

DITCHING THE LEATHER

*We've been talking about digital wallets for years, but now they are actually here **Clare Coulson** takes a look at the payments landscape and asks if we will be putting away our wallets for good...*

Uhen the iPhone 5 launched last year near field communications capability (or NFC) was noticeably absent from the chipset, but the hugely positive results of a number of recent NFC trials suggest that perhaps the hallowed company has got it wrong this time.

People are clamouring to use it says Ben Pfisterer, head of innovation and emerging products in A/NZ for Visa. "It's the most exciting finding that we are getting [from our trials]," he says. "When I actually go and use it, I get stopped nine times out of ten by people asking where I got it and how they can get one. It's a really strong reaction - people are really, really keen to give it a go once they see how convenient it is."

Visa already has its Visa PayWay contactless credit cards in the market and Pfisterer got his NFC capable smartphone through the pre-commercial trial that Visa is currently running in partnership with Vodafone.

WHERE'S MY WALLET?

Technology advances have created 'virtual wallets', also known as 'digital wallets', which work in three key environments: as e-commerce; as a digital wallet via a browser or app; or as a digital wallet at the point of sale including tap-and-go technology using NFC capable devices to complete a contactless transaction.

NFC technology itself builds upon RFID systems by allowing two-way communication between endpoints. The technology has been around for decades, but the presence of NFC capable smartphones, particularly in the mass market, is much newer and has accelerated the growth of the digital wallet opportunity.

HOLD THE PHONE!

Snapper's CEO Miki Szikszai, who currently claims the only publicly available NFC app in the A/NZ market, says, "What mobile has done is take NFC a bit further. Mobile versions of NFC do three things: they can act like a smartcard; they can act like a reader to read another smartcard; or they can act as a peer-to-peer device."

Until 2011 the NFC-capable devices were simply not available. But since 2011 there has been proliferation of NFC-capable smartphones in the market, >>

DIGITAL WALLET TRIALS OF NOTE

There are NFC/smartphone trials a-plenty in the Australasian payments landscape, so here, in no particular order, is a sampling of what the banks, telcos and other players have been up to.

National Bank + Visa + Telstra

Back in 2008, at the dawn of the app stores, National Bank, Visa and Telstra got together in Australia to test what the future of payments would look like and to set up the appropriate infrastructure in-house. Although never designed to be a straight-to-commercial program Visa's head of innovation and emerging products in A/NZ, Ben Pfisterer says all the staff who participated gave "really good feedback and really strong consumer sentiment saying that they wanted to see it commercialised".

ANZ Bank + Visa

This trial was based on making the iPhone NFC capable, and while the feedback was positive, Pfisterer says ultimately people still would have preferred the NFC capability to have been embedded in the phone. This sent a strong message that once NFC was embedded in a handset, "that's when it would really take off".

Vodafone + Visa

Launched in late 2012, Vodafone and Visa have teamed up to produce a pre-commercial solution for the first time in Australia, where every facet of a commercial solution has been built and is ready. It consists of an app on the customers' smartphone that allows any cardholder, including Visa and MasterCard debit users, to load cash on to it then tap their phone on a payment terminal to pay. "It is very early but the one thing that's really resounding is the positive feedback that we are getting. This app paid a lot of attention to making sure that the user experience was very clean and intuitive," says Pfisterer.

Telecom + Westpac + Auckland Transport + MasterCard

In New Zealand there is currently a comprehensive joint trial in the market between Telecom, Westpac and Auckland Transport. According to Albert Naffah, MasterCard's New Zealand country manager, "it's probably the most sophisticated of any of the trials in Australia or New Zealand today because it has a fairly simple wallet solution embedded in the phone (a Samsung Galaxy S3) but that wallet houses a Westpac MasterCard, a Telecom mobile top-up account as well as the Auckland Transport ticketing account". Staff participating in the trial can tap and go at any MasterCard PayPass merchant in the world, draw funds from their Westpac MasterCard or tap to pay for the bus, train or ferry in Auckland. "It's not really a trial, it's really more like a proof of concept to be honest," says Naffah.

Westpac + Optus + MasterCard

Compared to the New Zealand trial, Naffah says this Australian pilot has a "fairly simple debit MasterCard solution embedded in a fairly simple wallet on a Galaxy S3 with Optus".

Commonwealth Bank of Australia

The Commonwealth Bank has a solution running off the back of its Kaching App for iPhone. Launched about 18 months ago, it offers more than just payments, adding a variety of other banking functionality to the app. To make the iPhone NFC capable, they have provided their customers with an NFC device embedded in a sleeve that snaps around the phone. It integrates into the app on the phone and allows users to make contactless NFC payments wherever MasterCard PayPass is accepted around the world.

REAL LIFE: TOUCHDOWN WITH WELLINGTON-BASED SNAPPER

Deloitte Fast 50 Company, Snapper initially had a contactless payment solution that revolved around a smartcard loaded with money which users tapped on a payment terminal to transfer funds. In May last year, in a global technology first, Snapper launched 'Touch2Pay with Snapper Mobile' which allows users to upgrade their smart-phone to become a virtual wallet.

Snapper was established in 2006 and Szikszai says they have been slowly and deliberately building up the network of terminals in outlets over the last seven years. The launch of the Snapper Mobile solution is a massive step-change for NFC-powered payment solutions. Smartcards are essentially 'one way' (you can't interact with them), but the smartphone versions of NFC-enabled payments open the solution up to a lot more interaction.

Snapper now has 430,000 smartcards out in the wild and the app has been downloaded 5000 times since its launch in May last year, with a consistent percentage growth rate of downloads. At present the average size of a transaction at Snapper is about NZ\$4 but Szikszai believes that for Snapper the sweet spot is likely anything under \$20. "It's a short taxi ride, it's your lunch and your breakfast, or the self-service vending machine – those are the problems that we think we can solve because they require either cash or eftpos, and doing eftpos as an unattended thing is actually really hard to solve. To put an eftpos machine in a standalone terminal in the middle of the street is very expensive, because it's got to be fundamentally secure. We think that a little contactless reader solves that problem."



prompting Juniper Research to state that "2011 was a watershed year for NFC payments".

It's the presence of these NFC-capable phones that is propelling this technology towards a multi-billion dollar market in the next few years because, as Szikszai explains, "smartcards are only ever one way – you never see what's inside." With an app on a smartphone you can actually 'see' inside to check the balance and transactions. The result is greater confidence and, according to the results Snapper has seen with its own app, a 50 percent increase in the value of purchase items when compared to the old-style smartcard.

MASS ADOPTION OR BLIP?

For users to fall in love with it, feedback from the NFC trials shows that the NFC capability must be contained within the phone, not in a snap-on case or sticker that is added to the outside of the device. So, last year, when the iPhone 5 launched without NFC-capability, Juniper Research scaled back its NFC payments market forecast by \$70b to \$110b by 2017.

"Apple's decision to omit an NFC chipset from the iPhone 5 has reduced retailer and brand confidence

in the technology, leading to reduced POS (Point of Sale) rollouts and less NFC campaigns. This in turn will lead to lower NFC visibility amongst consumers and fewer opportunities to make payments, threatening a cycle of 'NFC indifference' in the short term," says the media statement.

PayPal president, David Marcus is also skeptical about NFC. In a blog posted at the end of last year, he predicted that "NFC will fail to gain mass adoption and the NFC payments debate will slowly die in 2013".

"Is tapping a phone on a terminal any easier than swiping a credit card? I don't think so – it's not solving a real consumer problem and it's not providing additional value to encourage me (or anyone else for that matter) to change my behaviour," he wrote.

While the pro-NFC camp would strongly disagree with Marcus, they do agree that the digital wallet must offer more than just another way to pay and they need to remove complexity not increase it.

Albert Naffah, New Zealand country manager for MasterCard, which already has contactless card payments in the market and is trialing smartphone options, says, "NFC will only be successful in a market if it goes beyond payments. Payments are only

one piece of that puzzle, transit is another, loyalty, rewards, couponing and a whole bunch of other things that we haven't even thought of will be part of the solutions that will really enable NFC to take off."

Very soon, we will be able to walk past a smart-poster, tap it with our phone and download a coupon which can be activated in store with another tap of the phone on the payment terminal. We could also store our gym memberships, library cards and access keys on our digital wallet.

"And it's once you get that really rich next-generation cut through, that's when people will really start wanting it," Visa's Pfisterer assures.

DIVIDE AND YOU WILL NOT CONQUER

Like Pfisterer and Naffah, Szikszai believes there is a world of possibility that can be opened up by NFC technology if it is executed properly. "Part of making NFC easy for everyone is the app, but the other part is making sure that there are really good and consistent standards. The one thing that will make NFC fail is if everyone goes off and does their own thing."

As the only live smartphone NFC solution in the market, Snapper's Szikszai has made a proposal locally to Payments New Zealand, and also in the Asian region, to make some of Snapper's IP free to help create standard configurations. "We want a standard configuration that will allow applications like Snapper, like Visa, like MasterCard to be loaded on to a phone in a very simple standard way. That's the best place to start - to get everyone on the same page," he says. The company is leading the way, according to Octopus Cards, who provide the transit smartcards in Hong Kong, which sees the Snapper technology as being two years ahead of its own.

One of the other major stumbling blocks to NFC payments going mass market is the footprint of the contactless payment terminals. However, Naffah says there is another initiative afoot. Building a mobile payment solution has a significant price tag and in New Zealand's small market there is currently discussion of a joint venture between New Zealand's three telcos and Paymark (the bank representative in this venture) to build a utility-enabling solution for mobile payments and a generic market wallet solution. The cost will be spread across all the

telcos and banks for building the base solution and then each organisation will be able to leverage and differentiate it as it sees fit.

"If that happens, and I am confident that it will as I've spoken to all those guys regularly, it will be world first," says Naffah.

There are already a number of digital wallets in existence and initially key players rushed to make their own branded wallets and claim market share. However, physical leather wallets are 'open' wallets - that's to say they are not branded with a bank or telco brand - and digital wallet users will want the freedom to choose their own. As with anything, there is a limit to how many solutions will gain critical mass and ultimately the market will decide which few will be the winners.

FUTURE FORWARD

The trust and adoption rate of contactless smartcard payments is increasing, with big names such as Air New Zealand, ASB, ANZ, BNZ, Kiwibank and Westpac are already issuing PayPass enabled cards and PayPass-enabled terminals are available in household names such as Bunnings, Kmart, The Warehouse, Resene, Repco, and BP.

Visa's Pfisterer says that transaction sizes continue to go up on Visa's PayWay. "People originally started using it for their coffees and lunches, but now people are increasingly starting to use it to pay for their groceries and petrol. It's a combination of the footprint going out into those locations and people gaining acceptance of the technology."

With this level of interest in contactless credit cards, the adoption of smartphone payments does not seem like such a big leap, particularly once Apple joins the masses with NFC capability in the iPhone.

The jury is out on whether we will say good bye to the wallet for good, but over just a handful of years smartphones have become the centre of many peoples' lives. They wake us up in the morning, they keep our schedule and provide information and entertainment. If the digital wallet stores everything from finances to gym memberships and can be proved to be secure, it seems likely it too will catch on. **f**



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