Tunis, Feb 23rd 2010 AICTO – M-payment services

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"Global trends in M-payment - Challenges and opportunities"

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Agenda

1	Introduction into M-Payment
2	Market growth and perspectives
3	Key success factors and case studies
4	The M-payment value chain and potential market scenarios
5	Conclusion

1 Introduction – The Global M-Payment Reports

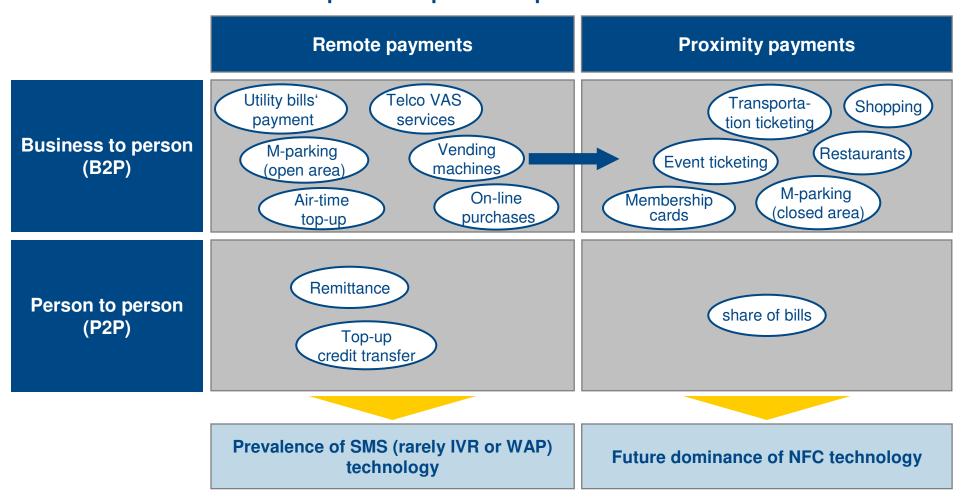
Arthur D. Little was one of the first global management consulting companies believing in M-payment services



Source: Arthur D. Little

1 Introduction – Classification of services

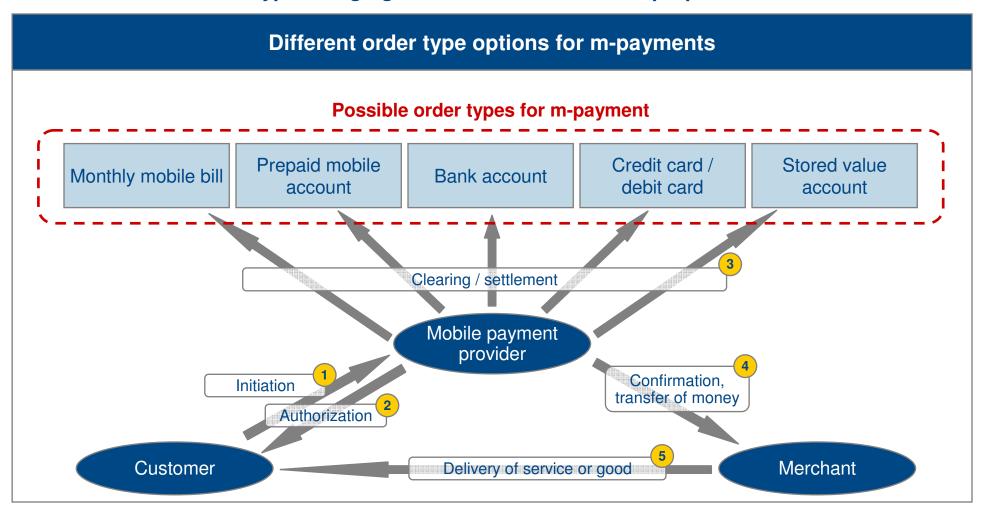
M-payment services can be clustered into either remote and proximity payments and classified in either business to person or person to person transactions



Source: Arthur D. Little analysis

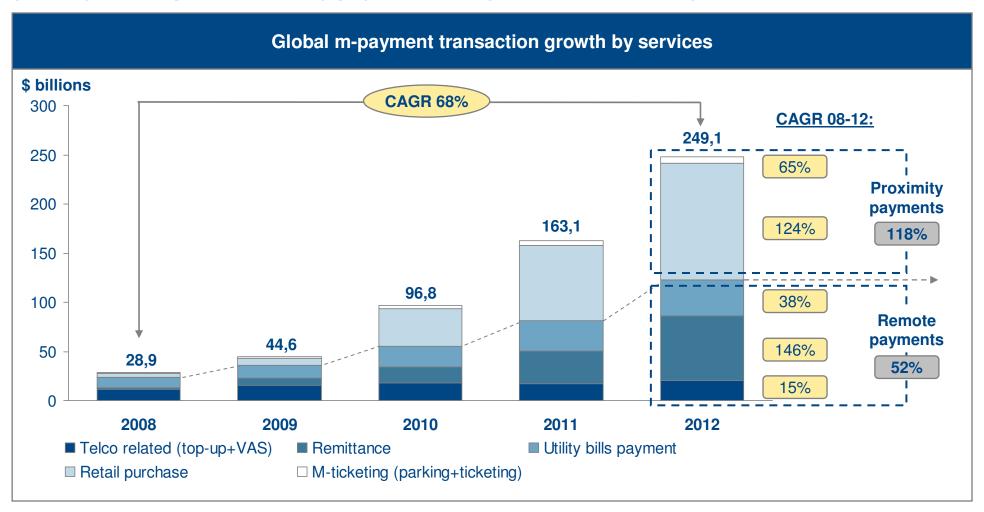
1 Introduction – Different order types for m-payments

Depending on own preferences and national situations shaping the value chain, m-payments can take different order types ranging from credit over debit to prepaid versions



2 Market growth and perspectives – Transaction growth by services

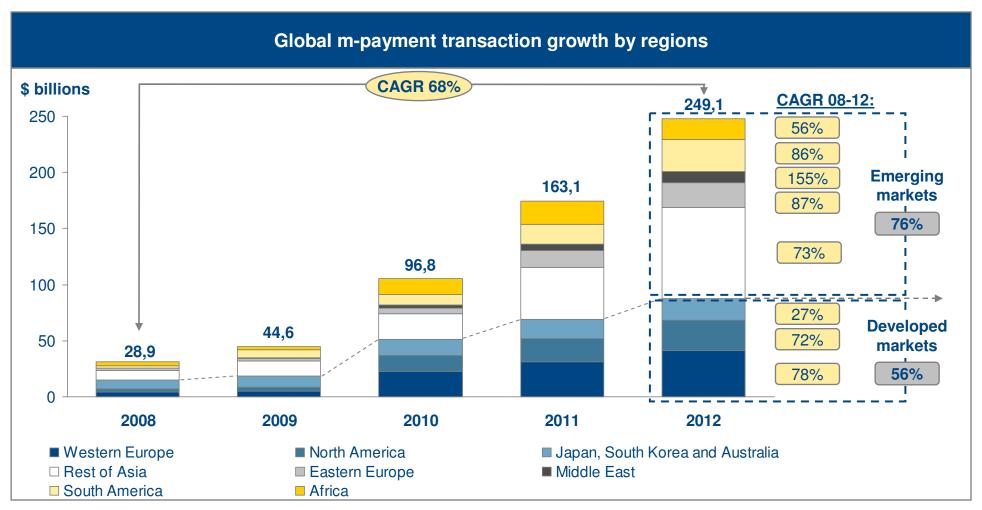
We expect total m-payment transaction volume to reach almost USD 250 billion in 2012 growing at 68% p.a. – Proximity payments will grow faster, reaching a share of 51% in 2012



Source: Arthur D. Little analysis

2 Market growth and perspectives – Transaction growth by regions

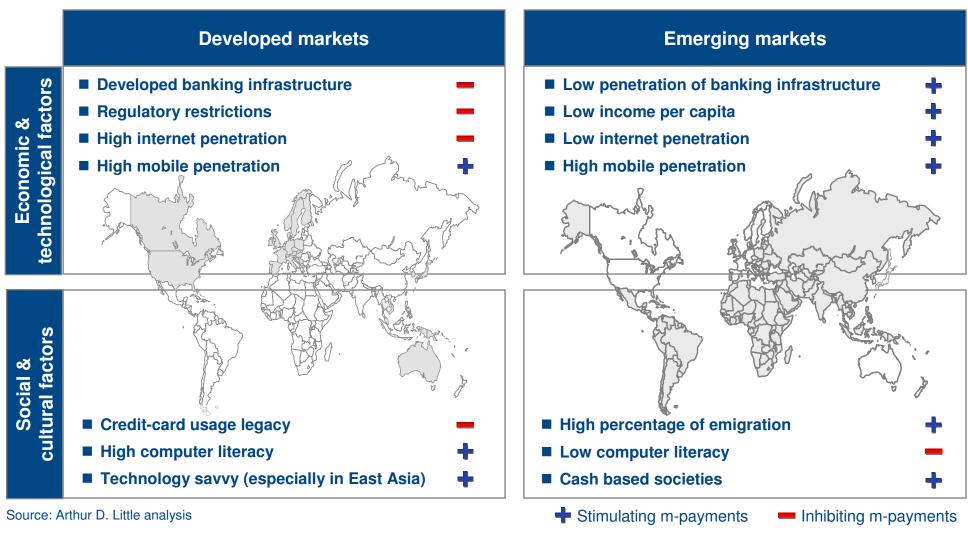
From a regional perspective, we expect developed markets to grow slower than emerging markets: Developed markets will capture a global market share of 35% in 2012



Source: Arthur D. Little analysis

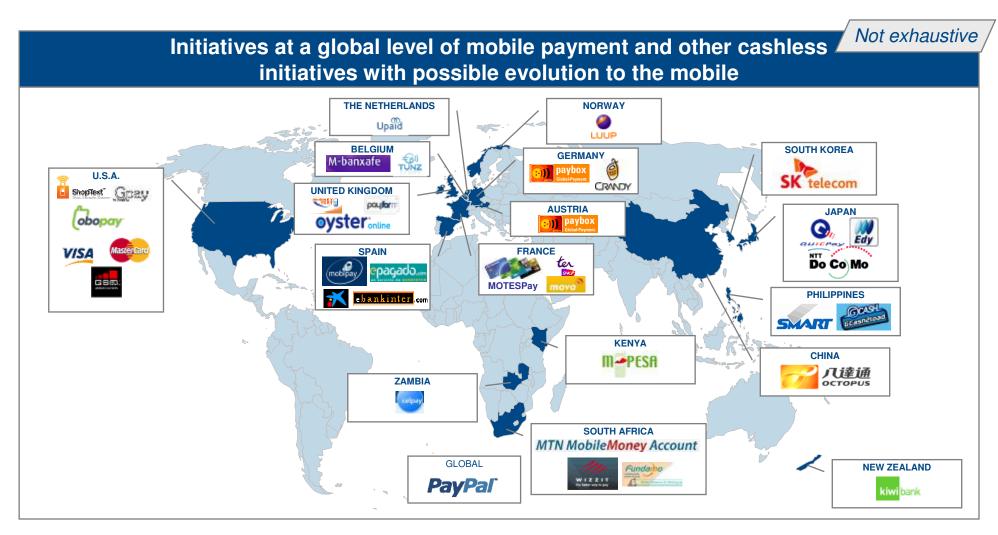
2 Market growth and perspectives – Growth influencing factors

The developments in both developed and emerging countries are influenced by economic, technological, social and cultural factors, leading to distinct opportunities for market players



2 Market growth and perspectives – Many local solutions

In the last few years, mobile payment initiatives have been developed mainly locally



Source: Mobipay, Juniper Research, Arthur D. Little analysis

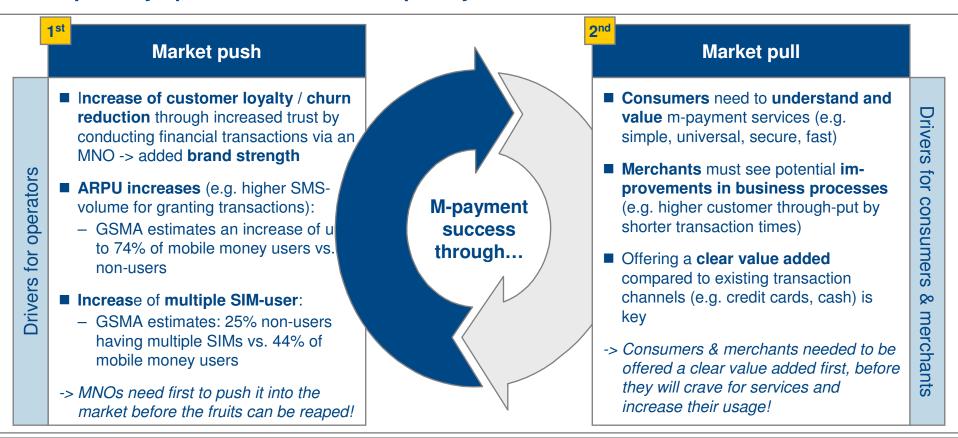
Key success factors – Payer/Payee's perspective

For a service to become popular it must add value to both payer/s and payee/s

Payer/s perspective Payee/s perspective Convenient, understandable and Attracts payers easy-to-use ■ Safe and secure: payment is ■ Liquid, underwritten by a credible 3rd guaranteed, Payment value integrity party Low associated costs of acceptance: ■ High level of adoption by merchants equipments, subsidies, transaction and coverage by region, segment fees, compatibility with existing instruments/systems etc. **Key success** factors for ■ Safe and secure: Loss of value, Practical to use: Fast, accurate, general payment leaves an audit trail, error-free efficient, reliable, instruments transactions Accepted by merchant banks Low cost product Leaves audit trail ■ Protects privacy: Personal and Limited paper work transaction information

3 Key success factors – Market push & market pull

In order for m-payments to become successful and widely adopted in the market, both a market push by operators and a market pull by consumers / merchants are needed



MNOs are in a favorable position to first push m-payments into the market through their existing customer relationships and network capabilities

3 Key success factors – Triggers for m-parking services

1

Convenience (Croatia)

■ Simpler and faster parking payment

- No coins or chip cards
- No need to search for parking machine or fill out ticket

■ Remote payment

- No need to be next to the car to pay for parking or to renew parking
- Possible to pay for any car within coverage

3

Pricing innovation (US/CAL Univ. of Berkeley)

- Dynamically adapt parking rates and zones
 - Parking rates can be easily adapted according to traffic situation or special events
 - Different parking restrictions can be applied (e.g. maximum parking duration of 1 hour for zone 1 etc.)
- M-parking offers highly flexible pricing system
 - Immediate information on parking situation
 - Target different segments (Professor, Students, Guests)

Source: Arthur D. Little analysis

Triggers for

m-parking

Revenue and vandalism protection (Serbia)

2

- More secure and safer parking
 - Parking ticket does not display time of absence
 - No cash/ no machine means no potential vandalism
 - Additional parking payments and lower costs
 - Easy coverage of new areas
 - Higher motivation for payment via mobile
 - Reduction of operating costs

B2B service: billing and clearance (Finland)

4

- Integrated m-parking solution
 - Managing services for public transportation companies – stimulate usage, reduce black traffic, reduce operational costs
- Billing and clearance between shops and closed mparking operators can be significantly simplified. e.g. shops within a shopping center can grant its customers a special promotional code lowering the overall parking fee

3 Key success factors – Case study Croatia

Since its launch in 2001, m-payment has reached 75% of all parking places in Croatia and almost 50% of parking is paid via Vipnet's mobile solution

Case study

M-parking in Croatia

Overview

- An SMS based payment service was introduced in Croatia in 2001 by Vipnet
- 75% of all parking spaces in Croatia is now covered
- Near 50% of parking turnover via m-parking, with Dubrovnik leading with 75% m-parking share
- Parking penalties down by 5%
- Educational element SMS is not used only by youth anymore
- Simple business model revenue share

Benefits

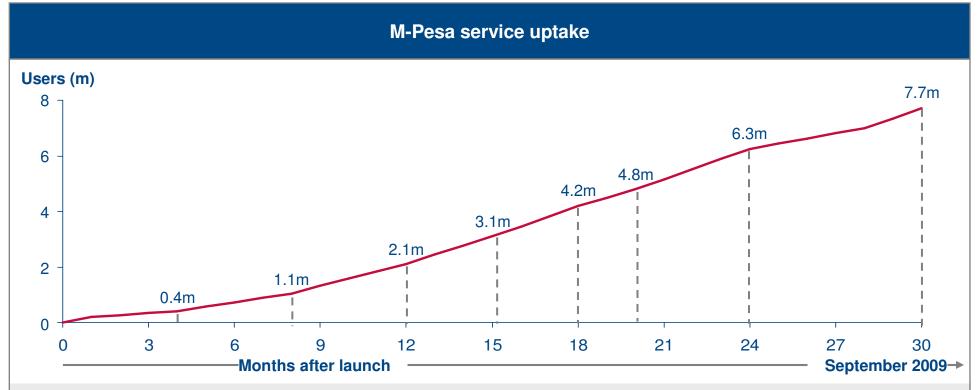
- Easier way of parking payment (no more looking for coins, no need for parking chip cards, no more looking for parking machines, no more filling parking coupons)
- Reminder when parking ends, convenient and easier way of prolonging parking remotely
- Availability 24 hours a day / 7 days a week, Possibility of getting parking status



Source: European Local Transport Information Service, Vipnet, Arthur D. Little analysis

3 Key success factors – Case study M-Pesa – Service uptake

User numbers continuously increased after service launch: 12 months after launch M-Pesa already had more than 1m users, 24 months after launch more than 6m



- M-Pesa quickly proved to be a huge market success
 - After only 12 month M-Pesa already had more than 2m users
 - M-Pesa registered more than 11,000 new users per day between its launch date and Jul '09
 - Safaricom was able to convert 40% of its mobile subscriber base to M-Pesa users

Source: Pulver, FSD Kenya 2009, Arthur D. Little analysis

3 Key success factors – Case study M-Pesa – Application areas

Today M-Pesa offers a wide range of services making everyday life easier for all Kenyan family members



Source: Vodafone, National Daily, Ludwig, S. (2009), Univ. Vienna, Arthur D. Little analysis

"Click on the pictures to see the video clips"

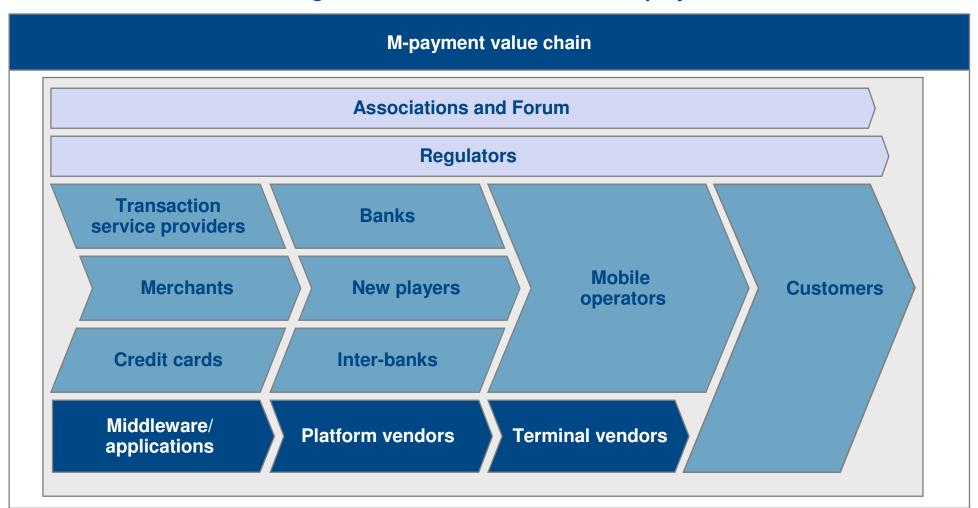






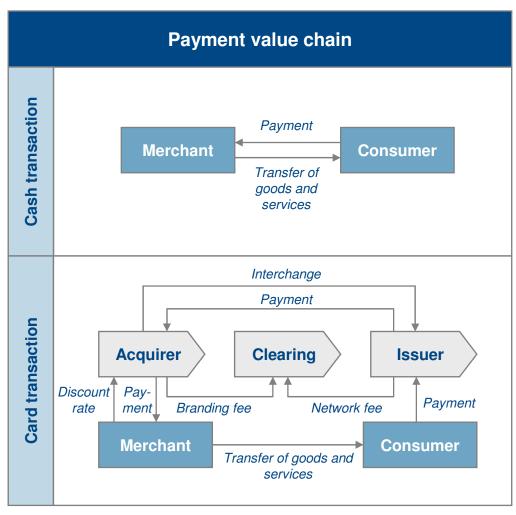
4 The m-payment value chain – Overview

The m-payment value chain involves a larger number of players than traditional payment methods and introduces changes in the role that each of them play



4 The m-payment value chain – Cash vs Card transaction

The traditional payment value chain consists of the consumer and the merchant for cash transactions plus the acquirer, the issuer and the clearing house for card transactions



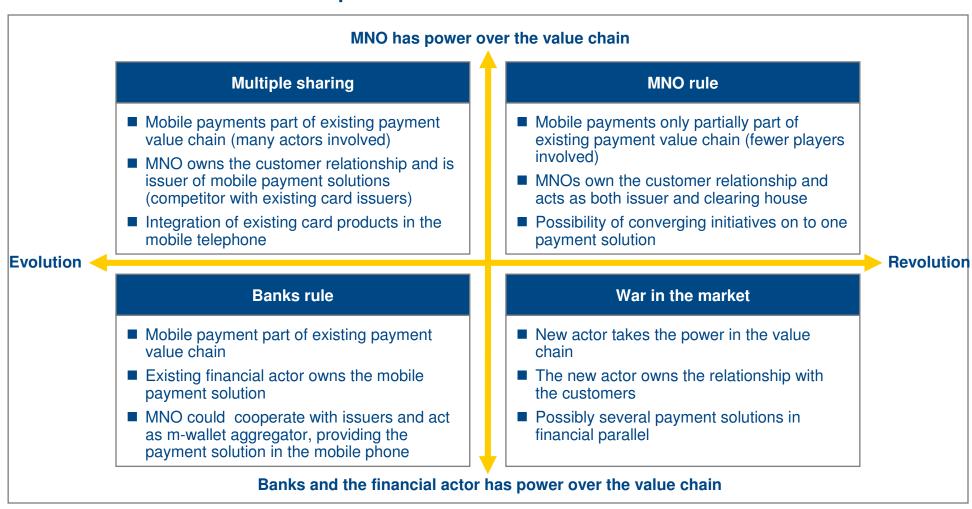
Comments

- In a cash transaction a consumer receives the goods and/or services from a merchant in exchange for cash
- In a card transaction a consumer receives the goods and/or services from a merchant, but the payment is done to the consumer's bank that issued the card, and the issuing bank transfers the payment to the merchant's bank, the acquirer, using a clearing house to facilitate the processing
- The institutions involved in a card transaction charge a fee for each transaction (either fixed or a percentage of the value)
 - Discount rate: the fee charged to the merchant
 - Interchange: the fee transferred to the issuer from the acquirer
 - Branding fee: the fee paid by the acquirer to the clearing house
 - Network fee: The fee paid by the issuer to the clearing house

Source: Payment Forum, Arthur D. Little analysis

4 The m-payment value chain – Market scenarios

The identified four value chain development scenarios describe different futures where either the banks or the MNOs have the power



5 Conclusion

M-payment has a huge potential and each market will do it differently – "local" prevail

Key take aways

- M-payment is becoming a reality, mainly exploding in emerging markets reaching a CAGR of 76% by 2012, mainly coming from the proximity payments
- M-payment is a "local" business a proximity business involving "local" partners and a "local" eco-system, with few services such as remittance
- Different business models can be considered and pushed through in a country for one and the same application
- The global market is substantial and can make a fundamental "social-behavioural" impact in a given country that can completely shift the core of its transactions into "a mobile payment" mainly cannibalizing cash
- The eco-system has to be considered very carefully, several scenarios can be derived depending on how the market players organize themselves (risk and lead) within the regulatory given framework

Source: Arthur D. Little