



Contactless Payment or Oops, I left my wallet in the phone?

THE MARCH OF THE plastic card has been so relentless that in many parts of the world it has effectively replaced cash for almost all transactions. Credit, debit and stored value cards are now pervasive in developed economies and are increasingly present in developing markets.

This is a very attractive market area, one that continues to see new entrants on a regular basis. Charities, businesses, sport teams and others have all tried to capitalize on customer willingness to have a personalized plastic payment vehicle. While this could (and did) lead to financial disaster in a high debt environment, the dual benefit of easy access to funds and convenient payment methodologies will continue to attract and hold the customer base. Cashless payment is only going to increase as the cost of using real money increases.

The question is (and has been for some time) what medium will the cashless payments system take. Bank originated or issued cards are limited to those able to qualify, in markets advanced enough to have systems in place. But... the fact is that more of the potential market does not qualify for one reason or another. The "unbanked", underprivileged or underdeveloped groups cannot access or cannot afford the potential benefits electronic money offers now.

For some time we have been hearing about electronic wallets, multiple credit cards on the phone, "emoney" wireless funds transfer etc. Enter the mobile

device and mobile services that touch far more people than banks could ever hope to. In fact, standards and technology have existed for some time enable cashless service delivery from the mobile device. FeliCa based devices have been used in Japan for almost 5 years. The NFC standard for securing contactless payment (which incorporates FeliCa) has been in place for more than two years.

The real trouble is that everyone wants to get in on the act. Mobile Operators believe that they own the customer relationship and any financial service which touches this relationship must go through them. Visa, MasterCard, American Express and the banks have not really been interested in adding another player to a very crowded value chain. Merchants (who at the end of the day are key to this value chain) do not see why they should be called upon to fund the readers (so that others can make a profit at their expense). The opportunity for innovation is clear but at the end of the line there is currently is a bank with a vested interest in ensuring that there is not too much change – of the type that might threaten their financial services monopoly.

...And the public? Until there are sufficient services that are meaningful, **Tek Elements believes** users will continue to pay by traditional means (and this includes plastic). With very limited exception, we have not noticed a groundswell of demand for new mobile money services.



It is not that there are not innovative players active in the market. Services such as Obopay and Paypal have been trying to translate existing online and hybrid card services into a mold breaking service set. Technology is available to make such services attainable (if not quite as quickly as one would like). FeliCa based services in Japan and the vast number of mobile money and NFC pilots prove that.

In fact, pre NFC mobile money services do suggest a very promising future – in some unexpected places.

- ➔ In the Gulf region, Dubai Mobile Operator Du and Philippine Mobile Operator Globe Telecom have established an international electronic money transfer service for Philippine works wishing to send money home. Service uses the mobile network and is typically sent between mobile numbers. There is no NFC solution as yet.
- ➔ In Kenya, Safaricom operates the M-PESA service (in conjunction with Vodafone). M-PESA began as a funds transfer service similar to the Du-Globe version, but has not metamorphosed into a full-fledged financial payment service complete with “electronic wallet” on the mobile phone. Users can pay bills, send cash, deposit and withdraw cash (even at an ATM) – in short more or less anything one can do at a bank.
- ➔ In France and the UK, service providers are working with transportation agencies to complement or replace existing RFID (pre NFC) based stored value cards with device based solutions.

- ➔ Air France is experimenting with mobile device based boarding cards, both with and without an NFC component.

At the end of the day, electronic money will develop differently depending on the market:

- ➔ In “highly banked” markets, advanced payment solutions will only attract users if they can provide a compelling use case. Use with existing services will need to be cheaper, easier to use, as safe or safer, than existing payment methods. New services / applications will need to be extremely attractive, making life (or doing business) easier. Service providers will need to lose the arrogance so often associated with financial services. Mobile operators will need to give up on the “ownership issue” and cooperate with others closer to their customers.
- ➔ In the “Unbanked” world, where low value prepaid mobile services are the norm, services will need to be accessible, inexpensive and easy to use. The key service here will be cash conversion and the most important element will be will be points of presence. This target audience will need an affordable local access point - mobile money will not immediately (or perhaps anytime soon) replace cash, merely improve its access and handling.

Tek Elements strongly believes that the real mobile money opportunity lies in developing markets. However the challenges are daunting:



- ➔ Service providers will need to figure out how to emulate and build on the M-PESA model;
- ➔ Financial and mobile regulators will actually need to communicate;
- ➔ Mobile service providers will need to open their networks to third parties offering financial solutions and existing financial services entities need to accept a losing of their “monopoly”;
- ➔ Security of the solutions needs to be assured;
- ➔ Sufficient points of presence need to be in place to guarantee access;
- ➔ Services beyond money transfer need to be available;
- ➔ ...and perhaps most important – the price must be very low – it can not be set at bank or credit card level. Remember, this is a service primarily aimed at those who buy airtime in \$1 installments.

The opportunity is there – who is bold enough to seize the moment?

About Tek Elements:

We are a highly nimble consulting firm serving telecommunications and information technology clients from our offices in Silicon Valley California and Johannesburg South Africa. Since our foundation in 2005, we have been helping clients looking for assistance with Go to Market, Marketing, Competitive Analysis, Partnering, Sales Readiness and Emerging Market strategies & tactics. Our advice is both analytical and actionable, leading to a high degree of implementation success.

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