Mobile dreams of building an empire

THE EUROPEAN COMMISSION MAY HAVE CALLED A TEMPORARY HALT TO PROGRESS, BUT MOBILE PHONES ARE STILL SET TO BECOME A POWERFUL ALTERNATIVE TO CREDIT CARDS. **GRAHAM BUCK** HAS BEEN FINDING OUT WHY.

Plans to introduce a "mobile wallet" scheme in the UK, which its developers hoped would be up and running in time for the London Olympics in July, have been put back following the European Commission's decision to review the proposals further.

Mobile operators O2, Vodafone and Everything Everywhere (the parent of T-Mobile and Orange) have outlined plans to create a mobile payments platform. They claim that their proposed joint venture would "promote competition by bringing together the necessary scale to offer a credible alternative to the established online payments and advertising platforms offered by large US-based internet players".

However, the Commission confirmed in April that it wanted more time to examine the details.

The news comes as a report suggests that growing use of the mobile phone as a basic tool for financial transactions is having a massive impact on both the payments industry and the way that commerce is done.

"Mobile Payments Guide 2012: Insights in the Worldwide Mobile Financial Services Market", the first edition of a review of the global mobile financial services system, is produced by payments news and analysis group The Paypers.

The report observes that the mobile has quickly become established as a quick and accessible channel for users to carry out banking on the move and a sophisticated tool for price comparison, shopping and buying. Airlines, retailers and charities as well as banks are seeing an increasing volume of mobile payments. According to telecom industry analyst Juniper Research, in 2012 more than 400 million people will use their mobile for this purpose – almost double the figure of just two years ago.

The trend is taking place, according to the report, "against the backdrop of an extremely dynamic market", where new technologies continue to emerge and new business models are still being trialled. And the report points out a paradox: "Non-banking organisations seem to be leading the mobile revolution with a wide range of applications that offer multiple new payment options."

However, the authors argue that in order to gain traction the mobile payments market must persuade both merchants and consumers to "embrace" the idea of payments carried out via a mobile device. To date the concept has taken a long time to figure as a reality in merchant's point of sales and to begin building critical mass – and even longer to be accepted by consumers and start displacing established payment instruments such as cash and cards.

Sirpa Nordlund, executive director of Mobey Forum (a bank-led organisation committed to accelerating the use of mobile technology in financial services), believes that market leaders such as Samsung, Visa, O2, Vodafone and Orange have woken up to the potential of mobile payments technology and its revolutionary impact on the payments landscape. She believes that value-added services will be essential to the success of mobile financial services, but that establishing a sustainable payments infrastructure must be the first priority.

Banks will need to act quickly if they are to play a major role here, as mobile network operators PayPal and Google are already competing strongly. PayPal has said it expects to process around $7bn in mobile payments this year compared with $4bn in 2011. Banks retain the powerful advantage of an existing financial customer base, but both they and mobile network operators are reluctant to make the first move and

invest heavily in mobile financial services until they are more certain that consumers want the new service and will use it.

Nordlund suggests that in many ways the industry is trapped in a Catch-22: “Key players are waiting for consumer buy-in, but as yet there is little for consumers to buy. Demand will not arrive without market education and product availability.”

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A major brake on progress has been a concern that new payments technologies may not be secure, she adds. This could be to the advantage of banks, which are already familiar with the security issues in the existing marketplace and are well placed to reassure and educate consumers that mobile payment are as safe as other forms of transaction.

Consumers also need to be convinced that the new service offers more than just payment functionality. Persuasion will mean offering value-added services such as coupons, discounts, marketing, ticketing and other new mobile services that reward users with benefits not available elsewhere.

Patrick Desmarès, secretary general of the European Financial Management Association (EFMA), points out that banks fear that mobile payments will diminish their role in the payments value chain – particularly as they have been crowded out by other players in online payments. Although banks cannot afford to be left behind in the mobile revolution they “face the prospect of making a sizeable technology investment only to become a funnel for funds at the start or end of the process while taking less value from the payment”.

Desmarès adds that a well thought-out mobile strategy will enable banks to create “differentiating and distinctive” propositions for customers that can deepen relationships and enable them to cross-sell, rather than simply defend their market share. He offers examples of banks that have adopted a proactive strategy such as Mercantile Bank in the US, which has partnered with PayPal to offer mobile payments, and Spain’s Banco Sabadell, which provides a 24-hour service on social media sites such as Twitter and Facebook and a feedback platform enabling customers to suggest ideas. Banks “need to choose whether they want to lead, shape or follow the mobile market”, concludes Desmarès, and mobile payment services built through strategic partnerships could be a good way to do so.

Roger Peverelli and Reggy de Feniks, joint authors of the book Reinventing Financial Services, believe that consumer resistance to mobile payments is disappearing thanks to the transparency and simplicity it offers users. “To access a bank account via a laptop takes one minute and five steps. Via the mobile app it takes only 10 seconds and two steps,” they say. “This simplicity enforces the perception of being in control – exactly what we like to be.”

Peverelli and de Feniks say that there are other reasons for banks to want to play a central role in the take-up of mobile payments. One is the expense of managing cash, which is “dirty and hard to handle”. Although cash continues to play a natural role in much of the world, people will steadily overcome their resistance to mobile payments; indeed, it has not been an issue outside the more developed economies, with efforts to “bank the unbanked” through mobiles taking off through initiatives such as Smart Money and G-Cash in the Philippines, Wizzit in South Africa, M-Pesa in Kenya and Yoban’tel in Senegal.

Banks can also help consumers to restrain their greater tendency to impulse-buy or overspend when paying through a mobile instead of using cash. “Smartphones offer banks a lot of opportunities to help consumers in an agreeable way to control their emotional brains, and their inclination towards instant satisfaction when necessary,” suggest Peverelli and de Feniks. Some banks are already doing so by providing popular digital budgeting tools.

The duo add that a common denominator for both banks and insurers in achieving success in mobile payments lies in helping the user, who “should be given insights, information and opportunities that help him in specific moments or places during his day. Mobile phones give financial service providers the opportunity to be close to their customers and even become part of people’s lives, right where it matters the most.”

Achieving standardisation across mobile payments systems is another challenge. Lorenzo Gaston, technical director of the Smart Payment Association (SPA), says that successful mobile payment mechanisms depend on the interoperability of all devices, from handsets to point-of-sale terminals.

Such harmonisation requires openness. However, a high level of openness also means codes are more likely to be exposed and gives fraudsters greater potential to move in.

The SPA, which has produced a white paper entitled Security for Mobile Payments, believes that the European Payments Council’s work to create a Single Euro Payments Area (SEPA) for all payments instruments is crucial in developing appropriate international security standards. It also supports the certification of the security mechanisms being implemented by different payment processing devices and the development of a formal, standardised requirement for all mobile phones, smartphones and tablets.

“The computing power of today’s smart devices makes them suitable for the deployment of advanced user authentication technologies, including biometrics,” says Gaston. Among the mobile payment initiatives being launched in Europe are the WalletXpress mobile wallet service developed by Siemens, the German direct carrier billing service Mpass developed by PaymentOne and Telefónica, the UK’s Quick Tap contactless payments service developed by Orange UK, Barclaycard, MasterCard and Gemalto, and the Russian joint venture RuRu from Alfa-Bank and VimpelCom.

Visa Europe and Mobile Money Network (MMN) also plan to launch a number of m-commerce initiatives during 2012 for retailers using MMN’s instant mobile checkout, Simply Tap, which lets mobile users identify and purchase products which are delivered to their home.

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