

CROSSING THE CHASM: MOBILE CARRIERS ACCELERATE DIGITAL SERVICES PLAY

PAYMENTS WILL POWER-UP TELCOS'
DIGITAL SERVICES REVENUE



payments

by **docomo** digital



E-commerce adoption was already becoming increasingly popular prior to the pandemic, but COVID-19 provided it a shot in the arm. Total online sales in 2020 stood at about \$4.9 trillion, representing a 24.1% increase from 2019.¹ More than half these sales were made on mobile devices.

This will only trend upwards as the size of the digital economy grows, and as more people start transacting more frequently on their mobile devices.² That will be a consequence of cheaper data services, the proliferation of a multitude of payment options and greater awareness of these payment modes.

In this space, we're seeing the lines blur between the nature of services offered by telcos, e-commerce leaders and big tech companies. India provides an interesting example of this. In April 2020, Facebook acquired a 9.99% stake in India's Jio Platforms, India's largest telco with 415 million subscribers, for \$5.7 billion.³ Jio is part of the Reliance conglomerate, which owns Reliance Retail, India's largest retailer; and Facebook owns WhatsApp, which is used by about 400 million Indians. The possibilities this partnership throws up are endless. It arguably helps Reliance and Facebook create a closed-loop ecosystem comprising Reliance Retail, WhatsApp and telecom operator Jio.

Turkcell has been a global leader in the payments space among telcos. Its subsidiary Paycell provides innovative payment methods that enhance customer experience and make payments easier. This includes facilitating payments for both digital and online products and services, including but not limited to bills of different kinds, basic goods, fuel and a host of digital services. Through its app, it provides direct carrier billing (DCB), e-money, wallet, money transfer and bill payment services, and it also integrates other payment facilitators, all integrated on a single platform.

“ DCB contributes generally a very healthy revenue share. In addition to allowing partnerships with a gaming company or a music company, for instance, it gives us the opportunity to enter into more related businesses with them.”



Mariano Martinez
Director of Partnerships
Telefónica Group
Telefónica

¹ Digital Commerce 360. Global online sales reach nearly \$4.29 trillion in 2020. Available online at: <https://www.digitalcommerce360.com/article/global-e-commerce-sales/DataReportal>.

² DataReportal. Digital Around the World. Available online at: <https://datareportal.com/global-digital-overview>

³ Money Control. Facebook buys 9.9% stake in Reliance Jio for Rs 43,574 crore in largest tech FDI. Available online at: <https://www.moneycontrol.com/news/business/companies/breaking-facebook-invests-5-7-billion-in-reliance-jio-5174861.html>

DIGITAL PAYMENTS ARE BOOMING

Even before the pandemic, digital payments were becoming popular. But COVID-19 has accelerated developments. Over the past five years, transaction volumes between mobile money platforms and banks have quadrupled, totalling \$68 billion in 2020 from \$15 billion in 2015.⁴ Globally, there were over 1.2 billion registered mobile money accounts in 2020, with 300 million monthly active accounts.⁵

In many ways, the mobile payments revolution is already underway. Turkcell is living these changes as we speak. In the third quarter of 2020, the company saw DCB payments worth TL248 million (\$29 million), up from TL117 million in the same quarter a year earlier, and TL33 million more than the previous quarter.⁶

Over the past year, digital payments witnessed rapid growth in countries where governments were actively providing monetary assistance to their citizens to deal with the impacts of COVID-19.⁷ Government-to-person payments rose four-fold, and in many cases, this was enabled by the uptake of mobile money.

Telco-fintech partnerships are also allowing lenders to assess borrowers' credit worthiness based on their mobile money transactions. Orange Bank Africa is now better able to accomplish KYC compliance for its Orange Money mobile money users. The bank is able to identify credible borrowers, minimising its exposure to non-performing loans. The borrower, meanwhile, enjoys access to banking services without the need to physically visit a branch. The South Africa-based company will extend its services to Senegal, Mali and Burkina Faso once approvals are received.⁸

Remittances are another area e-wallet providers are looking at. According to the Migration Data Portal, global remittances totalled \$540 billion in 2019.⁹ But only a tiny fraction—\$1 billion monthly—was processed via e-wallets in 2020.¹⁰ Sending money across is an expensive affair involving high transaction fees. The costs are highest in sub-Saharan Africa, costing as much as 9% for a \$200 transfer even before exchange rates are factored in. This remittance fee level is thrice the 3% target outlined in the World Bank's sustainable development goals. Remittances in East Africa and the Pacific regions can cost up to 71%.¹¹

Telco-fintech partnerships are disrupting this space. For example, Airtel Africa formed a strategic partnership with MoneyGram, a US-based remittance company. The partnership allows Airtel Money users to directly receive MoneyGram transfers into their e-wallets from over 200 countries.¹²

There are many other such use cases. The evolving payments landscape offers telcos an opportunity to generate supplementary revenue.

But despite their many advantages, e-wallets are constrained in that they offer their services to an already banked user base. DCB's competitive advantage lies in being able to service these user segments. Amid the pandemic, scores of unbanked users pushed the transaction volumes in OTT and gaming—using DCB—through the roof. These trends may well continue post-COVID.

We are seeing innovation in this space, with telcos looking to find a solution for the shortcomings of e-wallets by marrying them with the strengths of other payment modes. Telcos, in partnership with DCB providers, are changing the e-wallet business further. For example, mobile wallets are linked to mobile numbers and the funding for the wallet is obtained through DCB, overcoming the requirement for a debit card or credit card or even a bank account for wallet top ups and payments.

This kind of arrangement has merits from a consumer standpoint too, as DCB-wallet integration provides an additional payment option for various uses. And for merchants, partnering with telcos through a DCB integrator provides the opportunity to launch services in new markets where consumers can pay from mobile phones using whatever payment option suits them best.

DCB is a proven payment option which has consistently delivered better conversion and retention rates. Francesco Zampini, Director of Devices and Digital Products and Services at CKH Innovations (Hutch Group) says, "Carrier billing, where DOCOMO is our key partner, is already generating a very material contribution to our top line in terms of revenue. We're talking about multiple hundreds of millions in gross revenues from DCB. Also, the marginality

is absolutely high and there is a clear opportunity to grow further. DCB is already considered a new revenue source and is bringing material value to the group. This is also consistent with what we see across the key competitors of our portfolio."

Echoing his view, Mariano Martinez, Director of Partnerships at Telefónica Group adds that DCB contributes "generally a very healthy revenue share" for the company. In addition to allowing partnerships with a gaming company or a music company, for instance, it "gives us the opportunity to enter into more related businesses with them".

This is "because we can prove to them that we can monetise the content on the services, and that we're going to start doing more activities together such as co-marketing, developing content together, including a specific bundle of exclusive content access to our consumers...And I think if there are ways to provide seamless payments to subscribers, it is very good as it also gives us the opportunity to create new relationships with these partners."

Gauging from merchant data, businesses offering DCB services are likely to witness conversions between five and nine times higher than credit cards. The average revenue per user (ARPU) is 30% higher in case of DCB.

This implies less instances of 'cart abandonment' when making online purchases.

DCB can be used for purchasing both digital and physical goods with better ARPUs realised for merchants. In simple terms, it delivers on the three main fronts that a digital consumer demands for payments: convenience, promptness and safety.¹³

As consumer habits continue to evolve and the lines between the offline and online worlds blur, telcos are on the cusp of tremendous revenue growth opportunities from payments. Key stakeholders such as fintech companies and telcos are increasingly experimenting to bring newer innovations in mobile payments, while emerging technologies are furthering the growth of innovative digital services.

Some are also playing with the idea of digitalising the entire gamut of financial services; others are finding creative ways to marry and aggregate existing payment methods. All of this will open up new revenue opportunities for telcos. Telcos have a lot to gain as the payments industry matures, but as with other revenue opportunities that are opening up, they need to be strategic and selective in how they go about their business.

“Offering DCB allows telcos to accelerate their transition to move beyond connectivity. There is a clear opportunity here for telcos to leverage on trust, on the position that we have in our markets, and to be a credible player in new categories.”



Francesco Zampini
Director of Devices and Digital Products & Services
CK Hutchison Group



⁴ GSMA. State of the Industry Report on Mobile Money 2021. Available online at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf

⁵ Ibid

⁶ Turkcell. Investor Presentation: November 2020. Available online at: <https://s.turkcell.com.tr/hakkimizda/en/yatirimciliskileri/InvestorPresentationLibrary/Turkcell-Investor-Presentation-November-2020.pdf>

⁷ GSMA. State of the Industry Report on Mobile Money 2021. Available online at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf

⁸ GSMA. State of the Industry Report on Mobile Money 2021. Available online at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf

⁹ Migration Data Portal. Remittances. Available online at: <https://migrationdataportal.org/themes/remittances>

¹⁰ GSMA. State of the Industry Report on Mobile Money 2021. Available online at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2021/03/GSMA_State-of-the-Industry-Report-on-Mobile-Money-2021_Full-report.pdf

¹¹ World Bank. Data release: Remittances to low- and middle-income countries on track to reach \$551 billion in 2019 and \$597 billion by 2021. Available online at: <https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019>

¹² Digital Virgo. DCB, Fastest Growing Payment Method for Digital Services. Available online at: <https://www.digitalvirgo.com/dcb-the-fastest-growing-payment-method/>

¹³ Ibid

ABOUT US

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 for 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 15 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, e-commerce and productivity application providers.

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