



Mobile Payments Work Group Participants

Chair: Deborah Baxley, IBM

Members:

- John Suchanec, Bank of America
- Sunil Dewan
- Guy Berg, Collis
- Rod Donnelly, CPI
- Troy Bernard, Discover
- Jennifer Garcia, Discover
- Christy Hart, Discover
- Hilda Leo, Discover
- Joe Mendoza, Gemalto
- Reid Holmes, Giesecke & Devrient
- Mona Kiragu, IBM
- Neil Ringwood, IBM
- Ian Duthie, IfD Consulting
- Paul Legacki, Infineon
- Eric Duprat, INSIDE Contactless
- Julie Krueger, JCB
- Mike.Kutsch, JP Morgan Chase
- Andrea Brandt, Meijer
- M Cymbrowsky, Oberthur
- J Sufrin, Oberthur
- Nancy Baunis, Power2Process
- Cathy Medich, Smart Card Alliance
- Derek Forcher, Venyon
- Michael Garjulo, Venyon
- Tom Zalewski, Venyon
- Erica Savka, Verifone
- Mohammad Khan, ViVOtech

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Introduction

We found from our September, 2007 white paper* that business model complexity complicates the case for NFC-based proximity mobile payments

At Least Nine Stakeholders Must Cooperate

Business Model Questions:

- Global examples
- Advantages / disadvantages
- Relationships among eco-system stakeholders
- Benefits / drivers for each stakeholder
- "Killer apps"

This lead us to ask the question, "What model do the stakeholders foresee in North America?"

* Available for download at <http://www.smartcardalliance.org/pages/publications-proximity-mobile-payments>
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Introduction

In December, 2007 the mobile payments working group launched a survey of key stakeholders to gauge their perspectives on emerging business models for mobile payments

Invitation Letter

Subject: Participate in survey of mobile payments emerging business models

I am an active participant in the Smart Card Alliance – Contactless Payments Council, an industry working group that aims to accelerate the adoption of contactless payments. Our activities in the past year included webinars and white papers on contactless payments. Our next project is to develop a [point of view on the emerging business models for mobile payments](#). We plan to survey approximately 20 industry stakeholders, including merchants, banks, mobile operators, processors and vendors.

I would like to interview you as input to our survey. I would be asking your point of view, expert opinion and even speculation on the following topics:

Topics for Survey on Mobile Payments Emerging Business Models

- Likely business models
- Global examples where these business models have been implemented
- Relative business model advantages
- Relationships among eco-system stakeholders
- Benefits and business case drivers for each stakeholder
- Emerging "killer app" capabilities

I would not ask any proprietary information about your organization. Your responses will be confidential and only published in aggregate. I will provide you a comprehensive version of our survey results once they are available, likely during the first quarter of 2008.

If you agree, please respond with some available 1-hour time slots for us to talk over the next 2 weeks. And thank you in advance for your participation.

Sincerely,
xxx

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Introduction

We conducted 19 interviews from 5 stakeholder “camps” as input to the survey

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Survey Participants

Financial Institutions (6)

Financial Institutions/Issuers (3)

- Chase
- 2 other US/Canada

Payment Brands (2)

Industry Associations (1)

- Mobey Forum

Carriers (3)

Mobile Operators/Carriers (2)

- Leading US carrier
- DoCoMo

Mobile Technology Providers (1)

- Mobile handset provider

Non-traditional (3)

Mobile Payment Providers (3)

- EnStream*
- OboPay
- PayPal

Service providers (6)

Service Providers (6)

- Venyon
- First Data
- G&D
- Gemalto
- MobileCandyDisk
- VivOtech


Merchants (2)

Retailers (2)

- 2 US retailers

* Formerly WPS (Wireless Payment Services)

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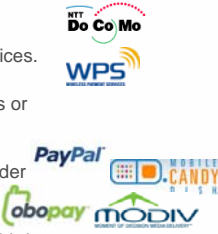

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The Mobile Payments landscape continues to evolve with various Business Models emerging

- Mobile payments are defined as payments enabled through mobile devices. This analysis focuses on smart card or Near Field Communication (NFC) technologies. NFC is a set of technology standards for close-proximity data communications between electronic devices.
- Four potential mobile payment business model scenarios are emerging
 - Operator Centric Model:** Mobile Operator independently deploys m-payment applications to NFC-enabled mobile devices. Pre-paid stored-value or charged to wireless bill.
 - Bank Centric Model:** Bank deploys m-payment applications or devices and ensures merchants enablement. Payments processed over traditional financial network.
 - Point to Point (P2P) Model:** Independent P2P service provider provides secure payments between customers or between customers and merchants.
 - Collaboration Model:** banks, mobile operators and trusted third parties collaborate to manage the deployment of mobile applications.

Sources: IBM Analysis; Gartner, "Dataquest Insight: NFC Mobile Payment Calls for Cross Industry Collaboration"

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Introduction

We asked the survey participants to comment on those four hypothetical business models

1. Operator Centric

- Merchant
- Account Payable
- Mobile Operator
- Transaction Inform
- M-Payment Application
- Wireless Bill
- Customer
- Payment

2. Bank Centric

- Merchant's Bank
- Merchant
- Commission
- Merchant contactless P
- Customer's Bank
- Customer
- Interchange
- Financial Network (with Payment Processor)
- Purchase
- Tx Fee

3. Peer to Peer

- Bank
- Merchant
- Comm
- Payment Processing fees
- Customer
- Data Fee
- Mobile Operator

4. Collaboration

- Merchant's Bank
- Merchant
- Commission
- Merchant contactless P
- Customer's Bank
- Customer
- Interchange
- Financial Network (with Payment Processor)
- Purchase
- Tx Fee
- Mobile Operator

For each model

- Pros and cons?
- Incremental benefits and business case drivers for each stakeholder?
- Reasonable split of the potential revenues to players?
- Other potential sources of revenue?
- Which stakeholder owns financial liability, risk, security and privacy?
- Aware of real-world commercial-scale implementations?

Overall

- Which model holds greatest potential for success?
- Other potential models or stakeholders that should be included in this study?
- What emerging capabilities will be "killer apps"?
- Which will rein supreme, remote or proximity?

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Stakeholder Summary View

Banks "wait and see," carriers demand their fair share, ...

Financial Institutions

- Banks believe that collaboration model will prevail, but it will take a while and banks won't benefit significantly
- Only a few bank visionaries foresee economic growth from new NFC-enabled services, or risk to banks if not offered
- Bank insiders foresee creative sharing arrangements patterned on today's co-branding arrangements

Carriers


- Carriers will not allow themselves to be side-lined, and wish to strive toward collaboration model
- Some carriers see only lip service paid to mobile payments due to questionable NFC value proposition and role of wallet providers/non-traditional players

Quote

"Whenever form factors are tested with consumers, mobile scores extremely highly – people have an almost scary attachment to their cell phones. If that's true, then banks risk losing customers if they don't offer it,"

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Stakeholder Summary View



... non-trationals focus on P2P, merchants feel "in the dark," and TSMs angle for services revenue

Non-traditional

- Non-traditional players doubt that a mobile-centric model will gain traction but see person-to-person as significant driver in the near-term
- There is disagreement among non-traditional players on the ongoing role of SMS, whether P2P or to merchants

Merchants

- Merchants feel "in the dark" regarding NFC and are reticent to make the investment – business case is not proven


Service Providers

- Aspiring Trusted Service Managers aim to capture services revenue


Quote

"The ultimate end-game is evolution to POS-less world where all transactions go through cell phones"

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Business Model Summary View



The majority hold out for collaboration model, while ...

Operator centric model

- Operator centric model not expected to gain traction, despite DoCoMo's success
- Handsets will be unlocked, unleashing a flood of innovation from new players

Bank centric model

- Bank centric model not likely to materialize due to marginal bank business case, need/unwillingness of carriers to cooperate
- Others believe that if you look harder, the benefits are there
- Lack of capital / desire to enter mobile business and consumer demand for ubiquity hinder bank centric model


Quote

"iPhone proved someone from outside with a different perspective can change the experience"


Quote

"MasterCard / Visa successfully manage an ecosystem of competitors required to collaborate. Mobile payments brings a new stakeholder (mobile operator) into an established ecosystem. Associations and networks should be mitigating competing interests and finding ways to collaborate. This is a familiar problem"

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Business Model Summary View



... some see promise for peer to peer in specialized roles such as loyalty


Peer to peer model

- Although PayPal and others are gaining traction, long-term viability of model challenged by sustainable revenue and inconvenience for POS transactions
- Some identify new roles in P2P ecosystem, such as loyalty hosting
- Some see promise for P2P for intermediary role, merchant loyalty, under-banked; others cite past failures and clumsy customer experience as barriers



Collaboration model


- Although collaboration model appears most feasible, rapid adoption is hindered by number of players
- Overwhelming agreement that collaboration model is most promising, along with ideas for loyalty and other "sweet spot" to drive daily usage




Quote

"Collaboration model with NFC will create other services, payment application acting as an enabler. Thus resulting in a much larger cake where each stakeholder can realize incremental revenue"

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Overall



Overwhelming agreement that collaboration model is most promising, along with ideas for loyalty and other "sweet spot" to drive daily usage

Greatest potential for success

- 86% support for collaborative model

Killer apps/successful approaches

- Loyalty / reward programs, access control, targeted coupons, transit, location linked rewards
- Something to drive daily usage
- App easily loaded and easy to use
- "Sweet spot" that addresses an unmet need while addressing economic inefficiency
- "Contactless" because it is intuitive and easy; existing and growing infrastructure to support

Quotes

"Has to be the collaboration model ... Banks do what they do best ... Collaboration model offers the customer the best flexibility in how he pays and will increase his usage"

"Consumers have an affinity for mobile but the application must be user friendly. NFC has such capability. The proliferation of mobiles and contactless technology is helping to make it happen."

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