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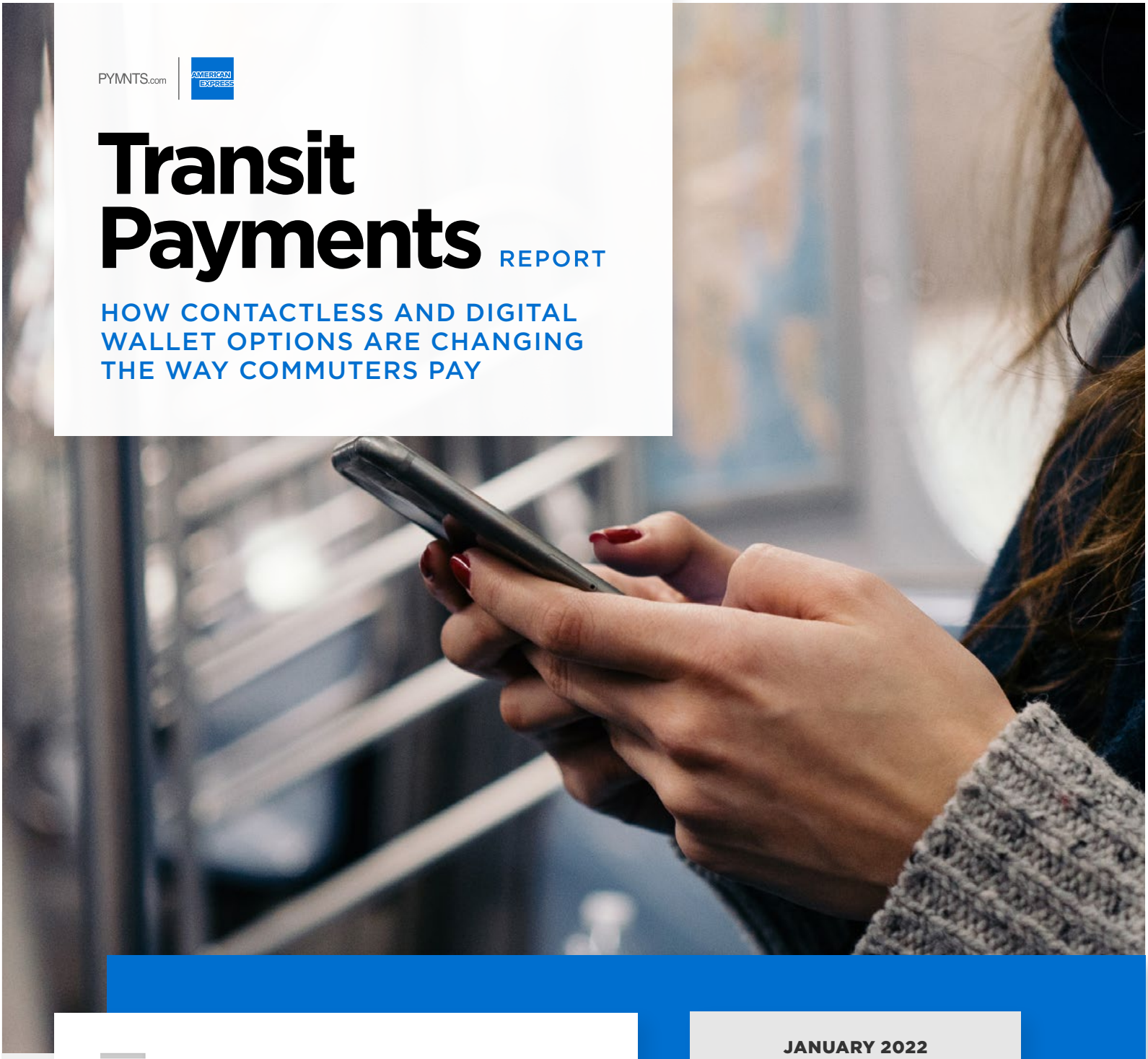
Transit Payments REPORT

HOW CONTACTLESS AND DIGITAL WALLET OPTIONS ARE CHANGING THE WAY COMMUTERS PAY



JANUARY 2022

Transit Payments

REPORT

Acknowledgment

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WHAT'S INSIDE

Contactless payments are on the rise at brick-and-mortar retailers around the globe. Use of the technology jumped 19% within the United States in July, and 59% of global consumers report that they prefer contactless options over cash, magnetic-strip cards and chip- or PIN-enabled cards. Contactless payments demand also is extending beyond retail and entering other facets of consumers' lives.

Now, many consumers increasingly are demanding open-loop payment options for another daily necessity: transit. Often, transit authorities still rely on bespoke legacy systems to process fare payments and distribute ride tickets. These systems can be problematic because they typically are slower and less efficient than modernized ones, and their unique features make them difficult to update. It appears that most transit agencies realize that their systems are overdue for updates,

however: 43% believe it will be challenging to deploy new ticketing technology or solutions, but just 17% anticipate keeping their old systems indefinitely.

Open-loop contactless options in the transit space will provide users with the technology required to incorporate near-field communication (NFC) cards and devices for use at transit access terminals (TATs), and the evidence that riders value these capabilities could not be more clear. Cash accounted for just 21% of all point-of-sale transactions globally in 2020, in fact, representing a 32% decrease from the previous year. Enabling consumers to use their contactless cards and digital solutions without being forced to reach for cash, tickets, tokens or closed-loop payment cards ultimately would cater to trending payment preferences.

AROUND THE CONTACTLESS TRANSIT PAYMENTS SPACE

New York City's Metropolitan Transit Authority (MTA) recently announced a new fare payment initiative to bring riders back to public transportation systems. Starting March 1, 2022, riders will be able to use One Metro New York's (OMNY) tap-and-pay technology to purchase bus or train fares that total no more than $33 per week. Riders must pay $33 upfront each week for unlimited rides under the current policy, but the new policy allows them to pay as they go from Monday through Sunday. MTA commuters who do not use bus or train services 12 or more times in the same week will not be subject to the full fare. If the pilot initiative is successful, it could inspire a slew of innovative fare policies for the MTA.

The MTA is not alone. Almost all transit authorities are working to innovate their fare payment processes to entice commuters back to public transportation services. Mobile ticketing, contactless EMV and fare payments-as-a-service (FPaaS) are frontrunning solutions many are tapping to improve the rider experience. Many agencies also are battling against legacy technologies that have been used for years. These systems typically are slow to deploy and costly to maintain.

Contactless solutions remain popular for retail as well, something many merchants are keeping in mind during the holidays. Holiday shopping may be an annual tradition, but how consumers pay for their purchases has evolved over time. Shoppers' payment preferences have shifted away from antiquated paper methods such as cash and check toward digital-first technologies during the pandemic. A survey found that 78% of U.S. consumers plan to spend at least as much this holiday season compared to last year and that 74% of contactless card users expect to use the technology daily. Digital wallet usage also is up this year, and overall holiday spending is expected to surpass 2020's numbers.

For more on these stories and other contactless payments headlines, read the Report's News and Trends section (p. 12).

HOW CONTACTLESS PAYMENTS ARE INCREASING RIDERSHIP, CUSTOMER SATISFACTION FOR COMMUTERS

Transportation authorities across the country experienced a rapid drop in ridership as stay-at-home advisories were issued and commuters transitioned to remote work. As the pandemic wanes, transit professionals are turning to technology to incentivize travelers to resume their daily commutes. In this month's Feature Story (p. 9), Nicole Fontayne-Bardowell, interim CFO at Dallas Area Rapid Transit, discusses how contactless payments are reducing costs for riders while also addressing health and security concerns.

DEEP DIVE: CONTACTLESS OPEN-LOOP PAYMENTS ARE BECOMING THE NEW NORM FOR TRANSIT PAYMENTS SYSTEMS

Consumers are used to tapping digital payment options for their everyday purchasing needs, and transit payments are no exception. As commuters return to railway stations, airports and bus stops, they now want to purchase their tickets and pay fares in ways that are both safe and more convenient, which often means via contactless card or mobile wallet. This month's Deep Dive (p. 16) examines why bespoke, legacy payment models no longer adequately serve digital-first riders' needs and how public transit officials instead can use open-loop contactless payments to enhance the customer experience.

Industry INSIGHT

What alternative payment methods currently are being offered by modernized transit payments systems? How is this new technology simplifying the process for transit employees and their customers?

"One emerging model is open-loop payments, which allows riders to use a contactless credit/debit card or NFC-enabled mobile device to pay for rides. For riders, it brings many benefits, such as improved speed through turnstiles, simplified/paperless payment and 'touchless' convenience. Open-loop payments [are] beneficial for transit agencies as well, as it allows them to move away from proprietary or bespoke payments systems that are often riddled with high operational costs related to processing paper tickets and cash. Additionally, it improves the scalability of their operations toward creating a more unified ticketing platform for entire regions or states."

ELIZABETH KARL

Vice president and global head, payments consulting

American Express

FIVE FAST FACTS

4.5%

Portion of eligible in-store purchases paid for by consumers using mobile wallets such as Apple Pay

14%

Share of consumers' in-store transactions made via credit card-based NFC options at checkout in 2020

31%

Segment of respondents who cite convenience as one of their top three reasons for using a mobile wallet to pay in-store

34%

Share of shoppers who made in-store purchases using a debit or credit card but did not tap to check out because there was no NFC-compatible solution

8.3%

Portion of consumers' in-store transactions made via debit card-based NFC options at checkout in 2020

FEATURE STORY

Dallas Area Rapid Transit On How Contactless Payments Can Increase Ridership Following The Pandemic

Before the pandemic's onset, contactless payments technology was an add-on feature that some businesses offered their customers. Social distancing and safety precautions accelerated its adoption, and now consumers have come to expect the option every time they make a purchase. Nicole Fontayne-Bardowell, interim CFO at Dallas Area Rapid Transit (DART), told PYMNTS in a recent interview that the public transportation sector has had to innovate particularly heavily to meet this demand. DART, for example, has expanded a microtransit service powered solely through contactless payments in response to the pandemic. Public transit, however, has a mass impact of its own in driving technology forward.

"I think as people are starting to see [the benefits of mobile payments] as we're offering new services, riders are more apt to adopt contactless payments," she said.

Dallas is the latest of five U.S. cities to accept open-loop fare payments, joining the ranks of transportation heavy hitters such as New York's MTA and San Francisco's Metropolitan Transportation Commission (MTC). With nearly 90% of riders now expecting contactless fare options for their travels, adoption of such technology in public transit likely will increase around the U.S.

COMMUTERS CONCERNED WITH DIGITAL SAFETY

Open-loop contactless payments allow riders to use their everyday contactless cards without having to reach for cash, tickets, tokens or closed-loop payment cards. When a new digital tool is introduced, however, consumers often are wary of its ability to protect their personal information. This is especially true among older generations, as less than half of all baby boomers surveyed have used contactless payments

technology. Fontayne-Bardowell believes security is one of the most important features when introducing new transit technology and pushing for its adoption by commuters.

"Working very closely with our IT department to explain the benefits of [using] contactless and credit card payments safely [has been crucial to their adoption]," she said. "I think it was actually a driving force [because] people were concerned that they didn't have that safety net [of using cash]. I don't think [contactless payments] would have had the impact it did [otherwise]."

Contactless is one of the most secure forms of payment available on the market. Recent research has shown that digital payments and ticketing can reduce fraud and secondary sales by heightening customer payment card data protection and dispensing with pre-registration processes. The migration to digital ticketing also provides transportation authorities with informative traveler data, which transit professionals can use to boost the customer experience through better route scheduling and capacity planning protocols. Regardless of its many benefits, transportation firms should still stagger the rollout of any new contactless payments technology to ease customers and employees into modified processes.

"As often as agencies talk about pulling cash from transit systems, that can't be done all at once," Fontayne-Bardowell explained. "You have to help riders along through the adoption process. And I think that's where building up slowly — some would say slowly; I think it's actually very deliberate — riders have really appreciated that."

OPEN-LOOP CONTACTLESS PAYMENTS ENABLE FARE-CAPPING TECHNOLOGY

Numerous approaches exist for increasing ridership and bringing commuters back to public transportation post-pandemic. One such solution is fare capping, a system that limits rider spending to a specific dollar value to prevent overpaying for commuter services. The maximum cost for DART commuters is $6 per day, or just $96 per month, for example.

"What our customers really appreciate is that fare-capping aspect — they don't have to worry about it," Fontayne-Bardowell said. "If they tap every time they get on the ride, the system will automatically know [how often they ride]. The [artificial intelligence] behind it [offers] the ability to know that the system is looking out for them in regard to costs."

Open-loop contactless payments enable riders to pay as they go by using a physical card or mobile wallet to tap in and tap out. Combining this technology with fare-capping protocols improves customer satisfaction rates and lowers the financial burden placed on low-income commuters. Travelers who cannot afford upfront costs for monthly passes now can benefit from the same discounts for unlimited rides without having to pay in advance.

"We built it incrementally," Fontayne-Bardowell explained. "We started with the GoPass app. We then introduced the GoPass Tap Card. And then we stepped up to contactless payments. I can't wait to see what comes next."

NEWS & TRENDS

Open-loop contactless payments in transit

MTA OFFICIALS ROLL OUT WEEKLY FARE CAP POLICY TO INCREASE RIDERSHIP

New York City's subway and bus systems will try out a new fare collection method beginning March 1, 2022. The effort aims to boost ridership and make mass transit options more available to all. Transit officials announced that MTA riders will be able to purchase fares using the new tap-and-pay One Metro New York (OMNY) system with capped costs at $33 per week. Commuters currently must pay $33 upfront for a week's worth of unlimited rides, but the new policy allows them to pay as they go by using the same smartphone or card up to 12 times. Any additional rides will be no extra charge.

The forthcoming policy change is part of a citywide initiative to bring riders back to public transportation after ridership fell dramatically during the pandemic. The effectiveness of the four-month pilot could lead the MTA to implement several additional fare strategies.

SINGAPOREAN PUBLIC TRANSIT RIDERS COLLECT REWARD POINTS BY USING OPEN-LOOP CONTACTLESS PAYMENTS

Singapore Mass Rapid Transit (SMRT) officials now are offering riders a unique way to earn reward points: through open-loop contactless fare payments. The Unleash the Gates campaign is a digital incentive that encourages passengers to create a new account or add a contactless card to an existing account via the Transit Link (TL) SimplyGo fare payments app. Registered users will receive a game participation code with a catalog of 400 "virtual gates" that allow them to access SMRT's Wink+ loyalty program. Points can be used for fee rebates, discounts at participating retailers and charitable donations.

TRANSIT AGENCIES DITCH LEGACY PAYMENT TOOLS TO WIN BACK HEALTH-CONSCIOUS CONSUMERS

Closures and health fears have kept many commuters away from public transportation systems in recent months, and some agencies are leveraging technology to address these concerns. A recent report found that 92% of transit authorities plan to innovate their fare payment technologies to entice riders to return to their platforms. More than half of agencies are looking to mobile ticketing offerings, and just under half plan to roll out contactless EMV solutions. These developments illustrate that contactless technologies that enable touch-free rider experiences have become essential for agencies striving to improve customers' and operators' security, accessibility and confidence in transit systems.

According to the report, to automate their fare collections systems, 42% of transportation organizations are turning to FPaaS, a fast, often cost-efficient digital-first solution that utilizes open integrations and account-based fare payments. Bespoke technology typically takes much longer to deploy, is costly to maintain and has limited update capabilities, which is why only 17% of authorities plan to keep using it indefinitely.

UK ADOPTS CONTACTLESS PAYMENTS FOR RAILWAYS IN THE NORTH AND MIDLANDS

Railway stations in the United Kingdom also have begun incorporating contactless payment technology for health- and safety-conscious passengers. The U.K. recently unveiled its Integrated Rail Plan, which will enable riders to conduct touchless fare transactions via debit or credit card at more than 700 railway stations throughout the North and Midlands. The two regions' commuter stations will be the first to experience the contactless pay-as-you-go ticketing technology, but the U.K. government plans to eventually provide the capability across the U.K.

The process will occur over the next three years and include bus and tram networks, according to the U.K. government. The contactless tap-in and tap-out payment process also aims to eliminate the need for ticket queues and fare offices, all while simplifying fare pricing.

Alternative payment methods experiencing greater adoption

MORE CUSTOMERS USING ALTERNATIVE PAYMENT METHODS THIS HOLIDAY SEASON THAN IN 2020

The widespread adoption of new payment technologies and solutions in 2020 appears to be influencing customers' holiday shopping behaviors this year. More than 78% of U.S. consumers intend to spend as much or more this holiday season than they did last year, and more say they will turn to alternative payment methods such as buy now, pay later (BNPL). The research also found that 74% of consumers who have used contactless cards this year also expect to continue using them to make payments, an increase of 13 percentage points from the previous year.

Nearly 72% of digital wallet holders plan to keep using them this year, a notable jump from the 63% who said the same in 2020. Not all of these payments will be lump sums, as 67% of digital wallet holders with BNPL accounts anticipate that they will take advantage of the service again in 2021, compared to 48% last year. The report also noted that merchants can expect an increase in overall spending this holiday season as consumers return to work and the economy continues to recover from the pandemic's devastating effects.

CONTACTLESS PAYMENT ADOPTION RAMPS UP IN THE US, UK

Pandemic-related restrictions and fears of viral transmission via cash and ATMs played a major role in driving consumers' sudden enthusiasm for contactless payments in 2020. The U.S. observed a 150% increase in contactless payments between 2019 and 2020, and U.K. consumers spent £66.5 billion ($88.1 billion USD) in contactless transactions within the first half of 2021. The robust increase in contactless technology usage prompted the U.K. to bump up its contactless transaction limit to £100 ($132.50 USD). Contactless payments are appearing to be much more than a passing fad: 89% of U.K. citizens and 76% of Americans said they favor contactless payment methods

over other available options, a further testament to their likely staying power in the years ahead.

Digital banking

AMERICAN EXPRESS UNVEILS BUSINESS DEBIT CARDS, DIGITAL CHECKING ACCOUNTS FOR SMBs

Broad transformations are occurring on the digital-first banking front, and major financial players are getting in on the action. American Express, for example, recently announced the launch of its first-ever business debit card just weeks after it unveiled a new digital checking account service geared specifically toward small to mid-sized businesses (SMBs). The checking account solution seamlessly connects to existing American Express cards and streamlines access. Other features allow account holders to earn interest on funds up to $500,000 and offer a 1.1% annual percentage yield and access to an assortment of payment methods.

Account holders now can send and receive deposits by automated clearing house (ACH), wire transfer, check, debit card and bill pay, American Express said. They also can access a network of 37,000 surcharge-free ATMs via the company's partnership with MoneyPass and manage their accounts via mobile app. The service has no minimum balance requirements or monthly fees.

DEEP DIVE

How Open-Loop Contactless Payments Could Power Global Transit

Pandemic-related concerns and restrictions brought contactless payments into the mainstream by prompting unprecedented numbers of consumers and merchants to adopt the technology. Contactless payments' popularity extends far beyond retail, however. A recent report has found that 92% of public transit officials hope to use touchless payment and ticketing innovations to bring ridership back on track after its precipitous drop during the pandemic.

Transit providers traditionally rely on "closed-loop" payments such as fare cards, which hold only a prepaid amount that must be replenished when it runs out. "Open-loop" payments, by contrast, are connected directly to personal accounts such as credit or debit cards. These include contactless EMV cards, which work via NFC technology. The transportation space's digitization still is in its early stages, but universal adoption of open-loop contactless payments is on the horizon for commuters in many regions of the world. The number of open-loop EMV cards in global use for ticketing is slated to jump from 24.8 million to an astounding 136.9 million by 2025.

The following Deep Dive explores how contactless payments and devices quickly have gained traction among commuters and explains why these technologies are poised to revolutionize the transit experience.

OPEN-LOOP CONTACTLESS PAYMENT EASES COMMUTING, TRAVEL PLANNING

Many daily commuters stopped using public transportation during the early days of the pandemic, and those who continued to use these services still needed to social distance on their journeys. Consumers slowly are returning to their pre-pandemic habits, venturing out to office buildings as well as storefronts, eateries and entertainment venues. As the pandemic carries on, however, consumers continue to seek out digital solutions that enhance public health and safety. Open-loop contactless travel is one such solution because it allows riders to purchase tickets with their everyday contactless payment methods — including digital wallets, smartphones and wearables — without ever having to load funds onto fare cards.

Account-based ticketing enables commuters to travel simply by tapping a card or scanning a token. The technology automatically calculates ticket costs and jettisons the need for preplanned fares — an especially helpful feature as commuting frequency remains sporadic for workers adopting hybrid remote and reduced in-office schedules. The demand for such capabilities is so high that approximately 150 large cities are considering EMV adoption as an add-on ticketing solution. The number of open-loop EMV cards used in ticketing in the U.S. is expected to rise from 1 million in

2020 to 13 million in 2025. The numbers for Latin America are even more impressive, as open-loop EMV cards for transit use in the region are anticipated to skyrocket from 3.7 million to 23 million in the same time period.

Riders are not the only individuals who stand to benefit from open-loop contactless payments, however. Tap-to-pay technologies — such as bank-issued contactless cards or mobile wallets — allow transit officials to get riders through gates faster and more efficiently, and they also decrease costs related to the issuance and replacement of transit-specific cards and tickets. Transit authorities then can outsource fare collection operations to vendors and payment providers, eliminating massive in-house accounting systems and the costs that come along with sustaining them. Enabling open-loop payments also significantly reduces transit authorities' need for routine machine servicing and cash collection, as fewer commuters will choose to interact with ticketing kiosks.

CONTACTLESS TRAVEL IS WELL UNDERWAY

The pandemic helped crystallize public opinion in favor of contactless transit payments: 88% of worldwide public transit riders in a July 2021 survey said they now expect these payment options for their travels. Transit authorities are listening. Dallas is the latest U.S. city to adopt contactless open-loop fare payments, and New York City's Metropolitan Transportation Authority reported that open-loop payments on its OMNY service doubled between March and July 2021. Similar trends are emerging globally: The Urban Mobility Center in Bulgaria's capital city rolled out an open-loop contactless ticketing system on buses, trams and trolley buses in August.

Most transit agencies still are using bespoke systems that are both expensive to build and challenging to update, however, and 43% of authorities said implementing new ticketing features and processes is "hard" or "very hard." A study found that 42% of transit companies plan to adopt the FPaaS model, and only 17% foresee continuing to use their bespoke systems. Additionally, 84% of public transit users anticipate ultimately returning to their pre-pandemic transportation habits, further highlighting the imminent need for public transit agencies to modernize payments. Authorities that postpone payments innovation place their long-term consumer experience at risk. Digital payments and ticketing also can reduce fraud and secondary sales.

Modernizing public transportation systems by including contactless payments technology will add an important tier of payment choice for consumers navigating this pandemic-influenced era. These innovations promise to smooth the ride for both commuters and transit authorities.

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