

IMPACT NOTE

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The Impact of Mobile Banking: A Case for Mobile Marketing

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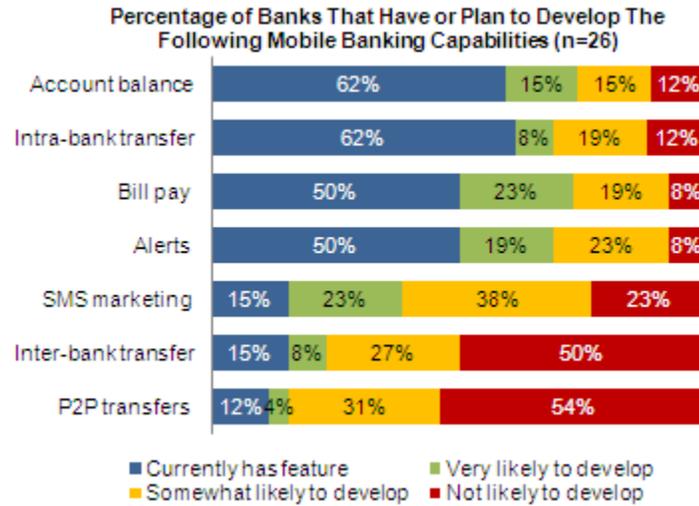
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INTRODUCTION

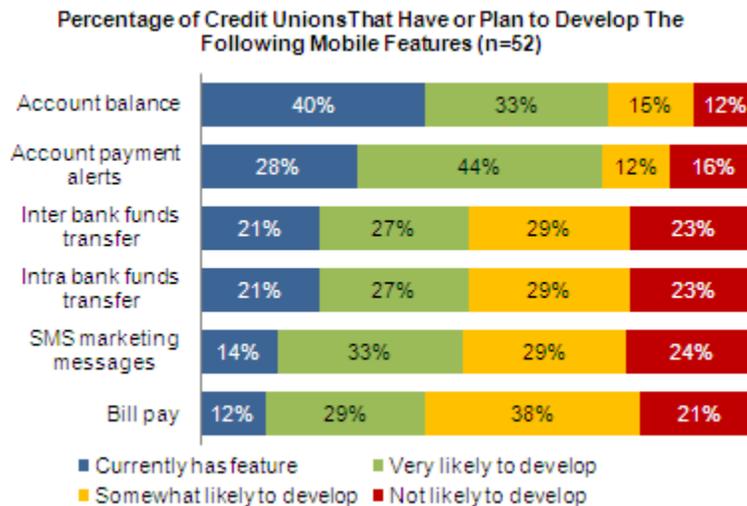
When Aite Group surveyed large banks and credit unions in late 2009/early 2010 about their mobile banking deployments and plans, we found that more than six in 10 large banks had implemented some level of mobile banking capability (Figure 1). Among credit unions, six in 10 had not yet offered mobile banking to their members (Figure 2).

Figure 1: Mobile Banking Deployment Among Large Banks



Source: Aite Group Survey of 26 Top 100 U.S. Banks, December 2009

Figure 2: Mobile Banking Deployment Among Credit Unions



Source: Aite Group Survey of 54 credit unions, January 2010

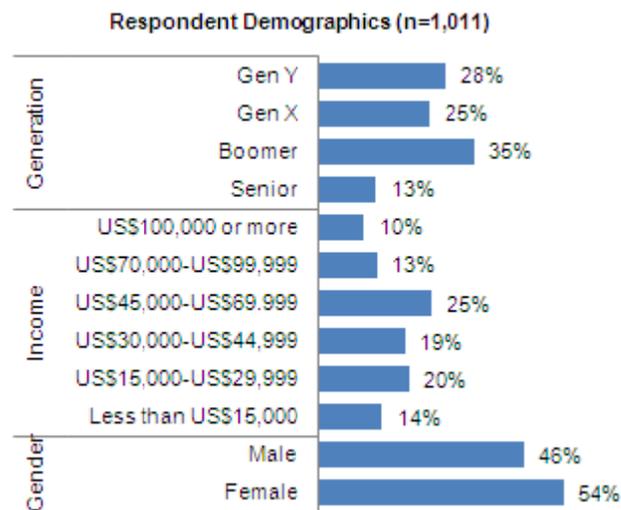
All of the financial institutions (FIs) that had deployed mobile banking offered basic mobile functionality, like checking account balances and transferring funds between accounts inside the FI. But it was clear to us from our surveys and interviews that many FIs were wrestling with what next to deploy and how to justify their investments in the mobile channel.

Aite Group believes that the consumer research we’ve conducted holds important clues to how mobile banking will impact banks over the next few years. In this report, we’ll highlight five things about mobile banking customers that bank executives need to know.

ABOUT THE SURVEY DATA

At the end of December 2010, Aite Group conducted a survey of 1,011 U.S. consumers. The sample was recruited to represent the distribution of U.S. adult consumers by age, income, and geography (Figure 3).

Figure 3: Survey Demographics



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

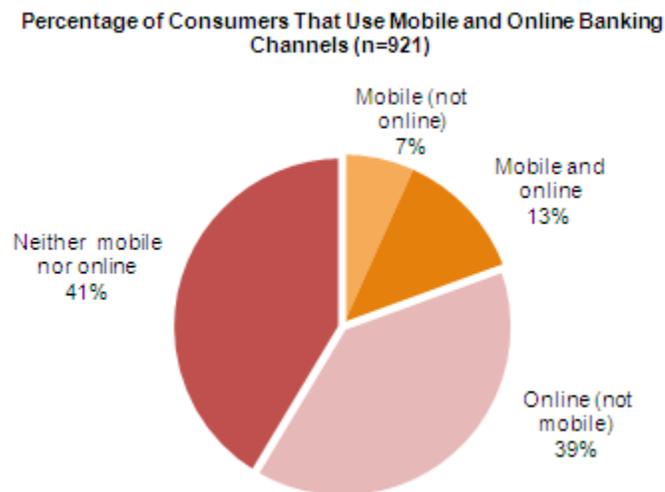
WHAT BANKS SHOULD KNOW ABOUT MOBILE BANKERS

Demographic information about mobile banking consumers is simply a backdrop, however, to the five important things about mobile banking consumers that will influence banks' and credit unions' mobile channel strategies for the next few years.

NUMBER 1: MOBILE BANKERS ARE MAINSTREAM CONSUMERS

In Q4 2010, roughly two out of 10 U.S. consumers checked their checking or prepaid card account balance using a mobile device. About one-third checked account balances exclusively via their mobile device in Q4, while two-thirds also banked online. About 40% banked online—but not through the mobile channel—while roughly the same percentage used neither the mobile or online channels (Figure 4).

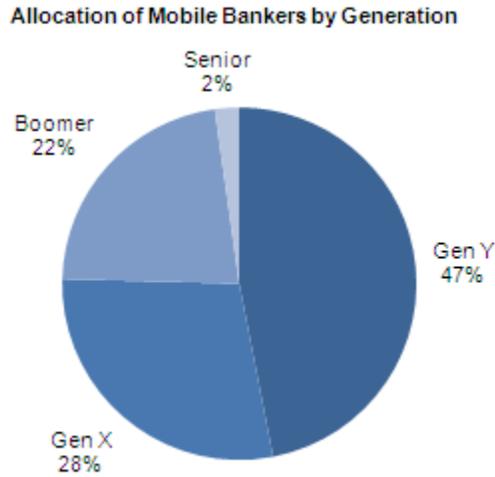
Figure 4: Mobile Banking Adoption



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

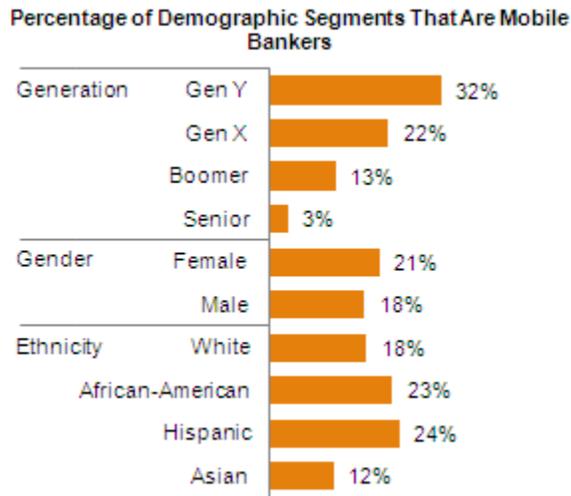
Nearly half of all mobile bankers (users of mobile only plus users of mobile and online) are Gen Yers, while Gen Xers comprise 28% of the mobile banking population (Figure 5). As a percentage of each generation, 28% of Gen Yers and 22% of Gen Xers currently bank through the mobile channel, while just 13% of Boomers (baby boomers) and 3% of Seniors (senior citizens) bank with a mobile device. From a gender perspective, a roughly equal percentage of men and women are banking via mobile (Figure 6).

Figure 5: Allocation of Mobile Bankers by Generation



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

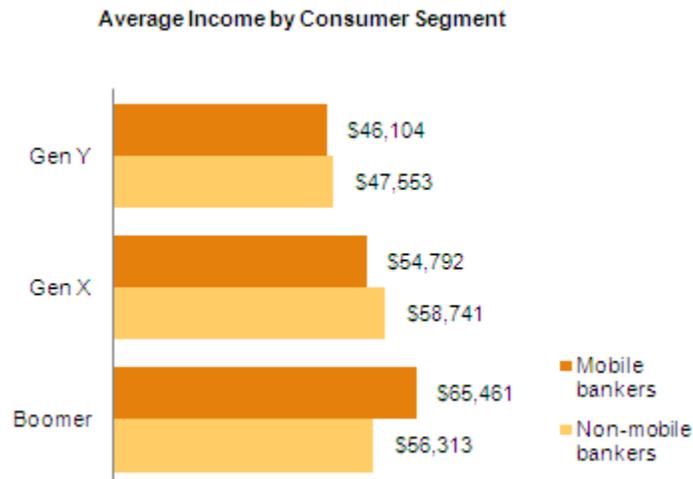
Figure 6: Percentage of Demographic Segments That Are Mobile Bankers



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

The average income of mobile banking consumers is US\$52,952—just US\$131 more than the average income of non-mobile bankers. In fact, the higher average income of mobile bankers is driven by Boomers. The average income of mobile banking Gen Yers and Gen Xers is actually lower than that of non-mobile bankers of the same generation (Figure 7).

Figure 7: Average Income, Mobile Bankers vs. Non-Mobile Bankers



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Why this is important: A number of articles in the press—perhaps some dated at this point—have claimed that mobile banking consumers are more affluent than other consumers. A 2009 study sponsored by Research in Motion, for example, found that 62.4% of mobile banking users have incomes of more than US\$50,000.¹

Aite Group’s research shows that while mobile bankers are younger than non-mobile banking consumers (36 years of age versus 47), within each generation, their income levels are relatively equal. What this means is that attitudinal and behavioral differences between mobile and non-mobile banking consumers are *not* attributable to consumers’ income levels.

In other words, even early in the evolution of mobile banking as a bank product or service, it’s a mainstream offering that, in contrast to the development of online banking and bill pay, won’t need 10 to 15 years to scale to mass-market adoption. Many banks based their investments in online banking and bill pay on the argument that they were increasing customer retention among “high-value” (i.e., high-income/high-asset) customers who were the early adopters. That rationale can’t be applied to mobile banking investments.

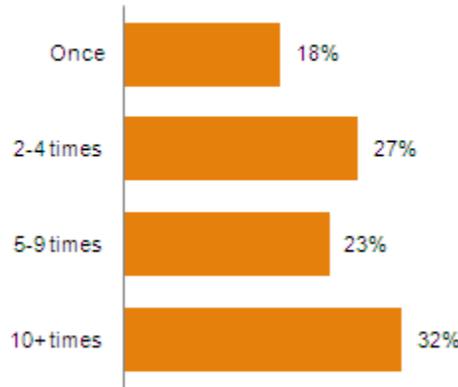
1. “Mobile Banking Creates a Bright Spot Within the Struggling Financial Services Industry,” http://us.blackberry.com/business/industry/financial/Mobile_Banking_Whitepaper.pdf

NUMBER 2: MOBILE BANKERS ARE BALANCE CHECKERS

Nearly one-third of mobile bankers checked their account balance using a mobile device 10 or more times in Q4 2010 (Figure 8). But what may surprise bank execs is that mobile bankers don't give up interacting in other channels just because they're banking through the mobile channel.

Figure 8: Number of Times Consumers Checked Balance With Mobile Device, Q4 2010

Number of Times Mobile Bankers Checked Account Balance With Mobile Device, Q4 2010

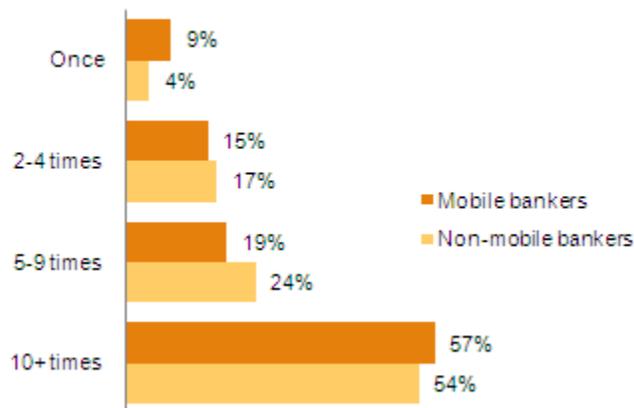


Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Two-thirds of mobile bankers checked their account balances online in Q4 2010; of those that did, 57% did so 10 or more times in Q4 2010. That's nearly equal to the percentage of non-mobile banking customers who access their accounts online (Figure 9).

Figure 9: Number of Times Consumers Checked Account Balance Online, Q4 2010

Number of Times Consumers Checked Account Balance Online, Q4 2010



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Why this is important: Mobile bankers don't check their balances all the time because they like playing with the technology. They do so because they don't want to overdraw on their accounts.

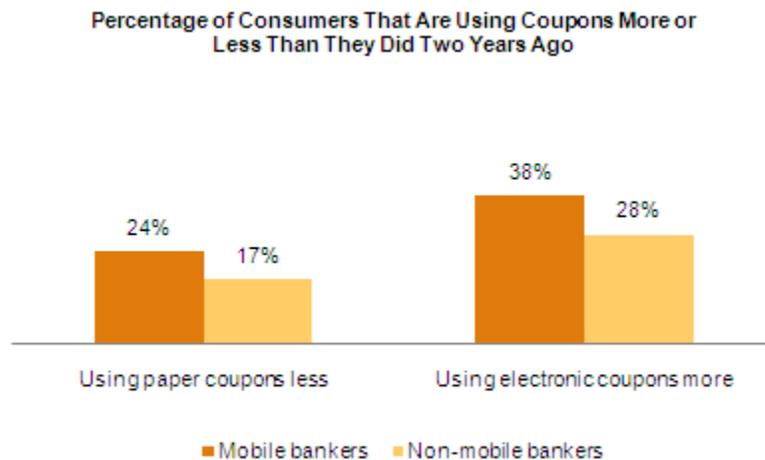
A prepaid card industry executive told us recently that his firm's research shows that many of its customers check their card balance using a mobile device before a transaction, after a transaction, and even during a transaction.

Aite Group believes that increased mobile banking adoption will further depress banks' overdraft fee revenue beyond the decline they have seen as a result of recent regulatory changes. Whereas online bill pay and debit cards made it easy for bank customers to overdraw on their accounts, mobile banking gives consumers the ability—through balance checking and proactive alerts—to avoid accidentally doing so.

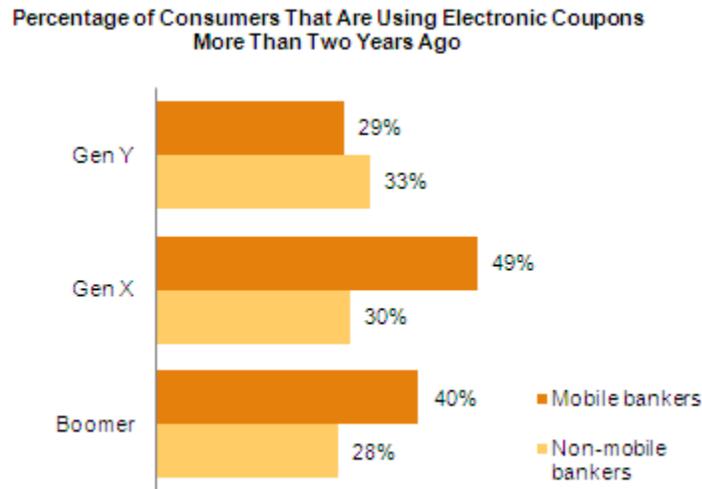
NUMBER 3: MOBILE BANKERS ARE ELECTRONIC COUPON-CLIPPERS

Nearly four in 10 mobile bankers use electronic coupons—those received online on through a mobile device—more frequently today than they did two years ago. In addition, nearly a quarter of them rely less on paper coupons than they used to. In contrast, non-mobile bankers are less likely to be using electronic coupons more than they did two years ago, or relying less on paper coupons (Figure 10). The shift to electronic coupons is especially prevalent among mobile banking Gen Xers and Boomers (Figure 11).

Figure 10: Changes in Coupon Usage by Mobile Banking Adoption



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Figure 11: Electronic Coupon Usage by Generation and Mobile Banking Use

Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Why this is important: The shift in coupon use from paper to electronic among mobile bankers emphasizes the need for marketers—from financial services firms as well as retailers and merchants—to be able to reach customers and prospects on their mobile devices.

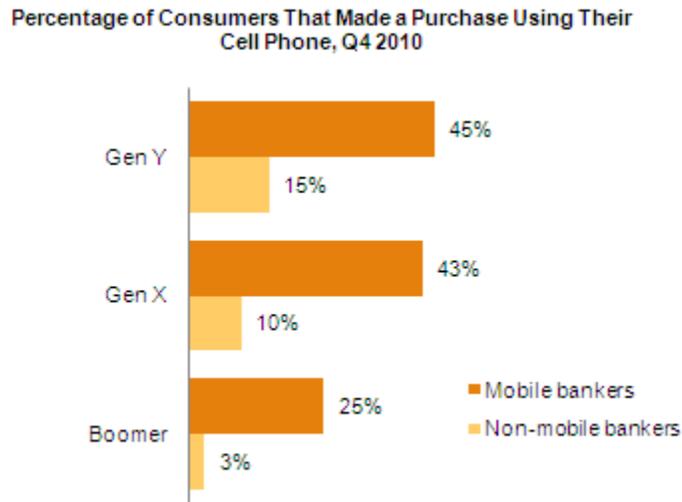
The shift is also further evidence supporting conclusions we’ve previously drawn on the impact of mobile devices—and more specifically, smartphones—on consumers’ lives. Previously, we identified a set of consumers we call Smartphonatics—consumers who don’t just own a smartphone, but who look to make the smartphone an integral part of their lives, and change many of their behaviors (i.e., bill payment and purchasing) as a result of owning a smartphone.²

NUMBER 4: MOBILE BANKERS ARE MOBILE PURCHASERS

Nearly four in 10 mobile bankers—including 45% of mobile banking Gen Yers and 43% of mobile banking Gen Xers—made a purchase with their mobile device in Q4 2010. Few non-mobile bankers made mobile purchases, on the other hand—just 15% of non-mobile banking Gen Yers and 10% of non-mobile banking Gen Xers (Figure 12). Among the mobile banking segment, Gen Yers were the most frequent mobile purchasers, averaging nearly eight mobile purchases per person during the quarter (Figure 13).

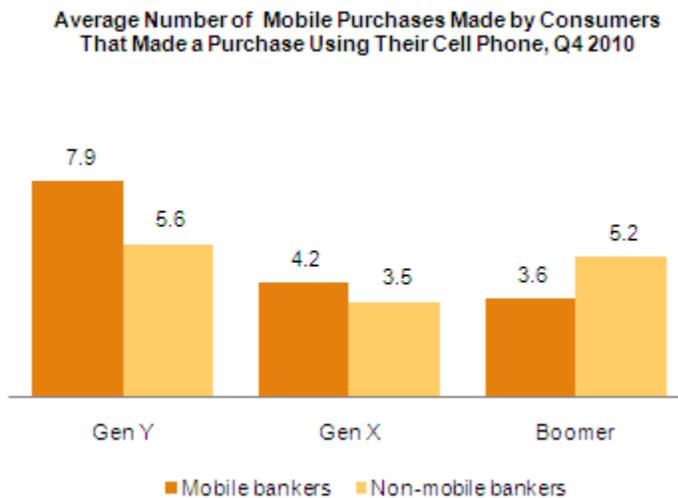
2. See Aite Group’s report, [How Americans Pay Their Bills](#), October 2010.

Figure 12: Percentage of Consumers Making Mobile Purchases by Segment



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Figure 13: Number of Mobile Purchases Made by Mobile Banking Adoption, Q4 2010



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

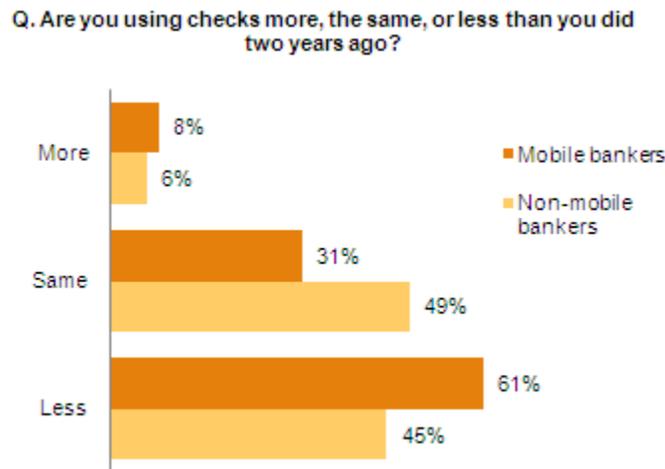
Why this is important: Many people believe—correctly, to some extent—that young consumers are chomping at the bit to make mobile purchases. But our research shows that the interest—or, at least, current behavior—is not equally spread across all Gen Xers and Gen Yers.

That mobile bankers are more likely to make mobile purchases presents banks with an opportunity to steer mobile purchases to the cards offered by the bank. In addition, merchants collaborating with FIs on merchant-funded rewards programs will be able to more effectively target offers for products that are frequently purchased with a mobile device, for example, music, games, and apps.

NUMBER 5: MOBILE BANKERS ARE MIGRATING AWAY FROM CHECKS

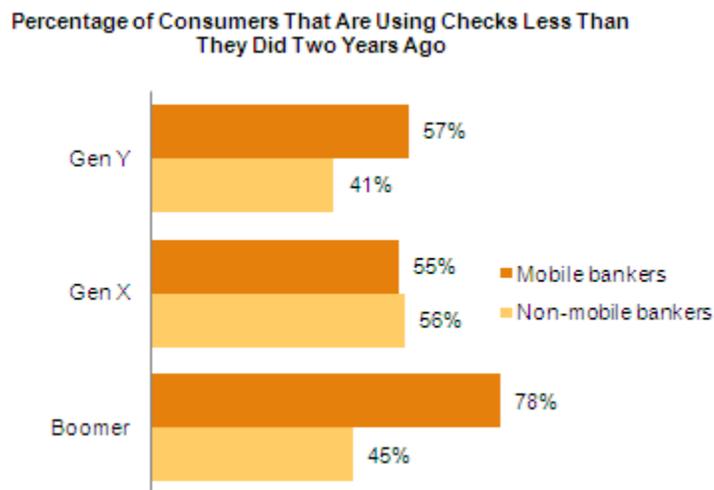
It won't come as a surprise to bank executives that check volume has declined and that fewer consumers are writing checks as often as they did two years ago. What execs might not know is that a higher percentage of mobile bankers say that they've moved away from checks than do non-mobile bankers (Figure 14); this is particularly true among mobile-banking Gen Yers and Boomers (Figure 15).

Figure 14: Changes in Check Usage by Mobile Banking Adoption



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

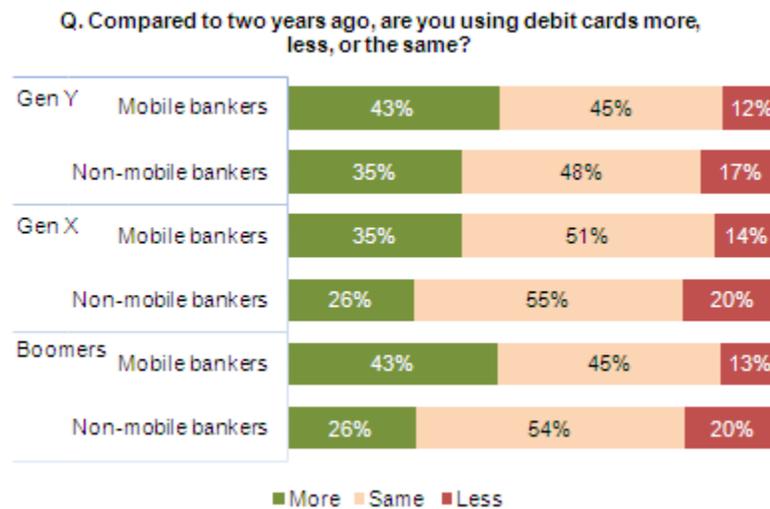
Figure 15: Percentage of Consumers Using Checks Less by Generation



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

If mobile bankers are using checks less than they used to, what are they using more often? Debit cards. In fact, across the generations, a higher percentage of mobile bankers have increased their use of debit cards than among non-mobile bankers, and fewer mobile bankers are using debit cards less today than they did years, when compared to non-mobile bankers (Figure 16).

Figure 16: Changes in Debit Card Usage by Generation



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Why this is important: Although banks aren't happy with the proposed legislation to reduce the interchange fee to US\$0.12, something is better than nothing. And nothing is what banks get for check-based transactions. If mobile banking adoption leads to changing behaviors—e.g., fewer checks, more debit card usage—then banks stand to gain financially from mobile banking.

Another reason these findings are important is that they demonstrate that, even for older consumers (not that Boomers are *that* old), behavior isn't set in stone; consumers aren't locked into their debit cards, cash, or checks. Banks' attempts to change behavior—moving consumers to debit or prepaid cards—can be accomplished through effective marketing.

CONCLUSION

Based on our analysis of mobile banking consumers, Aite Group believes that banks will have to make significant investments to improve (or even develop from scratch) their mobile marketing capabilities. The lack of a retention benefit, the potential loss of overdraft fees from balance monitoring, and the shift in consumer attention to the mobile channel means that the justification and rationale for investments in mobile banking capabilities will come from success in mobile marketing efforts. To justify mobile banking investments, Aite Group believes that banks should:

1. DRIVE—DON'T DETER—DEBIT CARD USAGE

If consumers' behaviors change after they adopt mobile banking, then banks can increase interchange revenue by driving mobile adoption. Based on current mobile banking adoption rates, a bank with one million customers that are distributed across the generations in an equal percentage to the overall population and who make an average number of debit card transactions will generate about US\$8.4 million per year in interchange revenue (Table A).³

Table A: Debit Interchange Revenue: Baseline

	Annual Debit Interchange Revenue (US\$)					
	Gen Y		Gen X		Boomers	
	Non-mobile	Mobile	Non-mobile	Mobile	Non-mobile	Mobile
% of customers	19%	9%	19%	6%	30%	4%
Purchases/customer	65	118	71	78	62	71
Total transactions	12,313,583	10,788,654	13,533,095	4,314,152	18,656,133	3,073,839
Total interchange	\$1,477,630	\$1,294,638	\$1,623,971	\$517,698	\$2,238,736	\$368,861

Source: Aite Group

If mobile banking adoption grows from about one-third of Gen Yers to two-thirds, from 22% of Gen Xers to 33%, and from 13% of Boomers to 20%, then debit interchange revenue would increase by 8% to nearly US\$9.1 million (Table B).

Table B: Debit Interchange Revenue: Scenario

	Annual Debit Interchange Revenue (US\$)					
	Gen Y		Gen X		Boomers	
	Non-mobile	Mobile	Non-mobile	Mobile	Non-mobile	Mobile
% of customers	9%	19%	17%	8%	28%	7%
Purchases/customer	65	118	71	78	62	71
Total transactions	6,013,954	22,287,560	11,694,593	6,336,728	17,072,375	4,887,405
Total interchange	\$721,674	\$2,674,507	\$1,403,351	\$760,407	\$2,048,685	\$586,489

Source: Aite Group

- Our estimate assumes that the Federal Reserve's proposal to set the debit interchange rate at US\$0.12 per transaction will be implemented.

2. INVEST IN MERCHANT-FUNDED REWARDS PROGRAMS

Proposed regulatory changes regarding interchange fees have led some large banks to discontinue their debit card rewards programs. Others are deploying, or evaluating the feasibility of, merchant-funded rewards programs.

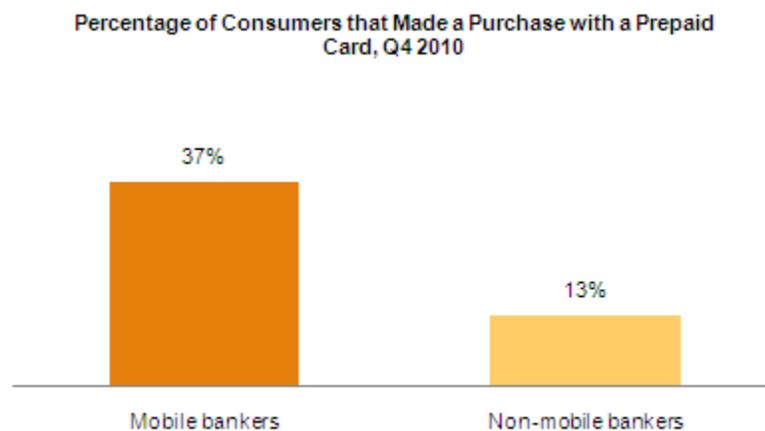
The success of merchant-funded programs depends, to a large extent, on 1) frequent debit card use, and 2) frequent customer interaction with the bank. The former is critical in order for merchants to determine who to make offers to, and the latter is critical in order for merchants to reach bank customers with those offers.

Mobile banking customers become an important element to the success of merchant-funded rewards. Reaching customers on their mobile devices holds the promise of reaching them with offers at the right time—i.e., at the point of sale. And the fact that mobile bankers interact frequently with their banks in multiple channels improves the odds of reaching them with merchant offers.

3. MARKET PREPAID CARDS TO MOBILE BANKERS

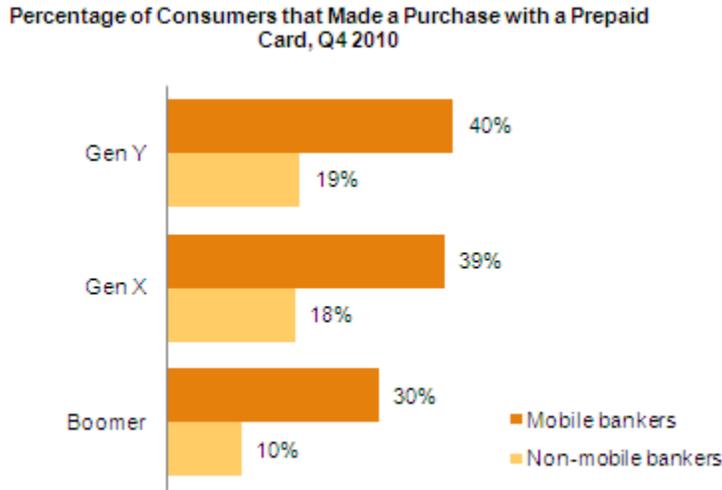
More than one-third of mobile bankers made a prepaid card purchase in Q4 2010 (Figure 17). This was not a factor of age. A higher percentage of mobile bankers within each generational cohort relied on prepaid cards than among non-mobile bankers of the same generation (Figure 18). Mobile bankers are not only more likely to use prepaid cards, but they make more prepaid card transactions than non-mobile bankers who use prepaid cards (Figure 19).

Figure 17: Percentage of Consumers Using Prepaid Card for Purchases, Q4 2010



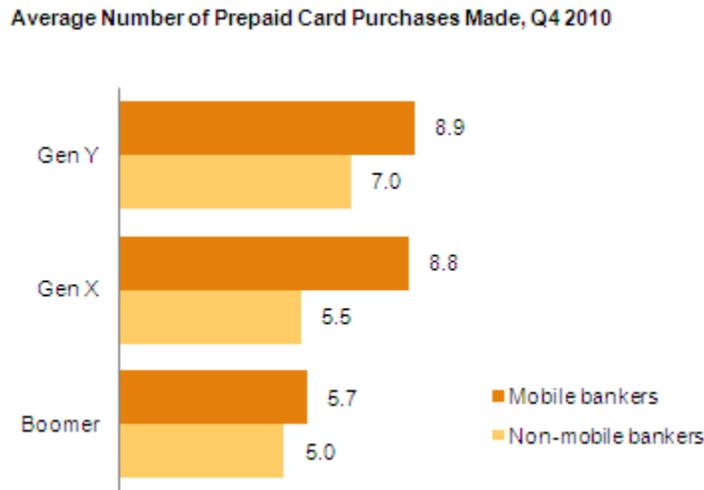
Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Figure 18: Percentage of Consumers Using Prepaid Card for Purchases, Q4 2010



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Figure 19: Average Number of Prepaid Card Purchases Made, Q4 2010



Source: Aite Group Survey of 1,011 U.S. Consumers, December 2010

Aite Group believes that banks and credit unions can recoup a significant percentage of the debit interchange revenue they expect to lose (as a result of regulatory changes) by marketing prepaid cards.⁴ Targeting mobile banking customers with prepaid card offers may help FIs improve the effectiveness of their prepaid marketing efforts.

4. See the Aite Group report, [Recouping Lost Debit Interchange With Prepaid Cards](#), March 2011.

The upside is significant. Based on current prepaid card usage, mobile bankers generate as much in prepaid interchange fees as non-mobile bankers, even though they represent just 19% of the population (Table C). A bank with 1 million customers that can capture 20% of its mobile bankers' prepaid card activity can earn more than US\$250,000 in interchange revenue.

Table C: Prepaid Interchange Fees Generated Consumer Segment

Annual Prepaid Card Interchange Revenue (US\$)						
	Gen Y		Gen X		Boomers	
	Non-mobile	Mobile	Non-mobile	Mobile	Non-mobile	Mobile
% of customers	19%	9%	19%	6%	30%	4%
% prepaid card users	19%	40%	18%	39%	10%	30%
Purchases/customer	28	36	22	35	20	23
Total transactions	1,003,257	1,320,304	764,387	760,043	625,407	295,331
Total interchange	\$571,857	\$752,573	\$435,700	\$433,225	\$356,482	\$168,339

Source: Aite Group

RELATED AITE GROUP RESEARCH

[Recouping Lost Interchange Fees with Prepaid Cards](#), March 2011.

[Online Marketing Maturity Model for Financial Institutions](#), February 2011.

[Top Trends In Retail Banking, 2011](#), February 2011.

[Prepaid Debit Cards: Barriers to Adoption](#), December 2009.

[Branded Prepaid Card Processors: A Vendor Evaluation](#), October 2009.

[The Card Industry: Between a Rock and a Hard Place](#), June 2009.

[Private Label Prepaid Card Vendors: An Evaluation](#), May 2009.

[The Pulse of the Prepaid Card Industry](#), March 2009.

ABOUT AITE GROUP

Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities & investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

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