

# What's Holding Back Mobile Payments?

Shadow of EMV hovers over emerging payments systems

by M.V. GREENE

**T**ap, wave, scan. “Everybody” was supposed to be using their smartphones to pay for purchases at retail stores by now. But despite the predictions and hopes of the mobile payments industry, credit and debit cards remain the standard for non-cash payments.

Increasing numbers of consumers are undoubtedly joining mobile platforms, notably Apple, Android and Samsung.

But key players including merchants, vendors, payment networks, issuers and others do not seem able to move in the same direction enough to overcome plastic’s entrenched hold on the payment markets.

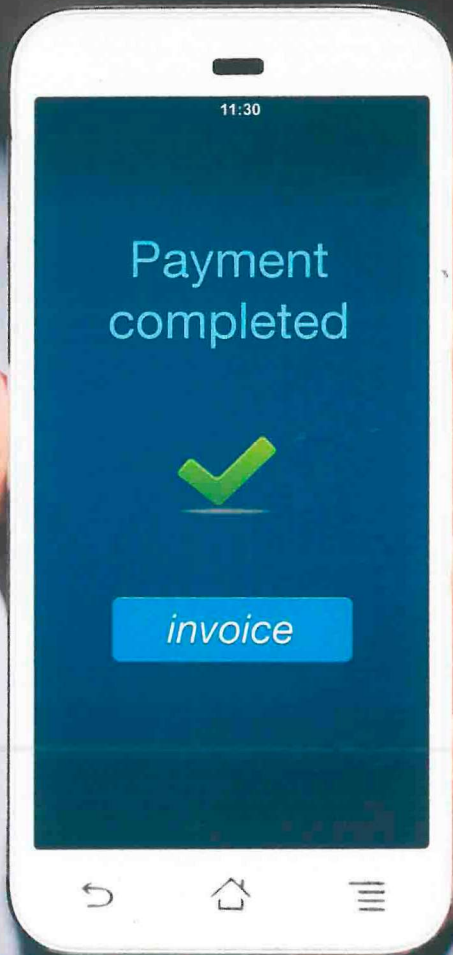
While the promise of a mobile payments panacea remains, analysts wonder how much will be lost in the run-up.

“They’re missing the opportunity of a lifetime,” says Richard K. Crone of

Crone Consulting LLC, an independent advisory firm specializing in payments, describing the urgency of developing a workable mobile payments system for the retail industry.

Amid uncertainty, Crone says retailers running physical stores should not lose sight of the power of mobile for payment. It allows them to hedge against purely online players, such as the might of Amazon, build stronger customer

Embedding mobile payment into retailers' proprietary apps allows them to gather customer data and create programs such as order-ahead while syncing online and offline approaches to purchasing.



relationship management models and solidify their brands both online and offline, he says.

#### THE EMV EFFECT

What is apparent is that retailers are more consumed at present with EMV, the Europay MasterCard Visa chip-card payment system merchants are now required to accept or face increased liability for fraudulent transactions.

Since the EMV mandate took effect in 2015, retailers have complained about high hardware and software implementation costs and lagging certification by the card companies — not to mention marketplace confusion among their customers about the new system.

A 2016 study from NRF and Forrester Research found that implementing EMV is the retail industry's highest payments priority. Essentially back-seating mobile

payments, 76 percent of the companies surveyed called EMV their top payments challenge, compared with only 17 percent for new forms of payment such as mobile and digital wallets. In between were implementation of new data security protocols such as point-to-point encryption and tokenization.

Of retailers who are setting up for mobile, 68 percent plan to accept only one "or very few" types, and 76 percent say the one they will take is Apple Pay.

Given that retailers largely have yet to do a full-court press on mobile pay, market talk of who is winning the mobile-pay wars seems to have quieted since the ballyhooed Apple Pay launch in October 2014.

A February survey from consultants Boston Retail Partners showed that 36 percent of U.S. merchants now accept Apple Pay, an increase from 16 percent in 2016. PayPal had a 34 percent retail acceptance rate.

Thad Peterson, an analyst with the payments practice at market researcher Aite Group, says merchants have little choice but to focus on EMV "because there is a significant economic risk of not doing so" due to the increased liability for fraud.

"For mobile wallets, there's not so much [pressure]," Peterson says. "It's a value add and is increasingly prevalent, but EMV needs to be in place first."

Peterson notes that retailers are increasing their use of near-field communication technology, largely because it is built into virtually all EMV terminals. NFC is one of the technologies used to connect smartphones' mobile payment capability to point-of-sale systems.

Aite Group forecasts that NFC-enabled terminal installations in the United States will increase from about 1.2 million locations in 2016 to an estimated 6.6 million in 2020. The NRF-Forrester survey said 72 percent of respondents expect to be equipped for NFC by the end of 2017.

#### PROPRIETARY APPS

Peterson says mobile has yet to win over the majority of consumers.



22 percent of consumers who have Apple Pay on their phones have never tried it, compared with 15 percent for Samsung Pay and Walmart Pay and 10 percent for Android Pay.

— PYMNTS.com/InfoScout

“One of the challenges of mobile wallets is that while they are more convenient for some, the overall value proposition hasn’t been strong enough to convince a lot of consumers to migrate away from their cards,” he says. “That’s changing with the increasing integration of loyalty and promotion into merchant wallet functionality.”

Crone says the mobile pay market is quickly expanding and that retailers can take steps now to ensure they are viable when the process ultimately takes hold. Crone Consulting estimates that 32 million consumers have Apple Pay, for instance, compared with about 12 million less than two years ago. The number of

those with Android Pay has increased to at least 16 million from 5 million; Samsung Pay has doubled to 10 million.

Crone calls the growth exponential, and says that the spike should serve as a wake-up call to retailers.

As the market develops, he says an initial step for retailers would be to embed mobile payment into their own proprietary apps. Doing so would allow them to gather customer data and create programs such as order-ahead while syncing online and offline approaches to purchasing.

He points to Walmart Pay, the retailer’s payment platform, as an example of the effectiveness of embedding payment in proprietary store applications.

“It’s not about payment, it’s about data,” Crone says. “And if you don’t have the payment embedded in your application, you do not have the data. The easiest move and the most fruitful move a retailer can make in competing against the online players is to first embed payment in their own apps. That gives them a fighting chance of at least knowing who their customer is.”

#### LOW USAGE RATES

Despite the increase in the number of sign-ups for mobile payment, whether anyone is actually using mobile might be a different question.

A study by PYMNTS.com and InfoScout released in March says only 22 percent of consumers who have Apple Pay on their phones have ever tried it, compared with 15 percent for Samsung Pay and Walmart Pay and 10 percent for Android Pay.

Among those who say they are actually using mobile, rather than just trying it, Samsung was the leader at 5 percent

compared with 4 percent for Apple, 3 percent for Walmart and 1 percent for Android.

Steve Mott, who heads payments system consulting firm BetterBuyDesign, says that as highly disruptive EMV has been to retail, mobile pay has been even clumsier and looks worse by comparison from a consumer standpoint.

“From a deployment standpoint, EMV has proved to be a disaster,” he says. “It was poorly crafted for ... problems that really are on the periphery of security issues. It has basically poisoned a relationship within the payment ecosystem between merchants and the bank issuers and card networks.”

But so far, that leaves little solace for consumers who want to shop with their phones, Mott says. At a base level, he says, figuring out which processes merchants accept — the tap, wave or scan at the payments terminal — is simply too much work for most consumers.

“Today, there is no version of mobile payments that is easier for consumers or merchants than the current card system,” says Mott, whose company tests mobile wallets for retailers.

“We clearly haven’t seen much progress in the first generation of mobile payments. The new generation continues to offer clumsy and erratic experiences for the user. As a consumer, you have no idea without doing a lot of work which merchants will accept what you have on your device. They just say, ‘I am not going to bother,’” he says.

Yet giving in and giving up on mobile payments is hardly an option. The desire of consumers to shop “everywhere they want, for all the products they want, whenever they want and wherever they want” is understood by merchants to be a fact that will not be ignored, Mott says.

“You have to be scratching your head whether the fixes with mobile wallets will be coming any time soon. But you also have to bet that with companies with trillions in assets playing the game — some of those guys are going to figure it out.” **STORES**

M.V. Greene is an independent writer and editor based in Owings Mills, Md., who covers business, technology and retail.