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Mobile money the next revolution

The next 18 months offer huge opportunities for financial services companies to make more headway providing contactless card and mobile payments, reports MARIANNE CURPHEY



Gerry McQuade thinks of it as ground-breaker, "a cultural shift that's as important as the launch of the personal credit card or the ATM". He's talking about the imminent launch of the first contactless mobile phone payments solution for UK consumers in a strategic partnership between Orange and Barclaycard. And, as Chief Development Officer of Everything

Everywhere, which runs Orange and T-Mobile, McQuade's excitement is no surprise.

Orange and Barclaycard customers will be the first to use their mobiles to make payments on the high street wherever contactless payments are accepted, he explains. And he says it's only the start of their wider strategy quite simply "to re-define what people use their mobiles for".

David Chan, CEO of Barclaycard Consumer Europe, predicts an "explosive growth" in mobile payments. And the search now is to find new and better ways for consumers to make and take payments in their everyday lives. "As payment experts," he says, "our role is to make it easier, more convenient and incredibly secure for people to make purchases and manage their money while on the move."

MasterCard will provide the payment capability for the contactless mobile transactions. There are now 11.6 million contactless credit and debit cards already in circulation, of which over 10 million have been issued by Barclaycard and Barclays. And there are already 42,500 live Barclaycard contactless terminals in retail outlets including Pret a Manger, EAT, Little Chef and, soon, Co-op.

For financial services companies on the threshold of this payments revolution, though, one intriguing question is about the ultimate corporate beneficiaries – the banks as they expand their customer base, or mobile operators as they muscle in on traditional banking territory?

"It is more of a commercial challenge than a technical challenge," argues Paul Makin, Head of Mobile Money at independent digital payment consultants Consult Hyperion. The technology is well understood, allowing contactless card payments to become directly portable with a mobile phone using near field communication (NFC) short-range wireless technology, albeit with some extra software on the handset.

But the larger challenge is the commercial one, he says – "the need to negotiate an agreement between a mobile operator and a bank; sorting out the commercial complexity has proved more difficult than technical issues." Current activity between mobile operators and banks he describes as a "land-grab" as they compete to set up one-to-one relationships with each other that they hope will endure.

He prefers to see the development of contactless cards and mobile payment as an

"Everyone assumes that under-25s rule the roost when it comes to technology. But they don't have any money. It's the 25-50 age group, who grew up with technology, and are the decision makers in business. They have money, they want life to be easy because the majority are busy parents and they don't want lots of different passwords and pin numbers. They want to press a button and make a purchase."

It's time, he says, for banks to think outside the box to differentiate themselves from competitors. "What if Barclays offered a free iPhone with every account opened and your SIM card was your credit card?" Banks need to seize the initiative now, he says, because of the critical marketing environment in which they now find themselves: there's Google's Nexus S phone with NFC, the much-awaited launch of the iPhone 5 which may or may not have NFC, and Simply Tap, a joint venture between Monitise, Best Buy Europe and Carphone Warehouse.

towards becoming a bank and requires an understanding of risk and fraud management as a financial player rather than a telco."

Rupert Kainzbauer, Head of Issuing at Vincento Payment Solutions Ltd, says financial services companies need to be ready to both drive and support the growth curve in mobile payments. But he warns: "With any new technology, there's a risk despite support of big names. Companies have to consider whether they can afford to support this new technology in preparation for their future business, but without being distracted from their short-term business."

It's positive for Barclays to be seen as "innovative and forward thinking" in an industry that's not renowned for these qualities, he agrees. "They're clearly establishing a lead with contactless, but will they be able to retain this, when companies like Tesco or Apple enter the market, given the success they've each achieved?"

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STEVE DOBSON, HEAD OF DESIGN AND INNOVATION, ANSWER

opportunity for financial services companies to differentiate themselves and expand their range of consumer services. "With mobiles, for example, people tend to expect things to be immediate. They're not really willing to wait three days to see the item they've just bought turn up on their bank statement. There's potential for banks to offer much higher quality information to customers – and to allow them to manage their accounts in real time.

"Or they could offer instant issuance: so, if you lose your plastic card you get a new working card on your phone within half an hour of reporting it. This is about Barclays gaining experience with customers and understanding how customers use this particular product and how use differs from ordinary plastic cards. In 18 months, when contactless cards are linked to current accounts, Barclays will have had much more experience."

But Steve Dobson, Head of Design and Innovation at mobile technology strategists Answer (clients include Lloyds, Skipton, Yorkshire BS and NatWest), thinks it's a mistake trying to predict customers in demographic terms. "What's important is to understand customers' physical shopping habits, not age or demographic profile," he insists.

Dobson believes that the threat to banks comes not from mobile operators moving into their territory, but from mega-companies like Apple, Google and Amazon with their huge cash flow and extensive customer databases. "Apple is a few steps away from being the biggest company in the world. It has more cash than any bank so it would not be difficult to get a banking licence, and the threat of Apple becoming its own banking service is very real.

"Best Buy, Apple and Google all have clout and they're all in direct contact with the end user. Every bank is watching to see what the other banks are going to do – but while they wear their poker faces, the retailers are snapping at their heels."

Neil Dennington, a principal at AT Kearney, a global management consultancy, imagines a scenario in which mobile operators become full payment operators with the capability to clear transactions. However, this does depend on the size of a mobile operator's risk appetite. "It takes them further away from their traditional core competency



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