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Community banks call on mobile technology to deliver remote transaction services

By Kelly Pike

Wachovia launched it this past December. Wells Fargo rolled it out this summer. Bancorp South has it, too.

It's mobile banking—the ability to check balances, pay bills and transfer funds via mobile devices like cell phones and personal digital assistants. Unlike traditional Internet banking Web sites, which technically could be accessed with a mobile device connected to the Internet, these mobile banking sites are specially designed to fit on pint-sized cell phone screens and often boast added security.

And while the biggest banks are rapidly adopting the technology, they are not the sole purveyors of mobile banking. A few community banks have strategically entered the mobile banking arena as well, hoping to position themselves as innovators, endear themselves to customers on the go or attract new business.

In Lake Oswego, Ore., the \$43 million-asset Bank of Oswego sees mobile banking as a differentiating tool when trying to woo the tech-savvy community. "Being on the West Coast, we're in an area [where] people use a lot of technology," says Diana Yates, executive vice president and chief financial officer at the bank, which was founded in 2004. "Looking at the customer base, these people don't have big offices waiting for someone to help them on staff. We want to help them be more productive and resourceful."

BANK



Rolling Out Service

Salem Five Savings Bank, a \$2.5 billion-asset bank in Salem, Mass., began offering mobile banking this winter. The program allows customers to pay bills, view and cancel pending payments, transfer funds and view account summaries by logging into a secure environment via a mobile device. It also helps customers find Salem Five Savings locations and ATMs and check out interest rates. The goal is to position the bank as an innovator and serve customers who are on the go, says Jay Spahr, senior vice president of e-commerce at the bank.

“We want to show some leadership on the innovation side,” says Spahr. “We want to reach clients who are mobile, that have access to their cell and [palm pilots] all of the time. They are more financially active and tend to be the people using a broader set of products.”

While a small set of customers are thrilled by the addition, Salem Five Savings has yet to see widespread customer adoption. But Spahr has high hopes for the years ahead. “I think five years from

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Knowing when the timing is right to launch a new technology was part of both Salem Five Savings and Bank of Oswego’s mobile banking launch. Teaming up with Tyfone, a Portland, Ore., company offering a mobile banking platform, Bank of Oswego conducted eight months of research, including focus groups with both bank customers and members of the general public, before beginning the trial. The bank wanted to find out how people would react to the

Mobile Payments Explained

Mobile payments (or payments made with a cell phone or personal digital assistant) fall into two categories: proximity payments and remote payments.

Remote payments are payments made over a mobile device to a distant party, such as paying a bill via remote banking. A growing number of banks—both large and community—offer this technology to customers. Proximity payments are real-time, point-of-sale purchases where a mobile device substitutes for a credit or debit card in making a purchase. They are common in many Asian countries and are growing in Europe, but have yet to catch on in the United States for many reasons.

One of the largest obstacles to proximity payment popularity is infrastructure. Until a large number of vendors can accept contactless

payments, consumers won’t see much need to use the product. Another obstacle is tension between banks and telecom companies, which both want to be the leaders in mobile payments, says Kevin Dulsky, general manager of PayPal, which offers its own remote payments service to customers. Point-of-sale margins are slim, he notes, and merchants who have to pay issuers and processors aren’t willing to pay anything additional to accept another form of payment. (Dulsky was a guest speaker during a session on Preparing for the Mobile Revolution at the recent NACHA Payments 2007 conference.)

Despite these obstacles, credit card issuers have been running limited trials with proximity mobile payments—and a few community banks are getting into the act.

Broadway National Bank, a \$1.7

billion-asset community bank in San Antonio, Texas, is in a “friends and family pilot” with software firm TRG Mobilearth Inc. in Vancouver, and Peoples Bank in Paris, Texas, a \$96 million-asset bank, participated in a trial with MasterCard, *American Banker* reports. Meanwhile, First Bank & Trust in Brookings, S.D., part of \$1.3 billion Fishback Financial Corp., has entered a partnership with eCommLink, a Las Vegas prepaid card firm, and the Redmond, Wash., mobile banking company telSpace to develop a combination prepaid card and mobile payment device to target the unbanked.

It’s too early to tell where these trials will lead, but the participation of community banks in these experiments shows the industry that community banks are innovators, too.

—Kelly Pike

product, what issues they had with it, and what would make them want to use it.

The Security Factor

The biggest concern was security, reports Yates. “People wanted to know about airwaves and whether people could pick up [sensitive information] off cell phones. But we block all that,” she says.

Bank of Oswego’s system uses short message service communication (the same technology that allows text messaging). But one of the bank’s favorite security measures—and one they hope will appeal to consumers—is a proprietary chip installed in the phone to serve as a key. Customer transactions must originate from the phone with the customer’s unique chip and a matching PIN must be entered.

A software program is also downloaded onto the chip which allows “transactional banking directly from a mobile phone without the need to access a Web site,” a second-generation technology, writes Jim Bruene, publisher on the *Online Banking Report*, on NetBanker.com. It’s the same approach used by Citibank, and other large banks are looking to make the conversion.

Salem Five Savings uses the simpler wireless application protocol, which is essentially a toned-down Web site geared specifically for mobile devices. It partnered with

Determining Demand

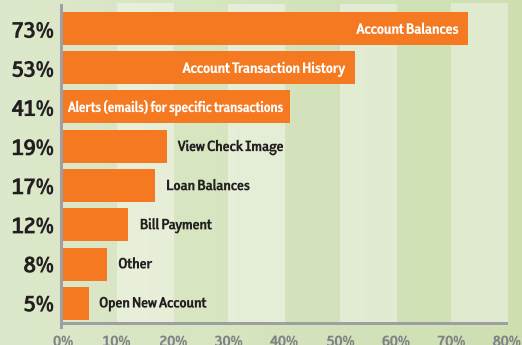
Consumer demand for mobile banking is hard to judge. One study by Visa found that 61 percent of respondents between the ages of 25 and 34 were interested in using their mobile phones to make payments.

Research firm Celent found that 50 percent of individuals age 18 to 25 said mobile banking was “somewhat important” to “very important” in choosing a financial institution. Yet Jupiter Research found that “just 8 percent of online consumers who own a cell phone are interested in using mobile browsing to check account balances.”

core processor Meta-vante and MShift, a mobile application company in San Jose, Calif. The bank faced its own set of challenges in deciding when to launch the product. Spahr considered a foray into mobile banking in 2000, but decided the penetration of cell phones and personal digital assistants wasn’t deep enough for it to be a success.

What Consumers Want

What mobile banking products would you like to see on your mobile phone?



Source: Celent, based on Eisenhower Bank online survey of 146 consumers

Having overcome internal questions about return on investment, which he admits may not be as high as most community bankers would like to see, Spahr is confident his bank will benefit from going mobile, a service his bank offers for free. “[When] venturing into a new area of technology there is a risk,” he says. “We’re not necessarily seeing thousands flying into this, but it benefits the bank well and the branch well. It positions us.”

Yates, of Bank of Oswego, also hopes to see payback both through fee income—the bank is working on a pricing structure—and through customer satisfaction. “Loyalty is the big thing we’re going after here,” she says. “The more products we can get our customers to use, the more we can lock them into that level of service. Being a smaller community bank and a newer bank, we’re free to serve the customer outside the box.”

To spur consumer adoption, Bank of Oswego collaborated with its retail and merchant partners to offer mobile users redeemable rewards at those merchants’ stores. “If the customer opts in, we’ll send them information saying, ‘If you go to a certain restaurant by the end of the month and use your Bank of Oswego debit card for payment, you’ll get a gift certificate, a percentage off or a bottle of wine,’” says Yates. “We’re hoping that at the end of the year some of our retail customers will see that Bank of Oswego has sent them \$20,000 in additional sales.”

The bank began beta testing its mobile banking application in June with plans to offer it broadly later this year. **ib**

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