

MicroPayments

Who needs them?

Or 'If you build it, they won't come'

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Agenda:

- **A history of micro-payments**
 - Or how to spend \$1bn and get something very small
- **Why they fail**
- **The 'distress purchase'**
- **Subscription payments – working in practice**
- **The schemes and banks**
- **M-commerce (or 'maybe' commerce?)**
- **Who we are and why you should believe me**

What are micropayments anyway?

- **Stored Value**
 - 'ecash' from an 'account' or onto a stored value 'card'
 - Usually deposited from a credit/debit card
 - You then 'use' your value at participating stores
- **Alternative currencies**
 - Similar to stored value but you 'buy' units of currency
- **Other 'schemes'**
 - Again 'loaded' accounts from other payment instruments
 - Typically allow money transfer between accounts or withdrawal
 - PayPal, FireCash

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Slide 3

Case study #1 - Mondex

- *'A direct electronic equivalent of cash, Mondex electronic cash brings compelling benefits to consumers and merchants transacting in the virtual world. It is simple to use, replicating exactly the workings of physical cash online and is accessible to everyone, including the youth market and those without bank accounts. The e-cash facility enables instant transfer of value between merchants and customers (or between consumers) and doesn't require bank authorisation. It also allows users to make secure online purchases without giving any personal details.'*
- **Mondex Philippines**
- **Mondex Korea**
- **Banco de Venezuela**
- **> \$150m invested,
No micropayments!**



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Slide 4

Case Study #2 - CyberCash

- 1994 – Cybercash IPO'd on the back of their key product
 - Raising >\$100m on 'CyberCoin'
- *'The future of the internet is micropayments'*
- Analyst consensus recommendations forecast 1st year revenues of \$56m
 - Actual revenues were \$170k
- 3,000 'leads' came to the website each and every month.....
 - They gave them away....
- March 2001 – Cyber Crash
 - Chapter 11 and a price tag of \$8m
 - And no micropayments.....



Case Study #3 - Safedoor

- Launched in March 2001 – a division of Securicor
- *'We're not stopping there. We are constantly seeking to develop and offer a wider range of security and privacy solutions bringing you a revolutionary new doorway to a safer online world.'*
- Effectively a secure 'wallet solution'
- **Revolution** January 2001:
 - *'There are some things you really can't do on your credit card so it really makes sense to use micropayments'* – Stephen Taylor
- Company up for sale March 2002:
 - *'not core to Securicor's business'*
 - 2001 £ 11.8m pre tax losses- £ 5m consumer launch
 - 70 merchants



Case study #4 – WorldPay (just to be fair)

- Launched 'WorldAccount' in 1999
- A 'stored value' solution
 - Shoppers download value from credit or debit card
- Available in 14 currencies, and enabled with real time conversion of foreign currency transactions
- As little as one penny or one cent!
- Children's variant 'KidzAccount'
- We have 15000 customers in 120 countries
 - Only 3 have WorldAccount.....

WorldAccount

Why they (and we) failed (at least so far!)

- Shoppers want to pay in the way they are used to paying
 - In Germany this means ELV, bank debit used by 80% of consumers on the Internet.
 - In fact there are only 6m Visa cards in Germany, compared with 69m in the UK.
- Classic 'chicken and egg'
 - Creation of a payment 'scheme' as such requires many consumers and many etailers
 - Visa 'works' because many banks co-operate and brand their cards with the logo, therefore many POS
- All require a shopper to open an 'account'
 - They need a compelling reason

So who has succeeded – distress purchases....

- **PayPal** – *but are they a 'scheme' and is it really micropayments?*
- Auction sites – 70% of PayPal transactions come through auction sites, where there is no readily available alternative
- 30% is with 'business accounts' for businesses that would simply be unable to get a merchant account with a bank
- *'We seek to become the global standard for payments over the internet'*
- PayPal and MasterCard?
- **SureFire Commerce – FirePay**
- **Internet gaming – \$25bn by 2005***
 - Amex, Discover, Diners (NA) prohibit gaming outright
 - Visa and Mastercard operate 'strict' criteria
 - 89% of Internet gambling is done via credit card!
- **FirePay – 'the private way to pay'**
 - Hides the transaction from the card issuer – over a \$1bn in 2000
 - No longer takes MasterCard



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*Nilson report August 2001 Slide 9

Schemes and banks

- **Visa and MasterCard wish to 'encourage' small payments**
 - But the hassle factor still exists for consumers
- **But...the economics of global acquiring make this difficult**
- **Visa and MasterCard charge suspiciously similar amounts for access to their networks**
- **Acquirers and issuers however can't economically handle small value transactions**
 - Moving the money around when it's 10c is expensive.....
 - Acquirers typically pay merchants on T+2



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Slide 10

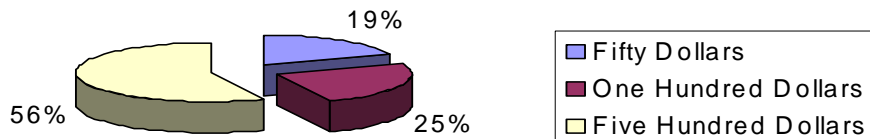
Do merchants want solutions?

- Typically no – they don't want to be paid for loss of tiny transactions
- Our experience – they use subscription models
- FuturePay
 - Monthly fees for content
 - Managed by us – users can cancel an agreement online or change their card details
 - Ft.com, ISP's, and over 1000 other merchants
 - 40,000 active agreements, ranging from 1 month to 18 months
 - Selling time, not content


FuturePay

Do consumers want solutions?

Amount online shoppers prepared to pay in one transaction




Source: WorldPay survey Q4 2001, 9,000 shoppers from 40 countries




Do cardholders want 'm'- commerce solutions?

- Maybe...but payments, not just micropayments
- WorldPay and Vodafone 'm' wallet 2002
 - 15,000 merchants enabled to accept instantly (critical mass)
 - 13 million Vodafone users 'invited' to open an 'm' wallet
 - Because they can't do it any other way
 - Uses their normal credit card
 - Securely stored details and SMS 'pin' verification
 - Ease of use on mobile device
 - Not just 'm' but normal Internet transactions
 - 'one click' payment across many merchants
- Vodafone also has 'pass through' billing
 - Do consumers want to pay via their mobile bill?
 - Maybe!



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So, what will work?

Wallets will work:

- Ease of 'one click' platform which transcends individual retailers (e.g. Amazon)
 - But needs the 'universal acceptance' capability
- Visa & MasterCard security protocols 2002
 - PIN numbers!
 - Security for merchants
 - Wallet-like
- Microsoft passport – ubiquitous platform
- M-commerce – captive audience
- PayPal – already has traction

Can MicroPayments work?

- Wallet technology prerequisite:
 - Lower the hassle factor
- Card based?
 - Acquirers and card schemes need to offer viable economic solutions
 - Stored value may return as 'value add' to wallets
- M-commerce 'pass through' billing:
 - Entertainment and vending
 - But not higher value items....
- But, we need merchants with content!
- 'Global' solutions

“Visa is delighted to be working together with WorldPay, the largest multi-currency payment aggregator in the world, to secure e-commerce globally for our cardholders” Jon Prideaux, VP Virtual Visa

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WorldPay's role

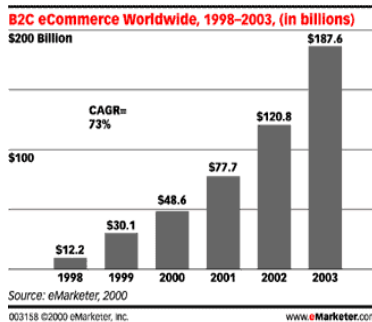
- Facilitator – largest ecommerce merchant aggregator outside the US
- Key endorsement by Visa and MasterCard for PIN 'protocols'
- One approval process for merchant:
 - Multiple payment solutions- including 'm' commerce and micropayments
 - Aggregation to one settlement (from choice of 14 currencies)
 - Multi-currency payment acquisition
- Secure multi-lingual payment pages and communications – one infrastructure
- Guarantee for shoppers and merchants



As at 31 March 2001:

15,000 merchants	1300 partners
120 countries	45 countries

Opportunity



- Internet users increased 20% in 2001 to 445m, projected to be 700m by 2004 (e)
- In the UK, 10m Internet users visited e-commerce web sites over Christmas 2001 – 50% up on 2000. (n)
- In the UK e-commerce is forecast to rise from £3bn in 2001 to £11bn in 2005 (j)
- Overall B2C e-commerce forecast to growth at compound rates of 50% (USA) to 135% (Asia-Pac) per annum (f)

Sources: (e) eMarketer, (n) NetValue, (j) Jupiter, (f) Forrester



Questions?

Thank you.....

Comments or questions after the event?

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