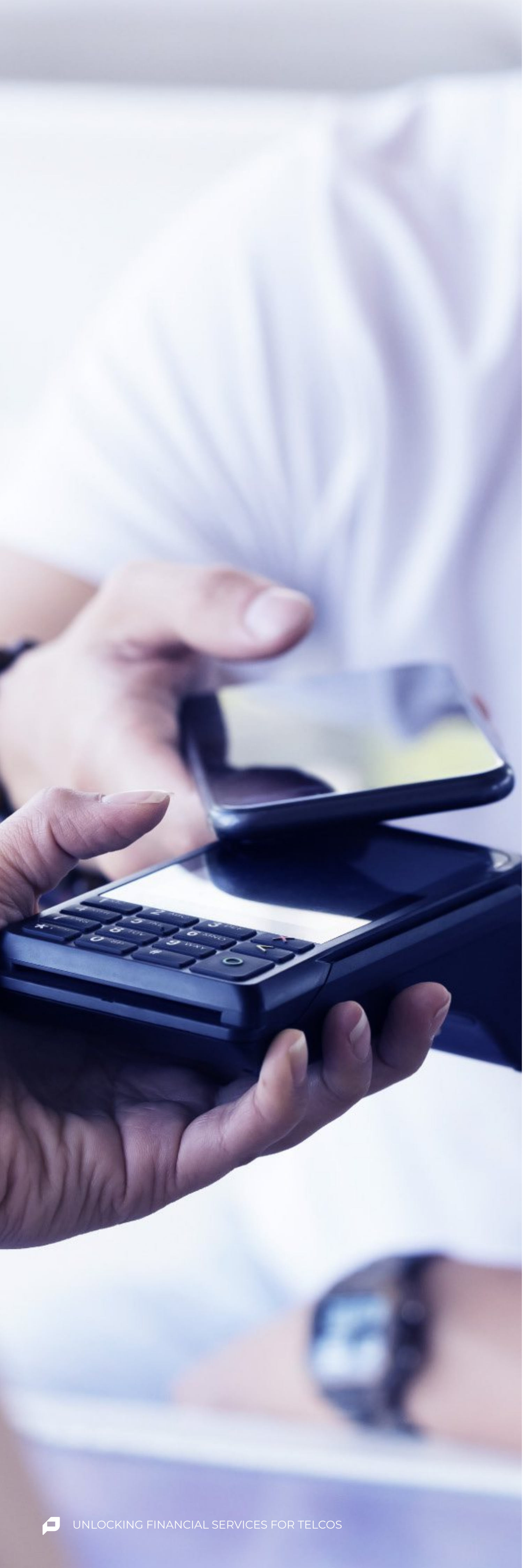
UNLOCKING FINANCIAL SERVICES FOR TELCOS

By Paymentology and Fincog

CONTENTS

REPORT PREFACE



The global telecommunications (telco) industry has been challenged by declining revenue growth and increased competition offering voice and data services.

As a result, telcos are seeking alternative business models to supplement their traditional sources of revenue. One such area that has gained momentum in recent years is the adoption of digital financial services and banking business models. This report aims to explore the potential of telcos entering the banking space, leveraging their existing capabilities, and facilitating financial inclusion.

This report provides an overview of the market landscape, highlighting the opportunities and challenges for telcos in the space. It also assesses existing banking business models and competitive advantages that telcos can leverage to facilitate mobile banking services. Additionally, the report analyses various technology models for telcos to build their financial services capabilities, advising on the pros and cons of each. Finally, the report provides an outlook on the future and key success factors for telcos seeking to enter the banking market.

In conclusion, the potential of telcos entering the financial services space and adopting digital banking business models is significant. This report aims to highlight the opportunities and challenges that lie ahead for telcos in this space. By leveraging their existing telco customer base and simultaneously adopting new mobile banking capabilities, telcos can generate new revenue streams, become facilitators for financial inclusion and embed themselves further into the daily lives of their customers, making it a win-win situation for both the industry and society at large.

CHAPTER ONE

The financial services opportunity for telcos

Today's widespread adoption of smartphones has transformed the way people communicate, interact, and conduct transactions impacting business models in many industries including telecommunications and financial services.

Because of how connectivity has advanced in recent years, telco customers have come to expect high-quality internet and voice services in many regions. This has put mobile network operators (MNOs) under pressure to maintain profitability as traditional revenue streams, such as voice calls and text messages, have been deteriorating. Competition from new entrants and over-the-top (OTT) players like WhatsApp in the west, Line in Asia, or Telegram and Skype Voice in the Middle East has only intensified the pressure to provide affordable data plans and appealing value propositions to retain customers.

As a result, telecom companies are diversifying their product offerings and exploring alternative business models, leveraging cutting-edge technology trends such as 5G, IoT, and AI to enhance services, generate additional revenue streams and secure brand loyalty among customers.

UNLOCKING NEW REVENUE STREAMS WITH FINANCIAL SERVICES AND DIGITAL PAYMENTS

The convergence of telecommunications and financial services has created a sizeable and attractive opportunity for telcos to enter a growing payments and digital banking market. According to McKinsey, global banking and payments revenues in 2021 stood at $6.1 trillion and $2.1 trillion respectively with payment revenues expected to experience tremendous growth in the coming years reaching up to $3.3 trillion in 2026.

At the same time the global volume of non-cash transactions according to estimates by CapGemini has reached $1.1 trillion in 2022 experiencing a YoY growth of almost 17% further accelerating the demand for new and alternative payment methods such as QR code payments, digital wallets, and P2P transfers. Asia-Pacific (APAC) continues to lead the way in non-cash transactions, accounting for almost half of the global volume. This is due in part to the popularity of mobile wallets and the continuous growth of instant payments in the region.

Electronic payments are rapidly growing in other regions, too. The MEA region is experiencing a surge in digital payment adoption, driven by a growing, young, and tech-savvy population coupled with increasing support from governments enabling the transition to digital payments. In Europe, a growing migrant population caused by global geopolitical conflicts in countries such as the Ukraine, Afghanistan or Syria is fuelling increased demand for cross-border transactions. In Brazil, the new instant payment system known as PIX is driving the growth of electronic payments by providing a fast, secure, and convenient way for people and businesses to transfer money digitally and without fees. As these trends continue, we can expect to see even more innovation and disruption in the payments industry, creating new opportunities specifically for telco operators.

TELCOS PLUGGING THE GAP IN FINANCIAL SERVICES

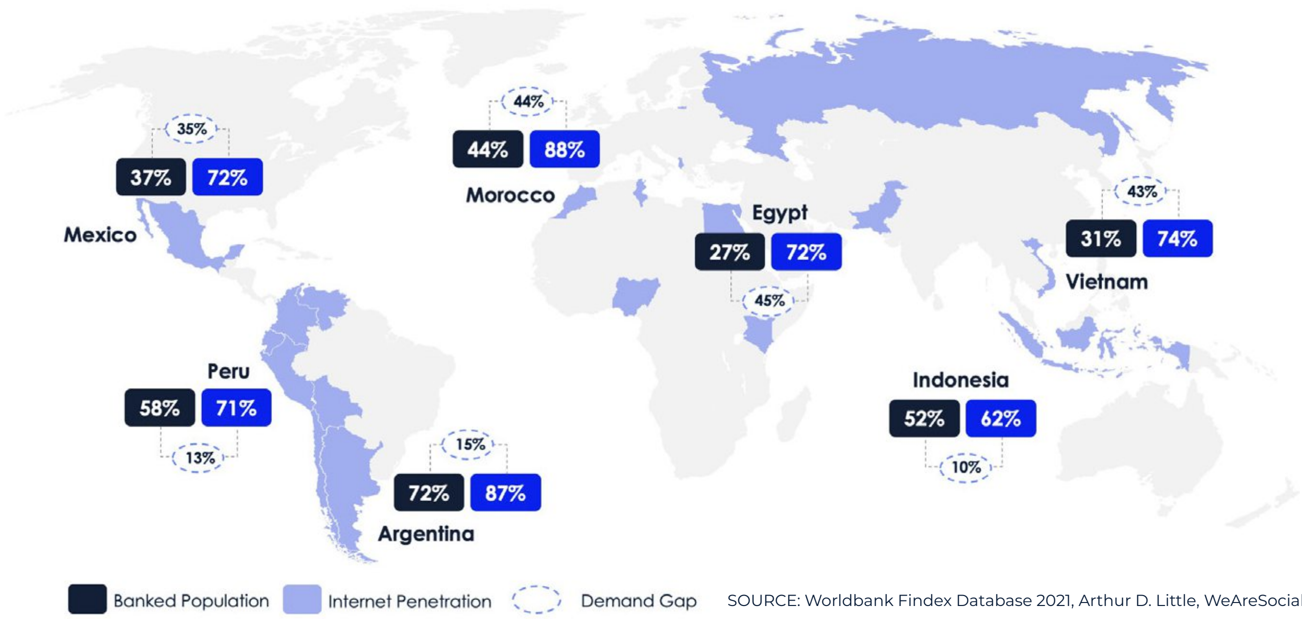
Although other fintechs have made impressive strides in addressing customer pain points in financial services, several challenges remain. One challenge is high customer acquisition costs, which can be a significant barrier to entry for new players and include an additional risk of new customers turning dormant early on in their lifecycle. Other issues include a lack of data insights that limit the ability of digital banks to offer personalised services and products and customers being hesitant to entrust their financial transactions to emerging startups in the industry.

Telcos, with their established customer relationships and marketing expertise, have recognised the potential of digital financial services (DFS), starting to offer and cross-sell innovative financial products and bundled services to their customers. In addition, telco operators have already made significant investments to acquire and retain their subscriber base, allowing them to efficiently access potential banking customers at lower costs while increasing the likelihood of customer retention with their existing subscription services. MNOs can also play a significant role when it comes to financial inclusion. Despite the increasing internet and mobile penetration rates worldwide, many individuals are still unbanked, especially in low- and middleincome countries. The World Bank reports that approximately 1.4 billion adults lack access to formal financial services as of 2021. However, telcos can bridge this gap by utilising mobile connectivity services and agent networks, to provide basic financial services to underbanked and unbanked populations in rural areas. This can include account services, remittances, and credit, among other things. With over 5.4 billion unique mobile subscribers worldwide, representing around 68% of the global population, telcos are in a prime position to drive financial inclusion and create meaningful impact.

Exhibit 1

TELCOS CAN ADDRESS A SIGNIFICANT DISPARITY BETWEEN BANKED INDIVIDUALS AND INTERNET PENETRATION RATES ACROSS VARIOUS COUNTRIES

Potential Demand Gap – Banked Population vs. Internet Penetration in 2021



SOURCE: Worldbank Findex Database 2021, Arthur D. Little, WeAreSocial

CHAPTER TWO

Telco banking business models

As telcos continue to explore opportunities in the mobile banking space, it is important to understand their business models and the key factors that are driving their success. This chapter will delve into the different telco banking business models, highlighting the strategies and innovations that have enabled them to capture a share of the growing digital banking market.

The first telecom firms to explore the financial services space began emerging in the early 2000s, with the introduction of mobile money services in countries such as the Philippines and Kenya to address a consumer need for safe, affordable transfer of funds from personto-person (P2P). Smart Money, launched by Smart Communications in the Philippines in 2001, was one of the first mobile banking services launched by a telco in the world. However, it was the launch of M-PESA in Kenya in 2007 by Safaricom/Vodafone that really revolutionised the financial services industry. Since then, many telecom firms across the world have entered the financial services market offering diversified propositions and providing a range of products and services, from payments to mobile banking, remittances, microfinance and even lifestyle-related offerings.

To better understand the different approaches of telco players in the current landscape we have analysed the market and established four distinct business models utilised by telcos to expand their core business with financial services.

BUSINESS MODEL 1: THE MOBILE MONEY WALLET

To date, most telecom companies that entered the financial services space have prioritised the improvement of mobile payment functionality and the usability of payment-related technologies via so called mobile money wallets (further referenced as mobile wallets). A mobile wallet is an application that runs on mobile devices and acts as a store of value, enabling users to facilitate digital payments.

Payment facilitation typically has been a focus of telcos entering the DFS space because it leverages their existing strengths in mobile network infrastructure and customer relationships. With a large customer base and an agent network that reaches even remote areas, telcos are well-positioned to provide access to financial services in areas with limited or no traditional banking infrastructure. Moreover, telcos have the technology and expertise to facilitate payments and transfers through mobile phones, making it convenient for customers to conduct transactions without the need for physical cash.

One of the most successful examples, having built its proposition by providing payment facilitation services is M-PESA, a mobile-based money transfer service and today's largest payments platform on the African continent. The platform was launched by Vodafone and Safaricom in Kenya in 2007 and has revolutionised the mobile payments landscape, enabling users to transfer money, pay bills, and access other financial services through their mobile phones and agent networks. Today, M-PESA has expanded to several countries in Africa and beyond. With over 51 million active users, it's had a major impact on the Kenyan economy. In the financial year ending March 31, 2022, M-PESA accounted for ca. 49% of Safaricom's profit before tax.

However, mobile wallets have come a long way since their inception in the late 1990s. Originally designed to facilitate P2P transfers, mobile wallets have evolved into versatile payment platforms that can be used for a variety of transactions including P2P transfers, bill payments, loans and savings as well as online and in-store purchases. As the popularity of mobile wallets has grown, so too has the demand for a more streamlined payment experience. This has triggered telco operators to experiment with various types of financial services offerings expanding their propositions. One example is the development of open-loop card offerings, which allow mobile wallet users to link their accounts to global payment scheme cards. These open-loop cards can be used at any merchant that accepts the global payment scheme which in turn provides wallet providers with ways to expand their user base and generate more revenue through interchange fees and other transaction related fees.

In the example of M-PESA, the company has evolved to offer a wide range of innovative financial services beyond traditional payment facilitation.

Examples include:

M-TIBA - a digital health application and mobile money wallet that empowers customers to save for their health expenses

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Fuliza - a consumer credit overdraft facility, introduced to address the challenge of insufficient credit that may prevent customers from completing transactions

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M-Shwari - a bank account offering a combination of savings and loans allowing customers to save and borrow money through their phone while earning you interest on money saved

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M-PESA GlobalPay - this product allows mobile money customers to create a linked virtual Visa card to make payments on international websites and apps wherever Visa is accepted

In most cases of telcos offering financial services, the operator delivers these services with the help of a bank partnership. For example, Safaricom's savings and lending proposition, under the Fuliza brand is supported by KCB Bank which provides Safaricom customers and retailers with credit facilities to help finance their transactions and business operations at a lower interest rate. This setup creates a mutually beneficial partnership providing telcos with swift access to required banking services while banks on the other hand acquire access to a larger pool of customers, building out their balance sheet and gaining greater traction across the payments market.

Exhibit 2

M-PESA BY SAFARICOM IS ONE OF THE FIRST AND MOST SUCCESSFUL EXAMPLES OF TELCOS IN THE FINANCIAL SERVICES SPACE AMASSING MORE THAN 50 MILLION CUSTOMERS

CASE STUDY
M-PESA, Kenya

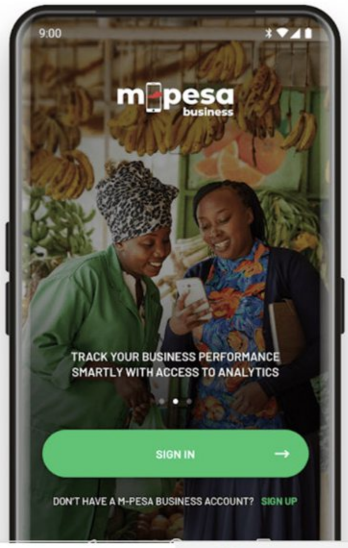
51 Million+
Customers

Profile: Africa's largest payments platform with 51 million customers

M-PESA is one of the first mobile banking services and the largest payment platform in Africa. It was launched in 2007 by Safaricom in Kenya and has since expanded across Africa and South Asia facilitating financial inclusion by allowing users to deposit, withdraw, and transfer money, pay bills, top-up airtime and much more through their mobile phones

Key Differentiator: Accessible mobile banking services for everyone

- M-PESA services can be used by anyone with a mobile phone, regardless of whether they have a bank account or not making it particularly popular in areas with low banking penetration
- Offers a broad range of financial services including loans, savings, overdrafts, insurance, payments even wealth management services in one platform



SAFARICOM / M-PESA BRANDS

Fuliza	Overdraft facility
Digi Farm	Banking services for farmers
M-Shwari	Micro-lending/savings
m-tiba	Health payment application
LIPA NA M-PESA	Merchant payment solution
KCB | M-PESA	Savings and loan products

SOURCE: Company websites (Vodafone, Safaricom), Safaricom annual report. 2022

BUSINESS MODEL 2: THE NICHE PROPOSITION

Next to the generic mobile wallet and payment propositions, another telco approach revolves around specific financial services propositions targeted towards a niche segment in the telco's existing customer base. This approach allows telcos to identify gaps in the financial services market and offer tailored solutions to their customers.

Malaysia's Celcom is an excellent example of a telecom company that has leveraged this approach. Celcom has launched AI-driven microinsurance plans targeted toward underserved segments, such as low-income households and small businesses. These plans are affordable and accessible through Celcom's mobile app, making it convenient for customers to purchase insurance. After Celcom's merger with Digit in 2023, the company forms Malaysia's largest telco and is set to further expand its footprint in both broadband and financial services.

Brazil's Vivo Money is another example of a telecom company that has successfully launched financial services targeted toward a niche segment of its customer base. Vivo Money offers personal loans and credit lines to its 76 million customers, providing them with a convenient and accessible source of credit.

By targeting niche segments of their customer base, telecom companies can differentiate themselves from traditional financial services providers and offer innovative solutions that meet the specific needs of their customers.

As such, this approach is likely to gain popularity in the coming years and act as a steppingstone to continue expanding their financial services offering, digital infrastructure and customer base.

BUSINESS MODEL 3: THE TELCO NEOBANK

Innovation in financial services and relaxation of regulatory reforms have not only inspired entrepreneurs and incumbent banks to launch their independent digital banking brands or separate neobanks. Telcos have been quick to recognize the potential of the neobanking and are now building their own digital greenfield banks.

While M-PESA has built on their established mobile phone and agent network infrastructure across Africa to boost financial inclusion and serve unbanked customers with a mobile wallet, telco neobanks also leverage on their existing infrastructure but bet primarily on a new generation of smartphone customers. Based on a different demand, telco neobanks provide them with bundled packages and discounts on their mobile plans as well as promotions from other verticals such as travel offers. One of the best examples of a telco company setting up a neobank is Orange Bank. Orange Bank was launched by French telecommunications company, Orange, in 2017 after acquiring 65% of the Groupama insurance company and leveraging its license to transform the business into Orange Bank.

As a fully digital bank, Orange Bank offers a range of banking services such as savings accounts, payment solutions, personal loans, and insurance. Customers can access these services through a mobile app or website, making banking with Orange Bank convenient and accessible from anywhere. Orange Bank has been successful in attracting customers due to its innovative offerings and low fees. In 2022, Orange Bank had over 2 million customers and bought a further 21.7% stake in the bank from Groupama to further strengthen its position.

Exhibit 3

RANGE BANK HAS BEEN A PRIME EXAMPLE OF THE TELCO NEOBANK MODEL BUILT ON A VARIETY OF PARTNERSHIPS AND EXCLUSIVE SERVICES FOR CUSTOMERS

CASE STUDY
Orange Bank, France

2 Million+
Customers

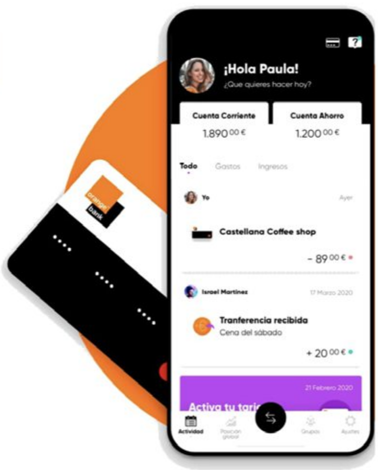
Profile: French telco neobank serving over 2 million customers

orange bank

Orange Bank is a French digital bank that was launched in 2017 by Orange, a leading telecommunications company. The bank operates entirely online and offers a range of banking services and attractive offers including current and savings accounts, loans, insurance, and investment products

Key Differentiator: Exclusive services and offers through partnerships

- Partnerships with fintech companies to offer innovative services such as instant loan approvals, insurance products and e-commerce promotions
- Exclusive offers connected to Orange's carrier services such as cashbacks on mobile plans



ORANGE BANK JOURNEY

2016	2017	2018	2019	2020	2021	2022
• Foundation Orange Bank • Groupama acquisition (65%)	• Official launch • Groupama banque becomes Orange Bank	• 200.000 customers • Expansion to the Caribbean market	• 300.000 customers • Introduces Orange Cashback	• Mastercard partnership • Introduces family premium pack	• Acquires SME neobank Anytime	• Launches fully digital loan service • Further 21.7% stake in Groupama

SOURCE: Company website, press releases, Fincog analysis

Another prominent example is Mox Bank in Hong Kong. Launched in September 2020 the neobank is backed by Standard Chartered and Trip.com as well as Hong Kong's major MNOs, HKT and PCCW. After initially receiving one of eight virtual banking licenses issued by the Hong Kong Monetary Authority, the group leverages the combined power of an international banking group, the city's telco leaders and one of Asia's biggest travel agencies.

Partnerships between telcos, banks and other digital players have become a common theme and a prevailing approach to achieve scale and success. Particularly across Asia we have seen a variety of collaborations with the effort to establish independent digital banks under the reign of consortia. Alongside Mox Bank, Singapore has seen the emergence of GxS by Singtel and Grab and also Malaysia is set to join the neobank trend with the launch of a digital bank through the partnership of Axiata and RHB Bank. Additionally, Bangkok's AIS has invested in a virtual banking venture with the state-owned Krungthai Bank, highlighting the growing interest of telcos in the financial services industry.

BUSINESS MODEL 4: THE SUPER-APP

While some telcos try to enter the financial services market via niche products and use cases that they then expand to other banking products and services, other MNOs follow a more aggressive approach integrating a variety of financial services propositions in an ecosystem of lifestyle and content solutions. With this approach, players try to become a so-called super app for all their customers' needs.

For instance, NTT Docomo from Japan is one of the telcos following this approach. The company was founded in 1991 and is part of the larger NTT Group, which is one of the world's largest telecommunications companies. The telco has made big strides in expanding its enterprise with its Smart Life business proposition. Docomo's Smart Life business is focused on creating innovative services and products that enhance the lives of customers through technology. It includes a wide range of products and services, including wearable devices, smart homes such as energy management systems and home automation, healthcare solutions, and many more. The main drivers behind the success of the Smart Life business have been banking and payment services including its dCARD or dPAY services. This service allows customers to make payments using their smartphones at participating merchants, including retail stores, restaurants, and online shops. With dPAY, customers can make purchases quickly and easily, without the need to carry cash or a credit card.

Financial services are an important part of Docomo's Smart Life business because they help enhance the overall customer experience. By offering convenient and secure payment options, as well as insurance products that provide peace of mind, Docomo can create a more comprehensive and valuable service offering ultimately enabling it as a onestop-shop for all its customers' needs. In 2022, the Smart Life business generated ca. 17% of Docomo's revenue with finance and payment propositions contributing to a large amount of revenue growth.

Exhibit 4

WHILE TELCO BANKING BUSINESS MODELS VARY BASED ON MARKET MATURITY, THERE HAS BEEN A PROGRESSIVE EVOLUTION TO MORE INCLUSIVE PROPOSITIONS OVER THE PAST COUPLE OF YEARS

Telco Banking Business Models

EARLY MOVER BUSINESS MODELS — ADVANCED BUSINESS MODELS

The Mobile Money Wallet	The Niche Proposition	The Telco Neobank	The Super App
M-PESA, MTN Mobile Money, tigo money, Orange Money	Mobilink Microfinance Bank, celcom, Money, YABX	orange bank, mox, stc pay, GXS	NTT docomo, truemoney, KDDI, EMG
Payment facilitation via existing mobile network Offers money transfer and payment services to consumers and merchants leveraging existing infrastructure	**Offering targeted FS products to customers** Provides tailored banking products and services to. niche customers such as microinsurance, BNPL, or business lending	**Neobanking brand utilising telco offers** Offers a modern digital banking platform to customers integrating offers for example on mobile plans and handsets	**Building an all-inclusive digital ecosystem** Integrates a variety of financial products to support and enhance an ecosystem of multiple converging industry services

TARGET MARKET MATURITY

DEVELOPING ← → ADVANCED

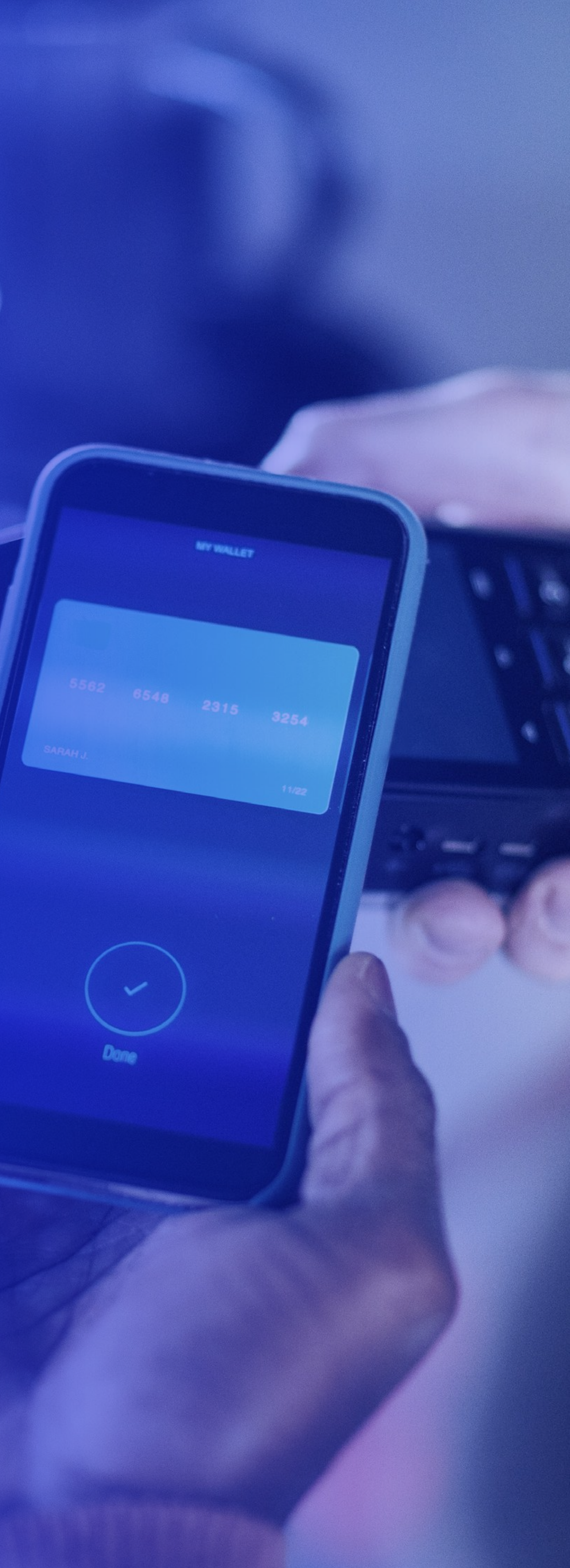
SOURCE: Company website, press releases, Fincog analysis

CHAPTER THREE

How telcos operate financial services

In order to provide financial services, telcos must establish a reliable and scalable operating model spanning a variety of capabilities. Most operators already have much of the necessary skills and capacities available in-house, including marketing expertise, customer relationship management, digital infrastructure, etc.

However, other aspects of operating financial services, such as industry knowledge, technology and licensing are usually not available in-house. To solve the puzzle, telcos need to choose between three service models to offer financial services.



OPTION 1: BUY

Buying involves the acquisition of an endservice provider or systems, such as existing insurance providers, neobanks or wealth managers to quickly establish the firm in the financial services space. Examples of this approach are Orange, who acquired a majority stake in the insurance firm Groupama or the leading Thai mobile operator AIS that acquired a stake in Rabbit-LINE Pay to provide online payments.

Acquiring a stake in an established financial services company can provide telcos with a readymade platform and customer base, allowing them to quickly launch new financial services products and expand their own customer base. The telco also gains access to specialised financial services capabilities and expertise it might have previously lacked. In addition, a combination of data available within the acquired firm and a telco's own data allows for a more diversified and tailored offering.

On the other end, an acquisition means that the telco will have limited control over the operations and decisionmaking of the company, which can make it difficult to keep the financial services unit aligned with the overall strategy and priorities. At the same time, integrating a financial services company with a telecommunications company can be complex, and there may be challenges in combining the two organisations' technology, processes, and personnel.

In terms of cost, acquiring a company is expensive but in the long run, access to existing infrastructure, technology and personnel may reduce the overall cost of entry and servicing compared to building a solution from scratch.

OPTION 2: PARTNER

A common approach is for telcos to leverage the expertise and capabilities of partners or embedded finance providers to address their internal gaps. When partnering, telcos have a wide variety of possibilities to out-source different capabilities based on their needs. In general, they rely on two types of partners.

The first type includes technology providers and fintechs, which provide access to platforms and IT via Software-as-a-service (SAAS) model that enable telcos to offer financial services products such as deposits, payments, lending, and card issuing. These partners can help telcos quickly launch new services and stay up to date with the latest trends and technologies in the financial services industry.

The second type of partner includes balance sheet providers, such as licensed banks and other financial institutions. These partners provide telcos with access to regulated licensing, risk services, funds, treasury functions and access to payment card schemes, and other essential components of a successful financial services business. Some providers can even fulfil both functions, presenting a one-stop shop for telcos looking to offer financial services.

Exhibit 5

TRUEMONEY IS A LEADING FINANCIAL SERVICES PLATFORM BASED IN THAILAND BUILT ON PARTNER CAPABILITIES AND AN EXTENSIVE NETWORK OF 88,000 AGENTS

CASE STUDY
TrueMoney, Thailand

51 Million+
Customers

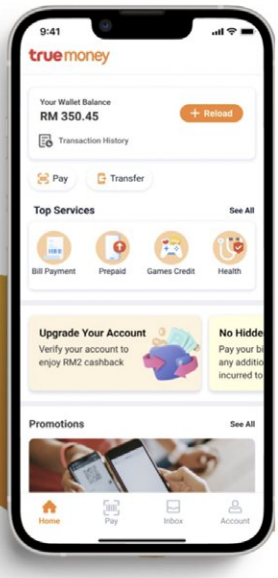
Profile: Mobile-first financial services platform in South Asia

truemoney

TrueMoney is a financial services platform based in Thailand that offers a range of services such an e-wallet, bill payments, remittances and a virtual prepaid Mastercard. The platform was founded in 2003 by the former True Corporation and operates across 7 countries in Asia, including Thailand, Cambodia, Myanmar, Indonesia, the Philippines, Vietnam and Malaysia

Key Differentiator: Building on partner capabilities and agent access

- To provide its services, the company builds partnerships with major banks, financial institutions and IT solution providers allowing it to expand capabilities quickly and provide seamless transactions and processing times
- TrueMoney built an extensive network of 88.000 agents (TrueMoney Centers) allowing customers to access its services through physical partner stores



VALUE PROPOSITION Key Target Customers

Underbanked Population
Affordable and accessible wallet and agent services ranging from remittances to micro credits, debit cards and entertainment offerings

Entrepreneurs & SMEs
Offers a B2B payment channel coupled with a fully digital agent platform allowing agents to provide TrueMoney services to customers

SOURCE: Company website, Press releases, Fincog analysis

Partnering with SAAS providers can offer a range of advantages. Next to faster rollout of new services and products, telcos can unlock the latest cuttingedge capabilities in financial services, including but not limited to instant card issuance, advanced AI decision-making engines, or instalment solutions. These capabilities, among others, allow telcos to trigger specialised products, services, and add-ons, even at POS level. Additionally, partnering with cloudbased solution providers allows telcos to benefit from easy of scalability, reduced costs, and future-proof technology.

By outsourcing the operational aspects of financial services, telcos can focus on their core strengths, such as owning the client experience, managing customer relationships, and driving marketing. This approach creates synergies between the typical strengths of telco operators and the financial expertise of established providers, enabling them to deliver a compelling value proposition to customers. This collaboration between telcos and financial services providers can unlock significant opportunities for growth and innovation in the fintech space, helping both parties to stay ahead of the curve and deliver value to their customers.

However, one must still carefully vet potential partners to ensure that they align with the overall strategy and can provide the necessary support and capabilities to succeed in the highly competitive financial services industry.

OPTION 3: BUILD

While partnering with or acquiring financial services providers are common approaches for telcos looking to expand their financial services offering, there are still some that choose to develop capabilities internally. While buying or partnering offers certain advantages such as faster time-tomarket and reduced costs, building financial services capacity in-housealso presents benefits.

One such advantage is retaining full control over the business strategy, operations, decision-making, and integration with their existing telecommunications services. In addition, developing in-house expertise can provide flexibility and lower costs over time. For instance, Tigo Money, a mobile wallet provided by Tigo in Latin America and built primarily from scratch by assembling a highly skilled team of tech experts, constructing critical infrastructure, and strategically partnering with equity investors possessing complementary fintech expertise.

Nevertheless, building capabilities in-house can be costly, and telcos must be prepared for significant investments in technology, infrastructure and personnel. All of which may mean longer lead times to launching new financial services offerings. There is also a risk of failure, if telcos miss any of the knowledge or expertise gaps needed to succeed in this highly regulated industry. Finally, there is a risk of cannibalising existing telecommunications services if financial services offerings are not integrated properly.

While there are pitfalls associated with building financial services propositions from scratch, telcos that successfully execute this strategy can create a comprehensive and valuable service offering for their customers.

Ultimately, telcos should carefully consider the benefits and drawbacks of all approaches before deciding which path to take. After all, operators are not limited to following one approach but can consider applying a combination of approaches, for example, by partnering with a fintech to offer card and payment solutions while acquiring a lending platform to complete its portfolio with credit facilities.

CHAPTER FOUR

Key factors to winning the opportunity

In the financial services space, the success of a telco company hinges on a cost-effective, scalable business model supported by future-proof technology. This involves making key decisions on the strategic positioning and product portfolio, which are crucial for a successful market entry, in addition to operational setup discussed in chapter 3.

DEFINING A TELCO'S IDEAL TARGET CUSTOMER

Prior to launching any financial services, it is crucial for telcos to carefully analyse and identify their ideal target customers based on revenue potential and associated costs. While larger retail segments may seem attractive due to the potential for quick acquisition and reach, they typically have a lower revenue potential and require only basic financial products and services with lower margins, such as current accounts and mobile wallet solutions.

However, possibilities are vast even amongst mass retail markets and telcos are not limited to basic banking services for the average consumer. Especially in developing regions such as Africa, Latin America or South Asia where mobile phone penetration is high while banking penetration remains low in many countries, this provides several opportunities. Some examples are providing micro consumer loans to farmers via mobile money (agrilending), domestic instant remittances with the option for cash-picks in partner stores, savings accounts, or airtime credit in rural areas where no agents are available.

On the other hand, targeting more affluent segments or business banking customers who require advanced or customised financial products and services such as cross-border payments, lending and asset management can yield higher revenue potential. Serving these segments is far more intricate, requiring both offline and online capabilities, which can significantly increase both acquisition and servicing costs. While this may present a considerable challenge for telcos, it is essential to recognise that catering to the needs of high-end customers may generate significant long-term benefits. Creating specialised financial services that cater to the specific needs of these segments can lead to increased loyalty and revenue opportunities. Therefore, telcos need to determine the trade-offs between the potential for higher revenue and the associated costs of serving these segments to make informed decisions about targeting these affluent customer segments.

Telcos need to evaluate the tradeoffs between customer acquisition and profitability to identify the optimal target audience for their financial services. A well-informed target customer analysis can help create tailored financial products and services that meet the unique needs of their ideal customer segments, are scalable and lead to higher customer satisfaction, retention, and profitability.

Exhibit 6

TIGO MONEY USES ITS EXISTING INFRASTRUCTURE TO REACH A LARGE UNDERBANKED AND UNDERSERVED POPULATION OF LATIN AMERICA, MINIMISING CUSTOMER ACQUISITION COST

CASE STUDY
Tigo Money, El Salvador

6 Million+
Customers

Profile: Financial inclusive mobile wallet in Latin America

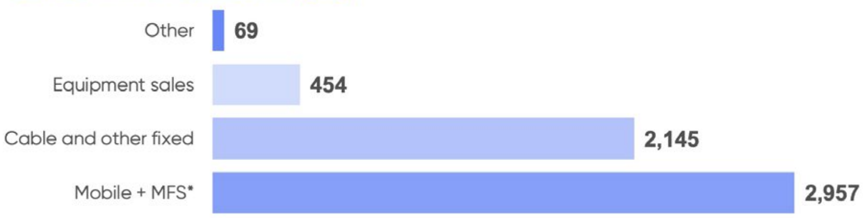
tigo money

Tigo Money is a leading mobile wallet provided by Tigo, a telecommunications company operating in several countries across Latin America. Tigo Money allows users to perform a variety of financial transactions using their mobile phones, incl. sending and receiving money, paying bills, and buying airtime

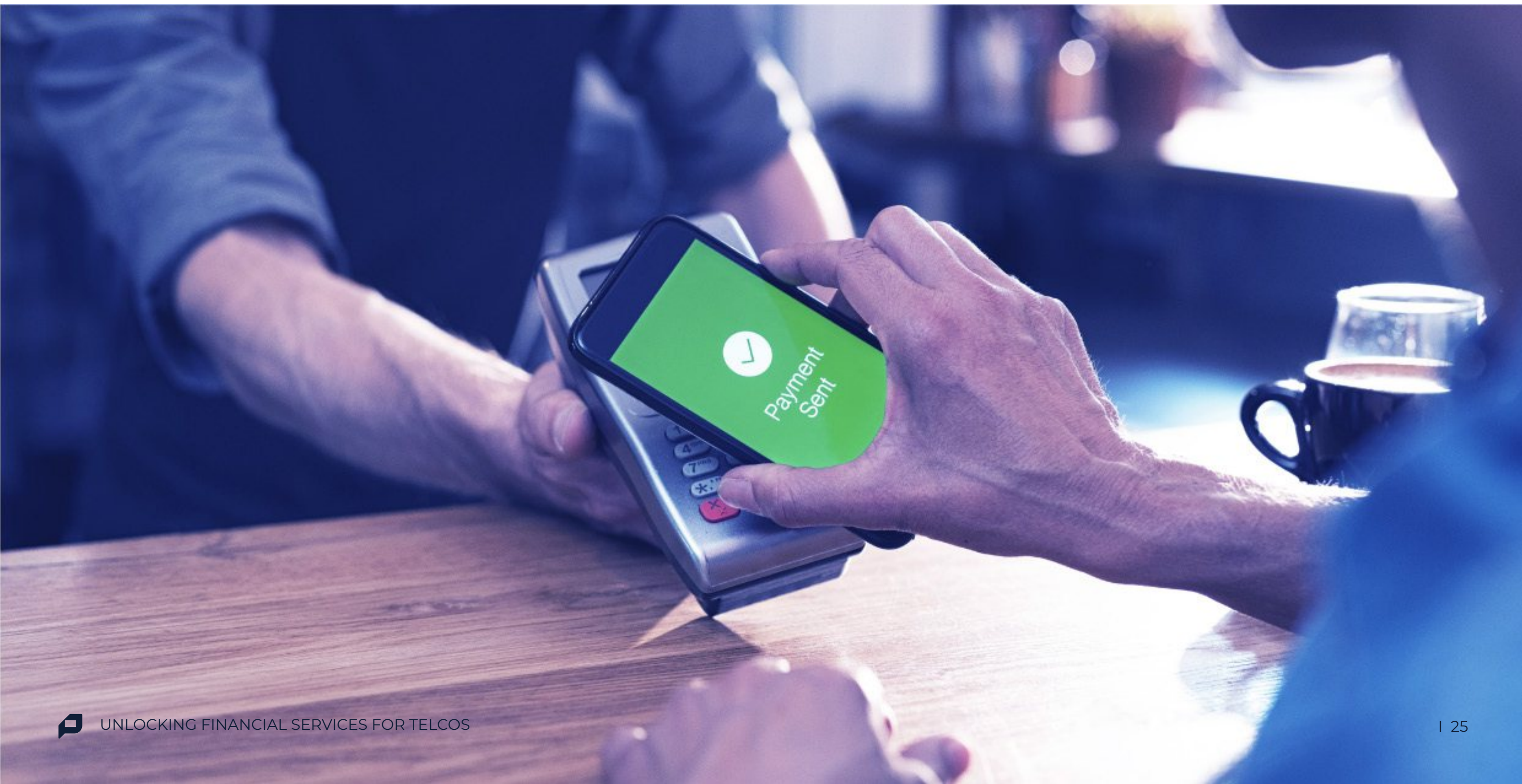
Key Differentiator: Targeted proposition for existing, underbanked clients

- Focused proposition tailoring to the needs of Latin America's large underbanked population and micro-merchants making it simpler to procure and sell products
- Tigo Money was primarily built from scratch by amassing a deep bench of tech talent, building key infrastructure and seeking equity investors with complementary fintech expertise

GROUP REVENUES 2022 ($M)



OTES: * Mobile Financial Services. SOURCE: Company website, Millicom annual report. 2022



PROVIDING A DIGITAL-FIRST EXPERIENCE TO ACQUIRE AND RETAIN CUSTOMERS

While it is important to have the right strategic positioning and product portfolio in place, customer growth and retention requires telcos to provide a differentiated value proposition. This involves delivering a seamless, user-friendly experience across all customer journey touchpoints, from onboarding and account management to payments and support. In a world where online orders are delivered within an hour, customers have become accustomed to instant availability for all their needs, telcos require the right expertise and technology that helps them win in a competitive space. From instant card issuing, to contactless NFC payments and real-time data availability, telcos must choose the right partner that enable them with a state-of-the-art tech stack and global expertise not only in financial services but also the telecom industry.

Additionally, telecommunications data means operators can identify and comprehend customer behaviour across various devices and journeys. By integrating offline CRM data with online cookies and mobile devices, operators can elevate customers' wallet and card experiences. This integration allows operators to identify customers across multiple devices and screens, enabling them to monitor full customer journeys and enhance user interaction with their brand, including personalised advertisements and promotions. For example, Yabx, a digital lending platform by telco operator Comviva catering to underbanked segments, discussed at last year's Mobile World Congress (MWC) how they enabled credit scoring of 100 million customers globally across Africa, Asia and Latin America by utilising their service provider data.

In conclusion, prioritising CX built on data insights can be revolutionary for telcos in the financial services space, empowering them to differentiate themselves from the competition and unlock new growth opportunities.

CHAPTER FIVE

The future of telcos in banking

With technical capabilities becoming easier to integrate, MNOs can develop an array of financial products and services to capitalise on emerging trends and innovations such as embedded finance, decentralised finance (DEFI) and cryptocurrencies. To accelerate the growth of their financial services offering, telcos can allow third party developers to access their platforms via Open APIs in order to build innovative services on top of their mobile wallets. For example, MTN, a South African MNO, provides developers access to the MTN Mobile Money software platform via its Open APIs enabling them to create innovative new DFS to meet the growing financial needs of Africans.

However, when beginning from scratch, facilitating payments via a simple mobile wallet and card offering is a good way to start, as it increases customer engagement. This will allow the telco company to build deeper customer relationships and collect valuable data on needs and behaviours. In the second stage, operators can use the customer data to expand their product portfolio and create tailored solutions, such as additional credit solutions based on informed underwriting decisions or even brokerage and asset management services. Next to M-PESA, which is increasingly diversifying its proposition, KDDI, a Japanese telco operator is a good example that is building a powerful network of financial service solutions. The operator established Jibun Bank in 2008 and has a variety of financial subsidiaries including au Kabucom, a brokerage service allowing to invest with reward points, au PAY, a mobile wallet, and au Asset Management, an online investing service for young customers.

Telcos need to recognise the importance of embedding their services in the daily lives of their customers, as more and more people expect seamless connectivity and accessibility at all times. A good example referenced earlier in this report is Docomo's Smart Life business. It builds on Docomo's existing customer base, connectivity and handset products, and links them with solutions across a variety of industries and needs, including entertainment, healthcare, smart homes, utilities, connected cars, and many more. Financial services offerings such as payments, buy-now-pay-later (BNPL) or smartphone loans can then be used to facilitate a seamless experience and drive conversion across the ecosystem. At the same time, leapfrogging costly intermediary services like payments facilitation saves costs across other service solutions within the ecosystem.

In conclusion, the global reach of financial services has created a new frontier for investors and industry players alike. The convergence of telecommunications and financial services industries is poised to accelerate as trends like embedded finance gain momentum, and an increasingly collaborative ecosystem takes shape. As demonstrated by many successful players including the likes of M-PESA, TrueMoney or Tigo Money, the diversification of revenue streams through innovative financial offerings will continue to be a key driver of growth and competitive edge in the years ahead.

We are looking forward to a future that holds plentiful opportunities for forwardthinking companies to capitalise on convergence and provide tailored financial solutions that meet the evolving needs of their customers.

About This Report

This report has been developed in collaboration by Paymentology and Fincog with the aim of shedding light onto a fast-moving industry. We hope this report has been informative and valuable. Please feel free to contact us for any further information or support in helping you unlock the potential of financial services in your organisation.

paymentology

Paymentology is the leading next-generation issuer processor, empowering fintechs, digital banks and retail banks to effortlessly launch and manage innovative payment solutions on a global scale. The company drives greater customer choice and value through easy-to-use, integrated platforms and services that help clients to disrupt the status quo, accelerate time to market, and achieve growth.

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