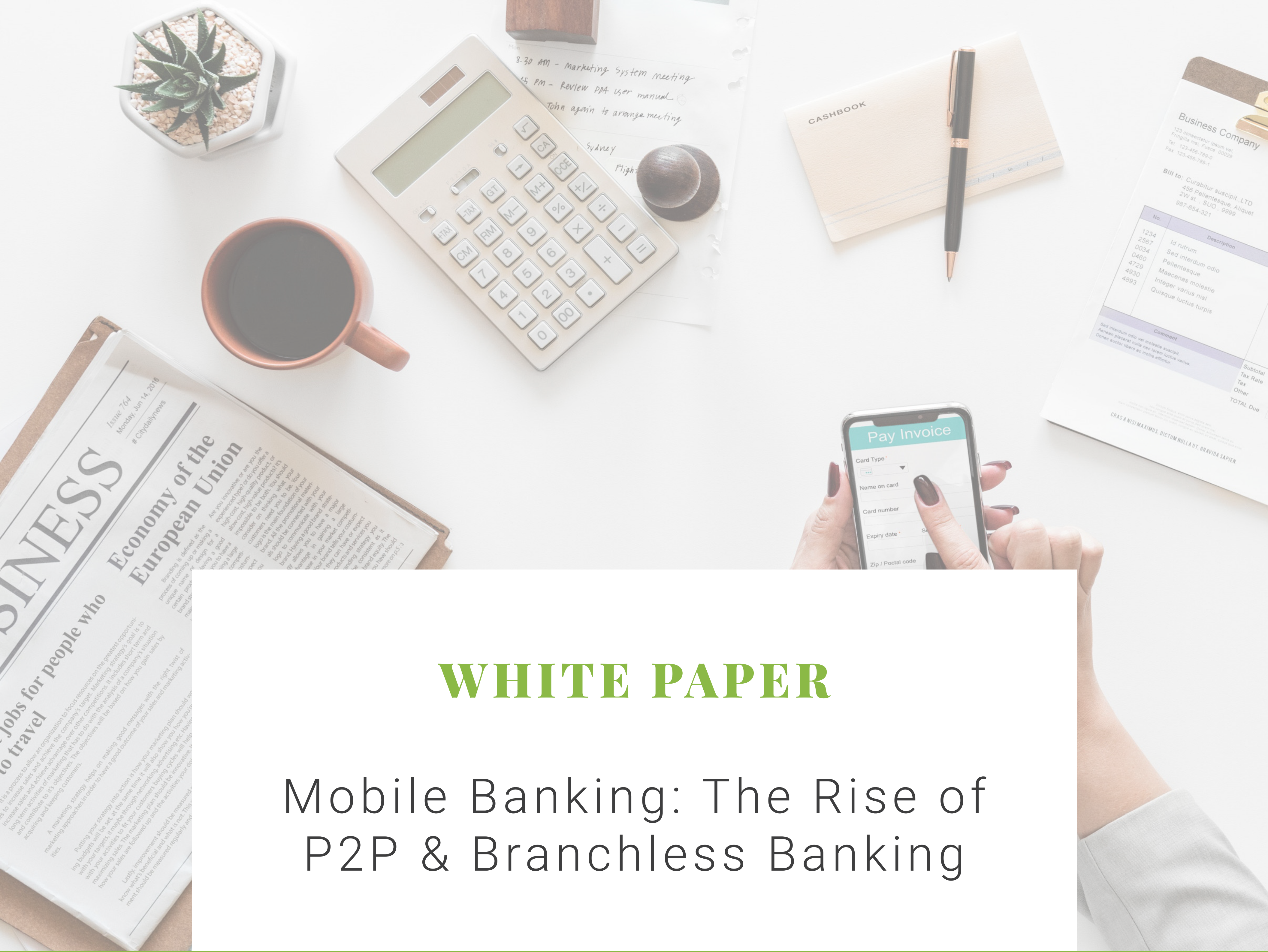

WHITE PAPER

Mobile Banking: The Rise of P2P & Branchless Banking

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INTRODUCTION

Nearly gone are the days of drive-thru ATMs and long lines waiting to cash a check. Consumers now conduct the majority of their banking activities through the convenience of online platforms—specifically, the smartphone screen, which has replaced traditional branch offices as the primary touchpoint between banks and their customers.

Over the past two decades, large financial institutions have been relatively unscathed by Silicon Valley disruption. But in recent years, fintech (or financial technology) startups have flooded the market, vying to reinvent consumer banking for the mobile era. From branchless checking accounts to frictionless peer-to-peer (P2P) payments to AI-powered financial coaching, the banking sector is finally undergoing the same CX revolution that has upended virtually every other consumer industry.

Mobile is at the heart of this digital transformation. Even for high-consideration tasks like banking, smaller screens far outpace desktop as the primary means by which consumers engage online. These new habits coalesced not only because of mobile's convenience, but also from the streamlined experience of specialized stand-alone apps, where the vast majority (87%) of mobile browsing occurs.

In the world of consumer banking, it's still early days in the shift towards digital, and new technological developments like blockchain threaten to disrupt the sector even as it weathers ongoing transformations. This is a treacherous landscape for banks to navigate, let alone forecast and out-maneuver. But there are a few key principles that providers can follow to ensure they are aligned with consumer behavior and positioned for success no matter how exactly the chips fall in the years ahead.

Mobile accounts for 71% of total digital minutes, and nearly half of US consumers have abandoned desktop entirely when it comes to banking activities.

- COMSCORE

By 2020, nearly 30% of traditional banking business will be at risk to fintech competitors.

- PWC

SECTION 1

ENGAGE CUSTOMERS WHENEVER THEY TRANSACT

The domain of traditional banks has expanded along with the growth in digital commerce. It's no longer sufficient to simply manage someone's checking or savings account and assume that customer will stick around. Consumers are looking for companies who provide value in any situation where funds may be sent or received.

P2P payments offer the clearest case study yet in why banks must look beyond their own turf in order to retain—and strengthen—customer relationships. User-friendly apps like Venmo ushered entirely new consumer behaviors, by erasing the friction in splitting bar tabs or paying back friends. In the meantime, traditional banks were caught playing catch-up, releasing their own rival, Zelle, just last year, long after Venmo amassed tens of millions of users.

Zelle and Venmo are neck-to-neck in the rising P2P sector (with 27.4M vs. 22.9M users respectively).

- EMARKETER

Still room to run: P2P volume has grown roughly 50% a year, but its $150B volume in 2016 is still only 12% of the overall $1.2T that Americans pay each other annually.

- AITE GROUP

Mobile payments won't remain siloed in P2P apps for long. These capabilities are being integrated into social spaces like Facebook Messenger, Snapchat, and Apple's iMessage. Points of sale are also a likely target, as digitally-savvy retailers such as Starbucks, Target, and CVS embed instant payment options into their own websites and mobile apps.

Financial institutions must remain at the forefront of this expanding digital frontier, engaging customers wherever transactional help may be needed, either through proprietary investments or strategic partnerships. Otherwise, banks risk losing long-time customers to more nimble competitors who have realized the importance of prioritizing CX.

SECTION 2

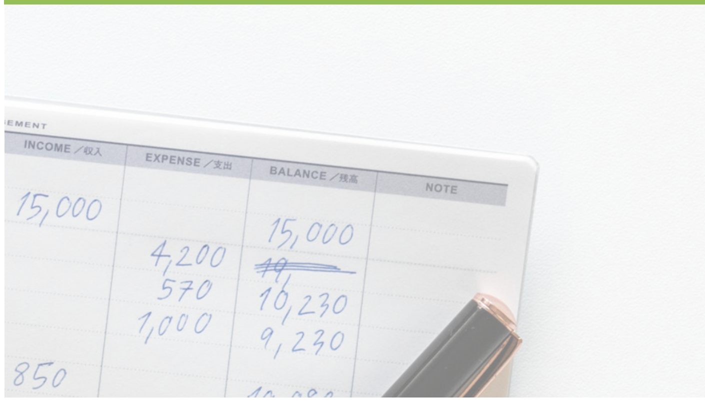
MAKING BANKING FAST, EASY, AND FUN

Long before "Venmo" became a verb, many financial institutions effectively operated their own P2P solutions through their online banking portals. These offerings, such as Chase Quickpay or clearXchange (a precursor to Zelle), should have benefitted from a leg up on competitors, given their built-in customer bases. And yet, because these services were relatively hidden or clunky to use, consumers opted in droves for newer alternatives that were simpler, sleeker, and more intuitive.

Mobile deposits were one positive example for the traditional sector, rolled out by banks years ago to enable customers to cash checks from their couch or on-the-go. And Zelle is certainly a step in the right direction for P2P, though banks should ensure the app is marketed effectively to customers, allowing them to easily switch into the app from any online banking portal in as few clicks as possible.

Consumers open Venmo twice as often as traditional banking apps.

- AITE GROUP



There are also new technologies on the horizon that promise ever-greater ease and convenience. Biometric capabilities, such as facial or thumbprint recognition, can assuage security concerns and help users bypass cumbersome login screens. Bank of America recently joined the AI revolution with its virtual financial assistant named Erica. With mobile bandwidth speeds rising, live chats and even FaceTime-like video can be a smoother way of troubleshooting issues with customers, rather than a patchy phone call or lengthy email.

But effective user design is not only defined by simplicity or elegance. There is also value in features that encourage deeper user engagement. Venmo's popular appeal derived in large part from its social component, which enables users to annotate transactions with emojis and share them on a familiar newsfeed with friends. Not all aspects of banking are suited to such social behavior, but there is always an opportunity to differentiate by delighting customers, whether that be through a gamification feature, free entertainment, or a compelling glimpse behind the scenes.

More than 50% of consumers find mobile video valuable when dealing with financial services staff.

- DELOITTE

SECTION 3

RETHINK YOUR PRODUCT PORTFOLIO

Even the most cash-strapped company can reinvigorate its business by finding new ways to package and market existing products. This is in fact the main strategy being deployed by many of the leading fintech startups, whose minor recombinations feel innovative only because traditional banks have for decades experimented so little in this regard.

Companies like SoFi Money and Stash offer consumers standard virtual checking and savings accounts, but their focus on "mobile-first" design creates the perception of greater ease by putting the archaic branch office out of mind entirely. Recognizing younger consumers' aversion to credit card debt and preference for transparency, Square and Acorns are bringing rewards programs to their debit card offerings. Some new products cut through the clutter with a less-is-more approach: Marcus by Goldman Sachs touts only two core benefits -- no-fee personal loans, and high-yield online savings.

Consumers are always looking for greater clarity and simplicity, especially when it comes to thorny matters such as personal finance. These subtle adjustments offer low-hanging fruit for traditional banks, and can go a long way towards fending off competition, boosting customer confidence, and generating outsized returns by way of greater retention and loyalty.

60% of US bank customers are willing to try a financial product from a tech firm they already use.

- CB INSIGHTS

SECTION 4

EXPERIMENT WITH PROACTIVE COACHING

Traditional banks never quite perfected the art of advising customers on money matters. This shortcoming feeds a booming DIY industry of personal finance books, shows, and podcasts, and more recently, a surge of mobile coaching apps designed to help people better track, save, and invest their hard-earned cash.

Services such as Mint and Wealthfront offer personalized dashboards that make it easier to view spending at-a-glance and measure progress towards custom savings targets (such as buying a home or paying for college). Other startups like Robinhood and Acorns aim to democratize wealth management, facilitating commission-free investments into stocks and bonds, and undercutting the expensive brokerages of yesteryear.

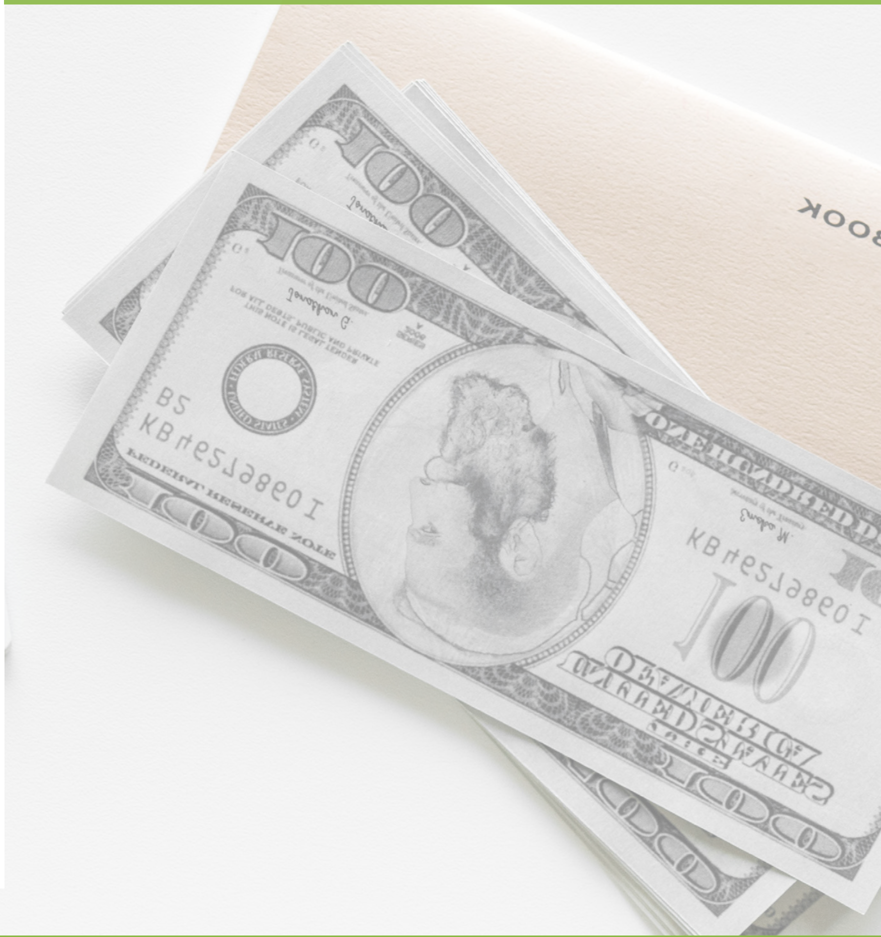
These are exciting initiatives that banks themselves should be shepherding, especially given the implicit trust that comes with their storied pasts. Investing is a higher-risk activity than simple payment transactions, giving incumbents an opportunity to leverage their brand capital. As we've seen before, many financial institutions already offer versions of these advisory services -- but without the right user design and engagement strategy, they might as well be invisible to the average customer.

Acorn has 3.5 million users

Venmo has 22.9 million users

Robinhood has 4 million users

Mint has over 20 million users



CONCLUSION

As banking goes digital -- and therefore, mobile -- the stakes have never been higher for financial services companies. Consumer banking habits are being written by the burgeoning field of fintech startups, which prioritize speed, design, and convenience. Many have already successfully poached millions of legacy customers away from traditional banks.

Faced with such a tumultuous landscape, the only way that companies can fully anticipate these shifts in behavior is to listen directly to the voice of the customer. Each of the four principles outlined throughout this paper are underpinned by a customer-first approach to innovation, which itself relies on nuanced and real-time customer intelligence.

With the future of banking up for grabs, and next-gen innovations such as blockchain and cashless spending on the horizon, now is the time to enlist your customers in charting a path forward, ensuring they'll be with you for the long haul.

> **By 2020, customer experience will overtake price and product as the key brand differentiator.**
>
> - WALKER

ABOUT FUEL CYCLE

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