

Mobile Payment: A Reality?

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For several years now, we heard often the hype that mobile commerce and mobile banking will be delivered through the 'mobile internet' and 3G. With 3G being rolled-out in several countries, for instance 3G was commercially available in Singapore from Feb 05 and this figure has surged to 271,600 in Mar 06 – up from 66,000 in Sep 05; we are still only able to check balances on our accounts, transfer funds between our own accounts and receiving sms/WAP push on pre-set alerts or contents. There are no significant improvements over what WAP technology had offered some years back.

So is mobile banking and mobile payment going to be a reality? This is a question I asked back in Feb 05.

Before we answer the question, let's look at some of the key drivers that are going to drive commerce and banking in the mobile world.

It's a reality that form factor, functionalities and usability of 3G phones are getting better while prices of these handsets are heading south. Many telcos who are pushing 3G services are working hard to sign-up subscribers by offering discount schemes and bundling services such as free mobile news, MTV, music and video downloads. In Singapore, MobileOne recently slashed prices for its 3G services from US\$125 per month to as low as US\$43 per month for unlimited surfing on-the-go.

Entertainment in the physical and internet world are huge businesses so why not on the mobile world? On 8 May 06, an Anglo-Italian band will make history when it launches its first British single that can be bought only with a mobile phone. According to Sony Ericsson, mobile TV will become a mass market feature in the next few years. And yes, content is King and with distribution and viewer ship, there will be entertainment licence fees, download fees, royalties and more.

If these happened, banks will be smiling all the way to themselves as for hundred of years, banks are the facilitators and settlement agents for payments especially for cross-border payments. But are we sure that this operative model will prevail in the mobile world?

During the Feb 06, 3GSM World Congress in Barcelona, it was revealed that the mobile world is roughly split into the consumer and corporate world. In the former, consumers are interested in buying stuff using their handsets while the latter is concerned about using the handsets as powerful communication and productivity tools.

Buying stuff over the mobile network means generating mobile commerce and hence the need for payment mechanism and agents. A look at the market place tells us that other players are well ahead of banks in fulfilling the roles of the payment agent.

For instance, PayPal has officially launched their PayPal Mobile service where registered users can use SMS or calls to make mobile purchases and then we have Japan Docomo's Osaifu Keitai (mobile wallet) service, which also turns the handset into an electronic ticket, membership card, airline ticket and more.

In UK, changes in the rules by the Financial Services Authority (FSA) means a mobile phone user can now use their phone bill or pre-paid credit to purchase goods and services not consumed on the phone.

These world-wide developments mean the mobile phone is becoming a powerful payment tool. In fact, with the SIM card owned by the telecommunication company and the usage of the phone and non-phone services administered by the same company, there is now a financial relationship between the phone users and the mobile phone company.

This is actually not a new phenomenon but one that was debated extensively by banks, telecommunication companies (telcos), equipment manufacturers and mobile service providers since 2000. Several major banks and equipment manufacturers in Europe recognised the challenge from telcos into their payment sphere and saw the pressing need to establish a forum to collaborate – this led to the setting up of the Mobey Forum (www.mobeyforum.org) back in May 2000.

Six years later and there are still only a handful localized pilot and mobile payment trials involving very limited customers and vendors. Another alliance partner, the Mobile Payment Forum (www.mobilepaymentforum.org) set up in Nov 2001 which comprised major payment organisations as well as equipment manufacturers, content providers and mobile application developers wasn't making much progress either.

Besides the lack of common mobile payment standards and market immaturity, some industry observers cited one of the key reasons for the slow evolution of mobile payment services was the lack of collaboration between telcos and banks as both parties want to control the value chain and protect their turf.

There are 3 key players in the mobile payment world; namely financial institutions (FI) that include banks and physical world payment operators such as Visa and MasterCard; the telcos and new intermediary players. New intermediary players include PayPal which launched its PayPal Mobile service only last month. With a base of 100 million registered users for its internet-based payment network; PayPal Mobile is touted to pose serious challenges to FI and telcos by leveraging on its huge base of internet payment users with its free mobile payment service. However, whether this business model will succeed is yet to be seen.

Besides PayPal Mobile, the telco-centric model in South Korea (Moneta, K-merce, and ZOOP) and i-Mode in Japan are well established in their respective countries but so far, they have limited success in pushing their business models outside. On the other hand, the collaborative model where FI and telcos co-operate has demonstrated some success in Europe.

Mobipay International (<http://www.mobipay.com/en/home.htm>) which was set up in late 2000 by Banco Bilbao Vizcaya Argentaria (BBVA) and Telefónica Móviles in Spain has been licensing its mobipay licence to many European countries such as Germany, Austria, Belgium, Denmark, Finland, France, Great Britain, Greece, Holland, Ireland, Italy, Portugal, Sweden and Switzerland.

For a long time, FI have played key roles in managing macro and international payments and it is obvious that they are logical candidates to extend this role into the mobile world. Telcos and intermediary players on the other hand may find a more sustainable position for micro payments and specific mobile purchases to better manage financial associated risks.

While the different operating models seem to work well in some countries, many industry players look forward to a collaborative model for the fact that FI and telcos have their own competencies which are complementary to execute mobile payments.

Although many banks and real world payment operators in this region are adopting a “wait and see” strategy, it is apparent that telcos are clearly interested in rapidly launching a mobile payment system that extend their suite of existing mobile services to meet the lifestyle needs of their customers. In Singapore, StarHub recently introduced a pre-payment option known as FlexiCard – for its pay-as-you-use MaxOnline FlexiSurf 2000 service and Games-On-Demand value-added services. Previously, these services could only be paid online via credit card.

It is clear that banks no longer can afford to wait if they want to be part of the value chain in the world of mobile payment and commerce.

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