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Is Apple Pay the New Game Changer in Payments?

Apple recently announced its entry into the mobile payments space with Apple Pay, a mobile wallet and online payment application. Apple Pay will only work on the new iPhone 6 or iPhone 6 Plus, which are both NFC enabled. It is a big step by Apple to adopt NFC mobile technology. This could very well change the mobile payments landscape.

How will it work? Consumers will load their cards into the phone by taking a picture of the card (if the card is from a participating bank) or keying the information in, as they currently do with Passbook and their iTunes account (now 800 million strong).

Card information isn't actually stored on the phone; it is tokenized and stored in the phone secure element, never exposing it to the cloud. Apple is actually using the card networks tokenization standard. This, coupled with fingerprint ID, will make Apple Pay a rather secure payment. Payment is made by swiping the phone near an NFC enabled payment terminal and holding your thumb on TouchID. In the tokenization process, a series of characters replaces the cardholder's primary account number, meaning the actual cardholder number is never exposed to a merchant's network. This makes data breaches less damaging, since tokens can't be used to create counterfeit cards. The card brands will be providing the tokenization services and will pass the issued tokens along to processors.

Apple is also headed online and will compete with PayPal, Visa Checkout and MasterCard PayPass. With its API, this will allow developers of software to embed their payment application directly into their software applications. This could result in rapid distribution and scale for Apple Pay.

Some think Apple Pay may forever change the landscape of mobile payments, but, hold on a minute, it actually may not. For years, companies have been trying to figure out the best mobile wallet, the best mobile application and the best mobile payment technology. Yet, the mobile payments landscape is littered with failures.

Apple has shown the ability to create and change consumer behavior. Yet, there are many distinct challenges with Apple Pay. The old chicken and egg theory for a mobile payment system continues: what comes first, consumer or merchant adoption? Also, Apple is committing to NFC, a technology which has secured very little traction so far. *Can Apple change that?*

Apple states that 220,000 merchant locations currently have NFC capability, yet there are over 8 million merchant locations in the USA. That is a very small fraction. Walmart and BestBuy have already said NO to Apple Pay, as they are committed to MCX, which will debut next year. MCX is device neutral and not committed to any single phone manufacturer.

Will BOTH consumers and merchants buy into the need for Apple Pay or for any new mobile wallet? For years, the problem with mobile payments has been this: does the consumer demand it, need it or want it? Merely making it easier and more standard to make a payment does not guarantee that it will be adopted. Swiping a card remains a rather fast and safe action for consumers.

Rest assured, Apple did not create Apple Pay just to make people buy their phones. Reports indicate that Apple may get a transaction or security fee from issuers on every single Apple Pay transaction. In addition, Apple has supposedly secured interchange revenue sharing of between 15 and 20 basis points. What does this mean? Interchange rates will increase in other areas. This is how the system works. When asked by fees and costs, Apple merely stated this: *“Apple does not charge users, merchants or developers to use Apple Pay for payments. Your credit and debit transactions will continue to be handled by the payment networks.”*

For the card issuing banks and the card networks, Apple Pay looks like it will threaten some of their revenue streams. However, the networks and card issuing worked together with Apple for over one year to launch Apple Pay. Apple showed respect to the legacy payment systems in launching this new application while so many other mobile payment start-ups did not.

In the end, while Apple Pay may change how mobile payments work, it did not change this most critical and key aspect of the payments eco-system: Apple did not create a new payment system. *Apple worked directly with the card networks, card brands and the card issuers to develop a method of payment that will use the legacy payment rails, big banks and the legacy payment systems. Some things in payments remain the same.*