

EXECUTIVE INSIGHT

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ARE CARD BRANDS DISAPPEARING AT THE POS?

Mobile payment brands are taking hold

The major card payment brands cannot be complacent if they want to remain the dominant payment brands. The mobile payment applications on smartphones today are the foundation for a multitude of future commerce offerings both in-store and virtually. They are utilizing existing payment card brands and infrastructure to establish a foothold but are positioned to become the payment mechanism for point-of-sale transactions, online shopping, and contextual commerce in the years to come.



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The changing payments landscape

Most people who use their credit or debit cards for shopping today probably couldn't tell you what card brand logos are displayed at the point of sale. Yet everyone seems to know where their card is accepted if it is a MasterCard, Visa, Discover, or American Express card.

For decades, the major card brands have enjoyed and profited from expansive acceptance at merchants without any real threat from competing payment schemes. However, this could change with new digital commerce entrants looking to capture payments and build a platform offering end-to-end commerce capabilities. Will mobile "wallets" be one of the disruptive technologies that change the payments landscape in the next five years?

What is happening today at the physical point of sale could very well extend to the online and mobile spaces and eventually all other payment locations. A contributing factor could be the willingness of the existing payment companies to become secondary brands in this new digital payments environment.

Wallets

"The past 50 years have seen a consistent trend towards the displacement of cash as a method of payment towards cards, specifically credit cards in North American markets. Over the longer term, however, we could see a reversal of this trend, as the mobile payments sector starts to offer an increasing number of innovative alternatives to credit cards. These alternatives will allow customers to more seamlessly link payment directly to their bank accounts and provide users with advice and insights on their spending patterns."

According to much of the mobile and payments industry press lately, 2016 will be the year that mobile commerce and mobile payments break through to "mainstream" adoption and usage by consumers and merchants on a global scale. The ubiquity and functionality of smartphones has transformed social interaction, sharing, and communications. Smartphones have also simplified access to information, improved productivity, and provided a plethora of applications through a single portable electronic device.

It's no wonder, then, that every major mobile phone manufacturer, wireless network operator, payments company, retailer, financial institution, and commerce and cloud computing company has made major investments to ensure that it has a meaningful role in the mobile commerce ecosystem.

However, implementing change in the payments industry is a slow process that takes years if not decades. Success of a new payment system requires a critical mass of participating consumers and merchants, compatible technologies and standards, security and risk management, and the support of multiple industry participants. It must also offer a compelling value proposition to all participants through the creation of new and cost-effective functionality.

Over the past several years we have witnessed a number of innovative mobile payment and wallet offerings in the marketplace. Many of these were through start-up companies with a vision of offering a simpler and more useful way to pay or transfer funds through the mobile phone and enhancing the shopping experience with loyalty and discount offers. Others were financed by major wireless operators, retailers, banks, or cloud computing companies. These offerings failed because they focused more on the technology than on the needs of all participants, employed different technologies, caused confusion in the marketplace, or tried to provide a consumer service with no market demand.

“X” Pay

After much jockeying and multiple attempts at launching mobile wallets, the market is narrowing down and settling in on a handful of mobile payment platforms that are gaining traction with merchants and consumers alike. Those market entrants that are potentially the most disruptive payment alternatives fall into three categories:

- **Phone-centric**
 - Apple Pay
 - Android Pay
 - Samsung Pay
- **Merchant-centric**
 - Starbucksⁱⁱ
 - Walmart Pay
 - Target Payⁱⁱⁱ
 - CurrentC^{iv}
- **Bank-centric**
 - Chase Pay

With the exception of the Starbucks and CurrentC apps, all of these entrants have used “X” Pay default branding (probably) to provide some separation from the failed “wallet” nomenclature and to lessen consumer confusion. At the same time, that branding style identifies (and brands) the payment application in a clearer way than the more generic wallets. In addition to those listed, other online payment brands such as PayPal and Pay with Amazon are well positioned to become competitive mobile payment platforms and brands.

Based on current practices, the X Pay brands are well positioned to dominate awareness at the point of sale over time as compared to the card brands. At many merchants today, one sees the X Pay brands displayed on the POS screen with no other payment brands. In addition to the lack of payment brands at the POS terminal, standardized

icons to indicate technologies supported for payment acceptance are optional at the POS terminal and therefore their use and visibility are irregular and inconsistent. At a minimum, these should be standardized and required at all POS locations by the payment brands and industry.^v

These new entrants are not limited to payments or, even more importantly, to payments credited or debited against the card brands incorporated within the payment application. Gift cards are already prevalent in many of these applications, particularly in the Starbucks app and Android Pay, and private-label cards are being added. And with the introduction by NACHA of Multiple, Same Day ACH Settlement for the ACH Network later this year, we may see ACH debit transactions gaining a larger share of total X Pay transactions and X Pay gift card reload transactions.

All of these mobile payment applications will offer a safe, secure, and simple payment service by Near Field Communication (NFC), QR Code, Magnetic Secure Transmission (MST), or newer technology. We can certainly expect to see more and more preorder and advance-pay offerings such as Starbucks' recent Mobile Order & Pay. Also, expect to see the logical extension of order and pay using QR carts and smartphones to shop and pay without going through the normal in-store POS checkout process.

Further differentiating all of these X-Pay and merchant payment apps from card payments will be the addition of person-to-person payments, bill payments, and loyalty and rewards programs with targeted coupons and offers including real-time in-store discounts. As a result of the application programming interfaces offered by the X-Pays, these mobile payment platforms will evolve quickly to become the technology foundation for end-to-end commerce experiences within other online social and commerce environments. Not only will the platforms support mobile payments and loyalty programs in-store, but they will also support any remote commerce transaction (mobile or Internet), as well as payment transactions embedded within other "Contextual Commerce" applications such as Facebook, Twitter, Instagram, and other apps with the need for a payment capability.

Any of these X-Pay mobile systems has the potential to build a sizable private, national, or global network. They also have the potential of building strong acceptance brands at the point of sale and online. Today, many are partnering nonexclusively with payment networks and financial institutions to tap into established payment card processing networks and to build a critical mass of participating consumers and merchants. Initially, payment transactions will continue to flow through the card networks using their account number schemes and digital enablement tokenization services for security, but over time, lower-cost settlement alternatives, gift cards, private-label cards, and in-house authentication, authorization, clearing, and settlement may be used to process more and more transactions.

Conclusions

The digital payments and commerce environment has remained status quo for many decades, but smartphone technology is bringing new players and innovation to the industry. The major card payment brands cannot be complacent if they want to remain the dominant payment brands. The mobile payment applications on smartphones today are the foundation for a multitude of future commerce offerings both in-store and virtually. These applications are taking brand real estate at the point of sale and on the smartphone. They are utilizing existing payment card brands and infrastructure to establish a foothold but are positioned to become the payment mechanism for point-of-sale transactions, online shopping, and contextual commerce in the years to come.

With the absence of Visa Pay, MasterCard Pay, Amex Pay, and Discover Pay mobile applications, one can only wonder what the existing payment brands are planning. Are they happy to rely on the X-Pays for mobile commerce and all that it represents over the next decade? Are they aware that Android Pay, with its bank and wireless carrier partners, sees a world in five years that has more people using their smart phone to pay than their cards? This should be a call to action for the payment brands.

Endnotes

ⁱ “5 predictions for the future of payments,” Hwan Kim, Manager, Monitor Deloitte, in World Economic Forum, August 25, 2015.

ⁱⁱ According to Starbucks during its first quarter 2016 earnings conference call, one of every five Starbucks in-store transactions now uses its mobile app.

ⁱⁱⁱ Anticipated

^{iv} Multi-merchant wallet application provided by Merchant Customer Exchange

^v POS terminal icons should include existing symbols for acceptance of magnetic-stripe technology, EMV chip technology, contactless RFID, QR Codes, and Bluetooth.



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