

MOBILE BANKING UPDATE

by [Steve Brown](#)

Our kids now play the electronic version of Monopoly so that instead of a bunch of multi-colored cash, players are issued debit cards. It turns out that sales of the debit card-based game are as strong as ever and it was Parker Brothers, not Lehman Brothers, that is having a larger impact on banking's future.

Unfortunately, Parker Brothers is also ahead of our Treasury, which "has no definitive plans" to reduce the amount of currency it produces. Despite our budget crisis, we still spend \$848mm plus use up commodities in the form of zinc, copper and other metals, just to produce currency in the form of bills and coins. If we can download books on a Kindle and music to an iPod, surely we should rethink how we handle the bulky, germ-laden, carbon-producing and expensive medium of exchange.

For 2009, banking has made inroads in putting the "less" in cashless. Today, 15% of all transactions now are paperless, either in the form of debit cards, mobile banking, Paypal, EagleCash or other systems. Electronic items now dramatically surpass checks and that trend shows no signs of slowing.

Now it is true that more than 50% of the population is still uncomfortable with mobile banking, however, times are changing. Because of embedded microprocessors, the ability to connect to a network and unique signature, mobile banking can be more secure than almost all other banking channels. The security issues will be overcome in time, because mobile banking gives users an intimacy with their bank that is hard to duplicate. Unlike a branch, mobile banking gives customers a customized one-on-one experience. Several mobile money programs we reviewed (ClairMail, mFoundry, Firethorn, etc.) already give individuals the ability to send and receive money from/to merchants, banks and other people. Since we last reported on mobile banking, the iPhone has taken ebanking by storm and is now the sub-channel of choice.

Many banks are making significant inroads. In fact, the leader in mobile banking happens to be USAA. While their customer base is more mobile and tech savvy than most (plus they don't have any branches), the adoption has been impressive. We checked in with and found for 2009, they have 8mm log-ins this year and 11.5% of their members currently use mobile banking. This adoption rate is well above the more typical range of 2% to 7% that we have seen. Of USAA mobile banking users, 20% say their phone is now their primary banking channel. As USAA rolls out its just announced iPhone application, it expects usage to double within the next year (since 35% of their customer base has the Apple gadget). For the record, next to USAA, Wells Fargo is thought to have the next largest adoption and the most complete mobile banking platform, but we were unable to get details. However, from focus groups, we do understand that business users love their mobile banking wire approval functionality (Wells is the only bank that we know of with this feature).

In 2009, one major change in mobile banking is the realization that the channel is producing lower call volume and lower fraud. From recent tests, credit and debit card fraud has been dramatically reduced, as real-time text alerts and verification have been catching on. Lower expenses and lower losses combined with higher balances, more float (more on us transactions) and more fee generation, help explain why some banks (Huntington Bank for example) report mobile customers are 38% more profitable than brick and mortar users.

Last year we said widespread adoption of mobile phone technology was 3Ys away. This prediction stands, as we believe banks will make a major push over the next 2Ys to integrate a mobile channel. While it is difficult to contemplate the future in such turbulent times, banks should consider at least tracking the possible options and including an initiative in their 2010 strategic plan.

BANK NEWS

Massive Fraud

The NYC Attorney General has charged 25 people with fraud of at least \$102mm. Suspects reportedly used inflated property appraisals and forged W2 forms, paychecks, bank documents and loan packages to perpetrate the largest fraud in NYC history.

Capital

The ABA noted to the Senate Banking subcommittee that only short of \$3B is needed to lift all smaller US banks to Well Capitalized positions.

Buffet Speaks

Guru Warren Buffet projects unemployment will reach 11% and a 2nd stimulus package may be needed if the economy is going to fully recover.

Sales Tips

Bankers struggling with single family residential homes or lots that have been foreclosed should be aware of a new study by the CA Association of Realtors. The study found 68% of buyers said price decreases drove them to make a purchase, 39% said they were driven by low interest rates and 23% said concern over rising interest rates in the future pushed them to make the decision.

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