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Mobile Payments Gain Energy

By Brad Smith

More trials and platforms are starting to spell more consumer interest in using phones as wallets.

Mobile phones are likely to be the mobile wallet of choice in the not-too-distant future. They may not surpass the use of credit cards but many consumers are definitely interested.

That's the opinion of Willy Dommen, a principal of the consultancy Booz Allen Hamilton. And his view is shared to a great extent by the major credit card companies, some big banks and handset manufacturers like Nokia.

Dommen says Booz Allen surveys show consumers may actually view mobile phones as their principal payment vehicle in the next five to 10 years. How quickly it reaches that potential depends on how quickly the financial and wireless industries get together to launch the capability.

There are two main ways to use phones as payment machines – one by building a credit or debit card into the handset and the other by using the handset to make a payment over the wireless network. Among the companies making over-the-air payment systems possible are Obopay, PayPal Mobile, Verrus, Freedom Pay and TextPayMe.



Visa found that two-thirds of young American male would use their devices to make purchases. The credit card company is conducting a number of trials to determine which models will work best.

Obopay's mobile payment technology is being used by Helio and Amp'd Mobile, and Howard Gefen, executive vice president of marketing and business development, says the company will announce a deal with a Tier 1 operator soon. Obopay's Mobile Merchant Platform also is being used by mobile coupon company Cellfire and a remote purchasing provider, Xringer.

Cellfire plans on using the platform to send coupons to consumers on their phones so they can use the coupons at retail outlets.

Part of the Mobile Merchant Platform is a feature called Obopay Checkout, which makes it possible to buy such things as theater tickets by using the phone.

Obopay also has a deal with Citi to conduct a pilot trial of person-to-person mobile payments, using Citi credit and debit cards. Besides sending money over the phone, the pilot users will be able to check their account balances, payment history and add funds to their accounts.

Gefen says Obopay also has signed a deal with AOL which will incorporate mobile payments into AOL's AIM instant messaging service.

The Obopay executive thinks 2007 will see a lot of pilots by retailers and others using mobile payment systems, whether it is over-the-air or contactless. Gefen expects there to be mass adoption of mobile payments by consumers starting in 2008. He declines to say how many people are using Obopay's service now, but admits it is "not in the hundreds of thousands yet, but we're growing very fast."

CONVENIENCE PURCHASES

Consultant Dommen says any technology that allows consumers to buy products and services without cash is going to catch hold. Booz Allen's research shows mobile payments to be especially attractive to consumers for use in convenience stores, fast-food-restaurants, mass transit, coffee stores and for parking.

Since consumers have been using contactless payment methods for such things as the Exxon Speedpass or for highway toll readers, Dommen thinks that method may be the easiest to get people to use. The only drawback to that, he says, is that there are a limited number of handsets containing credit chips that can be read by retailers. Several trials have been done using near-field communications (NFC) in handsets, which can be waved over a reader.

Dommen says over-the-air payment methods face the hurdle of educating consumers, as well as some initial cost and implementation issues for merchants. But he thinks as consumers become aware of the capabilities, they will prefer that technology because of its ease of use and security.

Consumers need to know, Dommen says, that they will be protected if their phones are lost or stolen. This has been demonstrated in the use of traditional contactless payment trials in such places as Washington, D.C., he says.

Over-the-air payments where the credit card chip is integrated with the wireless network makes transactions quick and simple for consumers, Dommen says. Merchants like it as well because the use of cash can lead to losses due to employee theft. He says merchant costs for over-the-air mobile payments can even be lower than for traditional credit cards.

Activity in mobile payments is accelerating around the world, Dommen says, with Citibank, Chase, Visa and MasterCard all in some form of deployment and carriers like AT&T Wireless and Vodafone in trials.

Pam Zuercher, the Visa USA vice president for product coordination and innovation, says a Visa study shows two-thirds of young American males would use their mobile phones to make at least some purchases.

She says Visa believes there is a great opportunity to migrate some of the purchases being made by consumers today to the mobile phone, citing the 200-plus million mobile users in the United States. The Visa survey, she says, showed 67% of American males between the age of 18 and 39 would be interested in buying an NFC-enabled phone, while 57% said they would be willing to pay more for an NFC phone than a regular model.

Visa is looking at three mobile payment models – a proximity, contactless payment phone, an Internet-based system using a phone and person-to-person payments using SMS.

A Visa trial with Nokia and AT&T held last year at Philips Arena in Atlanta allowed consumers to make purchases from concessions and to download content. “We learned that consumers like to use their phone to make payments,” Zuercher says, adding that surveys of users showed they would use their phone for a wide range of transaction types and amounts, not just small payments.

Visa also is in the midst of an internal trial using coupons at its headquarters that employees can redeem in cafeterias. The coupons take the form of a barcode, text or a graphic. Visa is aware this kind of system will require changes in merchant hardware to read these coupons.

This winter, Visa also launched its Global Platform Development, which allows consumers to download just one application that supports all forms of mobile payments on a phone.

“What is required now is collaboration to identify the right business models,” Zuercher says.

Although still in the experimental and trial phases, mobile payments are beginning to gain traction and pique the interest of consumers. Because consumers rarely leave home without their wireless devices, it's not a stretch for the devices to carry their mobile wallets as well.