SPECIAL REPORT

Cashing in on digital ‘wallets’

As more people move away from cash and cards towards electronic payments using apps and smartphones, their risk of cyber frauc is greatly reduced

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Back in the day, banking was considered somewhat staid and boring. Not anymore. The nexus where financial services and technology meet – fintech – is a hotbed of innovation. In particular, it is transforming the way value is stored and payments are made.

“More and more, value is moving to electronic form and away from cash and other tangible-type assets,” says Peter Oakes, former director at the Central Bank and founder of Fintech Ireland, an organisation which promotes Ireland’s fintech sector internationally.

Of the US$153 trillion business-to-business transactions that will take place globally this year, about 8.5 per cent will be made via non-traditional players such as Ireland’s TransferMate, the international payments firm on whose board Oakes sits.

TransferMate was set up in 2010 and, by using its own online platform and global banking infrastructure, has significantly reduced the cost of sending international payments.

As fintechs like it eat into the payments sector, putting pressure on margins, legacy banks will likely either collaborate with them or exit the market. The fact that AIB recently invested €30 million in TransferMate supports this.

But it isn’t only B2B payments that are being transformed. Social or peer-to-peer payments are developing apace too through the use of digital wallets and mobile money.

Not alone can such innovations reduce transaction costs and improve user experience, they bring with them the prospect of enhanced cyber security.

“I can download an app anytime I want and open up an e-wallet in five to seven minutes,” says Oakes. “These things are frictionless. If I need a virtual Mastercard I can get it and I can get a new card every time I make a payment, which in itself is a good way to avoid cyber fraud.”

‘Cheaper and more efficient’

It isn’t only digital natives who see the appeal either. “The non-millennials are turning to these faster payment systems because they are cheaper and more efficient,” says Oakes.

As founder and chief executive of mobile app developer Tapadoo, it’s perhaps no surprise that Dermot Daly is a fan of new payments technologies. “I have an Apple watch which I can use to pay for items at a cash register, with the money coming straight off my KBC debit card. It’s much safer than a card and because it’s more secure, the merchant gets a lower clearing rate.”

Even if he pays for an online purchase with Apple Pay, the merchant gets a better clearing rate, because the transaction is seen as being as safe as a “customer-present” transaction.

“I’ve an iPhone 10 so when I go to a till I use either facial or fingerprint recognition just to open the phone, which is the first step in the authentication process. Compare that with debit cards that can be used by anyone who finds them in the street for up to €30.”

The next level of protection is a 'tokenised' system. "This means that the card number isn't issued to the merchant, it's a token given to them that is checked only at the back end of the transaction and matched to my specific card. As a result, i does away with the risk of card skimming too."

Further developments are coming down the track, including Apple Pay Cash – already in use in the US – whereby users send money via imessage on their mobile phones, in essence texting cash to one another. Social payments are already ru of the mill in China, on platforms such as We Chat.

But even for a (non) card-carrying techie like Daly, the pace of payments change can take getting used to.

"When you're used to going through the same ritual before going out the door – keys, wallet and phone – it can feel weir to go out without your wallet," he says.

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