Coordinating roles in mobile payments--who will we trust?

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The concept of mobile payments is beginning to gain some traction as the industry grapples with environmental complexities—namely the myriad participants in the mobile payments arena, the multiple channels for a mobile payment to follow, and the ever-present questions about security. Who can be trusted to intercede among the various entities with an interest in the payments process? While a number of roles in the mobile payments arena are taking shape, the least known and possibly the most confusing is the concept of the trusted service manager (TSM). However, this role is also possibly the most critical to establishing a secure and trusted environment for mobile payments. So what exactly is a TSM and what are its responsibilities?

Complex environment for mobile payments
While anecdotes sometimes dismiss the anticipated speed to market of mobile payments as industry hype, the fact is that the ubiquity of the mobile phone is driving the convergence of telecom and payments. This convergence creates a far more complex environment for payments than ever before. Telecom participants and financial institutions have different regulatory and legal frameworks and distinctly different risk exposure, for example. Furthermore, the U.S. mobile payments environment will leverage existing payment channels, such as the automated clearinghouse (ACH) and the card networks. No one knows if the industry and market will ultimately prefer a particular channel. The result is an array of business models with a vast number of unrelated players with competing interests for customer revenue.

Stakeholders in the mobile payments business model
In addition to the traditional payments model that includes the customer, financial institutions, and perhaps payment processors, the developing mobile payments ecosystem also includes large groups of mobile network operators and handset makers who have no previous payments life cycle experience. For payment system interoperability, all participants must agree to operate under uniform technical operating and security standards. In this context, the role of a TSM is to manage collaboration among the various stakeholders.

Role of the TSM
The concept of the TSM was introduced by the Global System for Mobile Communications Association (GSM) in 2007 in an effort to improve interoperability among various and unrelated proprietary mobile networks. The core function of the TSM is to serve as a neutral and independent middleman between financial institutions, payment network operators, customers, and the mobile network operators.

Responsibilities envisioned for the TSM include managing contractual relationships with the large number of mobile network operators (MNOs) as well as acting as a single point of contact for banks and other payment service providers to communicate with customers they share with the MNOs and handset makers. The key to the TSM’s success clearly is the financial wherewithal to inspire trust on behalf of the other payment participants and to support agreements with a large number of partners. Finally, the TSM should also provide the oversight for various systems among participants to ensure secure transmission of payments and personal data in the transaction.

Who should fill the role?
While the need for a TSM is recognized, there is no consensus on who should fill that role. MNOs,
payment network operators, and financial institutions lack the economic incentives to form alliances with other participants in the payment ecosystem because of their competing interests for customer revenue. Whether the role is filled by a consortium of existing players or by a new entity yet to be formed will depend on an ability to fulfill these critical responsibilities from a position of neutrality and independence.

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- September 28, 2009 in
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