MOBILE PAYMENTS

THE YEAR THAT WAS AND WILL BE

BY: SRINIVAS NIDUGONDI, SR. VP & HEAD OF MOBILE FINANCIAL SOLUTIONS, MAHINDRA COMVIVA

Mahindra COMVIVA

SUCCESSES AND FAILURES OF MOBILE PAYMENTS

The many successes and failures of mobile payments and related solutions witnessed so far brings home a very simple, fact-one, mobile-based financial solution will not cater to all markets.

After all, how can it? The mobile finance space itself is so vast: you have payments, payment-related services and commerce. Furthermore, you have the stakeholders themselves; namely, the consumer, the business and the merchant segments. As if that wasn't complex enough, these categories are further broken down into various strata in the form of a pyramid. Essentially, this implies one can classify a customer as belonging to the "bottom" or the "top" of the pyramid. Likewise, a merchant can be categorized as a "small", "medium" or "large format." So many classifications would obviously demand an equal number of solutions. And, of course, needless to say, the solutions would have to be customized to suit each market!

At this point, without running the risk of tooting my own (or my company's) horn, let me elaborate on that last bit. Simply put, keeping in mind that every global marketplace vastly differs in every possible way, the need of the hour is a "no white space" strategy (the term is my own coinage). This implies more than dotting the "i's" and crossing the "t's." It means being able to provide an appropriate solution to the appropriate target audience.

DEVELOPING AND DEVELOPED MARKETS

Now, coming back to the markets. For the sake of simplicity, I will divide them into two categories: developing and developed. Without going into details (and thus running the risk of losing my audience), I think that it suffices to say that the mobile payments market got its first real push from the developing markets. Why? Well, because this customer group had very fundamental financial requirements. Using a mobile payments system essentially provided them easy and fast access to their personal accounts. Without such a system in place, they'd still be conducting all financial transactions in cash. However, that was then. Things have come a long way since.

Let me to cite Africa as an example. Today, the mobile money services space in Africa is steadily maturing. Of 196 mobile operators, 99 have already launched mobile money services. More importantly, the scope of the service itself has increased tremendously. For instance, in Zimbabwe, one such player, EcoCash, made its debut in the mobile money space with the launch of the P2P Transfer service. Today, it offers customers a wide range of solutions. Briefly, these include the Merchant Payment system solution (for the retail payment business), and the EcoCash $ave and the EcoCash Credit services, which are aimed at bringing micro-savings into the formal financial system. Other interesting initiatives are the salary payments, mobile savings services and the SVA-linked debit card. These launches are aimed at extending the company's reach to businesses and beyond Africa's borders as well as driving merchant payments.

Of course, these companies haven't stopped there. Not by a long shot. The next step was launching interoperable mobile services. So, not surprisingly, in June of this year, Tanzania's three mobile money heavyweights – Airtel, Tigo and Zantel – signed an interoperability agreement as per which users of their respective services (Airtel Money, Tigo M-Pesa and Zantel's EzyPesa) will be able to send money to each other from their handsets. An interesting aside: the hopes of over 16 million mobile money customers in Tanzania were pinned on this service!

AFRICA REMAINS THE BIGGEST SUCCESS STORY

Now, while it is indeed tempting to focus on Africa for the remainder of this piece (since I am quite partial to this region myself and also because, let's face it, when it comes to mobile money, Africa remains the biggest success story), let's move on to the developed markets.

When it comes to mobile money, the clearest differentiator between developing and developed markets can be summed up as follows. In a space where consumers already have a plethora of choices, such as cards, electronic payments, digital payments, access to digital channels, such as the internet, why would they use a mobile for financial transactions? To answer this question, I would like to touch upon what I refer to as, "re-imagining the consumer's purchase behaviour" in the context of mobility.

CUSTOMERS HAVE CHANGED

Let me kick-off this discussion with a simple statement; customers have changed. Companies should too. In the good old days, a customer used to walk into a store, select a product, purchase it and walk out. Today, the rules of the game have changed, because the game itself has become so complex. Before walking into a store, the modern customer researches a product they are interested in. They view videos pertaining to the same, compare prices, download coupons, the list is endless. In this context, therefore, a company can "re-imagine" a potential customer's purchase journey with the help of mobile-based tools that are context-aware, socially driven, powered by technology, personalized and, most importantly, secure.

In this context (pardon the pun), the mobile is the king, commerce is the queen and context is God. Simply put, a retailer can tap into a customer's purchase behaviour and interests based on the trends highlighted in previous transactions. The retailer would then be able to push customized offerings on the customer's mobile phone. Another way is location-based offers. This entails detecting a customer's presence at a location, in order to push various offers via technologies such as Bluetooth Low Energy (BLE) beacons. Essentially, on the basis of a customer's location, I would be able to tell what this person is doing currently and provide them with specific information that can aid them in their buying or purchasing behaviour.

SOCIAL NETWORKING

Next, let's talk about the most powerful tool (arguably) of our age: social networking. Social networks are "the" way customers are obtaining information from companies and using it to decide what product to purchase. If we were to transpose that into a mobile handset, a retailer can understand consumers through their consumption of social media to make changes in brand and marketing. Less prosaically, integrating social media with one's purchase journey can help increase visibility, interaction and engagement not to mention, add a "fun" element to the entire process! The bottom line is: the whole experience becomes that much better and different.

TECHNOLOGY

Of course, in the entire purchase journey, the technology is merely incidental. Having said that, however, technologies like Near Field Communications (NFC), BLE, Biometrics, QR Codes, and wearables are disrupting (and will continue to disrupt) the payments space in a big way. So, retailers would do well to remember to use these mediums to create "wow" moments for their customers. For example, deploying NFC to ease payments, like what Apple Pay is doing today, or getting information through QR codes, or getting the right discount voucher through a Bluetooth Low Energy beacon-all this will enhance the customer's experience! What's more, the entire experience is put into context. Suddenly, one is able to visualize a pattern by which one is able to aid the consumer again and help them not only in the purchase journey itself but beyond as well. This would, in all likelihood, encourage the customer to share their experience with their peers.

While the aforementioned trends hold a lot of potential and promise, the issue of security is bound to raise its head up sooner than later. Even today, despite the plethora of applications (security-related included) available in the market, customers perceive mobile payments as unsecure, owing to the lack of familiarity with the system. Of course, grappling with complex security mechanisms dosen't help the cause at all. So, naturally, every organization offering mobile-based payments is focusing on this aspect. To sum up, I am of the firm opinion that if an appropriate solution can be developed to allay a customer's fears about security, mobile-based payments would certainly obtain increased momentum.

In conclusion, though this piece focuses primarily on payments, it goes beyond that, of course. The wide gamut of mobile payments includes applications, content, and, most importantly, knowing what a customer wants. The bottom line is simple; all these elements are important parts of the payments game.

2015 FORECAST

Having said that, I feel it is important to mention that the discussion so far centred on what WAS in 2014. Shall we take a look at what WILL (or, at least likely to) be in 2015?

First and foremost, and let's get this out of the way once and for all-mobile payments aren't going anywhere. They are and will continue to be a priority for every stakeholder in the mobile financial services space. Mobile money has moved beyond hype and is establishing itself as a lasting trend.

Sample this; according to a recent report published by The Society for Worldwide Interbank Financial Telecommunication, consumers are using their mobile phones to make payments in over 130 deployments with a 100 more planned and several new initiatives are being announced each week. If that doesn't indicate growth, nothing does! Moreover, this is a growing market. The mobile, as a payment technology, will register significant growth over the next five years. As per industry estimates:

The growth rate for mobile payments is expected to vary between 350 and 900 million users, generating anywhere between $430 billion and 1 trillion in transaction value by 2015.

The retail segment, in particular, is expected to take up this cause enthusiastically. How? By adopting a "mobile-first" strategy-i.e. ensuring that a customer's experience on any mobile device (tablets, handsets, phablets, you name it!) is nothing short of perfect!

SERVICES

Now let's talk about the services themselves. As I mentioned earlier in this piece, mobile payments have risen far above and beyond P2P transfers. This is just the tip of the iceberg; numerous non-financial players have entered the mobile payments market, often with innovative solutions. In fact, mobile network operators like Vodafone, MTN, Orange and airtel have deployed mobile payments services in several countries or have set up joint ventures between them. If that wasn't enough, money transfer operators like Western Union and MoneyGram, as well as card companies like Visa, MasterCard and Amex all have multiple mobile payments initiatives. To add to the mix (or shall I say confusion?) payment service providers like PayPal are throwing their hat into the ring too and putting their entire might into the mobile.

NFC

The big bucks matter, of course. So does the technology used for such payments, by the way. For example, Near Field Communications is (and will continue) creating a lot of buzz in the mobile payments space. It is being used in Japan on close to 65 million handsets by 15 million customers initiating 30-50 million transactions per month with 750,000 merchants. If that wasn't enough, several projects have been launched in some 35 countries in Europe, the US and China, but many have a long way to go before reaching critical mass (in terms of market penetration). Google Wallet is one example.

HOST CARD EMULATION

Now, let's add another element to this mix; namely: Host Card Emulation. It is here to stay. Very simply put-traditional NFC using SE for contactless proximity payments had too many challenges which HCE has resolved. The tokenization service offered by card schemes would enable financial institutions to launch NFC Wallets by simply working with a mobile wallet platform provider. In fact, I believe that the movement of NFC-based payments towards HCE, which started in 2014, will become more prominent in 2015.

MOBILE MONEY OFFERS SIGNIFICANT BUSINESS OPPORTUNITIES

Moreover, user experience, context awareness and universality will be the benchmarks by which every mobile money deployment will be judged. The user experience has to be compelling, convenient and cost-effective and the context awareness, intelligent and customized. Too much of wishful thinking? Well, let's put it this way: the solution that addresses these best within the time, cost and quality constraints shall succeed.

But, as the saying goes, "There is no such thing as a free lunch." So, while mobile money offers significant business opportunities, it also comes with very specific challenges. It's quite straightforward, really. The metaphorical elephant in the mobile payments room is interoperability. All the mobile money faithful agree that it can boost volumes to dizzying heights. But, naturally, one's own company's business goals become priority, so no player wants to give another even the slightest bit of elbow room, whilst expanding market share.

Things are expected to, well, improve somewhat in 2015. Stakeholders are expected to relax their competitive stance and adopt a collaborative approach. And, it's already happening (in small doses, of course). Citing the Tanzania example mentioned before, in November 2014, Airtel Money and Tigo Pesa joined hands to enable the very first domestic interoperable mobile financial service in Tanzania. Powered by our very own mobiquity® Money (still not tooting my company's horn), the service allows customers to send and receive money directly between the mobile money accounts of these two service providers. The service simplifies off-net money transfers and enables recipients to transact through the convenience of their own mobile phone without cashing out. Small steps, no doubt, but at least it's a start. A word of caution, though: before the full potential of interoperability can be leveraged, the various faces of this concept need to be clearly understood, prioritized and then introduced. Tanzania is just the tip of the iceberg, though. In 2015, we are likely to see a number of markets jumping onto the interoperability bandwagon.

To sum up, 2014 witnessed several changes and innovations in the mobile payment space. Honestly, we can continue to gaze into a crystal ball with regard to what's going to happen in 2015. We may or may not be right. Nevertheless, it'll be worthwhile seeing how the next year shapes up for this space.

ABOUT MAHINDRA COMVIVA

Mahindra Comviva is the global leader in providing mobility solutions. It is a subsidiary of Tech Mahindra and a part of the USD 16.5 billion Mahindra Group. With an extensive portfolio spanning mobile finance, content, infotainment, messaging and mobile data solutions, Mahindra Comviva enables service providers to enhance customer experience, rationalize costs and accelerate revenue growth. Its mobility solutions are deployed by over 130 mobile service providers and financial institutions in over 90 countries, transforming the lives of over a billion people across the world. For more information, please visit www.mahindracomviva.com