Creating Winning mCommerce Business Models in the Financial Services Industry

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Mobile commerce, or mCommerce, is something that financial services firms cannot ignore. Of the people using wireless today, only a small fraction are currently using it for financial services but that number is expected to grow rapidly. A recent Tower Group study estimated that there were only 500,000 users of wireless financial services in the United States in 1999 and 9.8 million in the rest of the world. The same study projects that by 2005, the number of U.S. users will grow to 35 million, with 230 million users in the rest of the world.

mCommerce is now where eCommerce was about five years ago, poised to grow explosively over the next several years with many players from multiple industries all vying for the customer's attention. Never mind that the current technology is slow and difficult to use. In two to three years, deployment of emerging technologies such as 2.5G and 3G networks will enable vastly more powerful wireless financial services applications. Now is the time for firms to begin with pilot projects focused on highly targeted market segments that require relatively small investments. These projects can provide immediate cost savings and move your business up the learning curve. This article will survey the state of mCommerce applications in the financial services industry and present a diagnostic method that can be used to take advantage of the enormous opportunities.

The Current Challenge

Today's 2G networks provide basic data capabilities as well as the ability to message between devices. But current wireless devices can display text only on small screens, making it difficult to deliver rich Internet content. Data entry difficulties make interactivity more difficult and drive reliance on menus. The migration to 2.5G networks, which is expected to occur in Europe in 2002 and the United States in 2003, will provide major advancements, including instant-on access, packetized data, voice channelization and higher data throughput. 2.5G networks can deliver much more substantive financial services applications including complex account activity, wireless appraisals, instant credit scoring and on-site claims adjustments. 3G networks, which are expected to appear in 2005, will provide even higher data throughput, improvements in security, and global coverage, enabling revolutionary new wireless services. Around this timeframe we can also expect to see a new generation of financial services products that incorporate exciting new features such as multimedia communications, location-sensitivity and voice data entry, among others.

Opportunities outweigh risks

Even today, mCommerce applications can provide important assistance in acquiring and retaining customers while reducing the cost to provide services. They can reduce churn by presenting obstacles to it, tying customers into new applications and platforms that will deliver added value. Direct service costs can be lowered by providing customers with self-service for simple transactions through wireless

devices, reducing the number of calls to call centers.
While there is some risk in being an early mover, the opportunities to capture attractive segments of the market are far greater. Winning financial services industry players will focus both on reducing internal costs and deepening relationships with customers. An analogy with the development of eCommerce activity is relevant. Beginning in the mid 1990s, financial institutions experimented considerably with eCommerce activity. When the global financial crisis hit in 1998, many of these companies slashed their eCommerce budgets. As a result, many attractive market segments were captured by those who stayed the course. A good example is the online trading franchise that was established during this period by DLJ*direct*, now CSFB*direct*. It's important to note that eCommerce achieved 25% market penetration in about two years. Firms that defer first or early mover advantage in effect give early adopters, typically the most attractive custmers, up to the competition. One market-leading financial services firm has stated that the early adopters have balances 10 times higher and trading volumes five time higher than average customers.
We see five potential strategic options within the wireless opportunity landscape.
Option 1: Business model extenders. Business model extenders move existing products and services to wireless, as typified by wireless trading and account access. As an example of a business model extender, consider the prototype of a new personal financial management application developed by the Finnish financial services group Sampo, Nokia and Accenture for the new Nokia 9210 communicator. The new application includes a variety of intelligent agents, such as a watch list that can be set to continuously monitor financial information such as stock prices and account transactions. The customer can configure alerts so that when specific criteria are met, such as a stock price falling to a certain level, an alert is sent to the customer's wireless device. When the alert is received, the customer can immediately make a transaction, such as selling the stock whose price has dropped. Another feature is a wealth manager service that can provide continuously updated personal financial statements and produce graphical reports such as pie charts to show asset allocation or graphs of cash flow.
Option 2: Operational extenders. Operational extenders use mCommerce applications to reduce cost of service, such as by providing mobile customer relationship management.
Option 3: Market creators. The third option, market creators, involves products and services that build new transactions, markets and channels. One example is the use of person-to-person payment systems that allow consumers to send and receive currency over the Internet. Another example of a market creator is a usage-based automobile insurance being piloted in Houston by Progressive, one of the largest auto insurers in the U.S. Progressive's system makes use of onboard global positioning system (GPS) technology to track vehicle position every six minutes. Data regarding when, where and how much the vehicle is driven is collecting periodically and reported automatically using cellular communication technology. Insurance is then priced by the mile, in accordance with the risks associated with different locations, hours of driving and total miles driven. Customers participating in the pilot are paying rates that average 25% less than a traditional auto insurance product and receive access to additional safety features for a small additional fee such as theft recovery, remote door unlocking, roadside assistance, directional assistance and low battery detection. In addition, the system features a panic

button that the consumer can use to be put in instant touch with a manned, 24-hour response center.

Developments in telemetry and onboard monitoring offer the opportunity to fundamentally change insurance claims processing. In the self-service claims concept, an agent with a wireless PDA would visit the crash site and take photos of the damage. These would be transmitted to the insurance company's database for comparison to historical prices. The claim could instantly be processed and the agent would initiate the process of issuing a check. Further down the road, drivers themselves could use in-car sensors and Bluetooth-enabled phones to assess damage, send information wirelessly to the carrier and receive payment electronically. The carrier could use global positioning system (GPS) within the customer's cell phone to locate the accident and recommend the closest body shop or order a towing service if necessary.

Option 4: Value chain annihilators. Then there are value chain annihilators that create entirely new product categories such as the mobile, automated insurance adjustor.

Option 5: Product inventors. Finally, there are product inventors that create new offerings that redefine customers, products and services to create a sustainable competitive advantage. Examples include a proactive securities advisor, mobile open finance and pay-by-the-mile insurance.

Comprehensive diagnostic process

We have developed a comprehensive diagnostic process that can aid in identifying mCommerce opportunities, consisting of four major steps.

Step One

Assess key value chain components by analyzing key activities in each part of the value chain, evaluating competitive activities and investigating problem areas and complex processes.

Questions to ask include: What are the key trends affecting the business? Are current business processes costly, complex and burdensome? Are there gaps in the services delivered by current products? Can cycle times be reduced or segments of the value chain captured through a wireless application?

The deliverables: Value chain and cost allocation, overview of problem areas and implications, catalog of potential competitive threats and the identification of wireless applications that enhance the value chain and create new business opportunities.

As an example of how this process works, consider the following analysis of a property and casualty insurance company's value chain that was undertaken in order to identify activities that could be transferred to wireless. In the sales area, the existing direct marketing and telemarketing campaign designed to obtain customer renewals could be supplemented with a far less expensive wireless CRM application. The customer could be contacted at renewal time and submit their application over a wireless device. A wireless application could also address the rating and quoting process, for example, by allow customers to obtain information such as determining their existing coverage and premium costs, obtaining quotes for various coverage alternatives, etc. In the policy administration function, customers can perform various tasks such as adding an additional driver to their policy, checking their payment status and making electronic payments. The conclusion of this analysis was that there are a common set of customer contact and servicing activities that can be offloaded to wireless devices. If a company

fields one million calls per year and can move 20% of those inquiries to a customer self-service web site, that's 200,000 calls that that don't require human intervention. If we assume that each call costs $11 to process and each web inquiry costs only $3, the business will save $2.2 million in call center expenses while adding only $600,000 in web self-service costs for a net savings of $1.6 million.

Step Two

The second step in the diagnostic process is determining the business model and economic drivers. This process consists of evaluating the business revenue structure and revenue levers as well as the cost structure and cost levers in order to measure the impact of wireless applications on both cost and revenue drivers.

Questions to ask include: What opportunities exist to eliminate cost or asset intensity? What are the largest cost and revenue factors of the business? What unmet needs exist to increase customer value?

The deliverables: An estimate of the revenue and cost impact from each wireless application as well as the investment required to implement the applications.

Carrying forward the example described earlier of the property and casualty insurance company, let's examine the company value chain to identify the cost drivers and look for specific improvements opportunities. Current industry averages show that each of the following cost drivers account for the specified percentage of premium income: marketing and development 0.5%, administration 1%, prospecting and customer acquisition 18.5%, underwriting 0.5%, rating/quoting 0.5%, policy issuance and maintenance 2.5%, billing and collection 2.0%, customer management 0.5%, indemnity 64%, loss adjustment expense 11%, and other expenses 2.5%, resulting in a total combined ratio of 103%. This type of analysis assists in identifying prime opportunities for cost reduction using wireless technology at each phase of the value chain, such as offering agent locators, electronic delivery of contracts, in-field servicing and instant payment to increase customer value, etc.

Step Three

The third step is mapping out business process changes and the wireless application to take advantage of mCommerce opportunities identified in the first two steps. This step involves documenting current organization processes, evaluating strengths and weaknesses, identifying gaps in capabilities and potential solutions and finally creating a vision of the wireless-enabled processes.

Questions to ask include: Can wireless solutions address the problem? Is the technology ready? What technology infrastructure is required? What business process and organizational changes are required to execute?

The deliverables: As-is and to-be business models, required capabilities to exceed and partnership options.

For example, in the insurance company example, a new process might be developed to mobilize claims adjustors and free them from costly and inefficient processes. In the case of a fire in a insured's home, the adjustor is notified by sensors and calls the client to indicate that he is coming. The adjustor arrives on the scene, assesses damages, takes digital pictures and fills out a claims application. The adjustor sends the claim and associated photos to the office over the wireless network. The office sends back the claim approval by the same method within minutes and funds are simultaneously wired to the customer's bank account. This application addresses the 75% of the premium dollar that goes towards claims, decreasing processing costs and increasing customer satisfaction by providing

faster resolution.
Here are a few ideas to keep in mind during this process. Existing players usually have a large legacy infrastructure that must be integrated into the wireless application while new entrants can easily outsource operations. While financial service providers usually have strong information technology development competencies in the Internet and mobile environment, in cases where time to market is critical, development is usually outsourced to external providers to reduce leadtime and avoid disrupting other initiatives. A new breed of smaller mobile specialists is often enlisted in these projects. An important decision to make early in the process is whether the new wireless service will hold an existing brand name or be white labeled. It's also important to consider opportunities to collect valuable information about customer behavior.

Step Four

The fourth step is developing and prioritizing the opportunity list. This step includes developing a high-level business case for each option, ranking the options, creating a high-level implementation plan and defining offering parameters.
Questions to ask include: What is the potential financial impact of each option? What is the gap between the existing capabilities and what is required? What is the investment required to develop the needed capabilities? How long will it take to implement the plan?
The deliverables: High-level economics, a set of prioritized options, a high-level implementation plan and a high-level offering.
The option of extending the business model is typically appropriate when there is a little capital available and little opportunity to add new customers. The risk of this approach is that attractive customers may be lost to innovators. Migrating to an operational enhancer makes sense when the focus of the business is cost cutting. The key consideration in this approach should be the size of the investment and the payback period. When the opportunity exists for eliminating or streamlining major processes, jump to a value chain annihilator, but keep in mind the potential for disruption to existing business. A market create positioning move is called for when you have identified a new market segment with significant revenue opportunities. The major issues to be addressed are the parameters of the new market and the ability to define an attractive value proposition.

Moving Forward

mCommerce is changing the rules of business. It's not simply about a new channel but rather about harnessing the unique characteristics of wireless, anytime/anywhere access, always-on, and location-awareness. But mCommerce strategy and implementation is complex. The implementation challenges may appear daunting: the technology is immature, mobilizing the internal organization can be difficult and successfully managing the complex web of alliances and partnerships is by no means certain. The best strategy for most financial services providers is to ensure that mCommerce activities add value to your business and that you carefully manage expenses in initial deployment. The technology is still immature so carefully weigh your options to partner with solution providers, integrators and ASPs while focusing on internal learning. Your customers will be there. Build it while they adopt!

Sidebar -- Addressing the Wap GAP

Some financial institutions are reluctant to implement wireless applications using the Wireless Application Protocol (WAP) because they are concerned about

vulnerabilities that might expose valuable data to eavesdropping or attack. Typically, the data packets are sent from the customer's wireless device, to a receiver operated by the cellular network carrier which forwards them through a WAP gateway to the financial services firm. Packets flowing between the WAP gateway and the content provider's server are usually secured by Secured Sockets Layer (SSL) encyrption. Data traveling between the wireless handset and WAP gateway are protected by Wireless Transmission Layer Security (WTLS) encryption. The concern is that at the WAP gateway security is handed off between the WTLS and SSL protocols, leaving data in the clear momentarily.

There are three possible solutions to this concern, which is sometimes called the WAP Gap. The first is to move the WAP gateway behind the financial services firm's firewall. The second is for the financial services firm to set up a proxy server at the network's facility and establish a secure link to it using a virtual private network (VPN). A third solution is encapsulating all communications between the carrier and financial services with a public key infrastructure. All three of these approaches involve additional expenses and complexity compared to current methods. For that reason, financial services firms that are mainly using wireless networks to provide information to customers rather than to process transactions, may want to wait and give the WAP Forum, which defines the standards for this protocol, time to develop a simpler solution.

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