

# Payments and money transfers by mobile phone: new business models will ‘mobilize’ money

Mobile phones represent the next big game changer in the payments industry

Almost 7 billion people live on Earth. What’s more, they account for nearly 5 billion mobile phone subscriptions.

It is safe, then, to anoint the mobile phone as one of the most commonly used communications devices in the world. Its power and its allure, however, extend well beyond enabling communications.

The overwhelming appeal of mobile devices, as those of us who are tethered to ours know, derives from the anytime, anywhere connectivity they provide for a wide range of activities. We use mobiles to stay in touch with

However, basic banking barely scratches the surface of the potential for mobile financial services. Take mobile payments, for example. Enabling two parties to exchange money for goods and services using mobile devices is an industry that is about to explode – and that is redefining “banking”. More than 850 million mobile payment transactions were conducted in 2009. Globally, the volume of mobile payments is expected to reach \$48 billion this year and, according to Juniper Research, \$630 billion by 2014.

## A crowded field

Consequently, the rush is on by a broad field of interested players to

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friends, family and business associates but also to stay on top of breaking news stories, share photos, verify bank balances ... and a whole lot more.

The mobile phone, since its earliest days, has sparked the imagination of inventors and entrepreneurs who can now look back with amusement at Dick Tracy’s 1940s two-way wristwatch and the early communications gadgets of James Bond. At the same time, today’s innovators can look forward to even greater possibilities for these “can’t-leavehome- without-them” devices.

In current society, the popular — and ubiquitous — mobile phone plays a mushrooming role in the lives of individuals of all walks of life and in every corner of the planet. One use, in particular, where these devices are quickly gaining traction is as a consumer commerce tool.

## Mobile financial services

Banking customers in growing numbers are employing their mobile phones to check balances, transfer funds between accounts and receive various types of account alerts, basically taking everything that they had been doing on their desktops to their mobiles.

capture a piece of the mobile payments market. Foremost among them are mobile network operators (MNOs), device manufacturers and banks, in addition to technology companies and MNO interconnectors. Card associations, transit authorities, retailers and marketing companies are also vying for a piece of the mobile commerce wallet.

In their quest for market success and acceptable returns on their investments, these companies are forming alliances and exploring a number of business models, service delivery options and technologies. In Poland and South Korea, for example, truck drivers for distributors who sell consumer products to small shops and markets are using mobile phones to present invoices to store owners, who can in turn review their invoices and initiate payments with a touch of a button.

In other markets, mobile payments providers and transport authorities are developing open-loop payment systems that enable travellers to pay for parking, subways and bus tickets, for example, via mobile phones and other hand-held devices.

In other instances, governmental agencies and employers are transmit-

ting pay to the mobile phones of workers who have created 'mobile wallets' on their phones for receiving and sending money.

### Developing countries: growth hot spots

So far, some of the greatest market successes have emerged in developing nations where there are large numbers of underbanked or unbanked residents. In countries that have highly developed mobile networks but lack a widespread banking infrastructure, mobile phones are providing a safe and reliable alternative for making payments and transferring funds.

In Kenya, for example, banking is shifting away from traditional bricks and mortar as a new mobile financial services model begins to take hold.

A leading player in Kenya's electronic commerce evolution is M-PESA. Launched in 2007 as a mobile money transfer service by the Kenyan MNO Safaricom with its partner, British cellular giant Vodafone, M-PESA has attracted more than 13 million customers over the past three years. Today, M-PESA account holders make person-to-person payments, pay utility bills, buy goods and even receive salary and benefits payments via their mobile phones. More recently, M-PESA, one of the most successful ventures of its kind, has moved beyond the world of consumer payments, offering special payment services to corporate customers and providing interest-bearing accounts to individual account holders. It has developed a vast network of agents, attracted 200 payment partners and has linked up with some 50 bank and non-bank institutions to disburse funds.

In the world's largest emerging markets, which include China, India, Brazil, Russia and Mexico, more than 95% of consumer-initiated transactions are still cash-based. The upside potential for mobile payments is obvious.

### Keys to market success

No matter where new opportunities exist, marketplace success ultimately depends on filling unmet demand, whether for payments made at the point of sale or those made remotely. It also rests on the ability of companies vying for a piece of the market to create new models for sharing the risks and rewards associated with their collaborations.

First and foremost, regardless of device or payment types, industry players must identify use cases that provide a distinct advantage over existing payment practices. This means offering a compelling reason for payers to move from entrenched and effective payment instruments and processes. At the same time, mobile money is a business whose success also depends on cross-industry partnerships. Thus, companies looking for viable approaches to unlocking potentially massive revenue streams also are seeking win-win cost- and revenue-sharing scenarios in a new mobile money ecosystem in which they are having to define value chains.

In general, participants are looking for ways to shift their technology cost models and stay focused on their core businesses.

### Creating a win-win business models

Achieving these goals includes defining new revenue-sharing models, such as those in which all providers who contribute to a solution receive transaction-based revenues. This differs from commonly used models where technology providers are paid upfront in what is a capital expenditure-based scenario.



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Fortunately, cloud computing has advanced the ability of mobile payment partners to create new business and operating models, providing a platform for interconnecting multiple players. With cloud computing, both data storage and processing happen outside the mobile device. It provides both the technology platform and the business processes that are required to distribute investments across mobile money ecosystem participants and to respond to changing customer and regulatory requirements.

The cloud processing environment creates standardization in addition to creating a cost-effective expenditure-based solution for entering a mobile money venture.

### The future is now

For public entities and private enterprises, in developed markets and emerging markets alike, mobile payments are poised to transform the way they exchange money with their customers over the next three to five years.

The ability of mobile financial services providers to join forces and leverage collaborative technology will be one of the biggest contributors to their success in 'mobilizing' money and providing consumers and businesses alike with yet another popular use for their mobile phones.

Mobile payments represent the next big evolution in the payments industry. A multi-billion-dollar boom may be on the horizon.

For further information, please contact



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