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RETAIL REVOLUTION

T-Mobile is working with a digital bank to offer financial services

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T-Mobile and digital-only bank BankMobile are joining forces on a financial services offering for the wireless provider's customers.

Customers Bank, BankMobile's parent company, wrote in an SEC filing this week that it's been working with T-Mobile since 2016 on a new product and technology partnership. The filing doesn't spell out the type of financial product, but it offers two key details: digital account opening and "substantial subscription model benefits." Both companies declined to comment on the specifics of the agreement, like revenue share, but more information will be announced in the coming weeks, according to the filing.

With mobile banking adoption rates in the U.S. increasing (around half of banked Americans accessed their account through a smartphone last year, [according <https://www.federalreserve.gov/econres/notes/feds-notes/mobile-banking-a-closer-look-at-survey-measures-20180327.htm>](https://www.federalreserve.gov/econres/notes/feds-notes/mobile-banking-a-closer-look-at-survey-measures-20180327.htm) to the Federal Reserve), analysts say a tie-up will let the digital banking provider access millions more customers and benefit from the geographic spread of T-Mobile's store network and customer base. As the smartphone becomes a central hub for shopping, communication and the provision of services, a mobile banking product would let a cellular provider deepen its connection with its customers, and it offers potential new revenue streams.

"[T-Mobile] is in a good position to be a valuable partner in that space; they have a good distribution network and a tight connection with the customer — you're in your customers' pockets all the time," said Brian Knight, director of innovation and governance at the Mercatus Center at George Mason University.

While BankMobile currently has 1.8 million account holders, T-Mobile has nearly 73

million customers and more than 20,000 physical locations. Adding bank accounts could let the telecom provider learn more about its customers' habits, letting it "own" the relationship and personalize it more. Knight said a financial services layer could help the wireless provider access more customer data, and it opens up possibilities of carrying out banking tasks at the cellular provider's physical locations.

This isn't the first time U.S. telecom companies have played in financial services. In 2010, AT&T, Verizon and T-Mobile partnered on a mobile payments system called Softcard, which was originally called Isis, which rolled out in 2013 with financial services partners that included Mastercard, Visa and American Express. Softcard was shut down in 2015 due to low adoption; Google subsequently acquired the intellectual property for Softcard.

A partnership with BankMobile on bank accounts is seen as a smaller scale, safer bet for the telecom provider.

"This is an easy hedge back into the mobile banking [and] wallet space for T-Mobile," said Sam Maule, managing partner for North America at fintech consultancy 11:FS. "This gives them an out-of-the-box solution to offer to their customer base without exposing them to a huge amount of risk."

While the provision of financial services may seem somewhat far off in a U.S. context, it's relatively common in markets with bigger unbanked populations. For example, through a collaboration with wireless providers Safaricom, Vodacom and Vodafone, mobile money transfer service M-Pesa reportedly <https://www.cnn.com/2017/02/21/africa/mpesa-10th-anniversary/index.html> services 30 million customers in 10 countries.

BankMobile, which was launched in 2015, has traditionally focused on the student market; it has relationships with 726 university campuses across the U.S. It claims to have a lower customer acquisition cost than traditional banks at \$19, compared to hundreds of dollars for traditional banks. For T-Mobile, despite the advantages from a customer relationship and data standpoint, wading too deep in financial services is a risk. Should T-Mobile take on financial services, even with a partner, it could prompt additional government oversight. Any arrangement to share bank account data with the wireless provider would also likely be subject to a close eye from regulators.

"The devil lies in the details [and] the challenges are going to be primarily regulatory, depending on how things are structured," said Knight. "It may be regulated as a banking services provider — if something goes wrong, they may have increased scrutiny

applied to them.”

It’s a much bigger win for BankMobile, which can grow account numbers more quickly with the scale of the T-Mobile customer base, said Maule.

“It gives them a national distribution channel with a large partner,” he said. “What will be interesting is how the revenue share model for these customers works with T-Mobile and what the terms of the engagement are.”

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