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Mobile Money & Payments 2.0: Why credit/debit card issuers should embrace mobile delivery now

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Abstract:

While banking and payments are interrelated, when it comes to the rollout of mobile finance in North America, they will arrive in two distinct phases. As we discussed last month (*OBR 138/139*), the information about payments, what we call mobile banking, will lead the way with real inroads occurring this year.

On the other hand, significant adoption of actual payment transactions, either remotely or at the point of sale, i.e., mobile payments, is still years away. Why? Delivering banking info to the mobile device is far simpler than enabling the phone for payments.

Eventually, mobile device-based transactions will surpass card-based transactions. But even then, consumers are likely to return to the desktop PC to manage payment accounts, set up payments, analyze spending, and interact with the card issuers.



Table of Contents

Mobile payments terminology	2
How the market is expected evolve	3
Market research	6
Forecast: 2007 to 2016	8
mPayments product design	12
1-way info delivery	14
2-way info exchange	15
Money movement.....	17
Business case	20
Marketing: Putting it all together for target segments	
Road warriors	22
Call center users	24
First job	25
Students	26
Un- and Underbanked	27
Mobile payment services	
United States.....	28
Worldwide.....	37
Innovations	
Obopay wins Best of the Web...	30
PayPal Mobile voice recognition	35
Buxfer pioneers new features...	40

Does this mean it's too early to worry about mobile payments? Absolutely not. Financial institutions today can and should use mobile information delivery to enhance the credit/debit card experience and reduce fraud. Not only does this differentiate your payments cards, it readies your customers for the eventual convergence of the mobile device and payments card.

In our Mobile Payments Report, we'll look at the how the market is expected to evolve and how financial institutions should position their mobile offerings. A 10-year market forecast for the United States is included.

Sample Page

MOBILE BANKING

Why mobile payments take hold in the next decade
 Although we may not see a lot of progress in the United States this decade, we are absolutely convinced that during the next decade the mobile handset and debit/credit card will converge into a single device. Why? Because it's already happened in Japan and the benefits are numerous:

- Better security:** The cost of fraud in today's payment system is unmanageable, usually running a couple hundred points on average. But it's still a multi-billion dollar line item that causes substantial headaches for both issuers and cardholders. So real-time two-way interactions with cardholders at the point-of-sale promise to be a welcome improvement that would lower costs and boost customer/merchant satisfaction. The fraud-reduction capabilities of mobile payments, e.g., with the device helping secure the transaction through voiceprints, PINs, etc., may be the single biggest adoption driver.
- Integrated messaging** allows users greater control over their payments.
- Mass transit systems need it** to lower costs and improve rider payment compliance.
- Two-way communications** allow users to categorize transactions in real-time as they are made.
- Mobile marketing**—think coupons—will ultimately subsidize their cost to the end user and/or merchant.
- It will be the **cool way to pay**.
- It works on common phones:** Even low-end phones can be payment-enabled as the chip is a relatively trivial manufacturing cost.
- The youth movement:** The majority of younger cellphone owners already use text messaging; with adoption currently standing at 70% (see Table 2, p. 6). We expect many of these current users to quickly take to texting the bank or card issuer for a quick balance check, especially before using a debit card, which can trigger expensive overdrafts if used beyond the available balance (see *N.Y. Times*, Apr. 1, 2007, which describes the consumer frustration with debit card-induced overdrafts).
- Voice control:** The future user interface for computers will increasingly be voice controlled, especially on mobile smartphones, where the key board is cramped and the user is already accustomed to speaking into the device. This will make mobile payments simple to use via a short list of standard voice prompts and also secure with voiceprints used to authenticate the session, e.g., "pay with Bank of America Visa."




Page 2 ONLINE BANKING REPORT Number 100-112
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Company Examples Cited

Amazon.com, ASB Bank (New Zealand), AT&T (Cingular), Bancorp South, Bank of America, Buxfer, CelPay (Congo), Citibank, ClairMail, First National Bank (South Africa), First Premier Bank, Fundamo, Globe G-cash (Philippines), m-Pesa/Safaricom (Kenya), MasterCard, MapQuest, Monilink (UK), Mt. Lehman Credit Union, MTN Banking/Standard Bank (South Africa), National Bank of New Zealand, NTT DoCoMo, Obopay, Orbitz, Planet Payment, Smart Money (Philippines), TextPayMe, Wachovia, Wells Fargo Bank, Wizzit/Bank of Athens (South Africa), Zions Bank