M-COMMERCE STANDARDIZATION WILL BRING A GLOBAL MASS MARKET

Mobile commerce has been the talk of the town for quite some time, but it’s not until now that the next generation of m-commerce is taking shape: the formation of a global infrastructure that will make services communicate across borders and technologies. M-commerce is finally on the verge of fulfilling its massive potential by enabling transfers and boosting financial inclusion around the world.

It is truly an exciting time for m-commerce services. Seven out of ten service providers say they will invest more in 2014 than they did in 2013. And 2013 already saw a 22-percent increase in uptake.¹

The m-commerce industry is now set to leave its infancy and overcome its childhood illnesses by turning activated accounts into active users, and finally getting high volumes of service users.

There is good reason for optimism. Standardization of services infrastructure has begun, solving today’s lack of interoperability between services. Global mass-market realization will be possible when people become able to make transfers and payments with each other using different services.

Worldwide success of m-commerce services is based on close cooperation between mobile operators, banks, financial service providers, Internet service providers and agent networks. These key industry players have a shared interest with governments: to help emerging markets into the formal economy, for the good of people, business and society.

Today, we are likely witnessing the next big step in making the phone the wallet of tomorrow. Sending money will be as easy as texting, and the future of money is mobile in a cashless society.

This press backgrounder is a guide on m-commerce including its current status, the industry potential, how m-commerce will evolve and what role Ericsson has in this evolution.

¹ State of the Industry 2013, GSMA
What is m-commerce?
The term m-commerce (mobile commerce) was coined in 1997. There is however no singular definition. M-commerce or mobile financial services includes a variety of services:

- Money transfers from one mobile device to another, or from bank accounts to mobile accounts, for example collecting taxes or transferring salaries in places where people do not have bank accounts.
- Payments for goods and services using mobile devices in stores and online, buying tickets for trips and events, paying bills and insurances, as well as other services such as school lunches, road fees and public transportation.
- Banking services using mobile devices such as checking account balances, carrying out transactions, doing credit applications and handling of micro loans.

M-commerce today in figures

- In 2011, $350 billion was transferred between people across borders over mobile devices.² That is only across borders, not including mobile money transfers within countries.
- The global m-payments value reached $256 billion in 2012.³ That is only payments, not including people sending money to each other.
- The number of m-payment transactions will continue to grow by 58.5 percent annually to reach 28.9 billion transactions in 2014, according to industry expectations.⁴
- By the end of 2013 the number of mobile money services had grown to 219 in 84 countries and there were 203 million registered users worldwide in June 2013.⁵
- There are two or more services available in 52 markets and 70 percent of service providers plan to increase their mobile money investments in 2014.⁶
- The number of mobile money agent outlets grew rapidly in 2013 with an increase of 71.5 percent.⁷

These record figures are evidence that m-commerce is on the rise. Interest is higher than ever and competition is increasing, especially in emerging markets.

² Migration and Development Brief 17, The World Bank
³ World Payments Report 2013, CapGemini
⁴ World Payments Report 2013, CapGemini
⁵ State of the Industry 2013, GSMA
⁶ State of the Industry 2013, GSMA
⁷ State of the Industry 2013, GSMA
Two big barriers for full-scale deployment

M-commerce is still a young and disparate industry. There is no shortage of platforms in the marketplace, the limitation is the lack of interoperability across borders and technologies.

As a consequence, m-commerce services are often limited. Users are unable to send money from one country to another or between different services. This limited flexibility, adding security issues in some cases, have resulted in mobile wallets often being activated but not used.

The key to success is standardized solutions. It will not matter how many services are available if they cannot communicate with each other.

The other big hurdle is that the majority of the currently deployed systems can’t manage high volumes of secure real-time transactions. Today’s systems are based on traditional ICT technology, which simply does not meet those requirements. The successful development and deployment of secure and stable services is a must for gaining trust with end users.

M-commerce around the world

The first strong wave of success for m-commerce came in sub-Saharan Africa and the region is by far the best example of successful services to date. Sub-Saharan Africa is a ‘cashonomy’ – most people work in an informal economy, cash is the dominant means of payment, and financial services are not open to everyone. Here m-commerce solves the need for sending money and making life easier.

In some parts of Africa, mobile payments are more popular than bank payments since they are faster, easier, and more readily available. Uganda is one great example. Today, about 9 million Ugandans use mobile services to exchange, save and spend money. But there are other successful countries, today, at least nine markets have more registered mobile money accounts than bank accounts.

Sub-Saharan Africa is home to around half of the services deployed globally, and the region has more mobile money accounts than Facebook users. But M-commerce is now available in most emerging markets globally and is gaining momentum in Latin America and Asia.

In mature markets, m-commerce plays a different role than in emerging markets. Mature markets have high inclusion in the formal economy, people have bank accounts and credit cards, and they are familiar users of digital services, computers and mobile devices.

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8 Ericsson Sustainability and Corporate Report 2013
9 State of the Industry 2013, GSMA
10 State of the Industry 2013, GSMA
With the financial infrastructure already in place in mature markets, m-commerce can make life easier for consumers through already existing services. Banks are mobilizing their services, moving the customer interface to online platforms and offering people the use of financial services anywhere and anytime, rather than having to go to the bank or sitting by their home or office computer.

With the smartphone and tablet revolution, banks, financial service providers, retailers, credit card companies, public transport companies, public authorities, mobile operators and others see the attractiveness of mobile wallets and other mobile financial services. These services simplify shopping, paying for public transport and save costs for payment terminals.

**Societal benefits of m-commerce**

In emerging markets, the development of m-commerce services is beneficial both on societal and individual levels.

M-commerce services provide the unbanked with money accounts and open the gates to the formal economy. In Africa and Latin America, this development is already apparent. This will benefit society over time and is an integral part of the entire development of countries. Governments or financial service providers have not succeeded in fulfilling this objective, which has instead been spearheaded by the mobile industry. The services offered by the mobile industry are cheaper than those provided by traditional banks and financial institutions; reducing the cost of transactions by as much as 75 percent is just one example.\(^{11}\)

**Individual benefits of m-commerce**

Convenience is the leading reason for using m-commerce in Latin America and Africa, according to prospective users. People welcome the opportunity to avoid waiting in long lines to pay bills, finding ATM’s or going to bank offices far away to collect their salaries.\(^{12}\)

Another advantage prospective users bring up is the possibility of gaining financial control through reminders, notifications, auto-payments and verifications directly to the mobile. M-commerce is naturally online, allowing 24/7 access.

Mobile devices are the perfect business tools for many people in rural areas. Fishermen, farmers and others use it to identify where their catch or crop can be sold at the best market price. They can then make transactions through mobile money transfers. These users can increase both sales volumes and profits by excluding middlemen.

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\(^{11}\) Mobile Money: The Foundation for All Industries in Cash-Based Economies, mPayConnect

\(^{12}\) M-commerce in Latin America; M-commerce in Sub Saharan Africa, Ericsson ConsumerLab
The risk of robbery is always a concern in ‘cashonomies’ but m-commerce services reduce the need to carry cash and keeping cash at home.

**Industry potential**

In many areas, m-commerce remains an untapped market. There are several underlying factors to explain this. First, there are around 4.5 billion mobile subscribers in the world today\(^{13}\), making it one of the most powerful and inclusive technologies in the world, considering the world population is around 7.2 billion people.\(^{14}\) At the same time, there are 2.5 billion unbanked people, the majority of whom are in emerging markets.\(^{15}\)

The combination of banking needs and mobile access opens up for the use of m-commerce, since people already have a mobile phone, but can’t or won’t get traditional bank accounts. With the majority of payments in the world still made in cash, the potential of mobile payments and mobile transfers alone is huge – if services become interoperable.

The potential is obvious. With today’s traditional financial services being too complex or expensive, as well as time-consuming for the majority of people in emerging markets, m-commerce brings the promise of simpler, more open and affordable services.

Worldwide, Ericsson predicts that the m-commerce industry will process $800 billion by 2016.

**The road ahead and how it will work**

The realization of effective global and interoperable m-commerce services through standardization has started. These are the major stakeholders in this development:

**Mobile operators**

Mobile operators can easily implement the necessary technology and build interoperability. They already have nationwide infrastructure and a charging and billing relationship with the consumers. They have well-known brands and a direct relationship with potential m-commerce users that are unbanked.

**Banks and other financial service providers**

Mobile wallets need to be linked to bank accounts through secure gateways, just as online payment services function today, but with the possibility of adding services. Moreover, regulations and market conditions often favor banks and in many markets, banks are the most trusted companies.

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13 Ericsson Mobility Report, February 2014
14 Worldometers.info, May 13 2014
15 The World Bank
Agents

Mobile operators and banks typically don’t have a broad network of offices or stores in villages and towns in emerging markets. The agents, local businessmen who are trusted and known in their communities, are already there. These agents have a key role to play since they offer an unparalleled reach for m-commerce services branded by mobile operators.

There are opportunities for everyone involved.

- For mobile operators m-commerce drives traffic and adds a new revenue stream. It is proven to greatly reduce churn (customers switching operators), which is a common problem in many emerging markets.

- The banks get new customers without having to make substantial technological investments on their own.

- The agents have a new product for their customers and a service that will attract people to their businesses.

- In the end, the users are the big winners. They gain access to financial services, the security of not handling cash, and the convenience of using their money whenever and wherever they wish.

The branding of a service can vary depending on who is initiating and launching it. It could be the mobile operator, the bank, a retailer or a separate brand. All models are present in the market today.

Removing barriers

Many organizations and standardization bodies are working towards a solution of the standardization issue – examples are SWIFT, ISO, EMVCo, ETSI, Mobey Forum, and GSMA.

The regulatory hurdles when it comes to handling money transfers across borders and between people is already known, and solutions have been found by banks and payment services such as Paypal. That said, regulatory compliance between countries remains a challenge and consideration for new m-commerce services.

Ultimately, users face the question of whom to trust to handle your money. In ‘cashonomies’, distrust of institutions or ‘the establishment’ - which often times includes banks and even mobile operators - is prevalent. The agent network is essential to overcome this issue. They have a strong local footprint and can educate people on how services work and build trust. Trust and security also put emphasis on the importance of having high-quality mobile networks.
Ericsson’s role in m-commerce development

The challenges listed above can be overcome through cooperation, and the industry is moving in the right direction.

Ericsson believes in open eco-systems that allow a range of solutions to flourish while having interoperability standards in place. This approach is gaining followers within the m-commerce community.

Ericsson has taken an active role in connecting stakeholders of the m-commerce industry: mobile operators, banks, money transfer organizations, payment service providers, Internet service providers, regulators and government officials. In this way, Ericsson can use its global presence and well-known brand to boost partnerships and drive the growth of successful m-commerce services.

In 2012, 2013 and 2014, Ericsson arranged a number of executive roundtable events around the world and will continue to do so. The results have been positive with a common interest of getting interoperable services into the regional and global markets. With a presence in more than 180 countries, stakeholders have welcomed Ericsson’s ambition to drive the evolution of second-generation m-commerce systems.

Ericsson and the Swedish Trade & Invest Council are cooperating with the goal of helping Ericsson’s customers build a base of knowledge and clarity around m-commerce regulatory topics in several countries.

Ericsson is also following all major industry collaboration organizations working with m-commerce. Ericsson is involved with ISO, the GSMA, and Mobey Forum. These organizations drive the harmonization of m-commerce solutions.

For Ericsson, a growing m-commerce industry could possibly increase sales of m-commerce solutions and other network solutions.

Ericsson’s M-Commerce solutions

Ericsson offers mobile operators, financial institutions and other service providers a fast track to launching mobile financial services. Its M-Commerce portfolio offers three proven, certified and secure solutions:

Ericsson Wallet Platform

A standalone software solution that enables secure and convenient services such as payments and transferring money, in-store purchases, paying bills, salary payments and more. The solution is certified by world leading money transfer company Western Union.

Ericsson M-Commerce Interconnect
A solution with functionality for cross-border transactions. Ericsson M-Commerce Interconnect functions as a global clearinghouse and international remittance hub for mobile payment services. It simplifies transactions between mobile operator customers and financial service providers with regulatory compliance, foreign exchange, clearing and settlement and real-time payment routing. Ericsson has partnerships with Western Union and Eurogiro for this purpose. Ericsson M-Commerce Interconnect is the glue between the financial and telecom industries.

**Ericsson Converged Wallet**

A unique solution making it possible for mobile operators to offer mobile financial services bundled with telecom services. It combines the Ericsson Wallet Platform with financial features for Ericsson’s Charging System platform customers (a charging platform is what makes prepaid subscriptions possible.) It enables operators to offer secure m-commerce services to their users. If all users on Ericsson’s charging platforms acquired Ericsson Converged Wallet, 2.5 billion users would have mobile wallets.

The solution combines the mobile wallet balance and mobile traffic information in the same interface. This innovation helps operators to offer discounts, marketing campaigns and invoice payment. Since the mobile wallet is connected to an account, the solution reduces the risk of users switching mobile operator.

**Additional reading**

Ericsson’s comprehensive website on m-commerce:
http://www.ericsson.com/m-commerce/

Ericsson’s insight blog on m-commerce:
http://www.ericsson.com/m-commerce/blog

Ericsson product information:
http://www.ericsson.com/ourportfolio/telecom-operators/m-commerce

M-commerce media kit:
http://www.ericsson.com/thecompany/press/mediakits/m-commerce
Ericsson is the driving force behind the Networked Society – a world leader in communications technology and services. Our long-term relationships with every major telecom operator in the world allow people, businesses and societies to fulfill their potential and create a more sustainable future.

Our services, software and infrastructure – especially in mobility, broadband and the cloud – are enabling the telecom industry and other sectors to do better business, increase efficiency, improve the user experience and capture new opportunities.

With more than 110,000 professionals and customers in 180 countries, we combine global scale with technology and services leadership. We support networks that connect more than 2.5 billion subscribers. Forty percent of the world’s mobile traffic is carried over Ericsson networks. And our investments in research and development ensure that our solutions – and our customers – stay in front.

Founded in 1876, Ericsson has its headquarters in Stockholm, Sweden. Net sales in 2013 were SEK 227.4 billion (USD 34.9 billion). Ericsson is listed on NASDAQ OMX stock exchange in Stockholm and the NASDAQ in New York.

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