Mobile payments: The next step in a bank's digital journey

As mobile payments hit the mainstream, bankers should offer their customers a compelling proposition rather than wait for someone else to lure them away.

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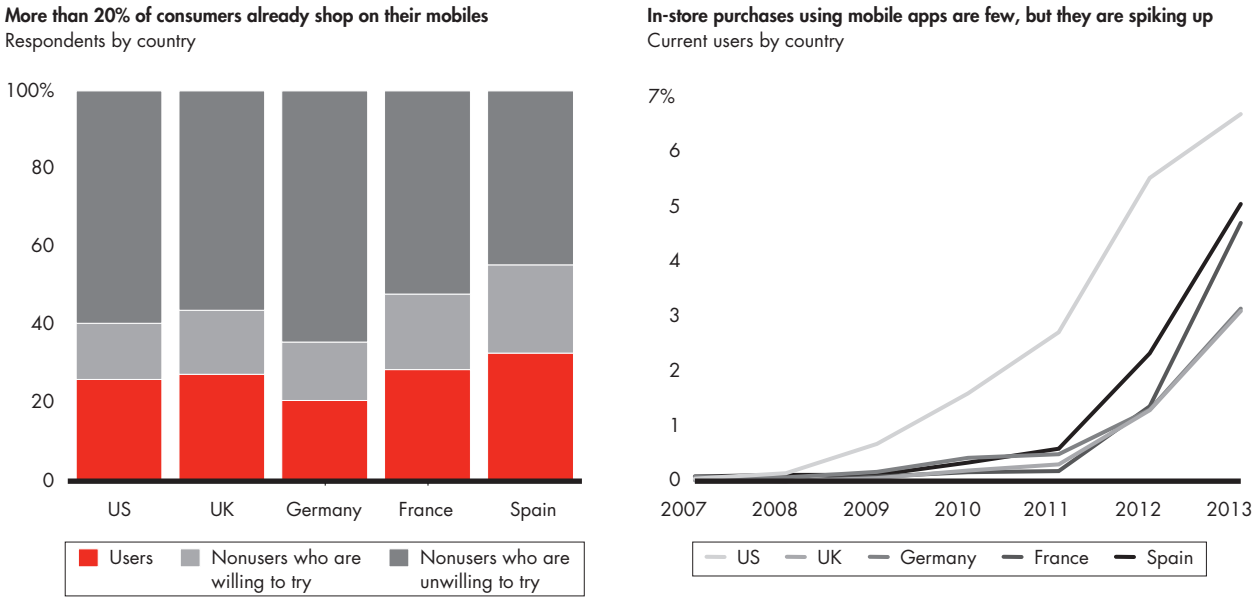
While start-ups and tech giants have piloted mobile payment solutions over the past few years, most banks have sat on the sidelines waiting to see which, if any, of these efforts will gain traction. Until now, this may have been the prudent position: Only a fraction of bank customers have used the new mobile payment services, which are limited by the type of phone, telecom carrier and bank they use, and sometimes by the retailer's point-of-sale machine. Although plenty of people see the potential in mobile payments, neither customers, retailers, banks nor (least of all) credit card networks have pushed to speed their acceptance.

We think that's about to change. Our recent survey of about 25,000 consumers in the US and major Western European markets found that many are already shopping on their mobiles and some are using them to make payments, with many more expected to do so over the next few years (*see Figure 1*). Mobile payments still make up a small percentage of store purchases, but that number has dramatically spiked upward in recent years.

Industry leaders view mobile payments as part of a long-term trend around rising consumer expectations about value and convenience. Just as consumers embraced online banking and then mobile banking, they will expect their banks to provide them with a mobile payment solution (*see Figure 2*). Our conversations with consumers indicate they want more than a mobile payment app that lets them use their phones like credit or debit cards. They want payment solutions that deliver extra value, such as better loyalty programs, tailored marketing offers or improvements that help them manage their money. Of course, these apps must also be secure, widely accepted and easy to use. And where possible, they should make it easier to shop, for example, by eliminating the need to key in long credit card numbers for online purchases.

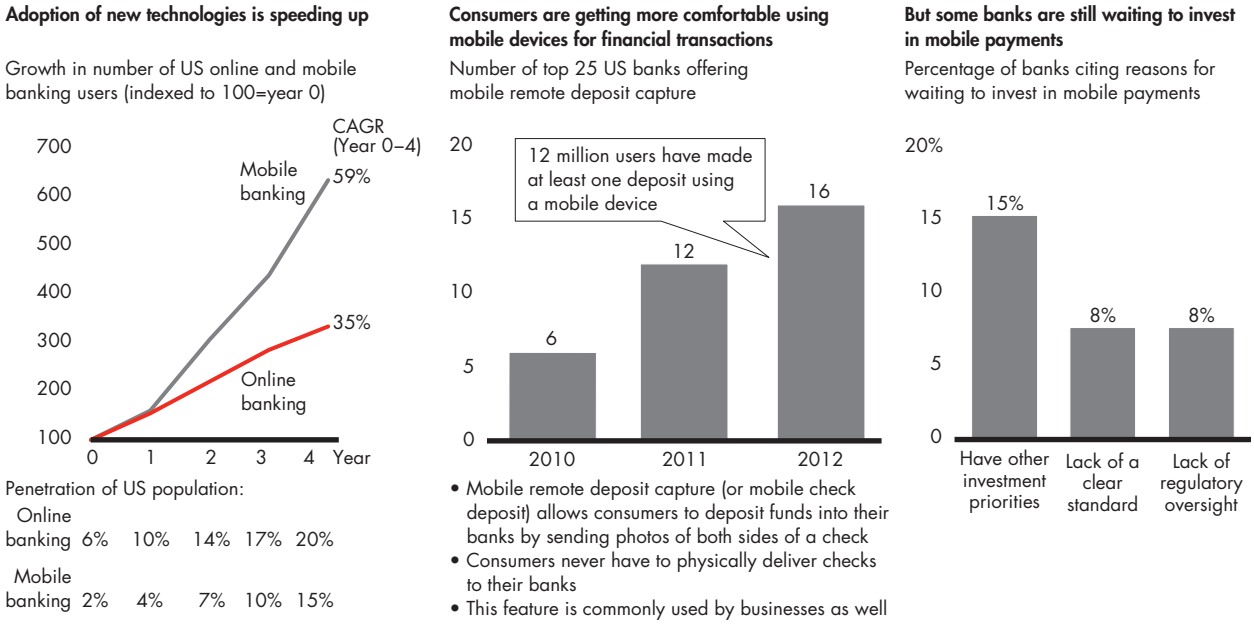
The good news for financial institutions is that, while they may be late to the party, no one is better suited than they are to provide digital wallets. Our research shows that consumers trust banks with their data more

Figure 1: Consumers are already shopping on their mobiles, and some are using them for mobile payments in stores



Note: Extrapolated based on data about when users first started making mobile payments and the total percentage of users by 2013
Source: Bain online survey, 2013 (left graph: n=~25,000; right graph: n=1,688)

Figure 2: Consumers have adopted new financial technology at increasingly fast rates, but some banks are hesitating to invest in mobile payments



Note: Online banking began in 1998; mobile banking began in 2008
Source: Aite Group; Forrester

than they trust retailers, technology companies or alternative payment providers.

But the time to act is now. We see at least three important reasons—the three "Ds"—that explain why banks need to move quickly to address consumers' needs.

- **Disintermediation**. Banks that wait for others to create their payment solutions may find themselves excluded from the conversation between their customers and the payment solution provider. Although we expect mobile transactions to rely on the current payment mechanisms (credit and debit cards in the US, and bank cards and other systems in Europe), brand recognition and customer relationships could shift to whoever is providing their digital wallet.

- **Data**. Closely related to the first point, mobile wallet providers will have the best view of consumers' paying behavior, including the kinds of transactions they make and the items they buy—data that has been difficult for banks to access. This level of detail is increasingly valuable, as it informs decisions about new products and services. Integrating this data into personal financial management software could transform these tools into the intelligent applications that banks have aspired to create.

- **Digitization**. Mobile payments are not a standalone effort, but the logical next step as banks create multichannel relationships with their customers. While mobile is changing the way customers shop, our research found that most are likely to have only one or two payment apps on their phones. Banks should move quickly to ensure their app is one of them.

This brief reviews some of the findings in our recent survey as they relate to financial institutions and suggests a path forward for executives eager to avoid being left behind by the mobile payments revolution.

What does the ideal solution look like?

Most consumers find their current payment methods (cards and cash) fairly convenient. So banks will need to offer something more to users—either an improved service, such as a better rewards program, or one that's completely reinvented. Consider the San Francisco-based start-up Uber: It didn't just come up with a way to pay cab fare on a mobile that would have been no better than swiping a credit card; instead, it developed a new and better way to locate, choose and pay for a ride.

Banks could generate new value for customers by helping them manage their money and reach their financial goals. A mobile payment app could, for instance, show customers their remaining balances when they make purchases or help them manage their monthly budgets by categorizing their purchases. The online GoBank provides a service like this: It integrates transaction data into monthly budgets and statements, making it easier for customers to save and reach their long-term financial goals.

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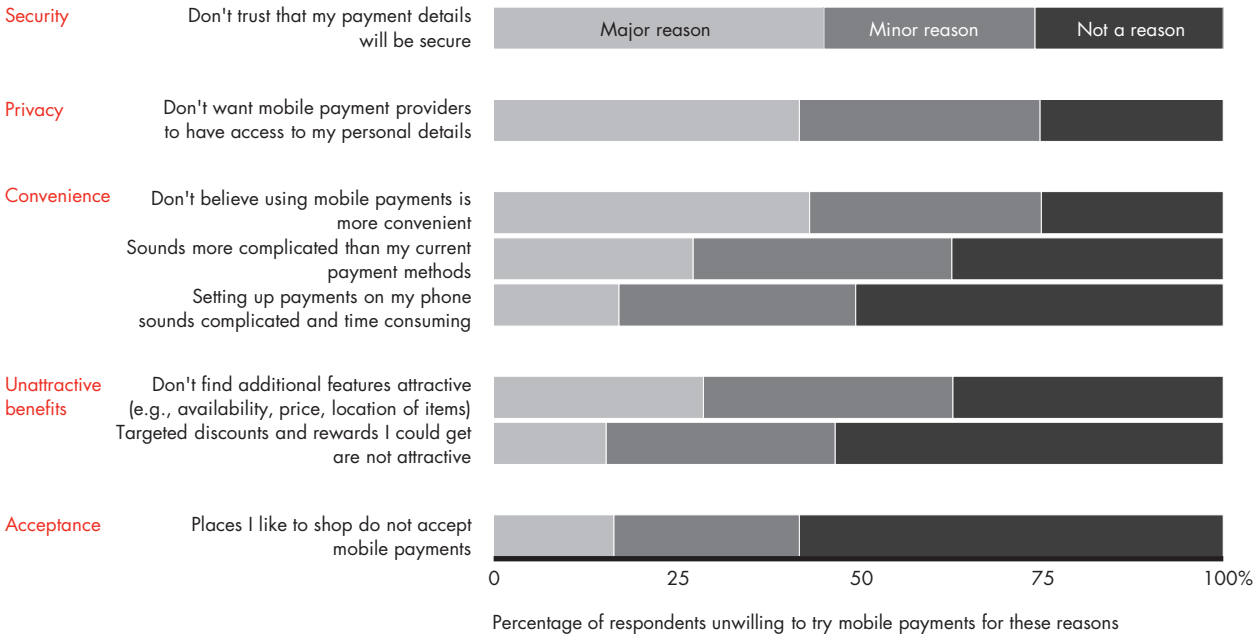
But even with incentives like these, consumers will balk unless a bank can assure them that its payment app is secure, convenient and widely accepted (*see Figure 3*). If the recent data breaches in the US accelerate the migration of credit cards toward the EMV (Europay, MasterCard and Visa) standard, commonly used in Europe, then mobile payments will need to meet this standard, too. While EMV cards with integrated chips secure in-store transactions, they don't improve security for online transactions. As a result, the major US credit card networks are working with big banks to develop another layer of security that protects online

Figure 3: Customers' concerns center around security, privacy, convenience and acceptance



Source: Bain online survey, 2013 (n=562 US consumers who are unwilling to try mobile payments)

transactions by substituting an encrypted token for the card number within retailers' systems.

Consumers in our survey also told us they are concerned about their ability to control and protect their data used in mobile payments. Because consumers trust their banks more than other wallet providers, as we mentioned earlier, banks may have a competitive advantage in this area.

Ensuring acceptance

Finally, banks will need to make sure enough retailers and restaurants accept their payment systems, allowing customers to use them. There are two key parts to this: the point of sale and the network behind it.

Our research shows that the point-of-sale environment is going through significant transformation as more small and midsize businesses switch from old-style terminals to simple apps that run on tablets and smartphones.

Ensuring success at the network level requires more coordination across the industry. Banks in the US should increase pressure on the major credit card providers to deliver a common solution before someone else does.

In Europe, ideal solutions will differ from one country to another, depending on the existing payment platforms. We see at least two models developing: collaborative models and proprietary experiments. Among the former, Cityzi is a joint effort by several French banks, telecoms and retailers that relies on near-field communication (NFC) wireless payments between mobiles and point-of-sale terminals. The program's rollout was partially subsidized by the French government, and its success depended on several factors, including the launch of NFC mobile ticketing on public transit, as well as enthusiastic marketing of NFC-compliant phones by the telecoms.

In the UK, Paym, a broad effort sponsored by the Payments Council, rolls out in the spring of 2014, with the promise to enable mobile-to-mobile payments among account holders at any UK bank. This follows the lead of other efforts such as Barclays's service Pingit. Barclays now offers the Pingit service to customers of all UK banks. It has added other features, including a "buy it" function that lets customers scan Quick Response (QR) codes and purchase items in-store, as well as a number of other innovative online mobile commerce payment functions.

How should banks encourage mobile payments?

As bank executives think about how to approach mobile payments, they should consider these three points:

First, mobile payments will not be a standalone solution, but part of a broader transformation to a digital model that includes mobile banking, online payments and using the data from customers' transactions to improve and personalize the banking experience. Both the technology and the strategy need to harmonize with the bank's comprehensive strategic road map.

Second, in most markets no single bank will have the market power to develop a proprietary solution on its own. Banks will need partners, and they will need to build solutions around emerging standards. The ideal positioning will put a bank's brand and added value in front of its customers, while tapping the power of the network behind the interface.

Finally, banks should be prepared to build new capabilities to make the most of the new data that mobile payments are likely to provide. The transactional and contextual information that mobile payments promise to deliver should inspire innovation in new products and services. But unless banks can put in place the right people and teams, this potential value will remain untapped. (For more on this topic, see the Bain Brief "Big Data: The organizational challenge.")

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