

Docomo Digital

Unveiling the potential of direct carrier billing



About Jonathan Kriegel: Jonathan serves as the CEO of DOCOMO Digital, the international payments business of NTT DOCOMO. Prior to working with DOCOMO Digital, Jonathan served as CEO of DOCOMO Pacific. With over three decades of cross-functional leadership experience in the telecom industry with global majors such as Vodafone group, Jonathan brings deep expertise especially in shaping strategy, developing new markets and cross-border M&A. Jonathan graduated from Pomona College in Strategy and Finance and his MBA from the The Wharton School. He is passionate about making a difference in the lives of underserved communities in emerging markets.

Jonathan Kriegel of DOCOMO Digital elaborates on the untapped potential of direct carrier billing and the advantages that make it ideal for merchants expanding into emerging markets

Considering the current global context, what can you tell us about the adoption of alternative payment methods (APMs) for mobile commerce? Where does direct carrier billing (DCB) fit into this picture?

When we talk about alternative payment methods, we break this concept down into all that is not a traditional or conventional payment method. Although APMs predominantly include digital wallets, they increasingly incorporate the direct carrier billing landscape as well. Globally, digital payments are expected to touch \$6.6 trillion in 2021 – a 40% surge in two years. By 2025, the digital payments sector will be worth \$10.5 trillion. In particular, mobile payments have surged. With the proliferation of smartphones, there are now over a billion mobile money accounts globally, contributing \$2.5 trillion or 37% to the total digital payments value in 2021.

The growth of APMs is determined by a continuous increase among the population that is underserved by traditional banking. Where does direct carrier billing fit in? Simply put, it enables consumers to pay for any goods or services as part of their post-paid mobile phone bills or their prepaid balances. This payment method is expected to account for over USD 77 billion in volumes by 2025 with new merchants in the OTT and gaming segments recognizing the potential.

As we all know, in 2020, the pandemic pushed people toward using their mobile phones to access digital content and make purchases online, acting as an accelerant for the adoption of alternative payment methods such as Direct Carrier Billing and eWallets. This widespread trend, however, has already caught in markets such as Japan, South Korea and more recently China. Our parent, NTT DOCOMO, has been a pioneer in introducing DCB to Japan 15 years ago, and it is now a mainstream payment instrument, in use even in physical retail with QR codes.

Regarding its advantages, one of them is the facilitation of the KYC process, as the number of clicks you are required to perform to pay by mobile phone is lower – around three or four. For instance, if a user would want to sign up for Netflix by using DCB, he would get an SMS notification and just enter that code, while the same transaction made by credit card would take around 18 clicks. Overall, the process is more convenient and secure because the identity is established and tied to the MSISDN number, which is essentially the phone's unique identifier.

Mobile carriers outside of Japan and South Korea have been relatively slow to embrace DCB, and they started by making the option available only for Apple Store and Google Play. However, carriers are beginning to understand the importance of making direct connections, bringing on board merchants from spaces such as OTT, gaming, or lifestyle, and making them available to their customers. This way, the carriers can deepen the relationship with their subscribers by bringing in some exciting services – in addition to the mobile subscription.

The proposition enables them to get a better share-of-wallet from their subscribers while improving stickiness. Merchant brands are beginning to realise the importance of DCB as a growth catalyst beyond just being a payment instrument as they can leverage the carrier relationships to scale in new markets quickly.

What advantages do telecom operators and merchants gain by offering DCB to their customers? Can you elaborate a bit on the merchants' side and tell us if they are privileged in any way when it comes to DCB?

When we look around the world, telecom operators are going through an evolution phase regarding voice and data services. On one hand, the core telecom revenues are increasingly becoming commodities. On the other hand, they must invest in upgrading their infrastructure to 5G, while also making significant capital expenditure in additional spectrum. Therefore, these companies need another revenue stream, and that is why digital services, or over-the-top (OTT) partnerships are becoming vital. Besides, as 5G services rollout, OTT and gaming partnerships might be the best way to showcase 5G capabilities to the subscribers by bringing new brands.

However, when OTT merchants grow beyond their home geographies to emerging markets, they face the challenge of low penetration of credit cards. Therefore, they need to find viable alternatives to offer their services in these markets, by partnering with telcos or mobile carriers. However, this comes with a cost, as DCB fees are perceivably higher than credit card transaction costs. However, merchants now realise the fee may also entail co-marketing efforts on the part of the carrier to promote the merchant's service as subscription bundle to its mobile subscribers.

OTT merchants also struggle to partner with several carriers at a time – thus, they need solutions such as a single API allowing them to connect to more than 200 mobile carriers around the world. That is why OTT merchants might prefer to work with a provider like DOCOMO Digital, rather than having to make direct connections with one mobile operator in one market at a time.

What is DOCOMO's role in this ecosystem and how is your company keeping ahead of the competition when it comes to DCB adoption for mobile commerce?

One aspect concerning DCB that is worth mentioning is that despite its ease of use, security, and convenience it has not been able to manifest its true potential as a viable alternative method. Even though there are industry forecasts predicting a stronger growth for DCB, there is a lack of education among merchants regarding this payment method. Besides, we must consider the ambiguity around DCB regulation especially as it relates to things like ticketing and physical goods. Often, when it comes to payments, it is the financial regulator that gets involved in a particular country as opposed to a telecom regulator.

Consequently, this provides DOCOMO Digital with the opportunity of being an advocate for DCB and educating the stakeholders in the ecosystem about its ease of use. In that sense, we have been partnering with the likes of the GSMA and the Mobile Ecosystem Forum and other similar bodies to create awareness amongst the stakeholders, including the regulators. Additionally, to keep ahead of the competition, we work with several telecom operators across the world, and we do our best to extend DCB beyond app stores. We also onboard new brands and merchants and educate them about how DCB is not just an instrument, but also a growth catalyst for them, as they look to expand into emerging markets.

According to a survey report published by DOCOMO in 2020, the top three concerns that hold companies back from choosing DCB are security, the perception of a low margin opportunity, and bad debt. How is DOCOMO acting on these and what is the company's prognosis for the evolution of this payment method?

Many people had increased security concerns before the COVID-19 pandemic, due to the lack of awareness around this payment method. However, those concerns decreased as more consumers had to embrace digital payments during lockdowns, and they learned that DCB is more secure than other methods because it is linked to the mobile phone.



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In addition, the perception of low margin opportunity is unfounded, because carriers always thought that enabling the DCB for just the app stores would suffice, missing the overall gains of this method. Yet, all of that might change, as in 2020 we have seen unprecedented spikes in transaction volumes for DCB across the world. Although some might argue that this is an exception rather than a rule, several trends will stick, as more people will discover the benefits associated with mobile-driven consumption of content and services, and in turn of DCB. As for bad debt, that accumulates when there are failed transactions due to the lack of eligibility on the consumers' side, and it requires a lot of tracking and robust analytics. With this in mind, we deployed a solution using machine learning, which predicts bad debt for carriers, enabling them to create dynamic spending limits for consumers and mitigate the potential around bad debt.

Can you share with us DOCOMO's plans for the expansion of its product offering when it comes to mobile commerce?

We endeavor to provide the most relevant local payment methods to global merchants, while offering the ease of a single settlement. In order for us to do that, in addition to DCB, which will remain our core strength, and besides traditional payment methods, we will aggregate the most relevant APMs into our payments platform, all with a single API. This way, consumers can choose to pay the way they wish, whether it's DCB, their cards, or mobile wallets.

About DOCOMO Digital: DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores, and payment providers in both developed and emerging markets around the world. We solve the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in fifteen countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, ecommerce, and productivity application providers.

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