

# Talkin' 'Bout M-Generation



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The emerging era of mobile payments will eventually offer ubiquity, security and a seamless user experience to billions. But for now the reality remains a fragmented market of non-standardized and often difficult-to-use solutions.

## One Size Fits Some

With certain mobile payment applications limited to literally single streets in single cities in the United States, it is difficult to exaggerate the fragmentation of today's m-commerce market. Merchants suffer from "acceptance fatigue," due to the increasing number of promising startups offering "the latest winning sales channel," new business models and fancy but untried technology. Still, retailers find it difficult to turn down any new means of payment if there is a chance that doing so will result in the loss of even a single customer. They are also encouraged to say "yes" to new services that integrate payment with marketing and offer loyalty and couponing schemes which demand no upfront investment and bear only moderate commissions.

These retailers' customers are likewise experiencing "gadget fatigue," becoming lost in an overwhelming number of applications they have to download, register, activate and manage. One has to download, register and sign up for each NFC wallet, remote cloud payment, online checkout, remittance or loyalty service separately, not to mention the merchant applications of their favorite retailers. Similarly, single-purpose prepaid cards and other stored value accounts have begun to appear at a pace that leaves consumers confused and hesitant to reload them.

The mobile payment industry has too often promised its clientele immediate success. Yet due to the masses of new technologies with limited usability and the fragmented nature of the market, 80-90% of applications that are activated remain unused. And according to current international experience, only those applications that are used at least once a week tend to remain in use.

Just think of all the fancy apps that you have downloaded, tried, and, in the absence of regular use, have deleted

or left to molder at the bottom of your applications list. It's no different from those web pages you used to register for, only to later forget not only your login details but the very reason you may have registered in the first place.

Why should anyone change their habits and invest time and effort trying to understand the new wave of payment technologies? We need to provide clear and tangible benefits, lower costs, better user experiences, and other real advantages if we are going to change this behavior. Only after we have made the rationale for adoption incontestable and offered a sense of passion and impulse, as well as a degree of trendiness, will we see wide acceptance.

The absence of uniform security standards presents yet another problem, as providers trumpet the security of their customers' data without any external verification. Servers holding data on hundreds of millions of cards are regularly hacked, causing fear and outrage but no material change in customers' behavior. The perceived trustworthiness of safe and secure solutions is threatened by the failure of a single unprotected application. While immaculate, fraud-free operation rarely makes headlines, abuses and leaking of card credentials and other sensitive information always will.

## Cui Bono?

The industry is floundering between a Scylla and Charybdis of the monopolies' disinterest and lack of new business models. Only clearly-aligned business interests could enforce co-operative business behavior. As long as legacy players insist on maintaining their existing but ailing revenue structures and new entrants are unable to break through due to market fragmentation, new business model will not be allowed to solidify.

SIM card manufacturers try to engineer customer lock-in by offering bundled services that prohibit third parties from providing independent over-the-air card management services. In the meantime, operators and handset manufacturers are reluctant to abandon their exclusive access to certain functionalities, aiming at expropriating their customers, although with only limited success. Each stakeholder attempts to become indispensable by gravitating towards the epicenter of the ecosystem.

In a global world, only players with global aspirations and a new attitude can be genuine agents of change. A free flow of innovative ideas and a critical mass of customer demand, coupled with the devoted ambitions of some blue chip companies and private equity funds, can build up a robust, new value chain.

## Fishing in the Blue Ocean

Stakeholders in the market are trying to gain a foothold in this new arena either by will or desperation.

Mobile operators have long tried to insist on a piece of this business simply because they have owned the SIM card, which they have perceived as a core ingredient of any secure transaction solution. But thanks to the rapid penetration of smartphones and secure server technologies, cloud payment providers long ago overcame the limitations of SIM card-based security solutions and introduced new, flexible telco-agnostic services. Meanwhile, the NFC-IP platform, alongside a new breed of contactless technologies, will make the SIM-card unnecessary for

making NFC-transactions. As a result, mobile network operators will irreversibly become simple pipe suppliers for data traffic. And this is especially true for MNOs which fail to realize the time has come for them to switch to a business model based on their brand awareness and trustworthiness, access to their customers and go-to-market capability. The ones that are able to change their habits will develop private label value-added services, enter into partnerships with other stakeholders in the emerging ecosystem, issue proprietary m-wallets and start serving their consumers, including small- and medium-sized business clients, with this new technology, safeguarding their otherwise declining per-user revenues and lowering their churn rate.

Card scheme companies are running pilot programs, working cautiously on new standards and preparing themselves to intervene at the right time, before control slips out of their hands. They are making hundreds of billions of dollars following the old ways of doing business, so their reluctance to drive the change appears to be reasonable.

Banks have long been providing remote account management, wire transfer and ATM-locator services in the framework of mobile banking services. In most cases, such services have been a mere extension of e-banking for mobile devices. As a result of increased competition, and the fear that others may be eating their cake, financial institutions are ever keener on providing real mobile money, mobile payment and mobile commerce services, coupled with loyalty, personal finance and other convenience applications. Indeed, in some regions (Central-Eastern Europe) banks are driving the change, whereas in other parts of the world, telecom operators (Sub-Saharan Africa, South East Asia) or merchants (UK, US, Canada) are the first to taking up this new technology.

New, unexploited markets are available for all of these stakeholders. The biggest competitor to them is not another fancy technology, but the cash and obsolete legacy structures. The real business opportunity is not building new services to the detriment of others, but bringing "green-field transactions," security and financial inclusion to those in need, and targeted ads, logistics, convenience, geo-location detection and ultra-sophisticated loyalty services to those who demand or ready to pay for the better services.

## The Unstoppable Rise of Newbies

Even the United States, the largest consumer marketplace has only reached a "pilot phase" in terms of m-commerce adoption. The largest retailers are testing the waters, but the number of actual transactions is insignificant. Still, hundreds of start-ups are aiming for success employing different platform solutions or customer services, and following diverse business strategies aimed at disrupting outdated business models or "m-enabling" existing ones.

The biggest players - hardware manufacturers, software and IT services giants, and social network icons - have so far failed to control, or even set a clear direction for this market. They are buying up some new entrants, and partnering with others, but are still in waiting mode as to what big-ticket investments they should make or technology disruption they should commit themselves to. They behave like their predecessors did in the early 1990s, at the dawn of the Internet era.

## “If I had asked people what they wanted, they would have said faster horses”

- **Henry Ford**

So in what direction is all this going? This, unsurprisingly, is rather difficult to predict.

In my belief, we have to work relentlessly on a new breed of mobile commerce solutions that offers ubiquitous access, full functionality in remote as well as proximity payment situations, and a user experience that matches the friendliness and easiness of the latest smartphone operation systems and social networks, and which pursues a zero tolerance policy vis-à-vis security measures.

In this new world of mobile transaction solutions, a ubiquitous m-commerce option becomes a public utility similar to voice services now universally available around the world. Alongside the necessity of a permissive regulation in each country and interoperability between dominant solutions, this innovation will help merchants get closer to their clients by releasing e-commerce from the “custody” of the Internet, and assist the poor in getting access to markets and financial services that they have been so unjustly lacking so far. All payment instruments, access methods and usage cases will merge into useful, secure and user-friendly applications combined with the unparalleled functionalities of the remote access devices. Trusted service providers, the new agents of this cultural change, will compete for customers with perpetual innovation that demolishes the monopolies of the past.

In the meantime, new if not revolutionary forms of payment instruments must emerge to meet the needs of billions of as-yet unserved customers. Stored value accounts will level the marketplace - digital money, such as Bitcoin and its followers, alongside increasingly successful m-wallets in emerging regions, will serve not only the unbanked, but also the mobile-savvy in the industrialized world. Transactions and settlement will become real-time, costs will drop sharply, acceptance networks will expand and payment systems will interoperate as a result of the newly created ecosystem.

This game-changing technology will force disintermediation of any unnecessary elements in the value chain, and generate a new attitude on the part of legacy players. As real money virtualizes, mobile devices - now handsets, later glasses and other, as yet unimaginable instruments - will become the dominant payment interfaces, helping the world getting rid of the costs and hurdles of the monetary instruments of the previous centuries.