

CALENDAR OF EVENTS

September 5–6

Economic Roundtable
Kilgore, TX

October 3–4

Economic Roundtable
Ruston, LA

October 8

Dialogue with the Dallas Fed
Midwestern State University

October 8

Corporate Payments Council
Dallas, TX

October 11

**Economic Insights:
Conversations with the
Dallas Fed**
Webcast

October 15

Dialogue with the Dallas Fed
Texas Christian University

October 17

Economic Roundtable
El Paso, TX

October 18

Economic Roundtable
La Cruces, NM

October 18

Dialogue with the Dallas Fed
New Mexico State University

October 29

Economic Roundtable
McAllen, TX

October 30

Economic Roundtable
Brownsville, TX

October 31

**Community Depository
Institutions Advisory Council**
Dallas, TX

For more information about these events, email FIRM at Dallas_Fed_Firm@dal.frb.org.

Trends in Mobile Banking: Changes, Challenges and Choices

by Matt Davies

Mobile banking has seen significant growth recently in the volume of users, number of institutions providing services and types of services being offered. With mobile banking, financial institution customers can conduct certain financial transactions through a smartphone (Internet-enabled) or other mobile device. The speed of change in mobile banking is daunting, the subsequent challenges created can seem overwhelming and the choices are many. Even so, financial institutions must decide which mobile features are right for them and their customers.

In March 2013, the Board of Governors of the Federal Reserve System released the results of its most recent consumer survey on mobile banking. The report, “**Consumers and Mobile Financial Services 2013**,” revealed the following:

- 87 percent of U.S. adults own a mobile phone
- 52 percent of all phones are smartphones
- 28 percent of mobile phone users used mobile banking in 2012
- 48 percent of smartphone users used mobile banking in 2012

Financial institutions need to be prepared to meet customer needs through the channels their customers want to use. Today, most banks and credit unions are providing their customers the ability to use their mobile phones for basic functions such as to check account balances, transfer money between accounts and search for nearby branches or ATMs. The next generation of mobile banking—call it Mobile 2.0—is here, including services such as

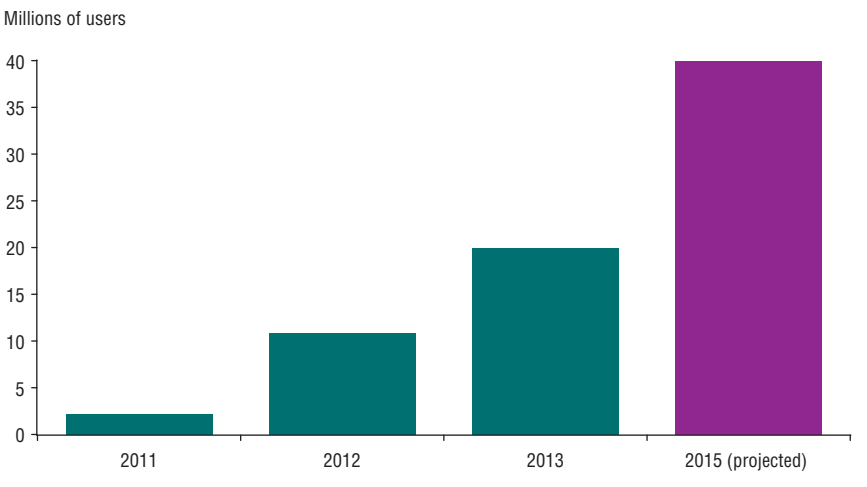
- mobile remote deposit capture (RDC),
- mobile photo bill pay,
- person-to-person (P2P) payments and
- opening a new account.

Changes

Perhaps the most popular mobile service being offered, or at least on the drawing board for many financial institutions, is mobile RDC. With mobile RDC, the user takes a picture of a check with a mobile device such as a smartphone and transmits the image to a financial institution for posting and clearing. Research firm Celent forecasts that the number of users of mobile RDC will grow from 10.9 million in 2012 to a projected 40 million in 2015 (*Chart 1*). In 2011, six of the largest 25 banks in the U.S. offered mobile RDC to their customers. That number has since increased to 16, according to Javelin Marketing Group, and many of the remaining nine have plans to offer it. At Bank of America alone, customers use mobile RDC to deposit more than 100,000 checks daily through the bank’s mobile app.¹

In the Eleventh Federal Reserve District, mobile RDC made headlines early. San Antonio-based USAA Federal Savings Bank was the first to roll out mobile RDC, in August 2009. Larger financial institutions followed suit. With competitive pressures, mobile RDC has quickly become a required offering rather than an option.

Chart 1 Popularity of Mobile Remote Deposit Capture Continues to Grow



SOURCE: Celent/Digital Transaction News, May 2013.

DALLAS FED RESOURCES

Economic Updates

- Regional**—“Regional Economy Shows Positive Signals”
- National**—“A Time for Cautious Optimism”
- International**—“The Challenge That Lies Ahead: Sluggish Global Growth”

Publications

- Dallas Beige Book**
July 2013 Summary
- Economic Letter**
“Economic Shocks Reverberate in World of Interconnected Trade Ties”
- Southwest Economy**
“Banks Continue Their Recovery Despite Slowing Revenue Growth”
- Staff Papers**
“How Bad Was It? The Costs and Consequences of the 2007–09 Financial Crisis”

Surveys & Indicators

- Texas Business Outlook Surveys**—Manufacturing, Service Sector, Retail
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Find other resources on the Dallas Fed website at www.dallasfed.org.

Many financial institutions in the Eleventh District have embraced mobile RDC and have not stopped there. First Financial Bank (Abilene) was the first bank in the country to offer mobile photo bill pay, through which a customer uses a smartphone to take a picture of a bill, then enters the amount and payment date. The service reads the bill, confirms the biller and initiates the payment.² City Bank Texas (Lubbock) and BBVA Compass also have rolled out mobile photo bill pay. USAA and City Bank Texas also allow their customers to turn their debit cards on or off through mobile banking. City Bank Texas lets its customers block or unblock foreign transactions and increase their daily ATM limits within a 24-hour period.³ USAA added voice command technology to its mobile options in March, allowing customers to check their account balances and make transfers by speaking to the institution’s app.

Future iterations of mobile banking may allow consumers to use their mobile devices to transfer credit card balances from other financial institutions to the one offering the service.⁴ Mobile devices may facilitate other card management activities, such as permitting a customer to request a replacement if a card is lost or stolen or to notify the financial institution of upcoming travel plans.

Institutions may also want to offer mobile solutions to their corporate customers. Examples are the ability to schedule and approve outgoing wire transfers and ACH files from a mobile device or to make decisions using the positive-pay service to deter check fraud.

Challenges

As financial institutions explore initiating or expanding mobile banking, they could face a number of challenges.

Technology—To offer mobile banking and mobile payments, financial institutions may need to upgrade their technology. Many legacy systems are still in operation at financial institutions. These were not intended to process transactions in real time or near-real time. Another technology issue is whether institutions will offer mobile banking apps for every platform, including devices running on Google Android, Apple iPhone, Windows 8 and BlackBerry 10.

Risk Mitigation—If offering mobile RDC, financial institutions will need to determine how to manage risk. They will, no doubt, want to set limits on the dollar amount of checks that can be deposited per day and per month. They may also want to limit the service to customers who have been account holders for at least a certain amount of time, such as six or 12 months.

▶ ABOUT FINANCIAL INSIGHTS AND FIRM

Financial Insights is published periodically by FIRM – Financial Institution Relationship Management – to share timely economic topics of interest to financial institutions.

FIRM was organized in 2007 by the Federal Reserve Bank of Dallas as an outreach function to maintain mutually beneficial relationships with all financial institutions throughout the Eleventh Federal Reserve District. FIRM’s primary purpose is to improve information sharing with district financial institutions so that the Dallas Fed is better able to accomplish its mission. FIRM also maintains the Dallas Fed’s institutional knowledge of payments, engaging with the industry to understand market dynamics and advances in payment processing.

FIRM outreach includes hosting economic roundtable briefings, moderating CEO forums hosted by Dallas Fed senior management, leading the Dallas Fed’s Community Depository Institutions Advisory Council (CDIAC) and Corporate Payments Council (CPC), as well as creating relevant webcast presentations and this publication. In addition, the group supports its constituents by remaining active with financial trade associations and through individual meetings with financial institutions.

Contact us at Dallas_Fed_FIRM@dal.frb.org.

Engagement—Because mobile RDC could decrease branch traffic, financial institutions will need a strategy to maintain engagement with customers who do not need to visit a branch as frequently. What opportunities can institutions create to cross-sell other products to customers?

Security—According to the Fed’s March report on mobile banking, security continues to be one of “the main impediments to the adoption of mobile financial services.” Financial institutions may alleviate customer concerns by facilitating new and different types of authentication, such as fingerprint or voice recognition, or offer mobile alerts to customers regarding low balances, transaction status or possible fraud.

Choices

The most important choices for financial institutions are probably those regarding pricing. Will institutions offer mobile RDC and other mobile banking services for a fee? Could implementing fees be a reputational risk? (Witness the backlash caused when Bank of America announced—and subsequently abandoned—its plan to charge a \$5 monthly fee to all debit card holders.) Or will they offer these services to customers for free, on the assumption that mobile banking will pay for itself? According to Javelin, it costs a bank an average of \$4.25 to process a check deposited at the teller line but only 10 cents for an item deposited via mobile RDC. Some financial institutions have indicated that customer adoption of mobile banking can lead to increased deposit balances, greater customer engagement, use of paperless options and increased overall profitability, as well as lower customer attrition and decreased volumes of expensive call center interactions.

Examples of pricing for services abound.⁵ US Bank charges for an item deposited using mobile RDC. Regions Bank customers can load funds onto prepaid cards via mobile RDC and have three options for funds availability: standard, overnight or immediate (through a relationship with a third party), with a tiered pricing structure. Another possibility is allowing customers to pay a premium to increase their mobile RDC deposit limits. Say a customer’s limit is \$1,000; a financial institution could charge the customer \$1 to increase that limit to \$2,000. Regions uses Fiserv’s Popmoney platform to offer P2P payments, branded as Regions Personal Pay, with a fee per transaction. If an institution offers mobile bill pay, one way it can monetize the service is by charging for expedited (same-day) bill payments.

Conclusion

Consumers are increasingly adopting smartphones and, in turn, mobile banking. Financial institutions have their work cut out for them when it comes to offering mobile banking to customers. They must examine all options in order to make well-informed decisions about what services work best for them and their customers and how to provide those services.

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NOTES

¹ “6 Mobile Banking Features on B of A’s Drawing Board,” by Penny Crosman, AmericanBanker.com, April 17, 2013.
² “A More Mobile Future for Banking,” by Bonnie McGeer, AmericanBanker.com, March 1, 2013.
³ For more information on these features, see “Banks Add Card Controls to Their Mobile Banking Apps,” by Mary Wisniewski, AmericanBanker.com, April 8, 2013.
⁴ “SDCCU Launches Card Balance Transfer App,” *CU Times*, May 30, 2013.
⁵ See “Banks Turn to Fees to Make Mobile Pay,” by Penny Crosman, AmericanBanker.com, June 17, 2013.

Noteworthy Items

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Richard Fisher speaks on "Correcting Dodd-Frank to Actually End 'Too Big to Fail'" before the Committee on Financial Services of the U.S. House of Representatives (June 26, 2013)

Fisher explains his three-step proposal, advocates "creative destruction" and argues that "subverting the ability to fail, on the taxpayers' dime, is a perversion of American capitalism."

Federal Reserve Board approves capital rule to be implemented in the Basel III reforms (July 2, 2013)

The Federal Reserve Board approved a capital rule intended to minimize the burden on small banks and ensure that all banks have enough capital to continue operating and lending during severe economic downturns.

Federal Reserve Chairman Ben Bernanke's speech on "A Century of U.S. Central Banking: Goals, Frameworks, Accountability" at "The First 100 Years of the Federal Reserve: The Policy Record, Lessons Learned and Prospects for the Future" conference (July 10, 2013)

Bernanke covers the establishment of the central bank, the Great Depression, the financial crisis and the ensuing Great Recession, where the Federal Reserve is today and more.

Richard Fisher describes the challenges associated with unwinding the Fed's \$3.5 trillion balance sheet (Aug. 5, 2013)

In a recent speech to the National Association of State Retirement Administrators, Fisher discusses the benefits and impending costs of the Fed's "monetary Gordian Knot."

Eleventh District banker Drake Mills is selected as president of the Federal Reserve Board's Community Depository Institutions Advisory Council for 2014 (Aug. 13, 2013)

Each Reserve Bank CDIAC provides one representative to the Board of Governors' CDIAC to discuss regional economic and lending conditions with the Board and its staff twice per year. Mills, president and chief executive officer of Community Trust Bank, Ruston, La., represents the Dallas CDIAC on the Board's council and, after serving as vice president in 2013, will serve as president to the Board's council in 2014.

Richard Fisher describes the current state of manufacturing, including the significant changes in fiscal policy and regulation needed (Aug. 22, 2013)

Fisher explores how the U.S. can continue to outperform other nations and how to reignite and sustain the current revival of the manufacturing industry.