

Session 2—Question and Answer

Paul Tomasofsky:

Hi Stuart, thanks. Paul Tomasofsky with the Secure Remote Payment Council, and I guess this is an easy question; it is for anyone and everyone. The question is at this stage of development here, how do you determine -- how do your organizations determine when someone is a competitor or when you should be cooperating with them? So Victor, for example, talked about the wonderful application of RDC, I would suppose Jody you would not be all that keen about that, since that still keeps the check in the picture, yet you said that you provide some of the rails for Victor's product. Dickson, some folks would say that you are competing against other products, and back in the day when I grew up in the payments business what you are doing would be against VISA MasterCard rules. You could be called a factor, and they wouldn't allow you to do that. And then Peter, I guess, you are in a whole different world over there that is very interesting, and it seems like you have taken cooperation to a different level, but I am sure there are still some competitive issues. I just like to get some thoughts in that one particular question, thank you.

Female Speaker:

I will start. I mean, you know, I think that mobile because it is such unique space offers the ability to have partnerships and cooperation maybe in other traditional areas where you cannot. So you do see, you know, a collection of a bank and a telco and a network all coming together, and they might also be competitors in other areas. I think that certain of those laws start to get broken down. But, you know, your core business has to be whatever your core business is. So whatever rules you mentioned for MasterCard years ago, PayPal is not in violation of our rules. So I think that is also shows you that the payments landscaping is changing and so when you change, you also have to reconsider who you want to be in business with and who your customers are. I mean, MasterCard's, you know, basic model is that our customers are financial institutions that issue our cards and sign up merchants to take our cards. But we have a lot of other unique partnerships, and we also have other customers, and there are customers in the merchant community, and there are customers in other payment chains. So I think those sort of clear boxes of what we do are starting to break down as payments are becoming more innovative.

Male Speaker:

I think from our perspective mobile is the game changer and like every other market or game changer there will be shakeup. So people will either evolve or they will become irrelevant or antiquated. And there will be displacement. I mean, some business models and some businesses will be displaced. We've got a very large relationship with MasterCard where on some more of a cutting edge platforms, doing some direct sight things with them on debit. We are talking to Dixon now more than ever and looking to expand some things. But for us it is easy. I have that simple motto, "Serve more members, meet more needs." We generally take that approach in everything. If something gets in the way, we will do it ourselves. If people aren't cooperating, we will build it ourselves. Within the bounds of regulations when it comes to moving money, if

we don't have the right partners then we will -- there is usually more than one partner at the table when it comes to these types of solutions. It is just a matter finding the right one. When none exists, you have to create your own way.

Male Speaker:

Yeah, I think that -- well, first we try to be friends with everyone, so...

[laughter]

And in the early days we had to because everyone had the perspective that we were competing against them and perceived that we were breaking all sorts of rules. As time shows, we are not, we are fully compliant. You know this is an industry of "coopertition" [spelled phonetically] so your partner is your competitor. And that's kind of an interesting dynamic that we understand fully at PayPal, and it's something that serves us well, and I think it would serve the industry well, that those two aren't a [unintelligible], and they can actually live together. As a networks of networks, everyone is our partner. But in reality, yes we are, in one way or another, taking share when one of other entities, but Jody will tell you that in some conversations we may be competing for customer mind share, but in many cases, we are a merchant, we are one of MasterCard's largest merchants, so we are one of their largest customers and they are a valuable partner to us.

Peter Lohmann:

I already have answered this question in my presentation, but I want to answer with a last example. We wanted to bring the banks together at the moment at the cooperators, so I ask all our competitors, all the network operators, the mobile business is a very competitive business and to bring them on the table and the big bosses for the payments and for Austrian universal banks who cover almost eighty percent of the market share. And that brought them together, and there was a big misunderstanding. Everybody said, yep, that's a great model, use Maestro as an authorization model, use mobile as an authentication model. That's a great idea. Let's do that. Then at the end of the meeting I asked, "Okay so let's meet," and we as a mobile network next week to do the next step and the bank said, "Maybe in a half a year we have the time to discuss we have risk issues and whatever." So it's a matter of different cultures popping together. Concerning your question why this fails, the banks did not really succeed in that. All these successful models that are out there, like PayPal, this is not made by a bank. It is always made somebody else, but not banks. This should make the banks learn about that. Yes.

[laughter]

Gail Hillebrand:

Hi, I am Gail Hillebrand from Consumers Union. My question is for Peter Lohmann. You've told us about the hundred euro concert ticket and what happens on the front end. Tell us where the money moves after and, in particular, how long does it take for the merchant to get the money? What happens if the authenticated customer says it really wasn't me? Are they stuck? What happens if the customer doesn't pay the phone bill?

Peter Lohmann:

Well, simple answer, mobile network operators, if mobile networks operators don't know how to bill and have to pay their customers, if they don't understand these processes then if they can't do it for one day, the CDR is converted, CDR is [unintelligible] if they don't know how to do that for one day, then they lose one three hundred and sixty fifth of the turnover of the mobile network operator. So you see this is core business of the mobile network operator. Billing and payment is core business of the mobile network operator. Our bad debt quotas and our risk management team is very good in that, and I would say that it's even better than some credit card organizations when it comes to Internet payments and digital payments.

So we have learned these processes. We went through that. From the process, it's quite simple. We take the money from the phone bill, which is the fifth working day of the second month, because after that we don't know if it is billed or not. We have 18 billing cycles within Mobilkom, and we pay the merchants as all the other, because we are competitive with the credit card companies with the same processes as the other credit card companies. Because the merchants say, "If we have it for MasterCard, we want the same processes, the same payment scheme."

Gail Hillebrand:

The merchant gets paid after the phone bill is paid and not before?

Peter Lohmann:

No, before.

Gail Hillebrand:

Before?

Peter Lohmann:

Because the fifth working day we take the money from the customer.

Male Speaker:

Yeah, Richard, the second row.

Richard Crone:

Thank you. Richard Crone, CEO of Crone Consulting LLC. As we know, the one who enrolls is the one who controls in mobile and building an enrolled base of customers is quite difficult. Right now, the telecom operators are the only one with a complete enroll base knowing the mobile credentials. So what I am curious, for a financial institution, for a network, for a network of networks, how do you bill your enrolled base of customers? If we look at USAA, only recently were you even asking for mobile numbers on your new account applications, same for PayPal. And for a network, MasterCard doesn't carry the mobile credentials inside the pan or pin or anything along those lines. So I am very curious for the financial institutions in attendance, for merchants, for any business and for their regulators, how do we build and maintain securely the mobile credentials?

Male Speaker:

You know, for us, it is a little different. Although we weren't -- our members trust us with everything. They give us more data and more information about themselves, what they are doing and how they are doing it, than I think just about anybody else. So even though we weren't asking for it, they were still giving it to us. So it was okay, maybe we need to organize this a little more. We have one of the most incredible IT security programs that are out there. So it was a really easy adoption once we started to do it, to make sure that we had and that we were using it.

Male Speaker:

[unintelligible]

Male Speaker:

Yeah, they were giving it to us without asking. That is one of the great things about having a membership base like ours, they trust us [unintelligible].

Female Speaker:

So with a product like Money Send you are launching a product where you basically are telling people that you want them to be able to send funds to and from their cell phones. And we've launched this in 17 countries. You are right, this is not information, well the network doesn't have personal information about you period. The partners that you do this with and the banks that are offering this, they do have to get that information, so if you go to sign up for -- and I don't have the website handy, but if you want to go sign up for mobile MoneySend for MasterCard, you are going to be asked for your cell phone. So it is at that point when you are going to be giving that information.

Again, one of the things I mention is the challenge, and what happened in Austria is very unique. Here we do have a lack of cooperation between banks and telcos, which I think is a huge problem. But you do have banks that have those same customers; maybe they don't have their cell phones or mobile phones yet, if you want that operability, that capability, if you want that service, you are going to give your cell phone number and then you are going -- your bank is going to have that along with all the other personal information that your bank already has.

Peter Lohmann:

We are approaching, quite simple, we are looking for a value add for our customers. And that if you stand in front of the parking meter and you don't have coins then in this moment of truth you want to solve this problem.

[laughter]

You don't care if MasterCard, Maestro, PayPal or whatever, you just want to pay your parking so that you are not fined. And if see an ad of Robin Williams and you know that within two hours this concert is paid out then you want to ticket for Robin Williams, so

we want to solve that. So we always approach with value add for the customers and payment is just a need for that, for without payment we can't offer these services.

Female Speaker:

Can I just say one thing before Dixon answers to, which brought to mind, what is interesting in the mobile space is also that customers want this. When consumers want something, they are willing to sign up for it and do it. I think we can all agree that consumers don't want their personal information shared from merchant to merchant. There are all kinds of things consumers don't want. But when it comes to their phone and being able to have moment of truth where you do not want to deal with whether you have change or not, consumers will sign up for these things because they want them, and that's the difference and the imparting of that personal information is much more given in this space. It is a different dynamic.

Male Speaker:

We have time for one more.

Female Speaker:

Oh, I am sorry.

Male Speaker:

No, no, my answer was the same, the same answer which is answer the question what is in it for me. So you put yourself in the shoes of your customers, why should they give you more of anything, more information, more of their financial details? And so what we work on is answering the question by segment, what is in it for them and why should they enroll their mobile number in their PayPal account? And because we are an account and a receptacle of all sorts of information one very simple reason that we give them is we like to be able to contact you, and we know that you want to be able to call us. So there is a bit of a quid pro quo.

Female Speaker:

Hi, Susan Grant, Consumer Federation of America. I wanted to ask about fraudulent merchants and in general fraudulent payment recipients. And as we go from micro payments to more macro payments, I think that this is going to be more of an issue. In the old days, if you were paying with just a traditional credit card, the merchants bank before signing that merchant up to accept it would have to check to make sure that it was a legitimate business. But now we have new models, that don't necessarily require that kind of merchant scrutiny. We have got some payment systems, like PayPal, that provide buyer protection, at least in the auction context. But my question is how feasible will it be to provide that kind of protection as the systems and the recipients who use it expand and what protection will their ultimately be for consumers if they are transmitting their money to somebody who is a fraud.

Male Speaker:

So, first of all you are right, we do provide buyer protection on eBay, so within the auction context. And this year we will be providing buyer protection across all of PayPal

in the U.S., so we are extending that benefit to our membership. This is all about, what you are asking, is how do you create a safe payment system and encourage more transactions and more participation? On the merchant risk side, there are two sides to risk, right? You characterized it as fraudulent merchants, but there is also just credit risks. A small merchant has all the intention in the world of doing business online, bad economic times, good people do bad things in bad times, bad credit risk. So we what most other merchant buyers do. We do the traditional underwriting and so forth, we do lots of monitoring and then what PayPal is going for is all of our risk and fraud detection capabilities were we are constantly monitoring transactions on both sides to create a safe payment network.

Female Speaker:

I would just say for MasterCard, the beauty of the fact that we use our network as the backbone for everything that we are doing, even in an innovative space is the same kinds of requirements about checking your merchants, they apply, and also the kind of fraud monitoring that we do. Mobile is not a product itself; it is a functionality that you can use on any other product. So all the typical protections that we have in place apply to those, too. We go beyond federal protection; we require zero liability. If a consumer is faced with a fraudulent transaction, they should have zero liability on that in the U.S. That's something we guarantee. It doesn't matter if it is a PayPass, a debit card, a credit card, if it's a fog. It's not the functionality on the card that counts; it's the fact that it is something that is running through our network that we protect and we take seriously, that role of being a protector for consumers.

Peter Lohmann:

From us, I guess we control the merchant on one side because every contact with the merchant is done by us, and we control the consumer on the other end because we own the customers phone. We have the full control of these processes and from the legal side for this purpose we found that a one bank, a universal bank with an EU license to operate services in the European Union and with other fraud protection and methodologies that are standard in the credit card payment industry. We have one big advantage compared to others when it comes to KYCH check handling and police things as [unintelligible] We can really check every customer, for example, cigarette vending is very, very successful in Austria, but you are not allowed to buy cigarettes when you are aged under sixteen. So we control the customer, every customer has to sign up. If you sign a contract with A1, with a copy of the passport and this copy of the passport is stored in our systems and this copy of the passport we can assure that this [unintelligible] is over sixteen and we can allow him to buy the cigarettes. So this is a standard process. This is online, always online.

Male Speaker:

I guess with that we have to wrap up, unfortunately in a sense, we could go on for a good deal of time here. It is fascinating, and I want to thank our panelists. I can say that this is one of the most interesting panels that I have been associated with. Somewhat facetiously, I wish we could lock up Vic, Julie and Dickson in a room together. I think they could work all this out --

[laughter]

-- perhaps with Peter consulting. But is very good and please join me in thanking the panelist.

[applause]

[end of transcript]