

Mobile Solutions

New payment avenues open up fresh opportunities in m-commerce

Increasing 3G service penetration, coupled with the availability of low-cost smart phones, has led to the uptake of m-commerce and m-wallet services in India. Telecom operators are now gearing up for the widespread launch of payments banks to tap the mobile commerce opportunities and are undertaking various steps to encourage the uptake of the m-wallet services. Meanwhile, the government is doing its part in giving a boost to m-commerce services through initiatives such as Digital India. Going forward, as the market grows, issues pertaining to security and privacy would need to be addressed in order to maintain ownership and control over data. Industry experts share their opinion on the emerging m-commerce and m-wallet landscape in the country, the prospects for telecom operators as well as the key challenges...

How has the m-commerce and m-wallet service landscape evolved over the past few years? Is the industry set to consolidate?

Sathish Gopalaiah

M-commerce and m-wallets are both at different stages of the evolution curve, with the former at a more advanced juncture. The growth of smartphones and the application ecosystem has played a significant role in advancing the growth of m-commerce. For some e-commerce companies, a large volume of business comes from mobile devices. Such companies also seem to be making a conscious effort to promote m-commerce by pushing "app only" deals and discounts. Some have even taken the bold leap of being "app only".

In a market like India, which has a relatively low rate of smartphone penetration and a large subscriber base, there is massive

potential for m-commerce. However, the m-wallet industry has not made enough progress in terms of growth; leaving too much room for the cash on delivery mode of payment. M-wallets have been unable to provide a compelling proposition for customers to start using electronic money.

Both industries are still growing and are yet to reach their peak. In this scenario, I would assume that the consolidation stage is still a few years away.

Inderpreet Kaur

M-commerce has significant potential, especially considering India's mobile-first outlook. While the penetration of personal computers and fixed broadband is still 15 per cent or less, mobile broadband and smartphone adoption has quickly scaled up in India. This can be gauged through the recent app only strategies of

leading e-commerce giants.

The m-wallet space remains fragmented, and this will continue to be the case in the short to medium term. However, eventual consolidation and rationalisation in the segment is inevitable. During the initial phase, consumers might continue testing different digital wallet applications and use more than one simultaneously, but they will be quick to drop or replace those that disappoint. From the service evolution point of view, there are very few m-wallet applications that can be described as truly multifunctional, with full portfolios of applications that encompass mobile banking, payments, marketing and loyalty, ticketing, identity management, etc.

Srinivas Nidugondi

According to the Internet and Mobile Association of India, digital commerce in the country has been growing at an average rate of 35 per cent since 2010, and is expected to reach Rs 1 trillion by the end of 2015. Travel, with a 61 per cent share in the 815.25 billion digital commerce market, leads the pack, followed by e-tailing (16 per cent), financial services (14 per cent), matrimony and classifieds (3 per cent), and others (6 per cent).

New modes of payment are emerging on the horizon, powered by mobility and customer experience. In this rapidly developing ecosystem, m-commerce and m-wallets are expected to dictate the buying behaviour of customers, thereby opening up new opportunities for mobile payments



Sathish Gopalaiah

Partner and Leader,
TMT Consulting,
KPMG India



Inderpreet Kaur

Analyst,
Asia Pacific,
Ovum



Srinivas Nidugondi

Senior Vice-President and Head,
Mobile Financial Solutions,
Mahindra Comviva

look at their service propositions, which had previously been designed to address the needs of those who lacked access to formal banking channels. Telcos need to position their m-wallet services as a platform for a broader mobile commerce proposition if they intend to leverage these services to boost revenues. A successful example is KDDI Corporation's au Wallet, a service that has helped the Japanese operator generate additional revenues through multiple means. Telcos should also be careful not to overlook the indirect value benefits that can be generated from digital wallets; for example, additional data insights from loyalty programmes.

Srinivas Nidugondi

Telecom companies will bring in the right mix of finance and technology, embracing a true "fintech" model. A fintech model delivers financial services over the internet, making them more accessible, easy-to-use, convenient, real-time and cost-effective. The idea is to start with simple contextual services, ranging from remittance, utility and merchant payments to savings and insurance. Telecom operators have an advantage over their banking counterparts because they can leverage existing distribution networks to deliver last mile services (cash-in and cash-out).

In addition, financial institutions like banks are geared towards a float-based business model where the money is in the

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spread, whereas telecom follows a transaction-based fee model. Hence, a change in mindset is required for traditional banks to start seeing a viable business model in serving a segment that has been unprofitable so far.

As seen in many developing countries like Kenya, Tanzania and Zimbabwe, mobile financial services (MFS) can be an important contributor to revenue. MFS is expected to make up 5-10 per cent of an operator's total revenue in just three to five years.

What are the key challenges being faced by mobile value added services (mVAS) operators? What strategies and business models can be adopted to overcome them?

Sathish Gopalaiah

The main challenges have been regulatory restrictions, lack of convenience and ease of use, security concerns, and customer mindset. Technology advancements like

geo location, NFC chips and fingerprint scanners have provided a window to keep customers engaged with simple, easy-to-use and secure interfaces. We are soon likely to see the rise of distinct business models driven by collaborations and customer behaviour analytics.

Inderpreet Kaur

There are challenges like interoperable acceptance systems and RBI guidelines that inhibit wallet-to-wallet transfers. Security and data privacy is an ongoing issue for consumers and will be magnified as location-based services and marketing applications become a part of wallet services. Addressing issues related to data ownership and control will be crucial as there are often multiple participants in a digital wallet, all of whom want to maintain ownership and control over the data insights generated by their services.

Srinivas Nidugondi

Mobile financial transactions are not comparable with any other mobile transaction. A failed mobile financial transaction has far greater ramifications for the operator than a call drop due to a bad network as it could jeopardise future prospects.

A mobile financial solution built along the lines of any other application is a recipe for failure. Therefore, in order to consistently offer the best in terms of user experience, telecom companies should understand the distinction between such solutions and others and create built-in checks.

Telcos also score over their banking counterparts when it comes to distribution, establishing a robust partner ecosystem and leveraging the best technologies for a wider audience. Operators offering m-VAS should play to their strengths, which lie in distribution, in order to reach their audience in a cost-effective manner. With deep built-up telecom networks, m-VAS operators can solve the problem of last mile connectivity and reach untapped users who may be beyond the range of conventional banking channels but within reach of mobile-based banking services. The emphasis should be on providing simpler services, while making sure they are customer-centric. ▲



platforms. We are already seeing a visible dent in the online payments scenario with prepaid modes of payments like mobile wallets and prepaid cash cards constituting 8 per cent of online shopping. Cash on delivery is still in the lead with a 45 per cent share, followed by debit cards (21 per cent), credit cards (16 per cent), internet banking (10 per cent), and prepaid cash cards and mobile wallets (8 per cent).

In India, banks were the first movers on the mobile payments front. They were the first to offer mobile banking services for paying bills and transferring money to other bank accounts. At the other end of this spectrum are mobile operators (in partnership with banks) who have leveraged existing distribution networks for providing banking services to the unbanked and the underbanked in remote locations that are beyond the purview of the existing banking structure (this is also called last mile banking). The third model comprises prepaid wallets like Paytm and MobiKwik, which can be loaded with money through bank accounts or credit cards and be used for making merchant payments, recharges and taxi payments, among others. There has also been a rise in the use of mobile point of sale solutions in India, with the growing popularity of mobile payments and new technologies like near field communication (NFC) and host card emulation making a mark.

Some mobile payment solutions have been successful, while others have failed. The market is at an early stage with an eclectic mix of established players, new entrants, banks and telecom operators catering to various segment and niches. It is thus too early to talk about industry consolidation. However, as the adoption of m-commerce increases, the probability of its success will only grow. In future, we may even see various m-wallet providers consolidate and create a stronger brand with a wider reach.

How have the government's recent initiatives (Digital India, payments bank licences) affected the market?

Sathish Gopalaiah

M-wallets have failed to create a wave in

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their current form of closed wallet and semi-closed wallet systems due to the regulatory restrictions in India. While we have seen semi-closed wallets evolve through the addition of features like person-to-person payments, higher transaction limits, relaxed KYC (know your customer) norms, it still has its limitations in terms of the non-availability of cash-out facilities and interoperability. Of late, the government has made some bold moves in this area, and payments bank initiatives could yield significant results. Even the Reserve Bank of India is possibly looking forward to mobiles taking the payments market to the next level, having awarded licences to telcos in August 2015. One can say that these steps are in the right direction, but there is still some distance to be covered before they become life-changing factors for customers.

Srinivas Nidugondi

Government-sponsored initiatives create the necessary environment for the rapid adoption of any new technology. These initiatives will serve two distinct segments: the unbanked/underbanked, and banked and carded millennials. In India, about 47 per

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cent of adults are still unbanked. With initiatives like the Pradhan Mantri Jan Dhan Yojana and payments banks, we will see a shift in the ecosystem that will enable the unbanked population to be included in the financial mainstream. Besides financial inclusion, which is high on the Indian government's agenda, mobile payments will mobilise 200 million dormant banking accounts by overcoming infrastructural and adoption challenges. The new digital finance initiatives will usher in a mobile money ecosystem, which will help the tech-savvy generation improve their money management and make them earn more discounts. Similarly, the digital thrust will provide a big fillip to the merchant side by offering small- and medium-sized businesses and large-format retailers a more effective means of accepting card payments.

While financial inclusion is an important keystone, issues related to last mile connectivity, lack of information and the burgeoning number of dormant users continue to be a challenge. Payments banks will assist in the growth of the new financial services delivery model. The focus will be on leveraging technology to deliver these services to the last mile.

How are telecom companies leveraging the m-commerce/m-wallet opportunity to boost their revenues?

Sathish Gopalaiah

Telecom companies in eastern Africa have demonstrated that m-wallet and m-commerce can be massive drivers for reducing churn and helping profitability. However, Indian telecom companies have not been able to replicate this success story. This has probably been due to the low business margins and the presence of a number of partners/stakeholders in the value chain, along with their inability to keep acquired customer wallets consistently active.

Inderpreet Kaur

Airtel and Vodafone have had some success with Airtel Money and M-pesa as these schemes were initially targeted at underbanked or unbanked sections. However, evolution on the m-commerce front means that operators need to take a fresh