Smartphones Become Major Conduit For Payments Evolution

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A rapid uptake of new technology is quickly shifting the payment landscape. Advances in different technologies has given way to new consumer devices, such as smartphones and tablets, as well as new ways of sharing information such as NFC chips, QR codes, Bluetooth technology and cloud computing.

All these factors, as well as new regulations, revamped business models and shifting payments habits will reshape the payments industry for years to come.

Across the world, mobile phones have become the necessary communications tool both in developed and emerging markets. In developed markets, PCs and laptops are taking a backseat as smartphone owners use this smaller, more convenient device to surf the internet everywhere they go. In emerging markets, the mobile phone has become a leapfrog technology.

The lack of infrastructural development in fixed-line telephony, which is costly to set up in vast and remote areas have led to the faster uptake of mobile telephones in emerging markets compared to fixed-line telephones. Mobile phones are no longer a luxury item, but also a lifestyle aid in both developed and emerging markets.

In fact, 78% of the worldâ€™s households have a mobile phone today, according to Euromonitor Internationalâ€™s Passport: Consumer Electronics . Thatâ€™s up from 20% in 2000.

In 2011, 68% of all mobile phones globally were feature phones versus smartphones. Smartphone penetration is greatest in developed markets like the US, Western Europe and Australia, but that will change in the coming years. The feature-to-smartphone breakdown is expected to flip flop by 2016 when 78% of the worldâ€™s mobile phones will be smartphones. Euromonitor defines smartphones as devices that have identifiable operating systems, allow the installation of applications and have a screen size of less than 6 inches. While feature phones may have additional features like a camera, MP3 playback and web-browsing capabilities, they do not have the other features associated with smartphones.

Of all of the factors changing payments, including the shift in payment habits to new regulations, smartphones have become one of the biggest conduits for much of the change across the payments industry. Smartphones may be NFC enabled or at the very least accept a plug-in device through its headphone jack or display a QR code on its screen. These are the types of technologies on the market today that are enabling the mobile phone to accept payment. Â

And consumers are quickly adopting smartphones. Annual smartphone sales have surged from US$13.0 billion in 2006, the year before Apple unveiled the iPhone, to US$185 billion in 2012, according to Euromonitor Internationalâ€™s Passport: Consumer Electronics. Euromonitor expects smartphone sales to top US$300 billion by 2015.

As consumers become more and more engaged with these advanced mobile phones, mobile payments will only continue to gain more attention. Mobile commerce is expected to grow by nearly 400% over the course of the next five years in the 46 consumer finance markets researched by Euromonitor. A whopping US$378 billion is expected to be purchased through mobile phones in 2017.

Besides new technology, the industry itself is driving part of the change because there are so many players that need to be involved in the process to make a payment happen. Each additional spoke in the industry hub creates an opportunity for an outsider to come in and introduce a simplified product, which could unseat one offered by a mainstream payment provider.

For the first time, traditional payment companies, like Visa Inc. and MasterCard Inc., now find themselves competing against unconventional payment players, such as mobile phone operators, retailers and tech start-ups. Visa and MasterCard have entered into a number of partnerships globally with many of these players, as well as traditional payment providers, to make sure their product is in the mix no matter what wallet consumers may choose.

All these changes are due to that pocket-size device that first started by changing the way individuals connect to another and is nowÂ threatening to evolve the entire way consumers pay in both online and offline environments.

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