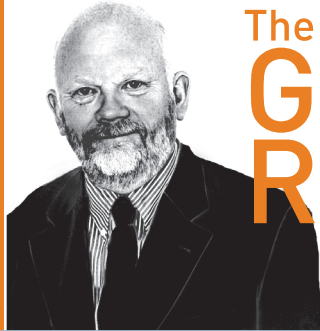


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Issue 6 / March 06



# The Goldfinch Report

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## Mobile Wallet – Why a Card?

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Why would a mobile wallet be successful when so many other prepaid payment instruments have failed? Who will place funds into a mobile wallet where access is limited? In this issue of The Goldfinch Report, GFG Group's general manager for South East Asia, Peter Goldfinch, applies his usual no holds barred approach to answering the above questions – and more. Peter's credentials have been earned over 23 years experience in electronic payments, including pioneering work on ATMs and EFTPOS, and the introduction of credit and debit cards to Russia.

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The world is littered with the dead bodies of numerous prepaid or stored value payment schemes. Launched with great expectations and fanfare, they have been resoundingly rejected by the general populous. The most notable of these were Visa Cash and Mondex but there have been numerous others. The most recent failure is the SIMPay Scheme in Europe. Why is this?

“THE WORLD IS LITTERED WITH THE DEAD BODIES OF NUMEROUS PREPAID OR STORED VALUE PAYMENT SCHEMES.”

“THERE HAVE BEEN A FEW UNIQUE SUCCESS STORIES AND IT IS WORTHWHILE ASKING WHY.”

“AN IMPORTANT ELEMENT OF SUCCESSFUL SCHEMES IS THAT PAYMENTS ARE NORMALLY DELIVERED THROUGH A SINGLE CHANNEL.”

The classic answer is these schemes have a weak cardholder proposition. There is no compelling need to use one of these schemes, especially in a world where there are numerous other such payment schemes. Cash being the most popular. If these 'brands' as mentioned above could not be successful with their respective prepaid products, what hope is there for a new entrant! Even if the new entrant has an existing mobile brand it will not be recognised as a deliverer of financial services.

But it's not all death and destruction. There have been a few unique success stories and it is worthwhile asking why.

### No alternative

Mass transit cards such as Octopus and EziLink are two such successful stored value, (prepaid) payment schemes. In effect the cardholder proposition is compelling. Unless you wish to queue each day for a day ticket there is no other alternative for a regular commuter. Further as 90+% of the cardholders use the card at least twice a day the value loaded onto the card is a budgetary cost. Commuters were also conditioned through previous historical ticketing schemes to prepay for transportation so these stored value cards were more an upgrade in technology than the introduction of a new method of payment.

Prepaid phones have also been a success worldwide. They are similar to the mass transit as the usage is regular and the value loaded into the prepaid account is a budgetary cost. There is also no alternative for many subscribers.

### A single channel

An important element of these schemes is that payments are normally delivered through a single channel: mobile, Internet, IVR or acceptance devices, (transit gates). In the payments industry these schemes are often referred to as closed loops, (single purpose). The custodian of the funds, issuer of the plastic or token, plus the delivery and acceptance channel is owned by the same service provider or group of providers where access is not open to all. Therefore once funds are deposited it is a commitment by the customer to purchase a specific product or service.

Mobile operators play two distinctive roles in their payment systems, whether closed or open. These roles are:

- Delivery channel provider
- Wallet provider

As a delivery channel provider operators have the choice of playing a passive or active role. Passive operators will look on as other service providers use their channel. Their revenue model in effect does not change as they continue to charge for bandwidth/usage. The usage will increase and therefore revenue climb until the competitive pressures kick in. The fixed line operators today wish they had some means for extracting value from the worth of the content that passes across their networks. Passive operators will suffer the same fate. Active provider operators control the channel by offering extended payment services.

Primarily services relate to security, messaging and the user interface. An example might be deploying and then managing applications resident on the subscriber handsets.

With wallets, operators can similarly play two distinctive roles.

- Provide a wallet for specific operator services
- Provide a general purpose wallet

### Fragmentation is dangerous

Under the specific wallet option the operator is delivering a closed loop payment service as detailed above. This will have a restrictive appeal to only those subscribers who are heavy users of the mobile services. An operator may support multiple wallets for their own subscribers or wallets for third party services targeted to their specific customers.

“IF AN OPERATOR WISHES TO TARGET THE WIDER CONSUMER MARKET FOR MOBILE COMMERCE IT MUST PARTICIPATE IN AN OPEN LOOP PAYMENTS ENVIRONMENT AS A PROVIDER OF A WALLET SERVICE.”

“THE M-WALLET OFFERS THE POTENTIAL TO PENETRATE PREVIOUSLY UNPROFITABLE MARKETS IN A MORE COST EFFECTIVE MANNER.”

This delivers a fragmented approach with no one specific wallet achieving any real volume of payment activity. It can also be inefficient if subscribers/customers are required to open multi wallets for multiple services.

If an operator wishes to target the wider consumer market for mobile commerce it must participate in an open loop payments environment as a provider of a wallet service. The wallet therefore becomes general purpose and accepted in multiple channels.

This implies a card is issued against the wallet. Again for broad acceptance the card ideally should be branded Visa, MasterCard or another brand that has broad acceptance in the market. International brands offer cross-border acceptance. Issuance of a branded card generally requires a co-brand relationship with a bank.

The card type would normally be 'Debit' but this does not preclude provision of a revolving credit facility, in the same manner as credit card products.

The card association membership is normally restricted to banks. Co-brand arrangements, and in particular revenue sharing requires to be negotiated.

When the wallet is used in the operator's own network then revenue sharing with the bank should not be a requirement unless the bank is performing a direct role such as managing the wallet and processing transactions on behalf of the operator.

### Link the wallet to a branded card

The linking of the wallet to a branded card strengthens the subscriber/cardholder proposition to the benefit of both operator and bank. The proposition is based on the following points:

- Broad acceptance allows the cardholder to deposit funds for discretionary purposes rather than funds to be used for a restricted set of services such as mobile content
- Funds can be accessed and withdrawn from ATMs, domestically and internationally
- Cards can be used for Internet and WAP purchases
- Standard POS card purchases
- Discretionary and 'card on file' bill payments services supported

Transactions performed in these payment environments are cleared and settled by the partner bank and the card association.

The proposition offered to the operator is:

- A card that has broader subscriber appeal is more likely to be taken up by subscribers
- A viable payment instrument issued by the operator will facilitate the purchase of products and services within the operator's closed environment
- A high usage card reduces subscriber churn, even if a similar product is offered by a competitor
- Payment services will generate additional service activity and the associated revenue stream:
  - Increased SMS traffic at premium rates
  - Card transaction fee sharing with the banking partner
  - Card interchange fee sharing with the banking partner
  - Interest revenue sharing, (on float)

Offsetting the revenue are costs associated with card issuance. These include plastic management, customer service, fraud and delinquency (both lower with debit products), plus card scheme fees.

For the partner bank the proposition is also positive as partnership builds market share through the co-branding relationship.

## About Peter

Peter Goldfinch, GFG Group's General Manager South East Asia, is a respected analyst and commentator on global trends in payment technology.

One of the original founders and shareholders in GFG Group, Peter has a background of more than 23 years in the information technology industry, most of which has been involved with consulting and systems development for banking and finance customers in 25 countries.

He has particular expertise and experience in payment systems, including mobile payment systems. His career highlights include pioneering work on the first ATM and EFTPOS networks.

In the mid-1990s, he played a key role in the introduction of credit and debit cards into the Russian market, working with GFG's customer SBRF.

## About GFG

GFG Group is a highly-specialised payment solutions company, providing its clients with products, advice, and systems integration and outsourcing services. Accredited by the World Bank, the company has established a global presence over the last decade - delivering leadership payment solutions to more than 50 customers in over 40 countries.

A key element in GFG Group's success is its focus on development and investment in five high-demand payment solution areas:

- Card Management
- Mobile Payments
- Payment Tools
- Managed Services

The company's core research and development team is based in Auckland with consultants and technical staff located in the international offices to provide front line 24 x 7 support for customers in multiple geographies.

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## Making the unprofitable profitable

In addition an m-wallet scheme normally is compatible with a bank's existing cards strategy. The m-wallet will appeal to both a youth market and the lower income group. These two segments are often unprofitable for banks to target through their traditional 'go-to' market channels. Youth are normally targeted for their potential but not current value. The m-wallet offers the potential to penetrate both markets in a more cost effective manner.

A general-purpose wallet with a card and a bank partner provides the platform for the service to be extended as the mobile technology develops. RFID technology comes to the fore where the handset will replace the card in all card present channels. Proximity card technology has been deployed in the mass transit sector for many years but it is only now the card associations are promoting proximity in the retail sector.

## Emptying the too-hard basket

As the cards market moves toward EMV the challenges of supporting applications and data required by this technology off plastic will become apparent. This management must occur in a card present situation and because of the download time factor, it must be done not at the point of acceptance but at reload or ATM type devices. EMV has been implemented without this management issue being solved. It has been placed in the too-hard basket, to be solved later.

With a mobile, (G3) device it is always connected and these management issues become addressable. The mobile network enables the update of the payment data and/or applications to be undertaken unobtrusively.

RFID technology embraces both mobile payment and payment card interests. The convergence of these two businesses will impact both mobile and financial industries over the next decade. Mobile operators who are already in the card payments market will be strategically placed to take advantage.