White Paper

The Four Pillars of Mobile Payments – Immediate Opportunities

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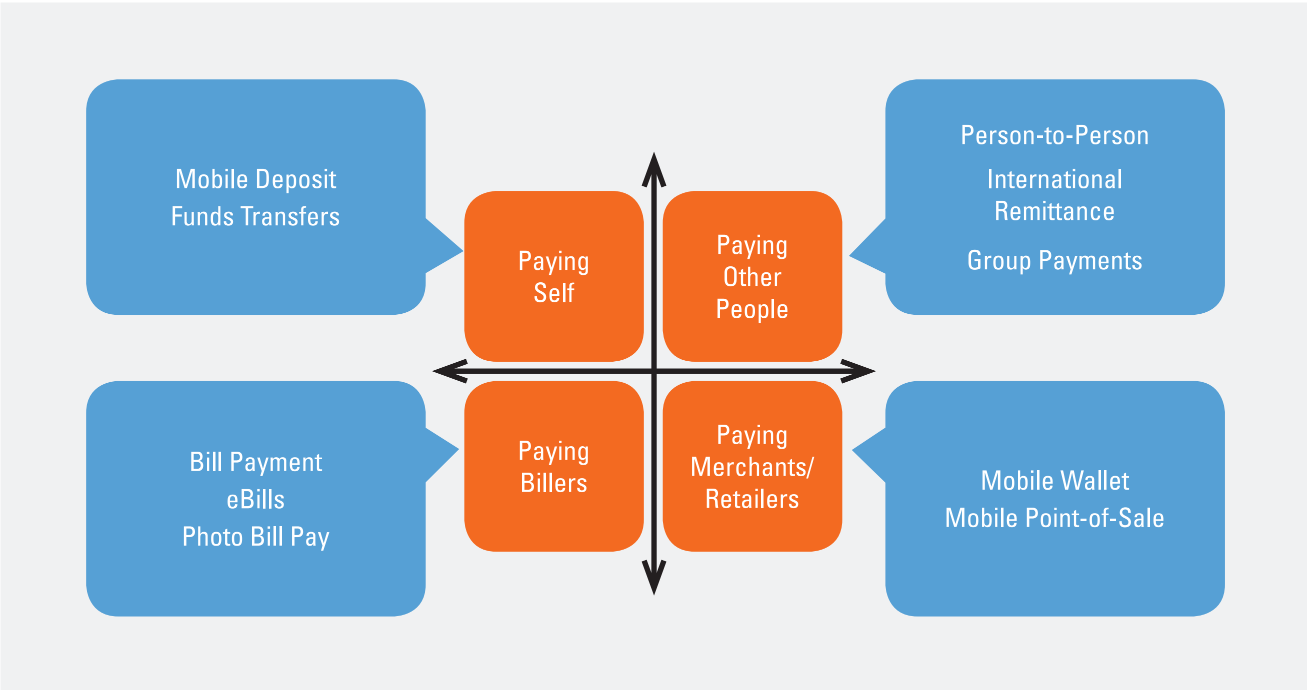
As the trade media continues to focus on the still-fragmented activity in mobile proximity payments and the mobile wallet at the point of sale (POS), financial institutions are being distracted from the real and immediate opportunities within mobile payments. Consumers are using mobile payments to make deposits, pay others and pay bills, and estimates forecast these types of payments will grow whether or not they are facilitated by financial institutions. It's important for financial institutions to invest now in a full range of mobile banking and payments offerings to position themselves to compete with the ever-growing number of non-traditional players providing mobile payment solutions. Financial institutions that focus more attention on mobile payments beyond the POS will reap the rewards of higher customer retention and compelling returns on their investment.

What are the Four Pillars of Mobile Payments?

For financial institutions tasked with defining mobile payments strategies, it is best to start by considering the recipients of the payments. Therefore, the building blocks of mobile payments can be thought of in terms of Four Pillars (see Figure 1)

- Paying Self – using a mobile device to make transfers and to deposit checks into a personal bank account, via mobile deposit and funds transfer capabilities
- Paying Other People – making person-to-person (P2P) payments (domestic or international) to individuals and groups of individuals from a mobile device
- Paying Billers – making payments to a biller either through a financial institution mobile app or a biller mobile app; functionality may include eBill presentment and payment capabilities such as using the mobile device camera to capture an image of a bill to automate payee set up
- Paying Merchants/Retailers – making purchases either in a store via mobile proximity payments (near field communication (NFC), quick response (QR) code, cloud) or online via apps and mobile websites

Figure 1: The Four Pillars of Mobile Payments



Source: Fiserv, Inc.

Separating Hype from Reality

Even though the media is focused on talking about the growth and consumer adoption of mobile proximity payments (or the lack thereof) at the POS, consumers are engaged in mobile payments. They are paying themselves, paying others and paying billers. Financial institutions that are able to weed through the media hype to focus on these pillars of mobile payments have a significant opportunity to assume a leadership position in the mobile payments space (see Figure 2).

Figure 2: Mobile Payments Hype Versus Reality

What's Hype?		What's Real?
Every emerging player with a mobile wallet solution will be broadly adopted by merchants and consumers.	↔	Mobile proximity payments are still in the early stages of development; many emerging players will not survive.
All consumers are comfortable making mobile payments with non-banks.	↔	Consumers are becoming more comfortable conducting financial transactions – such as bill pay, mobile deposit and P2P – through their financial institution's mobile channel.
"If you build it, they will come." Availability of mobile proximity payments leads to consumer/ merchant adoption.	↔	Adoption levels are low; Financial institutions have the advantage in successfully delivering mobile payments.

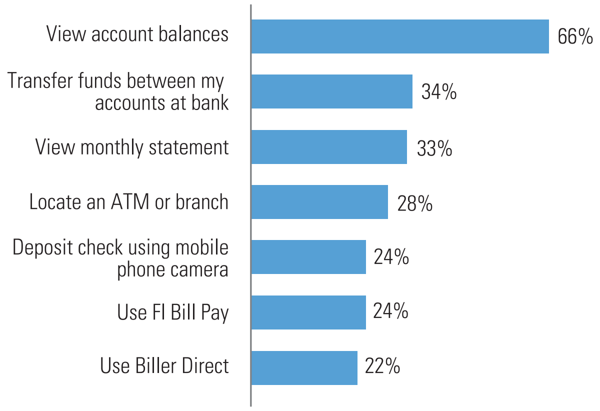
Source: Fiserv, Inc.

The reality is that consumers are making mobile payments when and where paying with a mobile device is more convenient than traditional payment methods. That is why the pillars of paying self, paying others and paying billers have stronger adoption today than paying merchants and retailers.

Mobile proximity payments have yet to mature in the U.S. due to the complex ecosystem and the large number of stakeholders that must work together to achieve scale and value. According to "Consumers and Mobile Financial Services 2014," published by the Federal Reserve Board of Governors, only two percent of mobile phone users say they have made mobile proximity payments even though POS purchases with mobile phones are becoming more popular.

So instead of waiting to see what develops with mobile proximity payments, financial institutions should focus on the growing popularity of other mobile payment types. The 2013 Fiserv Consumer Trends Survey indicates that 30 million households now use mobile banking services – an increase of 21 percent from 2012 to 2013. According to the survey, these mobile banking users are transferring money, making deposits and paying bills (see Figure 3).

Figure 3: What Features of Mobile Banking Have You Used in the Past Month?

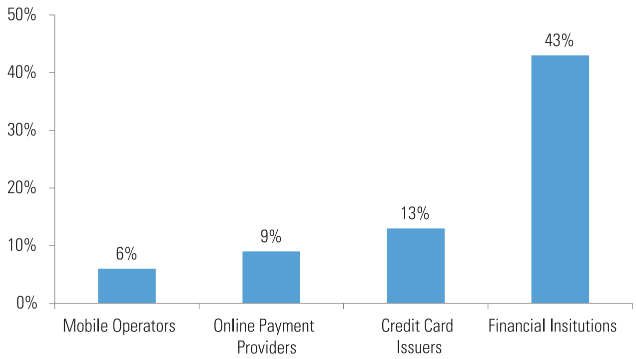


Source: 2013 Fiserv Consumer Trends Survey, Fiserv Inc.

Banks Hold the Advantage, Although Competition is Real

As the mobile payments market matures, non-bank competitors such as Google, ISIS, Square, Apple, PayPal® and Walmart will leverage mobile technology along with their own existing customer relationships to disintermediate banks and credit unions for mobile payment services. In markets like Australia, Canada and Spain, financial institutions are taking the threat from outside players seriously. For example, ANZ and Commonwealth Bank of Australia (CBA) both have comprehensive mobile offerings across various payment types. It would be wise for U.S. Banks to follow suit.

Figure 4: Most Trusted Mobile Payment Service Provider



Source: 2014 Consumer Insights Survey, Ovum

Financial institutions have an advantage over non-bank competitors as the mobile banking and mobile payments user experiences converge. Consumers are becoming more comfortable making financial transactions through the mobile channel and according to Ovum, they most often cite their financial institution as the most trusted service for making mobile payments (see Figure 4).

Consequently, banks and credit unions should take action today by pushing forward with their mobile payment strategies to establish themselves as the preferred provider of mobile payments.

Moving Forward to Capitalise on Growing Mobile Payments

By focusing primarily on the three pillars of mobile payments that consumers are already using – paying self, paying others and paying billers – until mobile proximity payments mature, banks and credit unions will create immediate value by attracting, retaining and strengthening the loyalty and profitability of key consumer segments that are predisposed to the mobile channel, including Gen Y.

Financial institutions that offer mobile deposits and transfers, and facilitate mobile payments to billers and individuals, will position themselves to win in mobile proximity payments as those services become standardised and more commercially viable.

The Path to Building Strong Mobile Payments Pillars

Financial institutions should think of every consumer with a debit or credit card as a potential candidate for mobile payments. Brand programmes should extend to the mobile channel to be sure that customers and potential customers recognise that mobile payments are integral to the brand. Since mobile banking sets a good foundation for mobile payments, campaigns should be implemented to convert customers to the mobile channel and encourage channel use.

The path to building the pillars of mobile payments includes:

1. Invest Now in the Mobile Payments Consumers Are Already Using

   To accelerate returns on the mobile payments investment, financial institutions should leverage and optimise offerings for the most prevalent mobile payment types:

   - Paying self – offer consumers the ability to make mobile deposits and mobile transfers to both internal and externally-held accounts
   - Paying other people – provide the ability to make mobile person-to-person payments
   - Paying billers – invest in mobile photo bill pay and actionable push notifications

2. Build Out Capabilities Related to POS Payments

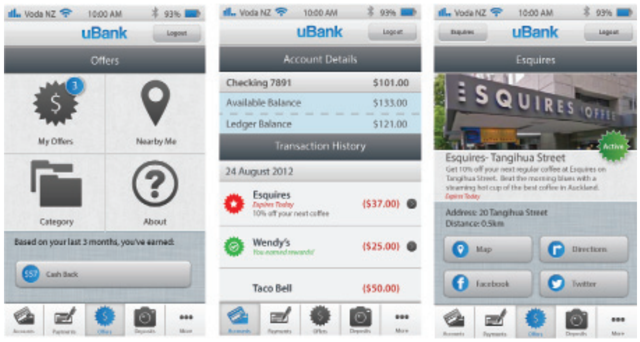
   By building out support for capabilities such as merchant-funded rewards, loyalty program functionality, payment-related alerts and the ability to activate card accounts during international travel, financial institutions will be positioned to encourage mobile payments at the POS (see Figure 5).

3. Design the Product to Leverage Cognitive Association Between the Mobile Banking Experience and POS Payments

   It is important for financial institutions to consider the POS payments user experience in the design for other transaction types. This will increase the likelihood of consumers seamlessly transitioning from mobile banking to mobile proximity payments.

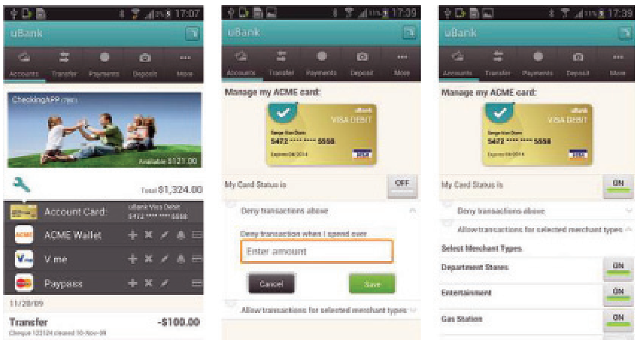
   - Include card and payment information (for example, in the contacts and help sections)
   - Consider using card-aligned PINs for authentication
   - Use visual metaphors in your design; for example, wallet and card icons (see Figure 6)

Figure 5: Example Merchant Funded Offers via Mobile Banking



Source: Fiserv, Inc.

Figure 6: Example Mobile Wallet App



Source: Fiserv, Inc.

It Takes an Enterprise to Build the Four Pillars

To successfully implement a full complement of mobile payment capabilities requires the focus and commitment of a financial institution. To be most effective requires establishing an institution-wide Mobile Channel Management Discipline that is assigned to an owner from the executive management team and includes stakeholders that will:

- Help formulate strategy and implement tactics
- Engage in industry forums to keep pace with the development of mobile payments
- Train and develop staff
- Put monitoring and management tools in place, inclusive of reporting dashboards

Financial Institutions Should Begin Now to Ensure Support of the Four Pillars of Mobile Payments

Financial institutions are well-positioned to take the lead in mobile payments by leveraging existing advantages and assets to encourage consumers to conduct mobile payments today and retain their business for a lifetime. By focusing now on delivering solutions for the way consumers are already using mobile payments, financial institutions can benefit from increased transactions and greater customer loyalty while creating the potential to attract new customers as mobile payments become more widespread. Once financial institutions establish a mobile payments foundation with the first three pillars of mobile payments, they can go on to develop additional mobile payment services such as mobile proximity payments, mobile wallet and other technologies as the market demands.

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