

# Mobile Payments Evolution

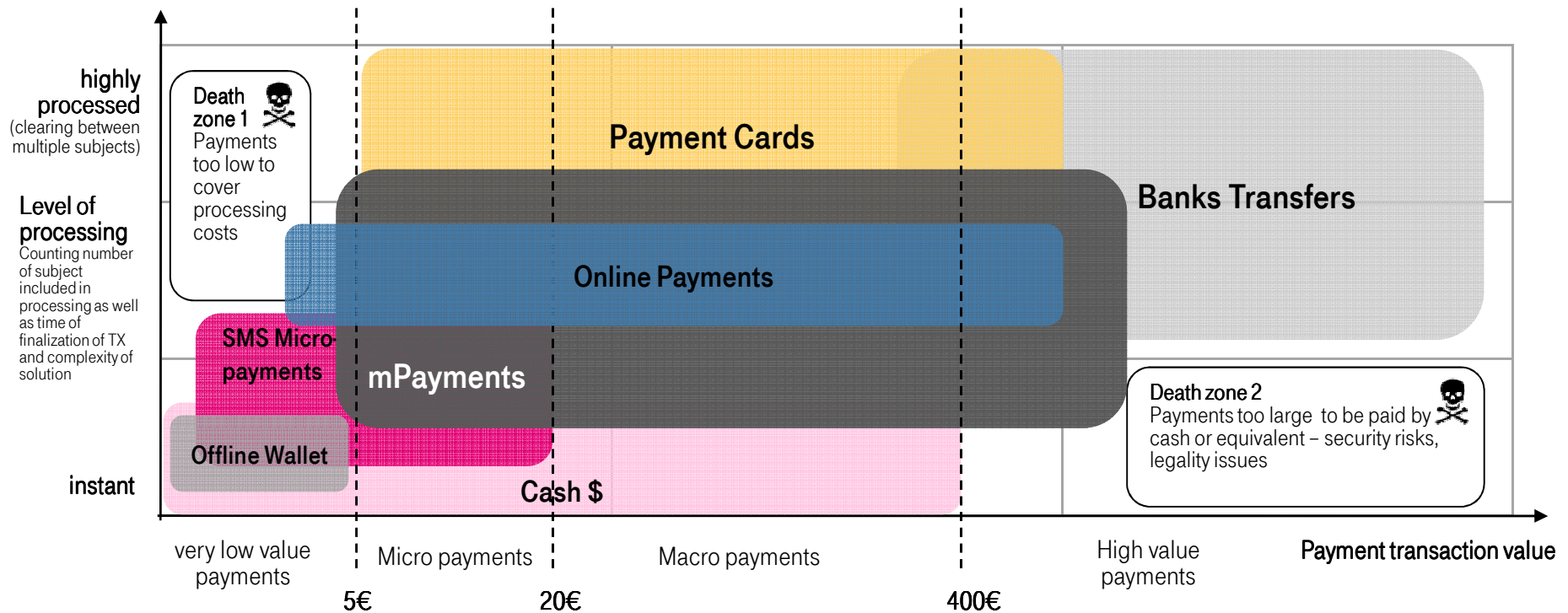
Peter Helexa

SAEC Round Table // June 8, 2011

Zažime to spolu



# Payments solutions and position of mPayments

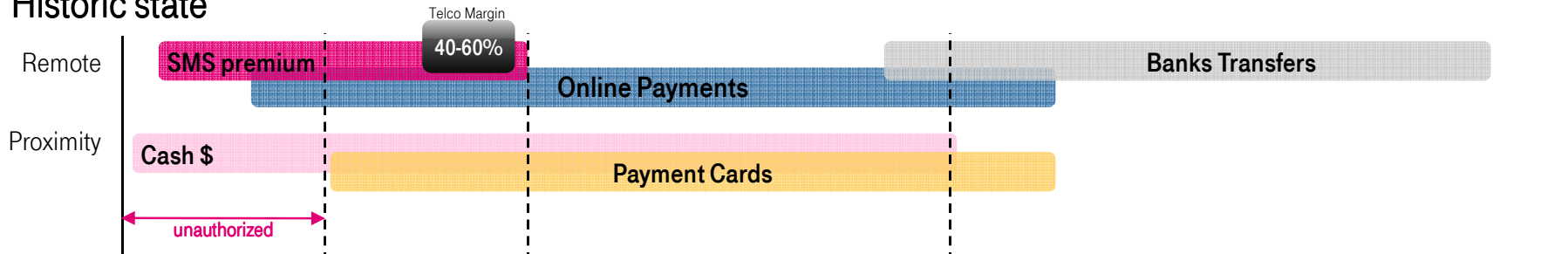


- There is whole portfolio of different payment methods used today, thus it is crucial to position payments processed via mobile phone among them.
- Under common name of mPayments (mobile payments) we do understand various payment options (targeted for different scenarios) that on the background can be processed over different technologies but should be perceived by end user as single payment method (the same use case scenario) or complementary set of methods.
- The main rational/driving force behind mobile payments is not additional revenues for MNO but further digitalization of (mostly cash) payments towards end-user convenience (mobile as a wallet) and decreasing costs of payment processing on merchant, bank and payment cards operator side. Thus MNO can help with this process and gain new revenues from penetrating value chain, but as well can be bypassed by more agile candidates aiming for the same position (mobile phone producers, mobile OS vendors). **MNO position in mPayments is not granted**

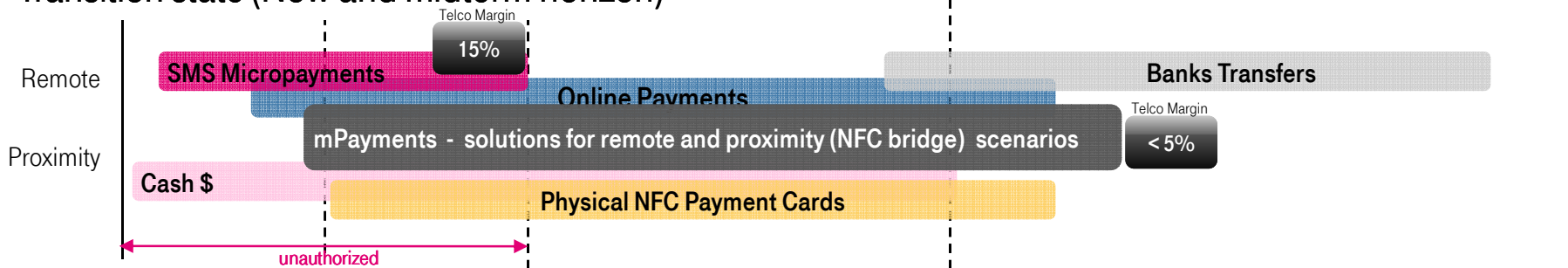


# Evolution of Payments solutions

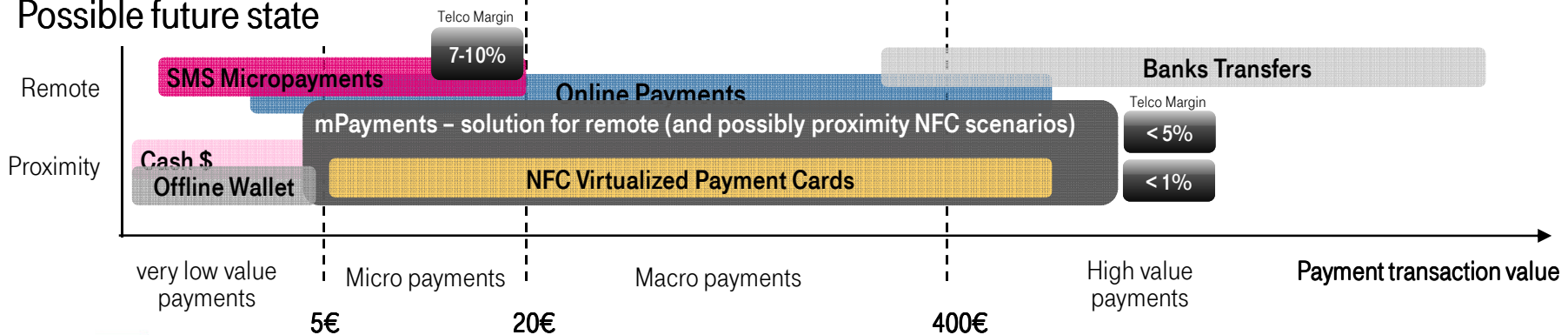
## Historic state



## Transition state (Now and midterm horizon)

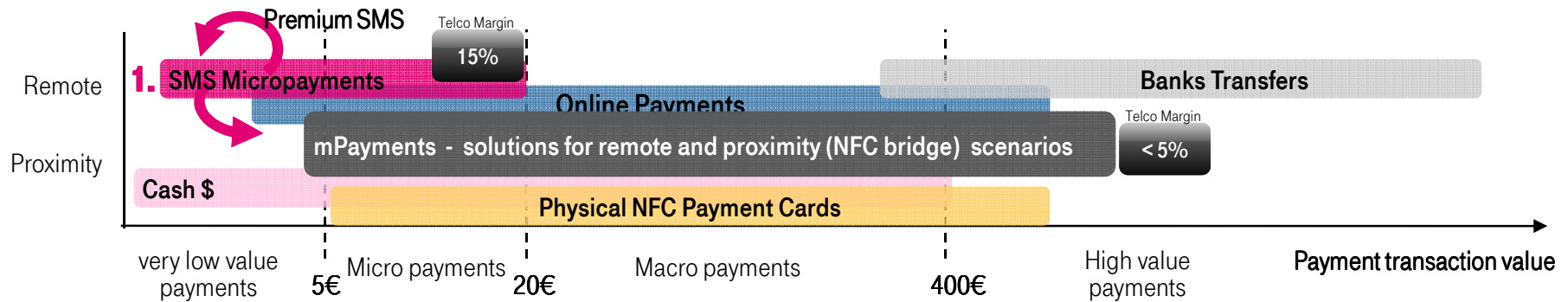


## Possible future state



# Transition State

Key is to capture masses on new mPayments methods, build position in forming NFC ecosystem and manage decline in SMS micropayments



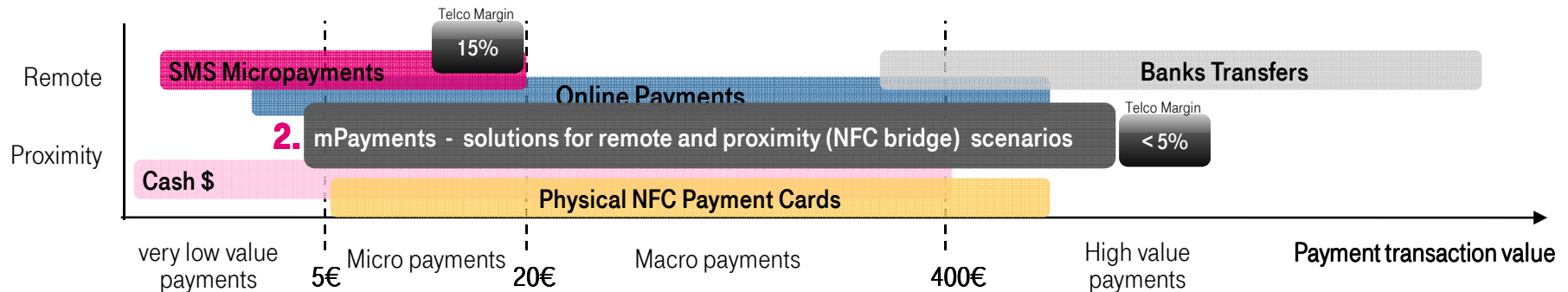
## 1. SMS Micropayments

- Still the most relevant source of revenues from payments yet – strong positions also on market segments that has been lost by MNOs in other countries
- MNO bears credit risk and acts as financial institution, but since caps for cumulative monthly payments are set (150 EUR), this risk is manageable and acceptable.
- Evolved from Premium SMS with extremely high margin thus decline in margin is expected to 15%, although total volume will increase.
- Regulation limitations (EU, national) will further limit potential segments (products/services) where solution is feasible
- **Managing Premium SMS business decline to cash cow remaining potential and transfer users to SMS Micropayments or at least to new mPayment solution is the issue (avoiding bypassing of MNO from value chain)**



# Transition State

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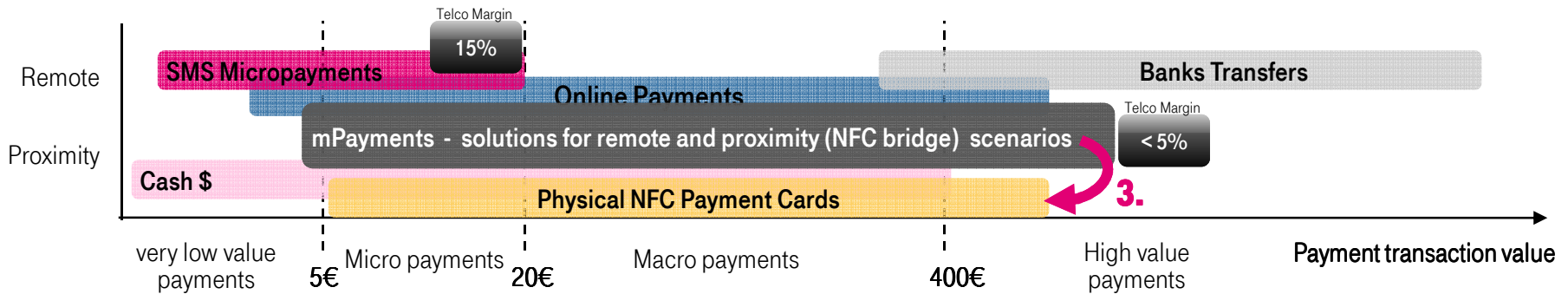
## 2. New mPayments solutions

- There is strong demand for payment solution triggered via mobile phone (development on the SK market and Neighbor countries - Mopet in CZ, mobile payment services in HU)
- Micro payments possibly handled by billing on telco invoice but clearing center have to be maintained and it would cannibalize SMS micropayments with service with lower margin left for MNO.
- Macro payments should not be billed on telco invoice due to high credit risk of non-payers and negative perception of high telco invoice. Utilizing existing payment solution in background (bank transfer, payment cards) should be used thus become just payment processing agent, but this comes with cost of lower margin left for MNO.
- Secure authorization for high value payments processed as bank transfers on background gives to mBanking highly demanded functionality
- Solution should be perceived as compact from end user point of view regardless the transaction value (even MNO)
- **Pilot project for such solution under execution with mTrust as technology partner.**



# Transition State

Key is to capture masses on new mPayments methods, build position in forming NFC ecosystem and manage decline in SMS micropayments



### 3. Preparing for NFC

- SK market is too small for competing NFC solutions thus common solution should be negotiated and agreed by core subjects (MNOs and Banks). Solution independent from concrete technology but business driven is the key.
- **Negotiations with MNOs under preparation to agree on common approach towards banking sector**

#### Key points to be negotiated with MNOs

- **Scope of services** and its connection to and transition from traditional SMS payments
- **The business model, how it will be financed**
- Who are the key stakeholders (MNOs, banks, loyalty program organizers, ticketing companies, credit card companies, major internet retailers, etc.) and how **to attract volume**
- Antitrust and financial regulation clearance
- **Technology platform and handsets**
- What major banks to approach and what should be the initial retail market coverage of those banks to start the ecosystem (ST's proposal would be at least 60% of the retail banking coverage)
- Whether to create a JV (eventually with major banks) to operate the ecosystem, and, whether to include operation of technology platform into that JV

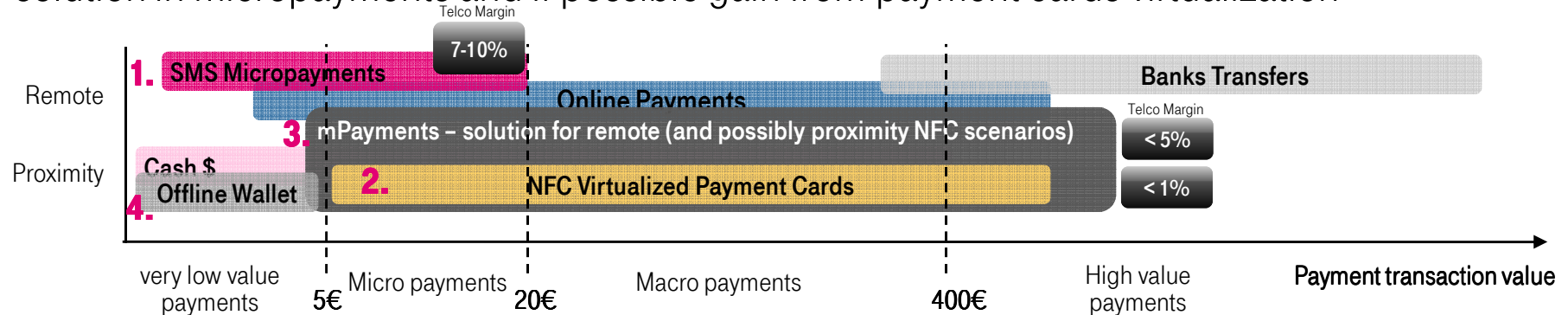
#### Key points with Banks

- Business model
- Service penetration strategy
- Approach to other major stakeholders
- Technology platform
- JV



# Possible future state

Secure position of SMS Micropayments in micropayment segment and telco mPayment solution in micropayments and if possible gain from payment cards virtualization



## 1. SMS Micropayments

- SIM Micropayments will decrease on margin but for certain segments of services of immediate consumption will be still the best option with learned purchase scenario and the highest Margin from transaction.

## 2. NFC Virtualized Payment Cards

- SIM card place rental model can be in big risk since MNO's may be bypassed in payment transaction on global level by placing secure element elsewhere than SIM card (SD card, device HW) with mobile OS vendors as TSM (distribution over app stores).
- User ownership from pre NFC – transition era is crucial.

## 3. mPayments solutions

- Maintain position from pre NFC era in proximity payment will be great challenge (decision is on the customer and merchant side ), but evolving remote scenarios /increasing penetration among population can compensate revenue loss.

## 4. Offline Wallet

- It is expected that offline wallet will be domain of banks with no or small place for MNOs. MNO can be bypassed by distribution over AppStore and personalized over mBanking, account top up may be still MNO's parquet but with only small potential in terms of value

