FACTSHEET Mobile payments

Mobile payments: an attempt to define

According to recent data, more than 10 European countries will see 50% of their population use a smartphone in 2015. Hence it does not come as a surprise that mobile payments (m-payments) are increasing. So what are mobile payments? To put it simply, mobile payments refer to payments for which a mobile device is used.

Recent developments: an attempt to categorise

On the basis of the above broad definition, a diverse range of m-payments have emerged. They can be categorised in 4 ways:

- **Economic purpose:** M-payments can be made as purchases or to transfer money. Purchases with a mobile phone can happen at the point of sale using a contactless chip for instance or sending a SMS. Remote purchases include card payments (e.g. PayPal or credit card) via mobile phone when buying a good online. Mobile transfers are used in great numbers in developing countries where millions of people have pre-paid accounts managed via their mobile phone operator. Consumer-to-consumer mobile transfer solutions have recently emerged in EU countries such as Denmark, Sweden and the UK.

- **Technology used:** One form of technology uses SMS, whereby a message is sent by the user via the mobile phone network to make a payment. A second option is using the internet via your smartphone to bank online. Today, most online payments happen via a mobile app. A third technology used is Near Field Communication (NFC) whereby a chip in your phone communicates via radio frequencies with a terminal.

- **Funding source:** The monies used for mobile payments either come from a credit or deposit account held by a bank (including 'prepaid cards') or funds lodged with a non-bank facility e.g. a mobile network operator. The underlying payment instrument can be as diverse as a credit transfer, direct debit, debit card, credit card or e-money transfer.

- **Payment network:** Mobile payments happen either via the normal bank network e.g. when using the bank's app, by card (or contactless payment with a 'mobile wallet' such as Google Wallet) or – thirdly – via a closed network for which those sending and receiving payments must hold an account.

The consumer benefit

Innovations in the payment sector such as m-payments can benefit consumers. First and foremost, they can increase competition and consumer choice in the payment markets. But the real added value and subsequent success of such developments depend on a number of conditions. Payment services need to be:

1. Secure
2. Inexpensive as well as transparently and fairly priced
3. Convenient
4. Respect user privacy
5. Widely accepted, at national level and across the EU.

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Reported problems

In Europe, mobile payments are still a niche market. Still, some instances of consumer detriment have been raised.

Unsurprisingly, **security** is a top concern for consumers. When it comes to our money we want to be 100% sure it is handled safely. As with any new service, mobile payments must prove they can pass this security test. Concerns relate to the lack of common security standards for mobile handsets, low antivirus protection among smartphones or validation of a payment with a code sent by SMS to the same device the payment is made from.

Albeit imperfectly, **liability** in case of fraud when making "traditional" payments is regulated. Consumers' liability is capped at €150 (soon to be reduced to €50)[1]. It is important to evaluate existing EU legislation to identify and prevent any possible loopholes when it comes to consumer and service providers' liability as regards m-payments.

In addition, consumers need to be better informed about their rights in case something goes wrong with the payment or when the smartphone gets lost or stolen.

In case of m-payments, a lot of **personal data** such as the user's geographical location, passwords and payment transaction information are transferred and accessible to a wide range of actors (mobile network operators, app developers, payment processors, merchants). This presents significant challenges to consumers' privacy and data protection rights. Consumers do not know who has access to their data and how it is being stored or used. Consumers should always keep control over their personal data.

Market fragmentation and a **lack of interoperability** between different m-payment solutions are significant barriers to wider uptake of m-payments. Few m-payment methods are accepted by the majority of merchants, while some can only be used in specific areas (e.g. city transport app) or are specifically developed for a certain shop or chain ('closed-loop proprietary solutions'), such as the Starbucks payment app. This diversity of non-interoperable products does not help consumers who want to move to these types of payments.

Time to act?

Different types of both remote and face-to-face/point of sale m-payments are steadily increasing but have not really penetrated the market. Regulators must closely check that products put on the market respect the conditions mentioned above, particularly security, respect of data protection rights and interoperability.

To this end, it is particularly important that the host country authority is given supervisory powers over payment service providers based in another country. The host state authority would be able to act immediately when a foreign company does not comply with local laws, while they are also closer to be able to process consumers' complaints.

With m-payments conquering the market, consumer organisations and regulators will have to closely monitor if existing laws are strong enough to prevent potential detriment.

[1] Consumers will still be liable for loss of monies in cases of 'gross negligence', a legal catch-all term which demands clarification.