Extending well beyond payments

Mobile payment in China's digital age

Finally, the era of mobile payments?

We may have finally reached the highly anticipated mobile payment (m-payment) revolution. With worldwide m-payment transactions projected to reach US$721 billion by 2017, it has already started to impact both the online and physical retail experience.

Yet m-payment is not about replacing cash, and potentially it is not even about payment itself. Instead, it can unlock the key to much bigger revenue-generating opportunities such as targeting behaviour for product sales resulting in refined loyalty programmes and better customer insights. According to PwC's recent mobile wallet survey report, more than 50% of respondents would like to get loyalty discounts and coupons instead of paper-based marketing materials at checkout when using a mobile wallet to pay.

Yet, the evolution of m-payment has been slow, and in many cases driven by countries with consumers that lack a bank account rather than those countries with strong banking infrastructure and digitally-savvy customers. The reasons is clear: creating payments where there is little infrastructure is obvious; but changing the traditional card-based transaction payment ecosystem in mature markets to mobile (whether proximity- or cloud-based) requires a number of components across the retail banks, mobile operators, handset manufacturers, software (OS) and application developers, value-added service providers, and trusted service manager (TSM) platforms.

The infancy of the m-payment industry in Mainland China

In China, the m-payment industry is still at its embryonic stage. Remote payments are prevalent due to the popularity of online purchases through smartphones, largely driven by over 75% of internet access in China being made over a mobile device.

The development of proximity payment is still at the trial stage with various commercial pilots in major cities headed by mobile operators, banks and China UnionPay.

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China is facing the same m-payment industry challenges as the rest of the world: the additional cost of new SIM cards and distribution for telecoms operators, the investment of proximity- or cloud-based Point Of Sale terminal for retailers and merchant acquirers, and the complexity of multi-agencies regulatory environment and security concern. Most importantly, everyone is struggling to determine the best model of cooperation versus competition in the ecosystem.

Financial institutions in China face a dilemma

The ubiquity of mobile payment is becoming a reality and at the same time may threaten financial institution's control of payments.

The key issue for retail banks and merchant acquirers is that others in the new ecosystem potentially stand to gain more from disruptive business models enabled by these capabilities than they do through traditional interchange and servicing fees. As a result, the m-payment revolution may not favour the traditional payment businesses at all. Financial institutions need to create "defend and extend" strategies. Defend by protecting their current revenue streams. Extend by capturing customer value through increased spend and revenue, increased brand loyalty and customer satisfaction.

Many financial institutions have explored the potential to circumvent the mobile operators whether directly with handset manufacturers or through other technologies. Our experience shows that those institutions who have pursued this route have dramatically underestimated the costs of servicing the customer and the potential technical complexity in keeping pace with the rapidly shifting sands of the mobile device market.

On the opposite end, China's mobile operators may be tempted to follow Suning's example and expand into financial services (as other operators have done in markets such as the US and Canada). Each of China's large operators certainly have the scale to create an impactful presence but it remains an uphill battle given their other challenges such as national 4G rollout and the additional regulatory and operational burden it creates.

The irony is that cooperation between the parties would yield the best result for China, but instead most believe that mobile payments can be a point of differentiation within/across the ecosystem. The scale and complexity of the problem favours the first movers, and it can be challenging to be a fast-follower in such a complex market. The problem however lies in history: first movers (especially based on technology) often fail to be the dominant party five years later.

Digitising more than payments

PwC's global experience in m-payments shows that most retail banks find creating an app (that takes a subset of functions available on their customer web portals) as a sufficient response. This is based on the belief that the app forms the core of the bank's potential mobile wallet, so that payments can be an extension of services or transaction services in the app.

This silo approach misses the point of a mobile wallet and is likely to lead to substantial time and cost overruns in development and deployment of a truly effective payment method. It often leads to a ruinous customer experience and/or significant under-usage of the app.

Under the threat of dissolution of the traditional schemes by Alipay (an Over The Top provider) the writing is on the wall for payment schemes such as Octopus and UnionPay to innovate to respond to this shift. Payment giant Visa is at the global forefront of trying to drive the evolution of plastic to mobile.

There is a natural synergy between mobile operators, payment schemes and financial institutions, particularly if they are to provide a scalable, reliable and effective alternative to the Over The Top providers. Each provides key strengths, consumer and merchant relationships, and different (but complementary) areas of expertise. If done well, then retailers should welcome the shift to digital that has the opportunity to extend well beyond payments into digital couponing, loyalty, transport and ticketing, and even the common source of a customers' digital identity.

What does good look like?

First and foremost, retail banks need to rediscover customer engagement through all digital channels. Simplicity is fundamental to all aspects of design and execution in mobile – these native banking applications (particularly Android in China) need to embrace responsive design, personalisation and insight, and a seamless multi-channel view of the customer (whether online, in-store, or in- bank).

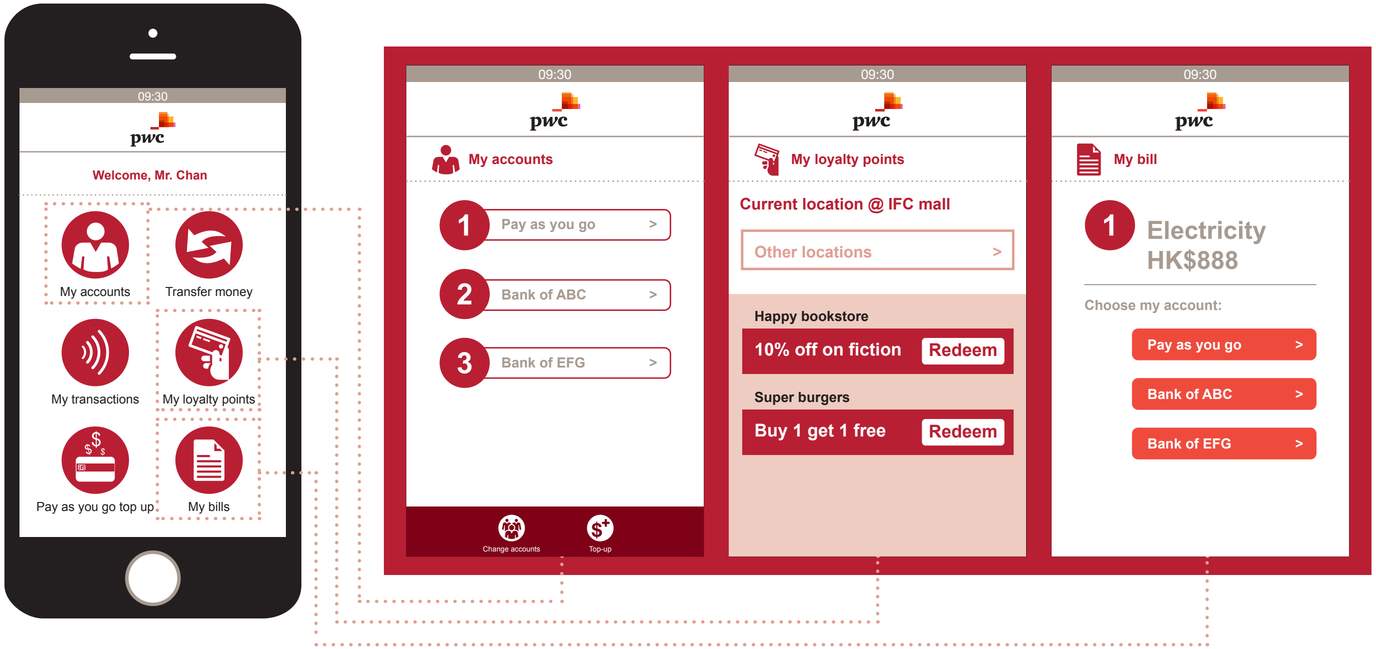
Secondly, the move to mobile payments requires a careful business case as there are many hidden costs outside of the payments ecosystem, a partnership strategy, and a meticulous execution plan. Back-office execution is significant and should not be underestimated as it may lead to waste in the associated time/cost overruns.

Thirdly, it is critical for industries to have the foresight and address the various customer touchpoints that will arise in this new ecosystem. Failure to do so will lead to the eventual dominance of the single-point Over The Top providers.

Let's take banking as an example: if a customer has a primary deposit account with a bank, one would naturally expect the customer to use the bank's app. But one should consider: why should the customer use the bank's app at the point of sale, compared to his other wallet with multiple cards or loyalty schemes?

Who is responsible in the event of a problem with the wallet/ card? – the bank or the mobile operator? How can the bank ensure security for lost/stolen cards while benefiting from the potential shift from cash to cards?

These are all challenges, and opportunities, which PwC has dealt with in helping the financial services industry to develop m-payment across the globe, from formulating strategy to designing digital wallets, from developing analytical business cases to assessing the capability for programme implementation. PwC's unique approach combining the digital and banking industry capability will help your organisation to capture the opportunity arising from innovative digital technologies.



PwC digital team – Financial services

At PwC, our digital team in China creates value by bridging the gap between business and technology. With a focus across all key industries, our team can provide insights on the latest digital trends, technology developments and innovation. We are committed to working with you to design the best approach for your business – from strategy through to execution – to help you make sense of an ever-changing world, throughout your digital journey.

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