

Overcoming NFC Obstacles

BY BETH HOROWITZ

Members of the payments and mobile-communications industries agree that Near Field Communication holds great promise for enabling a variety of transactions on mobile phones. But disagreements continue to block widespread use of the contactless technology.

NFC provides short-range, two-way wireless connections between chips embedded in devices, such as mobile phones. The technology enables storage of account data for one or more payment cards within a mobile handset. And it can power redemption of merchant-loyalty rewards at points of sale and provide instant access to video and other content using displays embedded with NFC chips.

Despite such enormous potential, the horizon for widespread adoption of NFC remains hazy. According to U.S.-based ABI Research, more than 6.5 million NFC-enabled mobile phones will be sold worldwide in 2008, a tenfold increase from 2007.

By 2011, ABI projects that 450 million, or 30%, of the world's mobile phones will have NFC inside. This is the most bullish projection we have seen but is a 20% reduction from ABI's May 2006 projection.

Much of the uncertainty stems from disagreements about the proper mobile-payments business model among key players: merchants, banks, mobile-service carriers and payment networks. We have yet to agree about who "owns" the customer experience and how to share revenue in a way that satisfies all participants.



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The Smart Card Alliance's mobile payments work group recently interviewed card issuers, cellular operators, mobile-technology providers, payment networks, merchants and other stakeholders about some possible NFC business models.

Under the mobile-carrier model, the carrier owns the entire ecosystem and is responsible for the deployment of phones, mobile-payment applications, readers and soft cards. (A soft card is an electronic representation of a physical plastic card, such as a building-security access card or transit card, which resides in the NFC phone.) The carrier becomes issuer, acquirer and mobile-application provider.

The upside of this operator-centric scenario is that it reduces the number of stakeholders and streamlines deployment. When carriers preload payment applications to NFC phones, customers can begin enjoying the benefits of NFC without having to download applications.

However, this model disintermediates banks. And it forces carriers to function outside their core competencies, requiring them to manage, for example, payment-fraud and lending risk.

A second approach is the bank model, in which the bank becomes a virtual mobile-network operator as the carrier, application provider and issuer. The bank receives all of the revenue associated with NFC use.

As with the carrier-centric model, an advantage of this approach is that it also streamlines the ecosystem, with financial institutions, instead of mobile carriers, handling banking transactions.

Again, the disadvantage is that it forces one of the ecosystem participants, in this case the bank, to act outside of its core competencies. For example, the bank must develop mobile applications, push them out to multiple cellular networks and be responsible for cellular-network security.

Discover Network, as with all 21 of the stakeholders the Smart Card Alliance interviewed, believes the best option is the collaboration model.

This approach requires cooperation between the banks, carriers and other stakeholders, such as a trusted third-party service provider, to manage the deployment of mobile-payment applications. With this model, all parties manage to their core competencies, helping to deliver a positive, trusted and seamless experience to the customer.

The enormous promise that NFC technology holds for consumers ultimately will be the driving factor in this industry debate. The benefits to consumers are too large to ignore, and we are optimistic that potential participants in the NFC-payments ecosystem soon will find a workable business model. **CP**