

Banks and mobile telephones

The bank in your pocket

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Introduction

This year's ninth banking innovation study undertaken by Novamétrie in partnership with Capgemini Consulting, Crédit Agricole, Microsoft and Efma deals with the topic of mobile banking ⁽¹⁾.

As in 2008, the study looks at six European countries: Spain, France, Italy, Netherlands, United Kingdom and Sweden.

It is based on a twofold qualitative and quantitative approach. The qualitative phase of the study was drawn up from a series of interviews with 30 European bank managers questioned between the months of July and August 2008, ten mobile telephony experts (operators, content creators, manufacturers, mobile financial service providers) and two representative focus groups of online financial service users.

The quantitative phase was conducted among European customers in the six countries involved in the study. 5,136 online financial service users answered an internet questionnaire between 25 November and 8 December 2008. Around 850 people were questioned per country with the objective of more clearly establishing internet financial service users' expectations in relation to mobile telephony.

As in previous years, the sample of people questioned was split between users and non users of mobile telephone services. The term user as employed in this document therefore applies to European customers that have used at least one of the following mobile telephone services over the last three months: ring tone, logo or image downloads, mobile web use and mobile phone streamed television. The study shows that the sample is made up of 34% users and 66% non users.

¹ *Mobile Banking: all banking operations realised at distance via mobile phone*

The main lessons

Which banking services should be developed for mobile phones: consultation, information, marketing, payment, subscription?

What changes are expected technologically? For which types of use in financial services? What are the most attractive new services and for which customers? These are just some of the questions the study attempts to answer.

One of the first lessons to be learned is that there appears to be consensus between bankers and their customers about the potential for developing mobile banking for simple and useful services: managing accounts (for 88% of bankers and 66% of the customers questioned) and for payments (for 80% of bankers and 70% of customers). One bank manager in two even thinks of mobile phones as a customer communication channel in its own right.

The obstacles to mobile banking that were identified (problems of security, ergonomics and the still high cost of mobile banking services) are disappearing (growth of the smartphone and tactile screen phone market, 3G and 3G+ internet access, iPhone banking services) and bank customers are increasingly enthusiastic about this type of service. 24% of the people questioned would be prepared to change their bank to get an attractive mobile offer (17% in France and already 39% in Italy). However, this view is not fully shared by bankers - only 4% think mobile banking could be a tool to win new customers.



The potential for developing mobile banking turns out to be even greater in southern European countries, in particular in Spain and in Italy where 80% of customers state they are potential users.

In parallel in emerging countries mobile banking may speed up the provision of banking facilities because the number of mobile phones in use has grown sharply, compensating for the difficulties of access to physical banking networks.

It would therefore seem to have been established that the convergent supply and demand will lead to the generalised use of mobile banking and in the next two or three years will be stimulated by increasingly better ergonomics, faster networks and standardised contactless solutions.

This study lastly demonstrates that in the area of mobile phone payments, the interaction between bankers, mobile phone operators, constructors and new entrants is far from being set in stone.



Mobile banking: under-used by customers and under-exploited by the banks

Internet users do not use mobile phones very often in their relations with their bank and do not see any added value

For 69% of internet users questioned, mobile banking is understood only as a simple banking service and only 11% think it is essential (33% of users).

More than half those interviewed do not yet have mobile phones that are suitable for accessing financial services. When the latest generation of mobile phones (in particular with a tactile screen) become more commonplace it will be possible to overcome this obstacle and open up the field of financial services via mobile phones.

The majority of financial services offered via mobile phones are therefore used in a very marginal way by internet users. Only 5% of those interviewed made use of simulations regularly, 4% subscribe to financial products and services. Everyday account management is not highly valued: 11% regularly make credit transfers and 10% make payments. Only two services are now considered classic: receiving alerts on account activity and consulting accounts, claimed respectively by 29% and 19% of internet users interviewed.

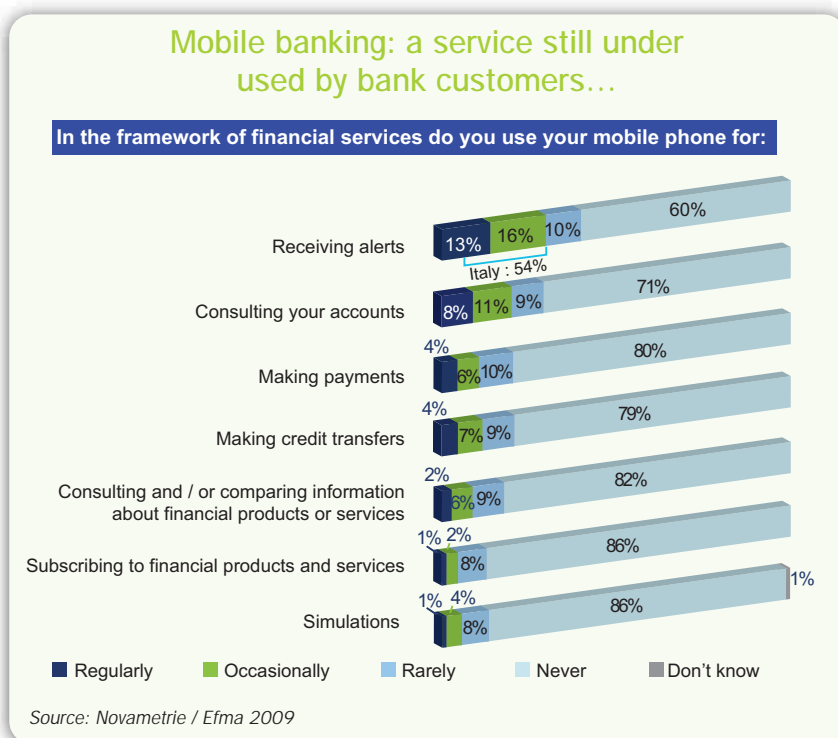


Figure 1

Italians stand out clearly from their European counterparts. They are the highest consumers of mobile phone financial services: 54% receive alerts regularly and 37% of the users regularly consult their accounts via their mobile phone.

Consulting accounts is highly valued by internet users

With an average of 7.1/10, interviewees considered consulting accounts to be the most important service. Three other services were very popular: “making payments” (6/10), “receiving alerts” (5.9/10) and “making credit transfers” (5.8/10).

However, “consulting or comparing information about financial products or services” (3.7/10), “subscribing to financial products and services” (3.1/10) “simulations” (3/10) were not very popular.

It is not surprising that among the top services are those related to account management and payments. They are the ones that are most compatible with the notion of immediacy conveyed by mobile phones. On the other hand, the least popular services are those that require decision making and reflection.

The detailed results highlight a real split between Latin Europe and northern Europe. The Italians attribute virtually the best scores to all the services offered. “Making payments” reaches for example an average of 7.1/10 for the Italians. On the contrary, the Swedish score the same service just slightly above average (5.3/10).

Text messaging, the most used financial services communication vehicle

The majority of European internet users regularly use text messaging, although according to the results of the study, 60% never receive text messages from their bank. In fact only 10% of interviewees regularly received texts, 16% occasionally and 13% rarely. Italians stand out again with two thirds receiving text messages from their banks.

Among the most frequently sent text messages, 43% of interviewees received a “major expenditure alert”, 36% “bank statement information” and 31% “new product promotion”.

The bank products and services used via mobile phones are currently limited to so-called “simple” banking operations of account management and payments.

Banks continue to be prudent about developing mobile banking

A third of banks questioned emphasised that they *“prefer to wait for other banks to concretely develop mobile banking before going into it”*. This reservation is based in particular on the failure of some of the trials. *“We have stopped everything to do with mobile banking, the services we put in place were not as successful as expected. I think we are seeing mobile phone saturation. They are considered a nuisance in public places in the same way as smoking is. Mobile banking should not be seen as a turning point in the banking sector, we have to remain prudent.”*

For the time being banks think of mobile banking as a tool for developing customer loyalty and as conveying the bank's image

Nearly 70% of bank managers consider that mobile phones are a tool for creating loyalty.

“The mobile phone offer will shortly be standard and will stand alongside pure banking offers. Mobile phones can play a role in developing customer loyalty, which in the current context is a priority.”

Nearly 25 % of the leaders and customers see mobile phones as a way of conveying the bank's image because it is associated with “youth”, “being connected”, “movement”, fashion”.

“Mobile phones have become a means of communicating; they help give banks a youthful, connected image that reflects the present day and age and changing habits. Mobile phones have become very personal, essential cult objects.”

Only 4% of managers and customers think of mobile phones as a tool for winning new customers. This minority is made up of specialist players or major banks with Scandinavian networks.

Banks are split about mobility being a sales channel and above all use mobile banking as a necessary but not differentiating channel

Nearly 80% of mobile phone players and only 50% of bank players think mobility creates new buying situations.

The least optimistic bank managers quote cultural obstacles, poor ergonomics, network coverage or differences between the generations as obstacles that can be overcome but which will take time before they are ironed out.

"I think that it will make consumers' lives easier, but I have difficulty envisaging the Japanese model in Europe with an "all mobile" model dominating."

Mobile banking is therefore chiefly seen as a secondary channel that complements the other channels but which does not yet produce new customers.

Mobile phone players are confident about the development of mobility

Interviewees think mobility will increase the number of buying situations. In fact queues and journeys by public transport are perceived by mobile players as being buying situations with high potential. As this mobile telephone content creator says:

"It is noticeable that the majority of people download when they are travelling, when they are in a queue, in the street or even when they having a phone conversation. It's obvious—and we've conducted experiments— mobility situations are buying situations. We now have to create our offers according to the situation, expand the range and make it more accessible."

Mobile telephony players call for mobile internet ⁽²⁾ (70%), whereas bank players opt for voice ⁽³⁾ (66%)

The two groups questioned (banks and mobile phone operators) do not appear to want to develop the same communication channels.

Mobile phone players think that the challenge for the future is in mobile internet, encompassing several functionalities: entertainment, payment, information and communication.

"There is enormous amount of work to do to enrich mobile internet, which is not yet ergonomic or particularly focused on the idea of mobility. That's what has to be developed."

² Mobile internet: all bank operations realised at distance via internet however it is accessed (computer or mobile phone)

³ Voice: Voice via classic phone or VoIP

“Mobile internet should become a sort of application platform used by any sector. The flexibility must be such that a bank can offer its services there in the same way as a video game creator or a supermarket chain.”

Banks as a whole want to concentrate on voice. According to them, mobile internet does not convey added value for mobile phones. However, voice stands out as a major criterion in developing new generation mobiles. For bankers, voice is seen as an interactive tool for the bank and the customer.

Mobile banking, an internet banking avatar?

The majority of bank managers are now focusing on internet banking, which has not yet reached maturity. According to them, it should reach an optimal use threshold by 2011-2012.

Interviewees do not fail to comment that internet banking is a prerequisite to the development of mobile banking. As a Scandinavian manager stated: *“Players that have made use of internet banking will be able to make use of mobile banking; they will be better prepared than the others.”*

At present banking players are taking a more *“wait and see”* stance and mobile phone players are *“enterprising”*.

The majority of banks prefer to duplicate internet services on mobile phones

In 2008, 52% of bank managers questioned preferred to duplicate internet services on mobile phones. This category of respondents opts for a strategy of observation and prudence, which is obviously connected with the investment made in developing the internet channel. It is only in two years' time that the banks are likely to start focusing on mobile phone dedicated offers, which are set to triple in relation to 2008 (from 25 to 75%).

This lack of development of mass innovative offers for the mobile banking market is greatly felt by customers, 45% of whom state there have been no new additions in two years.

Mobile phone players want dedicated offers

Unlike the bankers, all the mobile phone players interviewed pleaded for mobile phone dedicated services. Compared to internet they think that mobile phones are universal, require a minimum amount of financial knowledge and that the mobile phone content should be simplified, particularly in terms of applications.

According to one of the representatives in this category: *"People use their mobiles more easily than their computers. Banks should simplify their offers, duplication is not sufficient as they are not used in the same way. It has to be attractive to use and easy to access. Banks must invent a new model related to mobility."*

All the conditions for mobile banking appear to be fulfilled

Customers state they are prepared to use mobile banking for “simple and useful” services

For 39% of internet users, mobile banking has one real advantage: “access at any time”. This ease of use is popular with the British. Mentioned by 12% of the interviewees “mobility” is in second place but for the Italians it is top.

Payments are popular with the internet users...

In terms of potential, payments are most popular with internet users. The majority would be prepared to make payments, at least occasionally, from their mobile phones which would therefore become a payment terminal: 22% of users see the mobile phone as a payment tool and make it a personalised environment (6%). Only 24% of interviewees were hostile to the use of this function.

Public transport and travel are on the hit parade of purchases that internet users would be most inclined to pay for via their telephone (67% of those surveyed are likely to do it). Respectively 65%, 63%, 62% and 61% are likely to pay for cultural, food, clothes and computer / high tech products. Finally only 57% state they are prepared to use their mobile phone for buying newspapers.

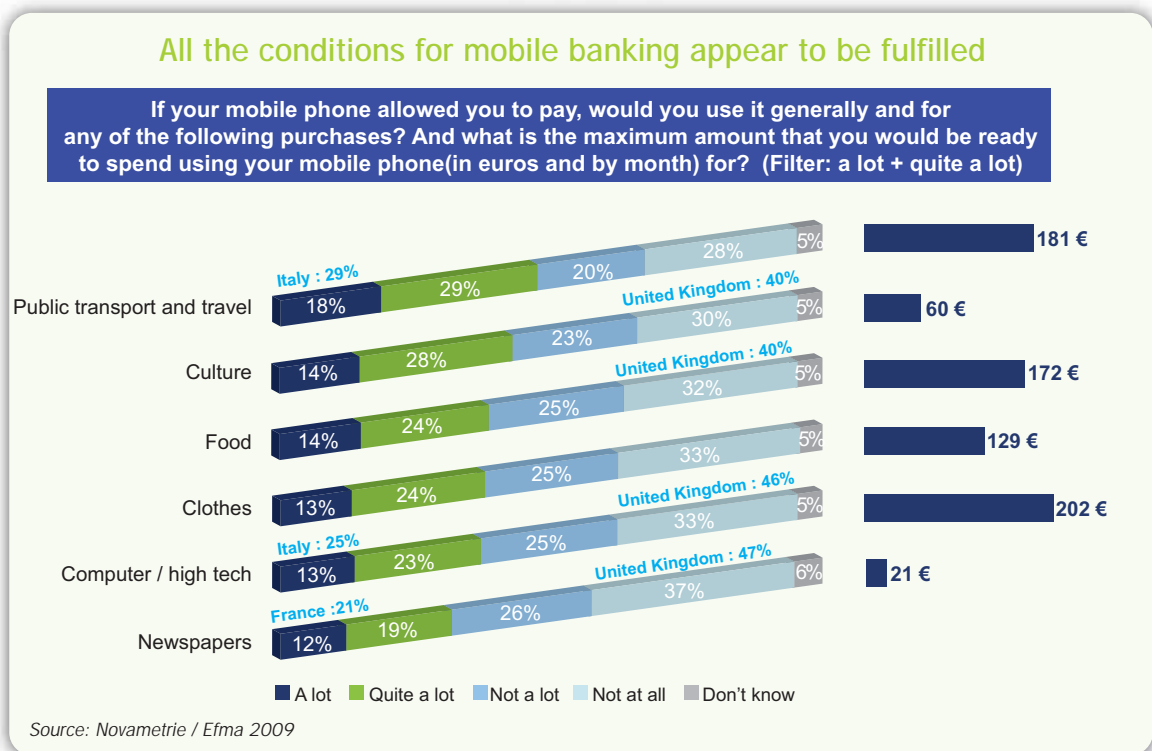


Figure 2

The Italians are most interested in paying for purchases by mobile phone (in particular for public transport) as well as the French (especially for newspapers). At the other end of the scale the category of “mobile phobics”, who are not in the least interested in making payments by mobile phone, is headed by the British.

Among internet users keen to pay by mobile phone, there are some large differences in the amounts they would spend per month. In decreasing order:

- computer hardware up to €202,
- public transport and travel with €181 on average
- food with €172
- clothes up to €129
- culture for payments equal to or under €60
- newspapers and magazines if the amount is not over €21.

Italians would be prepared to spend the most and the Dutch would like to pay the least possible.

... as are account management operations

Internet user customers want a practical service similar to iPhone to use their bank: consult accounts, make credit transfers, receive alerts etc. For 24% of them such a service could be something that would make them change their bank and to be ahead of the game could be a powerful tool in winning over iPhone owners. 48% of customers would therefore be prepared to open an account in a bank that offered them a mobile phone.

The attraction of new services via mobile phone for internet users

Among the highly attractive services three stand out: 78% of internet users state they are in favour of sending a text message if they lose their credit card (93% for Italians), 66% would like to view all their accounts (84% of users) and 60% are in favour of text alerts on the amount of their expenditure paid by payment card (85% in Italy).

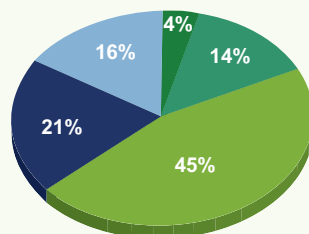
Using a mobile phone to check direct debits however only obtained average scores among internet users. It is only popular with the Spanish (68%).

The remainder of the services was mentioned by fewer than 30% of internet users: receipt of personalised advice by e-mail, use of text messaging.

Conditions for mobile banking development that appear to be fulfilled

45% of "potential users" who are future mobile banking customers

Types of customers questioned



- Fans
- Interested
- Potential users
- Inexperienced
- Resisters

"Potential users"

Current relationship with their mobile phone:

- They do not use the financial services on their mobile phone, but think they are relatively important
- They see mobile banking as a simple service
- "Consult accounts", "make payments", "make credit transfers" are nevertheless very important

Potential to attract:

- A desire to use a mobile phone for paying
- According to them, offering mobile phone service could be a plus for the banks

Mobile banking advantages / obstacles:

- Access at any time is the main advantage of the use of a mobile phone for financial services
- The cost of subscription is the main obstacle

Profiles:

- Customers in France and Spain
- Young people (18-34), students and middle management

Source: Novametrie / Efma 2009

Figure 3

45% of "potential users" are also future mobile banking customers

The quantitative phase demonstrated that internet users have a variety of profiles that after analysis give a customer typology.

This typology clearly shows that there a large number of people that do not yet use their mobile phone for banking operations, but who do see it as a potential distribution channel for banks, in particular for payments. This category represents 45% of the users questioned (the "potential users" —see below).

1- Fans (4%)

(7% of Italians, 5% of Spaniards)

They are regular users of financial services on mobile phones and like the "interested" category think it is very important. This category of internet users is therefore an important source of potential customers. In addition "fans" want to use mobile phone for payments. They see three main advantages in using mobile phones for financial services: mobility, security and payment. The "fans" are in the majority young people with net monthly incomes over 3000 and living in urban areas.

2- Interested (14%)

(24% of Italians, 22% of Spaniards)

The majority are users. Although they only use the financial services offered on their mobile phone occasionally, they think they are very important. For these customers, permanent access and mobility are the main advantages of using a mobile phone for financial services. On the other hand there is no real consensus about the major obstacle to the use of a mobile. The "Interested" are in the majority young people aged 25 to 34, belonging to the upper socio-economic groups.

3- Potential users (45%)

(52% of Spaniards, 51% of French)

This class represents almost half of the sample. The "potential users" do not use the financial services offered on mobile phones but they think they are relatively important. They state however that in the future they would be prepared to use their mobile phone for making payments. However, the cost of the subscription is the main obstacle to the use of a mobile phone for financial services. "Potential users" are in the majority young people (15 to 34), students or middle management.

4- Inexperienced (21%)

(30% of Dutch, 28% of Swedes, 24% of British)

They do not know about the functionalities on their mobile phone and do not use the financial services offered. They do not feel it concerns them and consequently state they do not want to use the payment function on a mobile phone. The inexperienced are usually people aged over 55 whose net monthly income is below €1,500. They are employed, labourers, or not working.

5- Resistant (16%)

(21% of Dutch, 20% of British, 20% of French)

They do not use the classic services offered on their mobile phone and are even more resistant to using their mobile for more complex financial services. For this category of customer, fears about the security of the operations are a major obstacle to the use of financial service on mobile phones. The "resistant" are usually people aged over 55 living in rural areas.

"Mobinauts" or mobile internet users, a new feature in the buying landscape?

A "mobinaut" or mobile internet user, is defined as someone who is connected voluntarily or involuntarily to mobile internet during a given period.

In France for instance, 25% of internet users use the web through their mobile phone. Fixed internet users represent 61% of the French population. The gap separating these two populations is still wide, but for how long?

Potential for development also identified by the banks

Although they state they are at present being prudent, nearly 50% of bank managers think of mobile telephony as a channel in its own right, with even more impact than internet. Mobile banking has, according to the interviewees, a very good chance of developing more rapidly than internet banking because of its potential to penetrate different markets.

Bankers identify the same potential areas of use of mobile banking as their customers: payments and account management

Bank managers consider mobile banking (88%) and mobile payment (80%) have high development potential.

They think account management, credit transfer and account consultation services will in the medium term be offered by all banks on mobile phones. The most commonplace mobile banking services that consumers can at the moment access include checking balances (service proposed by more than 80% of banks), alerts on transactions (77%), money transfers (74%) and alerts when a balance reaches a certain threshold (71%).

"The potential of mobile banking is obvious. These services should have a mobile version and very shortly will be quite normal. Mobile payment will also develop significantly but the issue is different as it involves different players and requires greater investment."

Obstacles that are disappearing

The main obstacles to the use of mobile phones in financial services

"Lack of security", mentioned by 27% of those surveyed, appears to be the main obstacle to the use of mobile phones for financial services. "The difficulty of use related to the ergonomics" as well as the "cost of subscription" are also significant obstacles.

The study reveals that 22% of internet users think mobile phones are badly designed and are often too small, (in particular in relation to the size of the keys and the screen) and 8% are afraid of pressing the wrong key.

When customers are asked what they now expect in order to use banking services on their mobile phones more often, 22% want standard chargers and 38% want the batteries to last longer.

The British have the most reservations about security. Italians criticize the poor ergonomics, the French are sensitive to the cost aspects whereas the Spanish are worried about making an error when using their mobile phones.

Today, most of the obstacles observed are gradually disappearing

- The development of smart phones and tactile screens (larger screens, easier to write, advanced functionalities etc) will facilitate the use of mobile phones by improving the ergonomics of the terminals.
- Given that sites for accessing banking services via mobile phones are increasingly secure, that consulting bank accounts online is more commonplace and there is greater use of mobile internet, users' security- related reticence, which is mainly psychological, is gradually being eroded.
- The multiplication of unlimited mobile internet offers proposed by all the operators in the sector is an important factor in the fall in the cost of subscriptions.
- The development in parallel of 3G technologies, and shortly 3G+, which increase the bandwidth for downloading data, speeds up navigation.
- Finally in France, a project is currently underway to develop a universal charger with the particular objective of reducing the recharging frequency.

Challenges to meet and real opportunities

Mobile payment explored by banks

Several models are currently being tested.

Model 1: Partnerships between banks and operators

Pegasus, which became Payez Mobile in 2008, is a joint project involving banks and French mobile phone operators aimed at testing and establishing international payment specifications for contactless mobiles. The Payez Mobile specifications complement Visa and Mastercard contactless payment specifications with functionalities that are specific to mobiles: OTA management of bank applications on mobiles (downloading, parametering and remote locking), contactless payment for any amount with a PIN number, multi card management within the mobile with an automatic or manual choice of card, stopping means of payment on the mobile etc.

Payez Mobile is based on a SIM Centric model (loading the bank payment application in a place on the SIM card hired to the operator) and on an ecosystem where each player maintains their own area of activity (no operator intermediation in payment flows that exclusively use the electronic money networks already in place).

Since October 2008 the project has been governed by the Association Européenne Payez Mobile (AEPM) which associates nine banks (Crédit Agricole, LCL, BNP Paribas, CIC, Crédit Mutuel, Groupe Caisse d'Epargne, Banque Postale, Société Générale and Banque Populaire) and four participating operators (Orange, SFR, Bouygues Telecom and NRJ Mobile). The AEPM is responsible for managing the Payez Mobile specifications on behalf of its members until these are integrated by international organisations. Commercial deployment by members will be ready for 2010.

Model 2: the bank becomes an operator

Rabo Mobiel, the mobile version of Rabobank

This Dutch bank is the first European bank to offer mobile banking, telephony and eventually payment. Rabobank offers its 2.6 million customers a multichannel bank that is open 24/7 making it possible to consult and manage bank accounts via internet or mobile phone (credit transfers, savings, investments).

As a mobile virtual network operator (MVNO on the Orange network and partner in the specialist media company Talba) Rabobank also offers its customers a “low cost” telephone offer to encourage them to use mobile internet. There are several advantages: no subscription, calls costing 10 euro cents per minute for a minimum of 10 calls per month and at the beginning of every month the right to free “surf mode” on the mobile. The logical continuation from this positioning is the use of the mobile as a virtual purse and a secure medium for payment cards.

PosteMobile, the first Italian MVNO

PostMobile, the Italian postal company MVNO, was launched in November 2007 and immediately offered its customers mobile banking services. It was a great success: more than 200,000 BancoPosta customers used these services in the first six months. PosteMobile decided to give a further boost to its innovation strategy by launching mobile payment and shopping services. The Gemalto MVNO portal management solution allows PosteMobile subscribers to pay their bills with their mobile phone, send a telegram or a fax, manage their account and transfer funds from their BancoPosta account and their BancoPosta PostePay prepaid credit card.

Model 3: Banks without operators

Campus Nova in partnership with the University of Nice is an original solution sponsored by Crédit Agricole. It manages an electronic purse on the mobile, in particular allowing money to be exchanged between two people or with a shop keeper (in payment mode) by simply bringing the mobile phones together. The objective is to use NFC (Near Field Communication) technology on mobile phones to offer a group of services. Near Field Communication is a technology that allows communication between a reader and a mobile terminal or between several terminals. Access management for the doors of the university using keys contained in the mobiles was tested. The pilot lasted for six months in 2008 in collaboration with the Crous and achieved notable success. The exchange or payment between two mobiles may be used, other than for electronic money, for e-coupons or public transport e-tickets that have a market value.

Model 4: Operators without the banks: the trusted third party, the model adopted by the operators

Up to a predefined amount, payment on behalf of third parties allows players to charge purchases, from third parties that have previously concluded an agreement, to its customers' bills. This model has been adopted by mobile operators for billing their customers with additional pure telecommunication services, such as downloading ring tones or logos marketed by the operator's partner publishers.

In France, billing on behalf of third parties is tolerated for micropayments (under 7) on all the services listed by the operator or internet access provider (IAP). However, the 1984 banking law stipulates that banks have a monopoly on means of payment. This legal framework leaves a risk for the mobile phone operators and IAPs. They could be compared to a bank and fall under the banking law if they cover shortfalls in payments and offer prepaid services. Consequently, despite substituting for third parties on micropayments, the telecoms operators still need an alliance with a financial establishment in order to be able to offer a complete range.

Model 5: other players and new entrants

Obopay, an application that transforms the mobile into "a pocket bank"

The originality of the solution put forward by Obopay, which was set up in 2005 in the United States, is to offer customers two systems: mobile phone software and a debit card under the MasterCard banner. The general principle is to allow the customer to open an account and then use it to spend. When the software has been downloaded on the mobile phone the customer can start using it for transactions.

The user can also ask for a debit card on the Obopay account. It is a prepaid MasterCard that can be recharged in automatic terminals and can be used to pay for purchases in MasterCard member shops.

PayPal, from internet payment to mobile payment

PayPal, an eBay subsidiary, launched its "PayPal Mobile" in April 2006. Since it was set up, PayPal makes it possible to pay and transfer funds on line using a bank card. Copying the recipe that made Paypal successful on internet, "PayPal Mobile" authorises any PayPal account holder in the USA to send money to a recipient (who maybe a private individual on eBay or a shop keeper) via a text message indicating only the mobile phone number or e-mail address.

PayPal Mobile already plans to offer professionals a "Text to Buy" function: on advertising in magazines, a label will indicate the reference number of the product sold to enter in a text message and the telephone number to which the text message is sent. Once the transaction has been verified using a password, the buyer's account will be debited and the product delivered.

The role of players in the value chain

The operators' role

The major issues for telecoms operators in the mobile phone payment function

- A means of diversifying in a mature market.
- An increase in turnover and opportunities for using the mobile terminal (increase in traffic and proposal of new services with high added value).
- A powerful instrument for developing customer loyalty: integrating a payment card in the mobile phone will mean customers are more captive.

Telecoms operators' advantages

- **They have a very special relationship with their customers:** mobile phones are personal objects par excellence that people have with them at all times. The success of portals for personalising phones (ring tones, wallpaper etc) is proof that mobile phones have a strong identity function.
- **The operator environment is highly secure**
The operators' networks are closed and highly protected, as are SIM cards as they contain user connection data. Customers are unlikely to be reluctant to include their bank card on their SIM card. Even more so since if it is stolen a SIM card is deactivated remotely by the operator —something that is not possible with a bank card.
- **Concentration in the telecoms sector**
In France for instance, the mobile telecoms sector is more concentrated than in the banking sector. An alliance of the three major operators (Orange, Bouygues and SFR) to develop an interoperable offer is not out of the question. Such a grouping would immediately reach a critical mass of customers. This strike force would be an influential argument in order to penetrate the acceptor market (shops etc), which are currently highly dependent on the banks.

Banks, in a central position

Undeniable legitimacy

Almost 80% of mobile players think banks continue to be a legitimate means of distributing mobile phone bank services.

"It's quite logical that the banks should take the lead but they are still very timid. PayPal is an important player in the market and transport companies are increasingly getting involved. Banks should do more than test, they need to innovate to retain their legitimacy."

Banking establishments are key in all issues related to payment, processing mass flows, securing transfers and electronic data.

Banks have suitable processing chains and are capable of absorbing additional volume at low cost. Customers (in particular private individuals) think of their bank as being a pivotal institution responsible for processing their means of payment and managing their accounts.

In addition, banking establishments were associated with putting Sepa in place and are now ready to suggest new means of payment standards.

The local relationship with the customer, a major advantage

Banks establish long term relations with their customers and this means having access to the private sphere. Over time, the range of products diversifies and expands allowing the bank to establish close ties with its customer.

Banks' expertise in terms of creating and distributing offers

Retail banks in particular rely on acknowledged expertise: collecting funds and increasing their customers' capital. In addition they know how to offer and manage complex services including all aspects of the customer relationship. This particularity will necessarily be important in the strategic choices in providing consumers' with a universal range of services.

Towards a model balanced between banks and operators?

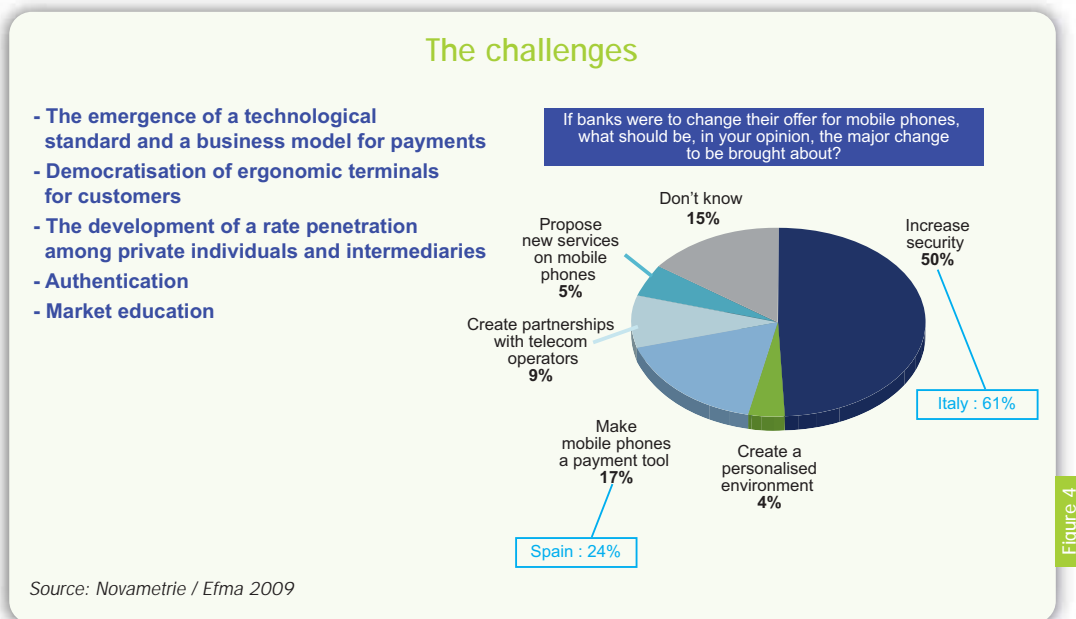
Operators, like banks, have every interest in joining forces in order to develop a solution aimed at a broad public and that has the approval of the acceptors.

However, the choices and the technological gambles at the beginning of experimentations will condition and shape the ecosystem that will be gradually put in place.

While nothing has yet been sorted out between bankers, operators and new entrants the major challenge is establishing a standard and a business model for payments.

What lessons can be learned from the past?

- The initial cost of the equipment and the service which prevents the market developing. In France and according to small shopkeepers, it is one of the explanations for the failure of the Moneo card.
- Launch of proprietary, expensive and static solutions greatly limits the development of the market.
- Security risks on immature technologies.
- Disagreements between players.



Challenges to be met before 2010

Sepa: an opportunity or a threat to the banks?

- The objective of Sepa (Single Euro Payment Area) is to harmonise euro fund transfers by credit transfer, direct debits and bank card payments.
 - Cross border payments should be as speedy, secure and cost the same as domestic payments
 - On 28 January 2008, Sepa took a first step with the launch of credit transfers
- The future Sepa is particularly eagerly awaited by telecoms operators
 - Sepa's work in fact plans to authorise expanding means of payment to new players, with sound rules that are more flexible than those that currently apply to credit establishments.
 - The work of the European Payments Council should include NFC mobile phones as a means of payment
 - In addition operators have already gained some experience in the payments market.
- Mobile operators have a certain number of advantages but face two major problems
 - Banking legislation, which will be relaxed as far as possible in 2010 within the Sepa framework
 - Acceptor market penetration as they currently have little contact with them.

Three areas of offers that present real opportunities for developing mobile banking

After analysing current mobile banking practices, the obstacles, opportunities and expectations of banks and their customers, three areas appear to have real potential for development for mobile banking.

Account management: towards a mass phenomenon or a tool for winning customers?

In western Europe, mobiles could be a loss leader like any other, particularly in relation to account management.

Most bank managers think mobile phones will allow them to penetrate certain markets. As one of the French bank managers stated, it could for example be used as a loss leader when an account is opened.

"If for example we want to get into a saturated market, why not offer a mobile phone and so "offer a bank" to the customer. We are considering this type of offer in northern or southern Europe, in France however we will not over invest."

Mobile payments: a risk or an opportunity for banks?

Mobile payments is currently the area that has been most tested by banks and operators. Although its potential to attract customers is an undeniable business opportunity for the banks, there is a major risk: the shift away from the banks to operators or new market players (of the PayPal type) at a time when they are on the contrary trying to strengthen relations with their customers.

Above and beyond this risk and given the investment required for its democratisation, it is important for the banks to see mobile payments as more than just an integrated credit card and so target services and operations with higher added value for their customers.

Mobile phone or branch free banking facilities in emerging countries: a new business model based on mobiles?

In emerging countries mobile phones represent sort of ersatz bank. It may even fulfil the functions of a bank as in South Africa, Zimbabwe or Morocco.

“In the emerging and least developed countries, mobile phones speed up access to banking facilities, which in addition means it becomes unnecessary to open branches.”

One of the pioneers of mobile banking in Africa mentions the ground the traditional banks have to make up in this respect —something which is likely to be a handicap in winning over emerging countries.

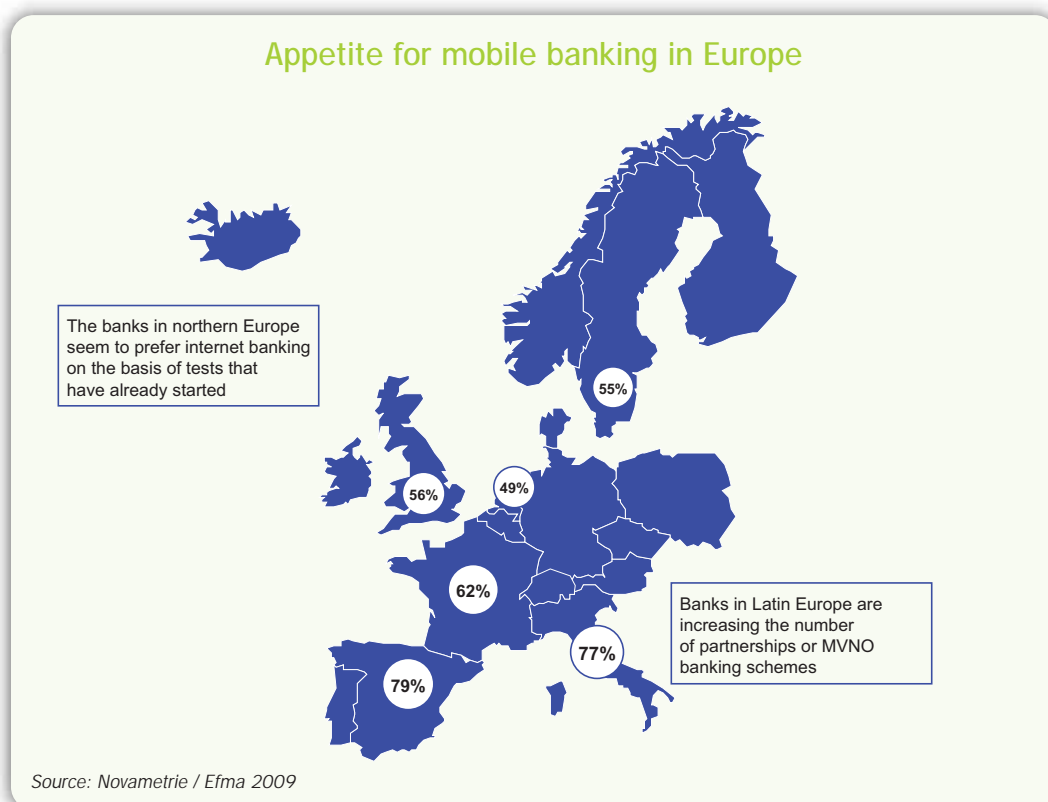
“It is estimated that at least five billion people world wide do not have access to financial services. With such development prospects, why haven’t the major banks already invested this market? I think it’s because they have a very traditional mentality. In other words for them banks mean branches. This strategy consequently makes it very difficult to offer services to people without bank accounts.”



Mobile banking: a two speed Europe?

There are two major areas becoming apparent in Europe: internet banking in the north and mobile banking in the south

Although internet is a major player on the banking scene in the north, mobile phones and mobile internet play a major role in Latin Europe. More numerous mobile banking initiatives have seen the light of day there, most particularly in France. The "Pegasus" consortium, a first on a European scale in terms of multisectorial partnerships is a good illustration.



The difference was highlighted in 2008 in the “Impact of internet on buying behaviour in relation to products and financial services” study in which there was a clear split between northern Europe, where banks invested massively in the internet channel, and Latin Europe, where bank branches continued to be the main sales channel.

Will those emulating mobile banking choose to overlook internet banking?

Relying on the development of internet banking in Europe and more particularly in northern Europe, Latin Europe could prioritise two areas of development on mobile phone and internet channels.

The first would consist of concentrating mainly on mobile banking by increasing the number of partnerships or MVNO banking schemes, like PosteMobile. Mobile internet would become the most successfully completed version of internet banking by players in this area.

Like northern European banks the second would be to give priority to internet banking based on the experiments that have already begun in this field.

How will banks tackle the complementarity of the two media? It is not possible to answer the question at the moment, but one thing is certain: mobile banking will have an impact on the development of payment models, banking services and “cohabitation” between the various sales channels.

Mobile banking has generated new models and new prospects that the banking sector should take up.

The study partners

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