

Cards & Payments

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Liverpool Contactless Trial Has An Open-Loop Twist; City's bus initiative could set the pace for the region's next phase of rollouts of the tap-and-go technology

Bus riders in Liverpool, England, could help usher in the next phase of contactless payment in Europe. A year-long test that kicked off in late October enables riders to use open-loop contactless debit and credit cards that lack transit applications to pay for tickets on some 200 buses operated by Stagecoach Group PLC.

The test marks the first major use of open-loop payment cards for mass-transit fares in the United Kingdom, according to Jason Field, business leader for product management and global PayPass at MasterCard Worldwide.

Like many other transportation authorities around the world, operators of London's mass-transit system are eager to shift some of the burden of fare collection and fare card issuance to other organizations, including banks. They hope to launch a large-scale open-loop scheme in time for the 2012 Olympics.

Indeed, the effort in Liverpool could provide vital lessons for card networks, acquirers and processors, including RBS WorldPay, the Royal Bank of Scotland unit participating in the trial that is "engaged" in the open-loop plans for London, according to Matt Roswell, the unit's head of business development.

"Everyone is keeping an open mind" about open-loop contactless fare payment, Roswell says, declining to give more details about RBS's involvement in London's mass-transit plans.

Bus rides in England, retail rollouts in France, and chip-embedded watches in Turkey designed to dazzle consumers are just some of the projects attempting to encourage more contactless payments in Europe. Major marketing campaigns, and card and terminal conversions and deployments, have picked up in recent months, helping prepare for what could be at least a partial migration from cards to mobile phones equipped with Near Field Communication technology, a short-range, two-way wireless technology that enables mobiles phones and related electronic devices to support contactless payments, ticketing and coupon downloads.

Much work still must be done before that can occur, however.

British banks so far have issued just less than 5 million contactless cards, 58% of which are credit cards, according to the UK Cards Association, a trade group. The UK has a

card base of more than 165 million debit, credit, charge, ATM-only and check-guarantee cards. UK merchants have deployed approximately 11,000 payment terminals capable of accepting contactless payment, more than 60% of which are located outside London, says Sarah Heyes, a UK Cards Association executive.

Heyes predicts a "steady increase" in contactless card issuance and terminal deployments for the next six months followed by a "significant increase" in mid-2010, including notable activity with regard to acceptance. She would not disclose more details.

Reliable data about the number of contactless payment cards circulating across Europe are more difficult to come by, partly because the main smart card vendors tend to guard the numbers and because most estimates tend to include pure transit cards in their mix. Estimates from UK-based research firm Euromonitor International indicate that banks and transit agencies in the UK, France and Turkey-the most active European markets for contactless-had issued more than 13 million contactless banking and transit cards, up 62.5% from 8 million in 2007.

So far, the contactless card push in Europe has involved at least two general strategies, says Cyril Villemin, director of product and marketing, banking and transport at Gemalto NV, a France-based smart card vendor. The first involves cobranding, such as the OnePulse card from UK-based Barclays PLC that enables travel on London mass transit, or the contactless cards Turkish banks issue that also carry the logos of retailers and their loyalty programs.

Another strategy is a national rollout of contactless cards, which Villemin says only one European financial institution so far has done. Barclays expects to issue at least 3 million contactless debit cards by 2010.

The group's credit card-issuing arm, Barclaycard, is issuing contactless cards to former Goldfish customers. Barclays acquired Goldfish from Discover Financial Services in 2008. Barclaycard has some 11.9 million UK customers and has issued at least 1.5 million contactless credit cards.

Barclaycard has engaged in a "quite massive" marketing campaign designed to promote contactless payments, Villemin points out. The campaign involves national television advertising and an Apple iPhone application that uses a waterslide concept to demonstrate contactless payment. Consumers can "steer a character down an increasingly difficult waterslide in the quickest time whilst collecting points and avoiding objects along the way," Barclaycard says. The issuer also this year signed sponsorship agreements with the UK music industry and United States-based concert promoter Live Nation that promote the payment technology to young consumers.

Meanwhile, the major card networks are paying close attention to large UK merchants that do not accept contactless payment. MasterCard Worldwide, for example, has set its focus on such merchants as fast-food chains and pharmacies, says Catherine Murchie, the card network's head of PayPass product management for Europe.

"We are focusing on bringing in Tier 1 merchants" such as McDonald's, bookseller Borders Group and The Boots Co. Boots, a pharmacy chain, in May said it would test contactless-payment acceptance in 15 London stores and six in Liverpool.

Most of the contactless effort in the UK so far has focused on transit and small-value retail purchases around transit stations in the London area, such as "sandwich-bar type locations," Murchie says. This differs from efforts in Canada and the United States, where larger retailers were involved from the start, she says.

"One of the things we realized from the experience we saw in Canada and the U.S. [was that] larger merchants really helped generate an awareness" about contactless payments," she adds.

Besides targeting larger merchants, the UK contactless push offers more encouraging signs for backers of the technology, says Dave Birch, a director at United Kingdom-based consultancy Consult Hyperion. The Barclaycard marketing campaign "seems to be going very well. It's very clever, very targeted," he says.

Not only are more merchants accepting contactless payment-including a coffee shop that Birch visits-but retailers are learning to place contactless terminals at front-of-counter locations convenient for hurried customers, Birch says. In fact, "terminals are going into places like my dry cleaners," he says.

'Easy Wins'

Birch is unsure, however, whether the dry cleaner's strategy is a wise one because it does not accept cards for transactions of less than 10 pounds (US\$16.40 or 11 euros), and issuers and card networks market contactless cards mainly for transactions less than that amount. He also wonders why more vending machines in the UK do not yet accept contactless cards.

"You would think they would be easy wins" for the technology, but I'm not seeing it," Birch says. "If it were me, I would really want to focus on the unattended space," which includes parking lots.

Birch also says midsize issuers in the UK have yet to commit to contactless cards in any significant way. "They will do it as part of their natural [card-replacement] cycles," he says.

For her part, Murchie says "we have quite a few [smaller] MasterCard issuers already in the market," noting many are "in the pipeline coming out."

In France, contactless is emerging differently, with large merchants already attached to fledgling projects. The financial-services arm of France-based Carrefour Group, one of

the world's largest retailers, is deploying up to 4,600 contactless-payment terminals in its stores. The group also issues 2.5 million PayPass cards.

Consumers seem likely to use their cards for higher-value purchases, not just the quick grab-and-go purchases found around transit stations.

France also appears ready to back Near Field Communication. France this summer awarded grants worth "several million euros" for 13 projects involving contactless technology, including NFC, according to press reports and a government statement.

Christian Estrosi, France's minister of industry and the mayor of Nice, a city set to see "precommercial" launches of NFC in 2010, announced the grants.

"France will eventually focus on NFC," Villemin says. "France initially was thinking about going to NFC directly, [but] we need contactless payment cards to create acceptance."

Though proponents of contactless payment generally have focused on "speed and convenience," the technology holds more appeal than simply getting customers quickly through checkout, MasterCard's Murchie says. Some retailers, including large grocery stores, "take a broader view [about] innovation," touting the enjoyable experience consumers get paying with contactless cards, she says.

Carrefour's arm in Turkey also is involved in contactless payment, which consumers can initiate in about 170 Turkish retail locations. The effort, which includes Turkey's Akbank, enables consumers to accumulate loyalty points on the Axess scheme, which has at least 160,000 merchant participants, and the Carrefour Plus proprietary loyalty program.

European Expansion

Turkish banks and merchants also have launched contactless cards for toll payments and even contactless watches for retail purchases as financial institutions compete for increasingly affluent and technologically adept customers, especially in Ankara and Istanbul, observers say.

The payment card market is dominated by "three or four local issuers and acquirers," says Mohammad Khan, president and founder of U.S.-based contactless reader and technology vendor VivoTech Inc. "They compete like hell on technology."

So far, Turkey's contactless activity resembles the early-stage contactless rollout in Canada, where card networks and issuers have focused on a few major cities instead of wider slices of the market as seen in the United States, Khan says. He expects momentum to continue in Turkey, with merchants and acquirers adding to a contactless terminal base he estimates at more than 10,000 machines.

Two other European countries, Poland and Germany, appear ready to dive into contactless payment, observers say.

Gemalto's Villemin calls Poland the next contactless market, with banks moving directly from magnetic stripe cards to dual-interface EMV cards that have contact and contactless chips and support the global antifraud application for smart cards.

"It's a bit like we see in Canada," he says.

Gemalto has sold high-end EMV smart cards to Poland-based ING Bank Slaski SA, an arm of Netherlands-based ING Group. The cards will carry "dynamic data authentication," a more-expensive security feature for EMV cards than "static data authentication." Other banks in more-advanced contactless markets in Europe, such as the UK, are migrating to dynamic data cards.

Germany also seems likely to move deeper into contactless. Train operators there already have tested mobile contactless payment for fares, and retailers could follow with card acceptance.

But neither retailers nor issuers will have an easy time persuading consumers to use contactless cards. Cash remains king in Germany. A survey released in October by the Deutsche Bundesbank, the country's central bank, found that 58% of 2,000 surveyed consumers use cash for purchases.

That attitude constitutes a "speed bump" for retail purchases with contactless cards in Germany, says Laura Flamm, an industry analyst for Euromonitor. Additionally, in Germany "small, independent merchants are very wary of accepting card payments," and that could delay expanding acceptance from transit to retail, she says.

Whether contactless cards eventually lead to mobile payments backed by NFC phones remains to be seen.

"In general, the cards will be a step change," says the UK Cards Association's Heyes, noting mobile payments typically involve more "stakeholders"-banks, merchants, transit agencies, mobile operators-than do most contactless card launches. And more stakeholders means more conflicts over revenue and responsibilities.

For now, most eyes remain on Liverpool and France, evaluating how consumers react to the latest wave of European contactless payments. The focus also is on trying to determine how those reactions could guide efforts to grow acceptance of open-loop cards and the adoption of mobile payments.