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May 23, 2014

The Fed's Report on Mobile Financial Services: Slow Growth in Mobile Payments

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Earlier this year, the Board of Governors of the Federal Reserve System ("Board") released a report on its third annual Survey of Consumers' Use of Mobile Financial Services (the "2013 Survey"). The 2013 Survey are part of the Board's ongoing effort to monitor developments in mobile financial services. While the 2013 Survey covered both mobile banking and mobile payments, the focus of this alert is on the Board's findings related to mobile payments.

2013 Survey Results Regarding Mobile Payments

Consistent with the Board's surveys in previous years, the 2013 Survey defined mobile payments as "purchases, bill payments, charitable donations, payments to another person, or any other payments made using a mobile phone . . . either by accessing a web page through the web browser on your mobile device, by sending a text message (SMS), or by using a downloadable app on your mobile device [whether the] amount of the payment may be applied to your phone bill (for example, Red Cross text message donation), charged to your credit card, deducted from a prepaid account, or withdrawn directly from your bank account."

The following are highlights of the 2013 Survey findings as they relate to mobile payments:

- 17 percent of mobile phone users report that they made a mobile payment in 2013, up from 15 percent in 2012 and 12 percent in 2011;
- 76 percent of consumers who do not use mobile payments indicated that one of the main reasons they have decided not to use mobile payments is that it is easier to pay with cash or a credit card or debit card, and 61 percent said they did not see any benefit to using mobile payments;
- 30 percent of all smartphone owners made an online purchase using their phone; 24 percent paid bills online, 17 percent paid for a product or service at a store (also known as point-of-sale, or POS, purchases), 15 percent transferred money directly to another person's financial account, and 12 percent received money from another person;
- The 17 percent of smartphone owners who made POS purchases with their mobile phones represents a near-tripling from the results of the 2012 survey of incidents of POS mobile payments among smartphone owners;
- 39 percent of those who made mobile POS payments scanned a QR code displayed on a mobile phone, which was the most common method that consumers used to make mobile payments at the POS;
- 18 percent of mobile payment users made a payment using a mobile app that does not require scanning a barcode or tapping their device, and 14 percent of mobile payment users made a payment using contactless technology;

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- Minority mobile phone owners are, according to the 2013 Survey, disproportionately more likely to adopt mobile payments: non-Hispanic whites account for 49 percent of mobile payment users, but make up 68 percent of mobile phone users; Hispanics account for 22 percent of all mobile payment users relative to 14 percent of all mobile phone users; and 21 percent of mobile payment users are non-Hispanic black, compared to their 11 percent share of the mobile phone user population; and
- 57 percent of consumers believe that it is likely or very likely that mobile contactless payments will become a major form of payment in the next five years.

Board Conclusions From the 2013 Survey

The Board concluded that mobile payments appear to have substantial growth potential, as more retailers and businesses are able to accept them at the POS. As indicated above, the use of mobile phones to make payments at the POS increased threefold in 2013 from 2012, which represents the same increase over 2011.

The Board found that the main factors limiting consumer adoption of mobile payments—which are the same factors limiting consumer adoption of mobile banking—are security concerns and some consumers’ belief that these services do not offer distinct benefits from existing methods of making payments. The Board suggested that mobile phone users are interested in using their phones to receive discounts, coupons, and promotions, or to track rewards and loyalty points, which would, in turn, increase the attractiveness of mobile payments.

The Board also reported that 39 percent of the underbanked had used mobile banking in 2013 (88 percent of underbanked consumers have access to a mobile phone, 64 percent of which are smartphones). In addition, the Board suggested that mobile phones could facilitate the provision of financial services to an additional 10 percent of the population that is unbanked (i.e., no bank account), because 69 percent of the unbanked have mobile phones (64 percent of which are smartphones).

The 2013 Survey may suggest that consumers who are not making mobile payments are digging in their heels: almost three-quarters of all mobile phone owners said that they were “unlikely” or “very unlikely” to use their mobile phones to make purchases at the POS, if given the option. The holdouts are generally worried about ease of use (76 percent) and security (63 percent), and 44 percent said they distrust technology. Others are not making mobile payments because they do not have the requisite technology (46 percent) or do not understand mobile payments (37 percent). Breaking down the concerns about security, 22 percent were concerned about “interception of payment information,” 10 percent were concerned about “phone ‘hacking,’” 9 percent were concerned about lost or stolen phones, 4 percent were concerned about misuse of personal information, and 2 percent were concerned about malware or viruses installed on their phone; 52 percent were concerned about all of these issues.

Progress Toward a Cashless Society?

While the trend of growth in consumer adoption of mobile payments continues to be substantial, the overall percentage of consumers who have adopted mobile payments remains relatively low at 17 percent of mobile phone users. It is telling that more than three-quarters of those surveyed who choose not to use mobile payments stated it is easier to pay with cash or a credit card or debit card, and 61 percent said they did not see any benefit to using mobile payments — a result mirrored by the 89 percent of non-adopters of mobile *banking* who stated they chose not to use that service because their banking needs are already being met. Innovations in technology have laid the groundwork for major changes in the realm

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of payment systems, but the results of the 2013 Survey seem to indicate that even more innovation in financial product development will be required to bring make such changes a reality. Many financial institutions and companies are poised to offer customers payment alternatives that are as easy to use as cash and payment cards, coupled with technology to address privacy and security concerns.

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