

Top Up Your EFT Margins!

Distributing mobile telephone airtime is the first of many new revenue streams that will soon be available for EFT networks, argues Rod Newing

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“ATM top-up is used in a number of countries and, once established, has been successful in attracting a critical mass of users,” says James Dimmick, an analyst at Consult Hyperion, an electronic payments consultancy. “It is a much more efficient distribution channel for the mobile operators than traditional paper vouchers and the banks can generate new revenue stream from their existing networks. Also, consumers are no longer constrained by shop opening times.”

Banks have invested considerable resources in creating robust retail electronic funds transfer networks to service their automated teller machines and point-of-sale terminals. With pressure on margins and costs in all areas, an opportunity exists to upgrade these under-utilised networks at relatively little additional cost to handle new types of traffic and deliver new services that can considerably increase margins.

The first of these services is top-up for pre-paid mobile telephones. Once the new infrastructure is created linking the mobile operators and the banks, mobile payments can be supported very easily. It is also likely that a wide range of other transactions involving electronic payment for non-physical assets will be added to a platform that can link all the banks and a variety of other providers in a single infrastructure.

Since they were introduced, pre-pay mobile telephones have proved extremely popular with consumers. According to Baskerville Strategic Research, they currently account for 63% of European mobile telephone sales and are forecast to grow from 227 million users to 304 million by 2010.

However, the pre-pay distribution system has been, and still is, very inefficient. Top-up airtime was originally sold through paper vouchers. However, with a number of different mobile networks, as well as virtual network operators, and different denominations of vouchers, retailers are required to carry a large stock of vouchers. They have to pay for all of these in advance, so they consume considerable working capital. Retailers naturally attempt to minimise their inventory, with the result that they often run out of particular denominations for particular operators, which frustrates their customers.

Network operators have to bear the physical distribution costs of cards to retailers, as well as carrying the risk of theft. They are therefore trying to encourage customers to use point of sale

activation and recharge by offering the telephone users magnetic stripe cards. These utilise dedicated networks built for the purpose. This is a drain on the mobile operators' capital investment funds that they could better invest in other parts of their business. So far the take-up has been only about 20%.

E-Vouchers and E-Top-Up

The ubiquitous automated teller machines (ATMs) presented an obvious opportunity to distribute airtime. The first systems distributed 'E-Vouchers' through the EFT system. Software sends a unique voucher number to the consumer, which is then printed out using the existing ATM printer. From the consumer's point of view, they have merely substituted the scratch card for a print-out. They still have to contact the network operator to activate the airtime credit for their handset.

True 'E-Top-Up' is possible by providing a real-time link from the EFT network directly into the network operators' billing systems. This enables a network operator's system to credit the handset instantly with the airtime purchased.

Early experience has shown that the acceptance rate of top-up systems is dictated by how many banks are involved in each scheme. When just one network operator and one bank are involved, the service is only relevant to the small set of consumers that are customers of both organisations and take-up is low.

Over the years, the acceptance rate and volumes achieved by new card payments has always increased dramatically if there is interoperability between banks. Organisations like LINK in the United Kingdom allow all banks to share each other's ATM networks. Harnessing such arrangements brings together all the banks and all the mobile networks into a single infrastructure. This not only makes access to the service ubiquitous, but makes it available to all consumers.

Consumers

Using the EFT network from ATMs or POS terminals is more convenient for users. NOP, one of the world's largest market research companies, recently conducted United Kingdom consumer research on behalf of NCR into the use of ATMs. It found that the most useful additional service consumers wanted was telephone top-up at the ATM.

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It was selected by 57 percent of respondents, including a massive 79 percent of those under 25 years old.

Consumers get instant credit for airtime, instead of having to undertake the subsequent activation process and the ATM network is available 24 hours a day. They can also make third party top-ups, such as parents topping up a child's handset.

"Pre-pay top up has already been successful in Italy, Poland and Ireland, because it is very easy and quick for consumers to top-up their mobile at the ATM," says Carl Aveyard, Industry Solutions Manager for NCR's Financial Solution Group. "Consumers trust the ATM channel and rely on it to be there when they need it to load their handset."

Generic infrastructure

The scale of changes needed to upgrade EFT networks to handle pre-pay top-up depends on the existing software used. The ATM or POS terminal will need additional menu items, which are controlled centrally. A set of software gateways is required to link the EFT network to the billing system of each mobile operator. A piece of software will also be required that identifies transactions that are not traditional EFT and interacts with the existing software that routes them to the correct party.

Pre-pay top-up is essentially electronic payment for a non-physical asset. As such, the model can be used for other types of asset, once the basic changes mentioned above have been installed.

"Ninety five percent of the infrastructure required already exists, so it can be incrementally built to support additional services that are simple to incorporate and to operate," says Jim Tomaney, marketing director for ACI Worldwide.

"These services are easy to incorporate because the infrastructure links all the banks and all the mobile operators. The main work involved is getting data into the system and putting it into a standard format."

NCR's Aveyard agrees that new transactions are relatively simple to deploy and explains that the additional cost is kept to an absolute minimum. Once it is established, there is ongoing maintenance of the additional software and increased customer help desk overheads to handle consumer problems with the service. "Banks do not have to do very much physically to the ATM network," he says. "The increase in network operating cost will be less than ten percent."

Tomaney believes that the first launch of services will be with mobile operators, because their high volume of transactions creates sufficient margin to justify deploying the infrastructure. He expects mobile commerce to follow pre-pay top-up.

"This merely requires sending messages for payment authorisation in the opposite direction," he says, "from the mobile network operators to the banks and to the retailers. There is an enormous opportunity offered by m-commerce traffic revenues."

Once the infrastructure is in place, lower margin services also become viable. It is possible that there will be additional links to other providers for electronic payment for non-physical assets, such as fixed line operators, internet service providers and utility companies. Possible applications include payment for utility charges, subscriptions, fines, tickets, gift vouchers, betting, lotteries and charity contributions.

With these new services, it is vital that the underlying infrastructure is scalable to handle mass markets. The recent dramatic growth in volumes of text messages warns of the need to be able to cope with rapid take-up of new services. If mobile operators successfully launch m-commerce services, then the volume of payments generated could soar very quickly.

Any system for mobile mass market services must be industrial strength from day one. Consumers will lose confidence very quickly if the underlying infrastructure fails. Fortunately, the EFT system is a mature proven platform that already has the capacity and robustness to meet the needs of top-up, m-commerce and other new services.

Business case

Banks are able to handle new services by making a relatively small upgrade to their existing EFT networks. This will bring them into fast-growing markets for new services that consumers want. These need the high throughput and rapid response for which the banks' EFT networks were designed.

The business case for banks to become involved is therefore very strong. The cost of the EFT system is a fixed sunk cost and there is no need for more hardware or communications. The network's capacity for processing transactions isn't fully utilised all the time.

For a relatively low incremental software cost, a bank can increase transaction throughput and generate much greater revenues that are very high margin. Providing additional services to the merchant through an EFT system can also differentiate a bank in the price sensitive card acquisition market.

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“The UK financial institutions have made massive investments in EFT and ATM networks,” says Jim Nix, the company’s general manager of development. “This can be exploited to provide real value-added additional features, particularly in the ATM channel. This will leverage the “always on” 24x7 availability and reliability that the channel already enjoys.

The strength of the products offered by the major software suppliers eases the changes and provides consistent and reliable ‘industry strength’ functionality across the board.”

In the United Kingdom LINK is now building such a nationwide service for its members based on software from ACI Worldwide. This will link the majority of retail banks, building societies and independent ATM deployers with the four major mobile network operators. The strength of the products offered by the major software suppliers eases the changes and provides consistent and reliable ‘industry strength’ functionality across the board.”

Another bank that is about to launch a mobile top-up service is Privredna Banka Zagreb in Croatia. It is the market leader with over a million cardholders and will provide top-up on behalf of the country’s two mobile operators through its 250 ATMs this year and 7,500 POS network next year.

“The business case is very strong with profit being generated by the discount from mobile providers,” says Mislav Blazic, executive director of the bank’s Retail Group Products Development Division. “It is a big market for us, with over one million pre-paid users out of a total population of 4.5 million, and is growing very fast. We also have a lot of tourists in the summer.”

“We built a very modern robust system for issuing and acquiring cards,” he continues. “We think that our large infrastructure will be an excellent distribution channel for this service. It also enables us to utilise our infrastructure more efficiently and offer our cardholders more services.”

The entry of banks into mobile prepayments does not threaten the incumbent mobile operators. On the contrary, they actually welcome it as a new channel that reduces their distribution costs. They no longer need to print or distribute paper vouchers and the risk of theft is eliminated. The high numbers of helpline calls that are generated by paper vouchers are also reduced. Whereas paper vouchers are anonymous, eTop-Up tells the network operators more about their customers, allowing them to create more targeted marketing.

Network operators are therefore welcoming the assistance of the banks. For example, Vodafone is hoping that by the middle of 2003 electronic top-up will account for 50 percent of its pre-pay activity.

“Vodafone welcomes the use of ATMs for topping up mobile phones,” says Rob Sandford, the company’s E-Top Up senior manager. “It is a way of offering our customers the convenience of additional top-up outlets available 24 hours a day seven days a week. It will provide both issuers and acquirers with an additional revenue stream.”

Retailers currently have to pay in advance for their pre-pay top-up cards, so they incur considerable inventory financing costs for each denomination issued by each operator. Electronic top-up from POS terminals is simpler to manage and is more secure.

‘Quick win’

Financial institutions have made massive investments in EFT and ATM networks. Their reliability, security and scalability can be exploited to provide real value-added additional features. Top-up is the first of a number of attractive potential new markets for banks. They all involve high growth, high volume and high margins. With an under-utilised infrastructure already in place, they can enter these markets quickly and easily with immediate profitability and with little risk.

“The banks have a very large, established and reliable network of devices that people trust,” concludes NCR’s Aveyard. “It is a ‘quick win’ for the banks because they are using established technology to make relatively minor changes on the back of existing systems. Experience shows that phone load is a transaction that consumers want and generates good revenue streams for banks. It is low risk and has an attractive business case.”

Rod Newing is a freelance journalist who writes on technology issues. A chartered accountant, business graduate and ex management consultant, he is a member of the regular team that writes special reports on information technology and telecommunications for the Financial Times. He has also written a regular column for IT Week since the magazine was launched.