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The Phone is the Wallet: A Look at mFoundry

by Carol Coye Benson on September 28, 2009

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Last week, Starbucks announced a raft of new mobile capabilities, with iPhone apps to enable consumers to use their phone as their card in a variety of ways, including seeing a balance and reloading. For the payments industry, however, the announced test of a usable-for-purchase prepaid card on the phone, using 2d bar code technology, is big – very big. This piece is enabled by **mFoundry**, an early leader in mobile banking; who, it appears, is again moving to the forefront, this time in a new category of mobile payments.

I spoke recently with **CEO Drew Sievers**. I was particularly interested in understanding his new initiative, and also to understand his thoughts on the connections – real and potential – between mobile banking and mobile payments.

Background

When the whole topic of "mobile" came to boil for the financial services industry about three years ago, there was a lot of confusion about the difference between mobile banking and mobile payments. Some people assumed that mobile payments would simply be a logical next step after mobile banking. That was naive – in the U.S. in particular, many people make payments through cards that are not provided by their banks. And we've seen the various person-to-person, digital content, and NFC/POS mobile payments plays emerge and evolve separately from the evolution of the mobile banking environment. (We'll discount, for the moment, bill payment – which is included in most mobile banking offerings.)

Looking Back: Mobile Banking

We started with a retrospect on mobile banking. A lot has happened in three years! If you recall, three years ago most banks were worried about deciding among competitive delivery technologies – the phone browser (pretty awful at the time), SMS, or an application on the phone. The application required carrier participation. Some large banks (including Citi, working with mFoundry) went forward with an application in order to ensure an attractive user experience. Other companies (including Firethorn, later acquired by Qualcomm) moved even more aggressively to provide pre-installed applications with deep carrier involvement. Sievers thinks the financial services industry collectively had a bad experience with these applications, and particularly with the carriers: it "established an adversarial relationship between carriers and banks… if we fast forward, it became very clear that mobile operators had no real role in mobile banking."

The obvious game changer was the iPhone, and the whole concept of an open environment for apps on the phone. Regardless of who wins and loses on the question of app stores, Sievers thinks it is clear that open ecosystems are how consumers are going to get apps for their phone through open ecosystems – including mobile banking apps. mFoundry and other providers are now merrily creating iPhone, Android, and other lightweight apps for banks to offer consumers, as well as solutions via WAP and SMS.

The marketing challenge for mFoundry and other mobile banking companies is reaching the many banks in the United States; that's why mFoundry's strategic partnership with bank processor Fidelity National is so important to them. I questioned this, pointing out that the cross sell between bank core processors and online banking is pretty low (e.g. a bank using Fidelity for core processing may well use another provider for online banking and bill payment.) Sievers acknowledged this but thinks that the cross sell between core processing and mobile will be much stronger – partly because the real time alerts that mobile solutions support (and demand!) require deeper integration with the core than is the case for online banking. And there is a need to serve *all* of a banks customers, not just the ones who use online banking,

Looking Forward: Mobile Payments

The mFoundry team has been thinking hard about what this new app environment means for payments, and most importantly, the question of how purchases at the point of sale – presumably using NFC technology – will roll out. The common wisdom is that doing these kinds of transactions requires a level of security beyond that supported in the open apps environment. This leads banks and other payments providers to rely on phone SIM card security, and thereby drops them back in the laps of the carriers, who control the SIM card. Payments providers are fighting hard against the notion of sharing their payments revenue with carriers. (One of my partners here at Glenbrook, Bryan Derman, is fond of pointing out that when you aren't creating new revenue, but rather trying to re-allocate existing pools of revenue, the water gets bloody pretty quickly.)

Sievers sees no quick resolution to this battle, and is generally skeptical about the short-term promise of NFC payments. The convenience argument isn't enough for him: "it's not materially faster or easier than swiping a card." And he is particularly doubtful about the whole set of marketing arguments, which revolve around ideas such as providing real-time couponing. The marketing industry (of which he is a veteran, having been a "Mad Man" at Ogilvy-Mather and other agencies in the

1980s) has "been talking about this promised land for decades… in reality", he says, "we are not really drastically closer to that than we were 30 years ago." He thinks that even if the marketing applications of NFC become real, they won't necessary be tightly coupled with payments.

Despite what sounds like some pessimism about mobile payments, Sievers is actually quite optimistic about consumer use of phones for payments and identity management. In the short-term, the killer app for mFoundry will be frequent-use, closed-loop stored value cards – delivered not by NFC but by the use of 2D bar codes. The Starbucks test announced last week is the first of what Sievers claims will be multiple announcements coming from mFoundry in the near future. With this approach, consumers will be able to check their balances and reload using light weight apps on their phone, and then simply display a bar code to the store clerk for payment. This solution typically does not require new software for the merchant – since most merchant optical readers come with this capability (reading a 2D bar code and generating card payment data) "baked in."

mFoundry's role is writing the client software for the phone and generating the barcodes based on the consumer's profile and account balances. They also manage the security of the system. The back end prepaid functions are not provided by mFoundry but by a prepaid processor. mFoundry's business model is as a managed service provider – not a transaction processor.

We closed by talking about the future for payments innovation – a topic that we at Glenbrook are always interested in discussing! Sievers thinks that the most exciting element of the open app environment is that it enables innovation from a broader ecosystem, rather than relying on one or a small number of companies that control a technology to provide it. He is optimistic that over time "external innovators" will figure out how to use the NFC chip for payments, and more importantly for identity and access management, without forcing payments providers to share revenue with the carriers.

We talked a bit about the ongoing industry discussion on mobile wallets – what are they, who provides them, etc. Of course, everyone agrees that "the wallet" will hold multiple payments instruments and identity documents. Interestingly, Sievers said "how it actually happens is less relevant than the content". "The phone", he said, "is the wallet". This would mean that a consumer might have multiple payments related apps on their phone – with no particular integration or organization of them.

Before dismissing this ("of course consumers would want to go to one place to see their mobile payments"), keep in mind that many products that have as their premise the organization of consumer finances find very limited markets – think of the personal financial management systems and bank aggregation offerings. Consumers tend to value convenience, and discount organization, when it comes to their finances – so this is one prediction that merits careful thought.

In the meantime, I'm waiting for the Starbucks test program to expand in the Northwest from Seattle – one of their test cities – to my (small) home town of Ashland, OR. I'll be the first in line for my latte!

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