

# Mobile Payments and Economic Inclusion

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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

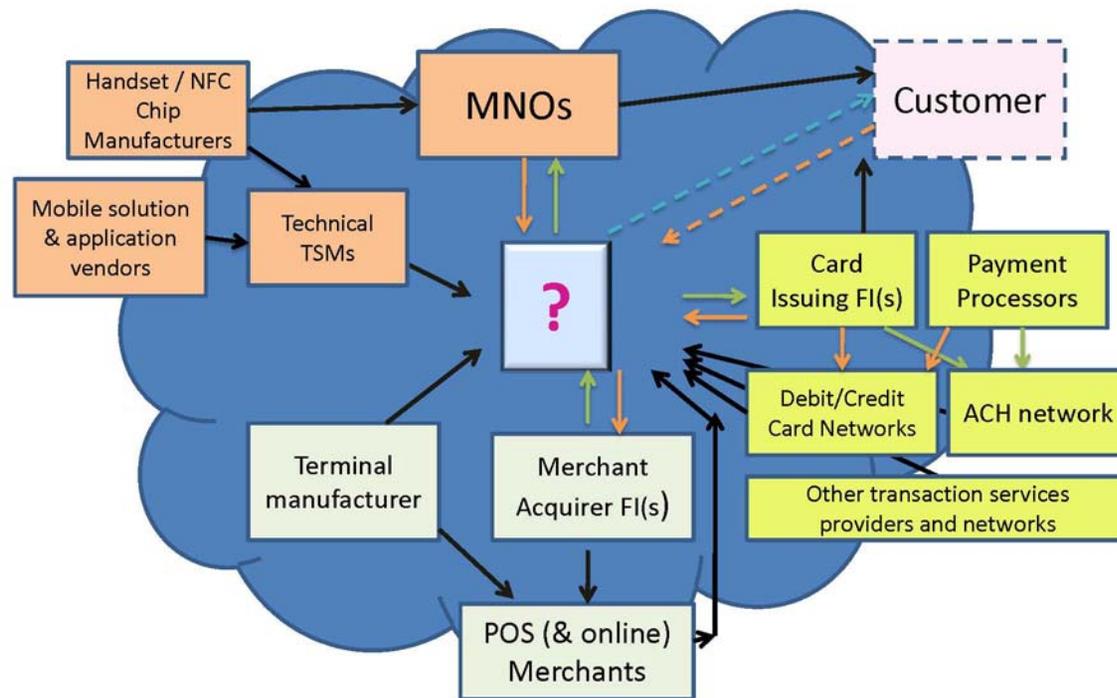
- 1) Mobile device used to initiate and receive payments for purchases between consumers and/or businesses
- 2) “Open mobile wallet” that supports multiple payment options (credit, debit, bank account, prepaid/stored value, etc.) in a secure container
- 3) Near Field Communications (NFC) technology for 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

# Principles of a Successful U.S. Mobile Payments Framework

- 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