

Pay phones

Executive summary

■ When Western Union looks at a mobile phone, it sees more than just a device to make calls or send text messages; it sees a new tool in the hands of a globally mobile workforce and a networked connection to family and friends. And it's not alone. A lot of corporates see mobile devices as a way to deliver financial services to global consumers.

The mobile phone is ubiquitous. The GSM Association, a global trade group representing 700 GSM mobile phone operators, says there are more than three billion mobile phones active worldwide, and there are now more of them in developing economies than developed. A recent white paper from Juniper Research summed up the potential of the phone as a payment device: "User demand for convenient and intelligent ways in which to make payments for goods and services using a mobile phone is creating exciting opportunities for those organisations that are part of the payment ecosystem [see Box 1]."

This is one existing market that appears ripe for digitisation. According to the GSM Association over 175 million migrants use remittance services to send money to more than 800 million recipients, with an estimated average transaction value of \$200. According to financial services company Western Union, the global migrant population is expected to grow from 191 million in 2005 to more than 280 million in 2050, and the total value of global remittances in the next five years is estimated to hit \$700bn.

A HUGE AND RAPIDLY EXPANDING MARKET? But there is a lack of clarity over many of the issues which need to be answered for such a potentially huge market to fulfill its potential. Dutch-based consultancy Innopay, which specialises in electronic payments and other financial services, struck a note of caution in a recent report: "There has been a lot of recent activity in the market around mobile payments with many pilots and live applications being launched around the world. For those who remember, there was similar activity at the turn of the millennium. At that time there were also predictions of aggressive growths in mobile payments; however, this growth did not materialise. Mobile payments have in fact largely remained an undelivered promise for more than a decade."

Undeterred by such caution, Juniper Research says that by 2013



100 million people across the globe will be using mobile phones to transfer money internationally. Cross-border mobile money transfers are currently in their infancy, but are expected to gain traction over the next two to three years, especially on migration routes such as the Philippines/Middle East and Mexico/US.

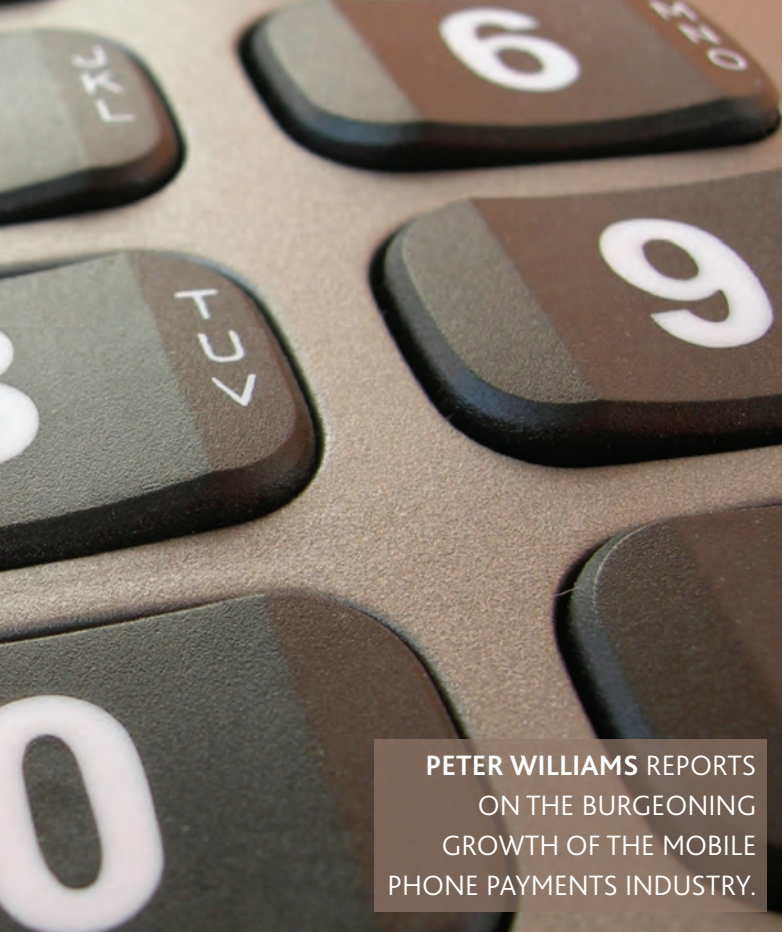
Juniper says that its research points to a significant opportunity for mobile money transfer service providers and suppliers for both national services between mobile users in a single country and internationally. Its study looked at how mobile money transfer will transform the ability of the "underbanked" population and migrant workers to use their mobile phones as mobile wallets.

The report's author, Howard Wilcox, says: "The vast increase in migrant workers globally has fuelled the number of remittances being sent home to friends and families regularly. The mobile phone will become a vital enabler in developing countries because often many more people have phones than have bank accounts."

There are at least 50 money transfer via mobile phone services, pilots and trails around the world, many in Africa and the Middle East. Vodafone and Afghanistan GSM network operator Roshan launched one such scheme in February 2008 in Afghanistan. The service, branded M-Paisa, provides financial services for those without access to banking and aims to facilitate economic activity in the region. Initially it will act mainly as a vehicle for loan disbursements and repayments from microfinance institutions, and support business-to-business applications such as salary payments and airtime distribution. Consumer person-to-person transactions will also be available from the outset, enabling clients and employees of the microfinance institutions who have received their money via M-Paisa to benefit from the full capabilities of the service.

Roshan and Vodafone are trialling interactive voice recognition services to enable greater use of M-Paisa by illiterate consumers. Roshan's retail outlets will serve as transaction points for withdrawing or paying in money, thus reducing any dependence on financial institutions.

THE ROLE OF FINANCIAL INSTITUTIONS Financial institutions are also hot on the trail of the mobile payment market. Mark Tweedie, director of client sales management at Citi, said his company had



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proved its commitment to mobile payments through its work with Vodafone on mobile remittances between UK and Kenya, and in a host of other partnerships around the globe. Citi sees itself in a position to work with telecom providers and IT companies on one hand, and with corporates and financial institutions on the other.

With more than \$250bn a year in payments flowing from individuals from West to East, Tweedie sees a huge potential for a shake-up in the traditional multi-stage methods of money transfer. "You can see how mobile payments could be of benefit to consumers in terms of efficiency, cost and ease of use," he says.

But it is not only banks and mobile companies that could benefit. Tweedie also sees possibilities for corporates: "Mobile payments/remittances offer a whole new channel of distribution from shared services centres using modern technology and paying suppliers, particularly micro-suppliers, in a new way."

While much of the focus has been on developing economies, which may skip a generation of banking infrastructure, Tweedie suggests mobile payments may have uses not fully appreciated throughout developed economies. "Mobile payments could give greater powers to consumers where a form of direct debit could easily seek and obtain consumer's permission to pay a bill by sending a text and receiving back permission to release the funds. That sort of idea is not that far away."

Rajesh Mehta, managing director and head of treasury and trade solutions at Citi, says: "We see mobile payments as a growth area of the future and extremely aligned to our strategy of finding and intermediating in economic flows in the most innovative and efficient manner. This is an area into which we have invested to deliver solutions to our wide client base, including mobile operators and other corporate clients. Our portfolio allows our clients to generate more revenue, reduce their costs or manage their operational risk more effectively. We have seen and partnered with mobile payment networks in various countries across the globe, and that has positioned us well to take a leadership position in this exciting new area."

Westerners perhaps struggle to appreciate the lack of banking resource in some parts of the world, which they take for granted, and which makes this a prospect to excite the likes of Citi.

Box 1: The payment ecosystem

Their payment ecosystem consists of mobile operators, banks and credit card companies, retail merchants and transport operators, handset makers and their suppliers along with software and system suppliers and service providers who, in Juniper's words, are "eager to put innovative mobile payment solutions into the hands of mobile phone users".

Box 2: Juniper's predictions

- Mobile international transfers will grow in frequency as users become familiar with the process and exceed one per month by 2013 on average globally.
- The opportunity for companies providing national and international money transfer services will exceed \$5bn by 2013.
- The top three regions for mobile payments (Far East and China, Western Europe and North America) will represent over 70% of the global mobile money transfer gross transaction value by 2013.

DEVELOPING COUNTRIES CASH IN The potential for developing countries was underlined by a survey by management consultancy firm Oliver Wyman, published earlier this year, on the advanced payments sector. The study encompassed non-traditional devices such as mobile phones, contactless cards and the internet and reported that 57% of companies in the sector were expecting to see significant progress. This is particularly true of the mobile phone, which the survey highlighted as the next big development in payments technology. The report also identified emerging markets as the key battleground, with most respondents ranking the Middle East, Asia, and Central/Eastern Europe as most critical for their growth. Well over half (64%) cited Asia as the key market for the future.

Paul Mee, partner at Oliver Wyman, says: "The global advanced payments market is evolving fast and undergoing strong growth. However, many of these new species will have to be especially fit and strong to survive. Right now, it is unclear who the most profitable players in the industry will be. We expect significant consolidation in due course, with major players buying firms with distinctive operating assets, customer traction and capabilities that can adapt rapidly."

Oliver Wyman says frequent announcements of new propositions and new trials, often launched by non-traditional players, make this a confusing market to assess. New players include Margento, a Slovenian company offering a mobile payment system which requires no software or hardware change to the handset, and LUUP, a Norwegian company that lets customers pay, send and receive money via their mobile phones.

Zilvinas Bareisis, senior manager at Oliver Wyman, says: "Europe's fragmentation means a lot of 'pretenders' are pursuing a niche strategy focusing on a particular geography, proposition or customer segment, and to a certain extent it's land-grab time. However, lack of common standards implies that future profits are limited. To be successful, players will need a sophisticated strategic marketing capability, a workable business model and clear approaches to interoperability. The winners will be those who can break out of their segments and constraints."

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