GETTING AN APP FOR THAT

by Steve Brown

Somewhere deep in the Brazilian rainforest, a 19-year old member of an ancient tribe just invented an application for a smartphone. It seems like everybody is doing it. Granted, we are jealous that we are not making tons of money, allowing us to lay around in a hammock all day; but we do want to highlight that the smartphone application is one of the most revolutionary changes in banking communication since Alexander Graham Bell figured out how to make callers on hold listen to Mariah Carey.

The movement to apps from "browsing," has been a major change in mobile banking. Tapping a single button instead of navigating to a particular website is a significant improvement in the bank user experience. Today, the app reaches almost 20% of some bank's business and retail customer base. It has become a game changer. This shift in usability is important as it will not only bring more users, but will have profound implications on how we communicate with our customers. Instead of asynchronous communication (we give the browser a request and wait for a response), the app allows real-time interaction. This gives banks and customers an effective tool to dramatically reduce fraud, improve basic banking functions and enhance customer service.

In addition, the mobile phone app now provides for a new set off "contextual products" that adapt to the environment. A payment function on the app may act one way while you are standing in front of the register at Starbucks to pay for your latte, while reacting entirely another way if your kid wants to transfer $1k to you because they are now independently wealthy (from inventing an app that records your stress level during the day).

The rise of the iPad and other tablet PCs that are driven by visual interfaces will further support the trend towards the app. Banking applications like PNC's Virtual Wallet, now take on a deeper relationship with customers, as the interface better allows a graphical interaction for bill pay, moving money, benchmarking expenditures, taking advantage of bank offers and a host of other functionality.

The bottom line here is that if you do not already have a mobile app platform, you should at least have strategic plans for one. We will be talking about the future of business and retail customer interaction at our upcoming Executive Management Conference in May, but we ask for your help today. If you have a mobile banking platform or are thinking about one in the next year, we would like your opinion on a couple of items. In the next few hours, we will send out an online survey to capture information about what your bank is doing or plans to do in the area of mobile banking. We will then take that feedback next week and distill that into actionable information. We will interview mobile banking vendors that rate high on satisfaction and performance and further analyze them under a rigorous Vendor Management Analysis. Finally, we will be inviting these vendors to our Conference in May for a "bake off." If you participate in today's survey to be sent out via e-mail shortly, you will receive both the survey data and the Vendor Management Analysis. These will help your bank save valuable time in achieving its ROI goals within mobile banking. If you come to our conference, you will be able to see these applications first hand and talk to banks that are changing their customer experience.

Please watch for the survey in your email and we look forward to working with banks in further exploring the capabilities within mobile banking. In closing, we also want to say we support those thousands of college students that sit around their dorm room and instead of deciding what body part to tattoo next, go out and make millions on an iPhone app. We just wish they would move to Brazil so we wouldn't have to hear of their success.

BANK NEWS

Rate Shock

The FRB raised the Discount Window rate from 50bp to 75bp, but said the move wasn't a precursor to a broad tightening. The FRB could be seen leaning this way in the minutes of the Jan 26-27 meeting where it stated it wanted to return "to the pre-crisis standard of one-day maturity for primary credit loans (discount window)," would be "increasing the rate," and was needed to discourage "depository institutions from relying on the discount window as a routine source of funds when other funding is generally available." Of equal interest, the minutes were preceded by testimony from Bernanke to Congress on Feb 10 where he said "before long, we expect to consider a modest increase in the spread between the discount rate and the target federal funds rate." The Fed also shortened the maturity on discount-window loans from 28 days to overnight. Market participants were caught off guard by the move to encourage banks to return to private markets as their main source of funds.

Bankruptcy Pressure

Credit agency Equifax reports small business bankruptcies climbed 44% on average in the 4Q compared to the same period last year.

Branch Costs

Studies find that depending on location, an in-store branch typically costs between $250k and $450k; a 2,500sf leased branch costs between $550k and $950k and a 3,500sf freestanding branch costs $2.2mm to $3.5mm.