Mobile Banking

How DIGITAL PLATFORMS and SUPER APPS can power up traditional banks

As technologies develop, consumers' capacity to adapt keeps improving. Most people weren't comfortable with land-line phones until the 1930s, 50 years after they were invented. By contrast, it took just 10 years for smartphones to become a part of people's everyday lives. Likewise with mobile banking: launched less than 20 years ago, today around 80% of bank customers in developed economies use mobile as their primary banking channel. Mobile banking is now so popular that most consumers would switch bank to get a better mobile experience.

As technology evolves, consumer expectations of what can be done in the mobile channel keep growing. Banks that fail to anticipate their customers' changing needs and adapt their mobile offering accordingly risk being left behind by more agile, forward-thinking competitors. For banks, a winning strategy starts with understanding the services needed by today's mobile banking user, then delivering these services via a user-friendly, sophisticated experience.

Fast Facts on Mobile Banking

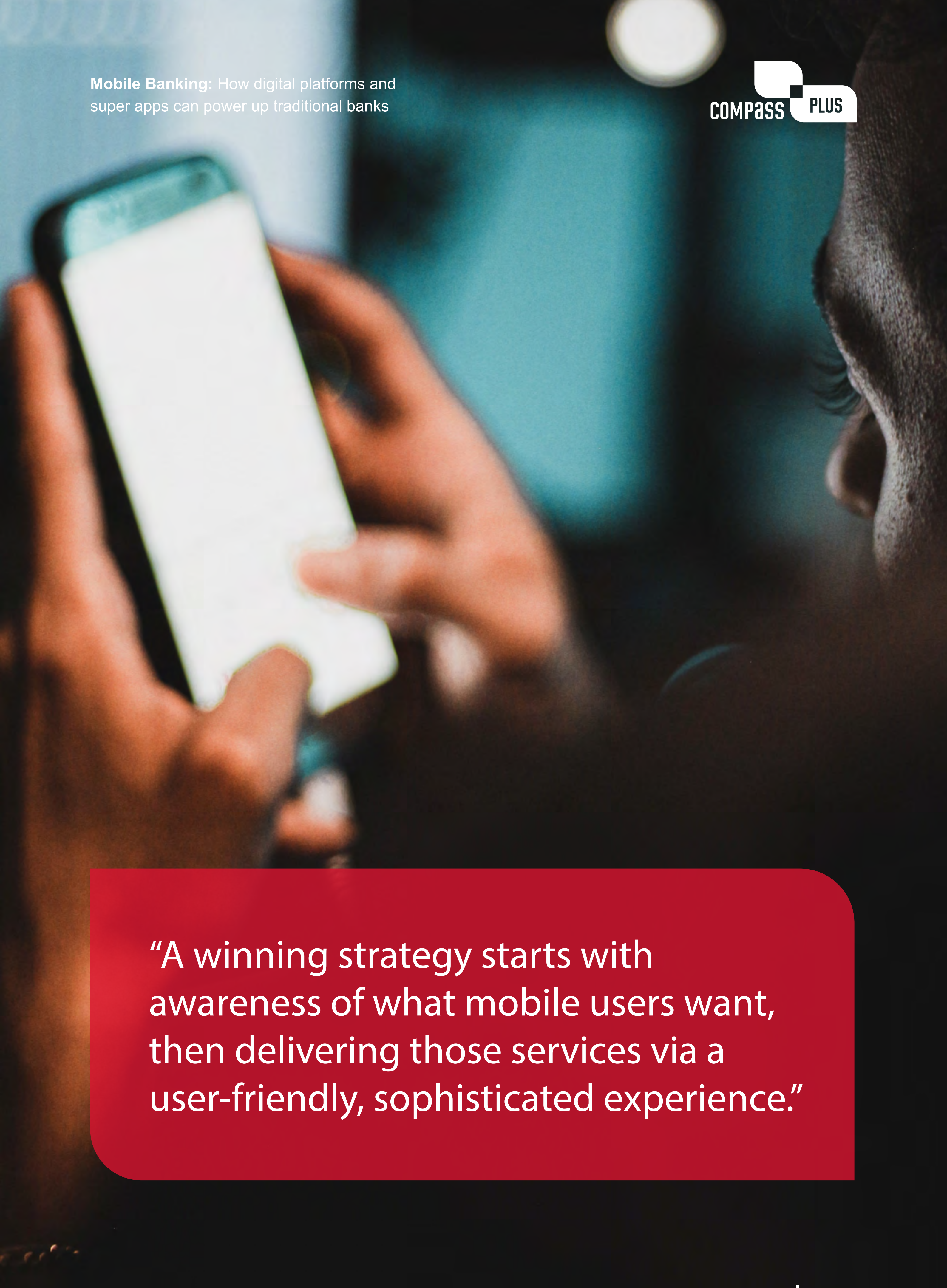
- 74% of UK consumers use mobile banking apps to manage their finances.
- More than three-quarters of US consumers used mobile devices to check their bank balance in 2019.
- 97% of millennials used mobile banking in 2020.
- 62% of UK bank customers would switch banks for a better mobile experience.

Banking apps: bundling, unbundling and rebundling

Traditionally, financial services were accessible through branches. A customer entered and applied for a mortgage, opened a savings account and received a card. Latterly, these services became available via telephone, the internet and, most recently, mobile devices.

As the speed of innovation picked up and consumer expectations started to change, newer services such as loyalty and rewards, mobile payments and money management were offered as separate apps, rather than being grouped, or "bundled", inside a single app. Some examples of these stand-alone apps include Barclays' mobile money service, Pingit, the 'Treats' rewards app offered by Malaysia's MayBank and Santander's Money Plan app for money management.

In many cases, these separate apps are not driven by customer need: rather, innovations are developed by isolated teams within the bank, making it difficult to integrate new services into existing technology stacks. Apart from being inefficient and unfocused, having separate teams work on projects for the same customer segment risks separating innovation from the core business objective of delivering a unified and differentiating customer experience.



"A winning strategy starts with awareness of what mobile users want, then delivering those services via a user-friendly, sophisticated experience."

The end of unbundling

The arrival of organisations such as Vocalink saw financial services products further disassociated from each other through app unbundling. In 2013, Vocalink's Zapp app (later renamed Pay by Bank) was launched in the UK to provide real-time authorisation of push-based mobile payments outside customers' existing bank apps.

Despite Vocalink's ambition to onboard 20 million Pay by Bank users by 2018, consumers have been confused by the concept of a separate app for payments and were also wary of allowing a third-party app to access their bank accounts. The problem is that Pay by Bank lacked any obvious value for consumers, offered little to no consumer education and had no tangible user incentives such as rewards or loyalty points. Although supported by major high-street banks and backed by Mastercard, Pay by Bank has not fared well on the acquiring side, with only four retailers accepting payments via the app.

Most recently, Barclays has decided to sunset Pingit. This decision is part of a long line of digital mis-steps on the part of big banks: last year, JP Morgan closed its Finn app, RBS ended its Bo bank, and both Santander and Nationwide stopped their SME banking ventures. These high-profile closures of single-function apps show how consumer appetite is shifting towards multiple services delivered via a single app. This has accelerated in the past five years, leading to the global trend for super apps.

Too many apps, not enough time

Today's bank customer wants easy access to normal bank account transactions alongside a growing range of mobile payment options. They also want to link these payment and account functions with other mobile interactions such as loyalty and reward programs.

Winning banks will bring together banking and retail payments, bill payments, money transfers, rewards, spending and budgeting tools in a single app. In doing so, they will create a user experience that combines convenience, trust and accessibility in a financial super app their customers will find invaluable.

Super-Apps: grabbing market share

After investing millions in multi-app offerings with low impact, traditional banks are stalling. Meanwhile neobanks, tech giants and other forward-thinking service providers are eating into their market share. These well-funded and nimble competitors to traditional banks are able to draw on modern technology stacks and put innovation at the heart of their operations. They also benefit from data-sharing partnerships with third-party partners in the retail and service sectors.

Take the super-app Grab, which began as a ride-hail app in Malaysia. It broadened its proposition by launching in-app instant messaging, food delivery and courier services. In 2016, it launched digital payment service GrabPay, followed by the GrabRewards programme and Grab Financial offering insurance and financing services. As a result of these developments, the company's financial services business is now far bigger than its original ride-hail business.

Russian e-commerce and financial giant Yandex offers another example. Launched in 1990 as a search engine, Yandex.Market was introduced as a fully-fledged e-commerce site in 2002. Yandex. Market was accompanied by Yandex.Money, a payment system created with Sberbank. Yandex.

- 20% of customers leave banks after a bad experience 45% of these will actively discourage other customers from that bank.

Money combined a range of Yandex apps and consumer lifestyle propositions, joined by third-party affiliates looking to tap into Yandex's growing customer base. As of 2020, two-thirds of Russians regularly use Yandex.Money to make payments, with 60 million e-wallet users and more than 21 million payment cards issued.

The old ways aren't working

Traditional banks struggle with tangled webs of legacy platforms, from outdated platforms focused on card-centric e-commerce systems that cannot cope with mobile payments to internet banking platforms that pre-date smartphones and apps. As tech innovation races ahead, these legacy platforms are becoming increasingly redundant. Banks find it harder to justify the ever-spiralling cost of maintenance and updates, as well as disjointed data silos that cannot provide a full picture of customer behaviour.

In a last-ditch effort to keep up, many traditional banks have launched technology innovation labs. While this might sound edgy and exciting, such innovation labs often fail to consider bank IT at a systemic level, leading to a mass of disjointed services and fringe propositions as new and traditional services are patched together.

Banks that are both issuers and acquirers face bigger problems, as consumers prefer to pay at merchants and retailers using a single low-friction mobile app. Consumers have no understanding of the ways banks divide their business, and are left with too many different apps and no genuine omni-channel experience if banks choose to separate the consumer-facing elements of their issuing and acquiring businesses.

Some banks have introduced numerous integration layers and wraparounds to mimic the appearance of a seamless experience across all platforms. However, this approach does not address the spiralling cost of maintenance and integration on various legacy platforms. Upgrade cycles become cumbersome and extremely expensive, and traditional banks' time-to-market is much slower than that of agile, modern disruptors.

Traditional banks are often embarrassed by the amount of money they pour into failed fringe innovations: indecision regarding these services can paralyse a bank. In the case of Barclays and Pingit, it took 10 years to admit that an allegedly modern and innovative service was a failure.

Consumers want FinTech services – and control of their data

Consumers are increasingly making unfavourable comparisons between traditional banks and other providers such as neo-banks and tech giants. These companies offer relevant, attractive services such as instant KYC-approved virtual card products issued from a mobile device, account-to-account payments, faster international transfers and service-based rewards.

Legacy technology stacks are just one of the problems faced by traditional banks. They also struggle to perform dynamic, integrated data analytics given their siloed and fragmented data sources. Lastly, they are held back by outdated platforms creaking under the strain of integrating with new technologies and payment channels. Meanwhile, modern technologies allow for the creation of unlimited data fields, enriching the amount and type of data that can be collected and used competitively.

By contrast, FinTechs, neobanks and tech giants can quickly mine data into actionable insights and process improvements across different product lines and service functions. Gaining a granular overview of customer behaviour provides opportunities to cross-sell other products and develop innovative new services that capture the customer's attention.

With the introduction of Open Banking, keeping customer data locked down in discrete silos is no longer an option. Customers now decide who gets access to their data, and FinTechs, tech firms and neobanks are taking advantage of Open Banking to steal a march on traditional banking players using the power of modern, flexible technology platforms.

Despite the gravity of this situation, there's hope for traditional banks – not least because study after study proves that while consumers want the convenience and speed of new technologies, they also want these services delivered by trusted banking partners. In a landmark study[1], consultants Accenture argue that new, flexible digital banking platforms are the only way forward for traditional banks, and that banks hold an ace up their sleeve: they continue to dominate when it comes to customer relationships.

> "As tech innovation races ahead, legacy banking platforms are becoming increasingly redundant."

The perfect mobile-first banking and payments platform offers:

- FLEXIBILITY AND AGILITY to quickly adapt to changing requirements, new technologies and different levels of demand, with the ability to scale accordingly to meet new or unanticipated needs;
- “PLUG AND PLAY” simplicity including customisable templates and advanced APIs to allow for the rapid launch of new services;
- NO RESTRICTIONS on supporting new banking services and payment methods that can be seamlessly and swiftly onboarded independent of device, network or operating system;
- DATA SHARING AND REAL-TIME INSIGHTS informed by integrated and enriched data flows from every partner in the ecosystem.

Put simply, consumers trust high-street banks – and continue to put their faith in them. Recent research by EFMA and CapGemini has revealed[2] that although neobanks find it easier to acquire customers than traditional banks, they are currently delivering only 5-10% of the revenue per customer enjoyed by high-street banks.

By building a great technology platform, traditional banks can unify their services, creating the ever-elusive omni-channel customer experience, while providing the bank with a single view of their operations and customer data. For those who offer both issuing and acquiring services, it is an opportunity to position themselves at the heart of the payments ecosystem. Investing in a great technology stack can help create a single platform not just for mobile banking and payments, but for all digital services, and can propel high-street banks to a business model that doesn't rely on legacy systems for success.

New mobile-first banking and payments platforms offer the speed and flexibility to compete with industry disruptors and their "digital first" propositions – while retaining the trust and customer relationships today's major banks continue to enjoy. By building the perfect mobile platform, banks can innovate at speed and prepare for the fast-emerging omnichannel environment in which transfers of value happen anywhere, at any time, via any payment method or device type.

In addition to defending their position at the centre of payments, banks can also realise economies of scale through a 360-degree platform for mobile banking – and build fruitful partnerships with the expanding pool of players in the market. By combining the trust today's banks enjoy with great technology and a mindset that's open to partnerships, traditional banks can become formidable competitors.

1. See Accenture, "Power Plays for Monetising Open Banking", July 2020: https://www.accenture.com/us-en/insights/banking/monetizing-open-banking-apis
2. See "The World Fintech Report 2021" by EFMA and CapGemini: https://fintechworldreport.com/

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