



Research Paper

New Research Reveals Untapped Market for Mobile Banking
Among Offline Consumers



Mobile Channel Addresses Offline Consumers' Needs for Frequent Transactions While Reducing Bank Channel Costs

In the face of turbulent economic conditions and significant cost pressures, U.S. financial institutions, like their counterparts around the world, are focusing on improving the profitability of their customer relationships, lowering channel costs and enabling more self-service electronic banking.

In recent years, the rise of mobile banking has opened a new path for financial institutions to lower the cost to serve their customers, improve their competitive position and increase customer acquisition and loyalty. At the same time, mobile banking establishes a foundation for delivering future products and services that can be monetized, such as mobile payments and remittances. Despite this new ROI opportunity, most institutions have primarily utilized this new channel to drive mobile banking adoption among current online banking customers. Therein lies the opportunity.

Many institutions have implemented mobile banking merely as an extension of their online channel. In fact, customers must be enrolled in online banking before they can even gain access to the mobile channel. This approach overlooks an important segment of the banking public: The estimated 55 million non-online-banking households in the U.S. who choose not to bank online regularly or at all.¹ Similar metrics are in place in other geographies outside of the U.S.

New survey findings suggest that financial institutions should pay more attention to this non-online-banking consumer segment as a potential target audience for their mobile banking services. The survey was commissioned by VeriSign, Inc. and conducted by Palmer Research in collaboration with VeriSign, Fiserv and M-Com.

The research shows these non-online-banking consumers have clear interest in using mobile banking services. Sixty-percent of consumers reported interest in using at least one mobile banking service if offered during a typical month.

Offline consumers are heavy users of multiple bank channels: Nearly two-thirds of those surveyed reported contacting their financial institution once a week or more through one or more traditional bank channels. If customers transferred even a relatively small percentage of these transactions from more costly channels such as interactive voice response (IVR) and contact centers to the low-cost mobile channel, institutions could achieve significant savings (see figure 10 and page 4, "Mobile Banking ROI: Lowering the Cost to Serve").

Among owners of smart phones and other high-end devices, consumer interest and usage of mobile banking services was significantly higher than among users of basic cell phones. By mid-2011, 43 percent of all survey respondents said they expected to be using a smart

phone or other high-end device indicating a desire to do more than just talk. The rapid adoption of high-end mobile devices over the next couple of years suggests mobile banking may have a bright future.

While mobile banking appears to have a solid future among the non-online-banking consumer segment, the survey indicates that financial institutions still need to do more to educate consumers about the security of conducting financial activities on their cell phones and other mobile devices. A majority of respondents cited fear of transaction security as a key reason that would prevent them from using mobile banking.

This research paper analyzes the results of the recent VeriSign mobile banking survey of 501 U.S. consumers who are not active regular users of online banking (please see appendix for more information about survey methodology). It also will provide recommendations for how financial institutions can lower the cost to serve this major customer segment through increased mobile banking adoption.

Economic Downturn Drives Frequent Bank Interactions

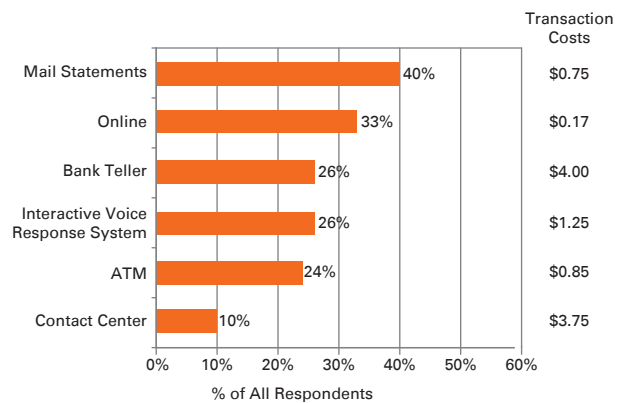
The economic downturn has prompted consumers to pay closer attention to their finances. As TowerGroup noted recently, consumers are managing their finances more closely and instant access to financial information is emerging as one of the key drivers in the business case for mobile banking.² Among non-online-banking consumers, that means frequent interactions with their bank or credit union. Nearly two-thirds of the consumers surveyed reported contacting their financial institution once a week or more (figure 2). In a typical month, respondents interacted with their bank or credit union a total of nine times.

Non-online-banking consumers had many different types of relationships with their financial institutions, led by checking/savings accounts (93 percent), credit cards (68 percent), mortgages (41 percent) and investment accounts (38 percent). Respondents are using a variety of bank channels to check account balances and review recent transactions (figure 1). Monthly mailed statements were the most frequently cited way to monitor account balances, followed by the online channel, bank tellers and interactive voice response systems (IVR).

Nearly half of survey respondents have contacted their bank’s call center or IVR to help manage their finances (figure 3). These are among the most costly channels to serve customers: The call center costs an average of \$3.75 per transaction and automated voice response system transactions cost an average of \$1.25 per transaction (see figure 1). The top three reasons for

Figure 1
Respondents Make Use of Several Bank Channels

Question: How do you check your account balances and review recent transactions?



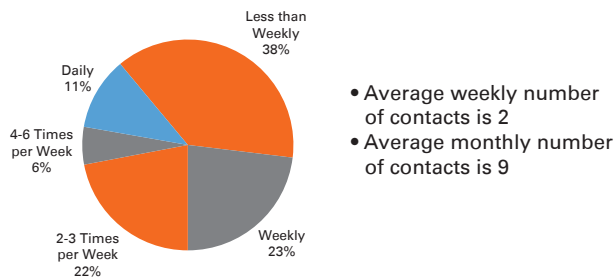
Source: VeriSign Mobile Banking Survey, 2009.
Transaction costs from TowerGroup, January 2009, with the exception of mail statement cost from M-Com.

Figure 2

Respondents Have Frequent Bank Contacts

Two-thirds of consumers contact their bank once a week or more

Question: How often do you interact with your bank through any of the channels it provides?



- Average weekly number of contacts is 2
- Average monthly number of contacts is 9

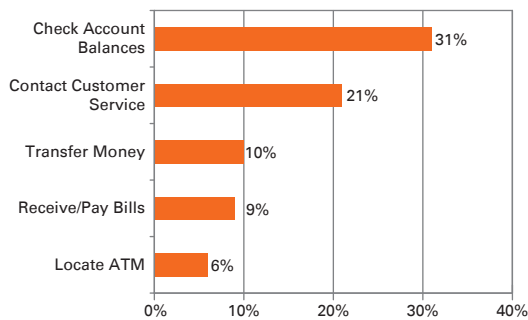
Source: VeriSign Mobile Banking Survey, 2009

Figure 3

Reasons for Consumer Bank Contacts

Nearly half of the survey respondents have contacted their bank's call center or IVR to help control their finances

Question: Did you contact your bank's call center or automated voice response system to help you control your finances in any of the following ways? Check all that apply.



Source: VeriSign Mobile Banking Survey, 2009

communicating with the contact center or IVR were checking account balances, contacting customer service and transferring money.

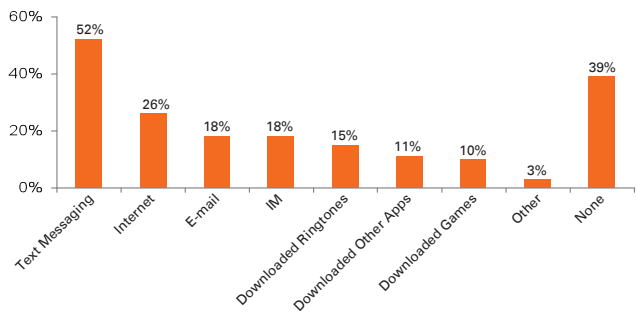
Consumers' Readiness to Do More with Mobile Devices

How consumers use their mobile phone today can indicate their readiness for adopting mobile banking now and in the near future. Besides calling features, texting was the most popular mobile phone feature (figure 4). Among respondents, 52 percent reported texting in the past month, followed by accessing the Internet (26 percent) and using the e-mail (18 percent) features of their mobile phones. On average, mobile users sent and received 171 texts per month, but smart phone/high-end device users averaged 212 texts per month. The frequent use of text messaging may signal a readiness to use mobile text alerts as an initial step in mobile banking adoption and a safe, proven method of accessing account balance information.

Figure 4

Besides Voice Calling, Texting is the Most Popular Feature

Question: Which of the following features of your cell/mobile phone did you use in the past month? Check all that apply.



Source: VeriSign Mobile Banking Survey, 2009

Seeing the Benefits, But Still Wary of Mobile Security

Awareness of mobile banking was widespread among non-online-banking consumers, with 70 percent of survey respondents reported knowing about the availability of mobile banking services. Fifty-eight percent of all respondents ranked anytime/anywhere access and speed of receiving and sending information as the top potential benefits of using mobile banking services (figure 5).

Among respondents, there was substantial interest in using specific mobile banking services (figure 6). Overall, 60 percent of respondents said they would use at least one service during a typical month. The most popular mobile banking service was checking account balances (46 percent), followed by contacting customer service (37 percent) and locating a nearby ATM or bank branch (30 percent). Interestingly, these findings correspond with the most common types of interactions that consumers reported having with their bank today.

In addition, this research demonstrates that the type of mobile device a consumer uses is a good predictor of current and future mobile banking usage, better than age, income or any other demographic variables. Eighty percent of smart phone/high-end users surveyed said they would likely adopt mobile banking services in the future versus just 54 percent for basic cell phone users (figure 7).

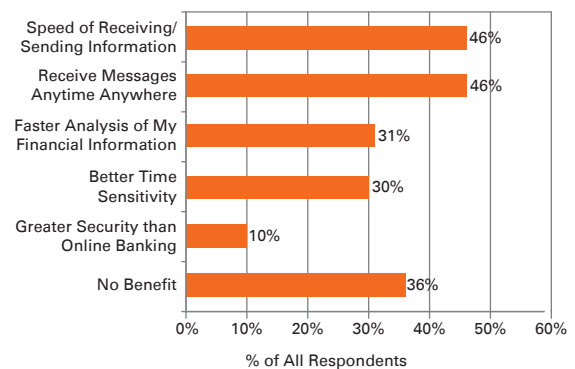
Smart phone/high-end device users were far more likely (52 percent) to say they would use their mobile phone for making and receiving payments if it were possible, as compared to respondents as a whole (29 percent). These survey findings suggest that, as consumers upgrade from basic cell phones to higher-end devices, they become more ready and more likely to adopt mobile banking services as well. Within the next two years, 43 percent

of all consumers say they anticipate upgrading to a smart phone or other high-end device, more than doubling the percentage of smart phone owners, according to the survey.

But consumers remain wary of mobile banking because of concerns about transaction security (figure 8). Security fears topped the list of reasons that would prevent respondents from using mobile banking with 53 percent. These findings suggest that financial institutions will need to do more to educate consumers about the extensive security measures already in place to safeguard mobile banking transactions. Fifty-two percent said they “could get along without it,” underscoring the need to reinforce the benefits of mobile banking for consumers.

Figure 5
58% Chose Anywhere/Anytime Access and Speed as the Top Benefits of Mobile Banking

Question: Please indicate the perceived benefits of mobile banking. Check as many as apply.



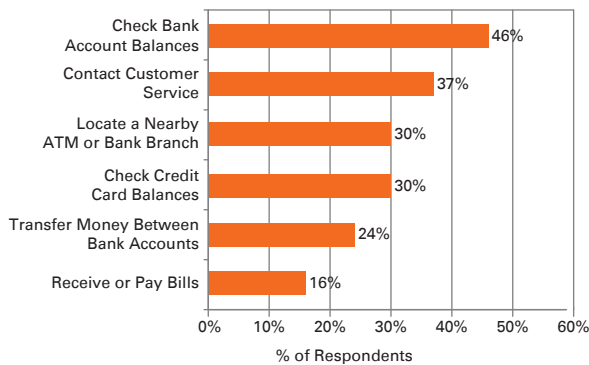
Source: VeriSign Mobile Banking Survey, 2009

Figure 6

Significant Interest in Mobile Banking Services

Overall, 60% of respondents think they would use at least one service during a typical month. Average number of services chosen = 1.8.

Question: Indicate which of the following banking activities you would carry out in a typical month using a mobile phone? Check yes, maybe or no for each activity listed.



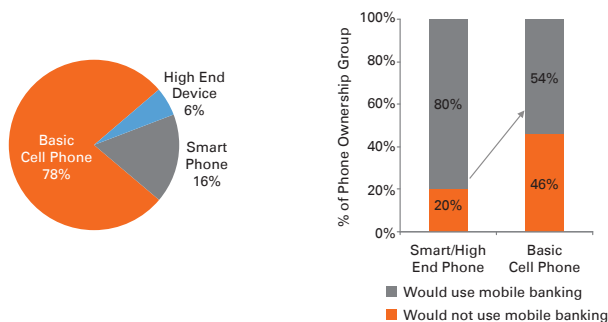
Source: VeriSign Mobile Banking Survey, 2009

Figure 7

Potential Use of Mobile Banking Particularly High Among Smart Phone/High-End Device Users

An additional 20% of respondents plan to upgrade to a smart phone or high-end device within 2 years

Question: What kind of mobile (cell) phone do you primarily use?



Source: VeriSign Mobile Banking Survey, 2009

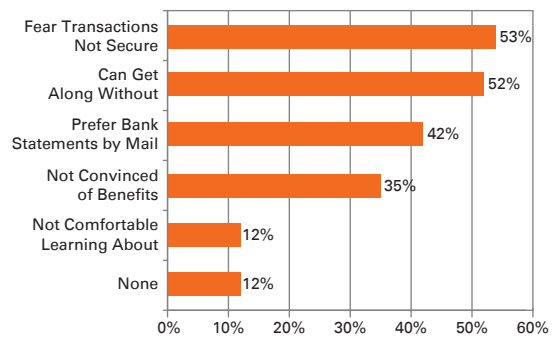
Definitions:
 Smart phone (Blackberry – does voice, text, internet enabled and additional apps)
 High-end device (Apple iPhone, Google GPhone – Internet enabled, multiple browsers)

Figure 8

Most Common Barriers to Using Mobile Banking: Fears About Security and Lack of Need

Bankers need to mitigate consumers’ fears about the perceived lack of security associated with mobile phone banking.

Question: What are the major reasons that would prevent you from doing mobile banking? Check all that apply.



Source: VeriSign Mobile Banking Survey, 2009

Mobile Banking ROI: Lowering the Cost to Serve

While mobile banking introduces some new operational costs, it is by far the lowest-cost banking channel in place today at an estimated \$0.08 per transaction (figure 9). Compare that to other banking channels such as call center (\$3.75 per transaction), IVR (\$1.25 per transaction) or ATM (\$0.85 per transaction) and you can see how moving some of these transactions to the mobile channel could result in significant cost savings.

Until now, financial institutions have been focused on converting online bankers into mobile bankers. Institutions that continue on this course will likely fail to substantially lower their cost to serve their customers and achieve a substantial return on their mobile banking investments. In effect, they are simply migrating some transactions from one low-cost self-service platform to another. For each transaction migrated from the online

channel to the mobile channel, institutions save only an estimated \$.09 per transaction.³ A more effective approach would be to implement a proactive channel migration strategy aimed at converting offline customers (those who are not regular users of the online banking channel) from more costly channels to the mobile channel. As a result, institutions could realize a cost savings between \$.77 per transaction and \$3.92 per transaction.

To measure the potential ROI from a proactive channel migration strategy focused on offline consumers, Fiserv developed a net savings base case scenario based on the survey results, which are representative of the 55 million offline households in the United States (figure 10). The scenario is based on a bank with one million offline customers. Both the upper-bound and lower-bound examples assume that the bank provides mobile banking services free of charge, and that non-online-banking customers adopting mobile banking would shift 30 percent of their average of nine monthly transactions to the mobile channel.

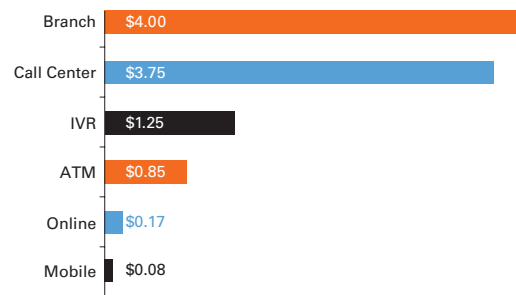
The best-case or upper-bound scenario assumes growth to 15 percent mobile banking adoption among the bank's one million offline customers, which could result in first-year channel cost savings of \$797,000 and \$3.9 million at year five. Over a five-year period, the financial institution could potentially lower the cost to serve offline customers by a cumulative total of \$11.9 million.

In the lower-bound scenario, three percent or 30,000 of the bank's non-online-banking customers would adopt mobile banking, which could lower the cost to serve non-online-banking customers by \$159,000 in the first year and \$796,000 at year five. Total cumulative savings over the five-year period could potentially total \$2.38 million.

As illustrated by these ROI examples, a proactive channel migration strategy can help banks and credit unions convert customer transactions from high-cost channels to the lowest-cost mobile channel.

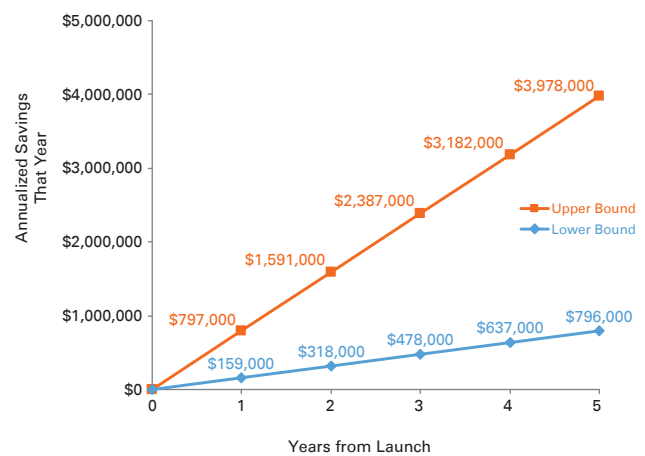
Figure 9
Per-Transaction Costs by Banking Channel

Mobile is the lowest-cost banking channel to serve on a per-transaction basis.



Source: TowerGroup, Fiserv/M-Com Data: Mobile transaction costs based on actual data from M-Com, the international mobile banking and payments solutions provider and Fiserv partner whose technology powers Mobile Money™ from Fiserv.

Figure 10
Net Savings Base Case: Bank with One Million Offline Customers



Source: Fiserv Five-Year Annual Savings Base Case Scenario Based on 2009 VeriSign Mobile Banking Survey Results

Key Recommendations for Financial Institutions

- Financial institutions need to do more to sharpen their marketing and messaging so their customers have a better understanding of mobile banking services, including what kind of financial information they can access and what specific transactions they can perform
- Financial institutions may be able to lower the cost to serve this expensive consumer segment by promoting mobile banking as a more convenient and easy alternative to using the branch, call center, IVR and ATM
- Mobile banking can help institutions increase customer acquisition and loyalty while improving their overall competitive positions by establishing a future platform for delivering premium mobile products and services that can be monetized, such as mobile payments and remittances
- Consumers have become more conscious and vigilant in monitoring their finances – institutions may promote the mobile channel as a way for consumers to take more control over their financial lives by more closely monitoring and controlling their accounts and making better financial decisions
- Mobile banking is more appealing to users of high-end mobile devices than basic cell phone users – with the rapid rise in ownership of these smart phone devices, this audience is a prime target for mobile banking adoption efforts
- To allay consumers' security concerns, financial institutions should educate consumers about how easy it is to use mobile text (SMS) alerts to validate transactions and monitor accounts for potential fraud

- Since a majority of those surveyed reported using text messaging, mobile banking alerts and SMS banking are the natural entry point for adoption among this offline consumer segment – financial institutions should promote their mobile alert service to non-online-banking consumers as a time-saving way to check balances and get other relevant information – at the same time, these mobile alerts can result in average cost savings of \$1 to \$2 per transaction for the bank ⁴
- Institutions should offer a wealth of services designed to appeal to different customer segments, including money transfers, fraud alerts, bill payment reminders, mobile deposit, account balance threshold alerts, ATM and branch locators, click-to-call, click-to-WAP, and loyalty program updates
- As mobile computing and “netbooks” grow in popularity, some customer segments may come to prefer mobile banking because of the fast, anywhere/anytime access to banking information; thus, it makes sense to allow mobile banking enrollment through the mobile channel as well as other bank channels
- To lower the barriers to adoption among offline customers, institutions should consider allowing enrollment in mobile banking through the banking channel of choice – branch, mobile or contact center – rather than requiring enrollment in online banking to access the mobile channel

Conclusion

U.S. financial institutions, like their global counterparts, are burdened by substantial channel costs and unprofitable customer segments. They face pressures from shareholders and executive leadership alike to boost profitability, lower channel costs, and enable more self-service banking.

Paradoxically, institutions have chosen thus far to focus most of their mobile banking marketing efforts on those who are already using online banking. In doing so, they have overlooked a key customer segment: the 55 million American households who do not bank online on a regular basis.

Banks and credit unions need to expand their approach to mobile banking beyond “online banking lite” and begin viewing mobile as a compelling bank channel in its own right.⁵ Institutions should target offline consumers who lack regular desktop access to the Internet but are likely to own a mobile device.

Several banks have reported that up to 40 percent of their mobile banking customers are offline users. By migrating offline users from branch or call center transactions to mobile banking, institutions have been able to reduce the cost to serve these customers. In addition, mobile banking is also helping institutions increase customer satisfaction and loyalty. As an example, one bank was able to boost customer retention from 85 percent to 93 percent in a six-month period after implementing mobile banking.⁶

While the survey results may signal a promising future for mobile banking usage among this offline group, adoption is still in the early stages. Overall, more needs to be done by the financial services industry to educate consumers and allay valid concerns about the security of mobile banking. The reality is that mobile banking is generally

safe for typical consumer-oriented applications: The wide range of mobile handsets and operating systems in use today makes it difficult for hackers to launch large-scale attacks on mobile users, thus keeping risks from malware, viruses and fraud relatively low. In addition, online banking and network security solutions are being used to further secure mobile transactions.

The survey findings show that offline consumers are costly to serve. By migrating some of these non-online-banking consumers from their frequent use of high-cost channels to the extremely low-cost mobile channel, institutions may be able to significantly lower the cost to serve these customers and achieve a far greater return from their mobile banking investments.

Appendix

Research Synopsis

Survey Name: VeriSign Mobile Banking Survey of U.S. Non-online-banking Consumers

Survey Conducted: June 29 to July 8, 2009

Region: United States

Number of Respondents: 501

Objective: Measure interest in conducting financial services using a mobile phone among consumers not using online banking.

Methodology:

VeriSign commissioned Palmer Research, Los Altos, Calif., www.palmerresearchgroup.com, to conduct a study on mobile banking in collaboration with Fiserv and M-Com.

The results are based on a survey of 501 respondents, 50 percent of whom were interviewed by land-line telephone and 50 percent of whom responded to an online survey. This dual methodology provided a more

realistic cross-section of American consumers who use a cell phone or other mobile device. Specifically, this approach reached cell phone users who do not have access to the Internet or who are infrequent users of the Internet and online banking. Previous primary research has focused only on individuals who have access to the Internet.

The questionnaire was designed by Palmer Research with input from VeriSign, Fiserv and M-Com. Each respondent was screened to ensure he or she was a mobile phone user and not an active, regular user of online banking. For the purposes of this research paper, we have called this group of non-online bankers "offline consumers." Smart phone owners are defined as those using a device such as BlackBerry that provides voice, text, Internet-enabled and additional applications. A high-end device owner uses Internet-enabled devices with multiple browsers such as the Apple® iPhone or Google® Android based devices.

The results are considered representative of the 55 million U.S. households using cell phones and not using online banking of the total 117 million households in the U.S. The margin of error for the survey was plus or minus 4.5 percent.

References

- ¹ Estimate based on 117 million households in U.S., Forrester Research, January 2009; Fiserv 2009 Consumer Billing and Payment Survey; and IntelliQuest Consumer Technology Study, Spring 2009.
- ² Charul Vyas, *From Niche Play to Mainstream Delivery Channel: U.S. Mobile Banking Forecast, 2008-13*, (TowerGroup, May 2009).
- ³ Based on TowerGroup estimated per-transaction costs of \$0.17 for the online channel and M-Com actual mobile banking data of \$0.08 per transaction for mobile banking.
- ⁴ How to Achieve a Compelling ROI from Mobile Financial Services, (Fiserv White Paper, April 2009)
- ⁵ See note 4 above.
- ⁶ See note 4 above.

About VeriSign Messaging and Mobile Media

VeriSign Messaging and Mobile Media is a division of VeriSign, the trusted provider of Internet infrastructure services for the networked world. Through this business unit, VeriSign provides global application services that reliably deliver short-messages (SMS), multimedia messages (MMS), and mobile content across wireless operators and mobile devices throughout the world. As a leader in mobile messaging, mobile banking and mobile content delivery, VeriSign offers a broad portfolio of mobile infrastructure and delivery services. Offering reliable delivery, a worldwide presence, and rapid and effective deployment, VeriSign has built a trusted and respected brand with global mobile operators, media content providers and enterprises. The reach, reliability and value add of VeriSign services enable these companies to capitalize on the rapidly growing messaging and media content markets.

About M-Com

Headquartered in Atlanta, GA, M-Com is an international mobile banking and payments solution provider with live Fortune 500 banking customers across Asia Pacific, Middle-East and North America.

M-Com's core proposition is centered on delivering a positive return on investment through world-class adoption metrics for the mobile channel, while providing the lowest total cost of ownership. M-Com's proposition to the U.S. market is delivered with Fiserv under the label Mobile Money. For more information, visit www.m-com.us.

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