

## **Review of the contactless and prepaid card markets**

Summary of findings and actions

May 2010

# Introduction

In the National Payments Plan (NPP) published in May 2008, the Payments Council stated that it would 'actively monitor' the development of the contactless and prepaid card markets including a specific commitment to report on the markets in 2009. To meet this commitment a review of the contactless and (open-loop<sup>1</sup>) prepaid markets was initiated in October 2009. A total of 18 organisations submitted evidence, including financial institutions, a card scheme, an industry association, retailers, transport operators, consumer organisations and the mobile network operators (See Annex A).


The responses set out a wide range of views on the markets' development and where it was considered action was required. Although the initial aim of the review was to fulfil the commitment to 'actively monitor' the markets, nearly two years on from the publication of the NPP the issues raised are set in a different strategic context following the decision the Payments Council made in December 2009 to set a target date of 31st October 2018 for the closure of the cheque clearings in the UK. Contactless and prepaid cards have significant potential as innovations, and prepaid cards in particular are seen as an important alternative to cheques. The Payments Council, therefore, has a strong interest in ensuring that the markets develop well.

A high level analysis of the responses has drawn out the key issues and areas where the Payments Council was asked to consider future action. A summary of the issues raised is set out below, reporting the views of the respondents to the review.

The findings of the review were discussed by the Payments Council Board on 10th March 2010 where it was agreed that the Payments Council should play a more active role than the current watching brief. It was specifically agreed that:

1. The markets will be reviewed again by the end of 2011 to consider changes since this review. This review should specifically look at standards and interoperability issues and consider whether the current work underway has been successful;
2. The card schemes/relevant associations are invited to talk to the Payments Council User Forums about the issues raised;
3. The need for generic consumer information about contactless and prepaid cards is met as part of the existing education strategy and cheque migration education work (including any specific issues raised following the above action);
4. The Payments Council meet with the UK Mobile Contactless Forum to explore further how they would like to engage with us; and
5. Where appropriate, the Payments Council will seek to work with the international card schemes and The UK Cards Association.

<sup>1</sup> One basic distinction in the pre-paid card market is between those cards which are 'closed-loop' and those which are 'open-loop'. Open-loop cards can be used as general purpose payment cards and to acquire cash from cash machines; and are typically issued by financial institutions belonging to one of the international card schemes. 'Closed-loop' cards are used to make purchases from a single or limited number of merchants (such as a retail-chain).



The Board emphasised the potential for innovations in contactless and prepaid cards to support the cheque replacement programme and felt that the Payments Council should play a more active role to encourage development. As part of the Payments Council's objective in promoting innovation they saw merit in working alongside the card schemes to share our thinking on potential gaps where the development of contactless and/or prepaid cards may help in providing cheque alternatives.

Through these actions the Payments Council will play a proactive and supportive role in an arena where there is a great deal of ongoing activity and which is changing rapidly. They will be taken forward by the Payments Council in 2010.

# Contactless Cards: Summary of Responses Received

The key issues raised in the responses on contactless cards concerned whether there are impediments to the rollout of contactless cards, issues concerning standards and interoperability, and the role that the Payments Council can play in the market. Views on each of these issues varied depending on the perspective of the respondent.

## 1.1 Impediments to the rollout of contactless cards



Financial institutions (FIs) generally considered it likely that the market will respond to the efforts of the industry this year to promote contactless technology and that a rapid rise in terminal numbers and card issuance will be seen. Several respondents in this category said that they felt there were no impediments to the rollout of contactless cards, with the exception of retailer acceptance; although one FI also felt that some issuers might be reluctant to produce more costly cards with contactless functionality. Others suggested that there are standards and interoperability issues to resolve (see section 1.2).

Retailers and transport providers appeared keen to realise the benefits of contactless payments. However, retailers in particular expressed a number of concerns that they felt were making it difficult to establish a clear-cut business case and were holding back development of the market. These included:

- A lack of cooperation between Visa and MasterCard, particularly around interoperability;
- The capital investment required for technology; and
- The future of contactless prepaid cards, and whether these will require online authorisation.

However, they saw the main impediment as the rate of interchange, which they viewed as excessive.

Retailer concerns were recognised in The UK Cards Association response which described how they have been working to address these needs, via initiatives such as the Retailer Community Contactless Liaison Group; generic advice about business cases; and engagement with EMVCo and ISO (International Organization for Standardization) on issues of standards and interoperability.



Consumer representative organisations recognise the potential benefits that contactless technology can deliver to consumers. In addition to the barriers set out above, a lack of consumer trust in the system was seen as an impediment to uptake, and one that could only be resolved by ensuring that security standards are high and that contactless products deliver a good level of consumer protection.

Across the responses, there was a general agreement that the current functionality on contactless cards was not an impediment to rollout and that changes were not required. The recent lift of value ceiling to £15 was viewed positively by those aware of it at the time of the review; with others suggesting an increase would be positive. There was some belief that development of different limits for different sectors would open up opportunities; but other respondents stressed the importance of a consistent limit to ensure that the proposition is understood from the consumer perspective.

Consumer organisations (who were not aware of the increased value limit) had concerns about increasing the value limit above £10, requesting that security and consumer protection is proven before the value ceiling is raised.

Transport service providers would like to see better functionality for faster authorisation at transport gates and development to allow merchant data to be written back into the application during a transaction. This would allow inspection of passenger tickets mid journey and initiatives are currently underway to develop this functionality.

## 1.2 Standards and interoperability

A number of specific standards and interoperability issues were raised by some respondents. It was felt that if these issues could be resolved, the deployment of cards and terminals would be more compelling for FIs and contactless would be a more appealing proposition for consumers and retailers. Issues included:

- Different standards and limits at a UK, European and worldwide level;
- Difficulties in interoperability in mass transit;
- Differences between MasterCard and Visa which mean it is difficult for a retailer to develop an integrated solution into an existing Point of Sale (POS) device; and
- The need for development of standards for mobile contactless payments.

Some respondents felt that there was a role for the Payments Council in the development of standards, as set out in section 1.3.



## 1.3 The role of the Payments Council in the contactless market

FIs typically felt that the rollout of contactless cards was best left to the market and that there was a limited role for the Payments Council. However, some FIs commented on the similarity of contactless rollout to chip and PIN development, with the ‘chicken and egg’ scenario of terminal and card issuance. This prompted suggestions that the industry could step in to encourage issuers and broker support with merchant acquirers.

Respondents typically said that there would be little value in the Payments Council becoming involved in standards and interoperability issues; because they felt that other forums such as the EMVCo, BSI (British Standards Institution) and ISO were already dealing with these issues.

An industry effort to ensure that there are adequate mechanisms in place to manage fraud and security risks in contactless cards was suggested by one FI. It was felt that the Payments Council could manage this, either through the new Strategic Fraud and Security Group and/or via liaison with the card schemes to consider whether there is a case for any more detailed fraud group to be involved in the setting of security standards across schemes or if appropriate mechanisms already exist.

The response from UK Mobile Contactless Forum focussed on enabling provision of contactless functionality on mobile phone handsets. This Forum felt that the Payments Council has a key role defining standards for mobile contactless payments and would like to have formal engagement to work towards standards for putting on contactless functionality on mobile handsets. The UK Cards Association also recognised that the mobile handset has the potential to be used as an alternative form factor for a card payment and that there may be a role for the Payments Council here, on non-card payments on a mobile.

One transport service provider said that the Payments Council should work to ease convergence of transit fare models.

# Prepaid Cards: Summary of Responses Received

The benefits of prepaid products to users and consumer protection issues for consumers were the primary focus of the review responses. However, retailer acceptance and impediments to the market's development were also raised. There was a great deal of comment on the need for consumer information on prepaid cards, which is covered in section 3.

## 2.1 Consumer benefits and protection



The potential benefits of prepaid cards to a range of different types of consumers were highlighted, including:

- Ease of use and convenience;
- No credit check requirement to obtain a prepaid card: opportunity for otherwise financially excluded;
- Potential to support careful budgeting by not being linked to an individual's current account and lack of an overdraft/credit facility; and
- Ability to access the choice and discounts available via debit/credit cards (e.g. over the internet).

Some older people are already starting to use this technology to pay for care and consumer organisations talked about the potential for prepaid products to meet the needs of other types of users. For example, a prepaid card could be developed for people who are housebound or have poor mobility, designed so that it can be loaded by phone and shared with a carer to create an attractive alternative to cash collection and controlled risk of abuse. Likewise, it was suggested that an ability to ring fence a card for internet use might encourage uptake of internet shopping by otherwise cautious payers.

Despite the clear steer towards the potential benefits of prepaid cards, strong concerns were also expressed under the heading of 'consumer protection', including:

- A lack of transparency in fee and charging structures on some prepaid products;
- A lack of transparency to consumers regarding how the money on the card is protected if the card is lost or stolen, or if the provider goes into administration;
- Access to 'trapped balances';

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- Access to balance information and transaction history;
  - Information stored on the card and data protection; and
  - Potential for fraud on cards without Chip and PIN functionality.

These concerns were set against the fact that some prepaid products are targeted at particular types of consumers, including those who may be considered vulnerable, for whom consumer protection may be particularly important.

However, it was noted that the Payment Services Directive (PSD) and the revisions to the E-Money Directive (EMD) should ensure that any issues related to consumer protection are covered. Nonetheless, some FIs said that the prepaid card position with these regulations was still confusing and that a summary would be helpful.

A concern was also voiced that prepaid cards may be seen as a substitute for bank accounts by some banks, in order to remove their least profitable customers from their account holding base. However, a number of FIs responding to the review made the specific comment that prepaid cards should not be seen as an alternative to bank accounts.



## 2.2 Retailer issues

A range of difficulties with prepaid cards were highlighted by card acceptors including a lack of consistency and retailer/customer experience with the point-of-sale process depending on the card (e.g. PIN requirement, the ability for balance enquiry, online authorisation) and the information the retailer sees on screen and the customer is given on their receipt. Where online authorisation was not possible, retailers and transport providers said they could not accept prepaid cards. It was requested that a consistent approach to use and the ability for a balance enquiry to be done at POS (without the need for a bogus transaction) would help retailers and make the payment process faster for consumers.

It was also suggested that retailers should be encouraged to allow customers with a low balance to part-pay for an item with a prepaid card, and complete the transaction with a different payment methods.

## 2.3 Impediments to the development of the prepaid market

The UK Cards Association response recognised that the market is experiencing a slower than expected uptake but felt that there were not any specific impediments



to development. UK Cards regard prepaid cards as a permanent feature in the cards market going forward, both on a UK and global level. They said that it is their intention to 'revisit the status of prepaid cards and their fit with [The UK Cards Association's] activities' at an industry level.

FIs said that the prepaid market is still in early development and felt unsure that it had a mass market future. Prepaid cards have been seen as a niche product - meeting the needs of specific groups of users - which has reportedly made it difficult to identify the critical mass or customer demand to deliver a clear business case.

The attraction of prepaid cards for fraudulent use was also regarded as an impediment to both card issuance and retailer acceptance. A range of fraudulent practices were reported and it was suggested that an industry group (either Payments Council or an other industry body active in this area) should do further work to address these problems.

# Cross-cutting Issues

In addition to the issues raised above, a number of topics were raised that cut across both the contactless and prepaid card markets.

## 3.1 Accessibility

As the technology for both prepaid and contactless cards is developed, consumer organisations requested that accessibility issues are considered, particularly in terms of accessibility for people with disabilities. For example, this included ensuring that functionality is easily recognisable and works via a standardised system which maximises access and usability. This would exploit the benefits of the products to as wide range of consumers as possible. Consumer organisations are keen to engage with the cards industry on these issues.


## 3.2 Generic information on contactless and prepaid cards

Across both markets, the need for consumer education and tailored information emerged as a strong theme. Although not all respondents felt that the Payments Council should consider provision of generic advice to consumers on contactless and prepaid cards, it was generally accepted that there was a lack of information widely available to consumers and that simple information provision would help move the markets forward.

Consumer representative organisations strongly emphasised the need for clear information on both contactless and prepaid cards, stating that there are gaps in information available, particularly around the consumer protection issues raised above. Some consumer organisations have already initiated consumer information on prepaid cards in response to consumer concerns about security and protection.

Relevant points for consumer information included:

- What contactless/prepaid cards are;
- How to recognise a contactless/ prepaid card;
- Where to use it;
- Consumer protection if a card is on lost or stolen;
- Value ceilings (contactless);
- PIN verification (contactless).



Information on charging was considered particularly important to convey. On prepaid cards, The UK Cards Association has led an industry initiative to introduce Best Practice Guidelines and a Summary box, something welcomed by those who were aware of it.

The UK Cards Association response set out the work they have initiated on contactless cards. Following advice from Saatchi and Saatchi, they have decided that until cards have been issued more widely, a full scale information campaign would be confusing for consumers (a view echoed in other responses). However, a website has been developed by UK Cards in conjunction with Visa and MasterCard for retail customers. Any Payments Council generic information on contactless cards would need to be aligned with the work of The UK Cards Association.

Information for retailers was also an area where respondents to the review thought the Payments Council could add value, particularly in relation to prepaid cards.

As noted in section 2.1, some issuers said that they found the regulation around consumer protection difficult to interpret and would value specific industry guidance on this including the PSD, the EMD and any relevant data protection regulation.

# Annex A – Respondents to the Review

## Associations

- The UK Cards Association
- UK Mobile Contactless Forum

## Consumer representative organisations

- Age UK
- The Consumer Council
- Consumer Focus Wales
- RNIB (Royal National Institute for the Blind)
- Which?

## Financial Institutions/Schemes

- AMEX
- Barclays
- HSBC
- RBSG
- MBNA Bank of America
- Visa Europe

## Government

- HM Revenue & Customs

## Retailers

- Boots
- WH Smith

## Transport Providers

- ATOC (Association of Train Operating Companies)
- TfL (Transport for London)

NOTE: Not all respondents listed responded to both the contactless and prepaid elements of the review.

# Contact

Payments Council  
Mercury House  
Triton Court  
14 Finsbury Square  
London  
EC2A 1LQ

Tel: 020 7711 6200

Email: [press@ukpayments.org.uk](mailto:press@ukpayments.org.uk)

[www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk)

From July 2010 our new  
address and telephone  
number will be:

Payments Council  
2 Thomas More Square  
London  
E1W 1WN

Tel: 020 3217 8200