

Mobile payments in America

Money? There's an app for that

Attempts to turn mobile phones into digital wallets gather pace

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A CUSTOMER walks into Pinkie's Bakery in San Francisco and pulls out his smartphone. After a couple of taps on the screen, he strolls up to the counter and asks for one of the bakery's mouth-watering brioches. The employee at the "till"—which is, in fact, an iPad—sees the customer's details on its screen and asks him to confirm his name. Then she taps the iPad to take the payment, which will be charged to his credit-card account, and hands over the food. On his way out, the customer's phone beeps and an electronic record of the transaction appears on a digital card for Pinkie's that sits in a software application, or "app", on his phone.



I'm on the bank

That app—and the entire paperless payment process it is a part of—is a product of Square, a start-up co-founded by Jack Dorsey, one of the creators of Twitter. Square wants to undercut the credit-card processing fees charged to small businesses and to make it easy for them to accept digital payments. Unveiling the firm's new payments system on May 23rd, Mr Dorsey boldly predicted that it would make cash registers redundant. His is not the only tech firm hoping to persuade Americans to embrace digital money. After *The Economist* went to press on May 26th, Google was expected to unveil plans to test its own mobile-payment service. (It is less interested in fees, more in using data on mobile payments to improve its aiming of mobile ads.)

Interlopers from the world of high technology are itching to get their hands on a slice of the \$3.7 trillion that the *Nilson Report*, a payment-card journal, reckons Americans charged to credit and debit cards last year. They face stiff competition from banks and credit-card firms, which have been busy launching their own mobile-payment experiments. "It's the wild, wild West out there," says David Owen of Bank of America, which is running a test with MasterCard and Visa involving BlackBerry-toting customers in several cities.

Both geeks and moneymen know that persuading more Americans to use their phones as mobile wallets will not be easy. America still lags behind Europe and Asia in mobile-payment adoption, and has been leapfrogged in sophistication by places such as Kenya, where poor landlines have led to extensive mobile usage. A survey by Javelin Strategy & Research published last year found that only 19% of Americans were interested in using some form of contactless payment.

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Those who think mobile wallets' time has come point out that more and more tech firms are embracing Near-Field Communication (NFC), a wireless connectivity technology that allows phones with embedded NFC chips to make payments when "waved" near an in-store terminal. Nokia, the world's biggest mobile-phone maker, has committed itself to producing NFC-equipped devices, as has Research In Motion, maker of the BlackBerry. Google's Nexus S phone also has an NFC chip in it. If America gets behind NFC as a standard it will boost its chances of being used elsewhere. In Britain Orange recently unveiled a mobile-payment system using an NFC-equipped Samsung phone.

Critics of NFC technology argue that waving a phone around in front of a terminal hardly feels like an efficient and secure way to pay for something. Vincent Kadar, the boss of Telepin Software, a Canadian maker of software that supports mobile transactions, says that NFC should stand for "Not For Commerce". NFC's supporters claim that phones are at least as secure as cards and can be remotely "wiped" if they are lost.

Store chains are keeping an open mind about which contactless-payment technologies to support. "Retailers are kind of sitting on the fence right now," explains Richard Mader of the National Retail Federation. (A few, such as Starbucks, are using proprietary mobile-payment systems based on their own smartphone apps.) In particular, they want to see which systems shave the most off the \$49 billion-worth of transaction fees Mr Mader says they paid to card companies last year.

Banks and credit-card companies are confident that, whatever technology ultimately wins, their brands will help them prevail over the start-ups. They also think that more mobile payments will boost overall spending. "People's phones are closer to their hands than their wallets most of the time," notes Bill Gajda of Visa.

Tills phones us do part

Yet moneymen are still hedging their bets. Visa, for instance, has taken a stake in Square so the card firm can both learn from the start-up and shape the way it evolves, explains Mr Gajda. Tech firms are also reaching out to financial ones. ISIS, a joint venture involving AT&T and Verizon Wireless, two telecom behemoths, was originally conceived as a rival payment network to Visa and MasterCard. Earlier this year it suddenly changed tack and became an open platform on which other firms can build digital-wallet offerings.

Some experts wonder out loud whether Apple will install NFC in its future phones or come up with its own mobile-payments technology. It already has many millions of debit and credit cards on file for its iTunes online music store and a network of stores that could be used as a testing ground for a new mobile-payments service. At Square's product launch this week, Mr Dorsey said his firm's goal was to make paying for a cup of coffee as easy as buying a song from iTunes. Steve Jobs, Apple's boss, may well have a similar ambition.

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