

Mobile payments catch on with banks, phone makers

October 1 2010, By Becky Yerak

Smart phones already enable you to snap photos and bank online. Now banks and credit card companies think it might make sense for your phone to take over the functions of credit and debit cards.

Bank of America, which recently tested what's known as mobile-payment technology in Charlotte, N.C., just began a bigger-scale pilot in New York City.

And last week, the chief executive of credit card issuer Discover Financial Services said, "We continue to be optimistic about the future for mobile payments."

While consumers have embraced mobile payments in Japan and Korea, the [Federal Reserve Bank](#) of Boston says in a recent report that it doesn't expect widespread acceptance in the United States for at least three to five years, when phones are replaced and more merchants buy devices that interact with the technology.

Still, news about the pilot programs has prompted Consumers Union to urge regulators to ensure that federal protections that apply to lost or stolen credit or debit cards also be extended to new payment methods.

Discover and Bank of America have experimented with stickers applied to phones. Discover's "smart sticker," for example, is embedded with a microprocessor chip enabling contactless payments between the sticker and a reader device near the merchant's cash register.

Bank of America's latest test, in New York, uses a SanDisk memory card -- about the size of a thumbnail -- installed inside the back of an [iPhone](#) or BlackBerry, enabling a downloadable application for a virtual wallet.

Michael Upton, eChannels executive for Bank of America, declined to say how many consumers are part of the New York test, but said the trial is "statistically significant." He said the technology is easy to use.

"When you're at a place, you open your (virtual) wallet and select the account," said Upton. "You tap or get your handset close enough to the contactless reader, and you're good to go."

Discover CEO David Nelms said more than 100,000 merchant outlets have installed devices that can read Discover's mobile-payment stickers, called Zip, including Best Buy and most McDonald's.

"I have a Discover Zip sticker on the back of my BlackBerry and I use it when I buy stuff at Best Buy or McDonald's or in our cafeteria," Nelms said in an interview. "I hold it up to the terminal at Best Buy. I don't even take the wallet out of my pocket, and the clerk says, 'Wow, that's really cool.' "

Nelms declined to disclose the number of people participating in Discover's pilot, but a November 2009 white paper on a Discover Web site said more than 700 company workers in Riverwoods, Ill., and Salt Lake City were participating.

"We're getting close to enough scale to make this more mainstream and to start issuing them to customers," said Nelms, who added that he sees stickers on phones as a transitional mobile-payment method.

"Over time, you're likely to see these things get embedded in the phone when you get the phone in the first place," Nelms said. "I think it could

become important over the next five years."

A May report by the Federal Reserve Bank of Boston estimated that updating the technology on a handset would boost manufacturing costs \$10 to \$15 a phone.

But it remains a chicken-and-egg issue, experts say.

Consumers won't desire mobile-payment technology until they know that enough merchants accept it, and retailers and others won't want to make the infrastructure investments until they know that customers want to use it.

In its report, the Federal Reserve Bank of Boston said it doesn't expect mobile payments to garner widespread acceptance over the next one to three years, despite the pilot programs. Over the longer term, the outlook is more promising, the report said, as old mobile phones and merchant terminals are replaced. The readers cost about \$200 each.

One advantage of contactless technology is that the chip can store more data than on a credit card's magnetic strip -- information on warranties, rewards programs and coupons, for example.

Still, some question how the technology is better than credit cards.

"Oh, I expect we'll be hearing shortly about how convenient these new solutions will be, their cool factor, or how relevant they are given that consumers are more likely to carry mobile phones than wallets," Red Gillen, a senior analyst in the banking group for Celent, a technology consulting firm to the financial services industry, blogged last month. "What would truly be newsworthy would be industry players' credible explanation of why they think consumers should care."

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