

RFID Payment Fobs Fail to Woo Consumers

AmEx has pulled its RFID-based key fobs off the shelf, but pundits say NFC-enabled phones hold better promise and RFID-based card usage should continue to grow.

By Mary Catherine O'Connor

April 4, 2008—Convenience, American Express has discovered, is in the eye of the beholder. The company announced this week that it is no longer offering its RFID-based ExpressPay payment product in a key fob form factor.

Because they can be carried on a keychain, ExpressPay fobs have been marketed as an ultra-convenient alternative to the traditional credit card. But demand for the fobs—which cardholders were not automatically issued but had to request from American Express—was too low to support fob production, says American Express spokesperson Molly Faust.

Is this a sign consumer interest in RFID-based, or contactless, payment products is waning, overall? Analysts who cover the industry say no. "Fobs have a novelty value, and are convenient, but we're not seeing a strong market for fobs [over traditional card form factors]," says Jonathan Collins, principal analyst with ABI Research's RFID and Contactless Group.

Because it is both an issuer of credit cards and, like MasterCard and Visa, a credit card processor and solutions provider, American Express is unique in the payments industry; MasterCard and Visa have introduced contactless payment products, but the form factor of such products is determined by the banks that issue them.

Bank of America and Citibank have offered contactless Visa and MasterCard products in a fob form factor, but, says Collins, "mainly in trials or limited regional rollouts." Some consumers may be less comfortable with key fobs than with traditional cards, he adds, since the former do not have the cardholder's name and account information printed on them, but the low take-up rate for fobs—which is not unique to ExpressPay fobs, but is also seen among other card brands such as MasterCard PayPass—should not be viewed as a barometer for RFID payments overall.

According to ABI Research, the worldwide market for contactless technology in transportation ticketing (fare cards for subway and bus systems) and contactless payments grew more than 15 percent in 2007, as the technology made greater inroads into consumers' lives worldwide. In terms of the value of the hardware, software and services in deploying and operating contactless payments, Collins says, the market now stands at more than \$200 million, but is expected to reach more than \$820 million by 2013.

What seems likely to boost the popularity of contactless payments, Collins says, is the emergence of mobile phones equipped with RFID modules compliant with the Near Field Communication (NFC) specification. Such phones are designed for use as a payment device at retailers that have deployed RFID-enabled payment terminals. "There's a lot of interest in NFC among card-issuing banks," he says, "and they may see [contactless] cards as an interim step to NFC phones, because NFC phones will bring additional benefits [to

banks]."

These benefits will include a greater penetration into what have traditionally been cash-based transactions, as well as faster provisioning of new accounts. "When someone applies for a credit card today," Collins explains, "there are a number of days during which the order is processed, the card is manufactured, and then sent to the cardholder via mail. With NFC phones, setting up an account will be almost instantaneous." This, he notes, will entail using the phone to communicate with the bank, as well as conducting an over-the-air initialization to save account data to the phone's NFC software.

Bruce Cundiff, research director for Javelin Strategy & Research, which advises financial institutions on e-commerce, agrees that NFC represents the area with the greatest traction for RFID-based payments. "The only contactless-only device that really resonates with consumers, to date, is having the [payment] capability embedded in a mobile handset," Cundiff states.

According to Faust, AmEx is very focused on NFC-based payments and is involved in technology trials based on the technology. But with Nokia the only handset maker offering an NFC-enabled phone in the U.S. market, adoption in this country is likely to be slow. In many parts of Asia, making payments with mobile phones is commonplace.

A newly published report by Aite Group, a research and advisory firm focused on financial services, finds that there is still plenty of room for growth in the contactless industry in the United States, where JPMorgan Chase has issued the vast majority of cards—nearly 9 million. The second largest issuer, the report indicates, is Citibank, which has put less than a third as many contactless cards in consumers' hands.

Nineteen million contactless payment cards are currently in circulation in the United States, according to the report, which did not track the issuance of payment fobs, because the number is small, relative to the number of cards. What's more, cardholders are issued a fob in addition to a card, so determining the number of cards issued is sufficient for determining the technology's deployment.

RELATED_ARTICLES Nick Holland, a senior analyst with Aite Group, says one recent sign contactless card issuance is still growing is last week's announcement from Washington Mutual, indicating the bank's plans to issue 12 million to 15 million contactless MasterCard PayPass debit or credit cards in 2008. In January, Washington Mutual began issuing PayPass cards nationwide to new customers opening its signature WaMu Free Checking account, as well as to all WaMu small-business customers. In March, the bank began issuing PayPass-enabled MasterCard debit cards to customers whose cards are being renewed.

The size of Washington Mutual's commitment to contactless card issuance, Holland says, has "altered the landscape." He declines, however, to provide a forecast estimating the general growth rate for contactless cards. "There are simply too many factors at work to confidently predict the way that the contactless card will evolve in the U.S."

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