

Date: 13 July 2017

Item: Ticketing: Improvements for Customers and Driving Down Costs

This paper will be considered in public

1 Summary

1.1 This paper provides the Panel with an overview of our programme to improve payment services for customers and deliver substantial cost reductions.

2 Recommendation

2.1 That the Panel notes the paper.

3 Background

Smart ticketing development

3.1 Oyster, introduced to customers in 2003, has transformed ticket retailing and enabled fundamental improvements in our services and operating cost base at a time of huge demand growth. Today, over 90 per cent of journeys on public transport are paid for with a card, making London a world leader in making ‘smart cities’ a reality.

3.2 The use of ‘pay as you go’ (PAYG), where customers pay per journey up to a fare cap, has increased steadily since 2006 and now comprises 52 per cent of all paid TfL journeys.

3.3 In 2010, PAYG was extended to the National Rail network in London. This caused a further reduction in demand for ticket sales, as more customers switched from paper tickets to Oyster. A further extension to Gatwick Airport was made in 2015, enabling visitors to travel through Victoria station without needing to stop to buy a ticket from us.

3.4 Contactless payment cards were introduced on buses at the end of 2012. In 2014, this was extended to Tube and rail services and included a new weekly cap allowing customers to benefit from the same price as someone using a 7 day season ticket. Contactless payments now account for two in every five PAYG journeys and are growing rapidly.

3.5 We have worked with Apple, Android Pay from Google, Barclays and Samsung to ensure that the experience of using a phone to pay for travel is optimal. Mobile payments now account for nearly 10 per cent of contactless payments.

- 3.6 The Revenue Collection Contract was awarded to Cubic in 2015 and will run to 2022 with an optional three year extension. The core operating costs of the contract have reduced by around 30 per cent compared to the original Prestige PFI contract which delivered Oyster.
- 3.7 As a consequence of all this the average number of journeys per sales transaction has risen from four in 2003 to nearly 12 in 2016. This has brought the daily sales demand down to around 1m today where otherwise it would now be over 2.5m:
- (a) PAYG demand now exceeds demand for season tickets. Over the last year, sales at Oyster Ticket Stops have fallen by around 20 per cent for Bus and Tram Passes and by around 10 per cent for Travelcard season tickets;
 - (b) only two per cent of our rail journeys are made using single tickets;
 - (c) paper tickets account for less than 10 per cent of all journeys, with many of these issued by Train Operating Companies;
 - (d) the cost of revenue collection has fallen from 14.3 per cent of revenue in 2005/6 to 9.2 per cent in 2015/16. We predict that this will fall to 7 per cent once the effects of the further improvements described in this paper are felt; and
 - (e) the evolution of payment services has enabled buses to stop accepting cash and has been critical to ensuring that the modernisation of Tube stations could meet its objectives by reducing demand for ticketing transactions.

4 Planned Improvements

On-line/mobile transactions

- 4.1 Big changes are about to be made. Approximately one per cent of our sales are currently made online. The barriers to purchasing online include the need to nominate a station at which to collect the purchase and waiting overnight for it to be available. Bus customers are effectively excluded from online. From later this summer, online purchases will be available for collection at any station and will be available for collection 30 minutes after the order is placed.
- 4.2 We will be introducing additional online security features which will make it harder for unauthorised mobile apps to “scrape” our website. These apps, over which we have no control, require customers to give them their login details. This is in breach of our Terms and Conditions.
- 4.3 Also in the summer, we will launch the TfL Oyster and Contactless mobile app. This is currently in a user pilot with around 900 customers and staff. Key features of the app include:
- (a) free to download from Apple and Android stores;

- (b) notifications to alert customers when their PAYG balance is running low or their season ticket is about to expire;
- (c) notifications when a Maximum Fare has been applied, making it easier to obtain a refund;
- (d) journey and charging history available in the app; and
- (e) Top-up PAYG or buy a season ticket in two simple steps.

- 4.4 From the autumn, we will extend the mobile and online proposition to bus customers, enabling them to top-up their Oyster card without the need to go to an Oyster Ticket Stop first. This forms part of a wider push to promote greater use of London's extensive bus service.
- 4.5 There will be new notifications for contactless payment customers in the app from early 2018. As well as the same maximum fare notifications as for Oyster customers, we will be able to alert contactless payment customers if their card has been declined by their issuer.
- 4.6 Some older (generally pre 2010) Oyster cards will not work with the new app. We will make it easy for these customers to either switch to contactless or swap their card for a new one in order to use the app via a dedicated page on the website. This will help to drive a migration away from these cards, which do not have the same security features as newer Oyster cards.

Weekly capping on Oyster

- 4.7 In 2018, Oyster customers will benefit from weekly capping, aligning the Oyster proposition with that already in place for contactless. This will allow us to promote PAYG more heavily as the payment method of choice, thus achieving greater fares transparency and improving social inclusion.
- 4.8 Weekly capping for Oyster customers will, in part, be delivered by processing Oyster journey data through the modern, sophisticated systems that calculate fares for contactless customers. This, combined with the system that will allow improved distribution of top-ups to readers for collection, will result in a significant improvement in our ability to refund Oyster customers automatically when they have accidentally incurred a maximum fare, enabling further savings to be made in customer support operations.

The Bus Hopper

- 4.9 In 2018, we will deliver the final phase of the Mayor's Bus Hopper, enabling customers to benefit from paying a single bus fare when making unlimited bus journeys within an hour (this benefit is currently limited to one transfer).

List of appendices to this report:

- Appendix 1 Ticketing: improving the customer proposition and driving down cost slide presentation.

List of Background Papers:

None

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Ticketing: Improvements for customers and driving down costs



Purpose

1. To describe what we are doing to:
 - Improve the customer proposition for payment of fares
 - Deliver substantial cost reductions
 - Support the safe and reliable operation of our transport services
 - Generate revenue
2. To highlight the timing of the programme and its outcomes as part of delivering our Business Plan

We need to innovate to attract customers to our services and to drive down operating costs.



Innovation through time

2003

- Annual & monthly seasons on Oyster

2005

- Daily capping
- Weeklies mandated to Oyster

2010

- Oyster PAYG on National Rail

2014

- Cashless bus
- Contactless on rail

2004

- PAYG launched

2006

- Oyster/cash price differentials

2012

- Contactless on bus

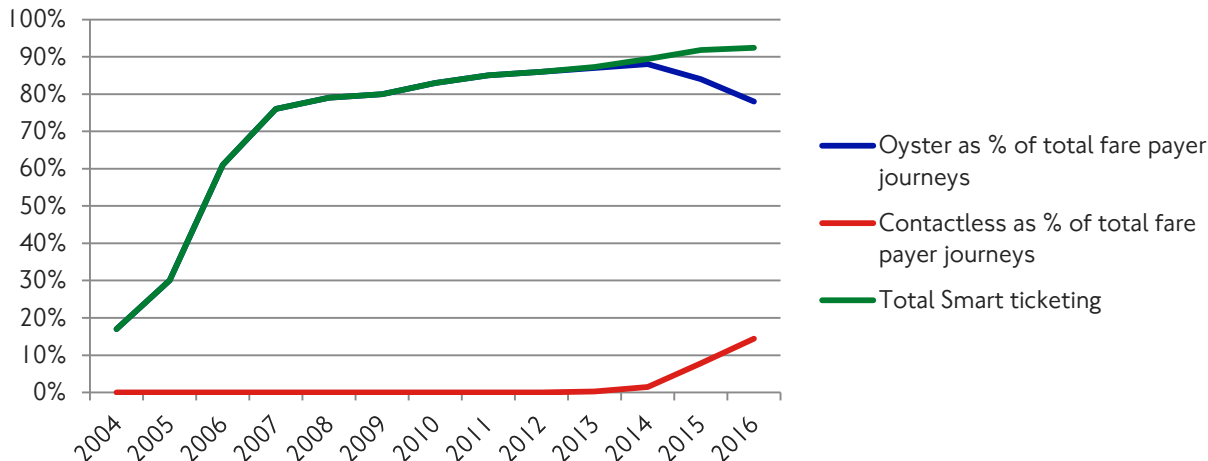
2015

- Fit for the Future – Stations
- PAYG extended to Gatwick Airport

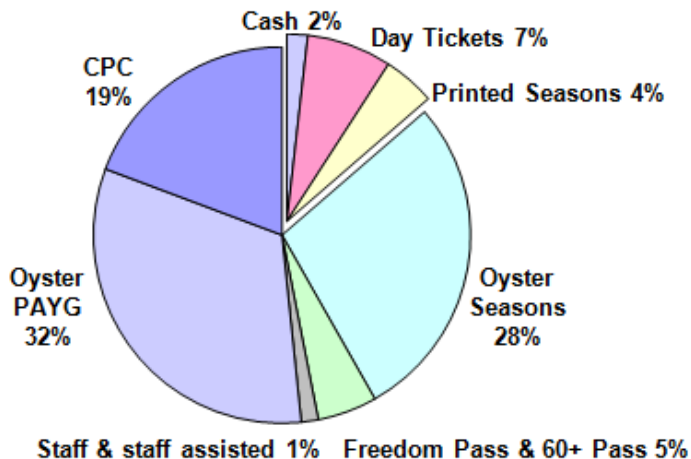


Smart revolution

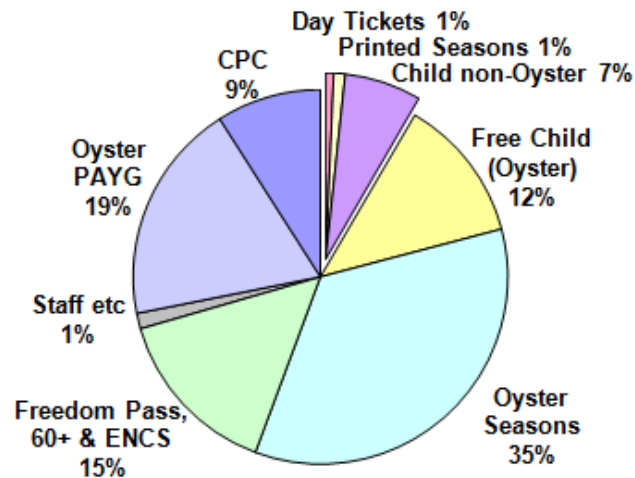
Smart Ticketing on Bus & LU



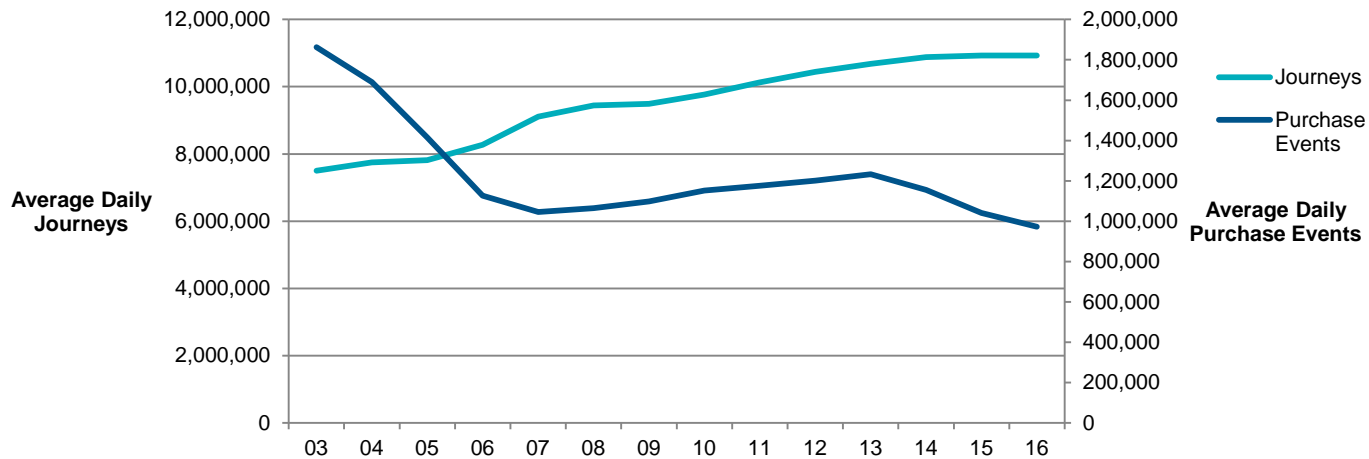
Underground journeys by ticket type – 86% Oyster/CPC



Bus journeys by ticket type – 92% Oyster/CPC



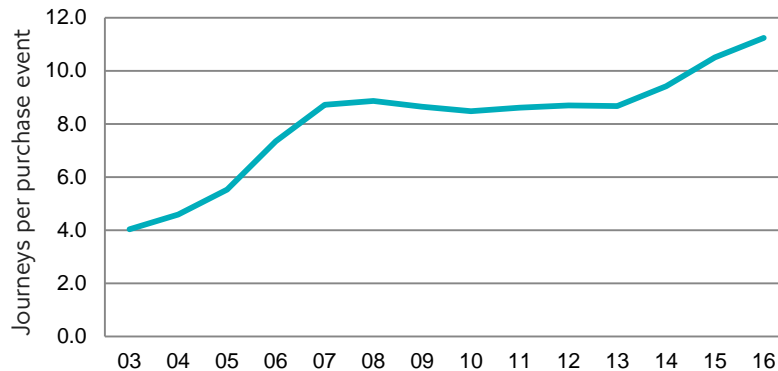
Changing nature of demand



PAYG and Season Ticket Trend



Ratio of Journeys to Purchase Events





Future Ticketing objectives

1. Improve the customer proposition
 - Easier to self-serve
 - More automated refunds
 - Make low-cost channels easier to use
2. To reduce the cost of sale
 - Commissions
 - Issuance of Oyster cards
3. Reduce dependency on bespoke legacy systems



Oyster/Contactless comparison

	Contactless		Improvements to bring Oyster into line 
Max Fare due to customer error	Identified and resolved prior to charge being finalised		Improve speed of issuing refund and how refund is collected
Weekly Tickets	Weekly Capping guarantees best value		Enable Weekly Capping for Oyster users
Capping	Considers all possible Extension Fare options		Apply Contactless logic to Oyster
Fare calculation	Fares finalised at the end of the day so all journey history is considered		Reprocess Oyster journeys using Contactless logic to ensure an identical charging outcome
Buying travel	No purchase required. Just touch your card and travel		Improve online/app proposition to let customers buy on the move



Scope of improvements in 2017/18

- Faster Universal Load – online purchases available after 30 minutes on all modes
- TfL Oyster and Contactless app
 - Sales
 - Notifications/alerts
 - Journey history making charges easier to access for contactless users
- Weekly capping for Oyster customers
- Multiple Bus Hopper
- Automated refunds delivered faster and with improved collection rate

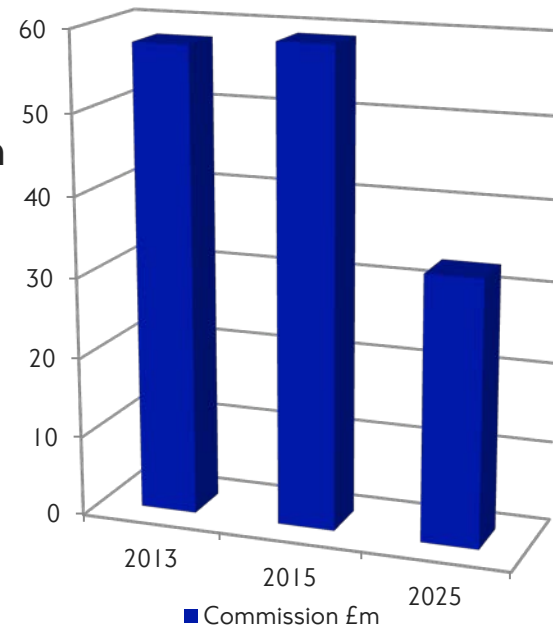
Objective is to reduce commissions on sales by encouraging online purchases



Business Case

Business Case Outcome

- £42m capex
- Business case dominated by net reduction in cost of commission for season ticket sales at Oyster Ticket Stops - net savings over capital costs of about £103m
- Also revenue generation from reduced journey times (£18m pa)



Underlying Assumption

All season tickets currently sold at Oyster Ticket Stops will migrate to other products and channels over 5 years



Deliverables

Target Date	Deliverable	Confidence Level	Risks & Dependencies
July 2017	Existing Oyster Online sales delivered to all stations and within 30 minutes	High	<ul style="list-style-type: none"> Rail reader release in June
August 2017	App available in Apple and Google Play stores. Sales restricted to Rail delivery only	High	<ul style="list-style-type: none"> Improvement in online sales delivery above 1st Generation Oyster Cards (see slide 14)
October 2017	Online and app sales available for collection on buses	Medium-High	<ul style="list-style-type: none"> Bus reader update
January 2018	Contactless notifications available on the app	Medium-High	<ul style="list-style-type: none"> IR35 resources impact Technical solution to deliver
January 2018	Refunds (e.g. Autofill) start to be collected from any station	Medium	<ul style="list-style-type: none"> Tight programme to have back office processing ready Ability to split out from Weekly Capping delivery Increased demand from PAYG growth
Spring 2018	Multiple Bus Hopper	Medium	<ul style="list-style-type: none"> Bus reader update
Summer 2018	Weekly capping for Adult rate PAYG on Oyster	Medium	<ul style="list-style-type: none"> New reader software FTP back office will be ready Alternative launch options being explored



App security

- Security review undertaken by KPMG and NCC
- All items identified needing addressed either on completed or on target for completion prior to customer launch
- Further independent review taking place prior to Go/No Go decision for app launch
- Cyber Security team fully engaged in on-going security monitoring
- Approach endorsed by IIPAG



Pilot feedback

Positive Feedback

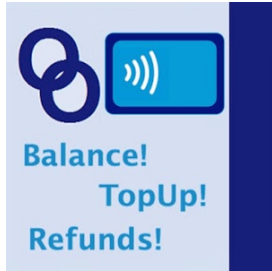
- App is easy to use and design is simple
- Ability to show balance and then top-up easily
- Travelcard expiry date is shown
- 30 minute pick-up time. No more need to queue at ticket machines
- Customers feel more in control

Suggested improvements

- A receipt for purchases. This will be available at Customer Launch as an email
- Enabling customers to set their own low balance notification threshold. This is planned, but we first need to understand customer behaviours to configure this correctly
- Integrate Journey Planner, rather than being taken out to the website. We are exploring the options for how best to do this



3rd Party Oyster / TfL apps on app store



Oyster Oyster and Contactless



London Oyster Contactless



Oyster Balance & Refund



Oyster on the Go!



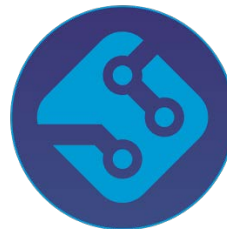
Oyster Mate



London Oyster Contactless



Oyster Reader



London Traveller



Oyster Balance



Online security

Look & Feel

- Many apps look like Oyster
- Have T&Cs which require signing up to
- Clearly state nothing to do with TfL, but evidence suggests users don't realise this



Screen scraping

- Many apps screen-scrape Oyster Online
- Reputational risk to TfL; direct risk to user in passing account details to unknown 3rd party
- Sales are "unapproved" but believed to be low volumes
- Believed to be between 200k and 2m app downloads

Screenshots



Actions

- Engage with app developer community on our branding guidelines
- Introduce new firewall to make screen scraping more difficult before online improvements in July
- This is in-line with new Cycle Hire website design
- This will prevent most unofficial apps from working

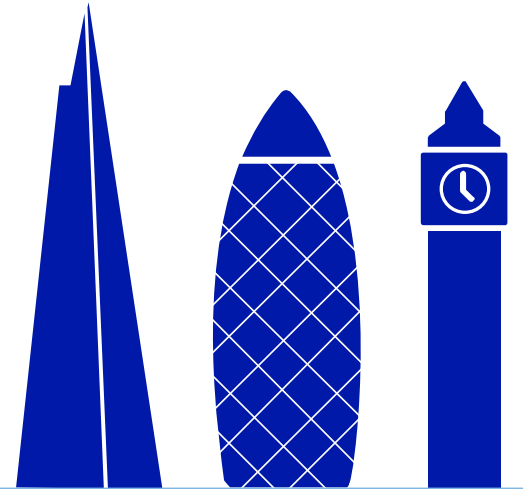


1st Generation Oyster cards

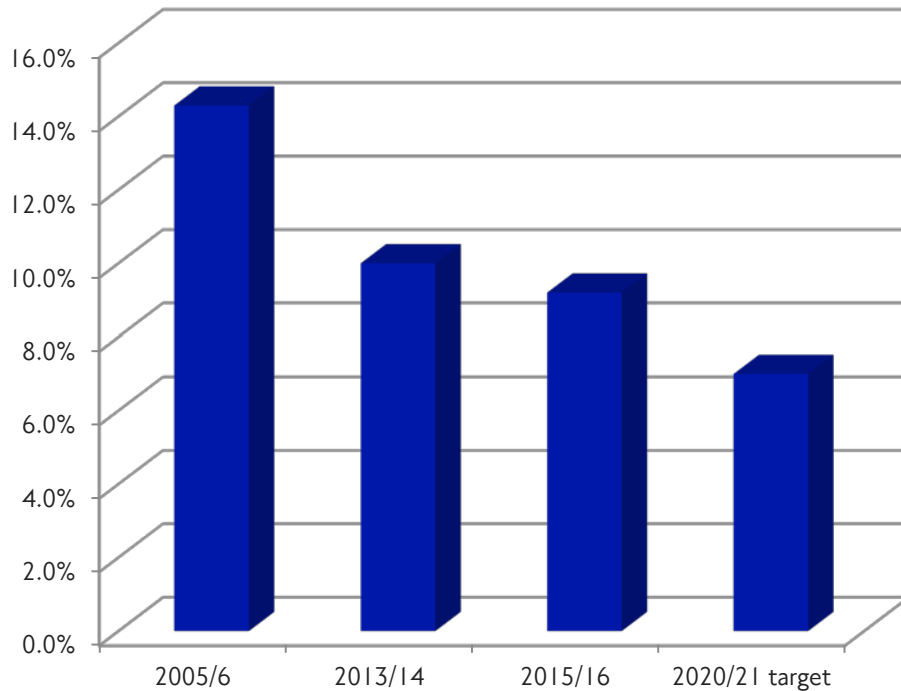
- Some cards issued before 2010 will not support new app sales proposition
- Customers will be encouraged to switch to contactless to fully benefit from our future proposition
- Customers who want to continue to use Oyster and use the App will be able to request a new card online and transfer products from their old card at no cost
 - Display a 1st Generation card-specific notification / link on the “My Oyster Cards” page
 - Provide a dedicated “migration” page with advice and facilities to help customers who wish to upgrade their card.



Appendix: Cost of Revenue Collection



Cost of Revenue Collection



Costs reduced by:

- New contract regime (twice)
- Cashless bus
- Introduction of contactless
- Reduction in cost of Oyster cards
- Reduction in commissions paid to Oyster Ticket Stops
- Reduction in Merchant Service Fee
- Reduced station staff costs (Fit for the Future – Stations)





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EVERY JOURNEY MATTERS