Hare and tortoise

GRAHAM BUCK LOOKS AT WHY WE'RE STILL WAITING EXPECTANTLY FOR THE MOBILE PAYMENTS REVOLUTION.

Despite efforts by some players to talk up its progress, growth in the mobile payments market has been more sluggish than many anticipated according to a recently released report.

The US independent research firm IDC Financial Insights suggests that mobile commerce payment still has much ground to cover before it can make any meaningful impact on either consumers or the retail industry. It regards the emergence of a significant mobile payments market in Western Europe as being contingent on card issuers actively fostering the adoption of contactless cards, and also the increasing acceptance of mobile banking as a channel.

MINORITY SIGN UP The IDC study, Business Strategy: Mobile Payments – Waiting for Godot, is written by senior research analyst Trevor LaFleche, who analysed mobile payments in Europe, the Middle East and Africa (EMEA) and the key geographical and technological trends in each region. He concludes that even by 2015, the annual value of contactless, mobile and remote payment transactions is unlikely to be more than $125bn and, in Europe, the number of mobile handset users who have signed up to use a mobile payments service will still be below 13%.

"Mobile payments are still an emerging technology capability that will take significantly longer to bear fruit than most industry observers hope," says LaFleche. "Shifting technological foundations of what constitutes a mobile device will confound industry purists, as has often happened when a technology does not take off as predicted.

"The varied nature of existing infrastructure and consumer need will continue to split the EMEA region into three distinct segments, which will need to be uniquely served to improve the penetration of the correct payment service to the correct market."

MUNDANE AND PRACTICAL The study recommends that the mobile payments industry places less importance on using advanced technology to replace existing payments methods, and instead applies the technology to specific processes which it describes as a more practical use – albeit more mundane.

By contrast, mobile banking has enjoyed better progress – and its short-term prospects also appear to be brighter. As LaFleche notes, mobile banking and mobile payments differ considerably and are, in many cases, mutually exclusive capabilities. Mobile payments are significantly more complex, requiring more technology and infrastructure. "To this end, not a lot of banks are taking on the challenge," he says. "While there has been a lot of talk, there is not a lot of action in this space."

The UK currently lacks any wide-scale implementations of mobile payment capabilities. "While there are some services that initiate a service via an SMS service, these are very niche and do not turn a mobile into a generally acceptable payment instrument," LaFleche points out.

Mobile banking does not suffer from the same restrictions. Facilities such as statement access, account alerts and other information services require less rigorous security and authentication. They can also be provided relatively cheaply and easily through various existing mobile technologies such as SMS and mobile web.

PAYMENTS VERSUS BANKING The differing rates of progress in the UK between mobile banking and mobile payments are reflected in the fast growth reported by the British company Monetise, which was set up only seven years ago. Monetise provides the background infrastructure, via its Mobile Money Manager platform, for the major banking

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groups via the Link ATM network. Other key partners include Travelex, Ulster Bank, Vodafone, Orange, O2, T-Mobile, 3 UK, Carphone Warehouse and First Eastern.

In 2009, the company secured a five-year worldwide deal with Visa to supply Mobile Money Manager to the 1.7 billion Visa cardholders around the world. Later this year Monetise plans to extend its operations from the UK and the US to the Asia Pacific region, via a joint venture to develop mobile banking payments and other related services, initially for Hong Kong.

So how does Monetise's service currently work? "Essentially, a balance or statement request is routed from the registered mobile via the ATM network and the results formatted for display on the mobile device," explains LaFleche. He adds that the service still suffers from certain limitations, reflected in a lukewarm reception from consumers to date, but is still "a great first attempt at mass-market mobile banking".

ACCELERATION PROMISED Monetise's chief executive Alastair Lukies is, not surprisingly, even more upbeat. He says that smartphones "are completely changing the face of mobile banking" and that money management by mobile phone is becoming mainstream as users realise it requires no more than a few taps on a keypad.

"As the services become more sophisticated and comprehensive, we expect uptake will accelerate markedly," he predicts.

So the IDC study concludes that over the next three to five years the retail mobile payments industry in Western Europe will need to develop a contactless debit and credit card point of sale (POS) or "checkout" infrastructure in order to build a successful future.

The progress of many mobile payments projects will, however, be hampered by the lack of a positive business case for many players in the market.

For this reason, mobile banking will continue to enjoy much faster growth over the near term. Over the next two or three years it will "blaze a trail" and, in turn, eventually lay the foundations for mobile payments to enjoy the strong growth that has so far proved elusive.

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Box 1: Limited growth, endless promise

Mobile banking's potential to deliver complex treasury services has yet to be fully exploited, says Thomas Wiles, global head of channel management at Standard Chartered Bank. But there is little doubt that the mobile channel offers a means of extending the availability of treasury functionalities that would otherwise only be accessible within limited environments

The value proposition to treasurers of a mobile banking channel centres on two functionalities: informational and transactional. Primarily, mobile banking allows the consumption of time-critical information – whether it is instantaneous access to balance information, alerts on significant fund or market movements, confirmation of important transaction events or credit line availability – on demand, wherever treasurers may be.

Mobile technology also allows treasurers to execute financial transactions directly, either through a mobile-initiated payment or through the delivery of the necessary remote authorisation. The technology's appeal here is evident. Treasurers are often on the go at the critical moment when they need to control the disbursement of funds, and being able to do this on a mobile device is a boon in terms of convenience.

But, more than this, mobile technology can help increase the efficiency of treasurers' working capital cycles by providing a faster, lower-risk way to collect payments from their customers.

Take the fast-moving consumer goods sector, for instance, where collections are often cash-based. The introduction of mobile collection here could improve reconciliation while simultaneously eliminating a significant element of risk.

So far, corporates have been wary of becoming first adopters of the technology. Security is, of course, a concern, yet there are other key barriers that must be overcome, including some that are bank-induced. Banks' deployment of mobile technology in product silos rather than as part of a process – such as making mobile authorisation available for cash transactions but not for trade – is one example. Certainly, this is frustrating to potential users as it limits the channel's applicability and only partly resolves a treasurer's need to authorise transactions remotely.

It is also evident that treasurers want a single solution that functions across national markets, and not just country-specific solutions. Yet the differences in regulatory environments and the plethora of technology platforms across national markets make it tough for banks to provide such a solution. As such, mobile ecosystems currently function as subnational networks, lacking both efficient connections between one another and integration into larger banking infrastructures.

The success of corporate mobile banking (incorporating both the information and transaction aspects) will therefore depend on banks embracing the promise of "mobile money", and working in partnership with telcos and other players to develop common solutions that meet the needs of treasurers within and across markets.