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Making the Case for Person-to-Person Payments

Does mobility provide the tipping point for bank-branded P2P?

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Abstract: In this report, we look at the market for online and mobile person-to-person payments, a market expected to grow to 15 to 20 million U.S. households by 2020 (*or more if the predominant pricing for low-value transfers is free*).

When we first wrote about this area ten years ago (*OBR 54, Nov. 1999*), three major U.S. banks had P2P systems in the works: Wells Fargo, Bank of America and Bank One. By 2002, all were shuttered; knocked out cold by the biggest financial-services success story of the dot-com era, PayPal.

PayPal now dominates eBay commerce and has become a force at other online merchants as well. But still, people for the most part, pay each other the old-fashioned ways: cash, checks, and IOUs. Because electronic transactions are often more expensive, they won't catch on until their convenience solidly trumps paper.

Mobile banking may be that path to ultra-convenience. Gartner seems to think so. The research company put money transfer as the number-one most important application for smartphones in 2012

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The question isn't whether electronic P2P payments will eventually replace paper; they will. It's who will control the service, financial institutions or third parties? PayPal already has a substantial head start with a 72% penetration rate among U.S. online shoppers. Nice, but financial institutions have relationships with 100% of checking-account customers.

The report also looks at the size of the domestic P2P market through 2025 (*measured in U.S. household usage*).

Companies Mentioned: Amazon Payments, American Express, Bank of America, Bank One (Chase), BECU, CashEdge, POPmoney, CircleUp, SmartPay, First Hawaiian Bank, Fiserv, Geauga Credit Union, ING Direct, iPay Technologies, MasterCard MoneySend, Mercantile Bank of Michigan, Mobile Money Ventures, mPay, MoneyGram, Obopay, Nokia Money, Patelco Credit Union, PayPal, Revolution Money, TwitPay, Univest Bank & Trust, US Bank, Wells Fargo, Western Union