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What's the future of mobile banking in Europe?

Bankers say mobile devices will transform retail banking but aren't investing enough to exploit the opportunities.

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Bankers across Europe believe that mobile devices will transform the retail-banking landscape in the next three to five years. In a recent survey of European bankers, however, a majority of the respondents acknowledged that they are not investing sufficiently to take advantage of the opportunities and that telecommunications companies and other nonbanks are leading the way.

These findings—based on joint research by McKinsey and the European Financial Management and Marketing Association (EFMA)—come on top of an additional analysis suggesting that mobile devices’ overall economic impact on the banking industry may be neutral at best. Individual banks should be able to increase their revenues and cut costs if they successfully exploit the convenience of mobile, its potential to drive digital commerce, and the opportunity it represents to target the unbanked in emerging markets. Some banks, however, may find that mobile adds to costs and erodes prices unless they offer a truly differentiated product or service.

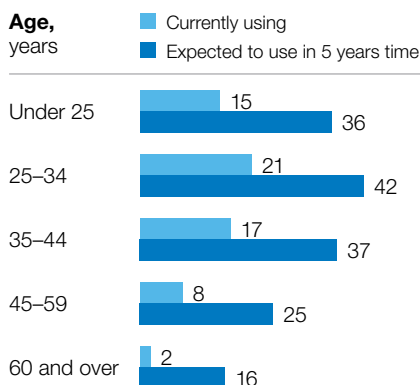
The survey¹ of executives at 150 European banks, conducted earlier this year, confirms that mobile is here to stay. Most senior executives reject the idea that it’s a fad and expect the penetration of mobile technology to bring significant benefits for customers. Mobile, they believe, will become more relevant at all stages of the purchasing process.

¹ Download the full report, *The current state and future of mobile banking in Europe* (August 2011), on the McKinsey & Company Web site.

Exhibit

European banks expect mobile access to change retail banking fundamentally.

% of banks’ customers using mobile devices for banking activities



Source: European Financial Management and Marketing Association (EFMA); 2011 McKinsey mobile-banking survey of 150 European banks

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Some 87 percent of banks aim to have a mobile site, and 84 percent are planning to launch some sort of mobile-banking “app” within the next 12 months, compared with 59 percent and 47 percent, respectively, that have them now. The mobile features these institutions currently offer are traditional banking services, such as the ability to check account balances and recent transactions and to conduct simple transactions. But 70 percent of banks said they plan to add more advanced functionality within the next 12 months—the same proportion that told us they were planning significant mobile-platform upgrades; 10 percent are even contemplating a complete channel overhaul. The majority see the mobile channel capturing up to a quarter of all transactions within five years as customers shift from branches.

Banks are reasonably optimistic about the financial benefits. About half of the executives in the survey think the impact of mobile on bank profits will be positive as satisfied customers show their appreciation through increased loyalty. Only 4 percent expect the financial impact of mobile banking to be negative.

More than 50 percent see investments in mobile leading to some (or even a significant) increase in revenues from all products except mortgages. The rest of the respondents don’t expect any change. Exactly how the optimists expect to capture these extra revenues as a result of mobile devices, however, was not clear.

Upward of 60 percent of banks believe that success will hinge on gaining new skills, notably the ability to market through a variety of channels, to integrate IT across them, to develop smartphone apps, and to convert digital transactions to sales. A majority, however, also said that they have fewer than ten employees dedicated to mobile, are committed to new investments just for the current year, and have adapted commercial functions, at best, only in minor ways to accommodate mobile. In other words, so far these companies haven’t created a new underlying mobile business model or a clear mobile strategy.

Our survey also found that telecommunications, Internet, and other consumer companies are better placed than banks to develop key components of the mobile value proposition. Only a few leading banks appear to be responding to this threat by investing significantly in people, core capabilities, and IT. Our respondents indicated that reduced expenses for back offices and existing channels will most likely be offset by increases in the cost of IT and mobile channels—for example, mobile platforms where banks must be represented to fully cover their customer base are proliferating.

The survey gives banks a sharp reminder to have a clear mobile strategy. Could they lead and shape the industry, or should they play a follower role—even if “wait and see” is no longer a realistic option? 