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Samsung enters the race for mobile payments with LoopPay

Samsung Electronics Co. Ltd.; market cap (as of 20/02/2015): \$184.12bn

Sector leadership and the acquisition

The push to eradicate bulky wallets stuffed with cards seems to be picking up some steam. Samsung's recent acquisition of mobile wallet startup LoopPay is seen as a strong sign of intensifying competition in the mobile payments sector. The transaction, whose price remained undisclosed, is regarded as a part of Samsung's efforts to take on Apple's payments platform, Apple Pay. Presented late last year, the service allows users to create digital versions of their credit cards which are used to make contactless payments through Apple's near-field communications (NFC) technology. Users can tap into credit cards corresponding to their iTunes accounts or simply take pictures, with new generation iPhones, of other cards which after security checks become incorporated in the payments platform. The service, which finalizes payments with fingerprint verification, has been gathering momentum, with CEO Tim Cook reporting that Apple Pay accounts for roughly two out of every three dollars spent through contactless mobile payments across major card providers. Apple Pay is a win-win situation between the Commercial Banking Industry and Apple: the former has an upper hand to a likely competitor, whereas the latter receives a small fee for each transaction for reducing fraud-prevention costs. Apple Pay's presentation last September seems to have launched the race to mobile payment.

With the LoopPay acquisition, Samsung is getting ahead of the game. While Apple Pay is leading the transition to mobile wallets, it can currently be used in only 220,000 retail locations across the United States which account for a small proportion of American shops. Indeed, Apple Pay is currently available at 47 official retailers in the US, including Apple itself, as mass-scale adoption is hindered by the need to invest in systems to enable the use of NFC technology. LoopPay, on the other hand, does not require outlets to make new investments, as it uses magnetic strip technology (MST) with existing point-of sale (POS) terminals. The executive vice president of Samsung's Global Innovation Center, David Eun, claims LoopPay is "widely accepted at more locations than any competing service", which is seen as a direct hit on Apple Pay. Compatibility is certainly LoopPay's stronghold as its MST technology can be used with 90% of credit card terminals corresponding to over 10 million stores. With LoopPay, Samsung has obtained the opportunity to enter the mobile payments sector with a service which is ubiquitous and simple to use. Because of Samsung's

involvement with LoopPay prior to the acquisition, it is widely anticipated that the manufacturer's new flagship phone, which will be launched on March 1, will incorporate a mobile payments service with the startup's technology.

Competition and potential deal-making in the sector

Following Apple's success with Apple Pay, other technology giants have been picking up the pace. Back in 2011, Google tried to ignite demand in the sector by launching Google Wallet which allows owners of Android devices to pay by tapping on retail checkout. By gathering data about customers' purchases, Google Wallet could be an opportunity for Google to assess its advertising effectiveness. The system, however, encountered strong resistance from US carriers that were quite reluctant to preload the application on their phones. Nonetheless, since January 2011, Google has allegedly been in exclusive talks to acquire Softcard, a company founded in 2010 as a collaborative project for mobile payments between Verizon, AT&T and T-Mobile US, in an attempt to reignite Google Wallet. Indeed, the Mountain View giant would have a sharing-revenue model with communication companies, whereas competitors, such as Apple, are dealing directly with retail banking companies. This solution could prove to be very lucrative by reigniting the idea of data collection for ads and driving advertisement prices up.

PayPal is also a serious competitor in the mobile and internet payment sector, especially since February 19 when the company enabled users to pay part of their taxes directly to the Treasury through its application. Established in 1998, PayPal launched a mobile app in 2012 and already has a serious customer base with more than 150m of digital wallets. In September 2013, PayPal acquired Braintree for US\$800m in cash, which previously paid US\$26.2m for Venmo, an online platform that integrates the features of online payments and social media, allowing customers to exchange money with one another for free. In 2014, eBay announced its intention to spin off PayPal, which would make it the perfect target for Google, if its recent acquisitions in the field turn out not to be profitable.

The sector is becoming even more competitive as new unexpected challengers enter the race: social networks. In November 2014 Snapchat announced plans to launch Snapcash in collaboration with Square, a company at the cutting edge of innovation. Founded and managed by Twitter co-founder Jack Dorsey, the startup allows users to not only swipe their credit cards and accept payments through their devices, but also to track them effectively and produce electronic receipts. As a one-stop shop for merchants, Square will fully integrate Apple Pay in its systems in 2015 while improving security to expand its customer base. With Snapcash, users are now able to transfer funds among themselves by sending messages containing the dollar sign and the desired amount, after having registered their credit card in the system. Facebook is also rumored to be preparing an integrated payment feature for its Messenger application and has already applied for an e-pay license in Ireland. With the fire power of 200m users of Facebook Messenger and 500m users of Whatsapp, Facebook could take the lead in the peer-to-peer payment business in Europe.

Along with accelerating competition in the payments sector, the rapid ascent of in-store mobile payments is prone to catalyze deal-making in the near future.

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