Mobile services to transform the financial services industry

The invention of the smart phone has presented businesses, especially retail banks, with direct channels to better engage with and empower customers in their everyday lives. A lack of trust has blighted the financial services industry since the financial crisis, so the possibilities inherent within mobile channels present a real opportunity for banks to rebuild this trust through positive communication. Roger Peverelli, Partner at VODW, and Reggy de Feniks, Partner at 9senses, discuss the current trends in the uptake of mobile channels within the financial services industry and examine how the smart phone reshapes the retail banking ecosystem.

The way most financial services firms are exploring mobile makes you think you've travelled back to 1995, to the early days of the internet. The first applications we saw back then on the internet were typical examples of what Marshall McLuhan called the 'Horseless carriage syndrome'. The first car looked like a carriage without a horse. When we try to grasp a new medium, we always do so within the confines of a medium we already know. Financial institutions are still at this stage; they are currently replicating existing processes to the mobile channel. Don't get us wrong: this is good. But we feel - like everyone - that so much more is possible. We really need to think beyond the horseless carriage.

We have identified the six most important consumer trends that set the stage for the future and the design imperatives for the successful financial company of the future. Mobile will play a crucial role in tapping into every single trend. Financial institutions should be more aware of this and use the trends as principles for mobile strategy. For the purpose of this article we will introduce three of the six trends to illustrate this.

Consumer relationships

Consumer relationships with financial institutions have changed. Trust is still under pressure. We researched what drives trust and found that the basic daily provision of services determines no less than 40% trust. Morality only accounted for 2.5%. Trust cannot be restored simply by talking about it in advertising: it is won back by excelling in the daily provision of services. Financial institutions should create service excellence on top of operational excellence. According to Pablo Cardona and Wei He of IESE Business School in Spain, trust is the willingness to be vulnerable to another person, based on positive expectations about the other person's intentions and behaviour. Trust increases through a series of positive experiences, interactions and observations. In other words: the frequency and added value of interaction between customer and bank dictate the pace of growth in trust.

The reality is that in Western countries people rarely visit their bank branch anymore. A lot of branches see 20 customers per day, at most. New research shows that visits to the web sites of most major Western banks outnumber branch visits by a factor of 50 to 100. And we now see that apps from banks are used much more often by customers to login to their bank's website. Customers that use ABN AMRO's app access the bank 11 times more than they did via their computer. The contact frequency and added value banks can offer with mobile are therefore the keys to restore and expand trust.

Transparency and simplicity

Consumers are calling for transparency and simplicity. Transparency is the single most important factor in corporate reputation. Choice and information overload, drive the call for simplicity. Our experience in the worldwide implementation of transparency and simplicity in financial institutions is that this goes beyond the products. It for instance requires major adaptations to business models. With transparency and simplicity lies the risk that products from different competitors start to look alike, resulting in commoditisation and competitive pricing, which in turn puts pressure on margins. The only way for a bank to escape this is to combine transparency and simplicity with specific value-added services and a superior customer experience that differentiates it from the competition. Again taking the ABN AMRO app as an example: To access a bank account via a laptop takes 1 minute and 5 steps, via the mobile app it takes only 10 seconds and 2 steps. This simplicity enforces the perception of being in control.

Consumers preferences

Consumers crave identity and authenticity and being recognised and treated as an individual. It is about added value and the human dimension. 'Closeness' is more than 'physical proximity'. The challenge is to be 'close' across the different channels. The rise of smart phones and tablets adds another dimension. Phones are not phones anymore. Not that long ago a phone's purpose was to make calls. With the arrival of the smart phone that notion has become outdated. Calling and sending text messages makes up only 10% of the time spent on a smart phone. Research by VODW shows that the other 90% is used: 'to wake up', 'to make pictures', 'to boil an egg', 'to check Facebook', 'to keep the kids busy' - all kinds of uses that have next to nothing to do with the original purpose of the phone. One third of young women check Facebook before brushing their teeth in the mornings according to a study of American social media users by Oxygen Media. The smart phone has become an essential part of life; the first thing you look at in the morning, and the last thing you check before going to sleep.

Understanding the mobile device

Understanding what a smart phone means to your customer, and how it relates to your brand, product, or service, should be the starting point for real consumer insights. It is important to look beyond the core product. The context in which the product is used should be taken into account, as well as the situations in which it plays a part. For a suntan lotion manufacturer it would be the beach, for insurers it would be situations that put consumers at risk, and for a bank it would be the moment a consumer spends money. This will yield consumer insights and opportunities to help customers' lives.

Every bank will do this in their own way. But from what we've seen so far in mobile services, we think there is one denominator for success: helping. For many, the smart phone has become the number one device to aid all activities by taking care of things faster and easier, and providing insights that are specific to the place and situation. The consumer should be given insights, information, and opportunities that help them in specific moments or places during their day. American general insurer State Farm realised it had hardly any contact with its customers. Once a year it sent out a notification that the premium had gone up. To address that, State Farm developed a simple app that enables customers to view weather forecasts and road conditions on their smart phone. In a simple way it ensures one daily positive contact, instead of a yearly negative one.

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What all these applications share is their customer centricity, rather than product centricity. Financial institutions can now accompany their customers wherever they go in the world. Mobile phones offer contact points not only through their checking and savings accounts, but also through the possibility of offering additional services that support their everyday lives. Mobile phones give financial service providers the opportunity to be close to their customers and part of people's lives.

Mobile banking transforms the customer experience

A worldwide TNS study in 2011 showed that more mobile phone subscriptions existed (5.3 billion) than bank accounts (1.6 billion) and PCs (1.1 billion). According to Forrester, there will be 1 billion smart phone customers by 2016. Estimates for the amount of people worldwide accessing financial services through their mobile vary from between 500 million and 1 billion people by 2015. At Finovate 2012 it was mentioned that 30% of banking app users at Rabobank replaced online banking with their mobile app. Clearly there is a shift from online to mobile.

Another perspective is the added value that is being offered via the mobile device. The current account and everything that goes with it is currently the most important part of the relationship between a customer and their bank. According to Strands, developer of personal finance tools, the first generation of digital budget tools is already used around 10 times per month on average. To us it is clear the core of the relationship with a bank will shift from online and the current account to mobile and everyday tools for daily empowerment. Obviously that will lead to new exciting challenges, it will help interaction, it will help banks learn more about their customers, restore trust and create new added value.

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