The double-edged sword of m-payments

Mobile payments pose a dilemma for banks; opportunities exist to be exploited, but banks risk cannibalising their existing payment systems. Before banks can benefit from the mobile channel, however, issues such as consumer trust and infrastructure integrity need to be addressed. **Jane Cooper** reports

Unlike developing markets, where mobile payments provide an alternative to cash for the unbanked, the benefits of introducing m-payments for banks in developed markets are not so obvious.

South Africa's Wizzit, a division of The South African Bank of Athens, has been successful in signing customers up to managing their accounts from their mobile phones. Brian Richardson, Wizzit's managing director, tells *Lafferty Cards Insider* that this form of payment is popular because of the lack of alternatives. "In the developing world, there has been only one channel: cash," he says. The developed world will catch on to m-payments, but not with the same vigour due to the numerous payment alternatives already available, he adds.

M-payments are not restricted to one type of service, points out Howard Wilcox, a senior analyst at Juniper Research. Unlike Kenya's M-PESA or South Africa's Wizzit, which are mobile money transfer schemes, the current opportunities in developed markets are more varied. While m-payments in developing markets primarily have the potential to move towards banking and bill payments, the starting point for m-payments in developed markets is more complex.

Banks in established markets have the dilemma of whether or not to develop the technology for m-payments. Wilcox points out that there has been a lot of infrastructural change recently with the incorporation of chip and PIN for card payments in the UK. He adds that while there is the "double-edged sword" of developing mobile payments, banks have the chance to "embrace the opportunities". Wilcox gives the example of Bank of Ireland, which successfully launched its SMS top-up programme with Vodafone to create another revenue stream for the bank. With this service, customers can top up the credit on their mobile phone with funds from their current account by sending an SMS text message. They can also add funds to a friend's phone and the text message is validated by a service SMS that asks for two numbers from the PIN. A confirmation text is then sent with a reference number.

Mobile phones can also be used for transferring funds, paying bills, managing existing accounts, or paying for small purchases. "There is no limit to what m-payments will replace," says Elton Birden, vice president of financial services in the UK for technology solutions provider Unisys.

Wilcox agrees and describes m-payments as a wallet replacement, offering alternatives for all the items that consumers typically carry in their wallets. "Not many people leave home without their mobile phone these days. So once people get over that psychological barrier – once they realise that they can use their phone for lots of other things – it has great potential."

It is not just banks that are looking at the payment options. Considering that 65 percent of mobile phone accounts in the UK are prepaid, or 'Pay As You Go' (PAYG), there is also the potential to combine prepaid cards or accounts with mobile phones. Since so many consumers are used to PAYG on their phone, there may not be much of a jump between using prepaid for payments and combining this with the function of their phone.

Many consumers in developed markets already have a debit and credit card, so do not have a need for a prepaid account. "The new method has to be a lot smarter," says Stuart Butler, head of business development at Altair, which is developing products that combine mobile and prepaid functions.

It is either the young or the wealthy who are the first to adopt new technology, Butler explains. While PAYG mobile phone accounts could be used for small purchases, telecommunications companies are not as likely to develop m-payments. If mobile operators are taking deposits that are spent elsewhere, they would then be subject to banking regulations.

"Banks are leading the innovation in m-payments at the moment," says Butler. When pitching Altair's products to banks, Butler has found that they already have an innovation schedule that is full up until 2011. He explains that m-payments would operate on the same 'rails' as the banks' existing payments. "Wizzit and M-PESA had to create a different cash network, which was not on any existing rails of the payment network," Butler adds.

Birden also points out the opportunities presented by the similarity of the back-end processing of both banks and m-payments. "There are often very similar payment systems at work, whether it is debit card, credit card or internet payment processing." The challenge for the banks is ensuring that the back-end processes are secure, more so than focusing on the payment device itself.

"It is the back-office side where there is a lot of potential for fraud – that is where the fraudsters focus properly," says Birden. The banks stand to gain the most from m-payments, he adds, because they already have the means to add and subtract funds from existing accounts.

Concerns about security are the major reason that m-payments have not so far been adopted widely by consumers in developed markets. According to the Unisys Security Index, which was released in May, Britons remain apprehensive about the security of using mobile phones to pay for bills or to do their banking or shopping online. According to the study, of those surveyed, 80 percent were not keen on using their mobile for financial transactions. Only 5 percent of UK residents consider m-payments to be secure.

Birden explains that there is only an uptake in new forms of payment when it is convenient and straightforward, and when the consumer trusts the medium. With cheques and cards, for example, "the consumer trusts that they are not going to get ripped off or have their identity stolen", he says.

Birden expects m-payments to follow a similar path to internet banking, which many consumers were very wary of at first, but then became increasingly comfortable with it. "The same will happen with m-payments," he says. There are still consumers that will not use online banking, and likewise, m-payments will not completely replace existing payment methods.

The challenge is making the payments trustworthy with verification processes that are not cumbersome: "There is a constant need to strike a balance between making something easy and making something secure," says Birden.

In terms of consumer uptake, "there have been a series of false dawns", warns Butler. "Consumers are not ready to pay for things with their phones." The technology is already well-developed, but consumer up-take is lacking: "There is a lot of clever stuff out there," says Butler. This includes using a WAP browser, which simplifies the functions of an internet browser so that it can be used on a mobile, to buy small items such as ring tones.

Some segments, however, could adopt m-payments technology quicker than more general consumers. For example, Butler points to the potential of the remittance market. Migrants, who are typically the prime consumers of prepaid international calling cards and international SIM cards, are likely to be sending money home. Money transfer agencies like Western Union are developing prepaid cards as a means transferring money. If money is loaded onto a card in another country, the payment is quicker and the funds can be withdrawn from an ATM or spent on an open-loop payment network, such as Visa and MasterCard. A further development stage of this technology would be to develop mobile-to-mobile funds transfers.

This, however, is a niche market and similar technology could be used more widely. Butler says that a travel product will be introduced this year that combines a prepaid currency travel card with mobile functions. The prepaid card would replace the need for cash, travellers cheques and debit and credit cards. Consumers would be able to monitor the funds available on their prepaid card via SMS text message. They would also be able to block or top-up the account by SMS.

Mobile phones in developed markets are likely to be used to replace internet banking, whereby money is transferred between bank accounts. For example, parent-child transfers may be popular in moving money between accounts by text message.

Considering the rapid growth in the use of mobile phones in the last ten years, the opportunities for m-payments are vast. There is also potential with near-field communications (NFC) technology, which enables contactless payments of small amounts – typically under £15 ($30).

The degree to which NFC m-payments will become widespread is as yet unknown, but the industry is eagerly awaiting the results of the O2 Wallet trial – the m-payment trial which includes Oyster card functionality for London's transport network. Passengers tap their mobile phone against the contactless reader in the same way as an Oyster card to pay for each journey.

The NFC technology also includes the function of a Barclaycard credit card on the phone. It is anticipated that this will result in consumers using their mobile phones to tap for small purchases. NFC technology also allows users to pick up downloads such as ring tones and wallpapers by tapping their mobile against Smart Posters – interactive advertising that contains a chip.

In the Netherlands, supermarket chain C1000 trialled a similar payment scheme where customers could pay for goods using their mobile phones. The trial of 100 consumers was reported to be a success, with all age groups adopting the technology.

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>
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At present, only a small percentage of people are aware of the potential of contactless m-payments, says Wilcox.

The greatest challenges are the infrastructure for the payments and the availability of the NFC phones. Wilcox says that the industry consensus is that there will not be substantial numbers of NFC phones in the market until 2010 or 2011.

Regarding whether m-payments are an alternative payment or the way of the future, Wilcox says: "I think it will certainly start out as an alternative. Once consumers have overcome their initial concerns about security and have become used to the technology, there is a lot of potential."

For now the uptake is not widespread, but as consumers get over their fears, the potential could be realised. With the various applications of m-payments, it is likely that they will replace parts of all types of payments and will not necessarily cannibalise banks' existing payment systems. ●