

# M-payment models: starting

There are wildly varying opinions about whether operator-led schemes, those led by financial institutions or third party solutions, that don't rely on any particular mobile channel, will be the most successful. There is probably a place for all of them at different times and in different places.

by Annie Turner

In principle, there are three basic models for handling m-payments: mobile network operator-led schemes, bank and other financial institution-led initiatives and third party, direct-to-consumer providers that are channel agnostic.

Naturally, the market isn't that clear cut – there are endless variations on themes and overlaps – and while it has long been clear that no single business model is going to succeed, the variety is still surprising. As Dave Birch, director, Consult Hyperion and Visa Europe Research Fellow at the Centre for the Study of Financial Innovation comments, "I have come to realise that mobile is

the key area of payments innovation, it's not about nice to have or cool, it's central."

## The operators' take

The received wisdom is that operator-led m-payments schemes are primarily for those who live in developing economies where the banking infrastructure is not extensive and the majority of the population hasn't got access to a bank, never mind a bank account. M-PESA is the most stunning example of this with 6.5 million registered users and the most original business model with over 7,000 agents in Kenya (see *PCM* Jan/Feb 2009, p22). However some operator-led models are doing very well in developed economies.

Eckhard Ortwein, VP, EMEA Sybase 365 (known as paybox until it was acquired in January), goes so far as to argue, "The more developed the market, the more you have to work through the operator."

Working with mobilkom austria, Orange, T-Mobile and tele.ring has resulted in more than 35% of all parking in Vienna being paid for by mobile (see article on p7). Ortwein explains, "If you want to be successful, you need to involve at least

two operators so that more than 50% of the population has access to the service."

In Germany paybox took its own advice and last October announced that Vodafone and O2 had launched a new, jointly owned m-payment system in Germany using paybox's mpass platform. All 14 million subscribers to the two networks can sign up to use the service.

Initially mpass enables customers to pay for items online, with SMS confirmation, and to top-up airtime via the internet or their mobile phone. It also supports m-payments at a number of online retailers such as EuroFuchs, Blume2000.de, CinemaxX, Kickz and Beate Uhse. In the next phase, customers will be able to use mpass to pay for m-commerce services such as m-transport and vending. In the longer term, mpass will integrate NFC initiated payments into the services it offers.

In the same vein, in Japan, NTT DoCoMo developed the Osaifu-Keitai (mobile wallet) contactless, handset-based service itself, built around Sony's FeliCa chips – then did the smart thing of opening it up to other operators including its long term, but much smaller rival KDDI and the relative upstart SoftBank Mobile.

The service can automatically recharge itself via the internet and act as a ticket for an airplane or event, by downloading an electronic ticket as well as an ID card and multiple other functions.

Over 30 million FeliCa-enabled handsets were shipped in 2008, according to John Devlin, research director, financial I&D, IMS



# to look good

Research, who adds that the take-up rate is about 30%, due in large part to the popular, easy to use Suica application (tickets for public transport in Tokyo). DoCoMo's dominance of the Japanese mobile market helped drive the service, along with the fact that it is a shareholder in Sumitomo Mitsui Bank, the facilitating bank.

The US model is different again. Here a company called Firethorn started building an m-payments platform all the way back in 2002. The company was bought by mobile chip maker Qualcomm at the end of 2007.

The key to its success has been for several operators to provide m-banking services via Firethorn's platform, thereby offering participating banks including Chase, Wachovia and Mercantile Bank almost national coverage between them. The operators concerned are AT&T Mobility, Verizon Wireless, Sprint, Alltel (acquired last year by Verizon) and Cellular South.

Devlin says, "US operators are keeping a very tight grip on the services they offer and working on a strategy of getting banks to sign up for their services, not the other way round. The US is the most advanced in this approach and it avoids all those issues about interoperability.

"Typically the service comes pre-installed on phones supplied by participating operators, with the service icon right there on the menu."

It's already configured and there is less concern about security than downloading something. However, interoperability and openness are a different set of concerns arising from this model.

Some BlackBerry users on T-Mobile can also use the services and AT&T has recently launched an app for the iPhone, for which the operator has exclusive distribution rights in the US.

Firethorn is a client-based service that uses the SMS mechanism for balance checking, statement history, fund transfer and bill

payment. It is tied into associated accounts and credit cards. There are no fees beyond the data usage charged to the consumer. It was designed to complement the banks' online services.

In Q4 2008, Firethorn's fund transfers were up 131% on 2007, bill payments had risen by 171% and on average customers access the service four or five times a week.

"And of course it must be remembered that once NFC is on the SIM, that will be the ace in the hole and then we will start to see operators integrating m-payments with other services," Devlin says. He noted that at the WIMA conference in April (see p50) Nokia announced its very last NFC-enabled phone. Nokia's Jeremy Belostock said that the company will enable Single Wire Protocol (SWP), but insisted that now it's down to the operators to fully enable and exploit NFC.

## The banks' account

Luup is the perfect counter-balance to the argument for operator-led m-payment schemes. In March Luup, which had offered m-payment services direct to consumers in Germany and the UK, advised its customers to close their accounts, as it was no longer offering the service direct to consumers.

Its CEO, Thomas Bostrom Jorgensen, explains, "We've decided to provide the interface between banks and their customers across a wide range of services from notification to remittances. We made this decision because we found that trying to provide m-payment services direct to consumers in the Middle East, South East Asia and Europe was difficult from a regulatory point of view – the situation is different in every country and very complex.

"Perhaps most importantly though, we realised that having the infrastructure is not enough, in payments it's all about scale. And it's quicker to achieve that via financial

institutions that have big customer bases already. There is nothing wrong with the direct-to-consumer model as such, it just made more sense to us than an operator-led model."

Bostrom Jorgensen's argument is that the telco-led m-payments schemes amount to little more than isolated pockets and that the only way to achieve real scale is through "independent, open solutions, which is what we are about, led by banks, in the developed world to enable our partners to trade money as part of a highly regulated ecosystem."

He refused to comment on the recent announcement with Deutsche Bank (see story on p17) about the two partnering to deploy m-payments services in more than 80 countries, beyond pointing out that Deutsche Bank is a global transaction bank whose customers are themselves big banks and corporations. Its customers will sign a bi-lateral agreement with Luup for the provision of m-payment services.

In addition to the scale brought by Deutsche Bank, Bostrom Jorgensen insists that the beauty is that they can deliver services in different ways to suit the application and customer.

He comments, "We will extend the reach of mobile by interfacing with the banks' back offices. Some of those banks will want to offer m-banking to end-customers directly, or it might be enabling m-commerce for merchants, or for large corporations mobile-enabling applications such as payroll, expenses disbursement, bill collections and so on."

He concludes, "For the National Bank of Abu Dhabi in the UAE we run a scheme similar to M-PESA. So it's all about being able to deliver the service via the model that the financial institutions or large enterprises want."

Western Union's entire history has been about charging to move money around the world and it was quick to see the potential – and potential threat – of mobile. It partnered the GSMA several years ago and is involved in a number of high profile services. In January 2008 it launched services with the Philippines' two biggest mobile network operators Globe Telecom (which offers the GCash electronic wallet) and Smart Communications.

# m-payment

Globe and Smart were subsequently joined by Bharti Airtel and Orascom. Western Union provides agents in Hawaii, Hong Kong, Singapore and UAE. Like M-PESA, it is heavily dependent on a network of more than 333,000 agent outlets, mostly for paying money out, which it says is why its service fees are high.

Its fee level has attracted criticism, but more than that, the arrival of mobile as a mobile money transfer (MMT) mechanism is asking very serious questions about how it makes a living. Ferdinand M. Dela Cruz, consumer wireless business group head at Globe, said at the launch, "We envision that this relationship with Western Union will increase the accessibility and lower the cost of micro-remittances, which will greatly benefit Filipino overseas workers and their families here in the Philippines."

In fact the last thing Western Union wants to do is cannibalise its core business and shift to a much lower profit margin operation (see story on p20).

Likewise in December Western Union joined Safaricom/Vodafone's M-PESA scheme to handle money transfers between the UK and Kenya. Vodafone has plans to extend this international service to other east African countries with probably very different motives to Western Union.

Caroline Dewing, spokesperson for Vodafone, says, "M-PESA doesn't generate a significant amount of revenue, that's not the point, but it does build confidence in the brand and user loyalty – stickiness." From the operator's point of view this makes good sense in the mobile markets of the Middle East and Africa, which are fiercely competitive, although the average revenue per user is pretty low. Safaricom in Kenya charges about €0.20 on the average domestic transfer of €8.

Western Union was not Vodafone's first choice of partner for international remittances: in February 2007, Vodafone announced it had teamed up with Citigroup

Corporate and Investment Banking's Global Transaction Services to launch a Vodafone-branded mobile-based international money transfer service targeting the global remittance market worldwide. Little seems to have been heard of the agreement since and Vodafone has had false starts with M-PESA as an international MMT service too.

## Third-party solutions

These work in partnership with financial institutions, which means those companies get a cut of the revenue. Third-party solutions are typically less popular with network operators who dislike the so-called over-the-top (OTT) business model because they make no money from it, but OTT applications drive traffic, which in this era of flat-rate tariffs, they don't make money from either.

Crandy is one of the best established. It offers a prepaid solution for top-ups, mobile and internet payments and person-to-person transfers, as well as m-payments for vending machines, parking meters and ticketing applications in Germany, the US, the UK and France. It has over 435,000 registered users. The danger is that it lacks real scale in any of the territories, which in the longer term could be problematic – see the Luup experience above.

By contrast PayPal is the second largest processor of online payments in the US after Visa, according to IMS. It is also the most popular means of paying for things online in the UK for small payments. Devlin says, "In that sector, it has the UK market sewn up, yet it hasn't seen a great deal of traction in mobile. There is more talk about what they could replicate from the online experience than what they have replicated as yet."

He adds, "Perhaps it's a problem that the mobile offering is so tied to the online account, which is usually funded by a credit or debit card if just making payments."

Rob Skinner, PayPal Mobile's spokesperson, has a different view. He points out that PayPal was originally conceived as being as way for people to send money between Palm Pilot users – the iPhone of its day ten years ago.

He observes wryly, "I used to work for

HSBC and back then, we believed that WAP banking was big thing of the future, which is sort of like inventing a vacuum cleaner before you discover electricity. The BlackBerry and iPhone have changed how we behave online now and what has long been promised is happening.

"M-payments is great catch-all, there are various aspects to it. BlackBerry's App World store launched in early March and customers use PayPal to buy the apps there, so we handle a large volume of micro-payments. We also have an application for the iPhone and Android that you can use to send money without having to open the browser and type in the URL."

He continues, "There is more and more content online that is moving to a payment model, as Rupert Murdoch has been saying recently." While that remains to be seen, it is demonstrably true that online content is a very different matter to mobile. As Rory Sutherland, VP of advertising agency OgilvyOne London and vice chairman, Ogilvy Group UK, commented recently, "It's a happy discovery that people are prepared to pay to download apps to their iPhone that they wouldn't dream of paying for online."

Still it looks as though there is considerable ground to be made up in public perception by PayPal. Devlin says, "Mobile is about short, sharp, frequent visits such as a mobile top-up kind of service, which is a good entry to getting people used to making mobile transactions instead of using ATMs. People aren't thinking about applications yet like asking a friend, "Can you lend me £20?" in the bar. They'd probably still go and get cashback on their card when buying a round of drinks to give to their friend."

Person-to-person transactions are free between PayPal customers, yet this doesn't seem to have taken off. Devlin concludes, "Most people if they have the choice for person-to-person payments would usually chose online banking and their current accounts. They aren't going to use PayPal Mobile. Unless it finds a mobile unique selling point, it is not going to be all-conquering. At the moment the type of services it is offering are seen as broadband services." ■

