Chapter 10
Mobile Banking: Challenges and Opportunities for the Financial Sector

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ABSTRACT

For over a decade, financial institutions, driven by advances in Information and Communication Technology (ICT), have been shifting to a new business model that prioritizes new channels for managing customer relationships. These new channels, which are based on the Internet and mobile devices, offer major business and growth opportunities. This chapter looks at the current status of online and mobile banking in Spain from the perspective of both financial institutions and users and compares it to the situation in Europe at large. Following an analysis, it draws a number of conclusions regarding the future prospects of these channels and the areas offering the greatest potential for growth and profitability.

INTRODUCTION

The global banking sector is currently undergoing a major transformation as a result of the financial crisis that began in the summer of 2007 and was exacerbated in September 2008. To address the consequences of this crisis, and with the additional goal of strengthening the domestic banking system for the future, Spanish commercial and savings banks have embarked on a process of consolidation, restructuring, and transformation.

In this context, they are prioritizing areas such as cost reduction, risk management, distribution channel management, and customer relationship management.
In particular, increasing importance is being given to alternative distribution channels based on new technologies and intended to supplement traditional branch networks. Telephone banking, online banking, and mobile banking are the most representative examples. The latter option—banking via mobile telephone systems—is the area in which most Spanish commercial and savings banks see the greatest business and growth opportunities.

At the same time, we are witnessing a shift in the European banking business model toward relationship banking or customer segmentation, which emphasizes personalized services for customers and process automation.

This chapter aims to examine the impact of information and communication technology (ICT) on banking channels and to identify the resulting new challenges and opportunities. The first section, which provides background on the issue, looks at banks’ involvement in the ICT sector in terms of their investments in ICT to date and the outcomes thereof. The second section examines the adoption of the Internet as a new banking channel (online banking) and its evolution in Europe and Spain from a twofold perspective: that of financial institutions and that of the new channel’s users. The third and fourth sections focus on mobile banking, analyzing the evolution and impact of the mobile revolution on the financial sector and delving deeper into the key role that this tool (mobile devices) plays in two emerging business trends that will give rise to new challenges and opportunities for the financial sector.

**Background**

Globally, the financial sector has been the largest investor in ICT goods and services, which has helped to boost its productivity and growth (Sieber and Valor, 2009, p. 10). This is true in Spain, too, where the financial sector has been quick to incorporate new technologies with a view to streamlining and computerizing its operations. According to the latest report from the Spanish Multi-sector Trade Association for the Electronics, ICT, Telecommunications and Digital Content Industries (AMETIC, 2012, p. 56), the financial sector continues to generate the highest volume of business for the ICT supersector (which represents 6% of Spanish GDP), accounting for 33.6% of its total revenue in 2011 (when its contribution to ICT companies’ turnover rose by 3.3%). It was followed by the public sector, which accounted for 19.2%.

However, since the onset of the crisis in 2007, the adverse economic environment for financial activity has had a particularly strong impact on the financial sector and, thus, on the resources that commercial and savings banks allocate to ICT. According to the latest study by Accenture (2012a) on information technology costs at financial institutions, in 2011 most of the 22 commercial and savings banks analyzed (which together represented three quarters of all Spanish financial-sector assets) cut spending on IT (costs declined 2.2% on average across the sector), although, due to the increases registered by a small subset of institutions, IT costs for the aggregate sector were 3.5% higher than in 2010. This increase was nevertheless smaller than that registered by the international banking sector, which saw IT costs rise by about 5.5%, as shown in Figure 1.

According to Accenture (2012a), Spanish financial institutions allocated a total of €4 billion to IT in 2011. Moreover, the different integration processes, which were primarily the result of the restructuring of the financial sector, resulted in virtually no net increase in IT costs. The mergers of institutions involved in integration processes have increased efficiencies at some institutions by creating economies of scale, whereas costs have evolved in proportion to turnover at others, and the hoped-for efficiencies have not yet been achieved (p. 14).

With regard to the quality of the IT expenditures, recent years have seen an improvement in the aggregate indicators for the sector as a whole, thanks to the contribution of the largest financial