WHITEPAPER

Getting the Right Balance ~ Money Transfers on the Mobile

This whitepaper is an extract from:

Mobile Payment Markets
Money Transfers & Remittances
2008-2013

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Getting the Right Balance ~ Money Transfers on the Mobile

1. Introduction

User demand for convenient and intelligent ways in which to make payments for goods and services using a mobile phone is creating exciting opportunities for those organisations that are part of the mobile payment ecosystem. The ecosystem includes mobile operators, banks and credit card companies, retail merchants & transport operators, handset manufacturers (and their suppliers), and a whole range of new software and system vendors and service providers entrants eager to put their innovative mobile payment solutions into the hands of mobile phone users.

The definition of a mobile payment is often open to interpretation and can differ from source to source. Juniper Research has a simple definition of a mobile payment as "payment for goods or services with a mobile device such as a phone, PDA (Personal Digital Assistant), or other such device." As is the case with other, older, payment schemes like cash, the current mobile payment market does not have a single, definitive, payment method and there is substantial variation between what particular scheme is adopted from region to region. Mobile payment schemes vary from the remote methods, such as PRSMS (Premium Rate SMS) schemes for paying for digital content dominating in Europe, to the physical, whereby, in regions such as the Far East and China, users take their mobile phone to the physical storefront to pay for goods via contactless credit/debit card schemes. There are many different and often competing categories of mobile payments currently available. Juniper Research has identified two distinct categories based on the location of the mobile user in relation to the merchant:

- Remote Mobile Payment: this is when the storefront or retailer is remote to the mobile phone user, e.g. paying for digital goods or physical goods via a mobile web enabled retailer.
- POS (Point of Sale) Mobile Payment: this is when the storefront or retailer is physical and the user is located at or near to the storefront or retailer, e.g. the payment is made in a physical storefront in the same way we would use cash or a plastic debit/credit card or at an unattended vending or ticketing machine. Typically in the future this type of payment will be via Near Field Communications (NFC) technology integrated into devices. Mobile payment applications and services are already available in most regions in a variety of formats, and where they are being adopted, either in trial or commercial mode, the user feedback has been very favourable.

Juniper Research further segments remote payments into the following sub-segments:

- Remote Digital: this is defined as remote purchases of digital goods and services via a mobile device, which is also the point of delivery. Examples include music (ringtones), tickets and games, with prices typically between a few cents and $20.

- Remote Physical: this is defined as remote purchases of physical goods and services via a mobile device – examples could include almost any consumer items from clothing to electronics equipment to books and CDs. Essentially this is the mobile equivalent of regular online purchases of similar items from a desktop or laptop via a fixed internet connection. Payment is usually handled via credit card and basket sizes are typically much larger than for remote digital goods.
- Remote Person-to-Person: this area is the focus of this white paper and is defined as a money transfer between two mobile phones, which can be redeemed for airtime, cash, or used to pay for bills or goods by the receiving party. Typically these services are provided using SMS, a downloaded application, account based or a phone browser.

2. Payment Schemes: The Big Picture

The following table details the different types of mobile payment schemes in each segment. Whilst the classification is by no means definitive, it does provide a structure for organising and evaluating the numerous distinct types of mobile payment schemes in this fragmented market. It is important to note that service providers quite often straddle the categories shown here.

Table 1: Mobile Payment Classification

Mobile Payment Segment/Scheme	Description	Example Provider(s)
Remote Digital/Payment to mobile phone bill	Run by operators & aimed at low value payments for mainly digital content	Most Operators
Remote Digital/Premium SMS	To pay for digital content & for interactive TV.	Content Providers such as Jamster & TV companies
Remote Digital/Mobile web & WAP billing	Non-SMS based payments for mobile web digital content via WAP billing	UK's Payforit
Remote Digital & Physical/SMS – mobile wallet & account based	SMS based using a pre-registered account and/or mobile wallet	PayPal Mobile, China based SmartPay Jieyin & PayMate
Remote/Person2Person (P2P)	SMS based transfer of funds between two mobile phones to redeem for cash or goods. Can be by SMS, downloaded application, account based or via phone browser	Obopay, Globe Telecom and Trumpet
Remote Physical/ Mobile web & WAP billing	Mobile web browser user interface with WAP billing	mPoria, Rakuten, Digby
Point of Sale/Text & PIN & Bluetooth	Text-based and Bluetooth transactions at the physical storefront	PayMate, Vodafone New Zealand, ROLLCOMM
Point of Sale/Contactless	"Wave & Pay" scheme where phones are waved in front of reader, e.g. NFC or FeliCa	NTT DoCoMo, MasterCard PayPass and Visa

Source: Juniper Research

3. Setting the Scene

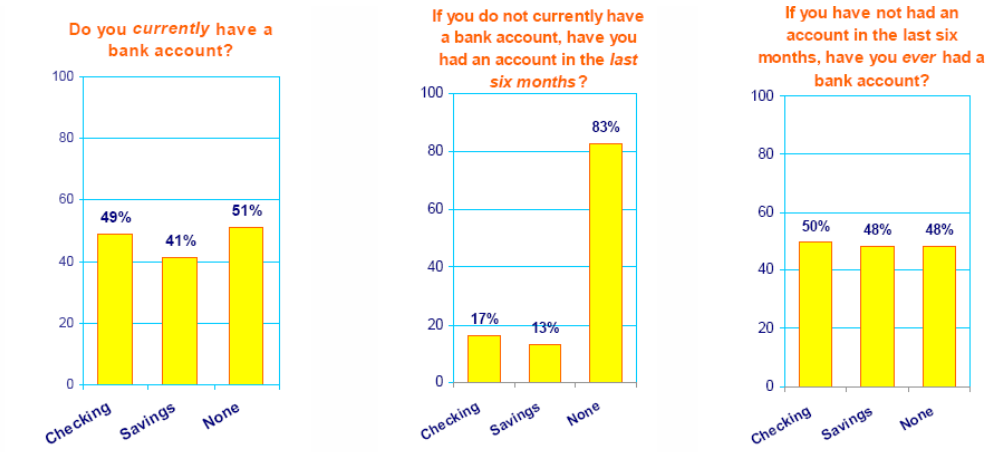
This market has generated a lot of interest from the mobile payment ecosystem recently. Person to person payments are when funds are transferred between mobile phone users and then the funds are redeemed for airtime, goods or cash at selected merchants. In developing world economies such as Africa and the Indian Sub Continent there is restricted access to financial and payment services. Only a small percentage of the population has a bank account or a credit card. A larger percentage, however, has a mobile phone or access to one. Not only is there more than one mobile phone per two people in the world, but industry participants frequently discuss the "next billion" subscribers which will come largely from developing countries. Globally, the key statistics tell the story:

- Population: 6.6 billion
- Mobile subscribers: 3.6 billion
- Unbanked and underbanked population: more than 2 billion are unbanked and up to a further 3 billion are underbanked
- ATM machines: 1.5 million
- Bank branches: 0.5 million

The reality is that far more people in countries that are underbanked will have used a mobile phone than will have used an ATM or visited a bank branch. The reach or coverage of the mobile company compared with banks is important: using Ghana as an example, 1 in 20 have a bank account, whereas nearly 1 in 3 people have a mobile. Mobile transactions also cost far less to deliver than either servicing customers at a bank branch or installing ATMs. Therefore, there is significant opportunity to create profitable services to handle even small money transfers and payments, and for mobile network operators to derive additional and much sought after ARPU from handling transactions. Mobile money transfers can extend remittance services to millions of underbanked people in developing countries both in urban and rural areas.

However, a sizeable number of people in developed nations also either do not have a bank account or are underbanked - that is they may only use basic banking functions (sometimes via retail stores), they typically live in a cash-based economy, and use cheque cashing agencies and payday loans. In the USA, for example, recent estimates by the Center for Financial Services Innovation (CSFI) place the underbanked (including unbanked) population at 40 million households (106 million individuals) or around 30% of the whole population. The CSFI's recent study highlighted the following bank account profiles of this market segment:

Figure 1: USA Bank Account Ownership



Source: Center for Financial Services Innovation Underbanked Consumer Survey June 2008

The second key area is international money transfers. The vast increase in migrant workers globally has fuelled the number of remittances being sent home to families regularly. The World Bank recently reported that the top three recipients of migrant remittances in 2007 were India ($27 billion), China

($25.7 billion), Mexico ($25 billion). The United States was also the top immigration country in 2005, with 38.4 million immigrants, followed by the Russian Federation (12.1 million), and Germany (10.1 million). The World Bank also reported that recorded remittances to developing countries were estimated to reach $240 billion in 2007. Officially recorded remittance flows reached $337 billion in 2007, but The World Bank stated that the unrecorded flows of money will significantly increase this number. Mobile money transfers enable migrant workers to send money home at lower transaction costs than traditional money transfer services, and enable friends and family at home without bank accounts to access the money.

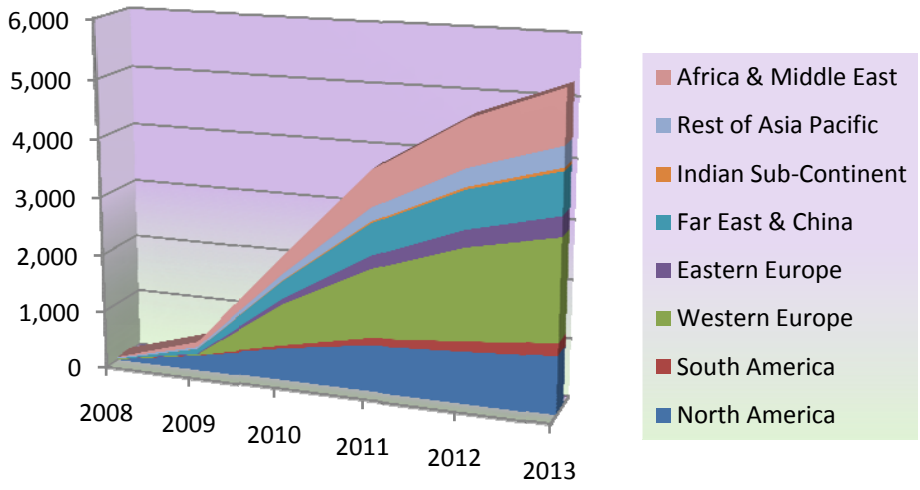
4. Mobile Money Transfer Ecosystem

Juniper Research has found that there is a growing number of (often but not always) new and start-up players providing such money transfer services via mobile phones. There are at least 50 services, pilots and trials around the world, many in the Africa and Middle East region, confirming the potential of this exciting development. This market potential is also true for vendors.

5. Market Opportunity

Juniper Research's forecast for the total incremental ARPU opportunity for service providers for both national and international mobile money transfers combined, based on the estimated commission levels that they will be able to charge, is in excess of $5 billion in 2013 globally as shown below.

Figure 2: Total Service Provider Mobile Money Transfer Revenue Opportunity p.a. ($m) Regional Forecast 2008 – 2013



Source: Juniper Research

The top 3 regions (W. Europe, Africa & Middle East and Far East & China) will represent over 60% of the global mobile money transfers gross transaction value by 2013. New services and trials are being announced almost every day. Judging from the response from users so far to services like M-PESA and SmartMoney, prospects for these services are excellent, both in developing and developed countries. For many people it has been costly and/or difficult for them to transfer money via existing services even to friends and family: using mobile phones solves the problem.

Order the Full Report

Mobile Payment Markets: Money Transfers & Remittances 2008-2013

This whitepaper is taken from Juniper Research's report entitled "Mobile Payment Markets: Money Transfers & Remittances 2008-2013". In the full report, Juniper provides the most up to date view of the mobile money transfers market and includes a six year forecasting suite of all the vital data and analysis vendors, service providers, credit card companies, banks and financial institutions need to maximise revenues in this vibrant sub-sector.

The report investigates the current state of the emerging mobile money transfers market and the forecast suite provides market projections for subscriber take-up, transaction sizes and volumes for both national (domestic) and international transactions up until 2013. The report also offers detailed case studies from companies pioneering in this market.

This report provides six year forecasts, across eight regions of the world (North America, South America, Western Europe, Eastern Europe, Far East & China, Indian Sub Continent, Rest of Asia Pacific and Africa & Middle East). Forecasts show mobile money transfers subscriber take-up, transaction frequency and values as well as the incremental service provider revenue opportunity.

Key Questions answered by this report include:

- How many mobile users will make money transfers over the next five years?
- Which will be the leading regions in the market in 2013?
- What are the early usage experiences of companies providing these services?
- What will be typical transaction sizes?
- How often will users make mobile money remittances?
- What is the opportunity for mobile network operators to increase their ARPU?
- What are the trends, drivers and constraints affecting the development of the market?

For more details on this report visit the website www.juniperresearch.com or phone +44 (0)1256 830002.

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About the Author

Howard Wilcox is a Senior Analyst with Juniper Research, specialising in mobile broadband, WiMAX and mobile payments. He has over twenty five years' experience in the Telecommunications sector. Howard has extensive experience of analysing markets, vendors and service providers in the telecoms networks marketplace. He was previously Director of Industry Intelligence at Marconi, where he has spent most of his career in a variety of analytical and management roles. Howard began his career at Ferranti after which he represented UK Telecoms Industry body Intellect as a Member of European IT

Observatory (EITO) Task Force. Howard has a BA in Business Administration with French from Loughborough University.

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For more information, please contact:

Michele Ince, General Manager michele.ince@juniperresearch.com

Juniper Research Limited, Wakeford Farm Business Park, Pamber End Tadley, Basingstoke, Hampshire RG26 5QN England

Tel: +44 (0)1256 830002/889555 Fax: +44 (0) 8707 622426

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