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PO Box 1600
Parliament House
Canberra ACT 2600

Inquiry into mobile payment and digital wallet financial services

We attach our submission relating to the above proposed inquiry.

We would be very pleased to amplify any of the points made in this submission.

Kind regards.

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Mobile Payments – Background and Risks

The number of mobile internet users is expected to exceed three billion by the end of 2021 from two billion in 2015. The daily progress in digital technology and the blistering pace of internet data penetration coupled with smartphones are the key sources propelling this disruption to the mobile payments landscape globally. Emerging markets such as India and China, who collectively represent one third of the world's population are driving the ongoing global acceleration of e-commerce spending with mobile phones being a major driver of this growth.

In the move towards a cashless society, the number of non-cash transactions in Europe have increased by 8% to $ 98bn in 2019 compared to the year before with an actual monetary value of $162 trillion with card payments comprising almost half of such payments. In China, 70% of consumers use mobile wallets regularly but China has strong competition from other Asian countries such as Japan and South Korea with all three expected to be the top three cashless societies globally in the short-term. On the other hand, Latin America's cash-based transactions constitute 85% of all transactions with only 39% of the population having a bank account partly due to trust issues with financial institutions

As suggested by the Gartner group, the future of commerce payments in a digital society will be shaped by four key developing trends. These are (1) mobile payments and digital wallets (mobile point of sale, remote mobile payments and mobile proximity payments), (2) open banking and interoperability (e.g., sharing consumer data between banks), (3) real-time payments (immediate, payer-initiated and reliable) and (4) cryptocurrencies (unlimited by national borders).

The number one stakeholder in the global payments platform which will need addressing is consumer concerns about data breaching, security and privacy issues, ID theft, fraud and cybercrime. Without resolving this fundamental factor, none of the significant changes necessary to propel us into the digital age will be successful. Market research has shown that mobile users trust mobile payment solutions which are driven by financial institutions or credit card companies.

In terms of competition and consumer protection, the forces in play in the digital payments landscape are beyond the control of any single organisation or indeed technology. However, keeping a number of important factors in mind will allow the multiple stakeholders to make the most of the opportunities presented by the global payments transformation. Such factors include accepting that investments in payments solutions will be continual, having a strong payments infrastructure, engaging in cybersecurity, developing payments innovation, evolving partnerships between stakeholders and consumer prioritisation.

Some of this is already happening and as a result, a number of key players such as financial institutions, payment providers and technology companies now create innovative capabilities which deliver increasingly frictionless, accurate and secure payment experiences for consumers. The two global card giants have not been silent in this space either. MasterCard has partnered with major service provider Ogone to launch PayPass Wallet and MasterCard has invested also in i-Zettle, the Scandinavian answer to Square.
At the granular level, in terms of costs and pricing, NFC and QR codes will see an increase in uptake as a safe, fast and cost-effective solution. The latter is very important as merchants will have to acquire less infrastructure to process payments whilst delivering greater convenience for consumers. QR code usage is also growing rapidly due to its relatively low cost, limited hardware requirements and easy accessibility.

The trends for digital payments in 2021 include biometric authentication, a tech-savvy generation, from cards to codes, greater mobile points of sale, smart speaker systems, world-class security driven by artificial intelligence, contactless payments, and digital wallets. All these needs to occur within a mobile payments system which poses a complex web of interconnected risks across functional areas such as accounting and finance, operations, technology, legal and compliance and third party management. In terms of merchant expectations, they want passive payment solutions with a frictionless experience leading to reduced shopping cart abandonment. As such, there is a convergence of offline and online point of sale systems which are changing from being transactional instruments to more context-aware 'smart' machines.

Another factor to consider is the payment patterns of the 75 million or so global foreign workers who will use mobile remittances to transfer payments from places such as Europe, the US, Australia, Japan and the Middle East to countries such as India, China, Mexico, Indonesia and the Philippines. As such, the mobile revolution will inevitably profoundly affect the unbanked developing regions of the world.

Digital Wallet

Put simply, a digital wallet is an app that stores user's data and allows making a number of transactions from remittances at checkouts, online stores and peer-to-peer money transfers. Its use is simple with the user of the digital wallet placing their mobile device near a payment terminal with both devices connecting using near field communication technology. The benefits from a digital wallet range from saving time and ease of use, expenses tracking, greater security, lower costs but its disadvantages include the need for time and money investments, reduced number of merchants, device dependency, potential reckless spending and security, data, fraud and privacy issues. Regardless of this, the developments in digital wallets will be bound to continue given its security and convenience, two factors most important to its current generation of mostly younger users.

Mobile Payments – What lies Ahead?

As already well established, mobile payments have a number of disparate payment types which can be grouped into four main categories, namely the economic purpose (e.g., purchases and remittances), technological interface (near field communication, mobile internet and unstructured supplementary service data), funding source (financial institution and other stared value operators) and payment networks (interbank network, card scheme network and closed loop operators). The mobile payment market is also exceedingly fragmented with a wide range of competing technologies and business models ranging from peer-to-peer money transfers, in-store app-based payments and full digital wallet functionality using near field communication capabilities. There is also the need to synchronise complexed business models, integrate a variety of applications and aligning business processes. In terms of such challenges, these are business model refinement regulatory compliance, information privacy and consumer protection, security and fraud risk and infrastructure system design and implementation. Clearly, therefore the integration of such complexed tasks need to be monitored carefully at regulatory levels to ensure that the end-product meets very specific and important key performance indicators. In the past, financial institutions such as banks effectively had a monopoly on transactions services but with the new fintech companies, things are far more diverse with telecom companies, banks, mobile wallets firms and merchants vying with each other for customers and a slice of this burgeoning market. Such a diaspora of actors underscores the need for detailed regulatory monitoring by the government.

Australia

In advanced economies such as Australia, the UK and USA, mobile internet and mobile near field communication payments are already well developed and will thus only provide incremental benefits for customers there whereas emerging economies will require such mobile capabilities to fill significant gaps in their financial infrastructure. An important development in Australia is the establishment of a new interbank payment system that will provide the advanced capabilities suited to mobile payments. This system will facilitate payments close to real-time, the use of simple identifiers to facilitate payments and allow additional information to be transmitted at the same time. This will facilitate the extension of such payments from a mobile payer from a single financial institution to other different financial institutions. One of the more significant changes in the payments arena is the push towards interoperability allowing transfers and private data between banks independent of the acquirer payment service provider mobile app.

Australia presents an excellent setting for mobile payments in the future. Two Australian banks are leading the way in this area with the Commonwealth Bank with its Kaching app and the ANZ Banking Group with its goMoney application. Five forces will play the biggest role in shaping the new world of payments in Australia: (1) customer demand for greater personalisation, (2) technology enhancements, (3) globalisation of business, (4) increasing regulatory requirements and (5) disintermediation. Traditional financial services providers in Australia have to embrace change to serve consumers and commercial customers or risk being pushed further and further away form their customers' minds. At the disaggregated industry level, according to PriceWaterhouse Coopers's strategy document on The Future of Transaction Banking and Payments in 2020, there are seven key imperatives for financial institutions to consider and respond to in order to capture growth: (1) streamlined operations (2) customer-centric business models (3) data analytics (4) business payment solutions (5) simplified cross-border payment systems (6) open innovation and (7) improved underlying infrastructure. To be able to successfully prepare

Australia for mobile payments at the evolving international best practices standards, we need to understand how to use data to gain a deeper insight into behaviour both before and after a transaction.

It is also important to reiterate that no single entity will be in a position to control the entire payments chain meaning that partnerships will have to be struck in Australia especially for regional and national banks so that there is competition with global banks. This is a good sign for competition and the consumer in the short term.