

Apple Pay UK Launch Set To Kick-Start Wallet Wars

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Apple's mobile payment service has gone live in the UK today as card services and traditional banking "cartels" face their biggest and most immediate threat to date.

Critics believe technology companies such as Apple, Google and Facebook trying to muscle into the financial sector do not have the levels of consumer trust built up by banks over the years.

However, sensing the threat to their own digital systems, all major banks, with the temporary exception of HSBC and Barclays, are on board with Apple Pay.

More than 250,000 UK locations are supporting the system.

A spokesperson for Barclays confirmed to PaymentsCompliance today its cards will work with the system "in future", but did not supply a timeframe.



"It's [Apple Pay] pretty slick, can be used in many places, carries some kudos for early adopters and is integrated into other things like fitness tracking, phone and messaging," said Tony Craddock of the Emerging Payments Association.

Financial services expert Paul Ellison, partner at Macfarlanes LLP, said: "The take up by a number of the UK's banks indicates their enthusiasm to facilitate mobile payments and compete in a fast moving digital environment.

"With the surge in popularity of mobile banking and UK regulators encouraging faster and more efficient account switching, banks are likely alert to the risk of customers being lured by technology led convenience."

Mark Barnett, president of MasterCard UK and Ireland, the card system which allows immediate access, said today the industry would see “more change in the next five years than we’ve seen in the last 50”, as the UK pushes to become the most advanced market in the world.

However, some acknowledge the rise of digital wallets presents a growing threat to traditional services.

Tony Craddock, director general at the Emerging Payments Association, told PaymentsCompliance that mobile payments are already causing great disruption among the banking sector.

“The banks operate a cartel in payments,” he said.

“And mobile payments will help to break it.”

A **recent report** by the British Bankers Association warned that banks must pay more attention to modern digital services to avoid being left in the past as consumers look for convenience.

The current payments landscape in the UK presents an almost ideal breeding ground for mobile fintech, as the necessary infrastructure is largely in place after the growth of debit and credit contactless payment systems.

The launch marks Apple Pay’s first foray into foreign waters, having slowly gained traction in the US **despite a rocky start** last year.

Whether UK consumers take a similar path remains to be seen, however, as doubts over the security of the technology lingers.

According to data from Forrester, only 27 percent of UK online consumers who own an iPhone would trust Apple to provide a mobile digital wallet as they are still more likely to trust PayPal (43 percent), a bank (41 percent), a credit card network (40 per cent) and Amazon (32 percent).

Apple Pay uses a tokenisation security system which matches account numbers with a “transaction-specific dynamic security code”.

Thomas Husson, B2C market professional at Forrester, argued that the app’s limited functions “do not offer enough” as “consumers want a better shopping experience, not better payment systems”.

He said that market value payments, such as offering loyalty rewards and payments to compliment merchants’ own integrated apps will be the true winner of mobile wallets - a move recently adopted by Chinese mobile payment giant Alipay, in an effort to further broaden its mobile commerce platform.

However, Craddock argued that Apple Pay offers “enough additional value” to make them change.

“It’s pretty slick, can be used in many places, carries some kudos for early adopters and is integrated into other things like fitness tracking, phone and messaging,” Craddock said.

As users set up mobile wallets with existing credit or debit cards from pre-regulated financial institutions, there has been little need for government interference in the rollout.

Apple Pay transactions will fall under the £20 cap restriction on contactless payments, but is expected to follow suit in September when the UK moves to a £30 limit.

Ellison said that it is hoped the cap change “will bring more retailers’ average shop or individual items into range for contactless cards and should drive higher acceptance rates”.

He added that changes originating from the EU, particularly the revised **Payment Services Directive** (PSD2) and the regulation on multilateral interchange fees (MIFs) (the MIF Regulation) could also improve the usage rate of mobile payments.

The initiatives plan to cap interchange fees for transactions based on consumer debit and credit cards from December 9 and ban surcharges on these types of card once the PSD2 is implemented in 2017.

Apple Pay faced trouble in the US as merchants complained the transaction fee it took was too high.

“Among other things, it is hoped that these developments will improve consumers’ payment options and improve competition as well as lead to fairer pricing by retailers,” Ellison said.

“Ultimately, the regulators are also alert to the need to facilitate the provision of digital services and in the UK, any innovative ideas may be discussed with the UK Financial Conduct Authority through its dedicated ‘innovation hub’.”

Geography:

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NEWS & ANALYSIS