The Future of Mobile Banking

What Does Mobile Banking Mean for Banks?

**Knowledge@Wharton:** Welcome everyone to Knowledge@Wharton for this discussion of mobile banking and how it will likely change the future of the banking industry. We have with us today Wharton management professor Keith W. Weigelt and also two consultants from Ernst & Young -- Steve Ferguson, who joins us from Australia, where he’s a partner and also the Asia Banking and Capital Markets leader. We also have John Keller, who's the American Banking and Capital Markets Advisory leader, based in New York. Thank you for joining us.

**Knowledge@Wharton:** Mobile banking is considered the next big thing in the retail banking industry. Over the next five or 10 years, we’re going to see great change in that area. Let's start out by talking about what mobile banking is and what it isn’t. How does it differ from online banking, for example -- or does mobile banking differ from online banking?

**Steve Ferguson:** Mobile banking is about making the user experience much better. By going through an application that the bank has specifically designed, you’re able to get much easier access to your accounts and your information. You’re able to make transactions much easier and that's a very different experience to what you see just going through Internet banking. So I see enormous opportunity for mobile banking as another channel for what a bank can provide.

**Knowledge@Wharton:** Plus almost everyone carries a mobile phone these days and they do not have their PC in their back pocket.

**John Keller:** Steve can talk about a lot of the things they use mobile banking for in Australia. But in the U.S., mobile banking is a relatively new concept. Internet banking's been around for a while, and so from my view, the difference between the two is how often the technology changes and that we have all of this new technology available. As people say, the iPhone changed everything. That's what made mobile banking possible.

**Knowledge@Wharton:** What do customers expect from mobile banking? What do they demand? What do banks need to understand about the different experience that they may be looking for in mobile?

**Keith W. Weigelt:** I would view it more from [the point of view of] emerging economies. Mobile banking has opened the financial system to millions of people who were shut out of the financial system because they're the unbanked. I see mobile banking as starting almost a social revolution, which will bring more of the poor into the formal financial system. In emerging markets, a lot of what they’re looking for is convenience. Many times in these rural villages, they’ll be a day's travel from the nearest banking branch. And so, mobile banking allows them to carry out transactions at a much cheaper rate in terms of travel time, in terms of the time per transaction, and it's really opened up whole new areas in these rural developing countries for the unbanked to join financial services.

**Tablets vs. Smartphones**

**Knowledge@Wharton:** One thing that is very interesting is the difference between what customers expect with a tablet experience versus the regular smartphone. Which do you think is going to be most important for banks in the future?

**Ferguson:** I have two perspectives. The first is that, if you just want to do basic transactional banking, having the iPhone in the pocket or a similar phone is actually very convenient and a great way to do it on the run. However, if you want to go broader than transaction banking, if you want to do other activities, whether it's managing your finances and some of the other activities, then I think a tablet becomes easier because of larger size and the clarity you get from the iPad experience.

So I think there’ll be a need for both smartphone apps for mobile banking, as well as a broader experience on the tablets.
Knowledge@Wharton: It sounds like banks aren’t going to get to pick and choose. They’re going to have to develop both and they’re very different, aren’t they? It’s almost two separate products.

Keller: It is. And I think as Keith discussed, in emerging markets -- where you’re talking about SMS texting -- then you’ve really got to have both the smartphone apps, you’ve got to have the iPad apps and you’ve got to have texting. And just like the banks back in the early 1990s thought they had to convert from bricks to clicks, they figured out you have to have both. And so, banks are going to have to have all three media or networks to compete effectively.

Assessing Potential Markets for Mobile Banking

Knowledge@Wharton: We are talking about this great potential for these markets. But just -- what is that potential? How big are these markets potentially -- mobile banking and tablet banking together? And perhaps, how will the size of the markets differ in different regions of the world?

Weigelt: One thing with the smartphone, if mobile banking turns into the open virtual wallet as a lot of people have predicted, I think you’re going to use the tablets for different functions than smartphones. Smartphones will allow you to go into a store and make a transaction without any cash being exchanged. And so, I see mobile phones being used more for that because a tablet’s heavier to carry around and we generally don’t shove it in our pocket like the mobile phone. In terms of potential, there are about 4.5 billion adults in the world and about 2.5 billion individuals are unbanked. And so, with mobile banking, we have a tremendous opportunity to really broaden our market reach.

Knowledge@Wharton: Can you tell us what this term “open wallet” is about?

Weigelt: The virtual open wallet is the idea that you can use the mobile phone for lots of different banking functions, including person-to-person transactions; loan quotes; and insurance quotes. You can pay your bills and you can receive disbursements, for example, from the government and so forth. And so you’re really talking about a device where you’re making transactions which we would make today with cash, but instead of using cash, we’re going to use our accounts on the mobile device.

Knowledge@Wharton: Steve, when it comes to the potential size of these markets, could you provide a little context for us?

Ferguson: If I was to look at the Asia Pacific area, there are a couple of different examples I could use. If you pick China, for instance, where still around 40% of the people live in rural areas, they actually have a very large, well-developed banking system. So, the Agricultural Bank of China, for instance, has many thousands of branches. Yet, high take-up rates, of smartphones and other tablets, means that people in China are demanding mobile banking facilities. If I were to go to another country, South Korea, where over 80% of the people Korea have smartphones, obviously, there’s a high demand there for the use of mobile banking, which contrasts with the U.S., which I think is only around 50% -- a take up of smartphones. And then you come down through to Australia, where we’ve had limited forms of mobile banking for some time now. To give you an example of one application that’s been developed by one of the Australian banks, when I want to pay somebody who does some work for me, particularly in the small business area, then I can send them a text, which advises them that I’ve now lodged that money with the bank.

And then they go into that bank website on their mobile phone, put in their account details and the money’s transferred to their account. So it is a much better way of securing payment, if you like, in the small business area. I think the key is that as banks look where to capitalize on this, they’ll be big differences across each of the geographies, even in an emerging area like Asia Pacific.

Emerging Markets Blaze Trails in Mobile Banking

Knowledge@Wharton: It sounds as though a lot of the innovation and penetration is taking place in emerging markets or newly industrialized countries, and that they may have some lessons for the U.S. I know Europe seems to be more advanced than the U.S. in this area, but perhaps there are lessons to be learned from these other experiences outside of the U.S. for U.S. banks. Could you talk about that?

Ferguson: I think it is an opportunity. And I think there’s also an opportunity here that banks will learn by some of the mistakes that are made. So clearly, security will be a big issue as mobile banking becomes more prevalent.
And so, there will be some incidences in the future where security issues are raised with mobile banking. So maybe the U.S. has an advantage by waiting a little while longer because they can actually try and capture that.

Keller: But they’re not going to have any choice. They will have to develop full-blown mobile applications because that’s what their customers will demand. And so, it’s not going to be a choice of “I might do this, I might do that” -- they will have to offer all of the options, especially if they want to try and capture the younger customers, right? For those of us who are a certain age who think of the iPad as a very advanced tool, I can use an iPad to do a lot of things, but if you want to capture the smartphone crowd, you’re going to have to offer it all.

How Will Mobile Banking Drive Innovation?

Knowledge@Wharton: What are some of the services that will be available? Keith has outlined, quite a few. But I'd like to get your ideas about which services make sense initially and then down the road. There's talk of all sorts of things that we don’t typically think of as being strictly banking business, but might more easily be bundled through mobile than in the bricks-and-mortar world.

Ferguson: There are many applications already being developed in the world and as you start to research the different types of products that are emerging in countries, it is quite interesting. I’ve talked about a product where you can make payments. There’s the one that Keith talked about, where instead of a credit card, you put your mobile phone in front of a scanner and your purchase is made. I think what will happen then is we’ll start to see, particularly for tablets, more sophisticated banking products that will enable you to manage your finances, for instance. The ability to use information from your bank account, run those through budgeting models, et cetera, will start to become more common, as well.

Keller: I can think of trying to capture as much of the consumer spend as possible and that’s what it's all going to be about. And my daughter, the other day was at a store, put a mobile phone up to a product and picked up a coupon. So when she went to the checkout counter, she just put her mobile phone up to some recognition device and immediately had a coupon in order to buy something. So that is what they call near-field communication devices, which allow retailers, in conjunction with a financial institution, to offer that type of a buying experience.

Ferguson: And with the navigation system that sits in these smartphones, they’ll be able to track and tell you when you’re approaching a store that’s part of that consortium, and you’ll get pinged a message that says, “Today there’s 10% percent off in this particular shop” – and off you go because you’re right next door. So I think those sorts of initiatives will be some of the newest style products.

Weigelt: And in fact, in some countries they already exist.

Should Banks Expect Cooperation – or Competition – from Retailers?

Knowledge@Wharton: Keith, there is a crossover between banking and a retail selling strategy, which makes me wonder about some of the people that are more adept at retail and who will capture that space. You’ve got places like Wal-Mart and Target that already have huge numbers of credit card customers. Airlines would be another example. So how does that present a challenge for banks? While they are moving into retail, maybe retail and some other challengers may be moving into their space, creating a whole new competitive mix.

Weigelt: When we talk about mobile banking, many people may assume that it’s the financial institutions that are pushing the technology and will control this space. But right now it’s not clear that it will be the financial institutions. In many countries, take Kenya for example, the operators or the companies like Verizon, AT&T and so forth, they control mobile banking. And even in this country, there’s been a movement by Verizon and AT&T to have mobile payments on their networks. And then the banks have a role, but the banks would not control it. Now in terms of Wal-Mart and so forth, again, about 25% of the population of the United States is unbanked and Wal-Mart has taken the lead in bringing these individuals who do not have bank accounts into the financial services through some of their applications.

Knowledge@Wharton: What do you see in that competitive space and are there lessons to be learned, let's say, in Asia, where the region seems to be ahead of the U.S. in adopting these technologies?

Ferguson: In fact in China, there’s a consortium that’s been put together to work through and resolve how mobile banking should work. It includes 18 of the largest banks, two of the major telecom companies and some of the
other operators. They are trying to make sure the system has the right security processes and the right structure, the right legal and regulatory framework. In Singapore, there’s an effort to design an operating platform that should be used for mobile banking. So as it starts to take off in each country, I think they’ll need that framework established so that we don’t have potential regulatory issues, such as those that you’ve seen in the U.S. around check processing with the Internet. So I think there needs to be that framework established.

Knowledge@Wharton: So there needs to be some sort of common policies around security and related issues. It sounds like a lot of opportunity for jockeying around -- is that what's happening?

Keller: I think it is and I think one of the issues that they'll have to resolve is who owns the customer at this point, right? You're now sharing all this information about a particular customer and who's going to allowed to market to that customer? It's the same issue that the banks had when they came out with co-branded credit cards back in the late '80s and early '90s. Who is allowed to go after the customer and how do you make sure you don’t compete and/or overload the customer with some of the product offers that you're talking about?

The Future is Still Cloudy for Mobile Banking

Knowledge@Wharton: Banks seem to understand, particularly in the U.S., where they're still moving towards this, that mobile banking is very important and they need to develop apps and they're developing apps quite aggressively. Where things are a little bit slower is actually acquiring customers or encouraging customers to use some of the apps that they've developed. Is this a natural process or is this where the banks need to be more aggressive or they could risk being overrun by competitors?

Weigelt: First of all, so far, there hasn’t been a strong business case to get into mobile banking. The initial fees are high, and although the marginal cost of these transactions is low, the monthly fees to maintain these apps and keeping up with the changing technology and so forth, it can be substantial.

No one has really made a strong business case on how much additional revenue and/or profit banks will receive through mobile banking. And I believe that's one of the issues that have to be resolved.

Keller: I can only think of one large U.S. bank that does any advertising and education around mobile banking. I honestly can only think of one bank right now that is even trying to educate consumers on the opportunity.

Knowledge@Wharton: So if this is the next big thing in banking, why is that? Why the lag? Is it because there's just a huge investment without much prospect of immediate payback?

Ferguson: I think banks need to look at this as a new channel to get to their customers. And when you're considering whether, how quickly and how far to go into mobile banking, the banks have to examine what customers are they trying to attract and what customers are they trying to serve? Because that's the key issue here -- it's a channel that is emerging. The risk for them is that the retailers actually capture that market for them and they've in fact, lost the customers. So that's their risk.

But it's just like one of the big European global banks, post the global financial crisis, which decided that it didn’t need to be in every country doing every transaction with every customer. They came to the view that it was better for them to focus on the customers that they really wanted to attract and work with. I think mobile banking will be the same. Before you launch a broadside into the U.S. market, are you satisfied that those are the customers that you’re trying to attract? So it’s a channel decision for me.

Knowledge@Wharton: Keith, you were talking about under-banked customers or unbanked customers being perhaps a large potential market, particularly when you start to think about banks earning money on payments [transactions] and not simply on the traditional taking of deposits and the like. Is that risky that this huge, untapped market could be out there, yet, if you don’t act someone else will?

Weigelt: I think that’s true. I believe it’s also true that the future is really cloudy right now. For example, within the U.S. we’re talking about the setting of standards. They will have to be agreements between all these collaborators. And right now it’s risky to start a system if the standards shift or the technology shifts, then all of your costs could be basically wasted.
Can Banks Make Money in Mobile Banking?

Knowledge@Wharton: There is also the question of how banks will make money on this. How are they going to charge – is it by transaction? There's some experience in Africa, I think you talked about in Kenya, where there's been some prices and costs established. Could you talk about what those look like and the implications for places like Asia, Europe and the U.S.?

Weigelt: Sure, M-Pesa [mobile-phone based, branchless banking] in Kenya is one of the most successful mobile banking systems. They've grown by leaps and bounds. They've brought millions of people into the formal banking system. Basically, their model, one of the models, is they charge a transaction fee for remittances. So a lot of their market is remittances. The men will come to the urban areas, they will work and then they'll remit the money back to their families the rural areas. On average, M-Pesa receives 37 cents per transaction.

Knowledge@Wharton: And that average transaction is how much?

Weigelt: Roughly about $13.

Knowledge@Wharton: And so, as you look at the U.S., we've already seen some resistance to new fees. Bank of America tried [and later retracted efforts] to add a five dollar monthly charge for their debit card, so nobody likes to be charged for something that they're used to getting for free. However, the airlines have made an art of managing to push such fees through. What do you see the banks doing in the U.S.?

Keller: So if, I think as Keith said, if the mobile banking platform ends up being truly a cheaper delivery channel, they will absolutely try to force as much of that as they can. We've seen the Durbin Amendment that reduced fees that could be charged on debit cards, there's the ongoing debate about interchange fees with MasterCard and Visa because customers won't pay the fees unless they don't know they're paying them. So of course, with a credit card it's always been invisible to the customer that there was a fee involved, it's only with this debit-banking fee that we now see it.

But as the banks have been forced to unbundle their services, they will drive as much as they can to these cheaper channels. And absent some real change in technology, I think mobile banking is absolutely where they will try to get as much business as they can.

Ferguson: And perhaps it's about differential pricing. So if you are trying to force people to use Internet banking or mobile banking because it's a cheaper option, maybe it's about having differential pricing, and that means that you're really trying to get people to use those systems of banking that are cheaper for the banks to operate in the medium term.

Knowledge@Wharton: So use the carrot, not the stick.

Lessons from Past Banking Innovation

Knowledge@Wharton: Are there any parallels between mobile banking and the introduction of ATMs some years back?

Keller: I think there absolutely is. I think if you look at the original ATMs that were clunky to use, they were not available all the time and you were essentially limited to only ATM that your bank had. And now if you look -- once the banks got comfortable that the security associated with ATMs was such that they could handle interbank transactions -- then the ATM became almost second nature to everyone. But it did, at that point, allow banks to start charging fees if you wanted to cross platforms or cross networks with your bank.

Weigelt: One thing we should remember, too, from the cost side -- it's been estimated that a mobile banking transaction costs about 10 times less than a transaction in the ATM from a bank and about 50 times less than having a teller conduct the transaction in a traditional banking. Now, it is true that banks will be losing some information because they won't have the personal customer interaction, but it's also true with mobile banking that they'll be able to collect a lot more data on shopping behavior and so forth, and maybe they can generate revenue from that data.

Ferguson: So 10 years ago, banks around the globe were closing branches on the basis that they were expecting that ATMs and Internet banking would help them reduce their cost base. Well, low and behold, customers still occasionally want to go into a branch, so three or four years ago, they started opening up branches again. They
looked different, they feel different, but they’re still branches. So I come back to the point: I think mobile banking is a relatively new channel and banks need to be in that channel, but it’s only one channel.

Measuring the Mobile Banking, Personalized Service Split

**Knowledge@Wharton:** You raise an interesting point about the loss of customer interaction that banks depend on to pick up intelligence, but also to develop customer relations and have more than a virtual relationship with customers. How might that change? Might you do certain transactions on your mobile, but then, have other transactions that require the face-to-face interaction -- perhaps financial advice?

**Weigelt:** I think there’s an opportunity for banks to shift personnel from tellers -- taking money, making these very simple transactions -- to more like you said, financial advisory services and trying to sell more of their financial services to individuals who come into the bank.

**Knowledge@Wharton:** Steve, what’s your sense of that? That loss of personalization – is that’s potentially a real loss.

**Ferguson:** Yes, I think the opportunity for tablets and mobile banking is that consumers will be able to get much better access to the types of products and rates that various banks will offer. So, when they do go into the branch to have their conversation, they’re probably better informed, and probably ready to do the deal, having worked through on the tablet the types of information they need and perhaps even filling in the loan application online, so that they are not sitting there filling out forms in the branch, they are actually having a conversation. That’s much quicker, more concise.

Security Remains an Issue for Mobile Banking

**Knowledge@Wharton:** Can you give us some idea of what the security challenges are and how they might be overcome?

**Ferguson:** I think the early days of mobile banking had information stored on the mobile phone itself. So if you lost your phone, the theory was that you could have lost some data. I think that’s now been largely tidied up. But it’s that kind of information that I now have on my iPhone – such as my application – and it’s about making sure that it isn’t breached by a hacker. So I don’t think we’ve seen a lot of incidences of hacking on iPhones or iPads as yet. It’s still largely focused on the PC world. But as more people use mobile banking, the more attractive it will become for someone to start hacking.

**Knowledge@Wharton:** For a long time, people were reluctant to use their credit cards on the Internet with their desktop PC. That’s been pretty much overcome. How big of an issue do you think security will be in introducing these technologies to customers in the U.S.?

**Weigelt:** I think it will be a significant issue. I know of no bank that will 100% guarantee that your information is secure and it won’t be hacked or revealed to someone else. So I do believe that security will remain an issue, both with the consumer, with the bank itself and with the regulators.

**Keller:** There is no question that security on the Internet as it relates to mobile banking is not as mature as it is in other parts of the banking system. And so, there will be opportunities for hackers to get involved and they will because that’s where the activity is going to be taking place. But the banks will have to get it right if they want to be able to drive business to the mobile banking platform. It has all types of technology challenges. I’ve talked to the chief technology officer of one of the big global banks who was trying to reinvent money at his financial institution. And he would say that the technology challenges are so large because of the amount of data that is generated with a mobile transaction would essentially create -- terabytes of data every month – and the banks are not prepared to deal with. But they’re going to have to store it, analyze it and put it through some of their regulatory monitors to ultimately achieve what they want to achieve.

Banks Compete for Opportunities Driven by Customer Data

**Knowledge@Wharton:** Data collection offers interesting marketing opportunities to understand your customer better. How valuable is that data?
Ferguson: The value is the opportunity and many global banks don’t take advantage of the current opportunity to understand customers. But I think the risk [for banks], as Keith said, will be that a telco or some other operator will have the data, and the bank will lose contact with much of the spending of its customers. So there’s a real threat -- I don’t think there are many banks that do this very well already.

Knowledge@Wharton: Mobile banking is probably going to change corporate structures in banks in various ways. For example, there could be potential partnerships, link ups between, let’s say, a retail company and a bank to attack this market jointly. We’re already seeing such things – Amex has, for example, opened an office in Silicon Valley, which is headed up by a former Motorola executive. That tells you something about one of the areas that they’re looking towards in the future. Google is already partners with MasterCard and Citi Group -- they tested mobile payments in some U.S. cities recently. AT&T has some arrangements with some credit card companies, too. Are these kinds of joint ventures likely to be the best way to go for many of these companies -- adopting the best knowledge in retail and the best banking? Or will this be a cage battle, where just a few emerge successful?

Keller: Historically, when banks have gone into joint ventures with either the telecos or retailers, it’s all been about expanding the opportunity to find a new customer. For the banks, this will only make sense if the retailers give them access to a new customer. In the credit card business, back when we had the co-branded cards, the reason that it made sense was because AT&T had millions of customers who the banks wanted to try to get to. And so, it made sense to do a joint venture with them. On the retail side, I think it’s going to be a matter of what it is the banks can get out from it.

Ferguson: I think what we’re seeing at the moment is that banks and telecos are forming these alliances because it’s such new territory.

Those alliances may last for a while, but ultimately, I would imagine the bank wants to try and maintain the control to that channel. What we are seeing at the moment is that this is a new topic and people are realizing that they don’t necessarily have all of the answers. And some of the large banks may not have the technology inside their organization that’s nimble and quick enough to deal with the changing nature of mobile banking. So I can clearly see why a bank would need to do it and it may be that in time they’ll have that knowledge internally.

Working with Retailers Offers Opportunities – and Risks

Knowledge@Wharton: Some retailers are already involved in some kinds of mobile banking, but certainly in online transactions. So, they may know a little bit more about that whole space than banks. Do banks run the risk of giving away more than they get back -- more so, than the retailers when they get into a link up of some sort?

Weigelt: I’m not sure about that. I am sure that you will not have one firm or one type of firm go along with mobile banking. It must be collaboration among all the players within the equal space. And again, there are also competitors, so you’re asking for collaboration with your competitors. It’s going to be a while until we get that cooperative spirit, I believe.

Keller: I think it’s going to come down to a segmentation strategy. You’re going to have customers who are private clients, who would be delighted to have applications on their iPad that will give them access to high-end retailers that will give them access to other types of opportunities to spend their money to feel good about what they’re doing. But if you think about the customers that Keith is talking about, many of whom aren’t served by the same banks that would go after these high-end customers, it’s really just going to be a completely different strategy. Steve talked about sharing the early cost of getting into the business and not wanting to shoulder the burden of that risk by yourself -- you’re willing to do it, but you’re going to have to have some exit strategy where you can kick your partner out eventually when you decide that the channel is profitable enough to take it on yourself.

Knowledge@Wharton: There might be some shared learning that’s needed also because, as banks rush into create these apps, some people are thinking, “what is this new app” and “this other bank offers this different app.” Isn’t there a risk of customer fatigue or confusion? Are banks going to be responsible for helping to educate their customers on how to use their products or can they make them so simple and so intuitive that that's not necessary? Is part of the investment helping to either work with or change customer behavior?

Ferguson: I think if we look at the uses of smartphones -- present company excluded, of course -- generally, the younger population is much quicker and more intuitive about the way that they’ll use those applications. So I actually don’t see it as a big issue in terms of the ability for people to be able to work out how to use the mobile applications. I think that much of it will become relatively straightforward.
Knowledge@Wharton: In addition to the question of what kinds of competitors might make a direct challenge to the banks, there is the idea that some of those competitors also face some of the problems that banks have solved to some degree. For example, banking transactions, whether mobile or on the Internet, are much more complex than your garden-variety e-commerce. You’ve got to deal with such things as banking regulations worldwide if you’re operating internationally, reconciliation and other factors that retailers aren’t necessarily used to. There also are taxes that apply only to banking matters and currency exchange, which e-retailers may do, but which can have different implications when it comes to banking. Do banks have some advantage because they understand those challenges a bit better?

Weigelt: Yes, they have an advantage in that space, but there are these other spaces like couponing and so forth, where they are at a disadvantage.

So in the long run, the advantages will weigh against the disadvantages and I don’t see them as having any particular advantage over these other players within the eco system.

What Are the Chief Risks in Mobile Banking?

Knowledge@Wharton: In general, what do you see as the chief risks for banks in this mobile banking area?

Keller: The chief risks for banks still come back to the customer. The banks have fought to grow their customer base, they’re going to have to continue to develop products that are responsive to the needs that their customers have. They’re going to have to implement an effective segmentation strategy to deal with each of those, but I think in the long run, it’s who owns the customer relationship is going to have the ability to make the investments in delivery channel technology, in product delivery, that will make it worthwhile.

Ferguson: I agree and I think the technology is also one of the biggest risks -- creating the platform that is sufficiently secure that people feel comfortable and trust the banks in the way they transact. I think that there is a risk of rolling out a mobile app process too quickly. To attract a new customer -- certainly now, in part of the world there’s a 100-point system you need to have to prove that the customer’s is who they say they are before you allow them to open a bank account. Well, how do you do that with mobile banking, for instance? I think there are a number of risks that the banks need to deal with, which is why it’s not surprising that they’re being a little cautious about the way they roll it out. And the cost of technology will continue to be a challenge.

How Can Banks Build Customer Trust in Mobile Banking?

Knowledge@Wharton: In connection with the security issue, what can banks do to encourage the idea that these transactions are safe and to build up trust in customers, particularly in the U.S., where there may be more skepticism?

Weigelt: Well, I know in emerging markets the security and the reliability of the mobile banking system is one of the main determinants about whether a consumer uses it. And in those countries, most individuals join because of word of mouth. So it’s not advertising by the mobile system, it’s -- “Oh, yeah, I joined the mobile system. It’s safe, it’s reliable, you should join, too.”

Knowledge@Wharton: So that word of mouth in the U.S. might be through Facebook, for example, but it would still be word of mouth.

Weigelt: I’m sure that banks and other players will use a social media to spread the word.

Keller: I think gaining customer trust will be natural for the younger generation. For the kids who are already using Facebook and other social media, and who feel very comfortable talking about themselves and their lives in kind of the Internet or whatever the space is called these days, I think those people will find using mobile banking products very easy to do. I think in the U.S., it’s just that we don’t have that many products yet for people to get comfortable with, and I think that’s one thing that the Asian and the European economies have already figured out. I think once the products are there, people will absolutely use them.

Knowledge@Wharton: So you don’t see trust as that huge of an issue, Steve?
Ferguson: Well, I think trust in the banking system, as well as in the individual banks when we do have some security flaws with mobile banking [is an issue.] So I think the trust can be regained by dealing with all those issues in a forthright and open manner, which means that the consumer will then feel comfortable that they’ve got the right processes in place. But it’s going to be an interesting testing period when some of those security issues start to arise.

Searching for the Grand Mobile Banking Strategy

Knowledge@Wharton: What grand, overall, overarching strategy should banks be thinking about as they look at this new technology?

Ferguson: If I were to answer that from an Asia Pacific perspective, I think the most important thing is to focus on what customers you want. Then, having established that and the segmentation of the channel, you need to work out how sophisticated the request will be for mobile banking because, even within Asia, there are different levels of demand. You’ve got an emerging middle class in Indonesia, that might be quite attractive to a bank, that will be quite demanding. In the Philippines, you’ve got a very large unbanked population. So there isn’t one strategy that will fit all locations in Asia Pacific. So, there needs to be quite a deliberate, focused strategy about which customers banks want. And then I think it’s about building out the mobile banking platform that will suit that customer.

Knowledge@Wharton: John, your view on strategy?

Keller: I’m certain that anything I say today will be irrelevant in about a year and a half because it will change that quickly. I still say that, at least as it relates to the U.S. banks, they need to stick to their knitting, they need to decide what customers are important, where they can make money and then they have to figure out ways to serve them. They’re going to have to figure out the right way to serve them from a technology perspective and the product offerings that they have.

Weigelt: In the U.S., I would take a defensive posture. I would stay in the field, watch it develop, see what’s going on, and I would focus a lot on the collaboration effort on the setting of standards, on the regulation -- on the regulatory framework and so forth. And that’s where, right now, I would focus my efforts to ensure that I’ve got a framework, I’ve got standards which were beneficial to my company.

Outside of the U.S., I would like to see more of the unbanked brought into the system and so, I would hope in these emerging markets that we use mobile banking to bring the unbanked into the system. So for example, a lot of countries like credit bureaus -- and so basically, you can start using some of the data of transactions to get some type of history on customer behavior, which will then complement what we would consider credit scores and so forth. And in fact, in a lot of countries, one of the big issues is that there is no clearinghouse for credit information. So, mobile banking and the transactions and the information collected will help people at least start what we would call a credit history and move them into the banking sector.

There are a lot of studies showing that if you bring unbanked individuals into the banking system, you’ll see increases in GDP per capita, you will see more business creation, you will incomes increase. In most of these countries, employment is driven by these small businesses. And so, there are lots of effects, both at the individual level and at the community level and the country level, which we will see as more people come into the formal financial system.

Knowledge@Wharton: If you want to be investing in those countries and participate in what’s expected to be strong growth in many cases, then do you want to be in early so that you’re an established player, because there may be room for only so many established players?

Weigelt: Yes, you’re going to have these positive networks -- actually now, clearly getting a critical mass is important. For example, M-Pesa works very well in Kenya because Safaricom, which runs that system, has something like 80% of the market. And so they have the market power, where everyone’s going to be using their system and their system only. In other countries, if you have a strong bank, then again, the financial institution will sort of control the system.
Keeping an Eye on Mobile Banking Trends

Knowledge@Wharton: So what haven’t we talked about that’s important to talk about in mobile banking?

Keller: I’ll be interested to see how much -- how much more we can strengthen the customer relationship. Now the banks are actually closing branches because they figured out that they’re completely over-branched. We’re already used to the fact that when we call up a bank, we must go through a telephone tree to try to have some communication. So, in some ways, the banks have made the banking experience not very enjoyable other than purely through an electronic interaction, where you might think, “Oh, well, I don’t expect to have anything great here because it’s electronic. I don’t have a human being interacting with me.” I think to the extent banks can build out the experience so that it does make you feel better about using your bank, then it becomes something worthwhile.

Knowledge@Wharton: Is there a particular area or company to focus on that’s breaking new ground that will be particularly interesting watch? It sounds like Asia, for example, is a region everyone should be watching closely.

Ferguson: I think the take up of smartphones in many countries in Asia, like China, Korea, Singapore, means that the banks will be more focused on looking for innovative products in those countries. So keeping an eye on that part of the world, I think will be key to seeing how mobile banking might take off.

Keller: If you look at some of the banks that are involved in the payment system, where you’re talking about a $1 trillion of payments a day, if there is a way to drive down the cost of transacting those payments, and the mobile banking platform may be one of the opportunities to do that, then I think you’ll see the banks flock to that.

Weigelt: I would look at the remittance market. Most people don’t realize it, but the remittance market is about $400 billion a year globally through formal channels and, it’s been estimated, about $1 trillion through formal and informal channels. And, in the emerging markets, mobile banking is in the remittance sector. It’s been surprising how it’s brought down the cost of remittances. It helps families build incomes and so, I would look at the remittance market.

We’re talking about flows, going from usually one family member in an urban area, either back home to support the family, to pay off loans, to pay for the children's education. We’re talking about within country, but most of the remittances are international.

Will Mobile Banking Lead to a ‘Cashless’ Society?

Knowledge@Wharton: Do you envision a time when we will be the cashless society? The U.S. still uses checks quite a bit, but that’s no longer true in many parts of the world -- Asia and Europe, in particular.

Weigelt: One current example is in Somalia, where because there are basically no laws and there’s no security, people stopped accepting cash and it’s all through cell phones now. Retailers find it better, consumers find it better and basically, they’ve moved to the cashless society because of the breakdown in law and order there.

Knowledge@Wharton: So Somalia sounds far removed from the United States, but the point is that they’re breaking new ground, they’re learning to lower costs and there are these innovative lessons from emerging markets that will have pay off in the more developed markets. Can you relate that to the idea of a cashless society a bit?

Keller: Absolutely. Checks were great for a lot of reasons. Number one, they created the opportunity for float and that opportunity basically, went away about 10 years ago when the Federal Reserve passed laws about how quickly checks have to clear. I think customers adopting credit cards prove that you don’t need to have cash to buy anything, so I could absolutely see that we would be a cashless, or certainly a checkless society, at some point in the near term future.

Ferguson: I think many countries already are checkless. I think it would be hard to envisage a globe without cash because I think there are many parts of the globe where cash will be always a key part of it. But can you envisage New York being cashless with credit cards or phones that just wave over for restaurants or for buying things? Yes, I can see that.

Knowledge@Wharton: Thanks very much for joining us.