# Mobile Payments Remain the Endgame

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Mobile payments are hot. Industry insiders both hope and fear new technology will upend reigning retail payment systems such as Visa, MasterCard and American Express.

There's cause for excitement to be sure. With more than six billion mobile phones worldwide**,** the point of sale can be anywhere anytime. Most of the world's population can now participate in electronic payments.

In the U.S., mobile enhances and extends the existing payment ecosystem and in the long term may reallocate some players' economics. It's not, however, disruptive. This runs contrary to claims by people like payments consultant and MasterCard veteran Steve Mott, who has declared that "the credit card system is broken" and enthused that Apple's mobile wallet "blew up the credit card model."

Similar enthusiasm has surrounded Square. *MacWeek* founder Michael Tchong said that Square was disrupting the credit-card processing market, while *Fast Company* suggested it was "disrupting the entire payments industry." Indeed, the much-ballyhooed Square card reader socialized mobile acceptance, ushering in a wave of copycats on both sides of the Atlantic and prompting most traditional payment processors to offer smartphone-based acceptance. But mobile acceptance enjoys explosive growth because it extends a proven and familiar business model and benefits both merchants and cardholders. It strengthens existing systems rather than overturning them.

Digital wallets, meanwhile, have disappointed — enormous hype notwithstanding. They encompass payment keys stored electronically and managed from handsets, tablets, desktop and even watches. They're mobile payments' foundation.

But business models are in flux and yet to be proven. There are hundreds of wallets utilizing a range of approaches. Most will go belly-up. Witness high-profile failures including Buyster (the joint venture of France's three largest mobile network operators and largest payment processor Worldline), Softcard, Weve*,* Bart*,* Quick Tap *and* Square Wallet*.*

Mobile wallets thus far have enjoyed their greatest success in emerging markets where they compete primarily with cash. Mobile person-to-person and retail-payment scheme M-Pesa launched in Kenya and now serves 10 countries. Ecocash in Zimbabwe, bKash in Bangladesh and BBM in Indonesia have also mushroomed.

In developed markets, however, adoption hurdles are significant. To achieve liftoff, digital wallets need a critical mass of merchants, handsets where they can be used, enrolled consumers, and incentives for consumers to change their behavior.

At the physical point of sale, that's a challenge, since swiping or inserting cards is easy and familiar. In mobile commerce, however, digital wallets address a problem. They reduce friction. Entering a credit card number, expiration date, security code, name, address and phone number on handsets is cumbersome. Consequently, abandonment rates are high.

Despite these obstacles, digital wallets will blur, and ultimately perhaps erase, distinctions between payments from desktops, tablets, mobile phones and Internet-connected terminals in stores. We're getting closer to this future.

With platform control and a history of moving markets, last October Apple launched its mobile wallet Apple Pay. The company wisely embraced existing payment systems. The tech giant is now capturing 15 basis points from bank credit-card issuers. This is not due to the network tokenization and fingerprint authentication it uses to improve security, but because it could credibly threaten to shift payments to participating competitors. But Apple's primary motivation is enhancing its iOS platform and customer loyalty, not reaping payments fees.

Google, meanwhile, wants payments data to enhance its search business. But Google Wallet has struggled for traction since its 2011 debut. Now the company has scooped up Softcard's assets and plans to pay AT&T, Verizon and T-Mobile to preload Google Wallet on their smartphones**.** It's also launching Android Pay, designed as a direct response to Apple Pay.

Looking to differentiate itself from other handset producers, Samsung acquired digital wallet LoopPay and will introduce Samsung Pay. LoopPay's technology lets Samsung Pay trick terminals into thinking they're reading a card's magnetic stripe. With bar codes and near field communication, this will enable Samsung Pay to enjoy greater acceptance out of the gate.

Unlike Apple, neither Google nor Samsung is getting a slice of interchange, as they couldn't credibly threaten to shift payment-card volume away from non-participating issuers.

Meanwhile, PayPal has acquired white-label wallet specialist Paydiant. With its retail credit product, Bill Me Later, the company can offer co-branded and proprietary credit, loyalty and promotional programs bolstering retailers' sales — and therefore PayPal's appeal.

With businesses still experimenting with business models, it is vital that regulators avoid smothering mobile payments innovation. The Consumer Financial Protection Bureau has been looking for a role regulating mobile payments. U.K. operators spent years seeking the European Commission's imprimatur for Weve, which ultimately folded. And Brussels' harsh interchange price controls throttle a source of digital-wallet funding**.** Regulators should stand down.

While consumers and merchants are creatures of habit, over time convenience and well-crafted incentives will change their behavior. A decade hence, billions of consumers may use digital wallets for a majority of payments.

Banks could get the fuzzy end of the lollipop**.** If there are significant points of concentration among digital wallets — for example, if Apple Pay, Google Wallet and Samsung Pay each routed a quarter of Visa payments — then banks' and the largest card network's economics would be hurt. Players controlling or strongly influencing payments share will capture more yield.

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