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Let the Phone Pick up the Tab

Imagine having your very own mobile ATM—otherwise known as your cell phone—in the palm of your hand

By Olga Kharif

Cheryl Bussani's son was grown up enough to move out of their Daly City (Calif.) home into his own place. But he still needed the occasional quick infusion of cash, and his new home in Pacifica, Calif., was far enough away that it wasn't convenient for Bussani to just drive over and drop off a few dollars. "It wasn't worth the gas," she explains.

So Bussani makes loans to her son via cell phone. She uses a service provided by Obopay, in Redwood City, Calif., that lets her transfer funds by dialing a few numbers on her wireless handset. The professional housecleaner also collects her own payments and pays bills with the service.

Bussani is part of the vanguard of U.S. mobile-phone subscribers who are doing their banking with wireless handsets. The practice is expected to gain traction in a matter of months when the likes of bigger, more established companies including banking powerhouse Citigroup (C) and wireless behemoth AT&T (T) kick off ad campaigns extolling the low cost and high convenience of paying over a mobile phone.

Following the Money

They may have a point on price. EBay's (EBAY) PayPal Mobile, which lets people wire funds and donate to charity through a phone, is free for many transactions. Obopay charges 10¢ to send money (see BusinessWeek.com, 5/14/07, "Souping Up Your Cell Phone"); contrast that with Western Union (WU), which charges 11% for transfers within the U.S.

And there's reason to expect mobile-phone payments will become easier. While some early versions require a software download onto a phone, AT&T will begin including software on devices in the fourth quarter. Cell-phone makers like Nokia (NOK) and Kyocera, along with Visa and MasterCard (MA), are trialing phones with embedded chips that allow for contactless payments. Simply wave your phone in front of a reader to pay for purchases. That should cut checkout time by 50% to 70%, studies have found.

By 2012, 292 million phones sold worldwide will contain these so-called near-field communications chips, according to consultancy ABI Research. "Consumers tell us they are ready," says Pam Zuercher, vice-president of product innovation and coordination for Visa USA. The credit card association's March survey of 800 U.S. consumers showed that 57% would be interested in buying such a phone. And among 18- to 42-year-olds, 64% said they'd switch wireless carriers for it. "We believe mobile banking will be one of the bigger applications," says Greg Latour, senior vice-president of technology

development at wireless carrier Cellular South, which, like carriers Amp'd Mobile and Helio, already offers Obopay.

Fee-for-All

If optimists like Latour are right—and considering the success of contactless payments in places such as Korea, there's reason to think they will be—the increased reliance on mobile payments is likely to have a ripple effect on financial services. Wireless service providers will demand their cut of financial transaction fees. Mobile payments are also expected to crimp demand for cash and checks, which still account for more than half of all consumer purchases.

At stake is \$1.4 trillion in small payments of under \$25 made in the U.S. each year. By 2010, about 10%, or \$140 billion, of all payments under \$25 will be made with contactless cards, estimates Dan Schatt, an analyst with consultancy Celent. Of those, 10% could be paid with mobile phones, he estimates.

Established players such as Visa, MasterCard, and First Data (FDC) will continue to angle for the business of processing payments and the right to collect the fees that amount to as much as 2% of purchases. But use of checks, printed by companies such as John H. Harland, could be affected. So could demand for ATMs, run by companies like First Data, recently purchased by an affiliate of private equity firm Kohlberg Kravis Roberts for \$29 billion, Schatt says.

Plenty of Players

A number of upstarts stand to benefit. Schatt lists companies like Gemalto, which makes Smart Cards for contactless payments. Companies such as Atlanta-based Firethorn and Sausalito (Calif.)-based mFoundry, which power mobile banking and payments applications could profit from this move. So could outfits like ViVOtech, which sell related hardware such as in-store scanners. "We can get a bank up and running [on mobile phones] in six weeks," says Drew Sievers, co-founder and CEO of mFoundry.

Wireless service providers tend to keep tight reins on the applications they give users access to, and they will want a share of the transaction fees. Yet, unlike such carriers as Japan's NTT DoCoMo, U.S. wireless service providers are expected to stop short of offering financial services on their own. "We don't see any operators we deal with even considering this strategy," says Tripp Rackley, CEO of Firethorn.

And, of course, the service providers themselves could gain handsomely. Obopay is making a push with funding from investors like wireless powerhouse Qualcomm (QCOM). Web giants like Google (GOOG), already offering payment services online through Google Checkout, could potentially enter the fray. Cell-phone makers like Nokia could step into the market as well.

Spend-shifters

To prevent any business disruptions, processors have been among the first to jump into mobile payments. First Data doesn't see mobile payments as a threat: "We see it more as an extension of consumer choice," says Brian Friedman, vice-president of innovation for First Data financial institution services. It's not taking chances, though, and is

ramping up mobile efforts. On May 2, First Data invested in ViVOtech and has committed to using the startup's hardware in offering contactless payments.

Visa and MasterCard are conducting near-field communications trials. Visa, for one, has developed its own mobile payments software. "Today, \$17 of every \$100 of spend is spent on a Visa card," says Visa USA's Zuercher. "We are looking at mobile as a way to shift [even more of this] spend." To that end, the company will be adding more capabilities, such as person-to-person money transfers and ticket purchases, later this year. Visa is also trying to address issues such as ease-of-use and security, which plague contactless payments in other countries (see BusinessWeek.com, 11/21/06, "Contactless Payment Comes to Cell Phones").

And banks aren't sitting still. Citibank, for instance, is piloting Obopay with select customers. It's also trialing near-field communications in New York with Nokia and Cingular/AT&T. And then there's Citi Mobile, launched in April in California and expected to roll out nationwide by the end of May. Based on software from mFoundry, the service lets users search for ATM and branch locations, reach customer service, and check balances. "The uptake is within our expectations," says Steve Keitz, Citi Mobile Director. "We think this is the next step."