‘MOBILE CHECKING' DOMINATES BANK MOBILE PAYMENTS THUS FAR

Will banks or new players drive the broader revolution?

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With all the buzz surrounding mobile payments, it can seem nearly impossible to keep up with new developments. Software companies such as Google and PayPal (and perhaps even Apple) and wireless providers such as AT&T, T-Mobile, and Verizon have all announced ambitious plans to make cash, credit cards, and even wallets obsolete.

Instead, smartphones with near-field communications (NFC) technology look to become a "virtual wallet," enabling consumers to pay for purchases with a tap or a wave at a sensor. The race is on for companies to develop reliable and secure payment technology and build the networks necessary for these services to become viable alternative forms of payment.

The role to be played by the retail financial services industry in the development of mobile payments remains unclear. Having already experimented with contactless payments using radio-frequency identification (RFID) transactions, credit card networks such as Visa, MasterCard and American Express are working to keep up to date with this cutting-edge technology.

Those firms, along with a number of banks and credit card issuers, have become partners in NFC ventures, eager for a piece of the action if it does fulfill its promise and become the standard means of payment. For instance, Google Wallet will initially support only Citi MasterCards. American Express and Bank of America have also taken a more proactive role in starting their own mobile payments networks.

"Mobile Checking": P2P payments dominate current mix

Corporate Insight's recent report, Money on the Move: Mobile Finance Review 2011, explored the current state of mobile finance and discussed the spread of new technologies such as tablet PCs, remote deposit capture, and, of course, mobile payments. In doing our background research, we saw plenty of headlines from the banking industry about advanced virtual wallet concepts. But when it comes to current mobile offerings from major banks, capabilities were much more modest.

What banks currently support in terms of mobile payments are generally peer-to-peer (P2P) payments rather than retail point-of-sale transactions. P2P payments seem designed to replace checks, rather than credit cards. Thus, they are better suited as a currency for simple transactions, such as squaring debts between friends and family, than paying for expensive consumer purchases.

As with other transaction capabilities such as ACH transfers and bill pay, P2P payment tools in mobile banking apps tend to be streamlined versions of what's available online. While half of the firms that Corporate Insight's Bank Monitor covers offer some form of P2P payments online, only Bank of America, Chase, ING Direct, US Bank, and Wells Fargo extend those capabilities to their mobile platforms for on-the-go payments. And even with those firms, advanced features, such as adding new recipients or setting up recurring payments, are often confined to the private site.

This April, ING Direct added an interesting P2P payment method to its mobile apps. With its Bump payments, Electric Orange checking clients can instantaneously send money to each other simply by tapping their phones. This payment technology works exclusively with mobile devices, making it unique among mobile tools launched by banks themselves.

Who will take the wheel?

To date, banks have not taken the lead in the development of mobile payment technologies. Within mobile banking apps, all we've seen to date are P2P payment tools, and even ING's aforementioned Bump payments use technology first popularized by PayPal.

The future of NFC technology most likely depends on software or wireless specialists, albeit with the potential support of deep-pocketed financial institutions. As competing mobile payment initiatives take form, the major banks and credit card issuers have lined up as partners. Even in secondary roles, these firms hope to influence and, perhaps, cash in on the trend.

The September ABA Banking Journal cover story will look at the developing digital wallet. Subscribe to our Digital Magazine eletter, which features top story summaries and links to full articles in graphic format.

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