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Apple has credit cards in its sights

Banks to pay Apple fees for processing transactions

Video

Images

Self-described 'Apple fanboy' Stephen Fry shares his thoughts on the company's new payment system and smartwatch at its product launch event on Tuesday, September 9th in Cupertino, California. Video: Davin O'Dwyer

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Apple has taken aim at the credit card's five decades-old magnetic strip, promising to overhaul an "antiquated" US payments system by letting customers pay for transactions with their iPhones.

"Payments is a huge business," Tim Cook, chief executive, told an Apple product launch event on Tuesday. "We've created an entirely new payment process."

The California-based company has previously upended industries from music to mobile phones and, with other prominent technology companies such as Google and Facebook, is considered a threat by the biggest US banks.

“[THEY] all want to eat our lunch,” Jamie Dimon, chief executive of JPMorgan Chase, said in February. “I mean every single one of them, and they’re going to try.”

Despite that wariness, Apple’s clout was enough for banks and payments companies to send senior executives to Silicon Valley for the unveiling of a product that will launch in October.

Gordon Smith, JPMorgan’s consumer head, was in attendance, and there was none of the previous wariness from his boss. “Everyone wins,” said Mr Dimon in one of a series of glowing statements from bank CEOs.

Although no details were forthcoming, banks said they were having to give up some of their fees for processing transactions to Apple.

The biggest US banks including Citigroup, Bank of America, Wells Fargo, Capital One, JPMorgan Chase and Barclays as well as credit card companies MasterCard, Visa and American Express are part of the Apple Pay service, representing 83 per cent of total US payment volume.

“We’ve tested lots of different wallet solutions and investigated many many others, this really was the best one that focused on the customer,” said Jim Smith, head of virtual channels at Wells Fargo.

For all the hoopla, analysts noted that the near field communication (NFC) technology was already in use by companies such as Google and had failed to take off in the US, though it is more popular in some Asian and European countries.

It was also unclear whether Apple Pay would be widely adopted by retailers, some of the biggest of which are developing their own mobile payment technology.

“NFC payments are failing here in the US,” said Tom Noyes, managing partner of Starpoint LLC, a mobile payments company, and former Citigroup executive. “What we saw in Citi in every country we launched this, for the first few months every consumer wanted to test it out but after that they forget about it and it does nothing differently to your card.”

Although Apple announced some retail partners – including Macy’s and McDonald’s – some of the country’s biggest were absent. Mr Noyes said retailers were reluctant to sign up, partly because Apple Pay might trigger more use of credit cards, which impose more cost on merchants.

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“What Apple has announced is essentially an acceleration in the extinction in the physical card,” said Jason Oxman, chief executive of the Electronic Transactions Association, an industry group.

He added: “Cynicism is well placed in that Apple did not announce anything new, but what they announced is that Apple is doing something - they didn’t invent the smartphone, they didn’t invent the tablet, they just designed it and deployed it better than anyone else,” he said.

The new system is available on the iPhone 6 and 6 Plus and Apple Watch. The customer takes a photo of their card on their phone and then verifies the card with the bank. They can then hold their device near to a contactless reader and verify payments with their finger using Apple’s Touch ID system.

Data security was high on the agenda, with Eddy Cue, Apple’s head of software and services, telling the audience Apple would not store credit card numbers or give them to merchants.

The US has the world’s biggest fraud problem, with losses up 14.5 per cent to \$5.3bn in 2012, according to The Nilson Report. Retailers

and banks, which have suffered from high-profile bulk hacking of credit card information, are attracted to the fact that Apple Pay does not transmit the credit card number.

“That card information will be replaced with a single-use token,” said Eileen Serra, head of card services at JPMorgan.

Ms Serra suggested that the biggest advantage of Apple Pay might not be in stores but for online shopping, where the need to type in credit card information and shipping addresses is an annoyance for consumers. “While online commerce is growing, that’s where the friction is most severe,” she said.

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