- *Mobile Payment in Deutschland (5): [Interview] Wachstumschancen aus internationaler Perspektive*

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Mobile Proximity Payment bietet enormes Wachstumspotential (siehe Teil 3), wird aber in Deutschland viele Anbieter scheitern lassen (siehe Teil 4). Payment ist ein besonders komplexer und schwieriger Markt.

In diesem Artikel soll ein Blick aus internationaler Perspektive auf die Entwicklungen im Mobile Payment geworfen werden. Dafür hat mz mit dem Payment Veteran Eric Grover gesprochen, der aus jahrzehntelanger Erfahrung den Zahlungsverkehr in den USA sowie in Europa gut kennt.

mz: Eric, the mobile payment market is set to grow significantly over the next years according to the predictions of various analyst companies. However, the figures vary significantly between the experts. How fast do you expect consumer adoption of mobile proximity payments in retail to grow in the US?

EG: To date proximity payments and NFC have disappointed. NFC adoption estimates by virtually the entire research/forecasting community were overly aggressive and have been scaled back (see also part 3 of this series).

NFC Payment

In the nineties MasterCard and Visa massively hyped contactless card payments, piloting them in the US in Manhattan and at the Atlanta Olympics. They flopped. For most consumers and merchants there was no tangible benefit. The existing system worked. It still does.

This time around however there is reason to believe it will be different, though widespread adoption will be much slower than the industry hoped. There are a couple gating factors. If the transmission mechanism is NFC, we need to achieve critical mass of NFC-enabled pos systems and mobile phones.

Then, bearing in mind the existing retail payment system works and that consumers and merchants are conservative in their payments habits, there need to be compelling advantages for consumers and merchants to use it.

mz: How would you describe the differences between the market in the US and European markets?

EG: A variety of factors in the US and European patchwork of national markets, influence mobile payments development and adoption. US issuer transaction economics – interchange fees- are much richer, and consequently there's more issuer innovation and consumer value propositions are richer. Competition across the value chain is fiercer.

Much of European payments innovation has been on the backend. That said, it's hard to generalize about Europe. National differences are huge. In Ireland roughly 90% of e-payments are made by card while in the Netherlands about two thirds of e-payments are made by bank transfer (iDeal).

In Poland more than half of pos terminals are NFC and more than 10% of retail payments are contactless, albeit primarily from cards not handsets. In Romania half the population is unbanked and African mobile P2P payments Phenom M-Pesa is attempting to establish a European beachhead.

Mobile Payment with EE on the London Tube

The London Tube accepting NFC could jump start proximity payments in Europe's largest electronic payments market the UK.

In Holland with MyOrder and Rabobank, PayPal is letting subscribers order and pay for goods – typically food, ahead of time.

mz: What could move proximity payments?

EG: Well, to date Google has struggled. It's embraced host card emulation (HCE) permitting services sending payment credentials via NFC to bypass MNOs' secure element. The more open HCE-enabled NFC environment could boost proximity payments.

With the iPhone 6's unveiling imminent, the drumbeat of speculation about Apple's payment plans has become deafening.

If the iPhone 6 is NFC-enabled, which seems likely, and if Apple opens up its wallet at the physical pos, with compelling value wrapped around payments, that could spur mass consumer adoption.

mz: What are the learnings from the past? Are there good or bad examples of payment innovations in the past that are maybe not mobile but comparable with regards to the aim to disrupt the traditional market?

EG: Absolutely, though not nearly so many have been or are likely to be disruptive as enthusiasts would have us believe.

1. **Credit Cards:** In 1950 in Manhattan Frank McNamara started the first general purpose payment card system: Diners Club. In 1958 in Fresno, California Bank of America launched the first general purpose credit-card BankAmericard, which later was opened up to other banks and became Visa. Global, open, general-purpose payment card schemes were the most consequential payments innovation – indeed retail banking innovation, of the 20th century.

2. **ATM:** The ATM was certainly a big and successful innovation. In 1961 City Bank of New York tried a deposit-taking ATM but retired it after 6 months. In 1967 Barclays launched a cash-dispensing ATM. But it took decades before widespread adoption.

3. **Prepaid Cards:** In the mid-nineteen nineties video chain Blockbuster offered the first prepaid card. Over the last twenty years a vibrant industry developed providing a raft of proprietary gift cards and general purpose reloadable cards to consumers across the socio-economic spectrum.

4. **Digital:** Digital wallets and payment schemes and processors PayPal, AliPay and MercadoPago solved the problem of payments within proprietary e-auctions and subsequently addressed a broader market.

BUT: *Most attempts at major payments innovation and disruption don't succeed. Innovation is experimental. Entrepreneurs try to build a better mouse trap, to serve an unaddressed need, and adapt. The market continually dynamically reallocates talent and capital from failed or failing ventures to those better serving consumers.*

mz: There are many companies aiming to conquer a share of the market, amongst them many start-ups. Do they have a chance if they offer a low-cost solution for retailers, convenience for consumers and of course a secure solution? Or what else is needed to succeed?

EG:

1. **Low-Cost:** I'm skeptical about payment systems that want to win by being low-cost for retailers. Payment entrepreneurs return again and again to the siren song of a cheaper payment system. Retail payment ventures that chose to compete primarily by being less expensive for merchants, in free and competitive market where consumers have choice, fail.For example Debitman and Revolution Money both of which were based on lower fees for merchants, failed. Dwolla isn't going to displace Amex, MasterCard and Visa, or the ACH system. As a retail payment system, Bitcoin is going nowhere.

2. **Security:** A rash of much-publicized card-data breaches put attention on security. In payments nothing is perfectly secure. Nor does anybody in the industry expect it to be.

   Security has to be balanced against consumer and merchant convenience and therefore use. Payments have to be secure enough.

   It's easy to make payment systems more secure, but if it's so burdensome that consumers and merchants won't use them, what's the point?Payment ventures whose fundamental value proposition was that they were more secure than existing systems generally came to naught. Chip-card-based Mondex invented in 1990 proposed a more secure card system enabling value to be loaded, stored and used on a distributed basis. Backed by NatWest, Midland Bank, Wells Fargo, British Telecom, MasterCard and AT&T, it debuted in 1995 in Swindon, England.It didn't however solve a compelling problem for consumers or merchants, and consequently failed. CyberCash, Digicash and First Virtual were all putatively safer than credit cards on the Internet, and yet folded. Notwithstanding fraud loses running 10 to 20 times higher online than at the physical point of sale, credit cards were secure enough.

3. **Convenience:** Consumer convenience matters, but sometimes would-be innovators' view of what's convenient doesn't pan out in the market. Pay By Touch's 3.6 million consumers could initiate payments with a convenient and secure fingerprint at 3,000 merchants. Pay By Touch burned through $300 million before going belly up in 2008. After a five-year slog, pan-European payments processor Worldline and France's three largest MNOs Orange, Bouygues Telecom, and SFR, threw in the towel on their digital wallet joint venture Buyster.

mz: Some say that the time of "one size fits all" is over and that context specific solutions will win over as they optimize specific customer experiences. Would this open an opportunity for a more diverse payment landscape? Which sectors could be the first to adopt it?

EG: Context-specific solutions, often leveraging traditional payment systems can be quite successful. Neteller and WireCard's Click2Pay addressed a problem in gaming and reputationally-challenged sectors. Uber's in-app wallet is successful. Amazon's wallet has been hugely successful and is being used outside Amazon.

The biggest impediment to innovation and therefore a potentially more diverse payments landscape is regulators viewing retail payments as a public utility.

mz: Eric, thank you for your answers!

Eric Grover

Eric Grover has 3 decades of experience in the global payments market, knows the differences between the European and the US markets, and provides corporate development, strategy and analysis to networks, processors and issuers, and to firms investing in and providing services to the payments value chain, primarily in North American and Europe. Previously Grover worked for Visa, GE Consumer Finance, Bank of America, NationsBank and Transamerica.