

Banking Watch

United States

Houston, April 2, 2014

Economic Analysis

U.S.

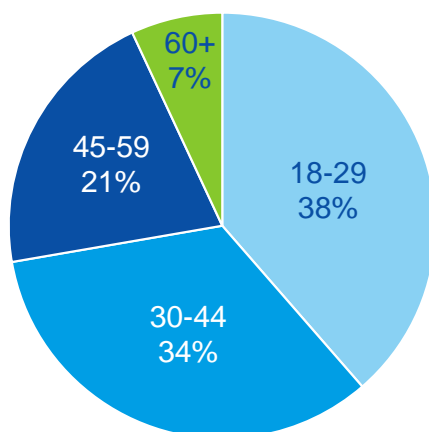
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Consumers and Mobile Financial Services

- The growth of smartphone usage will boost the demand for mobile banking services
- Young individuals are the predominant users of mobile banking technology
- Data suggests that mobile banking allows consumers to be more conscious of their finances
- Security presents a challenge for the future of mobile banking

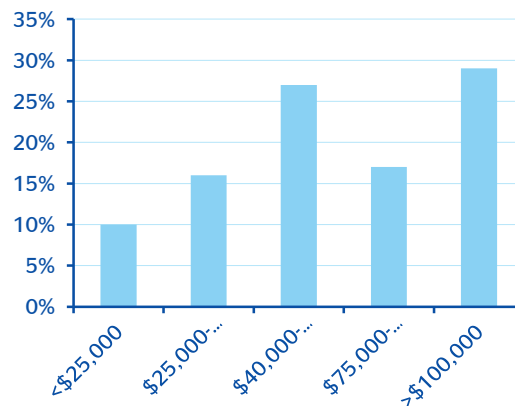
The Consumers and Mobile Financial Services Survey released by the Federal Reserve covering the usage of mobile banking for 2013 shows that overall, utilization of mobile banking has increased in popularity since 2011 in part due to the expansion of smartphone usage. Although the percentage of Americans who owned a mobile phone in 2013 remained unchanged from 2012 (87%), the portion that owns a smartphone - defined as an internet-based device- rose from 52% to 61% over the same period.

Chart 1
Mobile Banking Usage by Age



Source: Federal Reserve Board

Chart 2
Mobile Banking Usage by Income



Source: Federal Reserve Board

Smartphone-owners have easier access to mobile banking. In 2013, 51% of smartphone-owners reported using mobile banking services over the past 12 months, compared to 33% of standard mobile phone owners. Overall, ownership of smartphones continues to trend upward, suggesting that mobile banking services will also increase in the future. In fact, the share of smartphone users downloading their bank's mobile app went from 49% in 2012 to 72% in 2013.

Mobile banking usage by income and age

The Survey suggests that the use of mobile banking is more popular among young people. For example, consumers between the ages of 18-29 make up 39% of total mobile banking users. Moreover, the percentage of mobile service users declines as the age group gets older (see Chart 1).

However, data does not show a positive correlation between income and mobile banking usage. For instance, individuals within the \$40,000-\$74,999 income range (27%) are almost as likely to use mobile banking as those who make over \$100,000 (29%). However, those who make \$75,000-\$99,000 are far less likely to do so (17%), and usage is about the same for users who fall into the \$25,000-\$39,999 income category. Individuals with income below \$25,000 are the least likely to bank on a mobile device (10%) possibly because of the prohibitive cost of technology and service plans (see Chart 2).

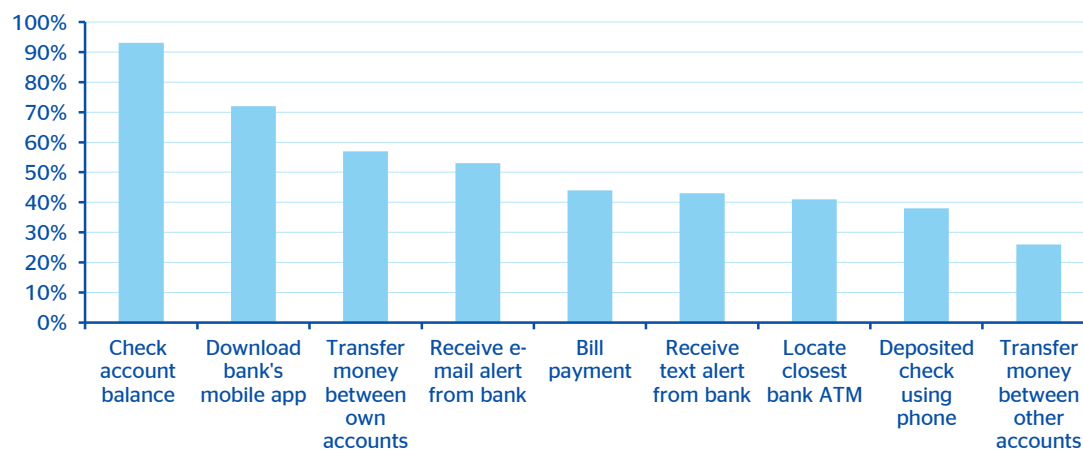
Mobile banking impacts consumer behaviour

The Survey suggests that mobile banking empowers consumers to gain control over their finances.

By far, the most common use of mobile banking is checking account balances (see Chart 3) as 93% of mobile banking users reported checking their account balances over the past 12 months -up from 86% in 2012. In addition, 69% of mobile banking users looked at their account balance prior to making a purchase, of which half decided not to buy the item. This suggests that mobile financial services are playing a larger role in budgeting as the ability to have immediate access to the account balance influences purchasing decisions.

Mobile access to the internet and barcode scanning software is changing consumers' behaviour, allowing them to more effectively compare prices. In 2013, 44% of smartphone users compared prices of goods while inside of a retail store, and 31% used their device to scan a barcode to search for the most competitive price of an item. Furthermore, over two-thirds of those consumers who compared prices decided to purchase the item elsewhere. Going forward, this will intensify price competition among retailers and benefit consumers seeking the best value. With regards to the broader economy, the increased competition should lead to lower prices and downward pressure on inflation.

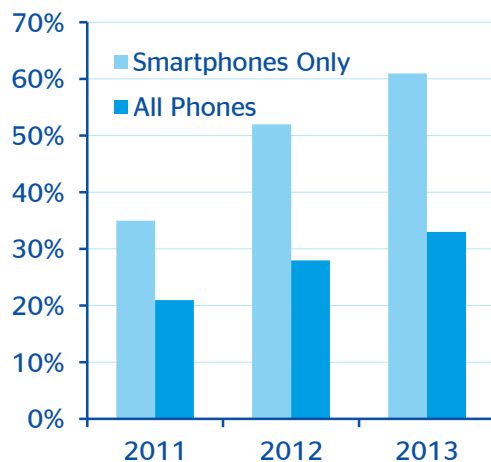
Chart 3
Activity Among Mobile Banking Users Over the Past 12 Months



Source: Federal Reserve Board

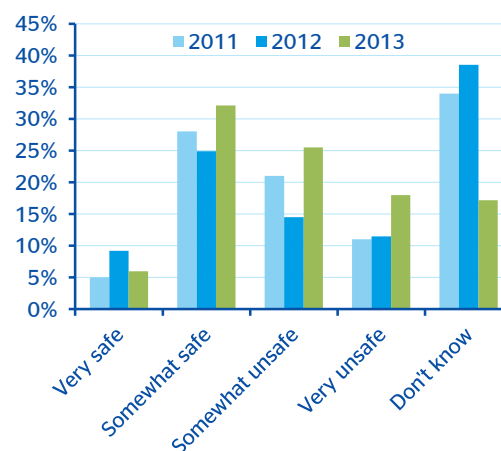
Point of Sale (POS) purchases that involve using a mobile phone to purchase a good on the spot have risen in popularity over the past two years. However, the growth in POS purchases is almost exclusively tied to smartphone users as only 2% of non-smartphone users reported using POS to purchase an item. The possession of a smartphone is crucial to the POS market, likely because the internet-enabled technology is easier to use in a store as opposed to a non-internet mobile phone. The share of consumers with a smartphone who reported making a POS purchase leaped to 17% in 2013, after being virtually non-existent in 2011. Thus, as long as the percentage of consumers who own a smartphone continues to grow and businesses provide support for the software, POS usage should continue to trend upward, which may in turn erode the use of credit card payment terminals.

Chart 4
Mobile Banking Usage by Device



Source: Federal Reserve Board

Chart 5
Safety of Mobile Banking



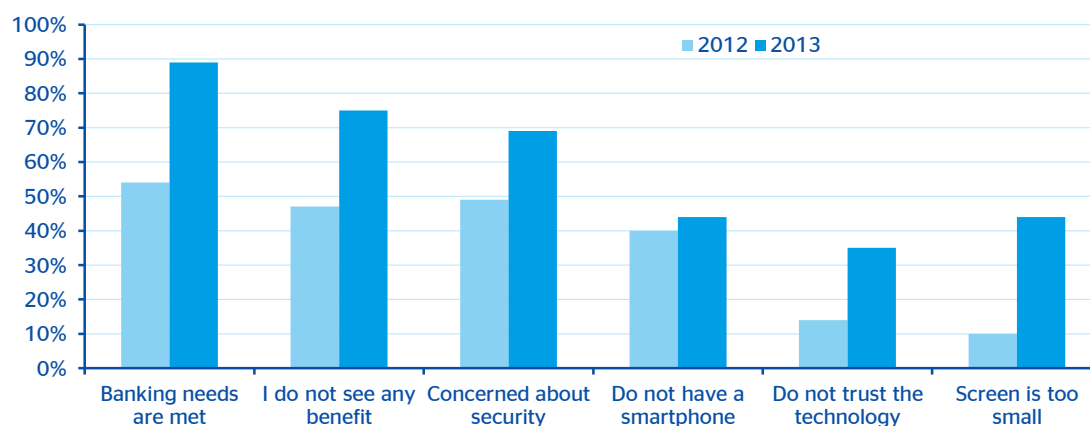
Source: Federal Reserve Board

Safety and security are the main concerns

Although the share of mobile banking users is expanding, the overall safety and security of mobile banking technology remains a concern among consumers (see Chart 5). Notably, the percentage of mobile phone users who report feeling 'somewhat unsafe' with regards to personal information increased 11pp to 26% from 2012 to 2013, and the share of users who feel 'very unsafe' increased 6pp to 18% over the same period. Worries about security appeared to dip between 2011 and 2012 before rising once again in 2013. Persistent hacking of credit and debit cards in 2013 may have played a role in the reversal of consumer attitudes towards mobile security over the last year. Outside of mobile banking, the increased concern about safety can also be reflected in the number of consumers who password-protect their phones, which increased from 54% in 2012 to 61% in 2013.

Security has become a barrier for mobile banking adoption (see Chart 6). In 2013, 69% of non-mobile banking users reported security fears as a factor for not using mobile services, up from 49% in 2012. Additionally, 35% of users cited not trusting the technology as a reason for not using mobile banking services, up from 14% in 2012. Though security remains one key reason why not every survey participant has decided to use mobile banking, it is not the only reason. In fact, 89% feel their banking needs are already met. These individuals may still prefer to go to the branch or use traditional desktop PC's.

Chart 6
Reasons Why Users Elect Not to Use Mobile Banking



Source: Federal Reserve Board

Bottom Line

The adoption of mobile banking is expanding, and young individuals compose the majority of users. By enhancing their mobile capabilities, banks can capture a segment of the population that is beginning to demand banking products that will grow in complexity as they become older. Mobile technologies have empowered consumers, and thus banks' should aim at providing mobile services that assist them to make smart financial decisions. Finally, the Survey also reveals that security is hurdle in the development of mobile banking; therefore we can expect banks to continue investing heavily in cyber-security.

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