Mobile Payments – Time to Think Small For a Huge Market

a report by

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The term 'm-commerce' gives a general perception of 'the mobile Internet' – the ability to use mobile phone capabilities to purchase goods and services online, much as the Internet is used for transactions. However, mobile network operators have a unique opportunity to leverage their customer loyalty and direct marketing power to grow m-commerce into a service as natural and convenient to use as the automated teller machine (ATM).

The mobile payment (m-payment) solutions industry is aiming to provide a different experience than that of traditional e-commerce. Purchasing goods via the Internet is a more leisurely and visually more satisfying procedure than using a mobile phone – it is easier to browse, easier to see the goods on offer, and unlimited access for a fixed fee allows relaxed searching and 'surfing' without worrying about the cost. Unfortunately, the only method of payment for these goods and services remains by credit or debit card.

The m-payments vision is to transform the mobile phone into a personal mobile wallet (m-wallet), holding credit cards, debit account information and mobile 'cash' for small transactions. It is the latter in which the largest near-term market lies. Mobile operators are in a unique position to enable micropayments for a large proportion of the population (there are 46 million mobile handsets in use in the UK alone). Included in this potential market are consumers who do not, as yet, have access to credit and debit card capabilities – the teenage/youth market for instance currently consists of 103 million users globally and continues to grow at a solid pace.[1] These users are growing to accept a mobile phone as integral to their lifestyle, so the greater its uses, the greater the revenue potential for the network operator.

The key challenge to elevating the purchasing power of the mobile phone is to replace cash payments, which still account globally for about half of all transactions, by all-electronic mobile 'cash'. There are myriad 'small-change' purchases that would make perfect sense to conduct via mobile – purchase of confectionery from vending machines, age-verified cigarette and alcohol purchases, specific Internet information downloads on a 'pay-as-you-go' basis, petrol, magazines, comics – even charges for evening classes or school lunches. International travellers would no longer have to deal with different currencies and arriving home with a pocketful of foreign change would be relegated to a parental anecdote.

Both prepaid stored-value account systems and post-paid mobile-billing solutions have already been successfully implemented for micropayments. There are multiple revenue opportunities for mobile network operators in addition to the direct subscriber spend: flat fees for issuing mobile cash, account transactional fees for mobile authentication of the consumer and micropayment authorisation, and a merchant service charge for micropayment acquisition.

This year, European mobile operators have moved definitively from m-payments trials and pilots to commercial launch. Vodafone has introduced 'm-pay cards' for m-wallet-based use of credit and debit cards, and the Orange clic paiement service enables micropayments from a prepaid account. NTT DoCoMo's iMode, with its integrated payment capabilities is also gaining market share in mainland Europe.

Consumer risk management, fund management, local and international banking and e-money regulations require close collaboration between the m-payments market and the traditional financial sectors. Mobile network operators must co-operate with traditional payment service providers (PSPs) and merchant acquirers for the following three main reasons:

- Real-world merchants usually have an existing relationship with a PSP or merchant acquirer (competitive/co-operative relationships).
- Mobile operators have only limited capabilities to

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broadly acquire merchants in different vertical segments (core competencies and scope of business).

- Processing enormous numbers of small transactions requires a scalable payments platform to achieve low marginal costs (economies of scale type business).

International mobile operators and payment service providers share distinct success factors within their respective industries: Both the Global System for Mobile communications (GSM) and credit card networks provide international interoperability (roaming) on a large scale with high reliability and inter-party clearing and settlement; mobile operators differentiate their offerings through superior understanding of millions of consumers, payment service providers through superior understanding of tens to hundreds of thousands of merchants.

Successful interoperable m-payment architectures need to benefit both industries by combining the international mobile authentication capabilities of network operators and their ability to issue mobile micropayments to millions of consumers with the international processing, clearing and settlement capabilities of financial services industries, as well as their ability to acquire millions of merchants.

Partnership announcements between Vodafone UK and Worldpay launching m-wallet services, and between Vodafone and T-Mobile in Europe as well as Sprint and eONE Global in the US to create an open and interoperable m-payment standard mark the beginning of the future. The marketing and technology power of united mobile, retail and financial industries is limitless, providing the vision of a worldwide mobile network of financial flexibility. With micropayments in the spotlight, this is one area where we need to focus on the small changes to win the big market. ■

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