

Paying Person-to-Person

What it Takes to Move Money

By Arlene Hauben



On every level, online money movement is gaining momentum. Financial institutions and third party payment vendors are anticipating a new era in electronic person-to-person (P2P) pay, as the Facebook generation, Baby Boomers, and immigrants in the prepaid demographic sector all want a convenient, secure, and economical way to transfer money to each other.

Since the launch of PayPal in 1999, many consumers have gotten into the practice of shopping on web sites that require P2P payments, and using online bank services, such as bill pay. According to 2009 research from the Tower Group, the US non-cash P2P market reached \$1.1 trillion with three billion P2P transactions in 2008. The

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analyst group identified 2009 as a crucial year for financial institutions to implement P2P solutions as a means to retain current customers and acquire new ones.

Studying Consumer Interest

To stay ahead of the curve, financial services institutions have been studying consumers' reactions to P2P payments to see just how far and where they can take it. NACHA and eCom Advisors in partnership with Fidelity National Information Services (FIS) and PayPal designed research to study banking consumers' reactions to two new product concepts. The February 2010 survey was completed by 1,180 active online banking consumers in the US.

According to Paul McAdam, a

partner at eCom Advisors, the survey tested consumer responses to P2P payment services that were offered within the online banking and bill payment applications of their financial institutions. The first concept is basic P2P payment solutions offered by a financial institution, of which 48% of those surveyed said they were likely to use. A third (33%) of consumers said they would be likely to use it to send money to a child at college. Almost as many people said they would send money to a relative or friend out of the country.

The second concept is ePayment Portal, a service that can be provided by a financial institution allowing consumers to transfer money, pay bills, send and receive P2P payments, and track all their money movement from a single place online. Of the population that showed interest in P2P, 70% would likely use the P2P payment services within the Portal. Out of eight payment features presented in the Portal concept test, P2P was the third most popular, behind making bill payments (88%) and making same-day emergency payments to avoid late fees (75%).

Responses from the survey confirmed that there is a substantial opportunity for electronic P2P payments to replace cash and check money exchanges between individuals. The next step is for banks to position electronic P2P payments as a component of a payment and money movement solution. Another point is that banks will benefit most by promoting P2P payments to online banking and bill payment customers, and to users of mobile banking services and payments.

Rolling Out P2P

Many bank institutions have already integrated P2P into their bill pay platforms. They realize that people who use online payment services and mobile banking apps are more likely to adopt P2P as part of a larger e-Payment platform.

Besides consumer interest, what else is driving banks to take this initiative? Undoubtedly, competition demands innovative services to retain customers and acquire new ones. Most banks are forming alliances with payment processors to meet their goals.

FIS, sponsor of the eCom survey, has an alliance with PayPal, and integrates P2P payments into FIS' bill pay application. Fiserv is taking the same route, integrating P2P into its legacy CheckFree bill pay platform.

Fiserv recently announced ZashPay, a new P2P payments service that "will allow consumers to tap into a community where they can quickly send or receive money using their existing online banking accounts. Consumers will be able to send money to anyone they know using only an e-mail address or mobile phone number. The payment will be deducted directly from the sender's banking account and deposited directly into the recipient's account in as little as one business day, utilizing the same secure processes as a typical online banking transaction." Fiserv has also launched a Facebook page for ZashPay.

Online banking vendors have also made their alliances: Mobile Money Ventures is reselling P2P services from Toronto-based CPNI, and MasterCard announced its Mobile MoneySend service last May,

provided using technology from Obopay. Visa had a P2P pilot at US Bank last year, and American Express got in with its \$300 million purchase of Revolution Money late last year.

POPmoney from "Pay Other People" (POP) was developed by CashEdge Inc. In a consumer survey the company conducted in 2009, 77% of consumers said they would prefer to use a P2P payments service offered through their bank compared to an independent service, such as PayPal.

POP is offered directly from within the bank's online or mobile banking applications, allowing bank customers to send money directly from their bank accounts using an email address, cell phone number or bank account information through its Intelligent Money Movement platform. The platform has SMS capabilities and offers WAP and downloadable mobile application support for Smartphones, enabling banks to extend their P2P functionality to the mobile banking channel.

Role of Mobile in P2P Space

In the mobile banking space, platforms continue to evolve and re-adapt as the consumer market and smart phones get increasingly sophisticated. Some mobile payment companies are changing their business model to gain market share and maximize profits.

Obopay has all but abandoned the mobile transfer service, according to an article in American Banker

(Daniel Wolfe, May 11, 2010). Their revamped business model is being built around a new service that banks can offer to their customers. Although they partnered with certain financial institutions in developing countries to push the P2P mobile transfer service, there was a lack of demand.

What Obopay learned was that in order for users to embrace mobile payments, the technology has to integrate seamlessly with banks' existing mobile phone services. David Schwartz, Obopay's head of product and corporate marketing, said "The way that people want to adopt mobile money services in the US is really through their bank."

The company also realized that small merchants are important to the mobile payment eco-system. Obopay has introduced a new feature, Get Paid, which small merchants can use to send invoices and get paid with credit and debit cards, or through the automated clearing house network.

Applied to the prepaid demographic space, the mobile channel is the best choice for P2P because a bank account is not required to participate. Typical prepaid customers can acquire access through their Mobile Network Operator (MNO).

"Clearly there is a huge interest in P2P and the research numbers are compelling," said Daniel Csoka, Founder and CEO of aKos Technology Corporation. "But of the three P2P models -- independent provider (like a PayPal), bank-led, and mobile channel -- mobile is the one

that can reach the most people, particularly the unbanked."

There are nearly 5 billion mobile phones in the world, so "clearly, mobile is where P2P will end up," said Csoka. He believes that the unbanked population in the US, estimated at 73 million, will eventually use their mobile phones for financial services. In 2008, unbanked immigrants worldwide sent \$350 billion to relatives overseas, much of which was sent through Western Union and other formal channels.

The obstacle to mobile money transfers is discovery and education. Csoka recalled that since 2007 every Verizon cell phone with Get It Now could access Obopay, a micro-payment processor, in order to move money, whether it was to divide a dinner check between friends or send money to someone. But very few Verizon customers even knew about the service.

"MNOs already have the infrastructure, the brand, and the trust of their customers," adds Csoka. "But there has to be sufficient and effective promotion to invoke that 'must have' sensation."

aKos developed the first cash-based international P2P mobile money transfer service for ClearTalk in 2009. It enables the unbanked customer to walk into a carrier store, hand over cash, and send money overseas in real-time via their mobile phone and allow the recipient to receive those funds in cash. "This is a true cash-based P2P model, a system that integrates with the mobile network operator's

billing system," said Csoka. "It does not require a customer's bank account or credit card."

To further reduce transaction fees, Csoka suggests bundling the money transfer with a rate plan to include funds for minutes, SMS and extra money for the customer's relative in Mexico (for example). "An attractive prepaid rate plan bundle might include 'x' minutes to Mexico, 'y' SMS to Mexico and one money transfer a month. Now, that's value added," said Csoka.

Selling Electronic P2P

"Awareness is first, but consumers need to know that sending electronic P2P payments is simple," noted McAdam. "It should only require a few clicks, otherwise it does not make sense."

So the big question is this: When the banks have their new P2P platform in place, will they effectively promote it? If banks are going to actually attract new customers, they will need to educate their customers on the ease of use and variety of channels for P2P payments. They will have to target the most likely candidates, too. Those are mobile customers who are most likely to adopt the service.

"Partnering with a banking provider brings a higher level of trust," said McAdam. "But the use of incentives will have to play a big role in getting consumers to try P2P, especially cash back awards, the preferred incentive."