

## Mobile Payment: Telco Centric Model?

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Last month, I highlighted that banks can no longer afford to wait if they want to be part of the value chain for mobile payment and commerce. If banks still think they have more time, they will be in for a rude shock sooner than they expect.

To emphasize my previous point, I mentioned that StarHub introduced a pre-payment option known as FlexiCard in late Apr 06. This is basically a pre-paid card with a card value of S\$15 (US\$9.60) and the card can be used to pay for MaxOnline FlexiSurf 2000 service and Games-On-Demand value-added services. As each card denomination is low, a maximum of 5 cards can be used together for a single transaction, ie S\$75 (US\$47.80). So what's the big deal?

There are 3 key areas that warrant banks spending time to review.

### Mobile Entertainment and Contents are big businesses

Firstly, many banks still consider non-voice telco services as those limited to download of ring tones, screen savers and wall papers for use on phone equipment. Facilitating payment for such services are deemed too trivial for banks to merit investment of their "valuable" resources to assess the market environment and evaluate an appropriate business model.

Riding on the take-up of 3G services over the past 2 years (The number of 3G subscribers at DoCoMo reached 23.5M as at end Mar 06 or 46% of its total subscriber base), more entertainment and gaming services are now available for consumption on newer 3G mobile/smart phones. Besides songs that can be downloaded from US\$0.99 each, there are some popular ring tones and songs that fetch more than US\$3.00 per tune.

Adding to the spread, there is now video streaming for TV shows that are designed specifically to fit into the limited "real-estate" of the mobile phone display panel. Indeed, mobile content is growing in popularity from Japan to South Korea and other parts in Asia. Just last week, in an interview with the Financial Times, DoCoMo chief executive, Mr Masao Nakamura shared that the company is considering investing in markets of Indonesia, Thailand and Vietnam.

Considering that in first quarter this year, more than 200 million of phones are shipped which exceeded the number of PC manufactured in the same period; and with many of these phones being designed for mobile entertainment services, the potential captive market cannot be ignored and payment for these mobile contents though smaller in dollar value can be huge in terms of the number of transactions.

### Regulations are changing ...

Next, regulations governing payment for phone-based services are no longer restricted to those that are "consumed" on the phone equipment itself. While some telco have experimented using statement billing for non-phone based services; the pertinent concern is the financial and credit risk infrastructure that telco have to put in place would probably make statement billing a non-viable and risky option.

However as regulations on payment and deposits are becoming more relaxed, some countries are allowing non-bank organisations to offer multi-purpose stored value cards; the most familiar example that we know is the multi-purpose transport card in Hong Kong.

As the line blurs between a phone and multi-purpose smart device and coupled with the ability for telcos to offer payment for services other than the traditional telco services; the earlier envision of the phone as a personal payment device or an electronic wallet is becoming a reality. Nokia and other major phone manufacturers are already embedding “e-wallet” capabilities in their phones for some time now.

### **Leveraging Existing Payment Infrastructure**

The StarHub's FlexiCard is a good starting point to demonstrate how telcos and intermediaries can leverage on existing payment infrastructure that banks have painstakingly built over the years.

In the current model, StarHub customers have to purchase a physical card from StarHub and more cards when the intrinsic value of each card is used up. Although cost of plastic cards has decreased substantially over the years, this disposal card model adds additional manufacturing and distribution costs to the telco.

Since telcos are already familiar with top-up card concept; the first card can be a physical card and subsequent top-up being done through the internet banking or ATM top-up facility that banks in Singapore and other countries are offering to telcos.

Although banks charge a fee for the top-up arrangement; the telcos benefit from added businesses and avoid huge capital expenditure to build a robust and secure payment infrastructure. In addition, since this is a pre-paid model, the earlier concern about credit risk is no longer a key issue.

The funding account concept is another model that could be explored. In some countries, to cap the maximum amount that a player can make bets on games; an account is set up with pre-loaded funds. Re-loading is often done via standing instruction or GIRO facilities being set up for this purpose.

When banks and payment organisations start to deploy RFID or NFC technologies on check-out terminals in the future for Point-of-Sale (POS) transaction, the phone set (or a personal multi-purpose device as it may be called) is logically an ideal candidate to be the e-wallet of choice.

As long as telcos initially keep the payment amount small; ie micro-payment and offer to pay administrative or service fees to banks for using their payment infrastructure, banks are likely to co-operate on a “win-win” basis.

### **Mobile Payment the way to go**

The mobile or personal multi-purpose device takes the concept of m-payment to a different dimension. With telcos increasingly establishing a tighter billing relationship with their customers; banks may be relegated to performing clearing and settlement functions.

Will mobile payment become the “killer application” that drives mobile commerce?

Not as a “killer application” but definitely as a catalyst in facilitating m-payment to drive revenue model based on mobile entertainment for the personal users and data usage for the corporate mobile users. As mentioned many times before, telcos are natural players to propel mobile usage and m-payments and at the same time anchor their relationship with their customers.

Banks, on their part will have to examine what roles they want to play in this emerging business model; do they want to provide only payment clearing and settlement roles? Or do they want to adopt a co-operative play with the telcos to shape the ways mobile payment and mobile commerce will develop in the near future?

While banks continue to mull over their role; the telco-centric model is making inroads in the marketplace.

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