

Another take on mobile payments

Cash is no longer king. Sound familiar? We the phrase just two weeks ago in this space. But here it is again, included in the title to Javelin Strategy & Research's latest report: 2012-2017: Retail Point of Sale Forecast: Cash Is No Longer King.

Actually, the report notes that cash is consumers' most widely used method of payment, but debit cards have the largest share of the retail point of sale market by purchase volume, followed closely by credit cards. In fact, debit and credit cards are likely to continue to further pull dollar volume from traditional paper-based payment options, namely cash and checks.

Coming over the horizon is yet another payment contender—mobile. The mobile POS payments market is forecast to jump to \$1.4 billion in 2017 from \$365 million in 2012, Javelin says.

This pretty much jibes with a similar estimate by Visa, which found that the total global volume of mobile payments in 2011 was \$240 million, and is expected to reach \$670 million by 2015.

Back to the cards, though, for a moment. "Financial institutions are investing in prepaid cards, which are becoming a more attractive option to consumers," says Beth Robertson, director of payments research at Javelin. "Unlike gift cards, prepaid card features and functionality have evolved to be comparable to traditional demand deposit accounts. Prepaid cards often include features like advanced account management, bill-pay capabilities, and a linked savings account, providing consumers with more choices and greater flexibility."

Which leads to an interesting possibility—the combination of cards and mobile.

That's what is suggested in a white paper available at the Transcard website, titled Three benefits of mobile payments. (Transcard is the provider of ABA's Business Solutions community bank prepaid program.)

The white paper was sponsored by Custom, an Italian-based provider of RFID (radio frequency ID) technology. It offers a product called Fidelity that includes both prepaid cards and a mobile app. The customer can load money onto the card, which is embedded with an RFID chip. The app can read the RFID chip and tell the customer how much money is available on the card. The customer can then use either the card or the Fidelity app at the point of sale, wherever that may be.

It's an intriguing twist on the mobile payment development saga. Chiara Ottini, of Custom's marketing department makes a good point: "It's so much easier than a wallet. After all, you may forget your wallet, but everyone remembers to take their phone when they leave the house. And this way, you control how much money is loaded onto the card, so it's easier to budget."

Besides convenience, the white paper touts targeted marketing and security as the other benefits of mobile payments. Craig Fuller, Transcard CEO, says RFID readers can determine how much money is left in a customer's debit account. If the amount is low, targeted messages can be sent to the customer about financing options within the store.

In addition, once customers opt in, businesses will be able to keep track of their purchase history and then send suggestions and/or coupons that fit with what they are likely to be interested in.

As for security, "Mobile payments are and will be more secure than carrying cards in your wallet," says Dan Trigub, CFO of Blue Bite, a mobile payments provider. Unlike a card's magnetic stripe, the customer's information is stored on a separate chip within the phone and the data is encrypted. Also, if a person loses a wallet, each card company has to be called individually—with RFID, they all can be notified simultaneously. Add to this that the average consumer takes longer to realize he or she has lost a wallet, compared to knowing about the loss of a mobile phone.

It's an interesting series of observations about how and why mobile payment technology may develop. Cards, though, are not going away soon. Back to the Javelin report, it concludes that the improving economy will continue to drive a revival in credit card use and, by 2017, the retail POS share of credit cards will match the market share of debit cards. At the same time, prepaid card use will increase, especially among the underbanked and Gen Y.

Jim Van Dyke, president of Javelin, puts in into perspective: "Mobile proximity payments will remain in infancy for at least five years. But, industry-wide investments and the rising adoption of mobile phones and tablets by consumers will propel the growth of mobile POS payments. Mobile payments could be a future game changer for the retail POS market."

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Sources used for this article include:

Javelin Research: Cash Is No Longer King

Three Benefits of Mobile Payments

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