

# M-powered payments



MOBILE PHONES CAN MAKE CORPORATE PAYMENT PROCESSES MORE FLEXIBLE, MORE SECURE AND MORE EFFICIENT, AS WELL AS IMPROVE CORPORATE SERVICES TO CLIENTS AND EMPLOYEES. **RON VAN WEZEL** EXPLAINS.



## Executive summary

The use of mobile handsets to initiate and authorise money transfers is growing and has as many advantages for businesses as it does for individuals. Possibilities include the remote authorisation of payments by corporate staff, the payment of salaries to employees without bank accounts, and the reduction of fraud in online transactions.

with opportunities in several areas such as money transfers, banking and commercial transactions (see Figure 1).

**MOBILE BANKING** In addition to payments applications (similar to internet banking), the mobile can act as a portal to a bank's financial services, allowing a corporate to streamline its payment processes. One solution that Deutsche Bank is currently rolling out is the use of mobile handsets to provide remote authorisation for payments (see Figure 2).

The payment file is prepared, for example, by a corporate's AP/AR department, while the payment itself is authorised remotely using a corporate smartphone and security token. The solution removes the constraints of geography and time, allowing payments to be authorised at any time and anywhere.

**MOBILE MONEY TRANSFER** People can transfer/remit money to others, either domestically or cross-border. Mobile money transfers have developed successfully in emerging markets where the unbanked (people without bank accounts) are using the mobile as an alternative to cash.

One promising application is in cross-border remittances, a service allowing migrant workers to send money home to their families. This is a very large market, worth \$375bn in 2008 and generating around 1.5 billion cross-border transactions<sup>2</sup>.

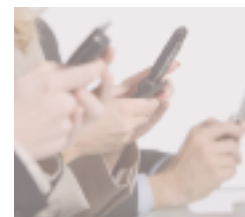
Most of these transactions are still made in cash, which is expensive and inefficient. The mobile phone allows people to remit money more easily, securely and cheaply than existing cash-based methods. Remitters load a mobile wallet (that is, a stored value account) and make payments by sending an SMS text message to a beneficiary in the receiving country (see Figure 3). The beneficiary will be notified instantly that an amount has been received and can claim the money at a local financial institution.

Companies could use the same mechanism to make a range of payments to the unbanked. One example would be whereby a company could pay its employees by crediting a mobile account, replacing the need for cash disbursements.

Though still at an early stage of development, mobile financial services – and in particular mobile payments – are increasingly popular. By 2011, it is predicted that more than 100 million people will pay for products and services using their mobile phone, up from 33 million in 2008<sup>1</sup>, and initiatives to roll out mobile payment services are frequently being announced.

While mobile payments are winning market traction, the focus has remained on consumer applications. Yet the mobile also holds significant promise in terms of corporate payments,

**THE MOBILE ALSO HOLDS SIGNIFICANT PROMISE IN TERMS OF CORPORATE PAYMENTS, WITH OPPORTUNITIES IN SEVERAL AREAS SUCH AS MONEY TRANSFERS, BANKING AND COMMERCIAL TRANSACTIONS.**



## MOBILE PAYMENTS WILL BECOME ONE OF THE LEADING PAYMENT METHODS, BUT TO DRIVE ADOPTION, THE MAJOR INDUSTRY PLAYERS WILL HAVE TO CO-OPERATE TO DEVELOP THE MOBILE ECOSYSTEM.

**MOBILE PERSON-TO-BUSINESS PAYMENTS** Mobile person-to-business (P2B) payments enable the sale of goods and services, either on the (mobile) web or in-store through contactless near-field communication (NFC) technology.

While the mobile phone can offer consumers and businesses a convenient and secure alternative to cards for online commerce, using it as a second channel for authorisation could also reduce the risk of fraud in internet-based transactions.

For payments in physical locations, a customer would tap their NFC phone on a merchant terminal enabled for contactless payments. This action would exchange payment information between, for example, a credit card application in the customer's phone and the merchant's accepting network.

The payment would be completed faster than with cash or traditional cards, providing increased revenue potential to merchants. This kind of tap and go payment could lead to the replacement of cash and is expected to significantly drive the adoption of mobile payments. The gross value of payments made via NFC for low-value purchases (such as refreshments, tickets and food) has been forecasted to exceed \$75bn globally by 2013<sup>3</sup>.

Global banks, such as Deutsche Bank, will ensure that mobile payment options are integrated in their merchant acquiring offerings, making them part of the broad suite of payment options offered to merchant clients.

New payment streams, and in particular mobile payments, are developing very fast in multiple dimensions: functionality, technology, geography, etc. Only a limited number of banks and companies will be able to keep up with these developments and others may risk missing opportunities. Deutsche Bank is developing a number of new products that will support institutional clients in offering mobile payments to their own retail base. The mobile phone will thus be integrated as a key component of Deutsche Bank's payment and merchant acquiring strategies.

Given how early we are in the product lifecycle of mobile payments, it is important to remain fully able to react to future developments. It therefore makes sense to choose a partnership approach in this space rather than making major direct investments on a proprietary basis. As an example, Deutsche Bank recently announced such a partnership with vendor Luup<sup>4</sup> to introduce mobile phone payment services to its clients across Europe, Middle East and Asia.

At Deutsche Bank, we are convinced that mobile payments will become one of the leading payment methods. Nevertheless, to drive adoption, the major industry players

Figure 1: Mobile financial services related to payments



Figure 2: Remote authorisation

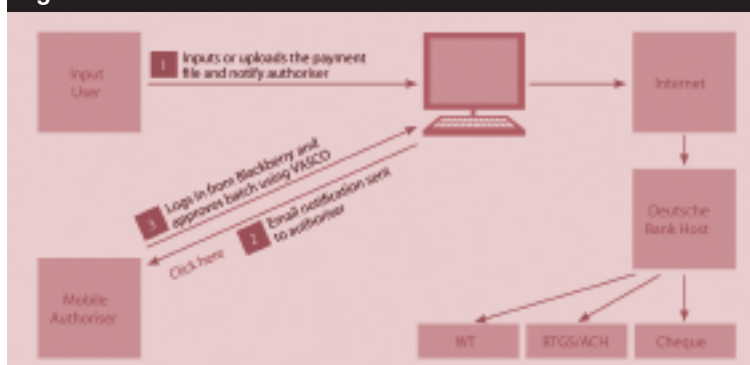
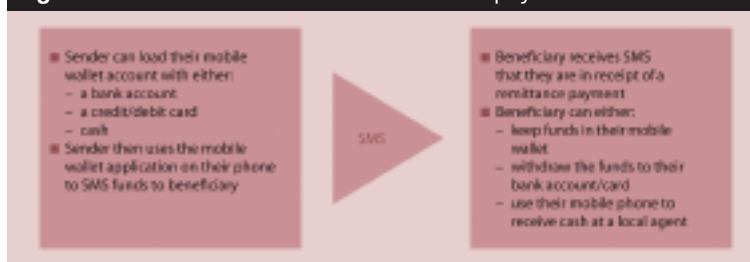


Figure 3: Illustration of mobile wallet-based payments



will have to co-operate to develop the mobile ecosystem. As an example, Deutsche Bank is chairing the Board of Mobey Forum<sup>5</sup>, the leading cross-industry group driving the development of mobile financial services. In Mobey Forum, as well as in other groups, the leading banks will discuss mobile payment developments not only with their peers, but also with handset manufacturers, mobile network operators, vendors and all parties in the mobile value chain.

However, it will be crucial for financial institutions to listen to customers to understand their key requirements. Only in this way will mobile payments be able to deliver on the promise they are showing.

Footnotes: 1 Gartner (2008); 2 WorldBank; 3 Juniper (2008); 4 See [www.luup.com](http://www.luup.com) for more information on this independent global provider of mobile payment services; 5 [www.mobeyforum.org](http://www.mobeyforum.org)

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