

The Virgin Islands Consortium

Apple Called The Shots In Payments By Mobile, Not Banks

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(New York Times) -- JPMorgan Chase's chief financial officer, Marianne Lake, took the stage at a financial conference on Tuesday under strict orders not to mention her company's involvement in Apple's new payment system.

But when Apple's chief executive, Timothy D. Cook, at a news conference in California at the same time, finally brought up Apple Pay, one of Ms. Lake's deputies in New York took a green apple out of her bag and put it on a table on the stage, signaling that Ms. Lake was free to discuss the service.

“So we are very excited about Apple Pay, and Chase customers will be able to participate in that,” Ms. Lake said, noting the appearance of the apple with a nod of her head.

The elaborate measures that Ms. Lake took to keep Apple Pay under wraps until the chosen time underscore the degree of preparation — and investment — that went into a partnership that has the potential to transform one of the banking industry’s most fundamental business lines. Photo A demonstration of how Apple Pay would work on a phone. A demonstration of how Apple Pay would work on a phone.Credit Monica Davey/European Pressphoto Agency

For the banks and credit card networks, Apple Pay could threaten some revenue streams, as the technology giant looks to assume a more central role in the financial universe. But the eager participation of banks and card companies suggests both Apple’s clout, and the recognition among financial institutions that they face broader challenges from upstart technology ventures, many of which are not as eager or willing as Apple to work with the incumbent financial industry.

“There are schemes that don’t respect and honor the payment networks,” said James Anderson, the senior vice president for mobile product development at MasterCard. “We want to invest in programs that respect our role in the ecosystem.”

The immediate cost of Apple Pay is expected to be assumed by the banks, which are offering Apple a lower rate than they normally accept from credit card transactions, according to people briefed on the agreements. The banks, which take the biggest chunk of credit card transaction fees, are hopeful that they will make up for the lower rates by processing new types of transactions that are currently being done with cash or other payment methods.

The big credit card networks will not have to pay any costs for working with Apple. But some analysts warned this week that Apple Pay could, in the long run, push down the rates that both credit card networks and banks can charge merchants. Credit card fees are largely used to cover the costs of fraud, which are expected to go down with Apple’s fingerprint signature.

Even so, the partnership with Apple is much more attractive than an initiative being led by some of the biggest retailers, known as the Merchant Customer Exchange, that appears to be looking to replace the card networks altogether. That concern was brought to the fore on Thursday when two of the biggest supporters of the Merchant Customer Exchange, Walmart and Best Buy, announced that they would not accept Apple Pay.

And upstart projects like Bitcoin are looking to bypass the current financial system. Earlier this year, JPMorgan’s chief executive, Jamie Dimon, told investors that the companies in Silicon Valley “all want to eat our lunch.”

The financial industry has been under growing pressure to update the current, rather outdated, payment networks, which have been blamed for big breaches of customer data at retailers like Target and Home Depot.

The banks and card companies have dedicated enormous resources to finding their own technological improvements. The major cards and banks have all been working on a

system that allows customers to make a payment without handing over any personal details, using a kind of digital token that can be used only once.

Apple Pay will be the first program to use the so-called tokenization system on a widespread basis, and financial firms are hopeful that this will point the way to a future payments system in which they are still central players.

“We can show the world this is where it’s all headed,” said Jim McCarthy, the global head of innovation and strategic partnerships at Visa. “This may be the inflection point where you can see a real improvement in what has been a clunky digital experience.”

The project has not persuaded everyone. Merchants will still have to install hardware that can read the wireless signal carrying the payment information from Apple’s devices. And past efforts at new mobile wallets, like Google Checkout, have not widely caught on.

The financial industry began working on the Apple Pay project in January 2013, when Apple had the first concrete conversations with the big credit card networks, Visa, MasterCard and American Express, after years of more vague conversations about the best way for Apple to get involved.

From the beginning, the project was top secret, with what one person involved called a “code name frenzy.” The card companies had code names for Apple and Apple for the card companies. At Visa, the code name was another consumer electronics company, chosen to avert attention from employees who were not involved. Visa soon had about a thousand people on the team.

In the summer of 2013, Apple approached each of the five major banks involved in the project, without revealing what other banks were involved.

JPMorgan, the largest card issuer in the country, set up a war room in a windowless conference room in San Francisco, where the most sensitive work was done. Only about 100 of the 300 JPMorgan employees working on the project knew that it was a partnership with Apple.

The project remained a top secret until the final moments.

JPMorgan put a live stream of the Apple event on the large screens of the lobby of its headquarters in New York, without being able to explain the bank’s involvement in the proceedings.

Even the people involved most closely in the partnership were not told the actual name — Apple Pay — until Mr. Cook announced it on stage. The marketing that the banks had prepared in advance left blank spaces for the name, and for the new Apple devices used in Apple Pay, which the banks also did not know about in advance.

At MasterCard’s headquarters in Purchase, N.Y., a marketing team of around 25 people gathered in their own war room, ready to pull the material together once Mr. Cook gave them the final pieces of the puzzle.

In Cupertino, Calif., when Mr. Cook finally did bring up Apple Pay, a JPMorgan employee sitting in the fourth row quickly sent an email to a JPMorgan employee at the financial

conference in New York, who then relayed the apple signal to Ms. Lake, the chief financial officer on stage.

“We’re delighted to be able to participate,” Ms. Lake said.

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