Mobile Payments and Economic Inclusion

Jim Cunha
SVP, Federal Reserve Bank of Boston
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Agenda

- Why mobile payments matter for economic inclusion
- State of mobile payments in the US
- Mobile Payments Industry Workgroup effort
- Benefits mobile can help attain
- Challenges still ahead
Why Mobile Payments Matter for Economic Inclusion?

- Transaction processing (check cashing, storage of value, payments) is the most fundamental need.
- Once adopted, transaction processing can lead to next steps up the economic inclusion ladder, asset accumulation and financing.
- Mobile solutions can be leveraged by providers for banked and un/underbanked creating greater value.
State of Mobile Payments

- Mobile payment adoption is strong in some foreign markets for person-to-person (P2P) and remittance payments
- U.S. markets have focused on mobile banking versus payments – banks leveraging existing online services
- 2010-2011 seeing growing emphasis on commercial partnerships and pilots for mobile payments in U.S.
- But, still no significant implementations
Evolution of Mobile Payments Industry Workgroup (MPIW)

- Industry concerned with fragmentation, lack of communication between key stakeholders around direction of mobile payments in the U.S.
- Federal Reserve viewed as neutral organization capable of facilitating a diverse group of mobile payment stakeholders, and interested in understanding direction of mobile payments
- Boston and Atlanta Reserve Banks convened group in January 2010 to facilitate discussion on evolution of mobile payments in U.S. retail payments space
- Group (self-named Mobile Payments Industry Workgroup) comprised of invited representatives from organizations in the mobile payments value chain
Mobile Payments Industry Workgroup Structure

- Co-chaired by FRB Boston and Richmond
- Involves many stakeholders from multiple industries

Banking System Participants
- Financial Institutions
- Payment networks
- Payment processors & online payment service providers
- Payment & merchant trade associations

Technology Participants
- Major mobile carriers
- Mobile handset, chip & security vendors
- Software solution providers
- Mobile trade associations
MPIW Objectives

- To understand the evolution of mobile payments in the U.S. retail payment space
- To establish relationships, discuss roles, assess challenges, find points of mutual value, share ideas, and build consensus in a non-binding, free market fashion
- Determine if there was a shared vision for the “end game” of mobile payments and determine what barriers existed to achieving it. Then share that knowledge broadly
- Not explicitly focused on unbanked
Principles of a Successful U.S. Mobile Payments Framework

1) Mobile device used to initiate and receive payments for purchases between consumers and/or businesses

2) “Open mobile wallet” that supports multiple payment options (credit, debit, bank account, prepaid/stored value, etc.) in a secure container

3) Near Field Communications (NFC) technology for contactless mobile payments at point-of-sale, with enabling phone applications

4) Payments cleared and settled over existing channels (credit, debit, prepaid, ACH, mobile); open to future new channels
5) Dynamic data authentication for security
6) Standards developed for the U.S. based on evolving global standards and an industry supported certification process
7) Regulatory clarity for ongoing oversight established between applicable agencies
8) Trusted Service Managers (TSMs) provision secure elements in the mobile phone
Mobile Payment Ecosystem is Complex

Each party views its responsibilities & liabilities differently but success requires collaboration.
Benefits Mobile Can Help Attain

- Accessibility
- Convenience
- Control
- Security
- Technology creates opportunity to educate and change behavior at decision points
- Richer functionality and value added services can be provided via the mobile device
- Products (especially transactional) can be leveraged across banked/unbanked providing economies for providers
Challenges Still Ahead

- Industry path to the “end game” is very complex
- Regulatory uncertainties
- Banks and other providers need to choose to provide the services (business case, risk, other priorities)
- Different characteristics for unbanked groups, one size will never fit all
- Unbanked need to decide this is the right solution for them (education, trust, language, complexity)
- Smart phone penetration among unbanked still relatively low