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DELIVERING ON THE PROMISE OF

DIGITAL MONEY

Capturing the seeds of growth

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Fulfilling the promise

The development of digital money has reached a crucial juncture. The technology is in place, the concept refined, the appeal obvious. Given this, Citi and London's Imperial College gathered senior figures from across the mobile ecosystem to discuss the critical enablers that will help accelerate the economic and social change that digital money promises.

"The history of money is really the history of the world," said Naveed Sultan, Global Head of Treasury and Trade Solutions, Citi, as he opened the Citi and Imperial College London Digital Money Symposium in London on 29 January 2013. "And merging the financial and digital fields is the next step in this on-going evolution."

Drawing upon the expertise of leading figures from across the mobile ecosystem, the symposium – held at London's Millbank Tower – featured speakers from MasterCard Worldwide, the Bank of England, the Better Than Cash Alliance, the Electronic Money Association, Vodafone, Citi, and Imperial College London. And together with an invited audience representing international commerce and industry, policy and reform, consulting, academia, innovators in the digital space, investors and social responsibility, the speakers explored their objectives and strategies for fulfilling the promise of digital money.

A powerful tool

As speaker after speaker demonstrated, the benefits of digital money are clear – with cost reduction, financial inclusion and greater efficiency standing out as key ways for digital money to prove its transformative power to both companies and consumers, as well as the economy in general.

Ruth Goodwin-Groen, Managing Director of the Better Than Cash Alliance, for example, was keen to emphasise the fact that replacing physical cash with digital payments – particularly in the emerging markets – stands to make payments safer.

> "The history of money is really the history of the world"

"When Argentina moved to electronic payment cards, government payment leakages decreased, and those admitting bribes fell from 3.6 percent to 0.3 percent," said Goodwin-Groen – highlighting how the move to electronic payments not only improves efficiency, but also has the power to reduce fraud.

Indeed, mobile payments provides the convenience of cash payments with the safety of electronic payments. For instance, after the 2010 earthquake in Haiti, theft of cash transfers fell by 50 percent due to the increased use of mobile money.

"The move to digital money brings progress to societies that previously lacked the IT infrastructure to benefit from the efficiencies of electronic payments," Goodwin-Groen added. "Approximately 2.5 billion people – half the world's adult population – lack access to formal financial services. If designed appropriately, digital money can therefore lead to financial inclusion – facilitating access to financial services worldwide."

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Joining in

Certainly, both Goodwin-Groen and Ann Cairns – President of International Markets for MasterCard Worldwide – were keen to underline the benefits of digital money with respect to financial inclusion in lesser developed countries.

> "Digital money therefore has the potential to bring more formal financial practices to those who ordinarily only have access to cash"

Emerging markets are leap-frogging legacy technology and moving straight to mobile phones and digital money – therefore bypassing traditional financial networks and fixed-line investments. "Digital money therefore has the potential to bring more formal financial practices to those who ordinarily only have access to cash," said Cairns.

In doing so, digital money has the potential to reduce global poverty and increase economic growth. What's more, by increasing access to financial products and services, digital money enables some of the world's poorer households to access important services such as healthcare, education and employment.

That said, Goodwin-Groen was keen to not over-emphasise the social potential of digital money.

"Thinking of digital money as a silver bullet can be dangerous," stressed Goodwin-Groen. "It's a great opportunity, with many benefits. But we have to be careful not to over-promise."

Yet the symposium's core concern was to offer proof of the promise of digital money with respect to both efficiency and inclusion. One highlight has been the success of M-Pesa, the digital money initiative that, only three years after its implementation in Kenya, has more than 9 million users – 40 percent of the country's adult population.

The uptake of M-Pesa in Kenya demonstrates not only the strong appetite for digital money within the emerging markets, but also that digital money is a viable, and successful, replacement for cash.

"M-Pesa is not only a success story in Kenya," explained Claire Alexandre, Head of Commercial Strategy for Mobile Payments, Vodafone. "The promise of digital money is being fulfilled across other emerging markets. For instance, in Tanzania there are currently 4.2 million active M-Pesa users."

Slowly but surely: Assessing the critical enablers

So appetite for digital money in the developing world is strong. In the developed markets, however – where the use of card and electronic payments is widespread, and safe and convenient transactions are easily accessible – progress has been slower.

"There's a saying that in the developing markets, it's the last mile that is the toughest nut to crack, while in the developed markets it's the last six inches," said Greg Baxter, Global Head of Digital Strategy at Citi. Most of the pieces are already in place for bringing digital money to the developed markets, but overcoming the final hurdles will be the biggest challenge. Indeed, much of the symposium focused on what major players in the mobile ecosystem can do to make digital payments appropriate for the developed markets – viewing it as one of the crucial pieces in the digital money puzzle.

So, what are the most critical enablers that could accelerate the economic and social change that mobile money promises?

1. A killer consumer value proposition

As the value proposition in the emerging markets is already clear, the drive to deliver on the promise of digital money is instead focused on top-down corporate and government leadership. The developed markets, however, are still concerned with how to build a consumer value proposition that makes the use of digital money the new norm.

> "As we think about digitizing the financial world, we have to ask, what are we doing, not just to make consumer lives easier, but to make their lives more productive and financially healthy?"

"Consumers will need to be convinced that the new solutions will work effectively and safely before they adopt," explained Don Callahan, Chief Technology and Operations Officer at Citi – the event's keynote speaker. "Solutions therefore need to be interoperable and available, as well as intellectually and emotionally compelling."

In the developed markets, it is not enough to offer solutions that merely make consumers' transactions safer, more efficient and convenient. Both electronic and card payments already do this. It needs to move consumers on to the next stage, which is using this technology to create solutions that offer them something extra.

"As we think about digitizing the financial world, we have to ask, what are we doing, not just to make consumer lives easier, but to make their lives more productive and financially healthy?" said Callahan.

Smarter shopping and immediate settlement could be ways to further enhance the ease and convenience of payments. And if added convenience is not enough to entice adoption, introducing rewarding offers or solutions that help customers 'gain', could be.

2. A focus on quality, not quantity

Often the challenge to fulfilling the promise of innovations lies in the availability of sophisticated technology. The technology may not be advanced-enough to perform a specific task. However, this is not the case for the development of digital money solutions. Not only does it already exist, but there is, in fact, too much of it.

"With respect to technology, we have quantity, but what we need is quality," said Baxter. "A lack of standardised and open solutions means that there are many competing platforms, which has led to merchant uncertainty and a lack of commitment."

Given this, the symposium encouraged a move towards standardisation and open frameworks – making it easier for players to identify the right tools for the job.

3. Commercialising the proposition

Of course, the incentive for any player in the mobile ecosystem to invest money, time and resources in developing digital money initiatives is profit. A key enabler to its success, therefore, is establishing how the proposition can be commercialised, and how the spoils are going to be split.

> "While building mobile ecosystems, it has been difficult to see which part everyone plays"

"Players want to know how they can get paid for the way money flows," explained MasterCard's Ann Cairns. "It is not as yet clear how to commercialise digital money, which is impacting the speed at which we go to market."

Platform solutions make money, but only on a large scale. And it remains unclear how data could be translated into sustainable revenue.

"Perhaps the real money will be made by those who provide services and infrastructure," described Greg Baxter. "It is the modern equivalent of selling picks and shovels in the gold rush."

4. Political will

Regulation – while necessary – can in some cases act as another barrier slowing down the speed at which companies act on the promise of digital money.

"Political will is key to mobile money adoption," said Claire Alexandre, Vodafone, during the lively panel discussion held at the end of the symposium.

"As far as regulators are concerned, there is an 'ask for permission' model and an 'ask for forgiveness' model," explained Justin Ho, Co-Founder of Utiba, a mobile platform developer. "There are those regulators that are willing to adapt to the needs of a company – for instance adjusting to the needs of companies working in the emerging markets, where workers might be less able to travel for training. And there are those that will simply act as gate-keepers. In order for digital money to be a success, we need more progressive regulators."

Regulation needs to adapt to digital money now. There needs to be clear and consistent rules of engagement and controls that are proportionate to the risks. In order for the digital money journey to progress, there needs to be clear and streamlined licensing of participants within the mobile ecosystem, such as agency distribution of cash in and out of services.

5. A unified approach

Perhaps most importantly, a key conclusion of the symposium was the importance of collaboration across the mobile ecosystem.

"While building mobile ecosystems, it has been difficult to see which part everyone plays," explained Ann Cairns. "At the beginning, telcos and banks didn't think they needed each other. That's now clearly not the case."

"The first stage in a new business opportunity is a land-grab where people think they can achieve a lot by themselves," said Dr Thaer Sabri, CEO of the UK Electronic Money Association, during the panel discussion. "As businesses mature, they develop niches, and opportunities for collaboration emerge. Providers can see how partnerships can add value, and what more inclusive business models would look like."

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Indeed, the panel discussion highlighted the fact that that each player has a different strength, and that through collaboration, each party can benefit from the expertise of the other.

"Technology companies can contribute with more than simply technology," explained Vodafone's Claire Alexandre. "Technology is of course important, but we also have developed skills at mass production, and at managing a large number of very small transactions, which is possibly even more crucial to the success of digital money."

Of course, smaller companies also have a role to play.

"Large companies do have certain advantages – they understand how to work on a large scale, and they understand regulation," said Ashwin Shirvaikar, Director, Citi Investment Research. "What they don't necessarily have is innovation and the ability to move with speed. It is a big-enough market and it is a massive opportunity. It does not have to be 'winner takes all'."

"I think the opportunity – and the time for thinking of a business model that includes everybody – is closing quickly"

6. Reaching a common goal

While different players in the mobile ecosystem will have different objectives, they all share one common goal: to replace cash transactions with digital money.

"Our biggest competitor is a four letter word – cash," said Ann Cairns – showing that instead of competing with each other, all the major players should be banding together to create a true competitor to cash, especially when considering that "the cost of cash rises to anywhere between 0.5 and 1.5 of GDP, depending on the country."

Certainly, mobile technology and financial services will merge, and those companies that collaborate will be the ones more likely to profit from the new digital money initiatives. But a clear message from the symposium was that companies need to move quickly and work together now, whilst digital money is still in its early stages.

"I think the opportunity - and the time for implementing business models that are inclusive - is closing," said Dr Thaer Sabri. "I'm not saying it is 'done and dusted', but the opportunities do need to be grabbed."

The first step

The Citi and Imperial College Digital Money Symposium concluded positively – not least because the general feeling was that these critical enablers for the development of digital money solutions can be achieved. Barriers can be broken down and – by pooling resources and expertise, as the symposium did, and companies ought – the promise of digital money can finally become a reality.

"This is one of the first times that people have got together to discuss the true potential of digital money and how to actually accelerate its successful deployment," concluded Professor David Gann CBE, Deputy Principal, Research and Business Engagement at Imperial College Business School. "We have just taken our first step in the collaboration that could ultimately drive the global success of digital money."

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