

Arthur D Little

Mobile financial services: A struggle for collaboration between banks and MNOs

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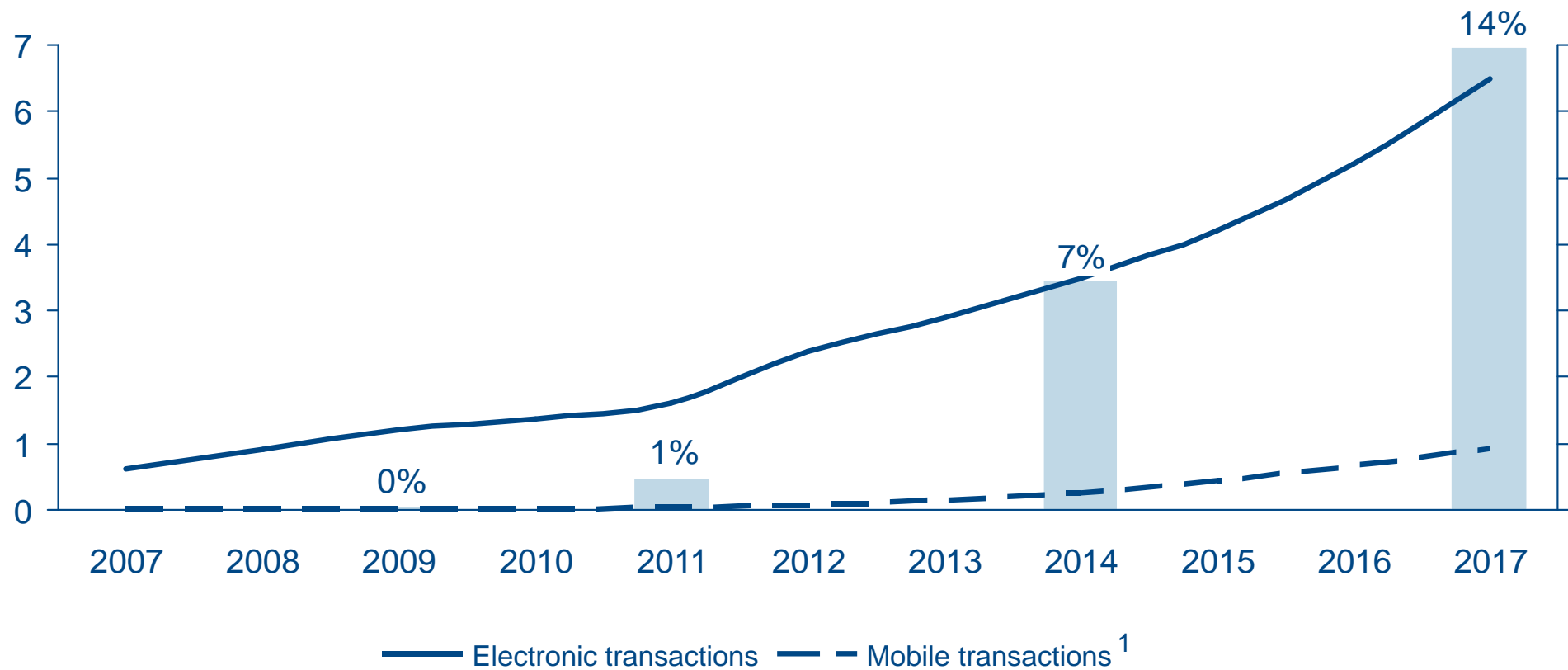
Julien Duvaud-Schelnast



Mobile transactions represent an increasing share of the overall electronic transaction value at a global scale

Electronic transaction value

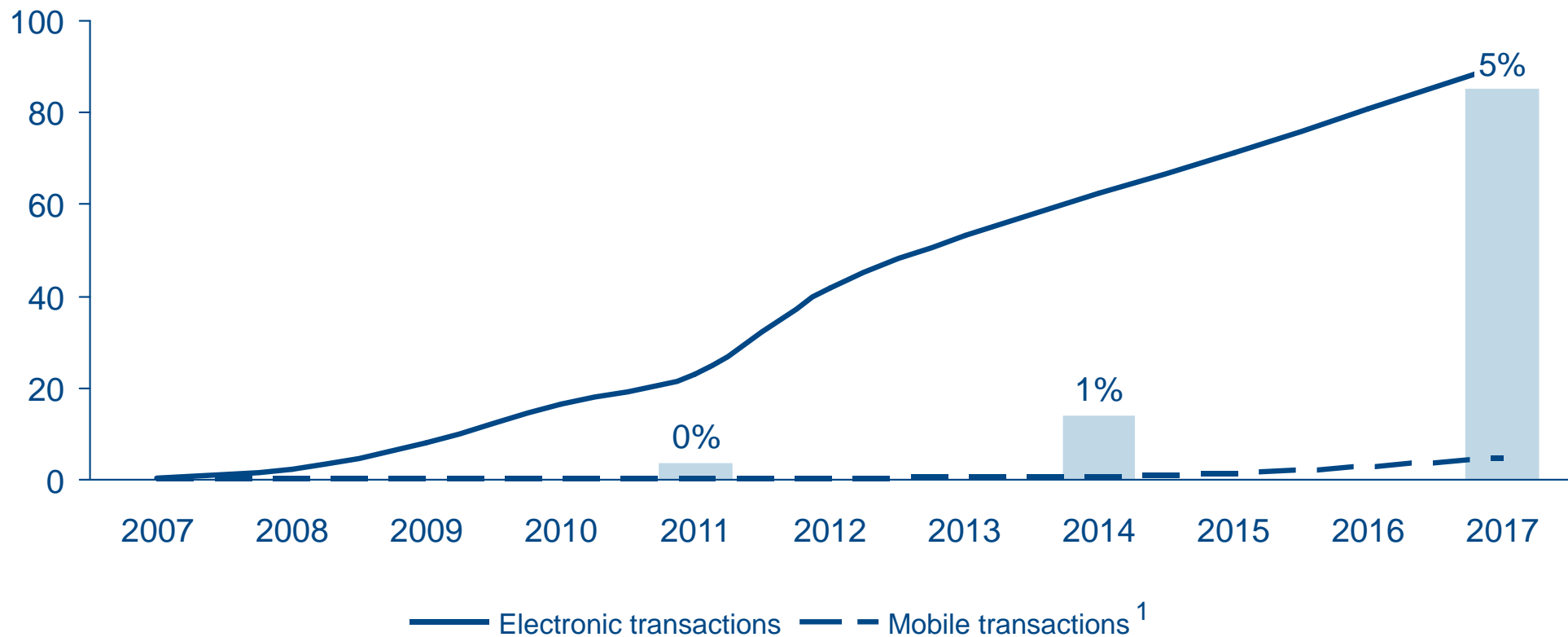
In trillion USD



In the Middle East, the market is currently at a turning point and entering a substantial growth period

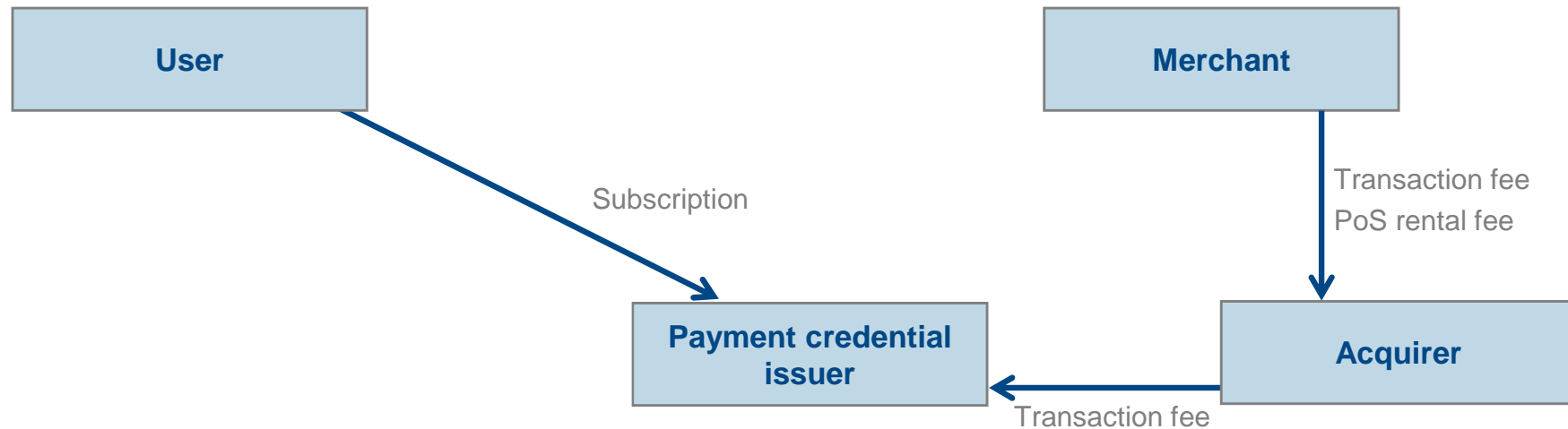
Electronic transaction value in the Middle East

In billion USD

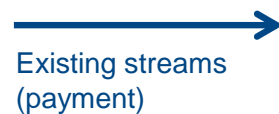


The traditional electronic payment is enabled by an issuer and acquirer in a „four corner model“

Financial streams of a traditional electronic payment

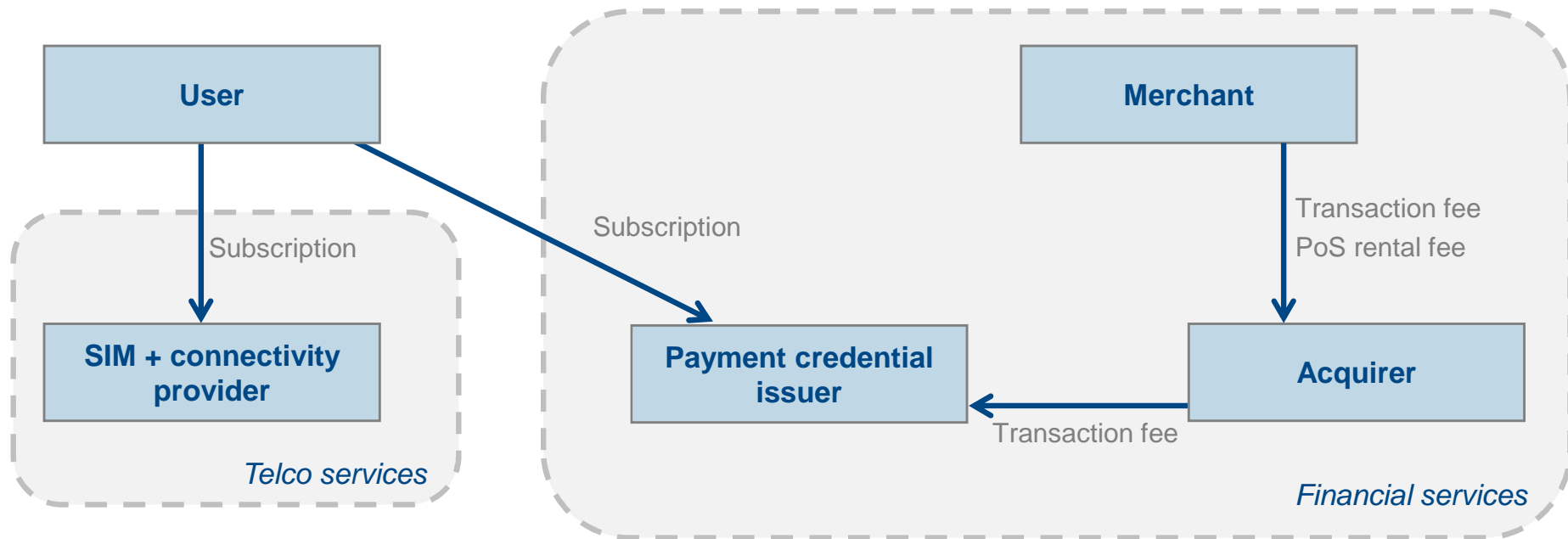


Source: Arthur D. Little



Enabling payment on the mobile phone, represents an opportunity for new players to position such as MNOs

Financial streams of a traditional electronic payment and telco service



Source: Arthur D. Little

→
Existing streams
(payment)

How to make it happen?

User base



- How to have a **maximum reach** of the service and facilitate a **quick ramp up**?

Merchant network



- What is the **value proposition to merchants**? How to establish a large **acceptance network** from the beginning?

Technical solution



- What **technology** to choose? Which solution enables the **best customer experience**?

Partnerships



- What **players** are best positioned? What players to get involved with in order to market a successful solution?

Communication



- How to **communicate** to the market?

Regulation



- How can **regulation** facilitate the ecosystem?

What are the key challenges?

User base



- No player has full market reach with its own customer base

Merchant network



- The added value of mobile payment is not yet clear to all merchants
- Merchants do not want to bear the cost of network upgrade

Technical solution



- No clear market leading solution
- Multiple technologies with localized success

Partnerships



- Numerous partnership setups with high variability in terms of success
- Players with highly different backgrounds entering the market

Communication



- Market needs to be educated

Regulation



- Regulators do not always have a clear view on the appropriate regulatory framework

Collaboration between financial institutions and MNOs at a national level is key to address those challenges and establish a successful solution



Source: Arthur D. Little

We have seen a few collaboration fail



Mobito



- Launched in **2012 in the Czech Republic** by **3 MNOs and 4 banks**
 - Established a **joint venture** including the technical provider
 - **Cost shared equally** amongst 8 players
 - **1% transaction fee revenue shared** with 1/3 for the MNO, 1/3 for the bank, 1/3 for the JV
- Mobito encountered **several difficulties**
 - Had to change **technical supplier** after one year
 - Players only invested **half of what was necessary for the 3 years business plan** leading to the initiative seeking for new funds after 6 months
 - **Marketing budget was not include in the common business plan** and left for **individual initiative**



Clear above the line communication necessary to educate the market and establish presence



Cityzi



- Launched in **2012 in France** as a collaboration between the **3 main MNOs (+MVNOs)** and **7 major French banks** as well as **MasterCard and VISA**
- **Adopted the rental model**
 - MNOs receive a **rental fee** from the bank for the **space on the SIM card**
 - Banks generate money by **transaction fees**
- **No clear ambition**
 - A few pilots in some French cities
 - Unaligned MNO agendas; defensive move as operators were looking to develop their own solution
 - Highly subsidized and relying on public incentive



Clear understanding of collaboration and competition area necessary between players

Still, financial institutions and MNOs dispose of high value assets to address this market and establish a central position

Financial institution assets

- 1** POS network
- 2** Banking licenses
- 3** Relationships with other financial services providers
- 4** Existing trust relationship with customer

MNO assets

- 1** Wide-spread mobile infrastructure
- 2** Wide-spread commercial distribution network
- 3** SIM / Secure Element gatekeepers
- 4** Close / Intimate customer relationships
- 5** Existing bank-MNO relationships
- 6** Ability to cover the whole population

SIM based NFC provides as of today the best solution to such a consortium

Simple



■ **Makes the customer experience smoother and more simple**

- Check-in/Check-out by single tap movement
- No need to launch specific app

Immediate



■ **Quick and immediate**

Rich



- **Bidirectional**, it enables a **two way communication** with the operator
- Users can enjoy **customized services** (Discounts, vouchers, advices...)

Secured



- Allows **secured authentication** of the customer (ex: loyalty program)
- **Nonintrusive**, exchanged data are confidential

Interoperable



- **Open and interoperable**, the customer is not dependent on a solution (common standards)

We have already witnessed some best practices and initiatives showing success



- **World class success story**
 - Launched a contactless payment service in **2004**
 - **37 million customers** have a mobile payment enabled device
 - **1.4 million shops**
- **Gradually extended service range and technological partnerships**
 - Started with **payment** and now proposing **ticketing, parking, access control, loyalty**, etc.
 - Setup its own TSM, partnership with SONY and later with NXP



- **Launched in Luxembourg in 2012**
 - Bank initiative supported by the government
 - Direct debit system currently proposed by 3 main banks
 - Limited communication on adoption rate
- **Received additional funding in 2014 to develop a multi technology approach**
 - QR code
 - Bluetooth low energy
 - NFC



- **US MNO joint venture established in 2010**
 - Verizon Wireless, AT&T Mobility and T-Mobile US
 - SIM based NFC
 - Enables payment, offers and loyalty
- **Initiative has not gained traction**
 - > 200 000 outlets
 - *“Burning through a half a million dollars per day”*, TechCrunch
- **Current rumours about an acquisition by Google or Paypal**

▶ **Structured technological and service roadmap**

▶ **Adapted technological roadmap to facilitate take up**

▶ **Common MNO platform**

To successfully launch such an initiative, two key questions need to be addressed

1 What are the business model options? What are the revenue streams?

2 What should be the roles of the different players in a bank – MNO collaborative model?

The mobile payment business model option space relies on four main dimensions

Service portfolio

- **What services are to be proposed to end users?**
 - From basic payment to Value added services including loyalty, couponing etc.
 - How many different payment means? Is there a stored value account, direct debit option?

Customer journey

- **How is enrolment done?**
- **How is a payment made?**

Costs

- **What cost model should be adopted?**
 - How should each cost item be shared? Divided by number of players vs. potential?
 - What pricing model should the consortium expect from the technical supplier?

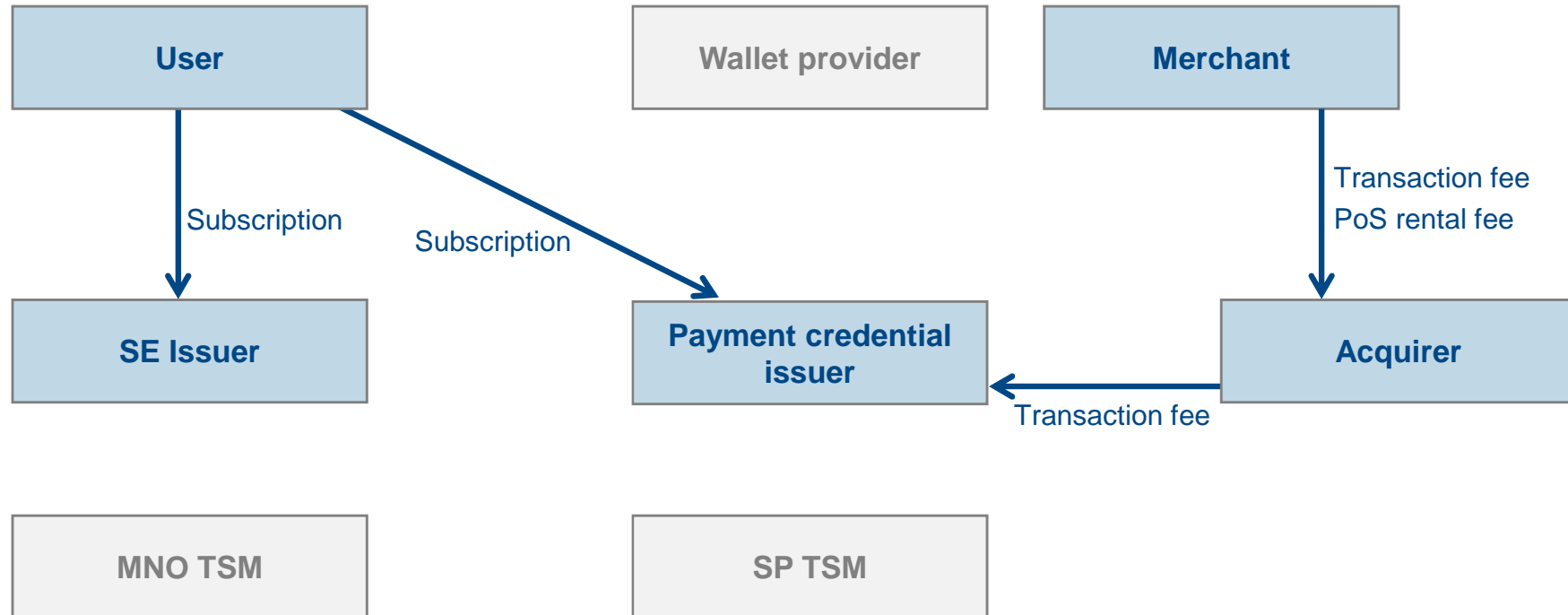
Revenue streams

- **What are the revenue streams for each player?**



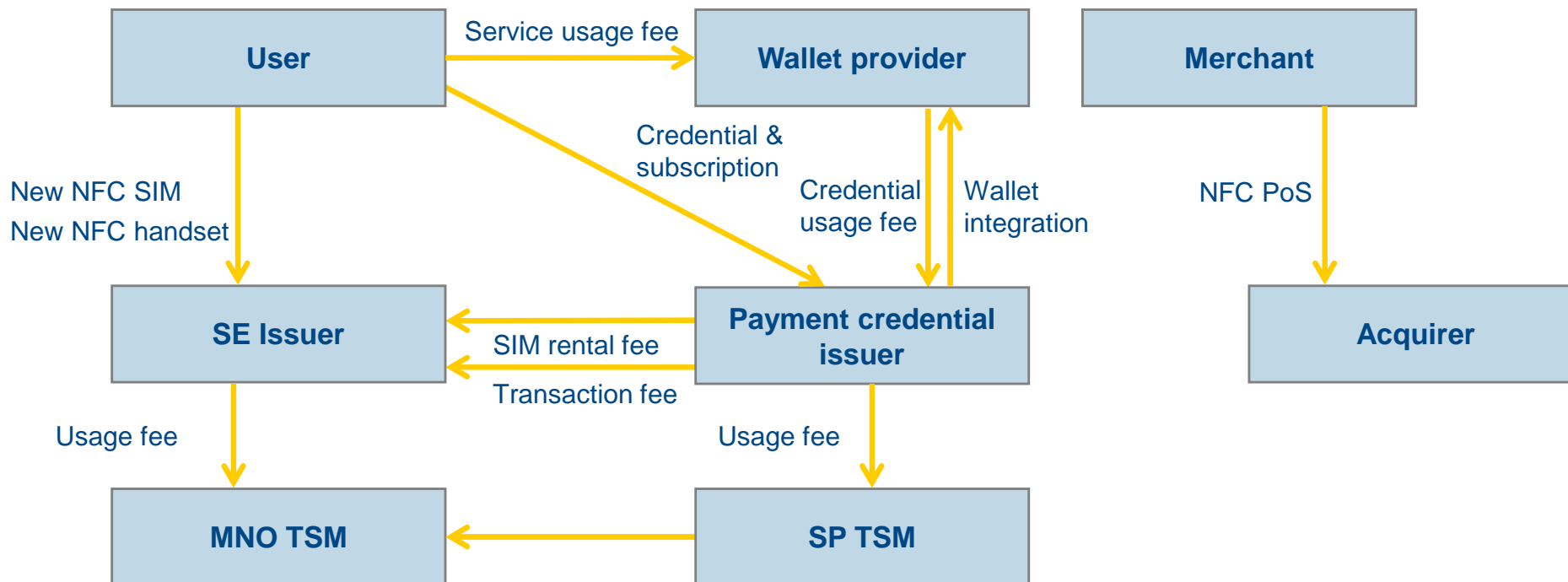
Traditional electronic payment generates revenue for both issuer and acquirer...

Existing financial streams



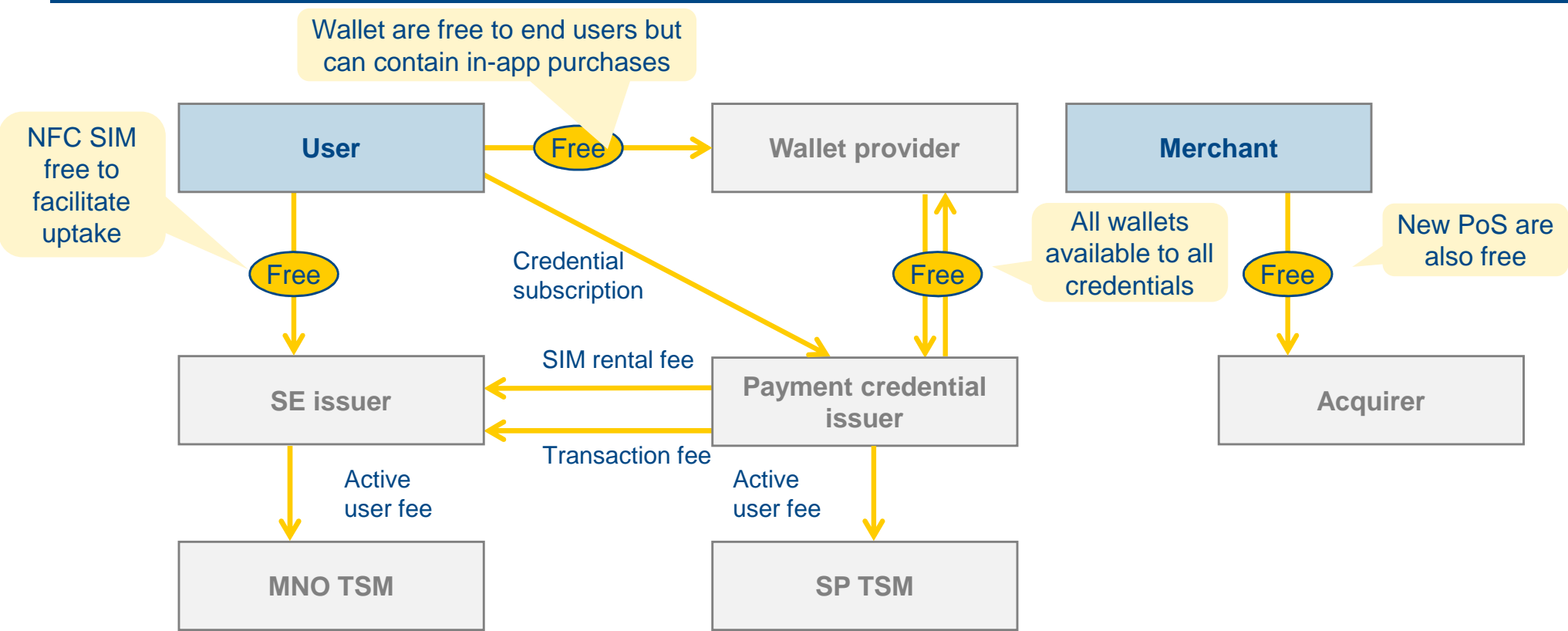
... when NFC proximity payment theoretically enables multiple new financial streams

Existing and potential financial streams (NFC payment)



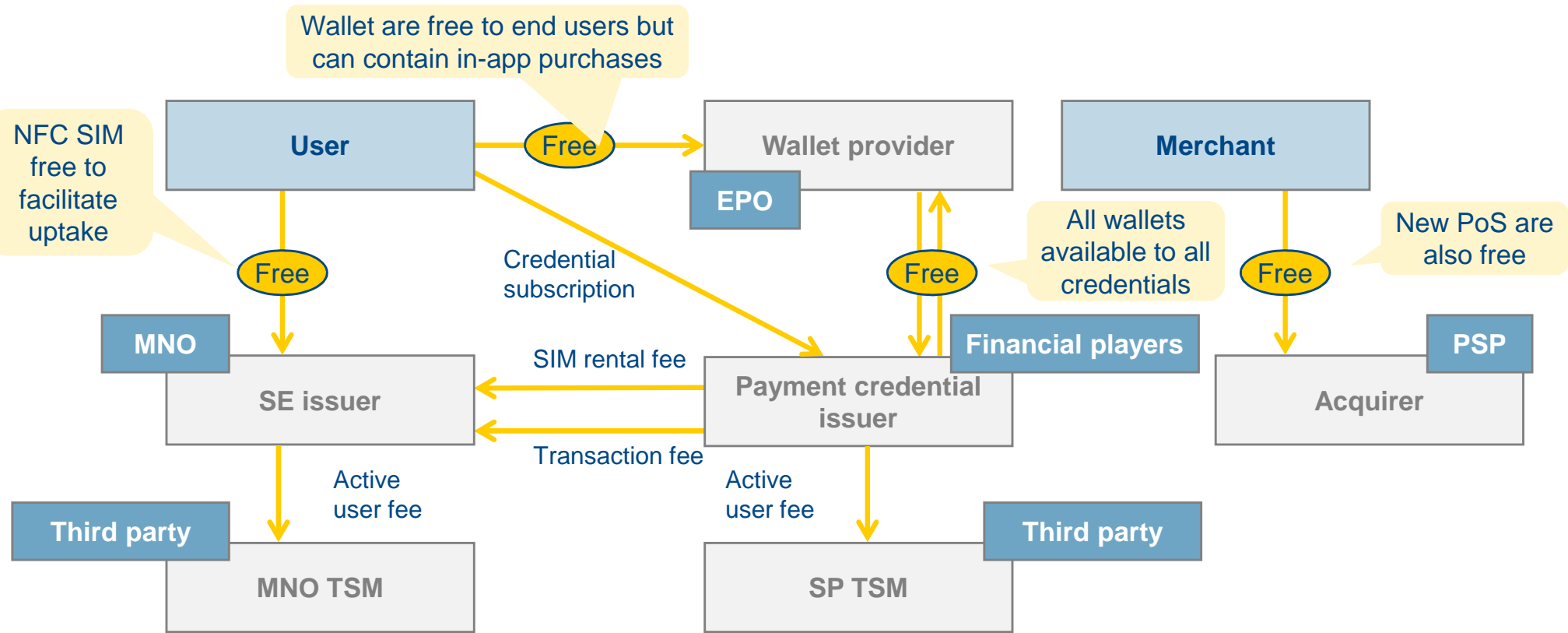
Some financial streams should not be activated to facilitate ecosystem take up

Potential additional financial streams in case of NFC payment



Wallet provision should be accessible to all players in the partnership

Potential additional financial streams in case of NFC payment



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