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BANKING MOMENTUM

Author / organisation	The Asian Banker
Year recorded	2007
Region	Asia-Pacific
Category	Economic
Original source	theasianbanker.com
Archive page	kiwanja.net/mobile-database/banking-momentum/

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THE ASIAN BANKER
Strategic Business Intelligence for the Financial Services Community

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Published September 21, 2007

Mobile banking gathers momentum

With the number of mobile phone subscribers skyrocketing, mobile banking is fast becoming a channel that no banker can afford to ignore

Experts predict that the number of mobile phone subscribers worldwide will jump to three billion by the end of 2007 from roughly 2.2 billion at the start of the year, especially from emerging markets such as India, China, Africa and Latin America. The channel will be especially important in emerging markets where its ubiquity offers potential the bank that understands how to harness it.

“Asia Pacific is the fastest-growing mobile market in the world with European markets getting increasingly saturated,” Satish Menon, e-business head for the Asia Pacific, Citibank, says. Hoping to tap on this increasingly popular but as-yet not fully developed market, more bankers are hopping on the mobile banking bandwagon.

“Mobile offers the most universal form of customer interaction today,” Menon says. “Also, with the still-limited PC and broadband penetration in some of the developing markets in the region, data access on mobile represents the first ‘online’ experience that many customers in the region will encounter. This delivers key opportunities for meaningful and low-cost engagement with the customer.”

Patrick Chew, head of delivery, group financial services, at Singapore’s OCBC Bank, reports that since the June 2006 launch of its mobile banking services on both GPRS and i-mode platforms across Singapore’s three mobile networks – SingTel, Starhub, M1 – OCBC has seen both its mobile phone banking customer base and dollar value transaction grow by eight-fold.

“Not only have we seen the increase in the number of customers, we have also seen the value of the transactions vary from a few dollars to thousands of dollars. Feedback has also been positive with customers telling us they fully appreciate the true mobility and convenience of this service,” he adds.

The technology is also useful in markets such as Bangladesh, where BRAC Bank considers it an important channel. Noting that 20 million Bangladeshis own a mobile phone, the bank’s head of retail banking Saifuddin Naser notes that “if [customers] know how to use mobile telephones, this is knowledge they need to use to operate banking. They know how to count money. They know how to punch numbers. If I can make it easier for them, if I can make them understand that this is reliable, I don’t think that there will be any problem for them.” Banks like Bank Central Asia in Indonesia, and Hong Leong Bank in Malaysia, have all been proponents of mobile phone banking in their markets.

Shaky starts

This has not always been the case. In 2002, United Coconut Planters Bank (UCPB) in the Philippines, a mid-sized state-controlled bank, launched a WAP-enabled mobile phone banking service, parallel to its introduction of a retail internet banking service. The

bank had 594 transactions using the mobile phone banking service that year. This number went down to 530 in 2003 and plunged to 155 in 2004. Only eight transactions were recorded in 2005, the year the service was discontinued. “The primary reason [for the failure of the service] was because of the technology, the incompatibility between the newer models of handsets and our system,” says Lawrence Salido of UCPB’s working capital group.

Raul Victor Tan, head of UCPB’s working capital group, believes that the mobile phone is still not designed to allow the general populace to browse the internet. “This is really for text or voice,” he says. The bank may consider re-launching a mobile phone service if it finds a technology that allows consumers to access the service at a low cost; WAP was relatively expensive for the consumer, the executives note.

Kathryn G. Teotico, vice president and head of mobile banking, Bank of the Philippine Islands (BPI), recalls her bank introducing WAP banking in 2000, a service that made BPI’s internet banking facility, Express Online, accessible to mobile subscribers. The low usage of WAP as compared to the enormous usage of SMS among consumers, however, prodded BPI to team up with its sister company, Globe Telecom, the second-largest mobile phone service provider in the country, to design an SMS-based banking facility as the bank’s main mobile banking channel. While WAP banking continues to be operational, it has taken a backseat to the more consumer-friendly SMS-based facility.

Still, bankers are convinced that mobile banking is a good service for their respective financial institutions. “To the client, the benefits of mobile banking are convenience, speed, security and accuracy,” BPI’s Teotico says. “To the bank, the benefits are automated, straight-through processes, ultimately translating to cost savings. A funds transfer done through the branch costs $2.50 while mobile costs $0.50.”

Citi’s Menon adds that “Mobile is emerging as a truly ubiquitous device with customers, and that is the prime driver for the bank to offer mobile services. From a financial standpoint, mobile banking transactions help offload transaction and operational costs from the more expensive servicing channels. Alert messaging particularly helps drive down call volumes to Citiphone (Citi’s call centre). Incremental revenue is generated through transactional services such as bill payments and prepaid recharge. Additionally, it is now emerging as a low-cost customer acquisition channel which can build scale effectively”.

At the moment, the number of mobile banking users outside of Japan and Korea is still very small. Usage pales beside that of the internet or tele-banking channels, although a comparison of this nature could be unfair, since mobile services tend to stand alone and are differentiated from other channels in the kind of services provided, as Citi’s Menon points out. “For example, we have over 2.5 million registered users for a unique alert messaging service which can be delivered via mobile phones. As a developing channel, there are healthy trends emerging on mobile as an alternate channel for customer acquisition, transactions and customer servicing,” he says.

Currently, mobile banking is used by early technology adapters as a secondary channel to the internet. At BPI for example, the bank’s internet banking platform remains the channel of choice for financial transactions. However, the bank is optimistic that mobile banking usage will increase given the encouraging transaction growth of 14 percent in 2006 from the previous year’s level.

In the 2007 Mobile Financial Services Survey, respondents identified balance inquiries, bill payments and financial services alerts, closely followed by P2P transfers, as the services that will contribute most to the growth of mobile banking. Somewhat surprisingly, cross-border remittances were deemed less likely to have a significant impact.

The bottomline

“Banking functions that appeal to the user are those that respond to urgent needs,” BPI’s Teutico explains. Hence, in every market, bankers who are thinking of offering new

mobile banking services or introducing mobile banking may do well to consider such issues as convenience and cost, technological compatibility and advances, as well as possible tie-ups with large telcos to help boost the chances that a mobile phone banking programme will be successful.

Consumer behaviour and attitudes are perhaps of utmost importance. If a service is not easy to access or costs too much to use, then usage will naturally be low. Part of the equation here has to do with the technology in the mobile handsets available to the end user but the other part links to the deployment of technologies on the side of the banks.

Consideration must be given to the compatibility of the technology adopted by the bank, not just in terms of the availability of services on both old and new handset models, but also compatibility across the financial system and across telcos. No less significant is the question of whether the technology will require continuous and possibly costly system upgrades. Another concern, voiced by OCBC's Chew, is "whether the transaction can be adapted successfully to fit the smaller screen and the limitations of the phone number pad".

In addition, inherent differences in the markets require that each market be treated differently. "Asian services," Citi's Menon says, "while technologically similar to that in Europe, demonstrate more variety in applications and innovations that extend beyond account balance enquiry to many more diverse functions. Services offered in each market vary depending on the readiness and evolution stage in each market, and to stay one step ahead of our customer needs, these services are being continuously enhanced."

Most likely, usage numbers for mobile phone banking will remain far below that of other channels and will remain relatively low in general for at least two more years. However, a tipping point could develop after that and its potential to become a major channel is very high. Some even believe that mobile phone banking will evolve to replace the ATM or even the branch in some respects.

"With mobile banking, we see a scenario where people will no longer need to go to the branch even for cash deposits and withdrawals. The ubiquitous 'sari sari', or $1-store, can be set up as an alternative branch using the mobile phone as the framework," BPI's Teotico asserts. "In a deposit scenario, the customer goes to his nearest $1-store, gives cash and the $1-store transfers funds from the store's account to the customer's account. In a withdrawal scenario, the customer goes to his nearest $1-store, transfers funds from his account to the $1-store's account and the $1-store gives him cash. Through mobile phone banking, customer convenience is just around the corner." - By Elena Torrijos