

MOBILE PAYMENTS MARKET GUIDE 2012

Insights in the worldwide mobile financial services market



'The Paypers Mobile Payments Guide 2012 offers clarity and sound guidance to manoeuvre through the complex and crowded mobile payments environment. The SIMalliance, the secure element architects for today's generation, dedicated to supporting the creation, deployment and management of secure mobile services across the globe, welcomes and recommends this comprehensive guide!'

Frédéric Vasnier, Chairman of the Board, SIMalliance



'As the world goes mobile and as a result is driving the emergence of new business models and ways to pay, The Paypers Mobile Payments Guide 2012 offers a very good overview of mobile payments schemes across the world. The Smart Payment Association (SPA), which addresses the challenges of the evolving payment ecosystem, offering leadership and expert guidance, recommends this guide!'

Andreas Strobel, President, Smart Payment Association (SPA)

smart payment
association

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RESTORE TRUST AND BECOME PART OF LIFE

Roger Peverelli and Reggy de Feniks are the authors of international bestseller *'Reinventing Financial Services'*.

What consumers expect from future banks and insurers', the first book on the future of financial services that puts customers at center stage. We asked them to share their vision on the future of mobile banking.

Does the mobile device, and in particular the ever-more-sophisticated smart phone, have the potential to reshape the retail banking ecosystem?

"It will. Or better; it already does. But on a much different level that perhaps most people in the industry think.

In our book 'Reinventing Financial Services' we outlined the six most important consumer trends that set the stage for the future and that financial companies should heed. One of the trends is the changed relationship between customers and financial institutions, the trust issue. In our view mobile services are among the most powerful instruments we have to restore trust.

We researched what drives trust and we found that the basic daily provision of services determines no less than 40% of trust. Morality only accounted for 2.5%.

At first glance this seems strange, but it is not. According to Pablo Cardona and Wei He of IESE Business School in Spain trust is the willingness to be vulnerable to another person, based on positive expectations about the other person's intentions and behavior. These expectations are the result of direct or indirect experience with the other person, past interactions or personal observations of how



that person behaves. Trust increases through a series of such positive experiences interactions and observations.

In other words: the frequency and added value of interaction between customer and bank dictate the pace of growth in trust.

Reality is that in Western countries people rarely visit their bank branch anymore. A lot of branches see 20 customers per day, at most. New research shows that visits to the web sites of most major Western banks outnumber branch visits by a factor of 50 to 100. And we now see that apps from banks are used much more often by customers than they login on their bank's website. Customers that use ABN AMRO's app access the bank no less than 11 times more often than they did via their computer. The contact frequency and added value banks can offer with mobile are therefore keys to restore and expand trust.

Mobile is also so much in sync with the other key consumer trends that we identified.

The quest for transparency and simplicity – the second of the six key trends - is another reason that mobile is of the utmost importance.

Again taking our favorite ABN AMRO app as an example: To access a bank account via a laptop takes 1 minute and 5 steps. Via the mobile app it takes only 10 seconds and 2 steps. This simplicity enforces the perception of being in control – exactly what we like to be.

In transparency and simplicity lies the risk that products from different competitors start to look alike, resulting in commoditization and competitive pricing, which in turn put pressure on margins. The only way for a bank to escape this is to combine transparency and simplicity with specific value-added services and a superior customer experience that differentiates it from the competition. Given the contact intensity, mobile plays a crucial role.

Consumers become more and more self-directed; with mobile, banks can provide tools to empower these self directed customers wherever they are – just to name one more trend.

The six trends we identified set the design imperatives for the successful financial company of the future: how will consumers' needs change in the next five years? What makes consumers tick? And how should we respond to this? Mobile will play a crucial role in tapping into every single trend. Financial institutions should be more aware of this and use the trends as points of departure and design principles for the mobile strategy and actual applications."

How are banks taking advantage of the growing market need for money movement via mobile devices?

"An important motive for banks to enter mobile payments is an inside-out reason; the costs of cash. Cash is expensive: it is dirty and hard to handle. Even in many developed countries and in emerging economies such as Russia and Turkey cash still plays an obvious, natural role in everyday life; because of cultural issues, trust or just old habits.

At the end of the day we need people to break away from these old habits and get them to use alternative payment methods just because it makes so much sense. Old habits are hard to break, but it is possible. The challenge is to identify one big reason for people to switch - rational or emotional - and hammer it home. What are triggers and barriers to move to mobile payments? What are the deep true consumer insights? And how can we turn these insights into a winning proposition?

Over the last few years we have seen an abundance of initiatives in mobile payments. For instance initiatives to bank the unbanked such as Smart Money and G-Cash in the Philippines, Wizzit in South Africa, M-Pesa in Kenya and



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Yoban'tel in Senegal (an initiative of Société Générale, Obopay and Crédit Mutuel du Sénégal).

With PayPal, you can 'bump' your smart phone to your friend's smart phone, to instantly pay, your share of the restaurant bill, for example. In 2009 PayPal processed just \$141 million in mobile payments, according to PayPal mobile vice president David Marcus in an interview with VentureBeat. Last year that jumped to \$4 billion, and PayPal projected that will increase to \$7 billion in 2012. In France, customers of Credit Agricole bump with Kwixo.

And last but not least we have seen the introductions of concepts like Google Wallet and ISIS: one swipe on your mobile phone and the new pair of designer shoes are paid for. It just couldn't be easier ...

Right, and that's where there is a potential danger.

To explain this danger, we need to sidestep to 'the psychology of money' and to the results of research in this field by our colleague Valborg Korthals Altes.

The short version is that when you are buying things, the brain is constantly weighing the pain against the expected reward.

When you accidentally bump your knee, a specific region of the brain becomes active. The same kind of brain activity occurs when you spend money. The brain experiences spending money as 'pain', as research by Knutson has shown.

When the price causes the pain to be higher than the expected reward, the sale is off. When activity is higher in the reward center of the brain than in the pain center, the feeling of expectation and satisfaction 'wins', and you will be more inclined to purchase the product.

The more a consumer is confronted with price-factors, the more brain-pain is stimulated. It also works the other way around: when the association with money goes away, the pain disappears. For example: in a restaurant people are more inclined to order a pricier item on the menu when

there are no currency signs in front of the price.

The way a consumer's brain experiences pain and reward can be brought in connection to the development of our payment methods.

Once we paid in metal coins and paper money: the most direct money-experience. Spending money could be felt, literally. When using a Maestro card, the association with spending money, and therefore with pain, is much less than with cash.

With credit cards, the gap is widened even further. In the United States the credit card's influence is significant. You buy now, and pay a certain amount every month to pay off your debts. Paying later means the pain is delayed. Besides, with such use of the credit card, the current check balance is irrelevant.

Because the emotional brain is driven by instant satisfaction, consumers are inclined to give in to their impulses. The pain may still be felt, but not strong enough to persuade consumers to act sensibly.



Paying by smart phone will move consumers further away from the association with spending money, lowering the pain threshold even more.

For a lot of consumers the smart phone has a highly positive emotional value, because it is a part of their social life, and it signifies the identity of its owner.

Research in the United States shows that stimuli from Apple, such as the iPhone, induces in Apple-fans the same kind of brain-activity religious people show when confronted with images of their religion. As a consequence, each time the smart phone is used, including paying, is potentially registered in the brain as a reward.

Google Wallet's mission is to enable retailers to sell easier, and more. Therefore Google Wallet will tempt consumers in various ways into impulse buying, e.g. through on-the-spot promotions and discounts. Because of the lowered pain threshold unnecessary purchases, higher spending and larger debts are around the corner. In this day and age, that is not desirable.

Fortunately, smart phones offer banks also a lot of opportunities to help consumers in an agreeable way to control their emotional brains, and their inclination towards instant satisfaction when necessary - through empowerment. Some banks are already offering this. Think of the popular digital budgeting tools. The challenge is to translate this type of empowerment to mobile, make it part of the process. Only then mobile payments won't hurt."

In your opinion, which value-added services should banks focus on?

"The way most financial services firms are exploring mobile, makes you think you've travelled back to 1995,



to the early days of the internet. The first applications we saw back then on the internet were typical examples of what Marshall McLuhan called the "Horseless carriage syndrome". The first car looked like a carriage without a horse. When we try to grasp a new medium, we always do so within the confines of a medium we already know.

Financial institutions are still in this stage. They are currently replicating existing regular processes to the mobile channel; enabling customers to conduct their financial transactions, or filling out a claims form. Don't get us wrong: we think this is good. But we feel – like everyone – that so much more is possible. We really need to think beyond the horseless carriage.

Phones are not phones anymore. Not that long ago a phone's purpose was to make calls. With the arrival of the smart phone that notion has become outdated. Calling and sending text messages only makes up for 10% of the time a smart phone is used. Research by VODW shows what the other 90% is used for: 'to wake up', 'to make pictures', 'to boil an egg', 'to check Facebook', 'to keep the kids busy with movies and games' - all kinds of uses that have next to nothing to do with the original purpose of a phone.

One third of young women check Facebook before brushing their teeth or going to the toilet in the mornings according to a study of American social media users by Oxygen Media.

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This research reveals women aged 18 to 34 are becoming increasingly addicted; 37 per cent have fallen asleep with their phones in their hands.

The smart phone has become an essential part of life; the first thing you look at in the morning, and the last thing you check before going to sleep.

Understanding what a smart phone means to your customer, and how it relates to your brand, product, or service, should be the starting point for real consumer insights. It is important to look beyond the core product. The context in which the product is used should be taken into account, as well as situations in which it plays a part – since this provides much more inspiration. For a suntan lotion manufacturer it would be the beach, for insurers it would be situations that put consumers at risk, and for a bank it would be the moment a consumer spends money. This will yield consumer insights and opportunities to help in specific instances in your customers' lives.

Every bank or insurer will do this in their own way. But from what we've seen so far in mobile services, we think there is one denominator for success: helping.

For many, the smart phone has become the number one device to aid in all activities by taking care of things faster and easier, and especially to provide insights that are specific for the place and situation they are in.



The consumer should be given insights, information, and opportunities that help him in specific moments or places during his day.

A fine example, in its simplicity, is Nivea's sun tan app. Using the smart phone's GPS functionality, Nivea recognizes at which beach you are, the weather conditions at that place, and can tell you exactly how to protect yourself from the sun, what factor you require, and when it is advisable to get out of the sun, and into the shade.

American general insurer State Farm realized it had hardly any contact with its customers. Once a year it sent out a notification that the premium had gone up – not exactly a welcome message. To address that, State Farm developed a simple app that enables customers to view weather and road conditions and forecasts daily on their smart phone. In a simple way it ensures one daily positive contact, instead of a yearly negative one.

In Germany so-called 'Frauenparkplätze' have emerged, parking garages especially for women. A car insurance company is currently developing an app that will guide customers to such safe places.

What all these applications share is their customer centricity and customer knowledge focus, rather than product centricity and product expertise.

Financial institutions can now always accompany their customers wherever they go in the real world. Mobile phones offer contact points not only through their checking and savings accounts, but also through the possibility of offering additional services that really support their everyday life.

Mobile phones give financial service providers the opportunity to be close to their customers and even become part of people's lives, right where it matters the most."

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Will mobile banking lead the race to transform the customer experience for retail banks?

"A 2011 worldwide TNS study shows that already at that point in time more mobile phone subscriptions existed (5.3 billion) than bank accounts (1.6 billion) and PCs in use (1.1 billion) together. According to Forrester, there will be 1 billion smartphone customers by 2016.

Estimates for people worldwide accessing financial services by mobile vary between 500 million and 1 billion people by 2015.

Apart from the penetration we already mentioned the huge difference in frequency of use: ABN AMRO mobile banking app users that log in to their account 11 times more often than they used to do via their desktop or laptop computer.

At Finovate 2012 it was mentioned that 30% of banking app users at Rabobank replaced online banking by their mobile app for all their payments.

Clearly we see a shift from online to mobile. And in countries that are lagging when it comes to online banking we can even imagine that mobile banking will overtake online banking as the mainstream channel if online has never existed.

Another perspective is the added value that is being offered via the mobile device.

The current account and everything that goes with it - like checking your balance, checking if a payment is received or paying invoices - is currently the most important in the relationship of a customer with his / her bank.

We mentioned the growing importance we envision of all sort of tools for daily empowerment in the context of financial services. According to Strands, developer of personal finance tools for among others Bank of Montreal, ING Group and BBVA, the first generation of digital budget tools is already used around 10 times per month on average. And we are still scratching the surface.



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**Transfert d'argent
& paiement de factures
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*** Quel que soit l'opérateur**

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We think the core of the relationship with a bank will shift: from online and the current account to mobile and tools for daily empowerment. Obviously that will lead to new exciting challenges, but for sure it will help to interact much more frequently, to learn more about customers, to restore trust and to create new added value.”

Roger Peverelli (49) is a partner at VODW, a leading customer focused strategy consultancy based in The Netherlands, and specialised in strategy, innovation and customer centricity in financial services. Throughout his career he concluded assignments for a number of blue chip financial services companies across the globe, in b2b and b2c life and general insurance, in retail, private and commercial banking. Roger has worked in virtually every European country, the Americas, the Middle East and Asia. Roger has published numerous articles and interviews on financial services strategy, innovation and customer centricity. He is regularly invited to share his vision at conferences and business schools and to participate in boardroom sessions.

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Reggy has an MBA background (Rotterdam, Michigan and Wharton). He is frequently speaker at international conferences and has given classes and workshops at MBAs in The Netherlands and Spain.

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‘Reinventing Financial Services. What consumers expect from future banks and insurers’ is published by Financial Times / Prentice Hall.

The English language edition is now in its fifth print. In the last months editions in Spanish, French and Russian were published. In the coming months four other will follow: in German, Portuguese (for Brazil), Italian and Korean.

The book includes over 50 interviews with industry executives and thought leaders and over 100 best practices from across the globe.

www.reinventingfinancialservices.com

