Stickers and skins--the next phase in proximity payments and mobile payments

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I just became the owner of a **GO-Tag**, an example of a sticker that contains contactless payment technology that you can adhere to an item of your choice. I removed the adhesive backing and attached it to the back of my iPhone, enabling it as a proximity payment device. The sticker contains an embedded chip that uses a technology called near-field communication, or **NFC** for short, which allows short-range contactless payments. This embedded chip technology is more ubiquitous than you might think. It's also used in transit cards and toll road transponders, in addition to plastic payment cards. In developing countries that did not invest as heavily in magnetic stripe infrastructure as we did here in the United States, chip cards are much more prevalent. And the lack of a legacy infrastructure in those countries has accommodated a smoother transition to the adoption of mobile handsets embedded with contactless technology.

Another innovation is the mobile phone payment "skin," which wraps and adheres to the phone and is embedded with a contactless payment chip. One product we found is called **Phoolah**. The skin-wrapped phone can be waved at a merchant’s point-of-sale reader to effect a transaction. Both the skin and the sticker are similar in that they work as open-loop, stored-value payments that are limited to a specific population of merchants participating in the rollout phase of both products. And what might make them the next phase in contactless payments is that they separate the payment functionality from the legacy plastic card to some other device, typically a mobile phone.

Both examples of the mobile phone skin and sticker are issued by Metabank and run on the major card association rails. Some of the retailers accepting stickers and skins include 7-Eleven, McDonald’s, and CVS, to name a few.

**Magnetic stripe inertia**

Advocates of chip technology assert that chip technology is more secure than the magnetic stripe variety because it is more difficult to duplicate, a process known as "skimming." Furthermore, because they store more information than stripes, the chips can accommodate more sophisticated security functions such as encryption and authentication. These enhanced security features have influenced the European Payments Council (EPC) to announce recently that it is considering a ban on magnetic stripe cards within the next few years in favor of chip cards augmented by PIN authentication.

However, chip technology has faced some hurdles in the United States as merchants and consumers are comfortable with legacy magnetic stripe products. The infrastructure has been long established in the United States and is expensive to change. Pilot contactless cards have been introduced running the parallel technologies, affording the use of both the chip and the magnetic stripe. The distribution of readers for both contactless and stripe is not consistent and has resulted in a certain degree of confusion for both consumers and operators at the merchant’s point of sale. What may overcome this confusion is the use of mobile
phones as devices with embedded chips. The prevalence of mobile telephones in the marketplace may increase the likelihood that consumers will try out the technology.

**Implications for mobile payments**
The industry is hard at work addressing the obstacles to mobile payments—different legal frameworks for telecom and financial institutions, the large number of carriers and handset makers, and the need to establish technical standards for consistent interoperability among all industry participants. For now, stickers and skins may provide a low-cost opportunity to both test consumer and merchant acceptance and transition the industry to the next phase of payment innovation.

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