

Cash isn't king anymore; long live POS

The week brings yet another round of insights that point to the inevitability of new forms of mobile payments, this time involving NFC, PayPal, and the question of how financial institutions relate to the whole issue.

For one thing, there must be a better way than using the old dead presidents. That's what people told MasterCard as it conducted a survey regarding the use of cash vs. electronic methods of payment.

For example, the survey found that people experienced frustration: by trying to get a vending machine to accept a crumpled bill (63%); waiting days for a check to clear (40%); waiting for people to find exact change (40%); and finding the time to get to an ATM (29%).

"And in spite of the fact that ABC News has reported 94% of bills carry bacteria, one in two Americans admitted that they don't typically wash their hands after handling money," the survey breathlessly reports.

In fact, people do seem to be finding better ways. Again, the MasterCard survey finds that 73% of Americans say they use less cash today than ten years ago, using credit, debit, and prepaid cards, contactless payments, and other electronic apps.

Gartner finds much the same sentiment in its own global analysis. It says worldwide mobile payment transaction values will surpass \$171 billion in 2012, a 62% increase from 2011 values of \$106 billion. It says the number of mobile payment users will reach 212 million in 2012, up from 160 million in 2011.

"We expect global mobile transaction volume and value to average 42% annual growth between 2011 and 2016," says Sandy Shen, research director at Gartner.

So far, though, most of this mobile payment activity has been through the tried-and-true SMS or text-messaging form of delivery. The much-ballyhooed near field communication method is still on the horizon, Gartner says—although it's getting nearer all the time.

"NFC payment involves a change in user behavior and requires collaboration among stakeholders that includes banks, mobile carriers, card networks, and merchants," says Shen. "It takes time for both to happen, so we don't expect NFC payments to come into the mass market before 2015."

2015. So we have two and a half years to go.

That meshes with findings by the Smart Card Alliance, which just concluded its NFC Solutions Summit in San Francisco. Executives from MasterCard, Sony, Intel, Wells Fargo and others, in a wrap-up release, conclude "NFC is coming soon, and when it does, it will enable a broad array of applications that will enhance the consumer experience at the point of sale and in everyday interactions."

The journey to NFC is in the "middle stages" and NFC is "getting well along the way to mass market adoption," says James Anderson in a keynote speech. He is senior vice president for mobile and emerging payments at MasterCard.

But there is more to mobile payments than NFC. Much more.

Gartner says merchandise purchases will drive transactions in North America and Western Europe, much along the lines of the model successfully demonstrated by Starbucks. Gartner, in fact, says it "expects a large number of merchants to introduce their own mobile payment services, trying to emulate Starbucks' success."

Probably not by coincidence, MasterCard almost simultaneously issued what it calls a "mobile point-of-sale program to provide guidelines to expand card acceptance for small- and micro-businesses." Once again, Anderson is quoted in this announcement: "The boom in mobile devices provides a huge opportunity for innovation across all industries, including payments. With nearly 6 billion mobile subscriptions around the world, there is tremendous potential to grow merchant acceptance. It's imperative that manufacturers, vendors, and merchants maintain the highest standards to enable a seamless and secure purchasing experience."

Of course, this may or may not be of passing interest; after all, it seems focused on the merchant level. What's it have to do with banks?

Here's one thing: Just a couple of weeks ago, the point-of-sale manufacturer Ingenico partnered with Vantiv, a leading provider of payment processing services and related technology solutions for financial institutions of all sizes. Such devices are set up to seamlessly accept EMV, NFC, contactless, and traditional magnetic strip cards.

“We are prepared to arm financial institutions and merchants with POS devices that are ready and capable to accept any type of transactions that their business demands today and in the future,” says Bill Weingart, chief product officer at Vantiv.

Sounds like fighting words. And it’s pretty interesting, considering that in January, this same Ingenico announced it had partnered with PayPal to enable merchants with Ingenico POS devices to accept PayPal payment options.

“PayPal’s vision for the future of shopping includes people making purchases anytime, anywhere, and over any device,” says Don Kingsborough, vice president of retail and prepaid products at PayPal.

There’s more. Again, just a couple of weeks ago, VeriFone and then Equinox, both manufacturers of merchant POS equipment, announced similar partnerships with PayPal. Their strategy is pretty apparent:

“VeriFone’s extensive customer base and strong technology make it a natural ally for PayPal as we continue to deliver on our strategy to bring intelligent electronic payments and value-added offers to brick-and-mortar stores,” Kingsborough says in one release.

“As PayPal continues to expand into the brick-and-mortar retail world, we are pleased to join forces with industry leaders such as Equinox,” he says in another release.

So here’s this nonbank colossus seeking to elbow its way onto merchant counters next to the already present credit and debit readers linked to financial institutions. Its devices could be set up to use a plastic PayPal card, or the consumer could just provide a mobile phone number and PIN.

Back to the original question: Why use cash, or for that matter, a hunk of plastic?

In a recent blog from Celent, its researcher Zilvinas Bareisis, weighs into PayPal’s approach to in-store mobile payments. He provides an interesting summation and asks some good questions:

“PayPal understands very well that scaling up the merchant relationships on a global basis is going to be the hardest task in creating a truly universal payments scheme. That could be one of the reasons why PayPal continues to position itself as a ‘bank’s friend’—it understands how difficult it would be to achieve the necessary global scale on its own. However, that would require it to ‘open up the scheme’ and go from a three-party to a four-party model. Would PayPal be prepared to do that? Would banks be willing to join in?”

Sources used in this article include:

Ingenico Launches New PayPal Payment Solution, Expanding Consumer Payment Choices in the USA

Ingenico and Vantiv Partner for EMV, NFC Mobile and Secure Encrypted Payments in U.S.

PayPal’s March Into the High Street

Equinox Payments Teams with PayPal for In-Store Checkout for Large Retailers

Gartner Says Worldwide Mobile Payment Transaction Value to Surpass \$171.5 Billion

Survey Examines Shift Towards Cashless Society — Americans Use Less Cash Today Than 10 Years Ago

MasterCard Mobile Point-of-Sale Program Provides Guidelines to Expand Card Acceptance for Small and Micro-Businesses

Payments and Consumer Technology Leaders See Mass Market Ahead for NFC

VeriFone and PayPal Sign Pact to Bring Alternative Payments to Large Retailers

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