

The BIG SHIFT in customer behavior



Excerpt from BANK 2.0

How customer behaviour and technology will change the future of financial services

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The Three Phases of Behavioural Disruption

There are three stages or phases to the disruption occurring within retail financial services. Each stage is disruptive enough to be a “game changer”. However, by the time the third phase impacts retail banking around 2015 (or perhaps earlier) the changes will be complete and irreversible.

The *first phase* occurred with the **arrival of the internet**. While many banks denied it at the time of the dot com bubble, the internet changed forever the way customers accessed their bank and their money. As we discussed in the psychology of customer behaviour, this gave them *control* and *choice* that was not available previously. Suddenly, customers were thrust into an environment where they could access their money as they wished, when they wished. As internet banking capability improved, the drive to visit the branch started to diminish and customers began to rely on the new channel as their *primary* access point with the bank for day-to-day transactions. Within just 10 short years, we’d gone from 50-60 per cent of transactions done either over the counter at the branch, through ATMs or cash and cheques, to 90 per cent of transactions conducted through the Internet, Call Centre and ATM. Game changing...

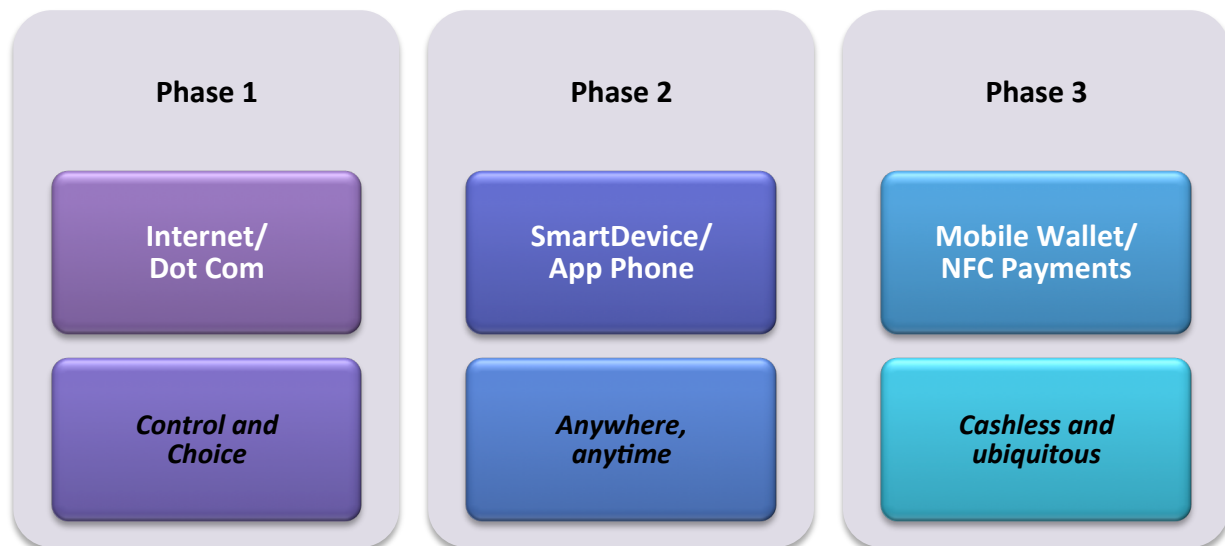
The *second phase* is occurring right now. The emergence of the **smart device** or **App Phone** such as the iPhone and Google Android enabled phones, is a driver for portable or mobile banking. While many banks may argue about security and the limitations of the screen or the device itself, the fact is we heard exactly the same arguments about internet banking from those resistant to change within the bank. Already many banks are deploying what amounts to a cashless ATM on a mobile application platform – yes, you can do everything on a mobile phone that you can do on an ATM, except withdraw or deposit cash.

Here are a few statistics that support the second phase disruptive model:

- 93% of U.S. population owns a mobile phone, and 27% of U.S. households are now mobile only
- New mobile banking customers at Bank of America (BofA) during July-Sep 09: 150,000 (Sep); 210,000 (Aug); 220,000 (July) (Doug Brown, BofA)

- 99% of mobile users view balances, 90% view transaction detail, about \$10 billion of funds have been moved via mobile transfers/bill pay; 15 million location-based searches being performed (annual run rate)
- More than 50% of iPhone users have used mobile banking in past 30 days (Javelin Strategy)
- 33% of mobile banking users monitor accounts daily, 80% weekly (Javelin Strategy)
- By 2015, more than 50% of mobile phone users will do mobile banking (Visa/Mercatus)
- 1 in 5 searches today are location based, and more than 50% of location search is via mobile (Google)
- 40% of Facebook users access Facebook through their mobile device and mobile users are twice as active as non-mobile users (Facebook)
- In the last twelve months, customers around the world have ordered more than US \$1 billion of products from Amazon using a mobile device (Amazon)

So if you didn't need physical cash, what would happen then? This is the *third phase*— when we move to **mobile payments** on a broad scale – NFC-based (Near-Field Contactless) mobile wallets and stored value card micropayments are already here, but more is to come. The third phase also involves the



convergence of your mobile phone and your credit/debit card, which is a logical technical step in the next five years. When these changes occur, our need for cash will reduce rapidly, then the disruption will be far-reaching...

Now, I can hear the proponents of cash already saying that cash will never die and that such an evolution in customer experience will just add to the complexity of the banking experience and

commerce. To some extent I can agree with this world view. However, the key to this is not whether cash will survive, but to what extent it will survive. If the majority of micropayments are all done via an electronic wallet or debit card based on a mobile device (or separate for that matter), and if larger transactions are all done electronically through internet banking or through mobile banking – what's left?

In the UK 43 per cent of payments are done by Debit Card, and 23 per cent by Credit Card.¹ Cash still makes up 32 per cent of payments, but as a percentage of the whole, it continues to reduce. Cheques make up just over 2 per cent of payments these days, so it is not hard to see these disappear entirely. If the growth of Debit card transactions accelerates further (not hard to imagine if contactless payment capability is built into your mobile) and other mobile payments like person-to-person (P2P) are enabled on your phone, this will further reduce legacy payment methods. It is not unimaginable to see a split of 85 per cent of UK payments done by mobile/card, and 15 per cent by cash in the next five years. In markets such as Japan, Korea, and Hong Kong the requirement for cash may be even less compared with mobile payments.

Figure 1 - Changes expected in UK Retail Payments 2006-2015



There are the great unbanked who don't yet have a bank account and who currently rely heavily on cash, but as we will see with M-PESA and G-Cash (Chapter 6), this is hardly a hurdle for mobile cash and payments. The success of the Octopus card in Hong Kong, T-Money in Korea, Edy and Suica in Japan and other emerging technologies already prove the concept. What would quickly kill the need for cash in its entirety is a technical standard for mobile money that could be adopted globally by network operators and device manufacturers.

Even if only 50 per cent of cash transactions are replaced by electronic stored value cards, debit cards and mobile wallets in the next five to ten years, the current ATM and Branch infrastructure that supports cash becomes almost untenable from a cost burden perspective. If you no longer need to go to the ATM to withdraw physical cash or currency, then everything you do on the ATM today can be done on your mobile App phone. If branches no longer need to deal with cash, then a large part of the reason for their existence disappears. HSBC in the United Kingdom has recently announced its intention to stop

¹ Source: APACS report on U.K. payments industry

support cheques, because usage has declined and there is no ongoing business case to support them. The Payments Council Board in the UK has agreed to set a target date of 31st October 2018 to close the central cheque clearing system. If cheques decline to the point where banks can no longer afford to support them and regulators no longer require the banks to provide support for them...

“There will be a critical review in 2016 when the Payments Council will decide whether sufficient change has occurred against agreed published criteria, to press ahead to do away with the cheque in 2018. There are many more efficient ways of making payments than by paper in the 21st century, and the time is ripe for the economy as a whole to reap the benefits of its replacement.”²

- Paul Smee, Chief Executive of the UK Payments Council

Just like internet and mobile device disruption, this are not the inane ramblings of a technovangelist – this is an inevitable conclusion based on technologies already in place that are on their way to becoming the dominant channel of choice or mechanism of engagement. The behavioural adaption of consumers to the Internet and smart devices already indicates that this will likely take hold within the next three to five years.

Adoption rates are speeding up. Technology innovation is speeding up. Customers are adapting to these new changes quicker and quicker. Banks need to too.

Let’s just say by the time Phase Three hits – if the retail banks have not adapted, they will be clinically dead. Banks can either own the transaction and payment platform, integrate the technology, OR protest with their last dying gasp of breath that things are not really going to change. “The Branch is Back”, “Cash is King”, “Cheques will bounce back” – yeah, ok. You just keep telling yourself that and see how that works out for you.

End of Excerpt

² Source: Payments Council Press Release – www.paymentscouncil.org.uk