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Mobile Banking

Mediafax Talks Conference

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The Digital Tipping Point

Traditional banking is facing its steepest challenge in over a generation... with digital at its fulcrum

Banks are facing increasing regulation, margin pressures and growing uncertainty

Banks are in an unprecedented period of increasing regulation and continuing cost pressures.

There is a persistent trend in margin compression and alarming market uncertainty.

Customer expectations have changed, and new disruptive competitors are challenging banks

Customer expectations of banking services are being reset by other retail experiences.

The emergence of new technologies in banking is seeing traditional banking revenue pools being sucked up by new competitors.

Lack of trust in banks and disapproval of how they perform is the prevailing customer mood

Customers general lack of trust in financial services has been exacerbated by and since the financial crash.

The general perception is that all the major banks contributed to the global market collapse.

Implications for Banks

We identified 5 major conclusions for banks

1

Customer relationship primacy is the new source of value in banking

4

New digital innovators are entering and changing the banking ecosystem

2

By 2015, digital will become the primary relationship channel for banking customers

5

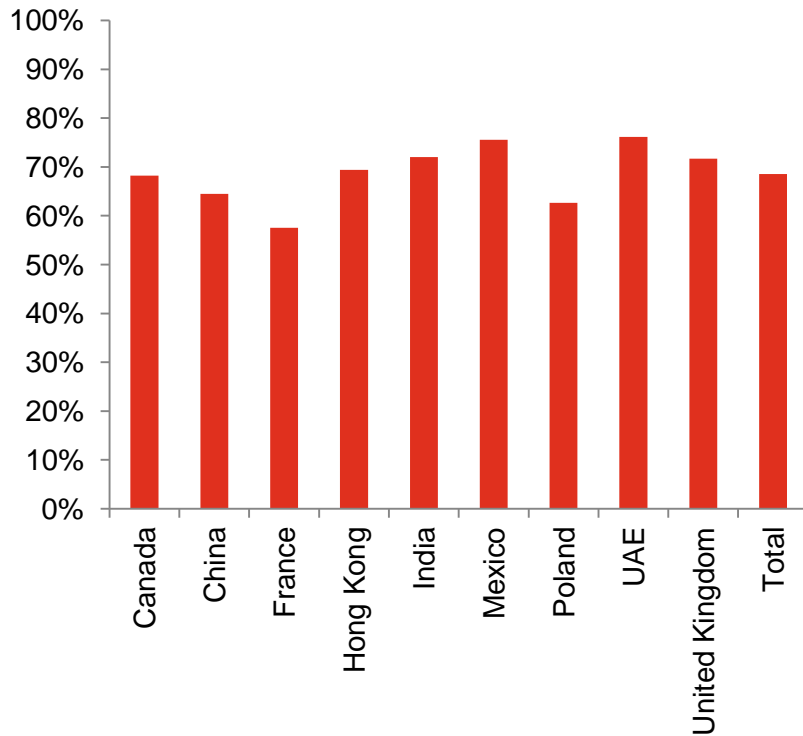
Digital innovation will drive both revenue growth and cost reduction benefits for banks

3

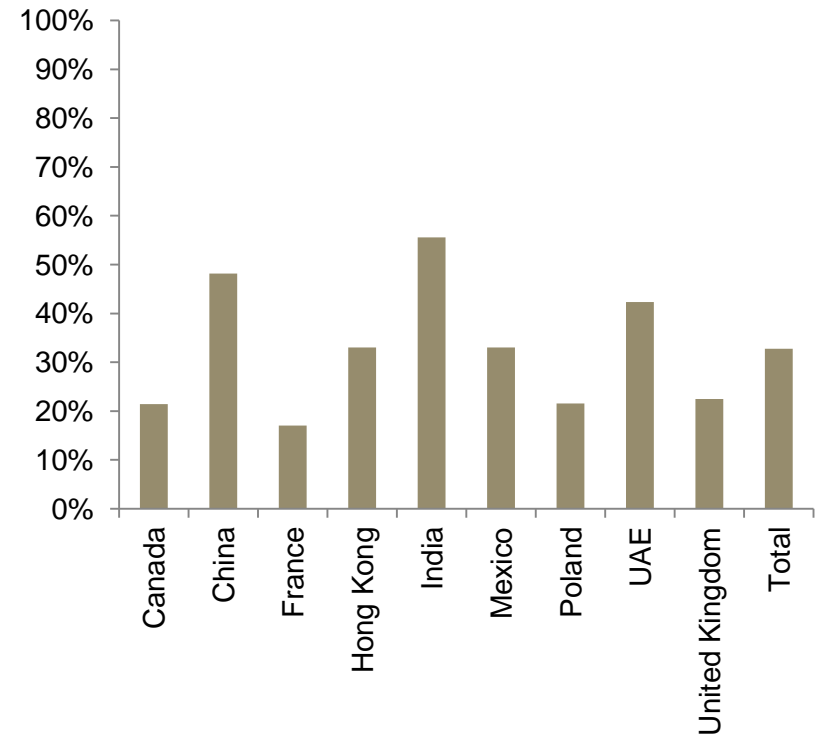
Customers value – and are prepared to pay for - new digital offerings that meet their needs

Internet banking is now a global phenomenon but the mobile banking trend is being led by China, India and the UAE

% who currently use internet to purchase financial products



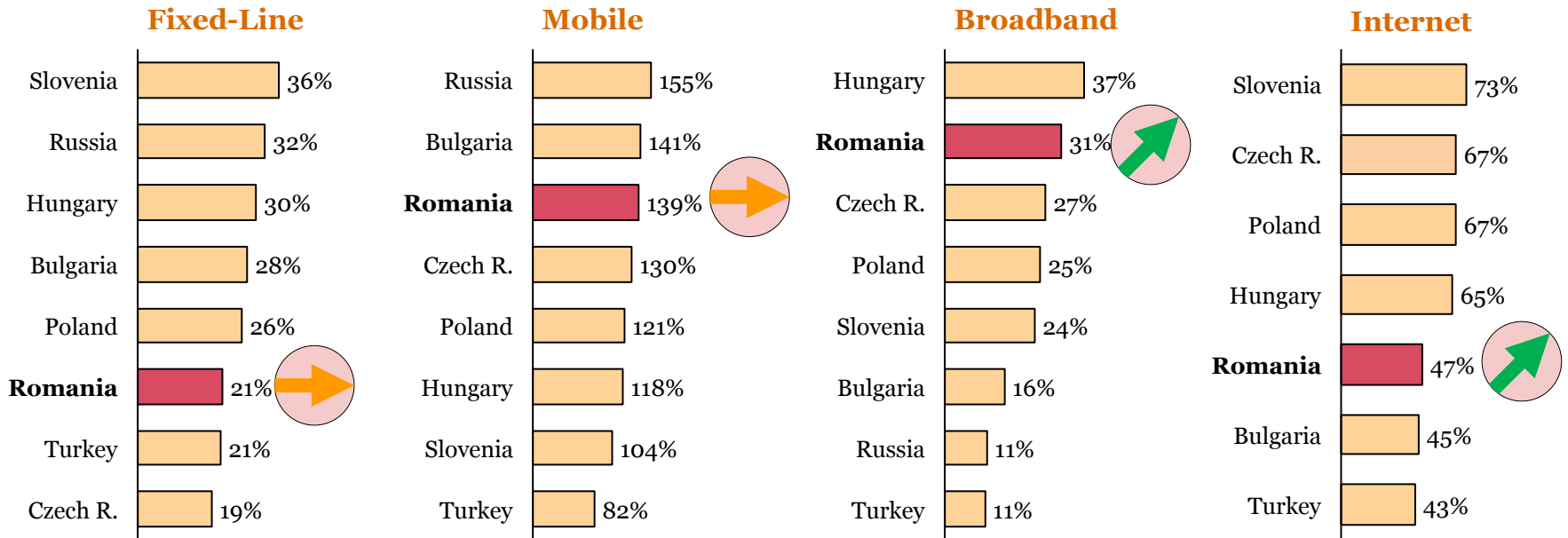
% who currently use mobile to purchase financial products



Source: PwC Digital Tipping Point Survey 2011 

Mobile internet penetration is expected to become the most relevant in the long run

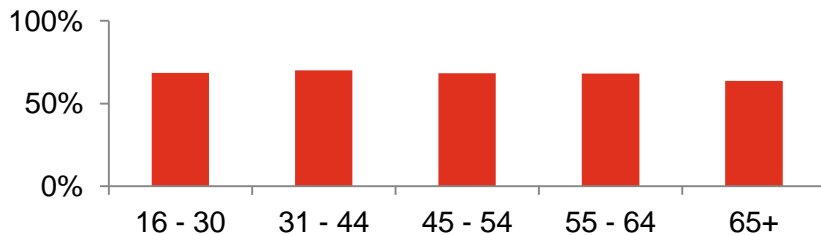
Penetration on different market segments in regional Telecom industry



Internet banking is used by all demographics but the uptake of mobile banking is being led by the younger generation

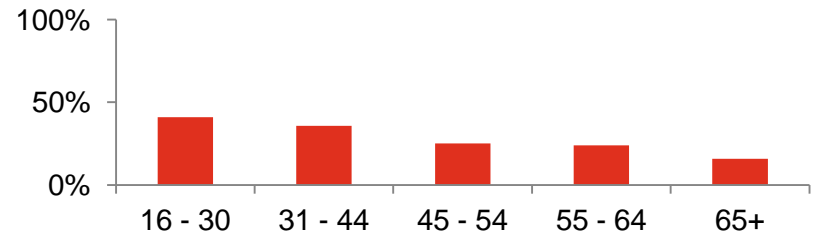
Internet

Age split of those who currently use the internet to purchase financial services (across all geographies)

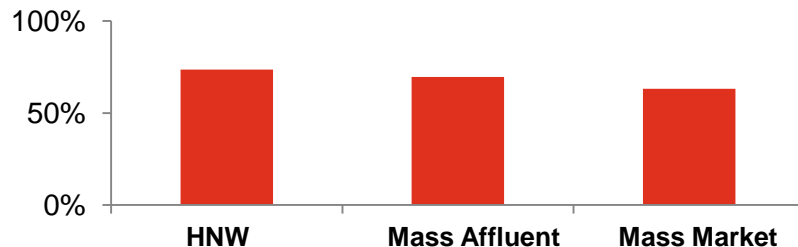


Mobile

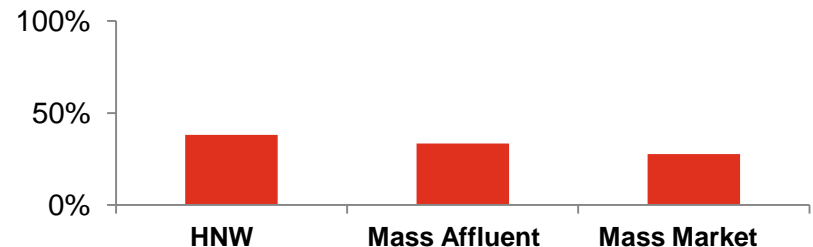
Age split of those who currently use the mobile to purchase financial services (across all geographies)



Income split of those who currently use the internet to purchase financial services (across all geographies)



Income split of those who currently use the mobile to purchase financial services (across all geographies)



Changing customer behavior and shifting demographics is increasing the importance of digital

Customer expectations and attitudes are changing...

- ... expect more**

Expectations are being shaped by experiences outside of your industry, where content, interactions and features may be much richer and more compelling
- ... trust their peers**

Brand loyalty has been replaced by peer conversations and other social media interactions; those who fail to participate risk being sidelined
- ... are informed**

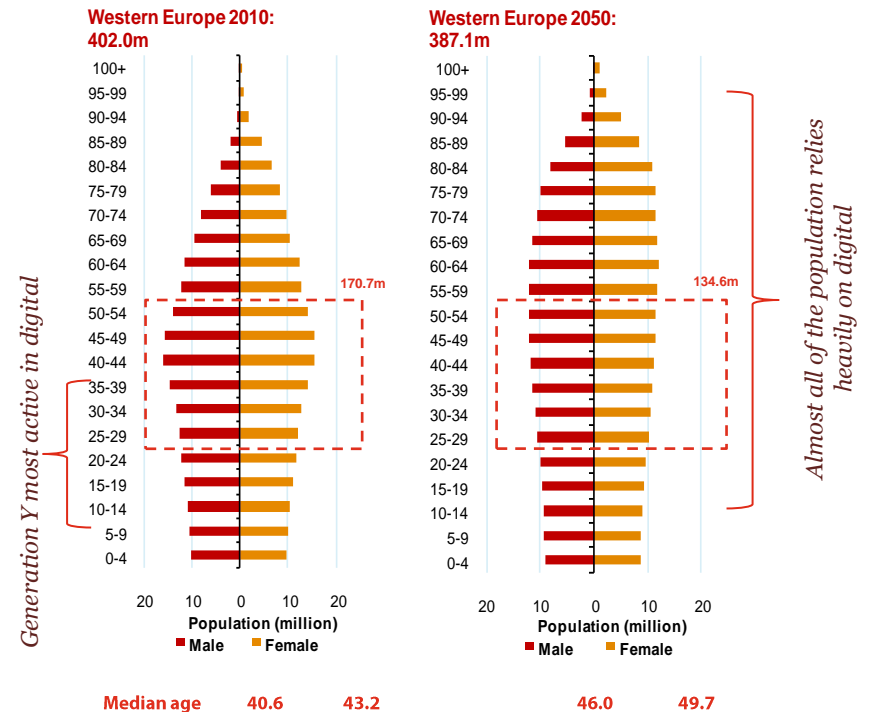
Easy access to research and data will expose efforts to mislead and enable comparison to your competitors; transparency and authenticity are required
- ... have choices**

undifferentiated products and services, lack of loyalty, easy access to alternatives and low barriers to defection mandate extra effort to retain your customers
- ... have a voice**

Vehicles for communicating experiences with your brand – both good and bad – are ubiquitous and free, and your customers are not shy about voicing them

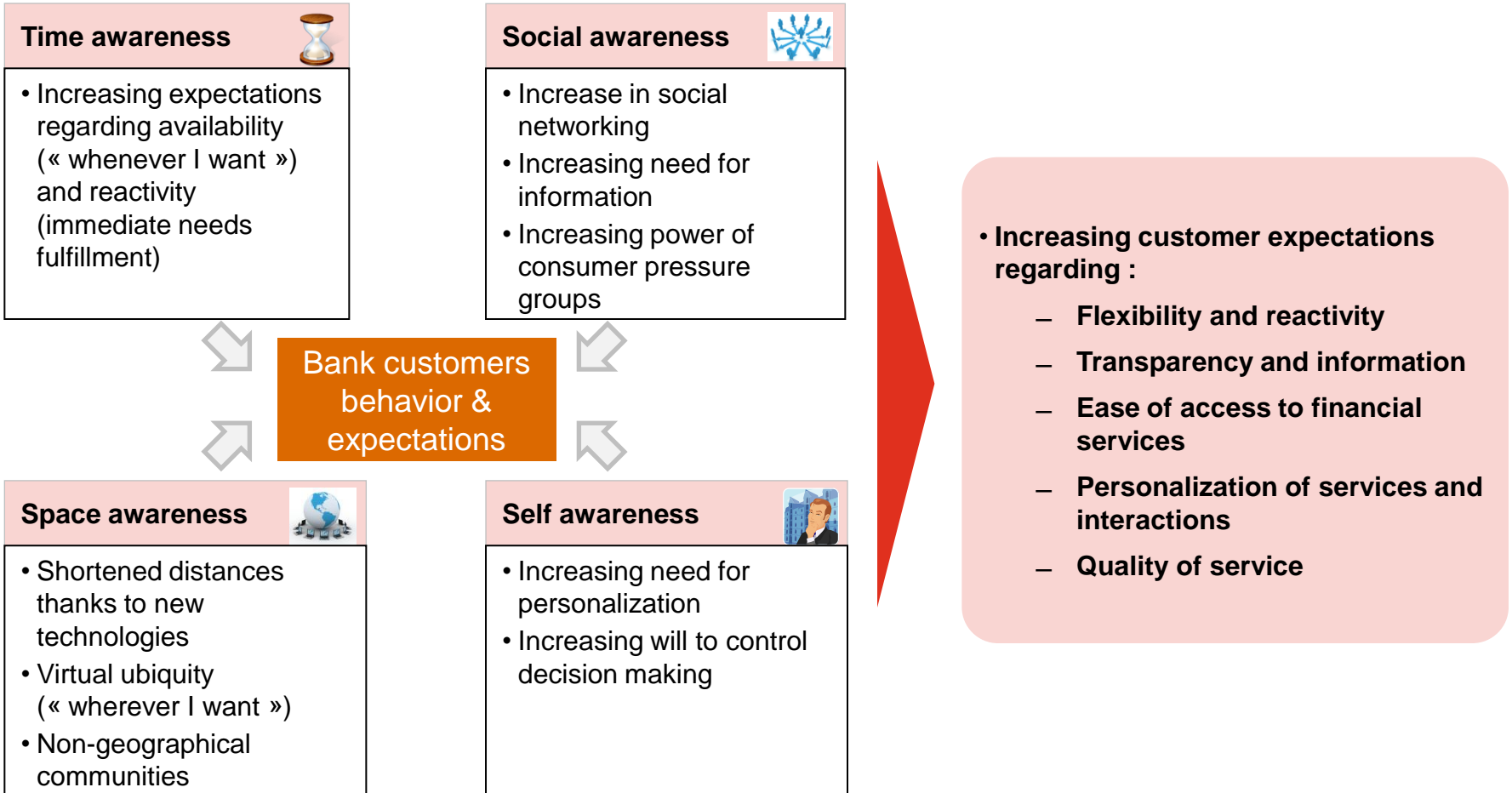
...and Generation Y is maturing

Western Europe – Population pyramids



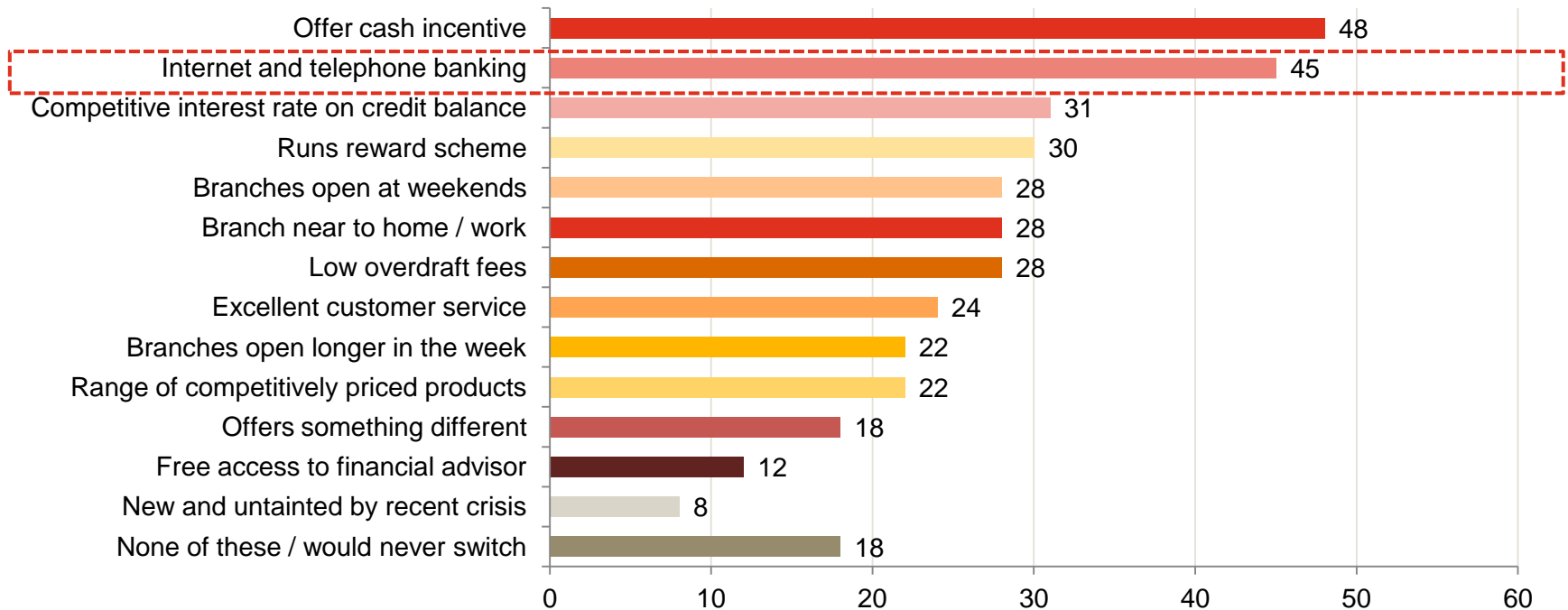
Source: PwC Research and Analysis

Evolution in bank customers' lifestyle drives increased expectations in terms of personalization, flexibility, transparency and reactivity



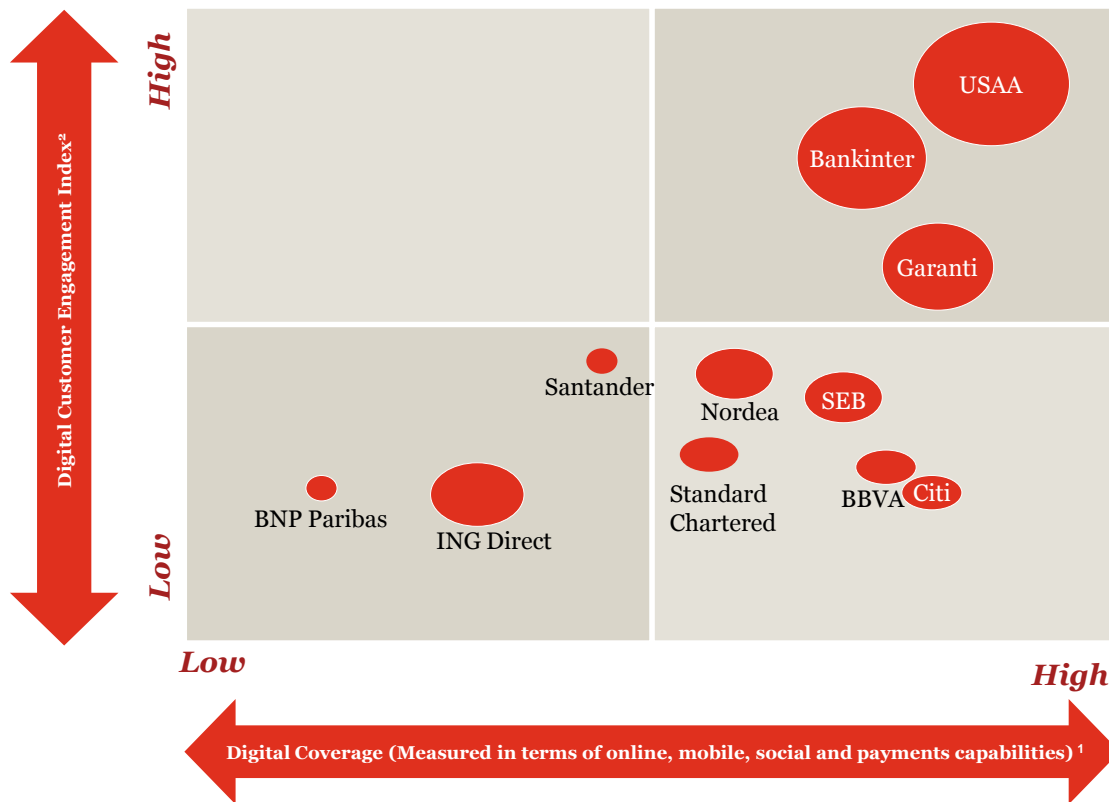
Digital banking capabilities are a key factor in driving switching behavior

What incentive might tempt you to change your banking provider?



Outside direct financial inducements, offering the appropriate direct banking services is the next best way to attract customers

Embedding customer engagement helps drive improvements in customer advocacy



USAA:

- Reviews and ratings of all the products via the online channel; customer ratings are used incorporated into product design
- Strong social media presence
- Easy deposit mechanisms via the digital channel (mobile, ATM etc.)
- Impressive array of online tools for money management, investments etc.
- Dedicated section for shopping deals, rewards etc.

Bankinter:

- Has Europe's largest base of account aggregation customers
- Extensive multi-channel collaboration via video based support from employees on the digital channels

Garanti Bank:

- Launch of online-only products and online-specific discounts on common products
- Sales of complex products (e.g. mortgage) are powered by online video-based advisory services provided by product specialists

Source(s):

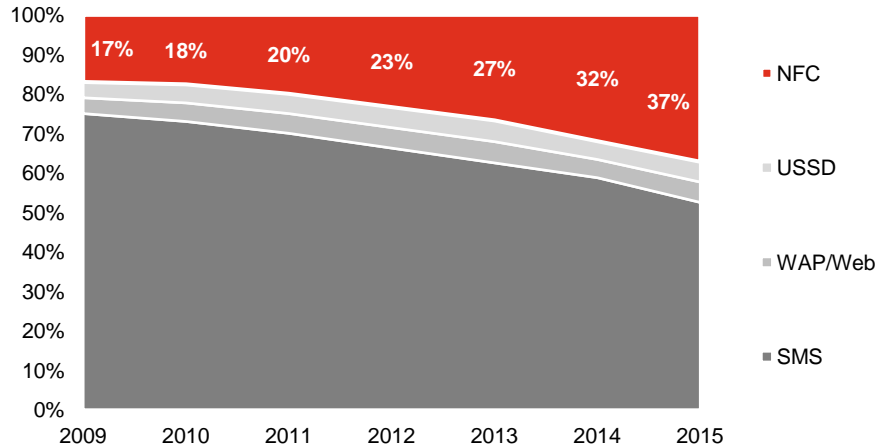
1 Digital coverage based on digital benchmarking survey undertaken at PwC

2 Digital customer engagement index based on level of customer interaction observed on online/mobile channels and social networking sites

3 Customer advocacy based on ratings reports from Forrester, JD Power and online review sites. Size of the bubble represents Customer

The marketplace is experiencing unprecedented growth in mobile payments

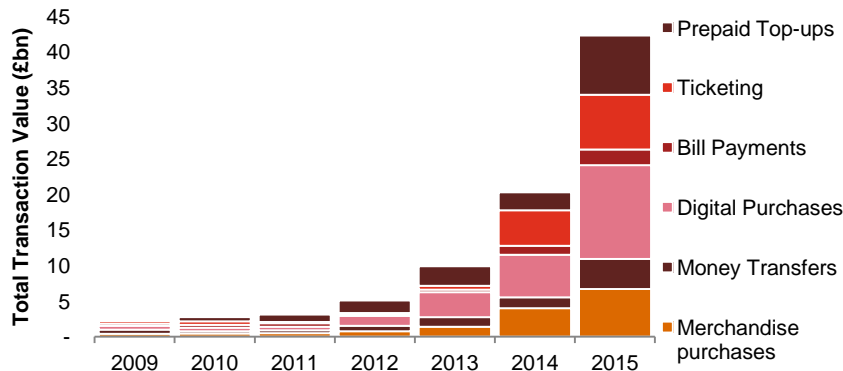
Share of Different Mobile Payment Usage by Technology, 2009-2015F



Out with the plastic, in with mobile

- Mobile payments are projected to grow rapidly in the coming years
- The “plastic” was marked by the widespread adoption of magnetic strip payment cards, then EMV (Europay, MasterCard and VISA) chip cards
- Now contactless payment systems employ RFID for making secure payments, and card issuers are keen to take advantage/control of NFC
- Initially introduced in the 1990s primarily as a contactless transportation application, NFC shows promise as an alternative to current contactless card schemes adopted in markets worldwide.
- But, previous mobile payments systems have failed (Mondex, Simpay, PayforIT etc)

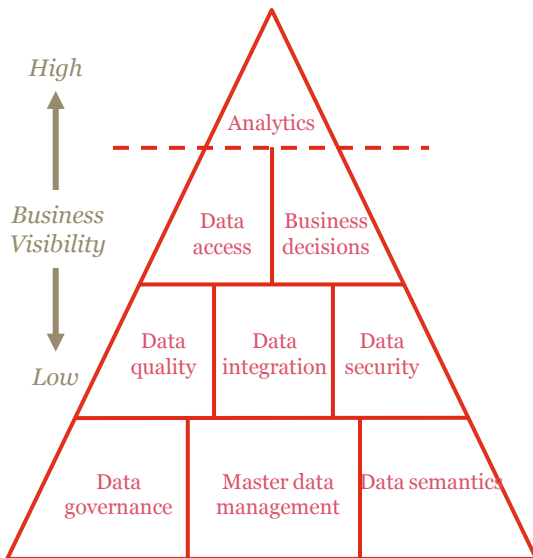
Gross Value of Mobile Payment Transactions in Eastern Europe & Russia, 2009-2015F



Digital improves the ability of companies to utilise customer insight to create new value

← Digital Allows for More Insights & Lower Cycle-time →

Digital channels increase the amount of data at hand for mining customer insights...

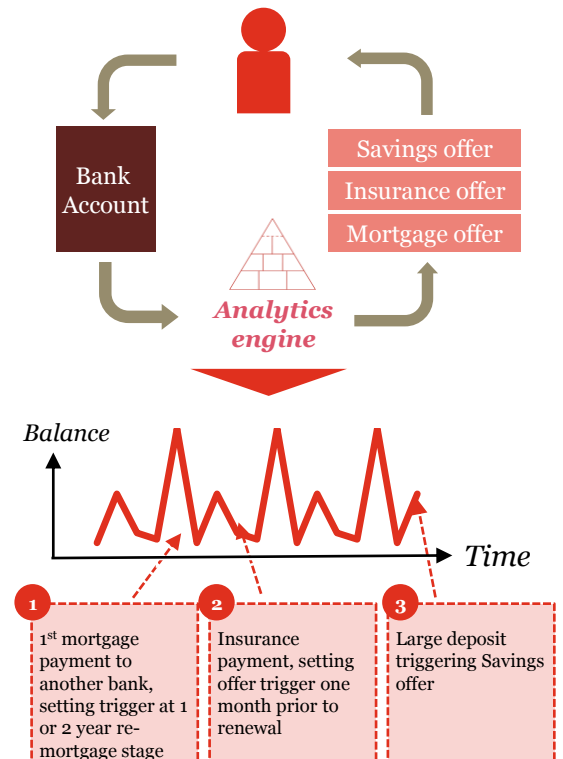


Data Sources (digital channels, external sources, branch and customer data etc.)

...which not only increases the number of customer insights but also expedites the cycle time for insight generation...

- 1**
Grow Income
 - Increase cross-sell & up-sell
 - Design & offer customized products
 - Better leads management
 - Improve promotion effectiveness
 - Win back customers/reduce attrition
 - Channel expansion & optimization
- 2**
Manage Risk
 - Manage credit risk
 - Manage liquidity risk
 - Fraud identification & mitigation
 - Capital funding & allocation
 - Effective compliance (e.g. Basel II)
- 3**
Improve Efficiency
 - Streamline staff costs
 - Optimize sales & marketing spend

...leading to more targeted and real time sales opportunities (e.g.: event based offers to the customer)



Customers are willing to pay for digital financial services propositions – with the right value proposition

“Which of the following would you be willing to pay for, please rank your top 3?”
Level of interest [Scored ranking results (rank 1=100, 2=50, 3=25); average 0-100]



Source: PwC Digital Tipping Point Survey 2011

Customers who use digital channels have higher levels of advocacy and own more products

1. Not active, not main banked

Typically lowest average product holdings

Activate with marketing, better digital propositions and effective onboarding

2. Active, not main banked

Digital drives better average holdings

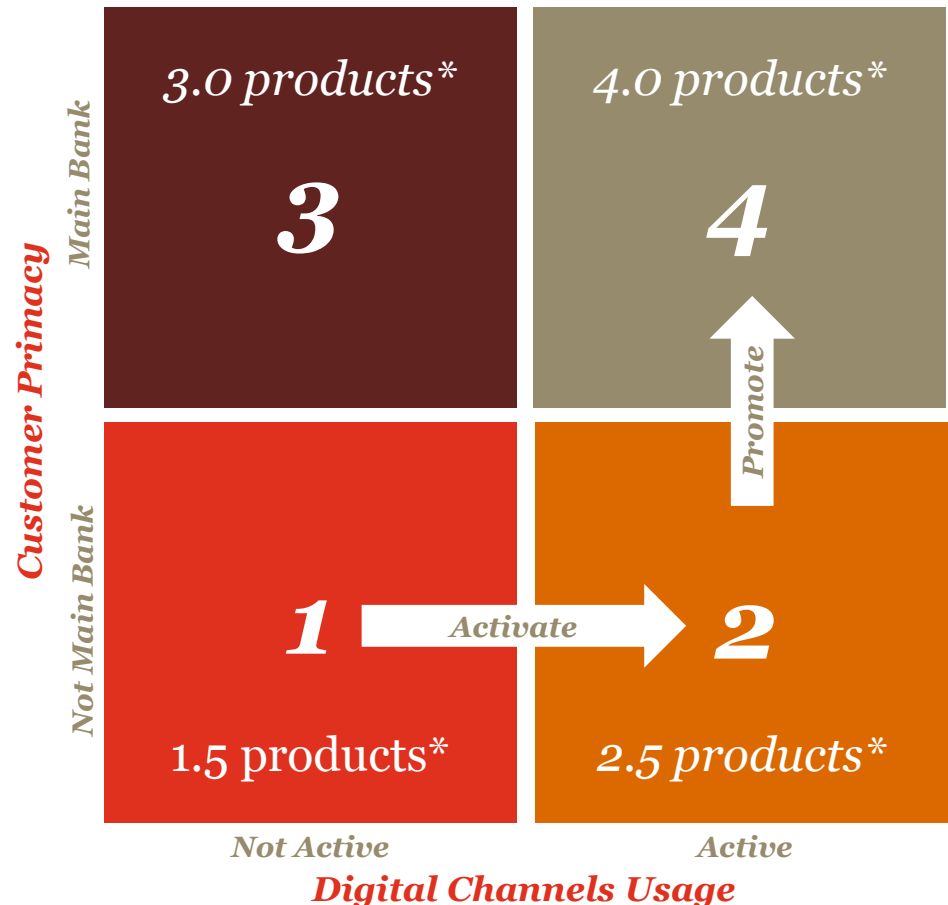
Promote to main bank through rich digital experiences and by adding value and insight to customer data

3. Not active, main banked

Main bank primacy drives good product holding levels and higher average deposits

4. Active, main banked

Best level of average product holdings from digital usage and main bank relationship



Cracking Mobile payments

Barriers and pre-conditions to mobile uptake

Barriers to uptake



Lack of a compelling consumer proposition

No clear commercial model

No consensus on mobile payments technology

Pre-conditions for mobile payments adoption



- A consumer proposition with clear benefits over existing payment methods
- A solution based on intuitive technology that is available to the majority of consumers

- Consensus on a commercial model, including partnerships and value distribution
- A clear business case for merchant investment in mPayment infrastructure

- Industry-wide agreement on standards for payment and verification
- A secure and reliable back-end infrastructure