



White Paper

Beyond Mobile Banking: It's Time to Stake the Claim for Mobile Payments



Beyond Mobile Banking: It's Time to Stake the Claim for Mobile Payments

Rapid technology advances and consumers' growing desire to use their mobile phones for payments activities have set the stage for a shift in mobile financial services. The industry is in a period of transition during which consumers will move day-to-day financial activities to the mobile channel and the channel will mature from informational to transactional. Financial institutions are well-positioned to capitalize on the promise of this transition – namely, more transactions, more revenue and more loyal and profitable customers. However, financial institutions have their work cut out for them as an increasing number of non-traditional players have entered the mobile payments game. Banks and credit unions do not have to wait on the sidelines, but should make their move now by introducing consumers to mobile bill payments and person-to-person payments before moving on to support remote merchant payments and then mobile payments at the point of sale.

In most parts of the developed world, information-based mobile banking activities, such as checking balances, significantly outpace transaction-based activities, such as making payments. Financial institutions have been in no hurry to promote payments in the mobile channel, with a recent [Fiserv-sponsored survey](#) of decision makers at top U.S. banks and credit unions revealing that most see themselves in the role of “fast follower” when it comes to mobile payments. The combination of these facts is particularly troubling. If consumers establish the mindset that mobile banking is simply an informational service, and financial institutions do not take steps to show them otherwise, then the window of opportunity for financial institutions to own mobile payments will close. Consumers will go elsewhere for these services, never to return.

Financial institutions must act now – before their customers – and their payment revenues – are gone. Making the transition from informational to transactional mobile financial services does not have to be the quantum leap financial institutions might feel it is. Banks and credit unions are well-positioned to take the lead in mobile payments, leveraging existing advantages and assets to introduce consumers to mobile payments today and retain their business for a lifetime.

What's the Hurry?

Why is it so important for banks and credit unions to move mobile payments from the “wait and see” column to the “act on this now” column?

Meet Barry “The Gadget” Black, a 32-year old professional who escapes the city each weekend and heads to the mountains to ride, hike or ski with his buddies. Barry has an affinity for the latest technology and always carries his smartphone so that he is connected wherever he goes. He is not alone.

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According to a [report on smartphone use published by the Pew Internet & American Life Project](#), 35 percent of American adults rely on smartphones to manage their personal and professional lives wherever they are. Like Barry, they use a mobile web browser to access news, get stock tips, check on flights, shop and more. The same survey found that 83 percent of adults in the U.S. own a cell phone and half have used their phone to obtain information they needed in a hurry. Even more telling is that 27 percent said they had experienced a situation in which they had a problem because they did not have their cell phone.

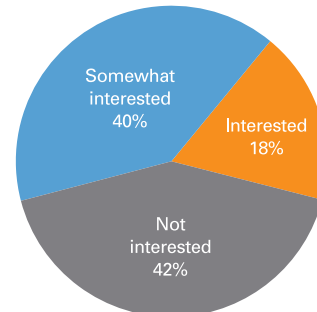
Whether to conduct routine or urgent business, consumer reliance on cell phones and smartphones is increasing. It is not surprising that industry [analysts at Forrester Research, Inc. have predicted](#) that within a few years, the mobile channel will displace the online channel for day-to-day banking tasks. There is no denying that the industry is entering an age of transition during which consumers are shifting daily financial interactions to channels that allow them to be on-the-move.

For financial institutions, this transition means the way consumers use different banking channels will change and the activities that take place within channels will continue to specialize. For example, right now, our friend Barry uses the mobile banking service his bank offers, but he is limited to basic, informational activities such as checking his account balance and locating ATMs. While these capabilities are helpful, “The Gadget” would like a more transactional mobile banking solution that allows him to pay a bill he remembered while skiing down the slope, or settle a bet he lost about who would get down the mountain first.

Barry wants mobile payments capability, and according to Fiserv research, so do others. The 2011 Fiserv Consumer Trends Survey showed that 40 percent of mobile banking users have paid a bill using the texting, browser or app capabilities of their phone. In addition, the 2011 Fiserv Billing Household Survey revealed 58 percent of all U.S. online households with smartphones, including those who do not yet use mobile banking, are interested in paying or receiving bills through their mobile phone (See Figure 1). These consumers indicated they would be particularly interested in an expedited mobile payment option.

Figure 1: Smartphone Owners Are Interested in Mobile Bill Payment

How interested are you in paying or receiving your bills through your mobile phone?



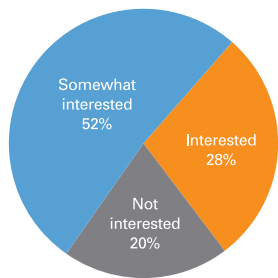
Base: U.S. Online Households Owning Smartphones

Source: 2011 Billing Household Survey, Fiserv, Inc., June 2011

Including value-added functionality along with payment capabilities increases interest in mobile payment. More than three out of four smartphone owners would be interested in mobile billing and payment if offered via a consolidated bill payment manager app that would provide due dates, amount due and other bill information (See Figure 2).

Figure 2: Value-added Functionality Increases Interest in Mobile Bill Payment

How interested would you be in a consolidated bill payment manager app that would provide due dates, amount due and other bill info?



Base: U.S. Online Households Owning Smartphones
 Source: 2011 Billing Household Survey, Fiserv, Inc., June 2011

So who are those most likely to pay bills or conduct other financial transactions on their mobile phone? According to the Fiserv 2011 Consumer Trends Survey, 48 percent of the consumers who conducted a mobile financial transaction within the last 30 days are from Gen Y. They are closely followed by Gen X at 37 percent. These mobile financial transactions include transferring funds, making a deposit, paying a bill or making a purchase or redeeming an offer at the point of sale.

The Stakes Get Higher as Mobile Payments Competition Increases

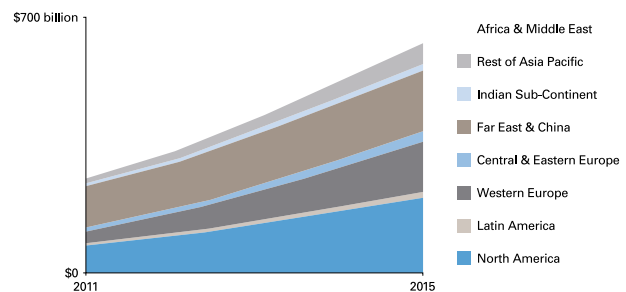
As the financial world has gravitated from physical branches with high capital costs to a virtual world where barriers to entry and operational costs are lower, non-bank players are entering the space at a rapid pace. Right now, the growth in mobile payments isn't coming from financial institutions – it's coming from a mixture of small, start-up companies such as Square, Inc. and large, high-tech companies like PayPal and Google.

The fastest growing merchant acquirer in the U.K. and the U.S. in 2011, Square, offers a payment system that

can be plugged into an iPhone, iPad or Android phone to facilitate credit card payments. Google has partnered with Sprint Nextel to offer Google Wallet, an application that will enable consumers to use their smartphones to pay for services with a credit card. And with Google's recent acquisition of Motorola, a variety of mobile handsets may soon come pre-equipped with Google Wallet.

If financial institutions want to retain a central role in this growing market, they cannot ignore non-traditional players or "wait and see" what happens next. Billions of dollars in mobile payments and significant payment revenues are at stake. Juniper Research predicts the [global mobile payments market will be worth \\$670 billion by 2015](#), with the top region predicted to be North America, followed by the Far East and China and Western Europe (See Figure 3).

Figure 3: Global Mobile Payments to Reach \$670 Billion by 2015



Source: Juniper Research

Payments are the single largest line of business for financial institutions. If financial institutions aren't expeditious, billions of dollars in customer transactions – and revenue – will go to companies offering better propositions.

The Clock is Ticking: Don't Get Traded

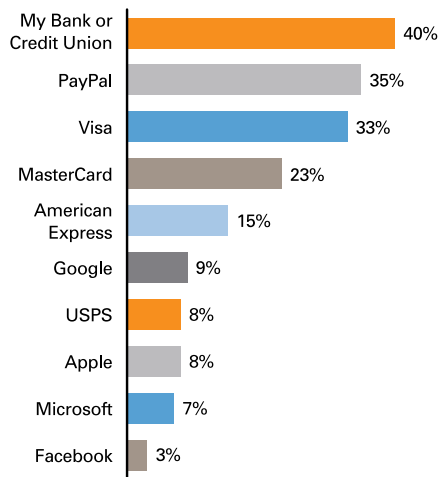
When it comes to competition, whether on the athletic field or in the corporate world, those who most effectively leverage their advantages will usually prevail. In the world of mobile payments, while there are multiple players jockeying for position, financial institutions are uniquely positioned to win the race for five reasons:

1. Consumer Trust – Consumers trust their bank or credit union for secure financial transactions. According to the 2011 Fiserv Consumer Trends Survey, 40 percent of consumers trust their bank or credit union to handle mobile payments, outpacing all other entities including PayPal, Visa and MasterCard (See Figure 4).

- 2. Access to Consumer Accounts – Banks and credit unions already hold the consumer accounts necessary to fund mobile payments.
- 3. Payments Knowledge – Financial institutions possess the experience and practical know-how to provide a secure and reliable payment service.
- 4. Necessary Assets – Financial institutions have existing access to the assets (infrastructure, technology and networks) necessary for payments, along with the ability to provide customer support.
- 5. Existing Relationships – Banks and credit unions have the direct and indirect relationships (commercial, merchant and consumer) needed to facilitate mobile payments and support the transition from informational to transactional mobile banking.

Figure 4: Consumers Trust Their Financial Institution to Handle Mobile Payments

Which of the following do you trust for handling mobile payments?



Base: U.S. Online Households

Source: 2011 Consumer Trends Survey, Fiserv, Inc., August 2011

Despite these advantages, or perhaps because of them, financial institutions have yet to assume a leadership position in mobile payments. A degree of complacency among banks and credit unions contributes to a lack of investment in new technologies or services. It's like the professional baseball player who has built a solid career by maintaining a decent batting average and keeping his fielding errors to a minimum. Over the years, he stops working out, fails to maintain his edge and forgets all about the fans. Eventually, he finds himself being traded because there are many other players who are hungry to succeed and are willing to make an extra effort to meet the needs of the team and the fans.

If banks and credit unions continue along the path of complacency, they may find themselves being traded by consumers. Instead, it is time for financial institutions to put the advantages they have to good use and give consumers what they are demanding – mobile banking services that enable transactions, particularly mobile payments.

The Four Dimensions of Mobile Payments

Perhaps for some financial institutions, the issue is not complacency, but simply not knowing where to begin. Since the mobile payments landscape is still relatively new, banks and credit unions need to discern exactly what consumers want.

Formulating a mobile payments strategy requires understanding mobile payments from the consumer's perspective. The Four Dimensions of Mobile Payments can be summarized by looking at who consumers currently use their mobile phones to pay (See Figure 5):

Figure 5: The Four Dimensions of Mobile Payments



1. Payments of Monthly Bills (Bill Payment) – These mobile payments typically occur between two mutually-known parties who have an ongoing relationship. Consumers usually initiate a payment when presented with a bill either electronically or in the mail.

2. Payments to People (Person-to-Person/P2P) – Mobile P2P transfers enable consumers to send funds from their account to another person's account using a mobile web browser or downloadable application. These transactions are used for situations such as reimbursing a friend, sending money to kids away at college, donating to a charity, and paying the small business owner who provides lawn care. These relationships may be either ad hoc or ongoing and typically involve limited reconciliation.

3. Payments to Remote Retailers (Online Purchases) – Mobile remote retail payments are made when purchasing goods or services using a mobile web browser or app provided by the online retailer. These relationships are often ad hoc, and most payments are made via card-not-present transactions. Goods or services are often delivered after the payment takes place.

4. Point-of-Sale Payments to Merchants (Point-of-Sale/ POS) – Merchants are defined as traditional, brick and mortar retailers selling goods or services who accept various forms of payment via a point-of-sale terminal. The relationship between the consumer and merchant is typically ad hoc. This dimension of mobile payments is currently receiving a lot of attention from consumers and the media as companies have announced plans for mobile wallets and begun piloting contactless payments, often using Near Field Communications (NFC), the technology that allows consumers to wave their phone in front of a POS terminal to pay for their purchase.

Ideally, banks and credit unions should include all of these payment types in their overall mobile strategy. However, it makes sense to leverage existing assets and implement mobile payments support in phases.

Leveraging Existing Assets Gives Financial Institutions a Head Start

When launching mobile payments financial institutions need to consider multiple elements, especially how to leverage existing assets. Financial institutions should consider the following layers of infrastructure, or the “Payments Pyramid” (See Figure 6), when launching mobile payments, relying on foundational assets such as participant and payment networks to support consumer-facing elements such as service functionality and user interfaces.

Figure 6: The Mobile Payments Pyramid



- **User Interfaces** – The mobile channel experience must be user friendly. That means ensuring the brand is familiar and authentic while optimizing how mobile payments services look on consumer devices.
- **Functionality** – To differentiate themselves from the competition, banks and credit unions should consider offering rich functionality that goes beyond the basics to add value; for example, integrated alerts and push notifications to help consumers stay on top of their finances, more efficient transactions using

the phone’s camera to help consumers save time, location-based information to enhance consumers’ security, or small business payment functionality to improve convenience.

- **Information Services** – Information services encompass behind-the-scenes services such as security and risk management, customer care, diagnostic processes as well as data analytics and reporting. Many of the essential components in place for compliance can also be used strategically. For example, financial institutions can use mobile payments data to identify and track trends and respond to changing customer needs.
- **Payment Networks** – Financial institutions already have the infrastructure for mobile payments in place. Examples of existing networks that can be used for mobile payments include the ACH network, debit networks (ACCEL/Exchange, NYCE or STAR) and other third-party networks (such as CheckFree for bill payment).
- **Participant Networks** – Non-banks such as Google or Facebook are directly connected to millions of consumers. However, banks and credit unions can readily tap into biller, consumer and merchant networks through direct connections, as well as existing relationships with industry providers such as card networks, to effectively connect the various parties involved in mobile payments.

As financial institutions prepare for the transition from informational to transactional mobile banking, they should also prepare for the impact mobile payments will have throughout the organization. Financial institutions should anticipate shifts in transaction volumes to the

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mobile channel from the phone and online channels. They should also anticipate demand for mobile payments services from offline customers who have not previously used online banking. Financial institutions may also benefit from enhanced business intelligence and data gleaned from mobile payment interactions.

The Starting Lineup: Mobile Bill Pay and P2P

Faced with the reality that consumers are increasingly interested in mobile payments, financial institutions need to get into the game now. Mobile bill payments and P2P payments provide a logical place for banks and credit unions to engage – areas where they are well-positioned to lead.

The combination of three factors establishes the case for starting with mobile bill payment and P2P:

One, most financial institutions are already positioned to offer mobile bill payment and P2P because they support these capabilities via the online channel and they have the necessary infrastructure in place.

Two, consumers are now using – or are interested in using – mobile bill pay, particularly for expedited payments. Completing relatively straightforward transactions such as paying a bill or another person will allow consumers to become comfortable with using their mobile device to make payments and will increase their confidence in the reliability of the channel.

Finally, financial institutions can extend security measures associated with existing payments capabilities to the mobile channel and also capitalize on new security capabilities the channel offers, such as location-based payment verification. This will alleviate a significant consumer worry - 41 percent of consumers

responding to the 2011 Fiserv Consumer Trends Survey said they are concerned about the security of accessing financial information through their phone. The ability to offer a more secure mobile payment solution will give consumers another reason to pick financial institutions over non-bank competitors.

For banks and credit unions that already offer mobile bill pay or P2P, now is a good time to evaluate the services to determine whether they offer the value-added features that consumers want, such as billing alerts, actionable exception alerts, photo-based payments and expedited payments.

Mobile bill pay and P2P are the most logical mobile payment offerings for financial institutions to introduce to their customers now. However, over the long term, financial institutions must address all Four Dimensions of Mobile Payments. As the necessary technology and process standards for remote retail and point-of-sale payments are put into place, customers will expect their financial institutions to offer these capabilities. Therefore, banks and credit unions need to select a mobile banking solution (or upgrade to a more comprehensive solution) that will support a full range of mobile payments.

Still Think Mobile Payments Can Wait?

Smartphone technology has led to a wave of mobile financial services adoption and consumers are looking to use their mobile phones for payment activities. Meeting consumer demand requires evolving mobile banking capabilities from informational to transactional. As financial institutions prepare to make this transition, mobile payments must be central to their plans if they are to retain customer transactions and payment revenues. It's not too late for financial institutions to

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take a leadership position in mobile payments and offset the influence of non-bank players.

Here are some practical steps banks and credit unions can take to get started:

- Include all Four Dimensions of Mobile Payments – bill payments, person-to-person payments, remote retail payments and merchant payments at the support of sale – in the overall mobile banking strategy. Even if you do not currently plan to support each one, think about how you might want to do so in the future.
- Determine how the existing layers of infrastructure described in the Payments Pyramid – participant networks, payment networks, information services, functionality and user interfaces – can be leveraged to facilitate mobile payment deployment.
- Plan to offer the trailblazers of mobile payments, mobile bill pay and P2P, first and then follow up with support for payments made to remote retailers and at the point of sale.

Banks and credit unions have been here before with online banking and payments. They paved that path and made it work for customers and shareholders alike. Facing higher stakes, greater risks and fiercer challenges with mobile payments, it's time for financial institutions to counter non-bank competitors using the lessons they've already learned and the assets already in place. If they act now financial institutions can win the mobile payments competition today.

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