The Evolution of Tokenization in a Mobile Payments Environment

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Securing payment data has become more than just a factor for mitigating the risk of fraud. It is now a base requirement for any new foray into the world of payments, even being viewed as a distinguishing characteristic that affects consumer choice. Merchant tokenization was introduced a decade ago to better protect payment data from compromise as breaches rose to prominence. In the current environment, in which cybersecurity has evolved into an everyday concern for businesses and many consumers, the introduction of new mobile payment solutions is a natural fit for a new form of tokenization. Yet how this solution will be implemented and what roles different stakeholders will hold have yet to be settled. The implications of mass adoption will have a substantial effect on not only the security of payments for years to come, but also the customer relationship and ever-important bottom line.

Key questions this report will address:

- What were the primary drivers for the introduction of issuer tokenization?
- What role will issuer tokenization play in mobile payments, along with other forms and channels of payment?
- How does issuer tokenization affect the use of merchant tokenization solutions?
- What are the underlying factors affecting the development of an issuer tokenization solution?
- What is the impact of issuer tokenization on various payment industry stakeholders?
- What are the risks associated with various approaches to issuer tokenization?

Companies Mentioned: Amazon, Apple, CardSystems, Google, MasterCard, Starbucks

Consumer Data

The consumer data in this report are based on information collected from several Javelin surveys that targeted populations representative of the overall U.S. population in proportions of gender, age, and income:
A random-sample panel of 3,195 consumers with mobile phones or smartphones in June/July 2015. The overall margin of sampling error is +1.73 percentage points at the 95% confidence level

Executive Interviews

Javelin interviewed six payment industry executives to solicit background information and perspectives on tokenization in a mobile payments environment.

Market Sizing and Forecast

The 2014 transaction volumes for mobile online and point of sale payments were derived from a June/July 2014 consumer survey. To reach the total annual volume of mobile online payments transactions, the average number of monthly transactions per consumer was applied to a one-year period and adjusted to reflect population sizes for purchasers using an app, browser, or both methods. For subsequent years, total transaction volume is projected to grow at a compound annual growth rate of 24.9%, the same rate as the total mobile online transaction value, keeping the mean transaction value consistent over time. To reach the total volume of annual mobile point of sale transactions, the average number of annual transactions was adjusted to reflect the population size for individuals using contactless mobile payments at physical points of sale. For subsequent years, total transaction volume is projected to grow at a diminishing rate each year as mean transaction size increases along with total mobile contactless payments value.

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