

Banks see red in blue smart cards

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Broad based banking & payments system smart card rollouts have been stalled for years, with few banks willing to take the massive investment in new back-end switching infrastructure or front end terminal devices, let alone the smart cards themselves.

The last few months we have seen a sudden flurry, with the traditional bank members associations starting to get serious. In Europe, Visa is offering US\$156 million to encourage Visa smart card capable replacement terminals. In the UK, the banks payments association has moved rapidly to broadly support chip enabled PIN under EMV standards. In the US, Visa has pushed forward rapidly with its Visa Smart program, albeit with only a few banks on board.

It only recently became clear what is stirring up the troops.

The most stunning success in smart cards in the last few years has, without doubt, been the American Express launch of their AmEx Blue Credit smart card, in the US. Card numbers are reported to be at least double anything that was expected, Brittain & Associates estimates AmEx issued more than 5.5 million Blue smart cards in the United States during the first year it launched the credit card, with cardholder balances now exceeding US\$7 Billion. The card was launched in September 1999.

The success of the AmEx Blue smart card has definitely not warmed the cockles of the US banks hearts, and there are many smart card program managers and directors of cards who are checking out their new job options! The US banks, and the global card associations, have been caught with their pants down, and are struggling to develop programs that can combat the AmEx Blue card.

In Australia & New Zealand, there has also been a sudden flurry, with AmEx Blue expected to launch Q3/4 2001. Virtually every bank is dusting off their smart card programs, and oiling the rheumatoid joints of their smart card program managers.

But why has AmEx Blue been so successful? And why haven't the banks been able to do the same thing long ago?

Well – the most interesting research statistic out of the US is that less than 1% of cardholders have used the chip on the Internet, but there is basically nowhere else to use the chip! To make matters worse, very few people have been able to get their smart card readers working on their PC's, particularly with driver support issues on operating systems prior to Microsoft Windows 2000.

So why bother with smart cards at all? What is this all about?

Well it seems that all the traditional thinking was right, that smart cards are more secure, more reliable, better in every imaginable way, and that cardholders can rationalize that the chip delivers these benefits, whether it does **or not**, being immaterial.

But nobody except AmEx realized that the chip itself could be as strong a fashion statement as the Nike "tick" or the Ferrari stallion! High-end socio-economic groups perceive that the chip is a really "cool" element to have on their credit card, particularly in markets like the US (and soon Australia/NZ) where chip is not commonly used.

Interestingly AmEx does not promote this view externally, focusing on the rational elements of the card in the marketing, but the statistics speak for themselves.

The 64 million dollar question is of course, what are banks going to do in Australia to combat this strategy? At the moment, they are all loading up their ammunition, but mostly they are still firing blanks.

The most interesting play of all may end up with Microsoft, who will release the third release of the Windows for Smart Card operating system (WfSC) as this article goes to press. This release is optimized for the key payment system smart card standards, allowing Microsoft to enter as a major force in the payment systems of the future.

But if our experience from AmEx in the US is a guide, it may not be the Microsoft technology that wins the day; it may be that the "Powered By Microsoft" hologram on the credit card becomes the key element, alongside the chip. The combination is likely to be a winner because it is sufficiently "techno-cool" for 55-year-old techno-phoebes to impress their 20-year-old mistresses whenever they flash their card! Image is reality after all.

I may be into technology, but I am going to bet that the Australian/NZ banks are about to suddenly become much more focused on "cool" technology brands as they compete in the smart card future. I am also on a sure bet as to which brand will win the smart card techno-brand war.