

Ms Caroline Pidgeon
London Assembly
City Hall
The Queen's Walk
London SE1 2AA

Policy Department
Response by: Nisha Schumann, Policy
Research Assistant
Direct Tel: 020 7770 7371
Email: nisha.schumann@which.co.uk

31 August 2011

Dear Ms Pidgeon,

**Re: London Assembly Transport Committee investigation into the future of
ticketing**

Which? is a consumer champion. We work to make things better for consumers. Our advice helps them make informed decisions. Our campaigns make people's lives fairer, simpler and safer. Our services and products put consumers' needs first to bring them better value.

We welcome this opportunity to comment on the future of ticketing on London's transport network. We will specifically focus on representing the consumer view and consumer concerns in relation to the introduction of contactless payment cards to pay for transport services.

A) Which? Position

Which? supports the roll-out of contactless cards to London's transport network in principle. However, there are some conditions that need to be fulfilled until this can happen without triggering a backlash for consumers. We want

- > The Oyster card to remain in place until a feasible solution is found for tourists, those that are unbanked and those who cannot use the internet - this solution must provide the same benefits as contactless cards and not penalise those that choose to use it
- > The benefits of contactless cards to be better communicated to consumers and to be balanced against the disadvantages.

- > Industry to better communicate how consumers are protected against theft and loss, and what recourse is available to them to seek redress when something goes wrong.
- > Security features to be strengthened to make contactless cards as secure as possible and make electronic pick pocketing less likely.
- > Personal information stored on cards to be limited and encrypted - data should not be shared with third parties unless explicit consent is given.
- > Technical difficulties that could undermine the convenience factor (such as interference between cards and double-charging) to be resolved before the system is rolled out
- > Receipts to be issued by default (not applicable to transport) and records of journeys to be stored separately from other purchases to allow expenses claims to be made without compromising other personal data

B) Key findings from our research

Summary

- > 11 per cent of consumers have a contactless card but 70 per cent of them don't use it at all.
- > Half of the respondents in our survey were more concerned about accidentally slipping into their overdraft compared to other payment methods - the figure was 62 per cent for Londoners.
- > Only 21 per cent would be happy not to be given a receipt when paying with a contactless card.
- > Consumers are more concerned about sharing information stored on their card with the transport authority than sharing travel information with their bank.
- > 54 per cent of Londoners would only use contactless cards for transport provided it gave the same benefits as Oyster.
- > Only 39 per cent of the overall population would consider using contactless cards on transport.

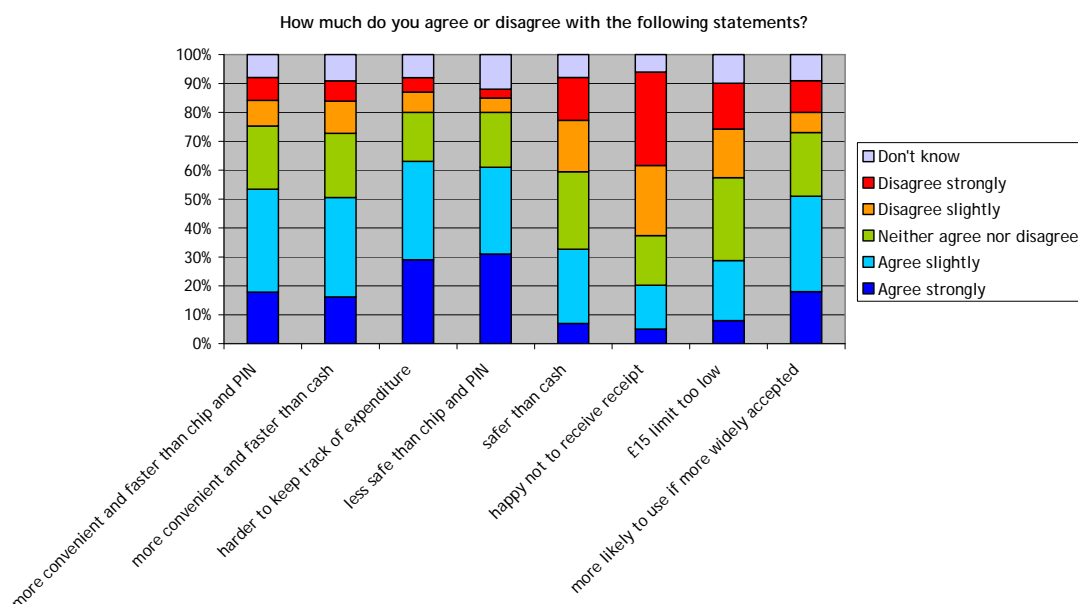
Consumer attitudes to contactless payments

We have commissioned consumer research on contactless payment cards. This general population survey covers consumer attitudes to contactless cards and specific attitudes on using it for transport. We surveyed 1,335 people above the age of 16, of which 158 were from the Greater London area.

Attitudes to usage

Our research showed that about one in ten people in Britain own a contactless card¹. Of those who say they own one, 70 per cent claim to never use it. About 12 per cent can be qualified as savvy users - they use the contactless functionality on their card on a daily basis. A further 9 per cent use it sometimes, i.e. once or twice a week and the rest (8 per cent) only use it once a month or less. Half of all respondents argued they'd be more likely to use a contactless card if it was more widely accepted (graph 1).

Graph 1: Attitudes to contactless payments in general



We found that over half of all people agreed that contactless cards were more convenient and faster than chip and PIN and cash payments (graph 1). However, when it comes to security, many still see chip and PIN as being safer. Respondents

¹ There are about 15 million contactless cards in circulation in the UK according to Visa Europe. See: <http://www.telegraph.co.uk/technology/news/8731693/Contactless-cards-could-replace-cash-for-1-in-2.html>

were evenly split across those that believed it was safer than cash and those who disagreed with this (33 per cent each).

Table 1: Main concerns² with regard to contactless cards

Security/safety (of personal/bank details)	23%
Losing track of expenditure/control	12%
Could easily be used by someone else if lost	10%
Fraud/ cloning/ identity theft	8%
Don't know enough about them [contactless cards]	6%
Loss of card	5%
Would not use it/ not interested	5%
Theft	5%

Our research also showed that there are still some concerns regarding the safety and security of contactless cards (table 1). Almost a quarter of respondents said that this was their main concern. In addition, loss and theft and the ensuing consequences such as the card being used by an illegitimate person, fraud and identity theft, were mentioned by others as their main worry. A minority cited the lack of knowledge about contactless card as their main concern.

Control over expenditure

We also found that people were concerned about their ability to control expenditure. The absence of receipts was perceived to be a problem by 56 per cent of respondents. Overall, we found that a significant number of people neither disagreed nor agreed with many of the statements about contactless cards, which probably reflects a lack of experience in using them.

² This question was open-ended and featured at the end of the survey. The main concerns are those that were mentioned by at least 5 per cent of respondents.

Controlling expenditure is also an issue when using contactless cards for transport. More than half of all respondents were more concerned about accidentally slipping into overdraft when using their card for transport compared to using other payment methods. A similar amount of people (54 per cent) said they were more worried about being overcharged for travel. Londoners were particularly wary of going overdrawn (62 per cent).

Which? believes that this is an important consideration in the roll-out of contactless cards to public transport as overdraft charges can be quite high. Halifax for instance charges £1 per day for authorised overdrafts and an eye-watering £5 per day for an unauthorised overdraft. Similarly, HSBC and Nationwide charge a one-off fee for going overdrawn which is up to £25 and £20 respectively³. We are concerned that the lack of control over expenditure could expose consumers to potentially high charges for going overdrawn by just a minute amount. The new system could therefore turn out to be very costly for some consumers.

Londoners were particularly concerned about the implications of using contactless cards for transport on their ability to reclaim expenses from their employer. 44 per cent of Londoners worry about this compared to 30 per cent amongst the general population. This could reflect a concern over having to share bank statements with the employer but it also shows that there's a lack of information on how a record of travel expenditure is kept on the new system. There should be a possibility for contactless card users to get a receipt of their travel without requiring them to expose all transactions that they have made on their card.

Privacy

Concerns about privacy were less predominant amongst the respondents. 35 per cent said they weren't concerned about sharing their travel information with their bank, compared to 29 per cent who disagreed. However, trust in data handling was lower for the transport authority when it comes to handling information stored on cards (including name and card details). Almost half of all respondents said they were concerned about sharing this information with the transport authority. The proportion is similar for Londoners, though they show a greater concern over sharing travel information with their bank compared to the overall population (39 per cent of Londoners are concerned about this).

³ Nationwide always charge £20 when you go overdrawn whereas HSBC charge the exact amount of your overdraft up to a maximum of £25. So if you go overdrawn by £5, a £5 charge applies. These figures are taken from the banks' website and are publicly available.

Using contactless cards for transport

We noted differences between Londoners and the general population in their likelihood to use contactless cards for transport resonates better with Londoners than the general population. 48 per cent of all respondents said that they were unlikely use a contactless card to pay for transport - only 39 per cent said they would consider using it. However, about 29 per cent prefer to use existing payment methods.

By contrast, 54 per cent of Londoners would be willing to only use contactless payment cards provided it gave them the same benefits as currently offered under the Oyster system. Whilst this shows that many are happy using the proposed system, there are some (29 per cent) who would not be happy with only having this option. We believe that this proportion of people is significant enough to warrant the continued use of alternatives, such as Oyster, until acceptance of contactless cards has improved. We believe that the attitudes of Londoners are generally positive but that some people still don't know enough about contactless cards to make an informed decision about whether to use them or not.

C) Key issues

Barriers to mass adoption

We have some comments on issues that could affect consumers' likelihood to take up this payment method. These are:

- > A low understanding of contactless cards and their benefits.
- > A low level of consumer trust in this payment method.

Understanding of contactless cards and their benefits

Trust is essential in getting consumers to adopt contactless cards. In order to build trust in contactless cards, consumers have to be aware of how these cards can be used and where they are accepted. Consumers also need to know what the spending limits are. Most importantly, consumers need to understand the benefits of this payment method compared to cash and debit/credit cards.

We believe that the latter point has not been made sufficiently clear by industry stakeholders who would like to encourage the use of contactless cards. We found that a significant proportion of respondents in our survey (39 per cent) had never heard of contactless cards until we mentioned it to them in our survey. But even

those that have heard of contactless cards are often ill-informed. Crucially, the industry has so far failed to make people sufficiently aware of the potential risks, the levels of security they can expect and the laws governing the operation of contactless cards. The card industry, retailers and service industry benefiting from the use of contactless cards need to ensure that consumers are aware of the protections they can expect in case of security breaches. Consumers must also know how to recover losses when a card is stolen or lost.

Which? believes that this payment method has certain merits, such as the ease of use and convenience. The card doesn't have to be taken out of the wallet to make a payment, which makes it potentially more secure. Increased speed of transaction might be a benefit where people are likely to use chip and PIN and have to queue (for instance a fast food outlet). The impact of speeding up transactions is however minimal on London's public transport where most people already use the contactless functionality of the Oyster card. It could however reduce the occurrence of queues in front of ticketing machines used to reload Oyster cards.

We also think that carrying less cash is beneficial as it reduces the risk of accidentally losing money or it being stolen. These losses are often unrecoverable. Cards in general offer better protection against loss and theft than cash. However, we believe that the level of consumer protection with contactless cards is lower than with credit/debit cards as payments aren't PIN protected. 60 per cent of respondents in our survey told us they think that contactless cards are less safe than chip and PIN cards. Without this additional layer of protection, it is more likely that the card can be used by an unauthorised person. Despite the benefits, we think that consumers may be hesitant in using contactless cards if they come at the cost of weaker security standards.

It is important that the transport authority takes these concerns into account when rolling out the new system. Consumers need to know exactly what the advantages of the new method are compared to the Oyster card. It is not enough to assume that consumers prefer speedier transactions or find them slow in the first place. There needs to be evidence to show that consumers favour paying directly out of their account rather than topping up their Oyster cards at a machine or online. Even so, there are ways of reducing queues at ticket machines with the existing system, for instance by topping up online or using automatic top-ups. At present, our impression is that the new system will mainly benefit card issuers and the transport authority by reducing costs with limited benefits to consumers.

Consumer trust and perception of security

For consumers to reap the benefits of contactless payment cards, they need reassurance that this payment method offers the same or greater protections than existing methods. We do not think that this is the case at present as payments can be made without verification of the card user. A PIN will only be required after a monetary limit has been reached or the card has been used several times in quick succession. As a result, the customer becomes potentially liable for the loss of at least some of his money when a card is stolen or lost. This is not the case with regular chip and PIN cards where the thief has to know the PIN to use the card at points of sale. Whilst the chip and PIN system is not infallible, it nevertheless offers superior protection for those making low value payments.

Losing a payment card can involve a lot of hassle and distress for the owner. Some consumers are unlikely to consider the hassle of blocking a stolen or lost card and getting a refund a worthwhile price for convenience and speed. For others, the loss of even a small amount of money can make a big difference to their ability to pay their bills or make essential purchases.

A contactless card will be used for more than just transport. Losing it can have wider implications on people's ability to go about their daily lives. The Oyster card, by contrast, can be easily replaced although consumers will lose the £5 deposit on the card. Its attractiveness to thieves is limited given that the money on the card can only be used for travel. We note that the existing reassurances regarding potential loss and theft of contactless cards are insufficient to fully engender consumer trust. As a result, the transport authority and card industry need to be aware that they might not reach the level of consumer take-up they envisage.

Disadvantages for certain sections of society

People with no access to bank accounts

The use of contactless cards presumes access to a bank account. Around 1 million people in Britain are unbanked⁴ meaning that they do not have access to a basic bank account. As a result, they will not receive contactless cards once these are rolled out. We are concerned that being excluded from the use of contactless cards could mean that people without access to bank accounts lose out on cheaper fares.

⁴ Consumer Focus (June 2010). *On the margins: Society's most vulnerable people and banking exclusion*, p.7.
Retrieved from: <http://www.consumerfocus.org.uk/files/2010/10/On-the-margins.pdf>

The impact is greatest on those on lower incomes who are more likely to be unbanked and more likely to use public transport.

By contrast, Oyster is available to anyone - whether banked or unbanked - and offers users the cheapest available fare. If Oyster were to be completely replaced by contactless cards, those with no access to bank accounts would have to resort to more expensive paper tickets. We would like to see measures put in place to ensure that the unbanked do not lose out by the advance of contactless cards. This includes making sure that people are not disadvantaged when choosing to continue using Oyster, for instance by not having access to the same benefits as users of contactless cards.

Oyster needs to be retained or a similar process put in place that is accessible, at no additional cost, to those without bank accounts. We think that consumers should have a choice of payment methods and not be forced to take up a method that they are not comfortable with. Pre-paid cards with a contactless functionality could be one possibility but they are unsuitable for this purpose at the moment. Pre-paid cards remain a very expensive payment option due to the large array of fees and charges that apply to their use.

Our research has shown that a majority of pre-paid cards levy extortionate fees for a variety of functions such as taken out money at a cash machine, issuing the card, cancelling the card, going overdrawn, monthly management fees, transaction fees, top-up fees, etc. These fees can range from 99p for a simple transaction to £10 for cancelling a card or going overdrawn. Pre-paid cards like CashPlus MasterCard even charge monthly fees of up to £4.95 after four months of inactivity. Therefore, pre-paid cards are at present not a feasible replacement for the Oyster card.

The elderly and disabled

Older and disabled people are a further group that could be disadvantaged by a move to enable the use of contactless payment cards on London's public transport. Generally, the elderly and disabled people have lower computer literacy levels and might therefore not be able to check their balances online. They would have to rely on paper statements to monitor their expenditure. This has important implications for their ability to spot when they've been overcharged and apply for a refund.

We believe that the Oyster card is better placed to meet the needs of these people. It does not require online access as cards can be used without requiring online registration. Balances can be viewed at ticketing machines and at the displays on exit gates. Manned ticket offices offer these customers the possibility to ask for a

record of their journeys or to make a complaint. Those that do not have access to computers or are not sufficiently proficient at using computers are therefore at no disadvantage when using the Oyster card but could be worse off if required to go online to check how much they've spent on transport.

Tourists

We note that tourists are another group of consumers that might be disadvantaged by the use of contactless cards. The use of contactless cards has not grown as fast in some parts of Europe as in the UK. In fact, of the 30 million cards that are expected to be in circulation by 2012 across Europe, 20 million will be issued in the UK⁵. The slow take-up means that many tourists coming to London are unlikely to own a contactless card and there is no indication whether take-up is going to be widespread in the coming years.

The Oyster card is a very practical solution for tourists at the moment. It can easily be acquired at machines or manned ticket offices and doesn't require registration to be used. If Oyster was to be replaced entirely, tourists will potentially have to resort to expensive paper tickets.

Even if the use of contactless cards would catch on abroad, we believe that tourists would be disinclined to use them as transactions with foreign cards might incur charges. Many banks, including UK banks, charge either a flat fee or a percentage fee for transactions or ATM withdrawals made abroad. Given that tourists are likely to use public transport heavily whilst staying in London, contactless cards are unlikely to prove popular as the costs of the transactions would be prohibitive.

General security and privacy concerns

Security

We do not know enough about the technical details of the proposed open-loop contactless card system to make a fully informed comment about possible privacy and security implications. However, consumers have voiced concerns about the possibility of incurring losses when their card is stolen or lost. About a quarter of respondents in our survey said that security and safety of their personal details was their main concern with regard to contactless cards. A further one in ten mentioned the possibility of another person using a stolen or lost card as their main worry. People are also concerned about 'electronic pick pocketing' where money is swiped by illegitimate card scanners or a card is cloned.

⁵ <http://www.telegraph.co.uk/technology/news/8731693/Contactless-cards-could-replace-cash-for-1-in-2.html>

This doesn't only reflect a lack of trust in the technology but also shows that consumers are not well informed about the security features of contactless cards. Whilst we believe that electronic pick pocketing is unlikely to happen, consumers need to be assured that contactless cards have the highest security standards. We believe all cards should include strong user authentication and dynamic code verification values (CVVs). It also important that the information stored on contactless cards is kept to a minimum to reduce any potential harm resulting from the loss of a card.

Privacy

We do not think that privacy is an issue with contactless cards at the moment. However, we do not know the details of what kind of information Transport for London (TfL) plans to share with the card issuers or other third parties. We would be concerned if there were plans to share details of journeys such as starting points and destinations with any third party unless consumers give their explicit and unambiguous consent. We would also argue that consumers should not be required to register their contactless cards with the transport authority as our research shows that people feel uncomfortable sharing this information with them. As a result, special offers or benefits should not be linked to the condition of having your contactless card registered with the transport authority.

If consent is sought for the sharing of personal information, consumers must be made aware of how this information is being used, how and for how long it is stored and whom it is shared with. It should not be available to third parties by default as it could be used to build profiles of customers and potentially target them with unsolicited marketing messages. Generally, we would like personal information stored on contactless cards to be minimal. The data should also be encrypted to ensure that *if* a card is scanned by an illegitimate reader, the information is rendered useless.

Other consumer issues

There are some further issues that we've identified that might be of concern to consumers and discourage them from the use of contactless cards. These are:

- > choice
- > compatibility and interference by different cards
- > the absence of receipts and implications for consumer redress

Choice

Which? believes that consumers should always be offered the choice of using contactless payment methods. This choice is not given when contactless functionalities are activated by default as is the case with Barclaycard's One Pulse. This could impact on consumers' attitudes because they feel that they are being forced into using a particular payment method. By contrast, American Express requires consumers to enter their PIN during the first contactless transaction. The consumer thereby can make an active choice of enabling the contactless functionality. We think that all cards should have one system of activation, potentially similar to American Express, which gives consumers the choice of activating the contactless functionality on their card.

The issue of choice has also been mentioned on Which?'s commenting platform Which? Conversation, where one consumer states: *"I just want the ability to make a choice if I want contactless payment cards using all the available data. I don't want this to be forced on me."*⁶

Choice is a central feature of any well-functioning market. Not only should consumers be able to choose to activate their card, they should also be free to choose whether to use it on transport. We therefore believe that the Oyster payment system, for the moment, should be retained to give people a choice of using Oyster over contactless cards if they prefer. Under no circumstances should consumers be coerced into using contactless cards only until viable alternatives are available to tourists, those that are unbanked and those unable to use online banking. As previously stated, if Oyster were to be discontinued, we would be concerned that consumers without bank accounts or with basic accounts would be forced to resort to more expensive paper tickets.

Compatibility and interference

The convenience aspect of contactless cards might be undermined by technical short-comings. If several contactless cards are held in the same wallet, there is a chance that the cards will interfere with each other causing delays in paying for goods or on transport. It would undermine the convenience factor in as far as consumers would be required to take the card out of the wallet to make a payment

⁶ <http://conversation.which.co.uk/money/forced-to-use-contactless-card/>

or have separate card holders. It also exposes them to higher security risks and hassle as cards taken out of the wallet could get lost or misplaced.

We would like to get greater clarification by the card industry and transport authority on how they plan to deal with possible interference caused by holding multiple cards in a wallet. We are also concerned that cards could get charged multiple times or that charges are taken off the wrong card if consumer have more than one card. As one commentator on Which? Conversation pointed out: *“Quite enthused by the contactless card convenience, until I found it stops you getting through the gates on the Underground if it’s in your wallet with your Oyster card. Also wondering, if you have two, say a Barclays and a Lloyds contactless card in [the] wallet, will both get charged per swipe?”*⁷.

Another user bemoaned: *“I have [an] Oyster and a door card for the office both NFC in my wallet as well as my bank cards. I have other contactless cards I don’t put in the wallet as they interfere with each other when “activated”. [W]hich means if I keep them together I have to stop and take cards out each time [I] want to use one. [V]ery inconvenient and time consuming”*.⁸

The industry still has some way to go to convince consumers to use contactless cards and ensure they fulfil the promise of convenience and ease of use. It also raises the question of whether TfL will have separate terminals for Oyster and contactless payment cards, and if so, where and how they will be placed to prevent accidental penalty charges⁹.

Absence of receipts by default

A further concern we’ve identified relates to consumers’ ability to get redress. When paying with contactless cards, consumers will not receive a receipt by default but will have to ask for it. Whilst this might not be an issue where perishable goods such as sandwiches are bought, it can affect a person’s ability to exchange a good or seek redress where non-perishable goods are bought. If customers are unable to prove that they’ve purchased a particular good or service at a certain point of sale, they will find it hard to get redress. As a result, customers are arguably less

⁷ <http://conversation.which.co.uk/money/forced-to-use-contactless-card/>

⁸ <http://conversation.which.co.uk/money/forced-to-use-contactless-card/>

⁹ Penalty charges could for instance be incurred if the user holds an Oyster card and another contactless card in the same wallet. He/she taps in with a contactless card at an Underground station but inadvertently swipes his Oyster when leaving the Underground, thereby incurring a penalty charge.

protected when using contactless cards compared to cash or debit/credit card payments.

Although this might be less of a concern to the transport industry, it is important that it is taken into account as it can affect the level of trust consumers place into this payment method. If consumers experience a lack of protection by not being given a receipt by default, they might decide to revert to the use of traditional payment methods which offer such protection. There is a possibility that consumers simply fail to ask for a receipt because they are not in the habit of actively asking for it and do not notice when they aren't given one.