Issue Briefs

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Family Financial Education

The Emergence of Mobile Finance: What It Means for You and Your Community

The Emergence of Mobile Finance: Implications for Financial Educators[1]

The majority of financial payments switched from paper checks to electronic payments in 2003 and has grown ever since. Consumers have adopted a variety of pre-paid cards, debit cards, credit cards and automated clearing house (ACH) payment methods, all of which can be used remotely to make payments by telephone or on a computer. For more than a decade, people have managed bank accounts and paid bills online using home computers. The emergence of mobile phones has expanded the use of mobile devices for managing money (this includes cell phones, smart phones, tablets and other handheld computers). “Mobile banking” means using a mobile device to access a bank account, credit card account, or other financial account to make payments, check balances or transfer funds. This may include accessing the web page of a financial institution, text messaging, or using a special application (or “mobile app”).

Given this rapid shift in the marketplace, it is perhaps surprising that community based financial educators have not addressed the topic in more detail. Topics educators may find relevant for their learners include:

- How to check your account balance and how often
- Safeguarding financial account information and access
- Understanding the terminology of mobile bill payment
- Understanding timing of transactions
- Using online tools to manage spending and savings.

One reason educators may be slow to adopt content related to mobile banking and payments is due to the perception that mobile access is limited to a subset of the population. New data from the Federal Reserve Board suggests it may be time to reconsider these assumptions.

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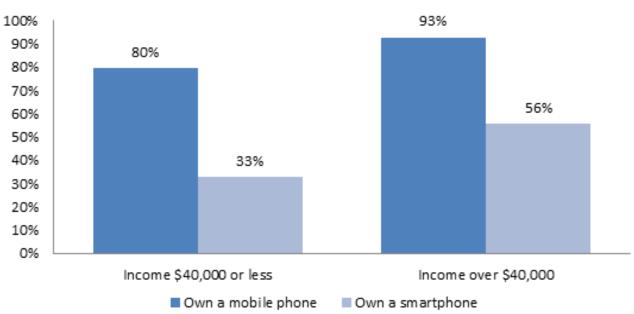
[1] The author is grateful to Maximilian Schmeiser of the Federal Reserve Board for sharing insights into the data and summarizing key findings.

The Survey of Consumers and Mobile Financial Services

The Federal Reserve's Division of Consumer and Community Affairs conducted the Survey of Consumers and Mobile Financial Services (SCMFS) in 2011 and 2012 to better understand mobile financial services. The survey of 1,328 people used a nationally representative online survey panel (KnowledgePanel). The survey was designed to follow people over a year and document how people's use of mobile payments changed.

Overall, the survey showed 87 percent of the U.S. adult population has a mobile phone. Of these, 52 percent of the mobile phones are so-called "smartphones," meaning they have applications that can dynamically use the Internet and websites. Of smartphones owners, 87 percent accessed the Internet on their phone weekly. Smartphone use is higher for people with incomes greater than $40,000, in part because such phones and mobile plans are costly. Nevertheless, about 1 in 3 people with incomes of $40,000 or less have a smartphone, and 80 percent own some kind of mobile phone, as shown in Figure 1.

Figure 1: Banked & Mobile Device Status 2012



Source: Consumers and Mobile Financial Services 2012

The smartphone vs. "dumb" phone distinction is important related to mobile banking and payments. The SCMFS shows that among all mobile phone users, 28 percent report using their phone for mobile banking in the past 12 months, and 15 report using their phone for payments. These percentages are twice as high among those consumers with smartphones. Of smartphone users, 48 percent report mobile banking, and 24 percent mobile payments in past 12 months.

People Who are Unbanked and Underbanked Do Use Mobile Financial Services

About 10 percent of survey respondents have no bank or credit union account—an estimate similar to other studies.[2] Another 9 percent are underbanked, meaning they have limited or sporadic use of a traditional checking or savings account.

Unbanked and underbanked consumers are more likely than fully banked consumers to have lower incomes and be younger, female, single, and from a minority racial or ethnic group. Unbanked and underbanked consumers are more likely to use alternative financial service providers, such as check cashers; payday, title, and pawn lenders; or rent-to-own services. About 24 percent of unbanked consumer report they do not like dealing with banks. A similar portion report they do not write enough checks to make a bank account worthwhile. About 13 percent report that the fees and service charges are too high; 10 percent report that no institution will give them an account.

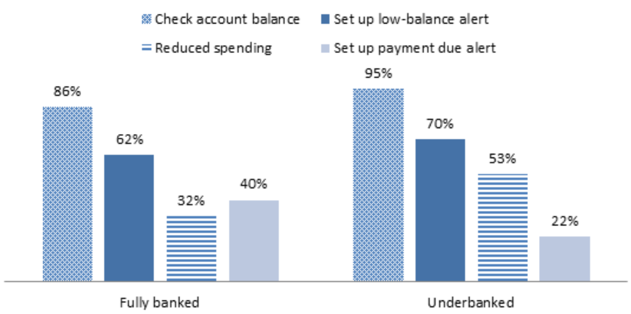
About 59 percent of the unbanked have access to a mobile phone, half of which are smartphones, and 90 percent of the underbanked have access to a mobile phone, 56 percent of which are smartphones. Moreover, 49 percent of underbanked consumers report using a mobile phone for managing payments or transfers in the past 12 months. The use of smartphones and mobile financial services increased for respondents asked the same questions in 2011 and a year later in 2012.

Overall underbanked consumers make comparatively heavy use of both mobile banking and mobile payments. Figure 2 shows how underbanked populations use mobile phones for financial management. By far the most frequent is checking balances. This includes monitoring monthly spending on credit cards, debit or prepaid cards, utilities or other bills. This is more common among the underbanked. Many users use balance alerts, again more common among the underbanked. Transfers are less likely among the underbanked, possibly because they only have one account. Underbanked households are more likely than others to have used mobile banking or expect to use mobile banking in the next 12 months.

[2]About 3 percentage points of the unbanked have access to a reloadable prepaid card, which is defined as unbanked for this study.

Although not shown the figure, 21 percent of mobile banking users deposited a check using their mobile phone in 2012—double the incidence in 2011. A quarter of all mobile users had paid bills using their mobile phone, nearly half used a mobile app and a third used text messaging, all increasing over the prior year.

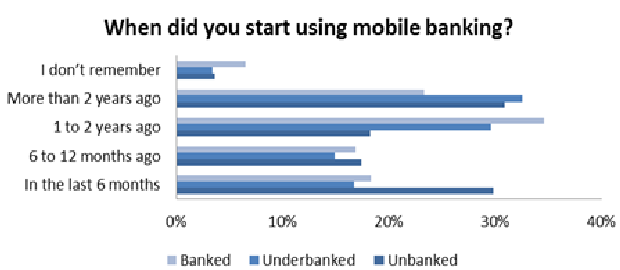
Figure 2: Use of Mobile Financial Services by Banked Status, Among Mobile Users



Source: Consumers and Mobile Financial Services 2012

Figure 3 shows how long ago people reported starting using mobile banking services. About 1 in 5 of all mobile users started in the last 6 months, rising to 1 in 3 unbanked consumers. Between a quarter and a third began using mobile banking services 2 or more years ago. Generally it seems that most people are newer to mobile services and relatively few have long histories with the technology.

Figure 3: Adoption Rates by Banking Status

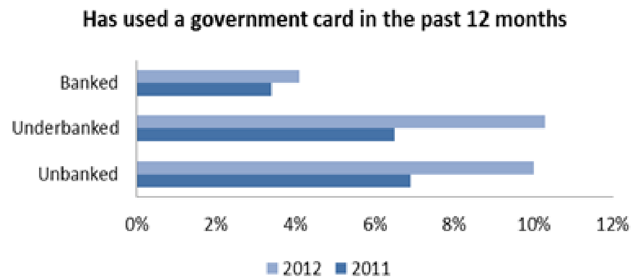


Source: Consumers and Mobile Financial Services 2012

Public Benefits

In 2010, the U.S. Treasury issued rules requiring all recipients of federal benefits to use electronic funds transfers by March 2013. People without a bank account were issued prepaid debit card as part of the "Go Direct" program. The Figure 4 survey shows that the use of government payment cards by unbanked and underbanked increased from about 6 percent in 2011 to almost 11 percent in 2012. A small portion of banked people also use these cards, perhaps as a way to manage funds and separate accounts within families.

Figure 4: Use of Public Benefits Card by Banked Status



Source: Consumers and Mobile Financial Services 2012

Using Phones in Stores

Although most mobile payments were basically online bill payments (about 42 percent in 2012), about 6 percent of all smartphone users made a point-of-sale payment using their phone. About 22 percent of all mobile phone users expressed an interest in using their phones to buy things at the point of sale. This is suggestive of an expansion of the mobile phone as the "wallet" in the future. Phones are used frequently for shopping: 42 percent of smartphone users have used their phone to comparison shop at a retail store, and 32 percent have used it to scan a product's barcode to find the best price for the item. About half of smartphone users who use their phone when shopping decided not to purchase an item as a result of checking their account balance or credit limit in the store.

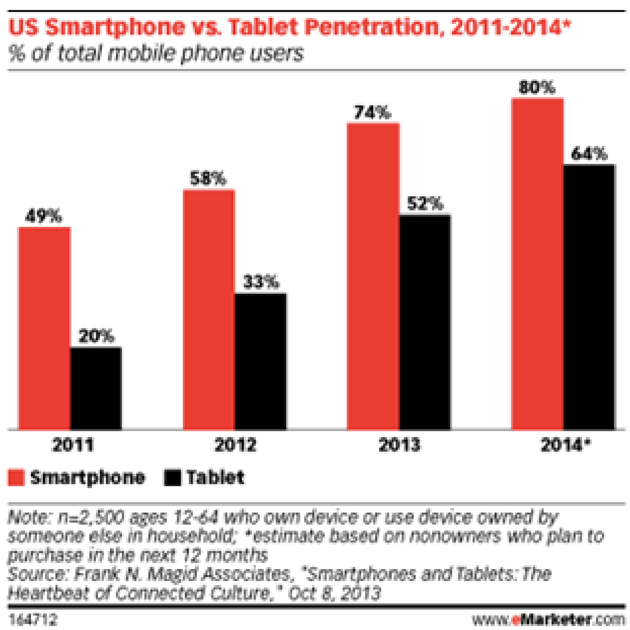
Concerns about Security

The security of mobile technology was a primary reason given for not using mobile financial services (38 percent). While use of mobile phones, smartphones and mobile banking is growing, security concerns are a major impediment to consumer's willingness to engage in expanded uses of mobile phones for bill payments and other activities. In the survey there seems to be a pattern of people being simply unsure if the technology is secure or not and if they can trust that their information will not be used inappropriately. These concerns are mainly among non-users; mobile banking users are significantly more likely to report that the technology is very safe or somewhat safe than non-users. Most financial institutions guarantee they will be responsible for any harm to a consumer from mobile banking fraud or theft. Smartphones actually present greater security concerns; simple tasks like text messaging for balances represent low risks overall.

Looking Ahead

It is clear that use of mobile technology for financial services is growing rapidly, and not just among high income consumers. Figure 5 shows projections of smartphone and mobile tablet use, with marked increases through 2014. Given the strong correlation between smartphones and mobile banking and making mobile payments, it seems quite likely more people will use mobile technology for more kinds of transactions. Financial firms will also increasingly create innovative tools for managing money using mobile devices.

Figure 5: Forecast of Smartphone Ownership



Implications for Educators

Mobile phone technology is becoming faster, more widely available and cheaper. As a result, use of mobile devices for personal finance is increasing. This is even true among the unbanked and underbanked. Educators need to understand how consumers are reacting to these changing tools and how to adapt their courses and materials accordingly. Some key considerations going forward:

- How can mobile devices be more effectively used for financial management? Do educators need to incorporate mobile tools for tracking spending, developing spending plans and balancing accounts?
- How can educators better prepare consumers to use of mobile devices for major financial decisions and searches?
- Are there ways mobile devices can be used in face-to-face education or be used to deliver education on the device itself (websites, apps, etc.)?
- How can educators help people who have negative experiences with financial institutions to adopt new technologies?
- How can consumers become more aware of security risks and ways to safeguard their financial information on a mobile device (especially as devices are smaller and easier to misplace)?
- What role might text messages, payment reminders and low-balance alerts play for younger or less experienced consumers? How might these tools be integrated into financial management strategies?

Overall, this appears to be an exciting, fast moving area. More studies in the near future are likely to provide deeper insights into how and why consumers use these tools. These technologies are becoming more and more mainstream, perhaps more common than traditional "bricks and mortar" financial services before long.

For More Information:

http://www.federalreserve.gov/econresdata/mobile-device-report-201203.pdf

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The University of Wisconsin-Extension (UWEX) Cooperative Extension's mission extends the knowledge and resources of the University of Wisconsin to people where they live and work. Issue Briefs are an ongoing series of the Family Financial Education Team. This brief was drafted by J. Michael Collins, Associate Professor in Consumer Finance and Extension State Specialist, Center for Financial Security © 2013 Board of Regents of the University of Wisconsin System.