Fitch: iPhone Takes a Bite of the Mobile Card Payment Apple
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Tuesday's unveiling of Apple Pay is widely expected to further bolster growth of the evolving mobile payments landscape. Apple may be better positioned to succeed where other institutions have had limited success given the company's financial resources and history of strong new product adoption, according to Fitch Ratings.

We believe that the impact of any success on the payments industry remains uncertain and will depend on a number of factors including customer acceptance, merchant conversion and continued support from the payment networks (e.g. Visa, MasterCard, American Express) and banks. Thus far, 11 banks, representing 83% of the credit card purchase volume in the US, have or are expected to agree to support Apple Pay.

Over the short term, card issuers could benefit from higher transaction volumes and enhanced security, but a key unknown lies within the undisclosed contracts and how much of the card economics and control of transaction data will be ceded to Apple.

Fitch does not view the unveiling of Apple Pay as a watershed moment for the nascent mobile payments industry, but we recognize its potential to disrupt the payments landscape longer term.

We see Apple's present strategy with Apple Pay as enhancing the brand by contributing to the company's services while boosting the attractiveness of its suite of products that consumers are increasingly integrating into their lives. As mobile payments continue to grow and Apple is able to drive substantial consumer adoption of Apple Pay, Fitch believes Apple could re-evaluate its strategy and attempt to renegotiate its contracts and erode the card companies' incremental volume gains. Other technology firms behind mobile payment methods could ultimately do so as well.

In the US, Apple's timing appears ideal given that the payments industry is transitioning to Europay, MasterCard and Visa (EMV) technology in 2015. As part of this transition, merchants will be upgrading their point-of-sale terminals and, depending on the early results of Apply Pay, could decide to include the ability to accept near field communication (NFC) technology in their upgrades. Fitch believes this could significantly bolster consumer acceptance and growth in mobile payments, while serving to reduce data breaches and fraud more prevalent with the existing card payment framework.

The NFC technology on the iPhone is not a new development and has been made available previously on other types of mobile phones and cards, yet has failed to become widely used by consumers. The security features of touch pay, including no visible card numbers, dynamic transaction identifiers and finger print identification at the point of sale are advances beyond traditional card payment means.

Apple's capacity to educate consumers on how security is improved could lead to greater acceptance and higher usage of mobile payment technology. Wider use of phone payments could trim back card fraud over the longer term, which alone may be a rationale for banks and card firms to be amenable to the Apple Pay service.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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