved the way for stronger anti-fraud applications for mobile solutions. As long as you implement end-to-end security, the mobile device is a very secure channel. We take data security very seriously at PSCU—we continuously research and implement the latest security technology, making sure our solutions are in alignment with the transaction types that are being done on the mobile device."

Eads agrees that security is not a roadblock. "Contactless payment technology has been trialed over and over. It's one of the most piloted technologies in the history of technology, worldwide. And I don't know of a single study where it hasn't been a raging success," he says. "So you have the technology ready to go, proven. People love it. The kinks are worked out of it. And we're just waiting on the big players to figure out their business models and for one of them to blink first."

Credit Unions Positioned to Promote Adoption

But mobile banking launches are not just for "the big players," he adds. In fact, he says that because of the constituency they serve, credit unions have the opportunity to play a critical role in promoting more widespread adoption of mobile banking.

That's because credit union members include a large percentage of people who work in local government, manufacturing, education, health care, and other fields that do not involve spending working hours in front of a computer, he explains. That puts them at a disadvantage as prospective mobile banking users because "most mobile banking applications have been based online from a technical standpoint." But mobile banking increasingly is not just an extension of the online banking experience, and that evolution favors increased credit union member adoption, Eads says. "Mobile banking opens up electronic access to a lot of credit union customers and provides them with an electronic channel, which is better service to credit union members."

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Smartphone App and Browser Access

In June, comScore, Inc. reported that 78% of smartphone users accessed their browsers, and 80% accessed applications during an April 2010 survey. This represented year-over-year increases of 111% and 112%, respectively, the company said in a statement.

In the same survey, comScore found that 13.2 million people engaged in mobile access of bank accounts, an almost 70% rise from the previous year's survey. That pace scored second only to mobile access to social networking sites, which saw 90% annual growth.



Another surprise that's challenging old-school perceptions of mobile banking involves the demographic most likely to use it. The KPMG survey found that right now, adoption levels are highest among consumers aged 16-24; "33% of the respondents in this bracket... have conducted banking on a mobile device," the company reports. But Eads projects that older users, not the younger set, will make mobile banking more prevalent.

"Community banks and credit unions, in my experience, tend to misjudge this, and think that mobile banking is for Generation Y. And Generation Y certainly uses it, but mobile banking users are (a) people with smart phones and (b) people with stuff to manage," Eads says. For that reason, "the 55 to 65-plus groups are the fastest-growing demographic with mobile banking, mobile commerce in general, and smartphone usage." They have the most complex financial management concerns, are most pressed for time, and are most likely to be appreciative of the ability to take care of banking needs while attending their grandchildren's soccer practice or sitting in the waiting room when accompanying their parents to the doctor.

That puts credit unions in a position to play a leading role in the launch and implementation of both mobile banking applications and the establishment of mobile banking best practices.

"The overall goal is to integrate into one solution the capability to do your mobile banking, remote deposit capture, and point-of-sale payments from one application. It's much easier for the consumer to be able to use one application to drive all of their mobile financial services," Lokrantz says. "I see mobile banking transitioning to mobile financial services, where people will begin using mobile as the primary financial management tool."

A Holistic Approach

To facilitate that evolution, he says, PSCU Financial Services is concentrating on research and development of remote deposit capture and person-to-person payments. "Everything you can do on your PC now, you may soon be able to do on your mobile device."

And you'll be able to do it through a variety of options housed on any mobile handset and available to meet different needs at different times. When you are making your decision to partner with somebody, you want to make sure that they have a multimode solution that can be utilized on all mobile devices," Lokrantz says.

Mobile Banking Trends

In July, KPMG released the results of its fourth annual Global Consumers and Convergence survey. Among the findings the company reported:

- Nineteen percent of respondents have conducted banking transactions on a mobile device, up from only 9% from 18 months ago.
- Among all U.S. respondents who have not conducted mobile banking, 52% cited security and privacy as the primary reason.
- The number of those who said they were comfortable using their mobile devices for financial transactions grew to 16%, which is a 6% increase from the last survey. Likewise, respondents not comfortable with such usage declined to 55%, an 11% drop from the last survey.
- More than 10% of the U.S. consumers indicated they used their mobile device to buy something from a retailer's mobile site. This doubles the 2008 responses, but trails global consumers (28%), who bought from retail mobile sites.
- 10% of the U.S. consumers said they conducted an investment transaction, (i.e., buying or selling stock) on their mobile device. In comparison, nearly 30% of global consumers said they had conducted such a transaction.



Which is best? Just a few years ago, Eads says, this was a point of debate: Should mobile banking be developed for SMS? Mobile web? Native applications? “The conventional wisdom now, and I think it’s been proven over and over, is that you have to do all of them,” he says. “So then the question is, how do I manage that? What is my strategy for being able to provide services to my customers no matter what technologies they’re using at any given moment?”

Conclusion

Going forward, banks and credit unions will move away from simply reconfiguring online banking solutions for implementation on mobile devices. Browser-based solutions will continue and even expand, but they’ll be joined by other options to allow consumers greater flexibility and customization to their needs, no matter how often or how rapidly they evolve.

Lokrantz also recommends selecting a provider that offers access to an open system rather than one that locks consumers into access to applications from only one source. Overall, it makes sense to seek a provider who takes a holistic approach. While many vendors can offer a credit union mobile banking applications, innovations in the category are constant. To that end, it pays to find a partner committed to evolving with the industry, such that any system you implement can scale with your business over the long haul.

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Things to Look for in a Smartphone

Consumers who are in the market for a new phone and are intrigued by the mobile banking capabilities that smartphones offer should look for a device that has full browser capability and the ability to:

- Download applications
- Manage cookies
- Maintain data and text message plans
- Receive alerts and notifications

mBanking from PSCU Financial Services

PSCU Financial Services makes mBanking, a truly advanced mobile banking solution, affordable and accessible for all credit unions. Our full-service mobile solution offers:

Flexible formats— Lets you choose between the three most feature-rich and secure mobile formats such as a web-based interface called WAP, a downloadable application, known as an Applet (for cell phones and smart phones), and a new iPhone App.

Multi-account access—Allows your members to check balances and transaction activities for checking and savings accounts, credit card and prepaid accounts (if using PSCU Financial Services), and online bill pay.

Account alerts—Users can opt in to receive SMS (text message) alerts for daily and/or weekly balances and transaction history on loans, checking, and savings accounts.

State-of-the-art security—Consists of a user name and PIN, in addition to a security feature that is stored on the mobile device, like a Mobile User ID (MUID) or an encrypted cookie. The solution also features 128-bit encryption and an automatic timeout feature.

Simple integration—Our expert teams ensure a seamless implementation within your core system or shared branching network.

To learn more about PSCU Financial Services’ mBanking solution, call us toll-free at 1-800-443-7728, ext. 7877, or email eServices@pscufs.com. For a product demo, please visit <http://www.pscufs.com/mbanking/demosite/index.htm>.