

Merchant's Guide to Apple Pay

by Tim Parker

Apple Pay is becoming more and more accepted, and soon customers will expect your business to be able to process Apple Pay transactions, too. Learn how the technology works and find out what kind of equipment you'll need.



Image source: Photospin.com

Apple has its hard-core fans and passionate naysayers, but few can argue that the company has a history of inventing technology that changes the way people go about their everyday lives. Not all of its technologies have seen the success of the iPod, iPhone, and iPad but when Apple introduces a technology, people want to have it.

When Apple introduced the iWatch, it also unveiled Apple Pay. While not as technologically sexy as a futuristic watch, Apple Pay has the potential to change the way people make transactions. Any business owner who receives payments by credit cards should strongly consider Apple Pay or at least know enough about it to make an informed decision.

How does the technology work?

Apple Pay isn't built on new technology. It uses NFC or near field communication technology to communicate with a payment terminal. Without getting too techno-nerdy, here's how NFC technology works with Apple Pay:

1. When the shopper sets up Apple Pay, they enter their credit card information into their mobile device. Apple Pay then creates a device account number—a security code that replaces the card's actual account number.
2. A shopper taps their Apple Pay capable device on the NFC payment terminal while touching a sensor.
3. The NFC terminal creates a security code for the transaction and pairs it with the device account number stored in the phone.

4. The codes are sent to the bank or payment processor, which sends it to another financial institution if needed.
5. The codes are matched against other codes to verify the transaction.
6. A notice of acceptance or decline is sent to the merchant. This entire process is almost instantaneous just like it is with traditional credit card transactions.

As you can see, Apple Pay, and other NFC payment systems operate by creating unique codes that require both the Apple device and payment terminal. Because the payment code is only used once, the payments are more secure—unlike traditional cards.

What do I need to accept Apple Pay?

You need an NFC-capable payment terminal. These cost between \$500 and \$1,000 per terminal. But here's why it might make sense to make the investment. On October 15, 2015, a liability shift will take place. If your payment terminal isn't capable of accepting EMV cards, better known as chip cards, you may be liable for any fraudulent transaction made at your store. For that reason you will probably want to upgrade your payment terminal anyway. You might as well spend a little bit more and purchase a NFC capable terminal to make sure you don't have to upgrade again in the near future.

Is Apple Pay becoming mainstream?

There's no doubt that it's catching on fast. At a March 9 event to promote its Apple Watch, Apple CEO Tim Cook announced that 2,500 card-issuing banks and 700,000 merchants now accept Apple Pay. When the product was unveiled in September of 2014 only 6 issuing banks supported it and less than one-third of the current 700,000 merchants.

Consumers haven't wildly embraced NFC payment technologies but Starbucks has seen impressive success with its app that allows customers to pay without using a credit card. As cardless payment systems become easier, expect impressive buy in from consumers. There's no reason to believe that Apple Pay won't evolve to become a major player in the payment processing market especially with the massive marketing resources Apple is putting behind it.

Is Apple Pay safe and secure?

That's not an easy question to answer. Hackers will hack. They'll invest considerable time into figuring out how to crack the system. There's no way to say that any payment system is 100% safe. NFC payment systems have security vulnerabilities that are well documented but since Apple Pay doesn't use the actual credit card number, the system might be safer than other NFC systems.

What about the security of having a credit card stored on a phone? Apple's security technology is among the safest in the world. Hacking an iPhone is no easy task and since no information is sent or stored on Apple's servers, there is no concern of a data breach coming from Apple. (Other than credit card numbers used to purchase items from Apple's retail website.)

As we saw in 2014 with the massive amount of data breaches, the current payment processing system is far from secure. EMV [SEE OUR ARTICLE ON EMV TECHNOLOGY] is changing that but there is no reason to believe that Apple Pay isn't highly secure.

Bottom Line

Betting against Apple is never a good idea. Nobody knows if Apple Pay will become a mainstream payment technology but the new EMV standards will force retailers to upgrade their systems so the stumbling block of technology to use Apple Pay is quickly going away. If you're upgrading your technology, upgrade to NFC as well. If you have to upgrade later, it will come at a higher cost.

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