
FRANKLIN

Who moved my money?

How mobile money will change the markets

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By 2015 the volume of mobile money transactions will reach $1 trillion. Global companies must tackle five key challenges to make the most of this opportunity – or may be left themselves wondering "who moved my money?"

Mobile money – beyond the hype and now a lasting trend

The arrival and pervasive use of mobile money has been heralded many times over the last decade, yet there have been few successful implementations across markets. With widespread use of smartphones, increased data access and a favorable regulatory environment, we believe conditions are now ripe for disruption not only in transactions (i.e. who takes a cut while moving money) but also in where the value is stored (e.g. a "wallet with benefits"). Financial intermediaries, banks, telecom operators, mobile platform owners, retailers, online giants and niche players are all trying to grab a piece of this mobile money pie. We believe that their current offerings are only partial solutions and that they must tackle five key challenges for success.

Five challenges to tackle

The five key challenges to tackle are user experience, context awareness, universality, security and regulation. The mobile money solution that addresses these best within the time/cost/quality constraints will succeed.

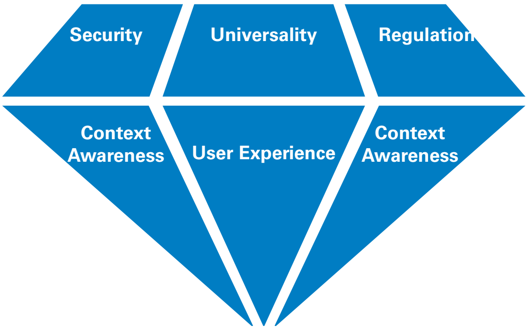


Table 2 **Five key challenges to tackle**

Five key challenges to tackle

1. User experience – compelling, convenient, cost-effective
2. Context awareness – intelligent, customized
3. Universality – addressing all financial service needs from wallet, banking and payments to loyalty
4. Security – automated authentication, authorization and customer trust
5. Regulation – supportive, pragmatic

Source: Arthur D. Little analysis

Picture by dvmsimages / dreamstime

1. User experience

Growth in mobile transactions will be driven by switching customers and merchants from traditional instruments such as cash and card. Mobile money has the opportunity to switch customers both from physical-world transactions and from online transactions. Improved user experience that is compelling, convenient and cost-effective is a key lever to achieve this switch.

The partnership between Square and Starbucks ("Squarebucks") is a recent solution that has disrupted an entrenched payment method (card). This was achieved by delivering a superior user experience where a customer is able to conclude a purchase through a mobile phone without even presenting it at the point of sale.

2. Context awareness

In a world where data is the “new oil”, device platforms facilitate granular information about the customer that was hitherto unavailable. Players like Amazon, Google and Apple have acquired a large number of customers and have successfully used granular information in predicting purchase behavior.

When the value is stored with non-traditional players, traditional guardians of customer data – primarily banks, financial intermediaries and telecom operators – lose the granularity of transactional information generated by customers. They thus face the risk of lowered ability to understand their customers. A solution that makes “context awareness” integral to the value proposition stands to gain against competing platforms.

3. Universality/ Interoperability

A mobile solution giving access to digital money through the device has to match the universality and interoperability of money itself. We therefore believe that merchant-specific, platform-specific or location-specific solutions will not succeed in the long run. M-Pesa is an example of a universal mobile money solution enabling any two parties having a handset to transact, thus facilitating B2C, B2B, local and even international remittances. Similarly, PayPal is bringing universality into its mobile money offering by expanding into in-store payments through the same online account.

Picture by Sergey Peterman / dreamstime

4. Security

Proliferation and growth of PC-based e-commerce has ensured standardized security measures for "digital" money in both developed and developing markets. While e-commerce fraud remains a concern for consumers, the idea of transacting in the digital world is well established. However, the same idea has not yet trickled down to paying through the device that usually has at least access to the stored value.

Thus, one of the main challenges to tackle is not so much of securing "digital money" but securing the device. How do we make sure that money is safe even when the customer loses a mobile phone? More importantly, will the customer feel that it is as safe as carrying a credit card in a regular wallet? An ideal solution balancing the trade-offs between security and convenience is yet to emerge.

5. Regulation

Regulations make or break mobile money offerings in the market as much as technology and innovation. Mobile platforms can inherently provide complete traceability of all transactions, thereby ensuring security, authentication and compliance. One could argue that this will suffice for most regulatory requirements. However, this has not been the case. While pragmatic ex-post regulations evolve to accommodate these offerings, the pace of such regulatory conduciveness varies by market. In certain instances, it has emerged that it is not the proactive actions of the regulators that are blocking mobile money proliferation, but inaction. For example, M-Pesa is as applicable in rural India (with a cost of cash as high as 10 %) as in Kenya and yet a solution has not reached fruition because of a lack of regulatory clarity.

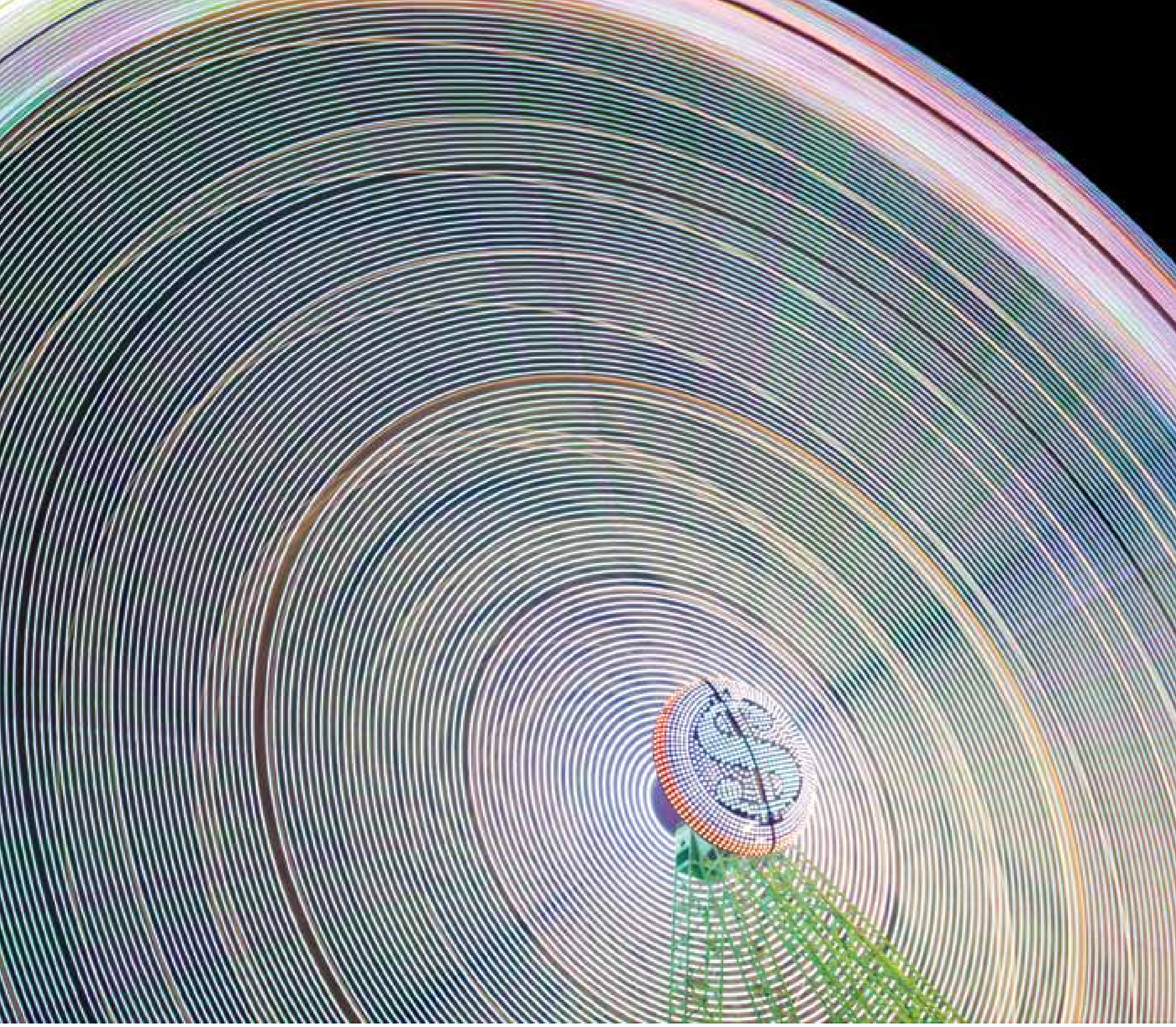
Insights for the executive

Mobile money is a growing market with significant revenue potential. The ecosystem is nascent, with no complete solution and no dominant player. This presents an opportunity for both the traditional players – telecom operators, banks, card issuers, intermediaries and retailers – as well as new entrants such as mobile platform providers, social networks and others.

Financial intermediaries such as Visa and MasterCard are strong on security and regulations and are improving user experience through PayPass and V.me, while investing in hardware for merchants to make their solutions more universal. To succeed they need to complete their solutions by including context awareness in their value proposition.

Banks and telecom operators are in a position of strength on universality, security and regulations. They have leveraged these successfully to bring "banking to the unbanked" solutions to underdeveloped markets. To succeed in developed markets they need to innovate/acquire/partner to create a compelling user experience.

Mobile platform owners and online giants such as Google, Apple and Amazon have the right ingredients for success but have not yet solved the trade-off between on-device security and user experience. Niche players like Square through "Squarebucks" provide examples of how to switch customers from traditional payment instruments and methods, disrupting the business of moving money. We believe that the winning model in mobile money will create a compelling context-aware user experience providing a relevant set of secure financial services. Once the solution is in place its proliferation and adoption in different markets will be driven or impeded by regulations.



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