

Figure 3.7: Amazon's TextBuyIt service

Source: Amazon.com

This entry into the mobile payments market follows the launch of Amazon's Flexible Payment Services (FPS) payment service that enables it to compete with PayPal and, to some extent, Google Checkout services. Amazon uses the existing credit card infrastructure to enable payments and online transactions.

Business models and the business case for remote mPayments

For mobile digital content

In the context of the purchase of digital mobile content (with micropayments), the business case for remote mPayments has proven to be very compelling – at least from the perspective of the mobile operators that take a significant share, as much as 60%, of consumer-generated revenues. In the past, this has been justified on the basis that the operator's billing system was being used for processing transactions and the operator was carrying the risks of fraud, revenue leakage etc. However, the increasing market power of (some) content providers and their ability to sell direct to the consumer (D2C), in addition to the emergence of independent billing mechanisms, has meant that operators now tend to be less greedy.

In the case of on-portal delivery via premium SMS, the message travels over an operator's network and the operator charges the end user for the content by putting the price of the item on the user's bill. The operator then takes a cut of the fee – typically about 40%, but in many cases even higher, leaving the content provider with 60% or less.

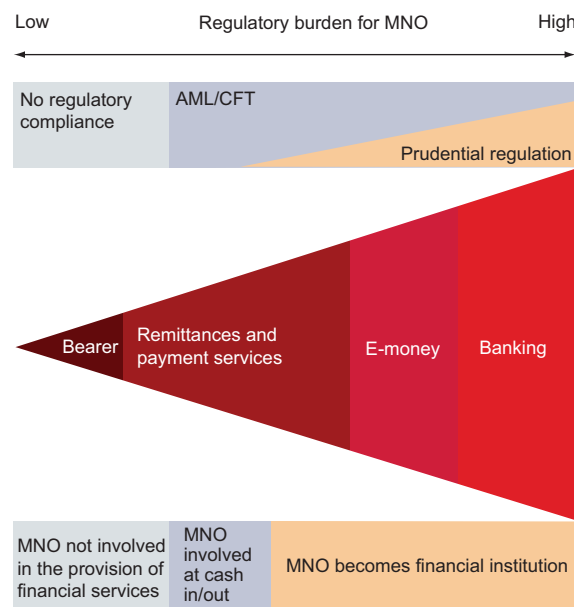
Where a PSMS is routed off-portal, the operator is not the only player taking a share. Usually a service provider handles and clears the transaction; these 'mobile transaction network' companies, which include mBlox, Bango and Mobile 365 (now acquired by Sybase), charge a fee of around 5% of the transaction value. Yet another middle layer comes into play if the content provider chooses to go to market via an aggregator such as Buongiorno Vitaminic or Jamba.

Regulation

Regulation of the financial services market varies considerably between countries and regions but as a general rule the more a mobile operator becomes involved in the provision of financial services, the heavier the burden of financial regulation (see fig. 5.2).

The first level of financial regulation is AML/CFT (see below) compliance, which generally becomes applicable when the mobile operator becomes involved in cash-handling at the consumer interface. The next level of regulation is known as prudential regulation – regarding deposit taking, payments and e-Money – which becomes applicable when risks increase for the mobile operator involved in the financial transaction, for consumers and for the wider financial system.

Figure 5.2: Regulatory burden for mobile network operators in mBanking



Source: GSMA

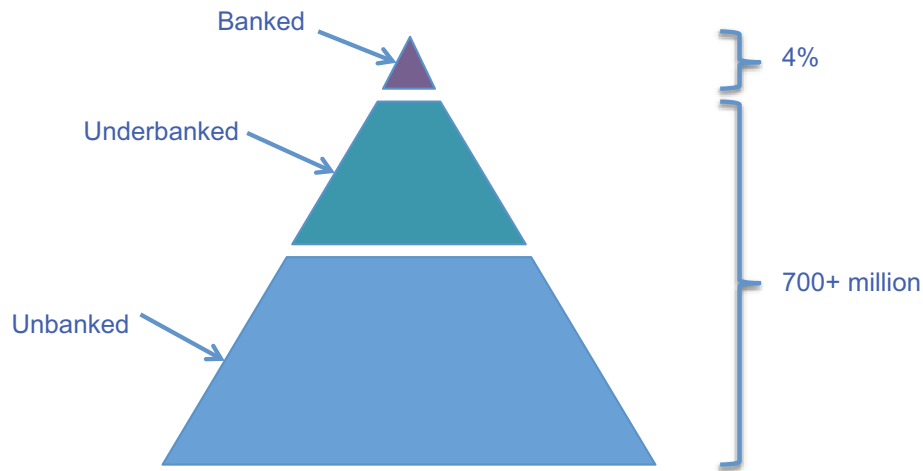
Unfortunately in many cases traditional financial regulation is no longer appropriate for the newly emerging mPayments and mBanking services. While primarily aimed at traditional banks and their business, traditional financial regulation no longer achieves its aims in a proportionate manner when applied to some of the emerging mPayment and mBanking services.

The key regulatory issues that are most relevant to mPayments and mBanking are considered in the sections that follow.

mBanking in Africa

Africa is perhaps the most exciting market opportunity for mBanking; there is a huge untapped potential market for financial services there (see fig. 5.6).

Figure 5.6: Africa: the market opportunity for mBanking



Source: WIZZIT

Perhaps the most notable branchless banking initiative in the world is the M-Pesa service in Kenya. M-Pesa is a joint venture between Vodafone and the local mobile operator Safaricom. The M-Pesa service enables Safaricom subscribers to load cash into an e-wallet linked to their mobile phone and then transfer cash to other mobile users (regardless of network) and withdraw cash at any of the 3,500 M-Pesa agents.

The service is used mainly for domestic money transfer but a number of small business owners, such as taxi drivers and grocers, also accept M-Pesa as an alternative payment mechanism, and it is often used by customers as a secure method of storing and transferring money in dangerous times. In its first year of operation, M-Pesa facilitated mobile phone banking transactions worth a total of US\$38 million and by the end of 2008 M-Pesa had more than four million subscribers and 3,500 agents across Kenya.

In the Ivory Coast, Orange launched Orange Money in December 2008. The service gives customers access to a range of day-to-day banking services, including depositing and withdrawing up to XOF100,000 (around US\$150) from their Orange Money account, transferring money from one person to another, buying up to XOF10,000 (US\$15) of call credit, and paying bills. BICICI, BNP Paribas bank's Ivory Coast subsidiary, issues and guarantees the electronic money and Orange Ivory Coast handles the service's platform and marketing. Users do not need to hold a bank account to subscribe to the service. Orange Money will be deployed in other African countries, including Kenya, during 2009.