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The Search for Mobile Payments Continues

By Ed Finegold

There was a time when Bluetooth was an exciting new personal networking technology that would provide some of the glue in an always-on service environment. All of that engineering has only replaced the wired headset. In the meantime, Near Field Communication (NFC) has come along as the favorite in the payments world. Mobile phones all have Bluetooth now. It'll be 5 years before enough have NFC fobs integrated into them. However, if the communications industry wants to be in the revenue stream and capitalize on the expanding micropayments and personal transfers markets, NFC integration can't come soon enough.

Returning to Wrigley

Wrigley Field is cold, as the Cubs have sadly demonstrated once again, but it will be colder on January 1 when it's turned into an ice rink for a game between the NHL's Chicago Blackhawks and Detroit Red Wings. If I'm wrapped up in a blanket with a pedal-powered space heater trying to enjoy the game, I don't want to take a glove off to hand the hot cocoa guy some cash. I just want to use my cell phone.



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Were I to live in Mexico, I wouldn't be nearly as cold in the winter, and I'd be able to pay for just about anything with my mobile when I'd be happy to pay in cash with machismo. In August, Telefonica and Iusacell announced partnerships with Citigroup and BBVA that will allow mobile subscribers to link savings accounts to their phones. The phone can then be used to make payments at stores and restaurants - and to pay for taxis - all by text message.

This effort in Mexico is reportedly being targeted to teenagers first because they are progressive mobile users. Telling teenagers to connect their cell phones to their bank accounts and pay for everything by text message sounds about as smart as giving mortgages to people with bad credit and no income. That's why banks are interested in making payments as fluid and accessible as possible.

In the U.S., PayPal Mobile is providing a back end to enable the "text to buy" model. After a mobile user texts a word, like DVD, to a short code, PayPal calls the user back to confirm the order and a PIN. Once cleared, the order is shipped and billed to the address listed on the user's PayPal account. While text-to-buy gets us closer to pay-by-mobile, it is somewhat inflexible in that it is used for pre-planned promotions as opposed to providing easier access to payment in general. It's not the kind of fluid "pay for anything" environment that credit and debit cards already give us. I might be able to have a Blackhawks sweater shipped to my office by sending a text, but I'm still paying cash to the cocoa man.



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With Google coming onto the mobile scene, location is being integrated into the mobile commerce experience. The Google Android phone has so much style you can almost forgive Sergey Brin his haircut. Android users will be able to use Google maps on their phones to find ATMs and stores where they can redeem special Visa offers. Visa has plans to enable mobile payments and is also testing person-to-person transfers where cardholders can transfer funds from one card to another using a mobile phone. It's a frightening thought - people creating text traffic by sending money they don't have to friends who have no money and can't pay their credit card bills. Bankers see huge opportunities in micropayments and microtransfers.

NFC vs Bluetooth

Contactless micropayments are becoming more common now in the United States. For example, in August, Taco Bueno, a U.S.-based Mexican fast food chain, adopted MasterCard PayPass at 161 locations in Arkansas, Texas, Indiana and six other states. The Smart Card alliance cites a MasterCard PayPass benchmark study that showed 71 percent of PayPass users use the NFC-based system for their primary card.

Micropayments are payments of \$5 or less for every day purchases like snacks or coffee. We're closer to that hot cocoa now. RCR Wireless reported in August that small transactions, most of which are based in cash today, amount to \$1.8 trillion per year. Devotees of the technology suggest that contactless payments represent an opportunity to run a much greater percentage of those small transactions through credit and debit networks.

Of course, there's no great opportunity that a good technology clash can't delay. Credit card companies and retailers are increasingly using near field communications (NFC) technologies to enable contactless payments. So far, NFC is a stand-alone technology. Users carry key fobs that are easily swiped in range of an NFC device instead of cards, but there are few handsets offered in the U.S. today that incorporate NFC. In other words, telecom's efforts are not aligned yet with where payment networks are headed.

In the bar code world, a similar challenge was mostly overcome. Someone realized that if most phones have cameras, why not add software that can read a photo of a barcode to turn any camera phone into a barcode reader. Similarly, most mobile devices now have Bluetooth connectivity, while credit card companies are driving NFC. Bluetooth is a big disappointment. It's mainly used for wireless headsets. It was designed to do far more and appears to be a dead end. Reasons from better security to greater simplicity and more success and momentum would seem to make NFC the likely path.

Juniper Research says that the lack of NFC equipment will resolve itself in 5 years. Seven-hundred million mobile subscribers worldwide will have NFC technology in their phones. Fifty million such phones are already in service in Japan, but Juniper says more than 25 percent of shipments of them will head to North America in the next five years. Juniper also says the market for mobile payments and money transfers should be \$600 billion globally by 2013.

Transactions with Integrity

OSS/BSS can play important roles in the micropayment and microtransfer worlds because of the need for transaction integrity and accounting. Transactions will involve complex fulfillment chains and authentication processes. They need to be recorded as they happen and synchronized with customers' accounts. Managing these accounting processes, and ensuring they can be audited independently, will be critical. Payment will be far more fluid and there will be more information to collect and verify - from identity and location to time of day and usage history.

Further, mobile micropayment and microtransfer seem ripe for advertising. Mobile phones can present coupons, promotions, and discounts directly to consumers and

collect feedback from them. NFC fobs can't do that. Credit card companies continue to bombard America's mailboxes with credit card offers. It stands to reason they'll want to use mobile channels to drive more personalized and short term offerings, even if they are using key chain trinkets for contactless payments today.

Rather than sending customers checks attached to an interest rate, they can send the same kind of "buy now" offers through the mobile device. Credit card payments can be conducted by text message. OSS/BSS can play roles in managing content delivery relating to promotions, enabling simple "press this button" user interface interactions, and ensuring follow-up processes are fulfilled relating to opt-ins, hard goods orders, and rewards programs. Even desperate bankers know that the mobile channel can deliver the elusive market of one. It's time for telecom to open it up and secure its position at the center of the transaction hub, just like they're doing down in Mexico.

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