

# Mobile payments – the tipping point

There comes a tipping point when market readiness, social behaviour and technology combine to create a sudden, ubiquitous change of behaviour.

For mobile payments the tipping point may have arrived – but will there be a dominant solution?



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norm, and the VocaLink research confirms that the UK is now ready, willing and able to make mobile payments. In ten years, the Oyster system has grown to cover more than 80%<sup>4</sup> of all bus and tube travel payments; how long will it be before a single mobile payment system becomes similarly ubiquitous?

## Consumer mobile behaviour research

VocaLink has completed one of the largest pieces of research into mobile usage<sup>1</sup> by asking more than 10,000 adults across the United Kingdom (16-65 year olds) about their habits and behaviours. The research was designed to understand usage of and attitudes to mobile payments in both general and specific scenarios (such as paying for parking and retail) and to explore consumers' views on the aspects of trust, reliability and security.

Rising by 12% annually<sup>2</sup>, some 60% of people in the UK have a smartphone, rising to 80% in the 16-24 year old bracket. One quarter of smartphone users already have banking or financial apps on their phones, and checking balances, accessing bank details and viewing transactions are the most common tasks.

Mobile phones are generally not used as mobile payment devices. This is reserved for (rather obviously) cash and debit- and credit-card payments. This is likely to change fast; the OFT Consumer Surveys in 2008 and 2013 (referenced in Review of Personal Current Accounts, January 2013)<sup>3</sup>, identified that m-banking use is growing rapidly. Even though there was no significant m-banking in 2008, by mid-2012 some 17% of customers were using it. In certain niches, such as the Oyster card system for public transport in London, digital payment is already the

## Ubiquity and trust

Our research revealed that some 27% of respondents are using their smartphones for mobile banking and 20% use them to make payments, but no mobile payment system dominates the market. Technical limitations mean that the existing niche solutions are not immediately able to meet the requirements of all mobile payment scenarios such as paying for taxis, paying bills or paying a tradesman.

It is also important to have trust in the organisation providing the payment service. Despite the problems of recent years, consumers overwhelmingly trust their banks: 35% of respondents said they were more likely to pay for items using their mobile phone if the service was provided by their bank, and 63% of people who already make some mobile payments would trust their banks to provide this service. 30% said they would use mobile payments and interact with their bank more often if their bank was providing the service. Notably, 46% of all survey respondents said they would trust supermarkets as mobile payment providers – rising to 52% among smartphone users – offering significant competition. 62% of people who currently make mobile payments stated that they would make more mobile payments if this service was offered to them by their bank.

1: TNS survey, February 2013. 25-minute online survey of nationally representative sample of 10,010 UK adults aged 16 - 65.

2: [http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR\\_UK\\_2012.pdf](http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr12/CMR_UK_2012.pdf)

3: <http://www.ofc.gov.uk/OFTwork/markets-work/othermarketstwork/pca-review/#.UQJXUB2OwdU>

4: <http://www.tfl.gov.uk/assets/downloads/corporate/oyster-factsheet.pdf>

For banks, at a time of increased focus on customer retention (driven by account switching), this connection based on trust enables increased engagement with the customer. Furthermore, the mobile channel may well be more cost-effective than alternative routes, such as card payment and electronic wallets.

In VocaLink's view, the opportunity for ubiquitous mobile payment represents something of an open goal for the banking industry: if the banks can leverage their trusted status and offer a practical solution for mobile payments, usage will increase.

Given consumer sentiment in favour of having a trusted mobile payment solution, the answers given in the research may indicate the likely entry points into the market. VocaLink believes that a single, trusted solution would rapidly replace multiple separate systems that consumers currently use for their mobile and online payments. Further, if the solution runs as an app on mobile, tablet and PC, offering the same user experience regardless of platform, then digital payments will almost be ever-present as an option, greatly increasing the likelihood of widespread adoption.

## Cash - immediate, active, anonymous

When paying with cash, transactions are immediate, do not expose the payer to risks beyond the value of the transaction, and are always the result of an active decision by the person making the payment. Most existing electronic payment solutions do not provide immediacy, and do not protect the payers' details. Generally, people prefer to be active participants in the payment process, and do not like other people knowing their bank details. If there were a single application that had the ability to cover all the payment scenarios - online, mobile, in-store and person-to-person - the deciding factor on user adoption would be trust. Once trust is established, there is a huge opportunity to consolidate the payment experience, and such a trusted payment solution will rapidly become universal. Our research shows that consumers are worried about storing card and similar details on their phones, and fraudulent use of payment apps if they lose their phone. Similarly, reputable merchants bear the significant burden of protecting the customers' financial credentials from misuse and theft, thus subjecting themselves to onerous regulatory conditions such as PCI-DSS.

To address the perceived safety and security challenges, any new payment solution should offer active, cash-like payment capabilities, without the need to share bank details with the vendor. Other research<sup>5</sup> carried out by VocaLink suggests that a payment app that enables payment within other apps and phone functions would strongly appeal to smartphone users.

## Banks have the edge

From the banking perspective, a bank-provided mobile payment app is the next logical step. Such an app might enable a customer to view a payment requested by a retailer and then instruct their bank to pay it. Consumers are familiar with instructing their banks to pay immediately, for example via the Faster Payments Service. An instruction to a bank does not depend on trusting the recipient, since there is no need for the consumer to hand over their bank details. Both payer and payee can trust their banks to handle the transaction safely on their behalf.

Related research conducted for VocaLink<sup>6</sup> using a demonstration mobile payment mechanism identifies some of the possible take-up rates of such a service. Some 81% of those very likely or definitely likely to use such a service would be more likely to use it if their bank offered the service; similarly 54% surveyed who use online banking, said they would be more likely to use it if their bank offered the service. Drilling down into these subsets, 67% of those saying they would definitely / very likely use the service, say it would encourage more shopping on his / her mobile phone (32%), and that the new method would be used instead of debit cards (45%), more than credit cards (35%) and PayPal (28%).

Additionally, a bank-led service enables transaction data to be more visible to banking systems. Once captured, purchase-data transaction histories offer the possibility of running deeper customer analytics - an essential weapon in the battle to attract, retain and better serve account holders.

For retailers, there will also be significant advantages from a bank-driven system. Subject to appropriate data protection measures, data will also be made available to retailers to enable them to enhance customer loyalty. There may also be value in other areas. For example, if a consumer sends a request to pay for age-restricted goods, a bank-centric system can prevent or authorise the

5: Product Research conducted by ACCORD Research for VocaLink in 2012.

6: Produce Research conducted by ACCORD Research for VocaLink in 2012.

instruction to pay without revealing any of the consumer's personal data, enabling the retailer to operate more confidently in these categories.

Finally, a bank-provided service means that consumers can see their balance on screen and make informed choices about whether to pay, and from which account. Current account access at the time of payment can greatly enhance the customer's ability to manage their money. This extra dimension to the payment process will allow banks to offer a competitive alternative to card payments and non-bank provider offerings such as m- and e-wallets. This kind of visibility and control is not possible with third-party solutions. For example, adding a payment to a consumer's mobile phone bill simply creates a future liability (usually paid by direct debit).

When consumers are presented with a 'see your balance on screen' feature, this alone might be the tipping point for mass adoption. The Accord qualitative research supported this view:

- "I like this over other payment solutions as I can't see my bank account with them"
- "It means you can check exactly how much you've got in the bank before you buy it. It makes it much easier to control your spending and know if you can afford it or not"
- "Convenient, can see exactly how much money is available, more control over finances"
- "Keep track on phone, secure, view balance during payment."

## Who's first?

This robust consumer market research indicates that there is real appetite for mobile payments. All the indicators point towards the time being right for a genuinely ubiquitous solution, based on the huge increases in smartphone adoption. In VocaLink's view, the implication is that banks are ideally placed to be the trusted providers of the solution, which in turn will create increased loyalty to bank services - and satisfyingly, may also reduce banks costs to serve.

Additionally, based on the insights provided by the research, VocaLink believes that there are significant commercial growth opportunities for early adopters - provided they can deliver a sufficiently ubiquitous and functional solution. This will require appropriate collaboration between stakeholders including retailers, banks and telcos.

Given the extraordinarily rapid growth in ownership and their use as app platforms, smartphones look set to outpace other payment solutions. VocaLink believes the mobile payments battle will be played out on the small touch screen in the near future.

## About VocaLink

VocaLink designs, builds and operates world-class payment systems and ATM switching platforms. We operate the UK national payments infrastructure, a national grid for payments.

Our innovative, sustainable, and highly efficient payment services touch the lives of almost every person and business in the UK.

Through our systems we process over 90% of UK salaries, more than 70% of household bills and almost all state benefits.

VocaLink technology powers the Bacs and Direct Debit schemes as well as connecting the world's busiest network of over 65,000 ATMs through the LINK scheme.

Our platforms have made it easier to make payments confidently, securely and cost effectively. Last year we processed over 10 billion UK transactions with a value of £4.9 trillion.

VocaLink commissioned robust quantitative research to find out what the UK really want from a next generation in payment services.

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