MOBILITY NEWSLETTER

Research and reporting from California, the U.S., and around the world.

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Payments Deep Dive:

Financial operations after introducing open-loop payments

What value open-loop payments (OLP) can bring for riders

From a transit rider's perspective, **paying for transit should be as easy as paying for a cup of coffee:** Whether ordering a latte, a cold brew, or a matcha tea, customers know they can instantly pay by tapping their contactless bank card or smart device, no matter which coffee shop they visit.

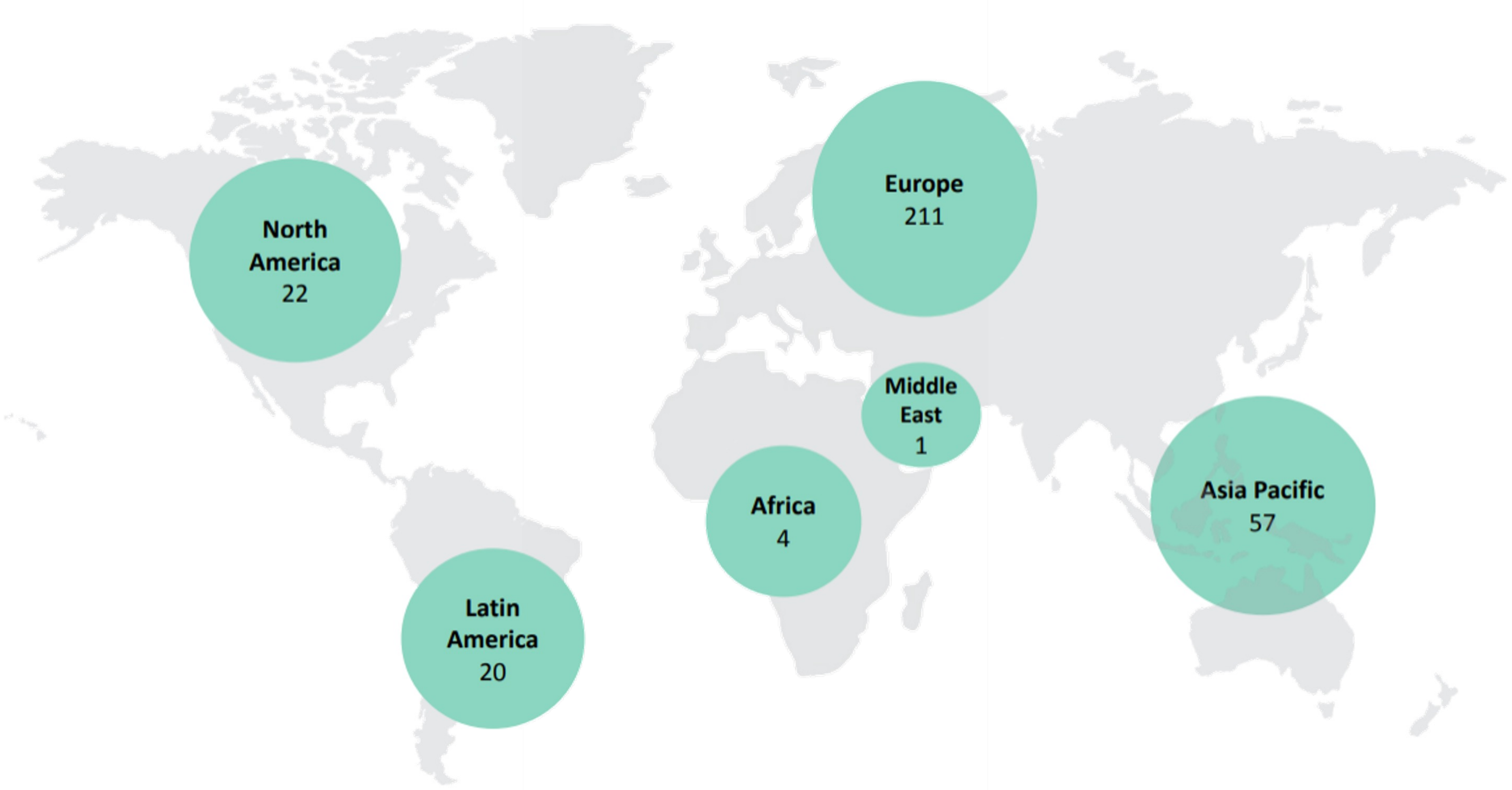
Today, many riders can't pay for transit like they do for coffee. Instead, they typically pay in cash or with a reloadable transit fare card. This means that they need to know the fare in advance and make sure they have enough money in their pocket or loaded onto their card before boarding.

This is changing with the **growing acceptance of open-loop payments**, letting riders pay their fare using a card or device already in their pockets. This saves time and money, while reducing operating expenses for transit providers since they can reduce the cost of cash collection, maintaining TVMs, or printing transit cards.

California Integrated Travel Project

Open-loop is the leading trend in transit payments

More than 300 communities have already implemented open-loop contactless payments.



Source: Global Mass Transit Research 2023

Accepting OLP means transit providers become merchants, creating new opportunities to improve their offerings...

Improved data, yielding new insights about riders, their travel behavior, and their preferences.

Decreased operational costs compared to the cost of traditional fare collection systems.

A better customer experience, using familiar payment methods that don't require pre-loading.

New ways to interact with customers, including by using rewards to encourage ridership.

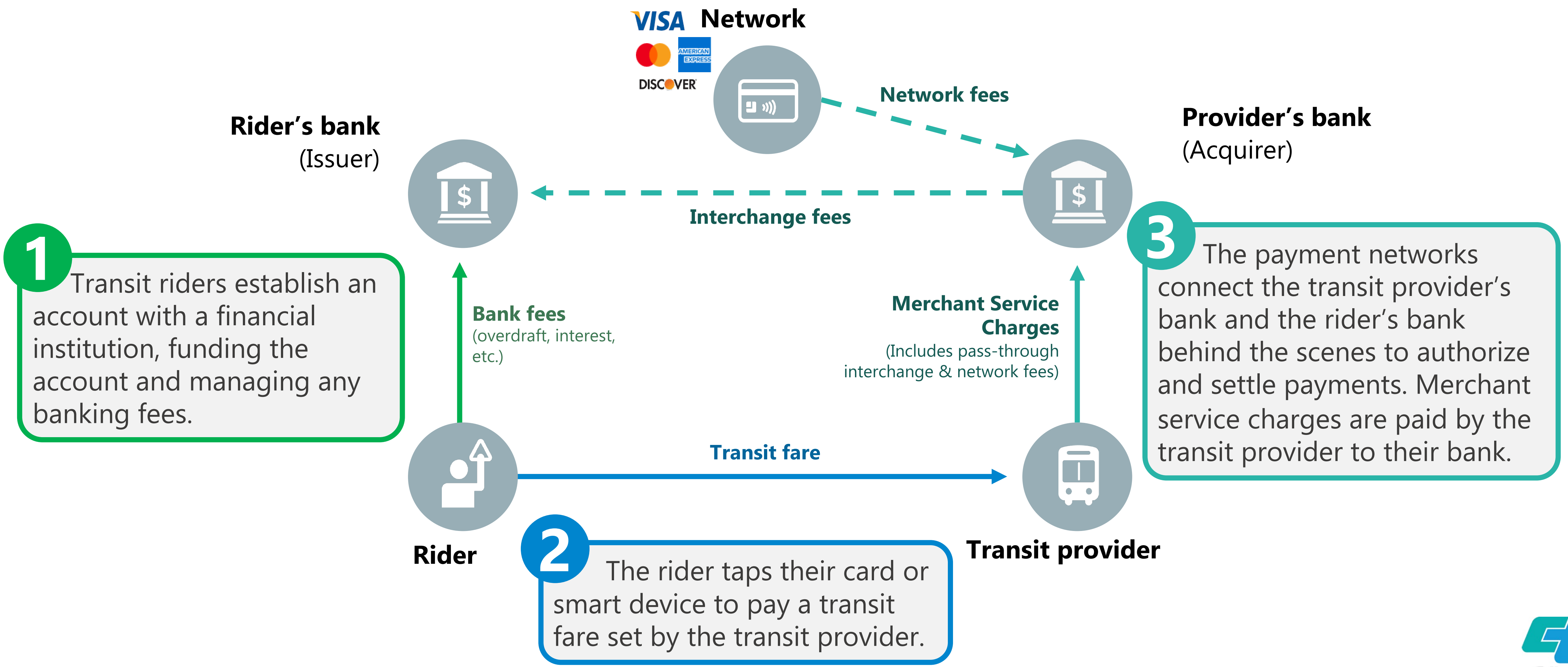
Caltrans

But agencies that switch to OLP must manage different risks and costs compared to those with legacy collection infrastructure

	Legacy Systems	With OLP
RISKS	Traditional fare evasion is always a risk, but because transit tickets or smart cards are pre-paid, once someone taps in, the revenue is assured. There are risks associated with collecting cash, including heightened incidence of operator assault.	Fare evasion / nonpayment can happen even after tapping in due to low account balance or fraudulent card usage. With no pre-authorization, which can increase processing time, transit transactions with cards can carry elevated risk of nonpayment.
COSTS	Managing ticket / card printing and distribution infrastructure, in addition to cash collection, can be quite costly. Reducing the use of transit-specific payment methods offsets these costs for providers.	The transaction fees providers pay depend on the mix of accounts and payment methods presented by riders, making it hard to anticipate their exact cost. In California, these fees are negotiated to be lower for agencies, though monitoring fees can help agencies understand and lower these costs.

If you are a California transit provider, check out Cal-ITP's MSA for the current pre-negotiated rates.

Context: how open-loop fare payments work



Caltrans

Mitigating Risks: Transit providers and their payment industry partners can work together to improve collection.

After a rider taps their banking card, enters the system, and begins their trip, the fare charge must be authorized and settled in the background.

When a charge can't be authorized, as is often the case when balances are low or fraud is occurring, the transit provider's bank initiates debt recovery. The charge is then either successfully recovered or written off (unrecovered). Both agencies and payment industry players have tools to avoid this.

Before Trip

At the first tap of the day, a basic account check is completed. Mitigations can start here.

Transit providers alone can…

- Keep an up-to-date "accept list" to prevent repeat offenders from entering
- Block transactions from higher-risk issuer banks

Provider-payment industry negotiated terms include…

- Pre-authorization of transactions where possible
- Limit how many new digital payment cards riders can create, as this can enable fraudulent behavior

After Trip

Mitigations exist for full authorization requests, after a trip is completed.

Transit providers alone can…

- Change timing/frequency of full authorization requests to catch bad transactions sooner, and limit their exposure to unrecoverable debt

Provider-payment industry negotiated terms include…

- Shared liability where an agreed-upon threshold is set for uncollected fares under which the issuing banks take the risk

Understanding Cost: Merchant and network fees vary, but some countries around the world have capped interchange fees

Country/region	Debit	Credit	Source
Australia	0.20% or AUD 0.10 (USD 0.06)	0.80%	(S)
European Union	0.20%	0.30%	(S)
Mexico	1.15% (max. 13.50 pesos) (USD 0.70)	1.53%	(S) (S)
United Kingdom	0.20%	0.30%	(S)
United States of America	USD 0.21 or 0.22 + 0.05%	-	(S)

Transaction and fee monitoring can also help agencies understand and reduce the merchant service fees they pay over time by identifying incorrect charges, understanding how rider payment habits impacts the total cost, and optimizing policies to minimize these cost drivers.

Notes: US debit applies to regulated banks only and fixed part depends on USD 0.01 fraud-prevention adjustment (if eligible). Fee caps only apply to consumer cards in the UK and in the EU. NZ debit rates are applicable for contactless in-store transactions (while the cap for contact in-store debit is 0.00% and the cap for online debit is 0.60%).

Proactive financial operations planning can help reduce the risk and expenses associated with OLP for providers.

California Integrated Travel Project

It is clear from global trends that OLP is to become our "new normal" as the technology saves riders time and money, while reducing operating expenses for transit providers. Nonetheless, OLP operates in a way that some transit providers may not be used to.

In California and beyond, there are tools that transit providers can use to safeguard their investment in OLP, mitigating risk and reducing costs on their new fare collection systems.

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Question, feedback, or topic you would like to know more about? Please reach out to isaac.sonnenfeldt@rebelgroup.com