Rocking The Payments Space

by Steve Brown

Scientists in Spain have unearthed a totally new water source for plant life called gypsum rock. Gypsum is a very soft mineral found in dry environments across the world, and researchers now believe it plays a role in sustaining plant life in the areas where it's found. Given that gypsum has also been identified on Mars, this new discovery could have significant implications for exobiologists in their study of life beyond our planet.

You'd literally have to have been hiding under a rock to have missed the hoopla last week that followed Apple's official announcement of its foray into the mobile-payment industry with Apple Pay. Like others before it, the tech giant is betting that savvy consumers will ultimately dump their physical wallets for "virtual wallets" if they are able to pay in a secure fashion using contactless payment technology.

Two such technologies enabling the use of virtual wallets are already in place: EMV (named for developers Europay, MasterCard and Visa) and NFC (near-field communication). EMV-enabled chip cards encrypt purchase transaction data using an embedded microprocessor chip while NFC is a wireless communication technology that uses short-distance radio waves to transmit data.

Around the same time Apple made its grand announcement, MasterCard said it was establishing contactless acceptance as standard by 2020 for merchants accepting MasterCard and Maestro in Europe. Europe is already leaps and bounds ahead of the US when it comes to EMV chip card migration and these latest initiatives overseas, as well as Apple's influence, may help jumpstart NFC adoption here in the US as well.

To give its initiative teeth, Apple partnered with Visa, MasterCard and American Express and teamed up with a number of large banks that account for the vast majority of US credit card volume. What's more, Apple signed on a number of big-name retailers who will be accepting Apple Pay from the get-go.

There's a lot in flux right now within the payments space, and community banks need to look at the big picture and decide where they want to fit in. You've got a little time to explore, but not too much. Roughly 29% of all online retail sales in the US will be transacted on smartphones and tablets by the end of 2014, according to Forrester Research Inc. Forrester also predicts US mobile payments will hit $90B in 2017.

For now there are still a lot of issues to iron out, including the fact that the infrastructure remains a work-in-progress for many merchants. But it helps that US merchants are already facing an October 2015 deadline for becoming EMV-compliant. With Apple's announcement as a catalyst, merchants may be more inclined to make changes all at once to allow both EMV and NFC acceptance.

Consumers are still wary about mobile payments, and the concern about data security has only escalated given the high-profile data breaches involving Home Depot, Target and other large retailers. But time, coupled with the proper amount of hand-holding and reassurances, will likely ease these fears and encourage the broader use of mobile payments.

To be sure, a large chunk of consumers still prefer to pay with cash, but those numbers are waning and will continue to decrease as mobile payments continue to gain traction. Research by CreditCards.com already shows that if you're age 49 or younger, you're nearly as likely to pay for a $5 purchase with plastic as you are to pay with cash. How long will it be before mobile payments overtake plastic?

Time will tell, but banks shouldn't wait until the train has left to get on board with mobile payments. Those that lift the rock may well discover a viable revenue source underneath.

BANK NEWS

For Sale

Bloomberg reports Citigroup is planning to take its OneMain Financial unit (formerly Citifinancial) public and then sell the unit for an expected $4B. OneMain offers personal loans (such as debt consolidation, unexpected expenses and home improvement) serviced locally at neighborhood branches.

CRE Lending

A survey by the ABA finds bankers say the biggest challenges in making CRE loans are fewer creditworthy projects (59%), low demand for credit (53%), other supervisory requirements (12%), hard caps on CRE imposed by the regulators (10%) and an inability to obtain funding (2%).

Revenue Growth

A KPMG banking industry outlook survey of 100 bank executives in the U.S. finds the primary areas these executives see as the biggest growth drivers of revenue over the next 1Y to 3Ys are: asset and wealth management (32%); C&I loans (28%); broker dealer and capital market activity (21%); cross selling services (20%); construction lending (20%); credit cards (18%); emerging market lending (18%); residential mortgages (17%); commercial mortgages (15%); new market segments (14%); deposit fee income (13%); M&A activity (12%); new geographies (9%) and emerging mobile payments, social media and other technologies (7%).

Downsizing CRE

Large banks have been reducing their commercial real estate footprint according to the banks themselves. Wells Fargo reports it has cut its real estate footprint by 17% over the past 5Ys (to 95mm square feet), while Bank of America has reduced it by 16% in 4Ys (to 100mm square feet).

Digital Growth

BAI reports some are predicting the growth of digital transactions will soar as much as 300% over the 5Y period ending in 2015.