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Mobile Payments – Rethinking Partnership Strategies?

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Almost all mobile payment strategies require a close and complex set of relationships between mobile network operators, banks, reseller agents and payment solution providers. This note explores some of the key issues in defining these partnerships. For MFIs the key opportunity is the emergence, in some markets, of large networks that can be leveraged to transform the operations of a MFI without the need for a "partnership" with the provider.

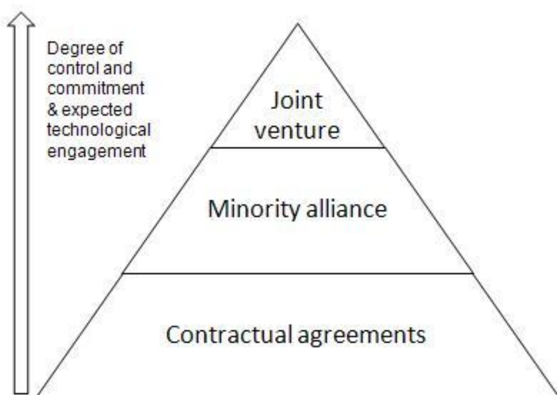
A Partner or Just a Provider?

Most MFIs and financial institutions view partnerships or strategic alliances as an important way of improving the likely success of a mobile payment venture. The alliance can be to access technology, to access a mobile network and the customers SIM card or a customer base. However talk of "partnerships" often clouds the nature of the required relationship, and can cover very different relationships with different degrees of leverage and power between the participants. This Note distinguishes between two relationships:

1. A standardised contractual relationship in which one party acquires a service from another, but which does not require any development or modification on the part of the supplier which is little more than a contract to buy/sell a service, and
2. A relationship in which two parties commit to work together to mutual benefit to create a new non-standard solution or proposition.

Figure 1 schematically presents different partnerships models according to the degree of commitment and involvement between the parties.

Fig 1: Hierarchy of Strategic Alliances



Source: Ranganathan, C & Lertpittayapoom, N (2002): **Towards a Conceptual Framework for Understanding Strategic Alliances in E-Commerce;** Proceedings of the 35th Hawaii International Conference on System Sciences

Considerably time and effort can be saved, if upfront, institutions have a better understanding of the factors that create a successful partnership.

A joint venture normally involves creating a shared economic interest in a distinct entity normally involving profits and losses shared according to shareholding. A good example of this would be the joint venture between Standard Bank and MTN to create Mobile Money. Minority alliances are when larger firms make a strategic investment in smaller firms, which promise to achieve business model breakthroughs. Nokia's investment in Obopay fits this model. Contractual relationships do not create new entities, but involve the purchase of a service from another entity supported by an appropriate service level agreement.

For most MFIs interested in mobile payments the challenge has been to determine the nature of the relationship they require and can sustain. A lot depends on whether the MFI seeks to mobilise liabilities (and *to own the underlying bank account*), or to leverage carrier services provided by a bank or MNO *to support lending activities.*

Achieving the right partnership to provide bank account services has proved extremely difficult. Most MFIs lack the technical and managerial depth to negotiate effectively with both technology vendors, and MNOs to support the deployment of mobile payments. For MNOs, few MFIs have a sufficient customer base to create a network effect to sustain a person to person payment model. From a scale perspective, a network effect only comes into play when 1 in 3 people have access to the same platform (for example few people would use a mobile phone if they could reach less than 1 in 3 people) For a network effect to be created the solution needs to be inter-operable with as much of the payment infrastructure as possible. But most MFI's have not been able to achieve this for a number of reasons. At the level of technology, allowing out of network payments creates a entirely different level of fraud risk and this needs to be managed through more secure and difficult to implement solutions. Accessing banking infrastructure normally requires at least associate membership of a card association, a step few MFIs have taken. Most importantly the difference is size between the average MNO and the average MFI makes any joint venture inherently unbalanced. The unhappy outcome is thus that many MFIs have wasted time and money on solutions that have not been widely adopted or created much value for their clients.

Leveraging "carrier" services creates far greater opportunities where such carrier services are available. (The term carrier services is used to describe solutions that allow clients to post payment to a third party using a standard widely available solution that requires no direct investment from the MFI). This is essentially the service

provided by a traditional bank account, a standard money transfer service (such as M-PESA), or by a third party fund transfer companies/bill payment companies such as Easypay (www.easypay.co.za). These services do not require anything than a contractual relationship between the MFI and the payment service provider. Both Smart in the Philippines and M-PESA now provide a corporate portal as part of a standard business service. The portal provides any business user with the ability to track payments made into their account, to prepare batch payments and originate bulk SMS alerts. For most smaller MFIs adopting such a platform could significantly reduce costs, and improve operational efficiency. Table 1 considers the range of modifications to a conventional MFI group based model that can be achieved through adopting of standard MFI processes to leverage the presence of a M-PESA like service.

The critical consideration in such a partnership is the scale of distribution provided by the partner and the costs of accessing the distribution network. In South Africa, a mobile payments solution provider Wizzit recognised that its customers would need to be able to use the ATM network, and that by issuing an ATM card they could give customers access to a large network, with very little of their own investment. . However as their banking partner lacked its own ATM network, customers needed to transact "off us" making basic transactions much more expensive than more traditional products provided by the larger banks. Smart Communications, working with one of the major banks in the Philippines, had exactly the opposite experience since their partner had one of the larger ATM networks. In most instances MFIs should seek to negotiate bulk discounts from the providers of such services, but should also consider the value of such services following a proper review of cost savings from changes to their core processes.

MFI's, although numerous, have generally not achieved real scale in most countries in Africa and have not been particularly profitable due to their operating model. How does the presence of a ubiquitous mobile payments carrier (e.g.: M-PESA change this?

Group based lending involves lengthy group management processes and is highly labour intensive	Group lending processes have been manual and paper based involving lots of costly paper movements and administration	Payment instructions and activities have involved long delays and required members to visit banks	Repayment has been manual and involved further group and loan officer processes
• Mobile / call centre / SMS can make communicating with the group much faster and cheaper and reduce the number of (length of meetings)	• Falling costs of data input devices (eg: entry level netbooks now cost around $150) makes it increasingly possible to capture data in the field and have it processed instantly. This allows the acceleration of the business model (more loans per year off same infrastructure), fewer meetings, much faster approvals, the elimination of most of the back office and automation of credit approvals	• Payments can be made to and from M-PESA accounts by the MFI, significantly reducing the time and cost to group members and the MFI, and making it a lot easier to reach a POR	• Repayment processes can be supported by mobile/ call centre / SMS • Repayment can be done by the member from their mobile phone.

Table 1: Modifications to Group Lending Model in the presence of a third party mobile payments carrier.

Bottom Line – Fewer Partnerships

Managing true partnerships is extremely time-consuming and costly to most parties; vendor relationships are probably a lot easier to manage. In developing a mobile payments strategy, participants need to be very clear on:

- Who owns the customer (they should probably also own the marketing budget)?
- Whoever owns the customer needs to be able to manage the customer touch points (each additional channel adds considerably organisational complexity).
- Understanding power in defining the "partnership".
- Who has what rights to which revenues?
- Does any of the relationships (contractual or partnerships) compromise the economics of the customer value proposition?

This note highlighted the complexity of partnership options and the important opportunity that is now available to an increasing number of MFIs to engage with "carrier" services such as M-PESA to revolutionise their business model.