

## The payment business in the digital age

*Neither the act of paying nor the chain of intermediaries has changed much since the appearance of the bank card; however, e-commerce and mobility are changing the situation, despite the banking world's reluctance to take action.*

Many players are entering this market, which is expected to be very promising in the years to come, as suggested by the valuation of PayPal when it was bought by eBay or the recent involvement of the founder of Twitter through his new company Square. They are providing new solutions more in line with the new needs of consumers, for whom the operative phrase is: simplify payment!

The payment chain forces numerous intermediaries to interact, among which banks now play a key role, through, among other things, the distribution of payment methods or e-payment agreements for point-of-sale terminals or remote sales. This money-making situation greatly explains their resistance to the change and the inclusion of new partners in the sharing of revenues from the act of payment.

Contrary to what may be believed in principle, the development of e-commerce has not led to a radical change in practices by banks, which have just added an e-payment agreement to their offering. Consumers must always provide their bank card or account number. New players first reworked the model, like Payline, which offers a virtual bank card (with lower costs for the merchant).

With entry being burdensome for the loyal consumer, some e-merchants have thought of storing this information, thereby facilitating purchases. This is the case with Apple's iTunes: bank information is entered when the account is created, and then any purchase is automatically debited without validation of the payment method (unlike Amazon, in particular). This solution assumes a very strong bond of trust between the buyer and the seller, as well as the establishment of a secure architecture to guarantee that their information is not disclosed to third parties.

New payment intermediaries like PayPal or Google Checkout have pushed the logic further and focused on developing a complete virtual wallet or micro-payment ecosystem. The advantage of these solutions lies in the separation of the act of payment and the entry of bank information, with only a PayPal account being necessary through an e-mail address and password to make a purchase. As such, the media sales company BlogBang now only accepts payment through PayPal.

The craze is such that services not covered by traditional banks have developed: person-to-person exchange as repayment for a loan of money between friends.

Indeed, rather than needing to carry around bank information for a transfer, what could be simpler than a transfer from one PayPal account to another? And even if the recipient does not already have an account, it is enough to know his or her e-mail address or phone number so he or she can receive automatically the transfer in the future account to be created.

This logic of decorrelation is so accepted now that Facebook makes a single virtual currency available to all of its third-party applications in order to facilitate person-to-person exchanges.

**Telephone carriers have understood the issue also:** by allowing providers of contents or services to be paid through the consumer's mobile phone or Internet bill at the end of the month, **they maintain control over customers while facilitating the act of purchasing for them.** This process is possible through a call, an SMS/MMS, the Gallery booth, a box, the Web, etc.

The other great payment revolution comes from the emergence of the mobile Internet, now permitted by mobile devices (like the iPhone) and people who are no longer afraid of these technological innovations.

Of course, **equipment manufacturers want their share of revenues and are promoting the**

**incorporation of payment methods directly into the phones.** Thus, through contactless technologies like Near Field Communication (NFC, used for the Navigo pass), consumers now only need to pass their phone over an appropriate terminal, and the payment information stored on the chip is transmitted. The issue of revenue sharing then arises among the various intermediaries, a major cause of delay in launching such offers on the market.

Other payment experiments are emerging on the merchant side also:

Starbucks has launched an automated purchase application for the iPhone, which generates a flashcode for each order, replacing the loyalty/payment card at the counter. Another prime example of innovation, the founder of Twitter, Jack Dorsey, has just launched his new company Square, which authorises payment by bank card (magnetic strip) through a small dongle plugged into the jack of a mobile phone. Thus, merchants and individuals are becoming more independent with regard to the traditional players in the payment chain, and new markets will support the new uses.

*The Internet has simplified payment, and the mobile Internet will shake it up even more. Payment is an exciting market whose ecosystem is being thoroughly reshaped and whose possibilities are now increased.*

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### M-payment is expressing itself through globalisation.

M-payment solutions can target exclusively regional or even national markets. The positioning of these offerings must differ depending on whether it is intended for developed countries or emerging countries:

- In the first case, commercial offerings complementing traditional in-store payment methods, with a highly innovative dimension, will grow in the medium term: SIM cards will emulate the behaviour of a bank card in order to optimise the flow of trips to the cash register in particular (mobile payment through NFC technology); France is giving momentum to Europe in the field, with the launch on 21 May of the "Mobile

Contactless Nice" project, the innovative and pioneering nature of which will be carefully watched worldwide.

- In the second case, replacement and loyalty solutions are launched every day in emerging countries. Initiatives to establish electronic wallets (m-wallet), particularly on the African continent, are growing, on an increasingly competitive sector.

In order to increase the attractiveness of these offerings, other players are also positioning themselves on offerings that combine these two worlds.

The aim is to have the electronic wallets of customers of emerging countries filled by customers of developed countries through exchanges of monetary or telephone units. Thus, the populations of developed countries, with ongoing ties to an emerging country, may transfer part of their revenues to their families and friends back in that country. The migration trends and the specific characteristics of the diasporas are thus becoming essential elements for mobile carriers and their suppliers specialised in trading hubs.

This also allows players on this market to position themselves on solutions with an important social and geopolitical dimension: these exchanges boost the economies of emerging countries, while promoting the distribution of global wealth.

Because of the richness of offerings and markets, m-payment is a true driver of growth, particularly for mobile carriers. In the next five years, a portfolio of offerings enriched with m-payment should become an essential anti-churn element for any mobile carrier.

## > The players

The diversity of the addressed markets has encouraged the development of the m-payment ecosystem. The players are positioning themselves on one or more of three markets: developed countries, emerging countries, and exchanges between the first and second. We can thus distinguish the following types of players:

- Major international groups, present in both developed and emerging countries (globalised mobile carriers: Telefonica, MTN, Orange, Vodafone, Zain / Bharti Airtel, Digicel, Etisalat; regional group of mobile carriers: Bridge Mobile Alliance in Southeast Asia, Kama Kawaida Alliance in East Africa; banking institutions: BNP Paribas)
- Specialised “technical” players, providers of m-payment platforms, experts of the technical and legal constraints on these topics: Tagattitude, Comviva, Fundamo, Atos Worldline Utiba, Sagentia, Trivnet, Sybase 365, mcheck, Verizon Wireless, eServGlobal, etc.
- Suppliers of hardware specific to the world of m-payment: Inside Contactless, NXP
- Back-office players and Trusted Service Managers, who are becoming guarantors of trust and security between the world of mobile telecommunications and the banking world and can sometimes offer the outsourcing of the management of such financial services: Mi-Pay, Mach, Gemalto, Venyon (Giesecke & Devrient), Oberthur Technologies, etc.
- Niche players carrying out m-payment solutions (Airtag, ezetop, Fixed & Mobile, MoreMagic Solutions, w-HA): specialised in a type of offering (for example, the transfer of telephone units for a certain type of diaspora), they are managing to compete with large groups either through their local offerings on the B2C markets or through their flexibility and responsiveness on the B2B2C markets.
- Alternative players, offering temporary solutions: Tagattitude, Twinlinx

## > Key issues for success

Despite the real opportunity, embarking on the adventure of m-payment for a mobile carrier is far from straightforward:

- The **legal constraints** (and sometimes tax constraints) vary greatly from one market to another and now remain difficult to grasp, despite the encouraging initiatives for harmonisation by the GSMA. In international markets, the constraints can prove to be even more difficult.
- While indirect profitability, through anti-churn, is the main argument for the launching of m-payment solutions in the short term, the direct profitability of such offerings in the long term is **not yet demonstrated** for all of the offerings.
- A healthy balance must be struck between the **simplicity** of the customer experience and the **control of risks** of fraud, security, and KYC (Know Your Customer).

- From a business model perspective, the market lacks maturity and experience to know how to clearly position the cursor between attractiveness and profitability of the offering.
- The choice of **establishing a partnership** – or not – with a banking institution is a crucial criterion before launching. This decision may also depend on the desired economic model.
- The issue may be raised of entering the m-payment market through an intermediary solution more like the historical core activity of a mobile carrier (for example, using communication credit as a unit of exchange) before moving to a more comprehensive solution, once greater maturity is acquired in the field (still on the same example, transferring money).

For all of these reasons, a success story in a given country may encounter a complete failure in another country (or region).

Moreover, **the emergence of m-payment is increasingly blurring the border between the world of telecommunications and the banking world.** Partnerships between the two fields are being built, through the creation of joint ventures to launch services similar to m-payment or m-banking: in France, Orange - BNP Paribas Services was founded to launch the Jump card in 2008; in Japan, in 2008, the direct mobile bank Jibun Bank was created by the mobile carrier KDDI and the bank Mitsubishi Tokyo UFJ. Virtual mobile carriers are being launched by banks: in France, NRJ Mobile was created in part by the Crédit Mutuel - CIC group in 2005, before the same back bought out 90% of it in 2008.

Faced with such complexity, the players in the world of m-payment will need considerable expertise, particularly in order to understand the issues of the other world (the banking world for mobile carriers, and vice versa) and to find the most appropriate solution in a sector that is both differentiating and highly competitive. ■

