

Danish banks

Mobile payments for everyone

Danish banks are introducing easy-to-use mobile payments for everyone – no matter which mobile phone you use, and no matter who pays your phone bill. This has been made possible owing to active co-operation in the entire Danish banking sector.



Kristian T. Sørensen
Function manager
Nykredit
krts@nykredit.dk

Later this year Danish banks will offer customers a new remote payment solution, to everyone with a Danish bank account and a Danish mobile-phone number. The solution is designed as a joint project by the entire Danish banking sector. The brand name for this new product has not yet been made public, hence for this article the working title BankSMS will be used.

BankSMS is fairly simple seen from a user perspective and works very similarly to the current premium SMS solutions offered by the telcos. Premium SMS has been a successful product thus far – and not only for mobile-phone-related products like ringtones, games, and wallpapers. Recently with the launch of SMS-based transportation ticket use and demand has increased dramatically. The Danish Rail DSB expects to shift 40% of cash-paid tickets to mobile payments in the coming years.

How BankSMS works

When a BankSMS user wants to initiate a purchase, he or she sends an SMS with a product code to a four-digit short code. For example: for buying a train ticket from Copenhagen to Odense, you simply text "copenhagen odense" and send it to 1415. Immediately afterward, you receive another text message that describes the ticket you have requested and the price. To complete the purchase you simply reply "yes" and shortly thereafter the actual ticket will be issued and sent as a text message to your phone, while the costs will be debited from your bank account.

In order to use BankSMS, an account holder in a Danish bank must enrol a mobile-phone number – either the account holder's own or someone else's: for example of the spouse, children, or employees. Enrolment can be done either on line or by contacting a branch office. At enrolment the account holder is required to enter the mobile-phone

number of the user and the maximum daily spending limit within a 200 euro limit. The user's social-security number is also required if the user is someone other than the account holder.

The bank will then issue a unique number identifying the relation between a mobile-phone number and a given bank account, following existing cross-sector standards. This mapping will be submitted to a common central database, which will be used for routing incoming payment requests to the right bank. This simple solution has allowed for a high degree of reuse of existing infrastructure, which has reduced both costs and implementation time for the project.

In terms of enrolment, the telcos have one distinct advantage over BankSMS. You must actively opt out of the possibility for using premium SMS, whereas BankSMS requires active enrolment. This barrier for introduction is something that the project's marketing group will address.

A low-tech product in an affluent market

The Danish market is very affluent in terms of on-line banking and mobile-phone usage: 93% of the adult population uses a mobile phone and 71% uses on-line banking.

BankSMS is a response to demands from both consumers and merchants to have simple mobile payments for everyone. At the same time, it is a defensive move: if banks do not offer mobile-payment solutions, someone else will. BankSMS will not only compete with the existing market for premium SMS, it is also expected to grow and to expand that market.

While more high-tech alternatives like near-field communication (NFC) are being tested and promoted elsewhere, there is no immediate threat that BankSMS will be rendered obsolete by the emergence of NFC as a new common standard.

Judging from the experience with the French NFC trials in Nice, we may conclude that it will take considerable time and effort before NFC becomes a dominant standard. Even if NFC prevails, BankSMS could continue to coexist as a parallel product while all the mobile phones on the Danish market are being replaced by NFC-enabled phones; also because the BankSMS infrastructure allows for remote payments, whereas NFC is for proximity payments.

Consensus culture: the key to successful co-operation

With more than 100 banks to service Denmark's 5.5 million inhabitants, one could think that co-operation and consensus across the Danish banking sector would be next to impossible. Nevertheless, we have a strong tradition amongst Danish banks of identifying which initiatives belong in the co-operative space and which belong to the competitive space.

In the co-operative space you find mainly infrastructure and security solutions, whereas products like on-line banking and mobile banking belong to the competitive space. The projects and products in the co-operative space are most often organized by The Danish Bankers Association, Finansrådet.

For the purpose of BankSMS, a mobile working group was formed. This group is chaired by Finansrådet and consists of representatives from the major Danish banks, the association of local banks, and the main infrastructure provider Nets.

The group has acted on behalf of the entire sector as the governing board of the project. Besides making the initial idea more tangible and creating the project's overall business case, the main task has been to define the specifications for all participants to follow. This work has been further qualified by a

technical working group in order to ensure that the ideas and principles would be possible to implement by the participating bank data centres, without too many changes in the underlying infrastructure since reuse was a main point to make the business case viable.

While consensus and co-ordination across the entire sector has proved possible, it has also been very time consuming, which has led to some delays. The most difficult challenge in this respect has not been technical; rather, it has been finding a business

model that could satisfy all participants. These decisions must be made final before the scheduled launch in the autumn.

BankSMS as a new payment product should have every chance of succeeding, since potentially everyone may join from day one, without facing any technical obstacles in terms of new phones or new technology.

The BankSMS project will not end with the first product launch. Further functionality has already been planned for future releases. ■

Benefits of BankSMS compared with premium SMS

For the consumers

- Available for everyone with a mobile phone regardless of who pays for the subscription. Employer-paid subscriptions account for more than 50% of all subscriptions in Denmark.
- Easy to use.
- Higher limits for transactions: 200 euros versus the telcos' 30 euros limit.
- Easy setting of spending limits.
- Higher degree of transparency in spending.
- Third-party enrolment.

For the merchants

- Increased number of potential users.
- Higher transaction limits.
- Increased certainty of payment with on-line-to-issuer reservation.
- Easy enterprise resource planning integration.
- Possibility of age verification of the customer.
- Shorter settlement time. Settlement time for premium SMS can be up to three months.