

# Mobile Banking

The outlook for servicing banking customers on the move\*



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# Introduction

## An industry poised for take-off?

Mobile banking has amassed a significant following in developing economies over the last five years and has become a core feature of banking and payments in these markets. While there have been cautious steps towards a mobile banking market in the UK, customer adoption has been slow. There is a strong belief, however, that in time it will grow throughout Europe as it has in Asia and elsewhere.

This PricewaterhouseCoopers<sup>1</sup> report explores where the UK currently stands in terms of this market and considers where it is heading over the next few years and what opportunities will arise for key stakeholders who are on the sidelines of this market waiting for it to gain further momentum.

We have interviewed<sup>2</sup> a cross-section of influential mobile banking and payment stakeholders operating across Europe, with the aim of finding answers to these questions and providing insights on the market and the potential opportunities it will present. Based on these interviews and PricewaterhouseCoopers analysis, existing and prospective stakeholders in the mobile banking space should consider the following recommendations:

**Identify and prepare strategies that can be implemented when the industry takes off.** While customer and stakeholder adoption has been low in the UK to date, once the concept of mobile banking gains traction it could develop rapidly. Market participants need to examine which aspects of the industry most suit their business model and develop a proposition that can be rolled out at relatively short notice.

**Identify potential deals that could strengthen market position.** While there is currently little incentive for widespread deals within the sector, this is likely to change as the market expands. Potential

alliances and/or merger targets should be identified at an early stage and communication initiated well before market take-off to secure a strong position in the desired segments.

**Focus on fundamental principles on evaluating potential partnership arrangements.** These include ensuring the partnerships will expand customer networks, improve technical capabilities and operate in a supportive regulatory environment. These factors are all critical for the development of a successful mobile financial services proposition.

**Keep abreast of developments.** There are a number of potential triggers for the development of the mobile banking industry in the UK. These include behavioural change, the progressive roll-out of mobile internet, improved technology and even specific events such as the 2012 Olympic Games. Failure to identify the build-up of critical mass within the sector could result in a strategy that lags the market.

**Commence a mobile strategy by targeting remittances.** Mobile remittances are an area of potential growth in the short term because demand already exists. At present, the UK's large migrant population primarily uses money transfer operators to make transactions to overseas destinations. Mobile remittances are both easier and cheaper to conduct and may become the dominant model in this space.

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<sup>1</sup> PricewaterhouseCoopers refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

<sup>2</sup> Interviewees included banks, private equity groups, mobile phone operators and payment and switching networks.

## Viable market strategies

There are a number of viable business models that are likely to work in the mobile financial services market. Key stakeholders should pursue strategies that ensure effective, yet timely, market entry.

While some of these lucrative opportunities are some years off yet, there are strategies that stakeholders can begin to adopt from now, to capture and secure a share of the profit pool envisaged. Some of these winning strategies are summarised below:

Figure 1: Winning strategies for mobile financial services stakeholders

Stakeholder Group	Short-term market entry strategy	Collaboration strategy	Medium to longer term strategy	Revenue streams
Mobile technology companies	Target remittance makers, by providing mobile remittance service capabilities to the UK remittance market.	Collaborate with mobile phone operators, MTOs or/and banks, to ensure brand and customer networks can be leveraged.	Consider extending partnerships with banks to service wider mobile banking and payments service needs.	Focus on customers remitting small quantities, frequently, to ensure revenues through a combination of low commission fees and per transaction charges.
Banks	Act as facilitators in the provision of mobile remittance services, focusing on both emerging and developed markets.	Partner with mobile network operators and/or technology companies to leverage mobile user network and technology.	Develop value-added services to complement switch towards 3G technologies.	Revenues from shared commissions on remittances made. In addition, possible fees from role as a service provider.
Private equity and venture capital investors	Provide funding support for companies pursuing mobile financial services initiatives.	Focus on key stakeholder groups such as niche mobile technology companies.	Consider divestment once customer demand has grown and financial institutions require acquisitions of mobile technology partners.	Revenues will materialise once client service increases.
Mobile network operators	Provide text remittance facilities and network coverage for mobile remittances.	Collaboration with banks, technology companies and/or MTOs to access customer networks/numbers.	Incentivise the use of 3G phones to push transition towards mobile internet usage, which will open up additional opportunities with financial institutions.	Earn margins on transactions passing through network, increased airtime and data usage for text transfers and benefits of reduced churn.
Money transfer operators	Expand remittance modes to include text-based remittance services.	Consider partnership with mobile technology companies and/or mobile phone operator networks.	Develop the mobile remittance service to grow conversion rate to official remittance channels.	New revenues from conversion of unrecorded remittances to mobile remittance channels.

Source: PricewaterhouseCoopers.

# Overview

## High potential, low take-up

A number of mobile banking and mobile payment services have been developed for the UK market, but the scale of customer adoption has been relatively weak. The financial services industry has yet to be convinced there is a strong business case for mobile banking, given existing, reliable alternatives in UK banking infrastructure. The industry believes there is inertia in adoption and roll-out of mobile financial services, compounded further by the difficult current economic climate.

However, the organisations we interviewed believe there will, in the future, be greater use of mobile internet banking services, as smart phones and 3G technologies proliferate in the UK market. Although the industry acknowledges there are some immediate challenges to overcome, its view on mobile payments is largely positive and it believes a trigger such as the London 2012 Olympic Games, may provide the momentum to launch mobile payments on a wider scale in the UK.

The industry believes mobile money remittances present the most immediate and promising market for financial institutions and other service providers in the UK. With historic annual growth of 14.7% in recorded outward UK remittances and 80% mobile phone service coverage across the world's population, the potential market is highly promising. The proposition is also likely to be more cost-competitive than existing commission-based remittance services offered by money transfer operators and banks.

The transaction value of mobile financial services is anticipated to be in the region of £6 billion by 2012. Depending on the margins pursued, significant profit opportunities are available for stakeholders servicing the market. Strategic market entry strategies have been identified for the key market players, which could support a number of viable business models.

Deal activity levels in the global mobile financial services markets have been, and continue to be, buoyant, despite current economic conditions. Stakeholders are seeking alliances to strengthen their market positions as suitable mobile customer propositions are developed.

# Market environment and perceptions

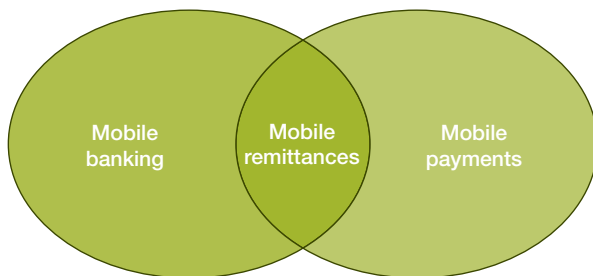
## Types and scope of mobile banking

The terms ‘mobile banking’<sup>3</sup> and ‘mobile payments’<sup>4</sup> are taken to mean a spectrum of transaction types and are often interchangeable. However, the common factor that binds them is that they bypass the need to handle physical cash and, in most cases, they involve a mobile phone.

Mobile banking intersects with mobile payments as transactions extend beyond intra-account to inter-account, such as funds transfers between banking customers via mobile phone.

These person-to-person transfers do not necessarily need to involve a bank account and represent a step towards mobile payments, as illustrated in the figure below.

Figure 2: Spectrum of mobile financial transactions



Examples of transactions under each type of mobile transactions:

Mobile banking	Mobile remittances	Mobile payments
<ul style="list-style-type: none"><li>• Balance checks</li><li>• Limit alerts</li><li>• Chequebook orders</li></ul>	<ul style="list-style-type: none"><li>• Inter-account transfers via mobile internet banking/mobile application-based service</li><li>• Person-to-person transfers via text</li></ul>	<ul style="list-style-type: none"><li>• Payments over text/mobile internet sites for goods and services</li><li>• Contactless mobile payments</li></ul>

Source: PricewaterhouseCoopers.

3 In this report, we take mobile banking as meaning banking and related administrative transactions that involve a mobile phone. In our view, this may include, but is not limited to: transferring funds intra- or inter-account, checking account balances, receiving limit and balance alerts, and requesting PIN numbers, cheque books and other banking administrative forms via mobile phone.

4 Similarly, mobile payments are taken to mean payments made in replacement of physical cash, debit/credit card or online payments. These would include, but are not limited to: authorising and making payments for goods, services or remittances (through the mobile internet or via text services), and making payments through prepaid or contactless mobile phones.

## Take-up of services has been modest

A number of mobile banking and mobile payment services are available in the UK market. However, despite the range of established services on offer, scale has yet to be achieved.

The UK took its first steps into the mobile banking space at the start of the decade with the launch of basic balance enquiries and text alerts. Since these initial steps were taken, some application-based mobile banking services have been launched, most notably through Monilink in the UK. User numbers have been in the region of 25,000.<sup>5</sup> Many of the UK banks now also offer mobile online banking services, through selected browsers.

Similarly, in recent years the UK has seen the preliminary roll-out of various types of mobile payments, mainly concentrated in the capital. A number of travel-related services can now be paid via mobile payments. London's Congestion Charge scheme now accepts a third of its payments via text and almost two-thirds of car parking charges are paid via text services to London's Westminster Council.

Other UK mobile payments schemes include LUUP and Crandy, which allow text payments for goods and services, including payment of parking tickets, small ticket items and charity donations. These schemes also permit the transfer of funds between scheme users, bypassing the need to make direct banking transfers or handle physical cash. In addition, the US company PayPal has over 10 million customers in the UK, permitting the purchase of goods and money transfers between users, using mobile phones.

While financial institutions have exhibited a level of engagement with mobile banking and mobile payments, overall, customer take-up volumes have been modest. The reasons for these behaviours are explored in the following pages.

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<sup>5</sup> Monilink media release – 14.08.07.

## Financial services firms sanguine about mobile banking

Despite the interest surrounding mobile banking in the UK, industry opinion is often sceptical about the actual opportunities. The belief is that this is a push rather than pull proposition.

In developing economies, mobile banking services have prevailed, due to the lack of formal banking infrastructure. Mobile banking allows banks to service unmet demand from customers who would otherwise not have access to basic banking services. It also presents banks with the opportunity to significantly reduce the costs of delivering financial services to poorer people. Mobile banking is estimated to be at least 50% less costly than traditional distribution channels.<sup>6</sup>

**‘Developing economies were slower to develop their infrastructure and have effectively leapfrogged from older systems to the most advanced ones’.**

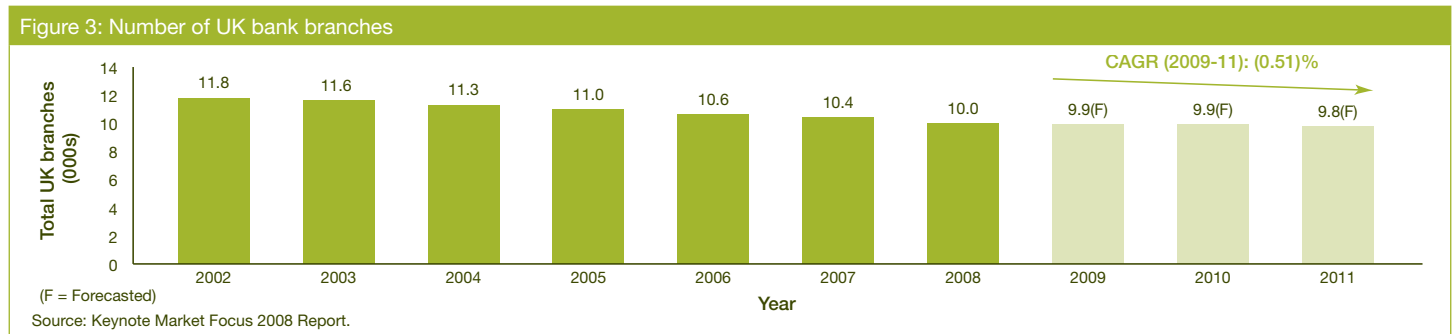
[A leading UK high-street bank]

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6 ‘The Early Experience with Branchless Banking’, Consultative Group to Assist the Poor (CGAP) Report – 04.08.

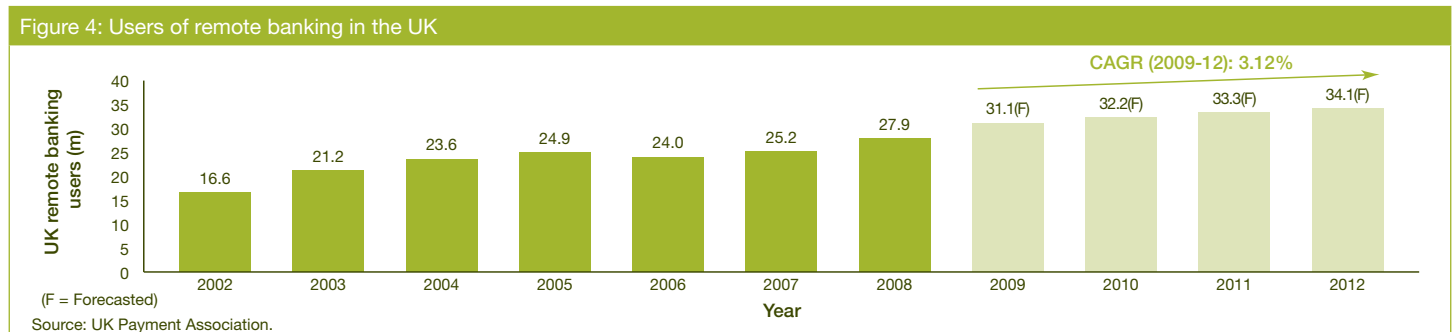
## Behavioural change is predicted

Unlike developing economies, the UK has the infrastructure to support customer service via telephone, online and branch banking channels. UK branch banking is forecasted to decline by 0.5% annually as banks strive to reduce costs and cater to changing customer behaviour (see Figure 3).<sup>7</sup>



UK customer behavioural changes suggest a move towards remote banking channels, including mobile banking. Over the

next three years, remote banking is forecasted to grow at 3.1% annually in the UK (see Figure 4).<sup>8</sup>



<sup>7</sup> (The historic rate of decline was greater at 2.7% annually over 2002 and 2008), Keynote Market Focus 2008 Report – 02.08.

<sup>8</sup> UK Payment Association (APACS), UK Payment Statistics 2007 Report – 07.07.

## Limitations to growth in mobile banking

Despite these channel-switching trends, there are fundamental features within the UK banking and payments environment, which will limit the impact on mobile banking growth.

These can be attributed to a number of demand side issues.

A number of the organisations we interviewed believed the key constraints to the proliferation of mobile banking in the UK are that the services offered would merely replicate those offered through the existing online banking and ATM network, both of which are widely and reliably available in the UK. Such a network makes customers unwilling to pay extra for a proposition that they effectively already have.

**‘A customer who wants to bank on the move already has a smart phone – it’s just overkill in the UK where we have ATMs on every corner’.**

[A global mobile network operator]

Furthermore, various customer polls, supported by industry opinion, point to concerns over the security surrounding mobile banking transactions. This further limits the appetite for mobile banking by UK customers.

**‘Customer demand for mobile banking is very low, while it may rise temporarily when prompted, it reduces again due to security concern’.**

[A global mobile network operator]

These factors have consequently meant the prospect of mass mobile banking adoption in the UK is a ‘push’ rather than ‘pull’ customer proposition, leaving the onus for its development and hoped proliferation with the banks and other possible suppliers. This raises challenges for the way that transaction volumes and associated revenues streams can be achieved.

**‘Customers will accept it if provided, but will not actively demand it’.**

[A leading UK internet bank]

## Mobile payments outlook more positive

Industry views on mobile payments are more positive, though there is acknowledgement that there are some immediate challenges to overcome.

Mobile payments are generally viewed more positively than mobile banking by the organisations we interviewed. As a result, there is more optimism about the eventual roll-out of mobile payments in the UK market by financial institutions and about future engagement by customers.

Larger retailers are now looking at mobile payment options as a way to help effect cost reduction initiatives. For instance, Next, the UK clothing retailer believes it could save labour costs

of approximately £500,000 annually by switching telephone payments to a mobile wallet-based system and has invested resources into exploring this payment option.<sup>9</sup>

Research suggests discount goods retailers, petrol stations and quick service food and snack outlets are also likely to welcome mobile payments. However, usage has been very low to date, with some food outlets seeing less than 10 transactions per week.<sup>9</sup>

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<sup>9</sup> Mobile Payments Quarterly Q3 – 08.

## Mobile payments struggle to achieve critical mass

Despite the UK's early steps into mobile payments, the industry's view is that mobile payments may not reach the levels seen in overseas markets such as Japan, the Philippines and Korea.

Organisations we interviewed attributed this to the 'gizmo' culture in these economies, which contributes to the greater prevalence of mobile payment options and the corresponding customer embracement of payment technologies.

**'Cultural differences in Asia indicate that technology adoption tends to be higher in these countries than in the West'.**

[A leading UK high-street bank]

Furthermore, while retailer appetite appears to have been whetted, the market is experiencing a degree of inertia in delivering these propositions through the roll-out of the necessary infrastructure and devices to the UK market. One cause of this

inertia is the current economic climate, which limits the desire of financial institutions to launch new, untested products. Furthermore, the impact of the poor credit markets appears to have squeezed budgets and directed funds away from payment innovation and new initiatives. Banks have been more focused on mandatory compliance procedures and regulatory requirements.

**'Banks are adopting a wait and see attitude because of the current economic climate'.**

[A UK private equity house]

**'The current economic climate is not conducive to launch such new products'.**

[A UK payment network]

## Few moves towards ‘first mover’ advantage

A further cause for the market’s inertia is that merchants, financial institutions and consumers face a predicament on who acts first in this market.

Customers appear to have a positive attitude towards the convenience offered by mobile payments. However, to date, customer volumes have been relatively slow, due to a limited number of terminals available, perpetuating the lack of familiarity with this mode of payment.

**‘It’s chicken and egg – retailers won’t roll out terminals until they see that customers are widely using the cards, and vice versa’.**

[A leading UK high-street bank]

Similarly, retailers and financial institutions await significant customer demand before rolling out payments terminals and devices.

**‘Need to determine the size of the pie to make progress here – once stakeholders know this, then they will work to go after it’.**

[A leading global payment network]

# Market opportunities

## Time to take a fresh look?

While there are no clear significant revenue benefits to be gained currently from mobile banking propositions in the UK, the onset of smartphones and 3G technologies provide opportunities to revisit the market.

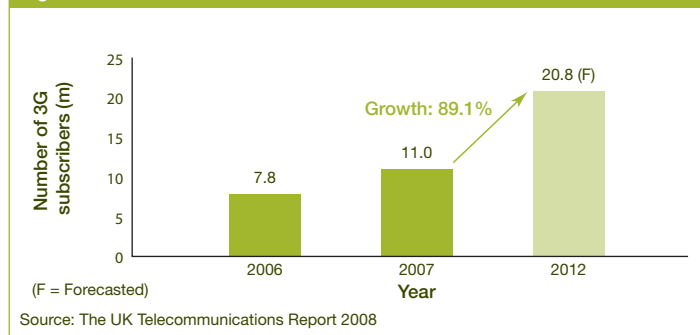
The fundamental demand side constraints of the UK market present the most compelling reason to limit the supply of mobile banking solutions in the UK market. As expected, to date, this has deterred financial institutions from incurring investment costs where there appears to be little likelihood of generating revenues.

However, the industry foresees a more opportune time to enter this market, once customers warm to the idea of using the mobile internet. This is likely to take place when 3G technologies and smartphones enter the mainstream UK market and become widely used.

The use of 3G technology on phones is expected to reach 20.8 million subscribers in the UK by 2012, growth of 89% from current levels (see Figure 5).<sup>10</sup> This shift in mobile phone usage is being supported further by the UK's Office of Communications, which is liberalising mobile bandwidth spectrums from 2008 to 2010, releasing more infrastructure for 3G.<sup>11</sup>

This coincides with the increasing demand for smartphones across the world – the number sold worldwide during the first quarter this year grew by 29% compared with the same period last year.<sup>12</sup> The growing popularity of smartphones, such as the latest iPhone, is clearly evident and demonstrated in the UK by the pre-registration of 130,000 interested users in June this year, prior to the official release of the product.<sup>13</sup> Apple went on to sell 1 million 3G iPhones globally in the first weekend of its release.<sup>14</sup>

Figure 5: UK 3G subscribers



<sup>10</sup> 'The UK Telecommunications Report 2008', Business Monitor International – 08.

<sup>11</sup> 'Application of Spectrum Liberalisation and Trading to the Mobile Sector', Ofcom Report – 20.09.07.

<sup>12</sup> Gartner website: [www.gartner.com](http://www.gartner.com)

<sup>13</sup> 'O2 sees interest soars for lower-price iPhone' ([www.telegraph.co.uk](http://www.telegraph.co.uk)) – 17.06.08.

<sup>14</sup> Apple media release – 14.07.08.

## Mobile internet use to rise

The impact of these changes in mobile phone ownership is likely to trigger a trend towards the increased use of the mobile internet, including mobile internet banking sites.

While this is unlikely to create significant opportunities for application-based mobile banking service providers, it is likely to be the point at which banks scrutinise their mobile internet banking sites and seek opportunities to differentiate themselves.

The industry believes there may be opportunities at this juncture for service providers to work with banks to devise innovative features for mobile internet banking sites to ensure customers receive a compelling internet banking service, via mobile internet. While this is unlikely to generate transaction volume-related revenues for service providers, it may provide ad hoc revenue opportunities.

In light of these expected market changes, mobile banking service providers, handset manufacturers and banks should remain close to the market and monitor the growth and behaviour of smartphone users. By monitoring changes in the market, these stakeholder groups can be fully prepared to service fast-changing customer needs and capture resulting benefits.

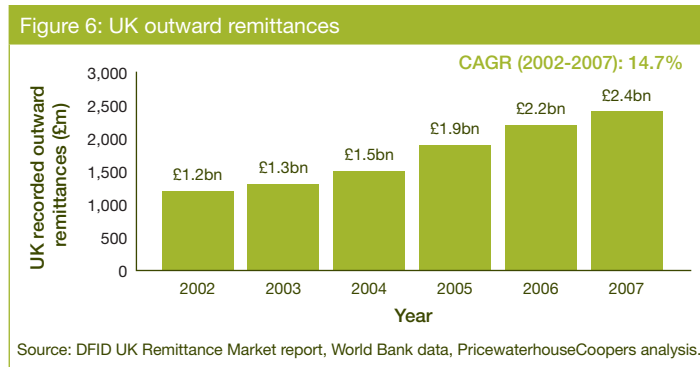
In the meantime, there may be more immediate gains to capture in the more niche mobile payment market, where demand is already evident. These opportunities appear to exist, particularly in mobile money remittances.

## Opportunities in remittances

There are opportunities to service the mobile payments market once there is a shift from the current market inertia. A more immediate opportunity for banks and financial institutions is mobile money remittances, where stakeholders can capitalise on a rapidly growing market, with clear customer segments and demands.

As detailed above, mobile payments are seen to present greater opportunities to the industry experts we interviewed than did mobile banking. However, there is an acknowledgement that until this market gathers momentum, there are limited opportunities to capture value. There is, however, existing demand and growth in the UK outward remittances market, which is believed to offer fresh opportunities for mobile payments providers.

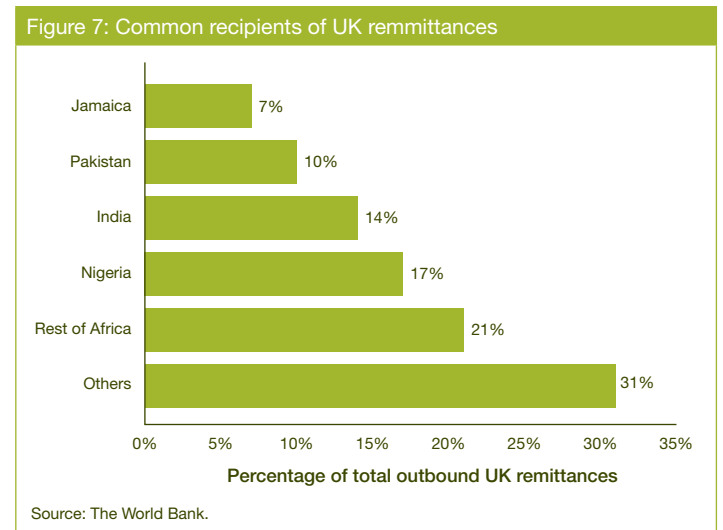
The UK is one of the top 10 remittance-originating countries worldwide, with approximately £2.4 billion recorded outward remittances annually from the UK to the developing world (see Figure 6). This market has grown in the UK by more than 14% annually over the last six years and this trend appears likely to continue in light of fluid labour markets and migration patterns.<sup>15</sup>



<sup>15</sup> DFID UK Remittance Market report, World Bank data, PricewaterhouseCoopers analysis.

<sup>16</sup> The World Bank website ([www.worldbank.org](http://www.worldbank.org)) – 10.07.08.

The UK's main remittance destinations are to African and Asian countries (see Figure 7).<sup>16</sup> In this growing market, there are opportunities to capitalise on growth and offer innovative remittance methods for migrant populations who may be under-banked or unbanked.



## Money transfer operators currently dominate

In the UK, the market for remittances is serviced by money transfer operators (MTO) such as Western Union, by banks and by alternative person-to-person payment channels (for example, remittances made via text message), offered through providers such as eTranzact, LUUP and PayPal Mobile.

There are also a significant number of unrecorded outbound remittances, which are sent using unofficial channels. The World Bank believes that these could be many times the volume and value of the known recorded remittances. Migrants are known to use these alternative channels to overcome some of the hurdles presented by official means.

For migrants, the obstacles posed by official remittance channels are the commission rates charged on transactions (which are generally higher at banks than MTOs), the speed of transfer and the limitations on the mode through which the sender or the recipient can send and receive the funds respectively.<sup>17</sup>

Figure 8: Typical commission rates on UK outbound remittances

Average commission for £500 (%)

	Ghana	Kenya	Nigeria	Bangladesh	China	India	Average
MTOs	1.0 – 7.2	1.0 – 7.4	1.0 – 6.4	4.0 – 5.0	1.0 – 5.0	0.8 – 4.2	1.4 – 5.6
Banks	1.6 – 7.0	1.6 – 7.0	1.6 – 7.0	1.6 – 7.0	1.6 – 7.0	1.6 – 7.0	1.6 – 7.0

Source: DFID UK Remittance Report.

<sup>17</sup> As an example, where the process requires a bank account by either or both parties, some commonly used remittance methods isolate unbanked or under-banked individuals and limits where senders can submit money, as they are reliant on the locations of recipient banks (as well as the location of the remittance agents).

## Mobile remittances prove more cost-effective

An alternative mode of making remittances, bypassing the need for direct access to a bank or agent, is through the use of mobile phones.

Given that up to 80% of the world's population are believed to use mobile phone services, the industry believes using mobile phones as a transfer channel provides a promising option for migrant remittances.<sup>18</sup> This has been evidenced by separate partnerships between Western Union and Smart Communications (a leading Filipino mobile financial service provider) and Bharti Airtel (India's leading integrated telecom service provider), to develop mobile money transfer services.<sup>19</sup>

### 'Remittances are an interesting opportunity for banks...'

[A leading UK high-street bank]

Mobile remittances offer a number of benefits for users and could provide attractive opportunities for financial institutions. Through the use of the mobile network for remittances, few additional infrastructural requirements are required and therefore service costs will be limited.

Cost savings can, in part, be passed onto users, thereby undercutting more expensive suppliers and presenting positive revenues for service providers. It may also provide greater convenience to users and the possibility of improved security. Furthermore, some of the unrecorded remittances may migrate to official mobile remittance channels.

Figure 9: Cash remittances using mobile phones



18 Mobile Money Transfer Broker Report – 02.06.08.

19 Western Union media release – 29.11.07.

## Challenges to mobile remittances

There are still a number of challenges in entering and servicing this market, including technological hurdles, foreign exchange conversions, as well as anti-money laundering and terrorism regulations (which need to be addressed in relation to intercountry remittances).

Also, there is a requirement for the recipient to have access to an agent, prepaid card or other means by which to download the remittance, which may not necessarily be available to a recipient in a developing country.

Where person-to-person propositions have been launched in the Middle East, Africa and Asia, adoption rates have been encouraging. M-PESA's service in Kenya has amassed 3.8 million customers in just 18 months and is currently being extended to Afghanistan.<sup>20</sup> This implies that M-PESA serves the financial needs of almost as many customers as banks in Kenya, where there are only 4.5 million formal bank accounts.<sup>21</sup> The Philippines'

G-Cash service amassed more than 1.3 million users with transaction values of over £50 million per day, through bill payments and person-to-person transfers.<sup>22</sup>

In order to make inroads into this market, banks need to engage with phone operators and mobile payment service providers as these stakeholder groups are fundamental to the development of the proposition. Furthermore, a network of outlets will need to be engaged, such that remittances can be cashed where the recipients are unbanked, much like the model used by M-PESA.

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20 'Africa telco body sees GSM users at 316 min yr-end' ([www.reuters.com](http://www.reuters.com)) – 08.04.08.

21 'Kenya: Equity Launches Cellphone Banking', *The Nation* (Nairobi) – 03.09.08.

22 'Philippines: Revisiting mobile remittances' ([www.globaltechforum.eiu.com](http://www.globaltechforum.eiu.com)) – 17.04.07.

# PricewaterhouseCoopers view on future prospects

## Stakeholders should monitor sector carefully

While mobile banking in the UK has limited growth potential in the short-term, mobile payments are likely to take off. But the market awaits a trigger, which may be the 2012 Olympic Games. In the meantime, mobile money remittances may present the greatest immediate opportunity to capture revenues.

Mobile banking has challenges in the UK market, due to the existing infrastructure in the market, reducing the demand for the proposition. While there is likely to be growth in mobile access to online banking sites as the UK market moves towards 3G technology and smartphones, there still appears to be limited opportunities for mobile banking service providers to significantly benefit from this change in the form of ongoing revenue streams.

### **‘Mobile banking will take off in the form of more mobile online banking via smart phones’**

[A leading UK high-street bank]

In light of these conditions, mobile banking service providers, handset manufacturers and banks should stay close to the market and monitor the growth and behaviour of smartphone users. By monitoring changes in the market, they will be in a strong position to react to changing customer behaviour in mobile internet banking usage.

Mobile payments present a more adaptable market, and one in which growth is possible, once the proposition gains momentum. Some believe that the mass appeal of the 2012 Olympic Games in London may be the trigger to propel the UK market.

On balance, the mobile money remittance market presents the best and most immediate opportunity for UK financial institutions in the mobile transactions space. By offering remittance services to targeted customer segments and tapping into a ready market, there are likely to be revenue gains for early entrants.

Once the proposition has been developed and partners engaged, mobile remittances are likely to help capture significant remittance volumes and capture the imagination of a number of customer segments in the UK mobile phone market.

### **‘...there will be a tipping point in three or four years and then there will be a greater convergence between using mobiles and buying products over the internet...’**

[A leading global payment network]

## Significant additional profits on offer when the time comes

The UK market for mobile financial services is expected to channel more than £6 billion worth of transactions annually by 2012. Significant profit opportunities can be expected for organisations choosing to service this market.

Due to the environmental factors identified in this report, the task of quantifying the profit potential offered by the mobile financial services<sup>23</sup> market is complex. However, we estimate this market will operate transaction values of £4-6 billion annually in the UK by 2012.<sup>24</sup>

Due to the costs involved in servicing this market, and the application of realistic margins, this market will clearly not convert profits in the billions. However, it still could generate significant additional profits for market participants. Our estimates suggest additional profits in the region of £30 million to £50 million annually could be achieved, based on a range of profit margins and adoption rates.

However, these figures preclude the indirect benefits to stakeholders that are derived from the launch of a mobile financial services proposition. This includes the reduction in costs, resulting from lower customer churn and the financial benefits of improved brand perception. These additional gains may well outstrip the direct monetary benefits calculated above.

This presents an attractive opportunity for stakeholders in the market, should they take the correct strategic approach to servicing the market and capturing these forecasted transaction flows.

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23 'Mobile financial services' refers to mobile banking, mobile payments and mobile remittances.

24 Based on PricewaterhouseCoopers analysis, World Bank estimates, DFID data (2005) and Juniper Mobile Finance Services Banking & Payment Markets Report (February 2008).

## Regulators need to create cohesion

In emerging markets, regulators should have a framework in place to ensure the strong business case for mobile financial services can be addressed efficiently.

Furthermore, they should ensure any mobile initiatives offer customer protection and good overall industry governance. Regulators in developed economies need to provide a structured approach to market entry and incentivise stakeholders, in order to dislodge the inertia and uncertainty they currently face. They also need to develop a framework to provide a model of interoperability.

The various strategies proposed for stakeholders suggest a profitable business model for this market requires collaboration between a handful of stakeholders, rather than all. This could allow for three to four viable business models to be adopted by participating stakeholders.

The banks are unlikely to lead the way into the market, but niche players such as internet technology companies and solution providers should persevere in this market. They will still require funding support from private equity and venture capitalist organisations, as well as guiding principles via a robust regulatory framework, to ensure the maximum impact on the market.

## Deal activity remains strong

Deal activity levels in the global mobile financial services markets have been and continue to be buoyant. Stakeholders are seeking alliances that contribute to the development of strong customer propositions, deliver market penetration and operate within robust legal and regulatory frameworks.

Despite current global economic conditions, there continues to be frequent activity in the financial services and related technology markets. Recent deals include acquisitions aimed at the development of platforms and mobile innovation.

A selection of deals and significant share acquisitions in these markets over the last four years are summarised below:

Figure 10: Deals or significant share acquisitions in mobile technology/financial services

Date	Target	Target country	Target company description	Acquirer	Acquirer country
2008	Monitise	UK	Mobile banking and payments	Standard Chartered	UK
2007	Wizzit	South Africa	Mobile banking	IFC/World Bank Group	US
2006	Text2Insure	UK	Mobile payments	Fortis	Belgium
2006	Intesio	Germany	Multi-channel retail banking technology provider	Misys	UK
2006	Magex	UK	Person-to-person payment platform	BankServ	US
2005	Celpay	Zambia/Democratic Republic of Congo	Mobile communications group	FirstRand Bank	South Africa

Source: Finextra, FirstRand, International Finance Corporation.

Monitise's recent listing was intended to raise funds to implement its expansion plans to cater for the growing worldwide demand for mobile banking and payments. Similarly, Fortis' acquisition of Text2Insure was driven by its wish to respond to the demands of the 'mobile generation', while BankServ's acquisition of Magex

is part of its strategy to enter the growing field of electronic person-to-person payments. Meanwhile, Wizzit's partnership with the IFC is aimed at promoting greater access of financial services to the poor.

## Mobile financial services alliances

Furthermore, alliances continue to be forged in the mobile financial services space. Recently, Visa has continued to push forward its mobile agenda via partnerships with some North American banks for text alerts on transactional activity. They have also engaged in projects with South American and Asian banks and telecoms companies as part of their mobile payments initiative. In addition, Absa, a South African retail bank, has launched a mobile money transfer service to customers, while Obopay has teamed up with microfinance giant Grameen to launch a mobile banking initiative to reach 1 billion of the world's poorest people by 2018.<sup>25</sup>

As evidenced by these deals and partnerships, market stakeholders are taking steps to cater to the growing demands for multi-channel retail banking offerings and to serve the diverse customer segments that exist worldwide.

## Key principles for success

In evaluating potential deals and partnerships with complementary stakeholders, organisations must aim to adhere to key principles for developing a successful mobile financial services proposition:

**Network breadth.** A partnership opportunity must be evaluated for the network growth it offers. It must be conducive towards growing and sustaining existing networks and customer reach, to ensure new products and services can be offered to the widest markets.

**Technical capabilities.** The partnership must ensure the delivery of a robust technological proposition to the customer, that provides an easy-to-use, secure and value-added service. Partnerships must not add extra layers of complexity to the customer proposition.

**Regulatory compliance.** Wherever a partnership or deal is identified, organisations must ensure the local regulatory environment is supportive of the development of the mobile financial services proposition.

The ever-present activity in the mobile financial services space and the many cross-border transactions and partnerships indicate the significant global interest in this market. Organisations appear to be constantly building their capabilities through collaborations, to service new customer groups and carve out market share. This is a market where significant value exists, and opportunities are available, well beyond domestic borders.

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<sup>25</sup> Obopay media release – 05.08.08.

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