

## Mobile Banking & Money Transfer: The Next Strategic Weapon for Indigenous Banks

**Joffrey Hellement**

**From Novelty to Necessity:** For years, financial institutions have been on a quest to satisfy their customers' need for more convenience. First came the automated teller machine (ATM) and then came Internet banking that enabled consumers to have 24-hour access to their financial accounts. However, these services have their limitations. To use an ATM you first need to find an ATM in order to gain access to your finances. And the biggest limitation of Internet banking is that it requires a PC with an Internet connection—not a big obstacle if we look at the US and the European countries, but definitely a big barrier if we consider most of the developing countries in the Caribbean, Latin America, Asia, India and Africa.

Mobile banking addresses these fundamental limitations by reducing the customer requirement to just a mobile phone. Customers now can access their accounts when they are, for example, waiting for their bus, traveling or waiting for their order to come through in a restaurant. The mobile phone is the one pervasive device that can be carried anywhere; it has fewer barriers to entry than most technologies, and has penetrated some of the poorest economies. Nowadays people are also so attached to their mobile phones that they will not leave the house without them. Furthermore, research has shown that billions of people around the world who do not have a bank account own a mobile phone. The banking sector has identified these opportunities and the possibilities that mobile messaging offers and is using this to strengthen links with its customers.

**The Global State of Play:** In 2007 there were 400,000 mobile banking users in the US, observers say. By 2008, there were an estimated 3.1 million users. Now, in 2009, TowerGroup has forecast that this number will more than double to at least 7 million users and could reach 10 million by year's end. Further, Tower forecasts 53 million active users by 2013—a whopping annual growth rate of more than 50%. In Africa, some countries are reaching 100% mobile penetration. In 2000, fewer than 8 million Africans had a mobile phone, now more than 100 million do. In other countries, low incomes, illiteracy and large signal black spots are all obstacles to the sale and use of mobile phones. In certain countries taxes on mobile devices are not working as incentives to develop the mobile phone penetration.

**Mobile Banking Strategies:** The world's leading banks have begun to develop strategies around mobile banking. Some have

### A Flood of Large Volume, Small Transactions

While the amounts of cash being transferred via mobile banking are often tiny, the sheer volume of business compensates for that. Pauline Vaughan, head of M-Pesa, Kenya's biggest mobile phone banking service, explains: "We have over seven million customers who have registered for M-Pesa... Our average transaction is actually less than \$40 [£24], this is the kind of customer we are addressing...but in total we are moving in excess of \$8.5m per day."

already implemented their first solution to start providing the basic service to their customers. There are still discussions about what the customer needs are and how these can be met. If we look at the trends they show us that there have been signal developments in mobile banking arena. In some cases, institutions are beginning to replace their first-round solutions, while many other banks and credit unions are jumping onboard for the first time. By one estimate, the top 300 banks are either in mobile banking or on the outside, looking to get in. If your financial institution is looking into this development please realise that the time to take action is now!

**Underbanked Africa:** Why has a form of banking that has proved a dead duck in the West been such a hit across the African continent? Millions of Africans are using mobile phones to pay bills, move cash and buy basic everyday items. It is estimated that there are a billion people around the world who lack a bank account but own a mobile. In some African countries just 5% of the population has a bank account. In other countries there is one bank for every 100,000 people. Africa has the fastest-growing mobile phone market in the world and most of the operators are local firms. In countries like South Africa, for example, mobile phones outnumber fixed lines by eight to one. In Kenya there were just 15,000 handsets in use a decade ago. Now that number tops 15 million.

Setting up a bank account on your phone is straightforward. All you do is register with an approved agent, provide your phone, along with an ID card, and then deposit some cash onto your account.

Mobile banking in Africa is being used for many different purposes from selling/buying cattle to transferring money to parents. Even Africans with bank accounts are using the service for its convenience.

**Not Mainstream in Europe:** The mobile phone delivery channel represents a challenge for the European banking industry. While mobile banking can enable institutions to differentiate themselves from competitors, reduce costs, and develop customer loyalty, significant barriers to mass market mobile banking adoption include: a general lack of awareness, technological issues, customers' perception of security, and more significantly, the cost of mobile Internet. Nonetheless, the adoption of mobile banking should increase rapidly in major European markets over the next few years, from an average of 6% today to 25% of the Spanish, French, Italian, and British markets by 2010. With the improvements in mobile technology and high mobile phone adoption rates in Europe, banks should be able to offer a wide range of added value mobile banking services.

European banks have anticipated the dissolution of adoption barriers and have already launched various mobile banking services using mainly the WAP and SMS technologies. Only a few downloadable applications have been successful, mainly in the UK and in Germany. French and Spanish banks are currently offering a broader range of mobile services, followed by Italian banks. There are many differences in the mobile banking services provided and the technology used. In the European market, information and SMS services are the most common. It is expected that once customers recognise the benefits, the convenience, and the ease of usage, they will adopt mobile banking as they adopted online services.

**The American Continent:** Bank of America says it signed up 224,000 new mobile banking users during the first quarter. In total the bank has 840,000 users on mobile banking. The bank has 23 million plus online banking users. Those 840,000 signed mobile banking users represent only 4% of the online banking users. Note that M:Metrics says fewer than 14% of U.S. mobile phone users ac-

cessed information via the mobile Web in February. So 4% of a 14% universe is much more impressive, indicating banks have tapped almost 1/3 of the short-term potential for mobile Web-based services, a good start.

To really increase adoption, text-based solutions may need more. According to M:Metrics, U.S. text users outnumbered mobile Web users almost 4 to 1 in February, 110 million to 30 million. These adoption rates are about what is expected in the US. It was forecasted last year that by the end of 2007 there would be 900,000 mobile banking users. This would grow up to 2.5 million by the end of 2008. If Bank of America has 840,000 mobile banking users and if we assume that they have about half of all users in the US, the mobile banking market in the US has likely already passed the 1.5 million mark and will end the year at more than 3 million.

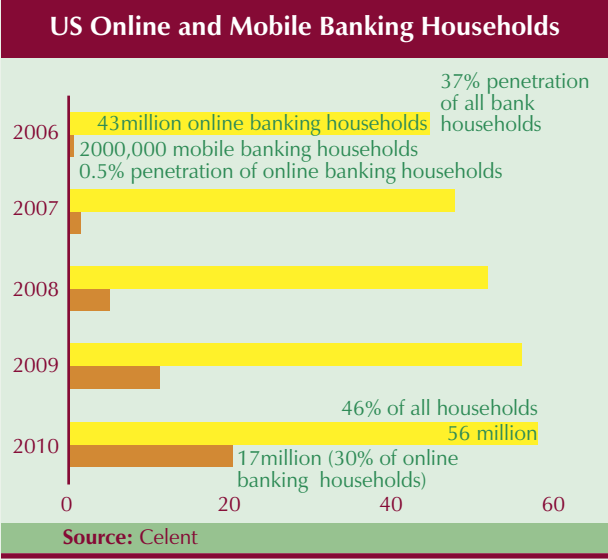
**The Caribbean is the Next Battleground:** Mobile banking is taking off in the Caribbean, where we have seen its first implementation by a consortium of banks associated into ECIC Holding Ltd., which has jointly set up and created the first mobile experience for the Caribbean. The pioneer banks using the solution and providing the service at this moment in time are:

- St. Kitts-Nevis-Anguilla National Bank Ltd. (National)
- 1<sup>st</sup> National Bank St. Lucia Ltd.
- TCI Bank Ltd. of the Turks & Caicos Islands
- ABI Bank Ltd. of Antigua
- National Bank of Dominica Ltd.

The mobile banking solution will allow customers with accounts at any of the member banks to access their bank information, pay bills and conduct other banking transactions from their mobile phones. This service is only accessible through a specific telecom provider. Other banks in Antigua and Barbuda, Dominica, St. Kitts and Nevis, Saint Lucia, and Turks and Caicos are looking into similar solutions to jump onto the mobile banking wagon.

**Profitable Strategy not Just Service Channel:** Telecom companies have been quick to seize the opportunity. They like mobile banking because it's a way for them to attract new customers by doing what they already do well—processing millions of tiny transactions. Banks have not been as interested, because they have not expected to profit from poor clients who won't be taking out a mortgage anytime soon. But banks must understand that telecoms could start siphoning away bank customers who don't need all the bells and whistles. Banks must see implementing mobile banking as a highly strategic opportunity that can be used to accomplish growth objectives and win market share.

**Increase Customer Base:** The introduction of mobile banking services allows a bank to increase its customer base. First of all, a bank can attract new customers just by introducing this service. In other words, new people may become customers of the bank in order to make use of the service. Also, the introduction of phone-to-phone banking, means that banks can attract new customers by merely receiving funds through the service. To use the funds an individual will have to register—and once registered he or she can,



through the bank's provision of outstanding service on the mobile banking front, be persuaded to become account holders.

**Increasing Deposits:** In addition to attracting new customers, banks can use mobile banking to increase deposits. The customer will need to be account holder at the bank to benefit completely from the services provided by mobile banking. These accounts need to be funded in order to make use of the service. Customers can fund their accounts by transferring money from their existing accounts to the bank.

**Remittances:** Mobile remittances represent an avenue for banks to initiate relationships with unbanked consumers (who are heavy users of both remittance products and mobile phones), with an eye to fueling deposit inflows through later cross-sale of traditional banking products like chequing accounts. On the receiving side, mobile remittances will spur the evolution of the financial sector in developing countries and economies, so that recipients can direct remittances to chequing accounts, bill payments, and micro-finance applications. The inevitable convergence of remittances and mobility offers new opportunities for banks to grow this market by making payments faster, more convenient, more secure, and more accessible to a greater number of senders and recipients.

This ties back to the increase of customer base and deposits.

**Pitfalls but Profitability:** The transactions pushed through mobile banking channels typically are high in volume but low in value. This can dramatically eat a way a bank's margins as an overwhelmed back office struggles to keep up with customer expectations and the influx of new payments. However it's important to understand just how profitable mobile banking users are versus traditional bank customers. How profitable? The mobile banking customer (in particular the text mobile phone customer) is 13% more profitable to the bank than the average client. If the average customer is worth 'X' to your bank and you add online banking, that customer becomes more profitable. If, as a next step you add online bill-pay that customer becomes even more profitable. And now, by adding mobile banking you can ensure that that customer will increase in profitability and move to the top of the chart.

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## Mobile Banking: Choosing your Bank's Platform

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**From Vanilla to Value:** Mobile banking has come of age and is now a key way to win new customers, and increase deposits and market share. The wide variety of first generation mobile phone solutions on the market range in scope, from simple inquiry functionality, to full WAP-enabled banking functionality. However, at this point, the alternatives provide an additional customer channel that is fairly "vanilla".

At this level of integration, mobile banking is bolted onto the bank's existing infrastructure with little or no integration to its core banking and payment systems. This approach can seriously erode profitability and margins in a bank because the bank must add additional staff to cope with a rapid influx of customer service inquiries and payment orders. Without a well thought-out integrated approach, the value in adding mobile banking may be overtaken by bottlenecks in servicing the customer, leading to disgruntled customers and reputational harm to the bank.

**Next Generation Mobile Banking:** IBIS Managements takes the view that banks should be profitably efficient in every aspect of their operations, in every channel, and for every payment type. This can be achieved by unifying all payment channels on a common payment processing platform where they can be processed straight-through with minimal manual intervention of any kind. This approach leads to high margins, blazingly fast customer response

times and complete audit and compliance coverage of all payments.

An integrated next generation mobile banking solution permits the bank to offer full transactional banking on even the most basic SMS-equipped handset. It is an inclusive strategy that allows banks to serve all customer segments and profiles, not just the affluent and technology-savvy smartphone user. And the next quantum leap in mobile banking is the bank's ability to offer money transfer and banking services not just to account holders but to individuals and corporations worldwide.

Next generation mobile banking is being deployed at the first few "technology-forward" banks right now. Let us take a look at what bank customers in the region can expect of Alchemy Mobile-Next Generation Mobile Banking. This is a fully integrated extension of the widely deployed Alchemy Payment Platform, which now powers more than 25 major banks across the Caribbean and Central America. It provides the bank with the full set of functionalities and services to enable its customers to manage their finances at any-time and anywhere in the world without having to have access to the branch. Alchemy's essential Mobile Banking Features include:

- **Inquiry Service:** Alchemy Mobile Banking Inquiry service lets the customer make inquiries on their bank account by just sending a phone message (SMS). Customers need not

## Proactive Alerts & Notifications

### The New Standard

- Account Balance Notification: Customers set these alerts based on parameters that meet their wishes, e.g.: Overdraft situation and threshold.
- Credit Notification: Customers set these alerts based on parameters that meet their wishes, e.g.: Type of payment, amount and currency.

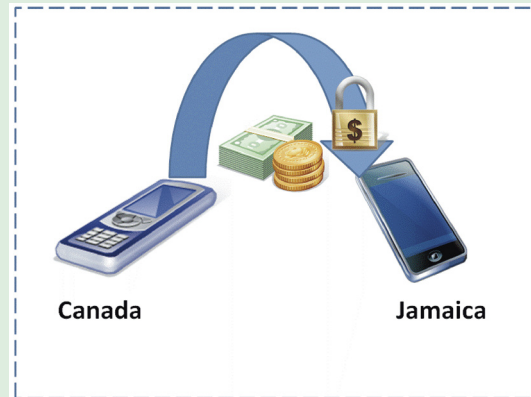
### Alchemy Mobile banking supports the following types of payment:

- Bill payments, Account transfer, Internal transfers, Managers Cheque, Domestic payments, Credit Card payments, International wires and international drafts.
- Debit Notification: the customer sets these alert based on certain parameters to meet their wishes (think of type of payment, amount and currency).
- Credit Card transaction Alerts: in order to combat fraud the customer can be alerted every time his credit card is used for a transactions.

visit the bank or wait endlessly for a phone call to get through to its customer care center to get answers to their questions. Customers can do inquiries on balances, the last three transactions on account, and the exchange rate. Customers receive the requested information via SMS back to their mobile devices.

- **Alerts & Notifications:** Alchemy Mobile Banking can alert your customers on activities based on a series of pre-defined events. For example, it provides the service to send funds to anyone, anytime all over the World. A vast range of payment types can be initiated from the customer's mobile phone: How would you like to initiate an international wire or a manager's cheque from your mobile phone?
- **Service Requests:** Alchemy Mobile Banking also provides customers with several service requests that can be initiated via the mobile phone. The request will be sent to bank and processed accordingly. Service requests range from blocking credit and debit cards, requesting new credit and debit cards, and requesting new cheque books, and e-statements. This takes pressure off the bank's branch and call center, and increases customer satisfaction dramatically.
- **Phone-to-Phone Money Transfer:** Alchemy Mobile Banking enables domestic and international phone-to-phone payments. Any registered user of the service can send funds to any telephone number anywhere on the planet.

## Real Time Compliant Phone Money Transfer



This expands the service provided by the bank to a whole new level.

- **Carrier Independence:** The Alchemy Mobile Banking solution operates carrier-independent, allowing all customers to use the service regardless of their cell phone carrier. This makes it easier for any customer to come in and apply for the service and greatly expands the marketability and operability of the service.
- **System Management:** The bank can configure and set up its own mobile banking environment, which means it can control the environment and limit the type of transaction and values processed through the system.
- **Security and Compliance & Access Levels:** A key concern for bank management is ensuring that all payment transactions are safe and compliant. No bank can afford even one instance of compliance or fraud risk. Alchemy uses a highly secure multi-authentication in the system, which allows the bank to implement Know Your Customer procedures and to grant the user service capabilities based on authentication and user access privileges according to a segmentation strategy or risk matrix.

Today, after five years of false starts and delays in the US and Caribbean, mobile banking has reached critical mass. It can, and should, be considered as a standard and essential part of banking services. There remains room however for sophisticated differentiation when it comes to the level and type of services provided. IBIS Management advocates the use of secure integrated STP systems to ensure profitability and security of this highly important channel.

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