

Apple Announcements: New Devices and Payments Services



Apple Pay /
Apple Watch



iPhone 6
6 Plus



iOS 8

Apple Pay: What We Know

Scope and Timing	Apple's Motivation and Value Proposition	Payments Accounts	Completing Transactions	Data and Security
<ul style="list-style-type: none"> In-store payments Streamlined online payments Available on iPhone 6, 6 Plus, and Apple Watch (early 2015) US-Only Available in October 	<ul style="list-style-type: none"> Replace physical wallet: "Your wallet. Without the wallet." Payments will be faster, more secure, and private Apple share of U.S. smartphone market >40% ~5-10% NFC terminal enablement (U.S.) 	<ul style="list-style-type: none"> Add: from iTunes account or take a picture of a card Store: token stored on secure element (no card # on device) Use: Passbook app is user interface; general purpose credit and debit cards 	<ul style="list-style-type: none"> Contactless NFC-based physical payments with TouchID authentication Touch ID for in-app purchases, via the Apple Pay API 	<ul style="list-style-type: none"> Data stays with merchant and bank (not Apple) Merchants process tokens, not the card # Payments service can be remotely disabled

Announced Participants:

Networks						
Banks / Issuers	Coming Soon					
Merchants	In Store					
	App					

Apple Pay: Many Open Questions

- Economics:** How will Apple make money?
- Loyalty and Offers:** Will Apple allow third-party integration? Will these be included in the next release?
- Integration:** What is required of merchants?
- Technology:** How is the Apple Watch integrated? Will Apple use other mobile payment technology (e.g., iBeacons)?
- Liability:** What party or parties are responsible for fraud?
- Other Partners:** Are there other partners involved? Will MCX merchants be involved? What about regional networks? How will debit work for issuers with unaffiliated networks not owned by V/MA?

Initial Perspectives

Apple, not surprisingly, has focused more on the basic customer experience and features of the Apple Pay service, mentioning that they believe this will be the key differentiator in their mobile payment initiative (e.g., they have included an "Apple Pay Human Interface Guidelines" document as part of app developer information).

While there are many important questions to be answered, Apple certainly has ability to drive more attention and adoption for mobile payments. Apple Pay is a very significant event for the payments industry and could be the long awaited launch point for broad mobile payment adoption.

For more perspective on these questions and more, please contact:

John Grund, Partner, john.grund@firstannapolis.com Lee Manfred, Partner, lee.manfred@firstannapolis.com
 Josh Gilbert, Partner, josh.gilbert@firstannapolis.com Hugh Gallagher, Principal, hugh.gallagher@firstannapolis.com

Source: Apple.com, Apple's 9/9 announcement, and First Annapolis Consulting research.