

## Mobile payments – are you sure?

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### Quocirca Comment

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In the early days of the internet it took a while for consumers to become comfortable with online shopping. Partly it was the risks associated with the product not matching the description or the imagery and expectations of the consumer – especially with subjective decisions around clothing, food and so on – and partly it was the logistical process. When would it be delivered and how?

To a large extent companies like Amazon solved these issues quickly by being focused and offering product and service predictability, but an underlying concern remained for some time – customers did not believe it was safe to give credit card details online?

For many this remains an issue today, but according to research conducted by Javelin Strategy & Research in the most online of countries, the US, the reasons are broader than just the security of entry of the card details. Over half of the respondents are concerned that the merchant or website will start sending them junk mail or will sell on their personal details to 3rd parties. There are also significant concerns about unauthorized access to personal information stored by the merchant or misuse of credit card information by merchants.

Faced with this, are there acceptable alternatives that US consumers would prefer? The answer is yes; mobile payments. Four times as many people would prefer to make a payment from a mobile operator account using their phone than their credit or debit cards online. Also, while the interception of personal information over the air when entered on the phone is a concern for just under a third, over half have similar concerns about the same information being intercepted online.

There might be several reasons for this. Some will have direct experience of credit card fraud - whether online or not - and there are increasing numbers of scare stories in the media, in particular malware that pretends to be an official source but phishes for financial details. There

may also be a realization that the New Yorker cartoon tagline “on the internet no one knows you’re a dog” might have more than an element of truth to it; how can you tell from a website whether the company behind it is legitimate or dodgy and so it might be safer to stick with the largest, best known suppliers.

Since there is apparently greater consumer acceptance, perhaps using mobile phones to make payments would appear to be an interesting way to go. It could be used either as a replacement for entering detail online, using the mobile device as a companion, or for paying for purely mobile originated services.

Using mobile phones to make payments is not new, but there are new and interesting technologies such as near field communications (NFC) for contactless transfer of payment that aim to make it simpler. However all mechanisms ultimately need some form of backing for the financial transaction, i.e. an account that is in credit or can securely offer credit and a secure method of authorization, so for example the mobile phone only works for payments when it is in the possession of its rightful owner.

What sort of organisations are best placed to drive a wider adoption of mobile payments?

On the face of it this would put the banks or credit card companies in the driving seat, but banks, despite their casino activities with financial instruments, are notoriously risk-averse in these situations and their adoption of new technology tends to lag other industries. One area where they might get a leg up is by working with one of the many creative startups. These companies will struggle to get a sufficiently large user or merchant base on their own, but could provide a stimulating shot in the arm to the slow moving banking sector, if only the banks weren't focused on more pressing issues.

Credit card companies are more progressive and initiatives such as Visa's payWave demonstrate they can be innovative, but just as their

traditional payment instruments are delivered to customers through banks, these new mechanisms will also most likely go through intermediaries.

The question is who?

The alternative online payment instrument, PayPal, would also seem to be in a strong position, but while many mobile payments thus far have been for digital items - like entertainment, games and subscriptions - that fit the PayPal model well, the future growth is for real goods, and interacting with travel, transport and ticketing applications. PayPal has been slow to build up commercial relationships outside of its online commerce comfort zone.

Mobile operators have long wanted to take a cut of transactions initiated from devices belonging to subscribers on their networks. The Javelin research indicates that there is significant customer appetite for this. Subscribers on the whole appear to trust their operators with moderate amounts of money - handing it over as pre-paid, or agreeing to keep paying for a year or two by signing up to contracts.

However mobile operators do not have a good track record of being fully open or sharing revenue nicely with merchants or content providers, and these are fundamental requirements for mass adoption of a mobile payments system. Operators do keep coming together occasionally to promote new payment systems, the latest being Isis in the US, Mobile Money Network in the UK as well as moves by the three larger operators, but we've been here before, and wrangling about making money seems to overtake the need to make markets, bringing the endeavors to a halt. Operators are vital to the future of mobile payments, but will benefit from some external coercion.

As with mobile email, content and apps, the catalyst for mass adoption of mobile payments is probably going to come from outside influence and someone from the cluster of internet giants seem most likely. There is already the Google Wallet, and whenever a new Apple mobile device is due out, there is always speculation that it will include NFC.

Consumers have also a great deal of affinity with online retail behemoth Amazon, which has already shown it can broker deals across mobile networks to amortise out the costs of wirelessly delivering content sold onto its Kindles. Then there is social media, an industry with more followers than it knows what to do with other than try to pitch adverts at them.

Whichever company or consortium makes the next substantial move in mobile payments, the key will not be being first to market, but first to sufficient volume to give the appearance of ubiquity - consumers will demand nothing less.

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Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to advise on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

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