

## Mobile Payments – Greatest Opportunity or Biggest Threat?

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**FRESH**

Ideas to Reinvent and  
Reimagine the  
Future of Credit Unions

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## What Are We Talking About?

**Mobile Banking** - is a term used to refer to systems that allows customers of a credit union or bank to conduct a number of financial transactions through a mobile device such as a mobile phone or tablet.

## What Are We Talking About?

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**Mobile Payments** - also referred to as mobile money, mobile money transfer, and mobile wallet generally refer to payment services operated under financial regulation and performed from or via a mobile device.

*Instead of paying with cash, check, or credit cards, a consumer can use a mobile phone to pay for a wide range of services and digital or hard goods.*

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**Mobile Wallet** – definition still evolving, but most consumers believe it should replace the wallet they carry. Payment mechanism, identification cards, retail loyalty cards, health care information, car registration, coupons.....

# REALITY

## THE TRENDS & INNOVATION SHAPING MOBILE PAYMENTS

### 2012 FRB Payments Study

- Cards used for 2/3 (67%) of all consumer payments.
- Consumer use of cards at 86% with business at 14%.
- Virtually all check payments are cleared as a check image or converted to ACH.
- ACH growth modest at 4-5% over last couple of years.

## The Water Cooler

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**Ubiquity** – standards for the WHOLE industry?

**Disintermediation** – non-FI solution providers in the channel business. Is this good or bad?

**Oversight and Reform** – regulators and CFPB in your shops all the time.

**Faster, better, cheaper vs. EASIER** – is easier what we all want?

**Security** – Target as the Target. There's no place like Home Depot....Can EMV help? Will it be too late?

## Watch and Listen

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- Same day ACH.
- Cyber currency use on the rise.
- Check volume decreasing but Remote Deposit Capture “RDC” (consumer and corporate) a must.
- Small to medium size businesses plum for picking! Can you resurface your consumer look and feel and appeal to the “underbanked”?
- CFPB and others as watchdogs for the consumer. Compliance should be JOB 1.
- FRB and The Clearing House building a better way!

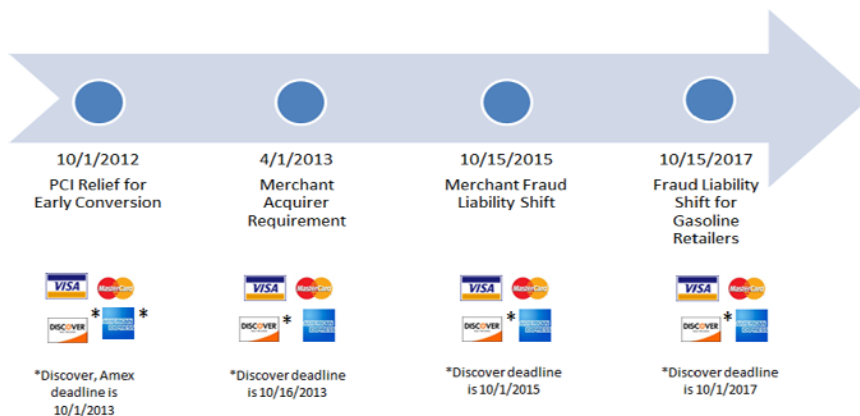
## The EMV Riddle

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- Europay Mastercard Visa
- Global standard (not a mandate) for card.
- Chip and PIN based plastic cards (all brands).
- Key to FI decision – liability shift.
- When the U.S. migrates to the EMV chip-based payment standard it will essentially put the world on a single global standard for fraud protection.

## The EMV Timeline

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## EMV vs. Tokenization

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- What to invest in first?
- Will tokenization via mobile wallets eliminate the need for EMV before we have to jump?
- Javelin research says \$2-5K per ATM to convert to EMV.
- Estimating \$2-5 per card more in cost.
- Watch the liability shift.
- My answer – you will have to go. But maybe a stepped strategy that allows you to focus on mobile first.

## Apple Pay: Game Changer

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- Dependent on the iPhone 6 and 6+. Apple watch and some models of the iPad also enabled.
- Owner to store payment card preferences.
- Uses biometrics (thumb print) for secure access.
- Leverages near frequency communications (NFC) to connect with merchant.
- Issues unique (one time) token for each transaction. Merchant only holds and passes the token for payment/settlement. Bank/CU holds 16 digit card number secure.
- Can be used for in store and on line purchases.
- Leverages the current Passbook app that comes on Apple devices.



## The Apple Pay Decision

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- Everyone leverages their core competencies.
- Early merchant resistance, but who wants to argue with 6.4 million active iPhones in the US?
- Get in line and get on board.
- Not a mobile strategy on it's own.
- Watch for similar “hardware-based” solutions for Android phones.
- ...it's all about a computer that fits in your back pocket

## The Apple Pay Impact

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- Two out of three NFC \$ spent in the US is now Apple Pay.
- Panera Bread NFC up 80% and Whole Foods up 400%.
- Fastest growing payment solution in US history.
- Merchant demand for Apple Pay upgrades has been so strong that supplies of NFC equipment are depleted.
- A tremendous amount of demand is from astute and successful small to medium sized merchants.
- Banks, credit unions and merchants jumping on board. USA technologies brought 200,000 self serve machines like vending and parking meters.
- 50 hospitals nationwide to implement.

## The Apple Pay Impact

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- Apple takes 0.15% of every Apple Pay transaction. Paid by the FI who issued the card.
- Apple Pay - smart for Apple for other important reasons:
  - 1) It locks people into the iPhone.
  - 2) Apples are everywhere in stores now. Apple's logo is appearing next to Visa, MasterCard and American Express on credit card terminals at retailers across the world.
  - 3) It *could* move the needle one day. Credit card companies charge between 1.5% and 3% for every swipe. If Apple Pay becomes a more dominant form of payment in the coming years, Apple could easily raise its fees.
- Online, consumers now spend nearly as much on their mobile phones as they do on their desktop and laptop computers, according to digital marketing company Criteo.
- At physical stores, mobile payments are expected to become a \$142 billion business by 2019, according to Forrester Research.

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## THREAT

**THE TRENDS & INNOVATION CHALLENGING YOUR ROLE IN  
MOBILE PAYMENTS**



## The Mobile Space

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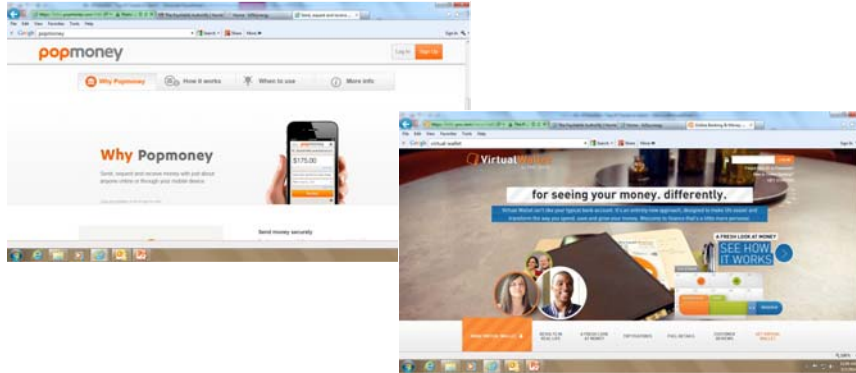
## The Others

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- Many non-FI players enabling payments.
- Consumers and businesses don't care who's moving the \$\$\$ as long as it's EASY and SAFE...or as long as they have recourse if it's not!
- FIs being encouraged to make friends with the enemy!

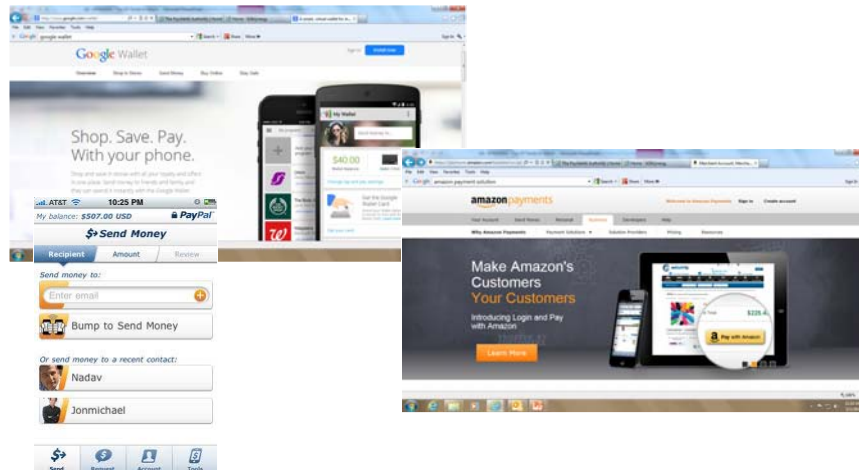
## Innovation: With/Without You

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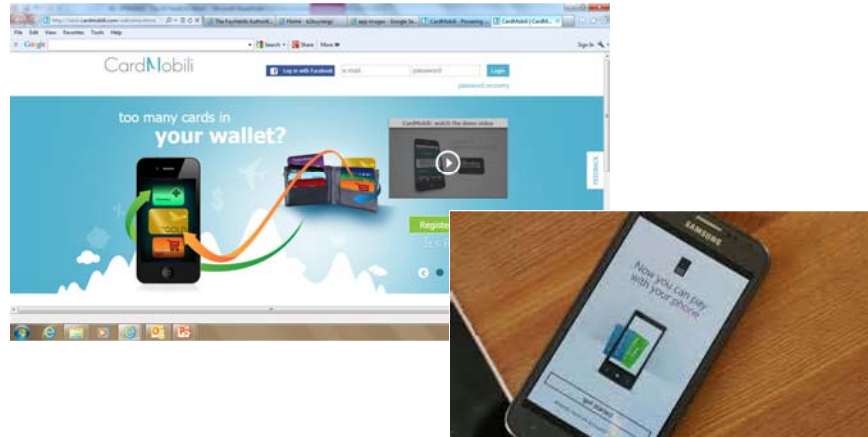
## Net Giants In Payments Biz

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## Mobile Payments/Wallets

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## OPPORTUNITY

**YOUR BEST NEXT MOVES TO PROTECT YOUR PAYMENTS  
FRANCHISE**

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## Your Payments Agenda

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- A strong, consumer-centric virtual footprint. Enabled for mobile.
- For business, an easy but safe online platform.
- Regulatory compliance.
- The Move to EMV.
- What IS your wallet?



## Your Customer's Agenda

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**“27 percent of customers would likely consider a branchless digital bank if they were to switch from their current bank/CU.”**

*according to an Accenture report*

## The New “Mobile Reality”

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- Consumers (and businesses) want their laptop or mobile device to be their branch of choice.
- Banks and CUs who think like the consumers and serve up their financial picture will win.
- Banking is no longer a proximity issue when it comes to payments.

## “What is your wallet?”

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- CU Wallet surfacing as a solid solution – CUSO.
- Driven by Paydiant recently acquired by PayPal.
- Launched in 2013, 87 CUs signed up to date.
- Cloud-based, member driven (collaboration), committed to flexing as technology interests change....
- Currently in testing.
- Consumers will be ready for and demanding a mobile payment app long before there is mass merchant adoption.



## Self Serve Banking

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## Self Serve Ideas

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- Loan origination/request.
- Wire transfer requests.
- Balance review and purchase decision.
- Local partnerships for commerce.
- Credit check.

### CU overall Strategy:

*Who? What? Where? When? Why?*



### Payments Strategy:

*Who?*

*And what will keep them here?*

- Profile the average account holder.
- Work with Operations to look at the work – what are you getting now?
  - Square, PayPal, Pop Money, Bitcoin, Target RedCard, Google Wallet.....
- Identify opportunities to partner.

## Your Homework

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- Market analysis – who is offering what and at what price?
- Voice of the customer – through calling effort find out what they want!
- Build strategy for immediate and future innovation.
- Positioning!!!

## Questions?

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## Contacts & Resources

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PYMNTS.COM – on line news source.

fedpaymentsimprovement.org

Thepaymentsauthority.org

@AmySmithTPA – on twitter

## About

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