The Mobile Wallet

Why It’s A Corporate Priority – And How To Overcome Three Common Challenges Of Making Mobile Payments Mainstream
What is a mobile wallet?

The term mobile wallet is currently being used to describe any application developed for a mobile computing device, such as a smart phone or tablet, which allows its user to conduct, organize or enhance financial transactions. Because mobile wallets are an emerging technology, this definition is constantly evolving as new applications are conceived.

Examples of mobile wallet applications include a consumer using a cell phone to pay for an item at a point of sale, or a shopper receiving a real-time feed of personalized coupons or loyalty incentives upon entering a retail store. Beyond card payment and real-time incentives, other applications that fall under the umbrella of a mobile wallet include -- but are not limited to -- receipt management, ratings and reviews, and search and shop functionality.

Why mobile wallets are a corporate priority

The convergence of several market forces is driving the current development of mobile wallets. The ubiquity and affordability of mobile computing devices is an essential part of the mix. So too is the rise of social media use and advances in data aggregation and analytics (Big Data), which now make it possible to generate precise and timely meaning out of consumer data.

A variety of market players that fall into four general categories – merchants, financial institutions, payment networks and technology leaders – all share a common interest in optimizing profits through the use of ever-increasing amounts of data they collect, consolidate and share about consumer behavior.

In addition, consumers with sufficient technical knowhow, especially those who are young and affluent, identify with the idea that mobile wallets will facilitate their ability not only to make payments, but also to make the best purchase and payment decisions based on their interests, loyalty benefits and financial situation. These consumers are at the forefront of the mobile wallet trend.
Quick guide to today’s key mobile wallet players

To date, no single sector pursuing a successful mobile wallet strategy has demonstrated a clear competitive advantage, though the strengths and weaknesses of their efforts are exposing important clues about what common roadblocks must be overcome.

Financial Institutions
Financial Institutions, which have established a relationship based on trust and security with their large financial customer base, have the advantage of being well-positioned to offer a mobile wallet with multiple payment integration options, including credit and debit cards as well as prepaid and loyalty programs. However, to date no financial institution has achieved a successful mobile wallet deployment that includes point of sale capabilities. Few financial institutions offer an open mobile wallet that can work with other financial institutions, which is problematic given that ubiquity equals success in the mobile wallet game.

The best example of a mobile wallet effort being driven by a financial institution is Paydiant Inc., a partnership of Bank of America and Barclays. Paydiant is developing a cloud-based, white-label mobile wallet that works with existing payment instruments including credit, PIN and signature debit, and prepaid cards. This mobile wallet works with existing point-of-sale systems using QR codes and smart phones.

Large Merchants
Large merchants interested in offering mobile wallets are positioned to make the most of their loyal customer base, deep knowledge of consumer shopping habits and familiarity with consumer promotions and incentive programs. However, these merchants to date have developed closed mobile wallets. They will need to open up their mobile wallet offering if they hope to compete over the long-term as other open mobile wallet offerings become available.

Another important merchant-driven mobile wallet effort in development is Merchant Customer Exchange (MCX), whose key partners include such well-known merchants as 7-Eleven; Alon Brands; Bed Bath & Beyond; Best Buy Co.; CVS/pharmacy; Darden Restaurants; DICK’s Sporting Goods; Dillard’s and Dunkin’ Brands. This mobile wallet effort strives initially to offer merchants and mobile-commerce solution capable of seamlessly integrating a wide range of consumer offers, promotions and retail programs. No release date has been publically announced for this mobile wallet.

Payment Networks
Payment networks know that mobile wallets will dramatically change their game. It is no surprise that the market has already seen MasterCard, Visa and American Express becoming increasingly aggressive about their mobile wallet strategy.
Mobile wallet initiatives driven by payment networks enjoy the advantages of powerful brand awareness and loyalty. These brands are in consumers’ physical wallets today and are therefore expected to be in consumers’ digital wallets by default. Payment networks have a preference for multiple payment integrations so that multiple cards can be supported. This sector is uniquely positioned to easily set-up mobile wallet acceptance. However, payment networks have transaction capabilities limited to P2P, point of sale and online transactions. Currently no players in this sector have released technology that allows a mobile wallet with true point of sale capabilities.

It is safe to expect payment networks will become even more aggressive with fees as they try to encourage usage of their own mobile wallets while deterring use of other wallets. Their justification for market manipulation through fees is based upon security reasons, which may or may not be valid.

MasterCard’s MasterPass mobile wallet development effort is the most aggressive to date. It intends to support NFC, QR codes, tags and mobile devices at the point of sale. The mobile wallet will support checkout services to accept electronic payments from multiple locations. This initiative will include multiple connected wallets so banks, merchants and partners can offer their own branded wallets. These wallets will include cards other than MasterCard. The mobile wallet under development will also offer value added services to provide information to consumers as they shop. C-Sam, whose key partner is MasterCard, has a NFC-based mobile wallet pilot being conducted in Singapore that involves PayPass merchant acceptance.

V.me is Visa’s mobile wallet initiative. Visa’s partners, Samsung and mobile point of sale provider ROAM data, have joined the effort, which is in pilot. This effort is currently limited to an online format. Consumers store their major credit or debit cards (from any brand) and shipping addresses in a V.me account. Samsung will begin loading a Visa payWave applet on its NFC-enabled devices. A Mobile Provisioning Service, which securely downloads payment credentials onto the payWave applet, will be made available to any financial institution looking to launch a mobile payment program. The financial institution will be able to load consumer account data over-the-air to the secure chip in the device.

American Express has teamed up with Wal-Mart to offer Bluebird, which includes mobile wallet services like Direct Deposits, mobile bill payment, account controls and remote check capture.

**Technology Leaders**

Technology leaders like PayPal, Google and Apple favor open wallet integration as well as ease of set-up and use. These players are well-positioned to translate their tech-savvy reputation with consumers into a trusted mobile wallet provider. However, these technology leaders have very limited merchant knowledge, and therefore their mobile wallets suffer from limited merchant acceptance. Technology leaders also suffer from inconsistent payment experience with both merchants and consumers.
A well-known example of a merchant-driven mobile wallet that has been released to the market is Square Wallet, whose key partners include Starbucks, Best Buy, Target, Walgreens and Staples. This mobile wallet allows users to accept credit cards through mobile devices. Square Wallet has been praised for its simplicity and ease of use, but criticized for its limited merchant footprint and questionable security.

Google is aggressively pursuing leadership in the mobile wallet space. Google Wallet has been released and features NFC and is cloud-based to support all major credit and debit cards. The Google Wallet application stores payment cards on highly secure Google servers. A wallet ID (virtual card number) is stored in the secure storage area of the user’s mobile device and is used to facilitate transactions at the point of sale. It is accepted at MasterCard PayPass locations. Google Wallet enjoys the power of the Google brand, and the funding that goes with it, but is challenged by its limited NFC acceptance and compatibility.

Isis, with key partners AT&T Mobility, T-Mobile USA and Verizon Wireless, has a mobile wallet in pilot in Salt Lake City and Austin, TX. Users need an “Isis ready” phone to use this mobile wallet, which limits its availability. Isis hasn’t added their “sizzle” or rewards piece yet but seems to have a well thought out plan for execution. With a national rollout soon to be announced, this may be the wallet to watch. But until it is available on all phones and Apple with its iPhone market share moves to NFC, it will fall short.

LevelUp, a white label mobile wallet targeting merchants in the food service market, is backed by Google Ventures. It works with existing payment instruments including PIN debit, credit, signature debit, and prepaid cards. As of the end of 2012, LevelUp had a limited merchant footprint—approximately 4,000 merchants nationwide, but it offers a functionally rich mobile wallet and there is no merchant charge for its terminal or interchange. To address the challenge of scale, LevelUp announced it will partner with Heartland Payment Systems, one of the nation’s largest payments processors, to conduct the first national roll out of a mobile wallet. Heartland has a customer base of more than 250,000 merchant locations and hopes to accelerate the adoption of LevelUp’s mobile payment and loyalty platform to merchants across the country. Heartland focuses on restaurants, a sector that demonstrates good applicability with this type of reward-based more-merchant-friendly wallet.

PayPal is developing a mobile wallet that can link bank account, debit, and credit cards to a user’s PayPal account. Financial information (like a credit card number) is stored on PayPal servers. When PayPal’s mobile wallet is used to pay for a purchase, store coupons and offers are automatically applied. The application allows users to transfer money through multiple options. It works with PayPal’s existing online consumer experience. However, PayPal’s mobile wallet has limited merchant acceptance and no ties to reward programs. PayPal acquired mobile app developer Duff Research to help PayPal build its digital wallet platform.
The mobile wallets described above paint a picture of where this emerging technology is headed. It is reasonable to expect that mobile wallets will be open wallets accepting multiple cards from multiple financial institutions. They will support a full range of transactions including P2P, online CNP and physical point of sale, with multiple transaction technologies, such as NFC, QR codes, bar codes and PIN. Successful mobile wallets will have a wide merchant footprint and will offer personalization and functionality that will take consumer shopping experiences to a new level.

Three common challenges afflicting mobile wallet efforts and how to overcome them

From the brief overview of mobile wallets under development by merchants, financial institutions, payment networks and technology leaders, three common roadblocks to success stand out.

Security
Currently, the risk of a data breach happening with a mobile wallet is high because mobile wallets lack the same security standards applied to the POS. Developers of mobile wallets lack an appreciation for the complexity of security that exists both at the point of sale and to secure credentials within an application. It would be wrong to assume that any experience they may have with online payments will prepare them for the security challenges inherent in something that will work with the point of sale. Beyond the obvious financial liability for such security weaknesses is the risk to an emerging mobile wallet’s reputation as a trustworthy payment instrument.

How can mobile wallet developers properly secure their application across its value-chain? It is unreasonable to expect a mobile wallet developer to become sufficiently educated about ever-evolving payment security standards like PCI DSS and different methods of keeping cardholder information secure. It would be a futile distraction for them to attempt such a feat. Mobile wallet developers must engage payment industry experts like E&S Consulting to ensure the security of every aspect of their mobile wallet value-chain is on par with currently accepted payment standards. Only then will mobile wallets be secure enough to go mainstream.

Implementing at the POS
Implementing a mobile wallet at the Point of Sale is arguably one of the greatest challenges a mobile wallet developer faces. Mobile wallet developers have no familiarity with the point of sale and because of this, they make expensive mistakes. For example, LevelUp had to give away a Honeywell bar code reader with every implementation because retailers in their market did not have the bar code readers necessary to interface with LevelUp’s mobile wallet. Had they consulted payment industry experts familiar with the varying technology in use at the point of sale, they might have used a different technology to redeem rewards at the POS, or may have planned to bundle a bar code reader into their offering so that they could recoup the costs.
Knowledge of the retail environment and the Point of Sale, especially as it differs across markets, is essential for any mobile wallet hoping to achieve a broad merchant footprint and simple yet elegant user experience. This kind of expertise can be attained by consulting payment industry experts like E&S Consulting, who can bridge the gap between the point of sale and mobile wallet functionality.

Sustainability

The mobile wallet market is an evolving one that currently resembles a gold rush out in the Wild West. Smaller, more nimble application developers are demonstrating impressive innovation, but because most have limited VC funding these small companies are in a weak position to bear the risk of being first-to-market and surviving on their own beyond the pilot stage. Acquisition in the market is accelerating because larger players see that the time to market will be much faster if they strategically acquire talent and platforms instead of attempting to create their own. However, few small developers know enough about the large payment industry players to attract them. The business of financial institutions and payment networks – the very entities that possess the funds and industry position necessary to take a mobile wallet beyond the pilot stage and onto mass adoption – must be intimately understood if they are to be effectively attracted to a mobile wallet developer as an acquisition target.

In order to reach mass adoption of their mobile wallet, small, VC backed innovators need to position themselves as early as possible in their development efforts as attractive acquisition targets for financial institutions and payment networks. Mobile wallet developers that fail to build bridges early on with potential partners that can take them beyond the pilot stage will lack momentum to make the leap into the mainstream. This strategic positioning can only happen if the right payment industry experts are involved early in a developer’s go-to-market strategic planning. E&S Consulting understands every aspect of the payments industry, including how to speak the language of payment networks and financial institutions so that they can understand the potential profitability and marketability of a mobile wallet from their perspective.

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