

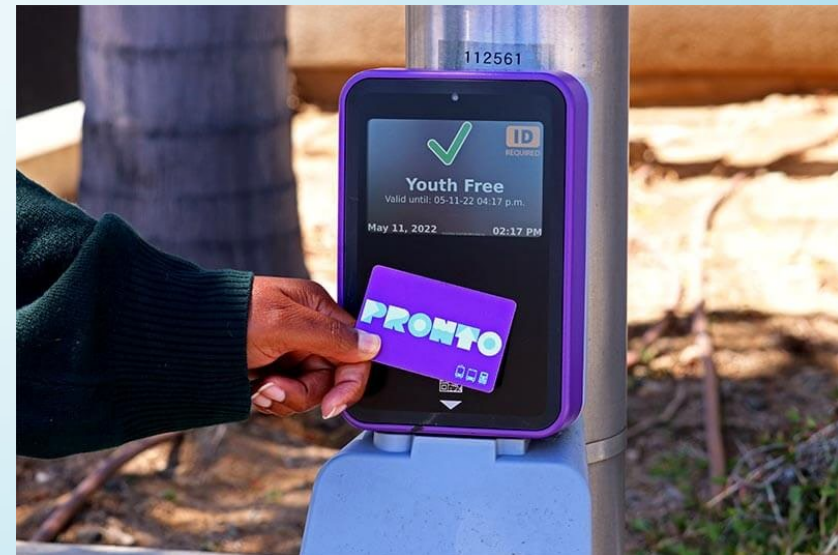
The Future of Closed Loop Transit Products and Linked Partnerships

February 26, 2025

What Are Closed-Loop Transit Products?

Closed-loop transit products are dedicated fare payment systems issued by transit authorities, usable only within a specific transit network.

- **Exclusive Use** – Can only be used for transit fares and approved services
- **Stored Value or Pass-Based** – Supports prepaid balances, time-based passes, and special discounts
- **Full Control** – Agencies can customize fare policy and business rules without dependence on external financial institutions



The Role of Closed-Loop in an Open World

Despite the growing trend toward open payment systems using credit cards and mobile wallets, closed-loop fare systems remain critical for many agencies. Why?

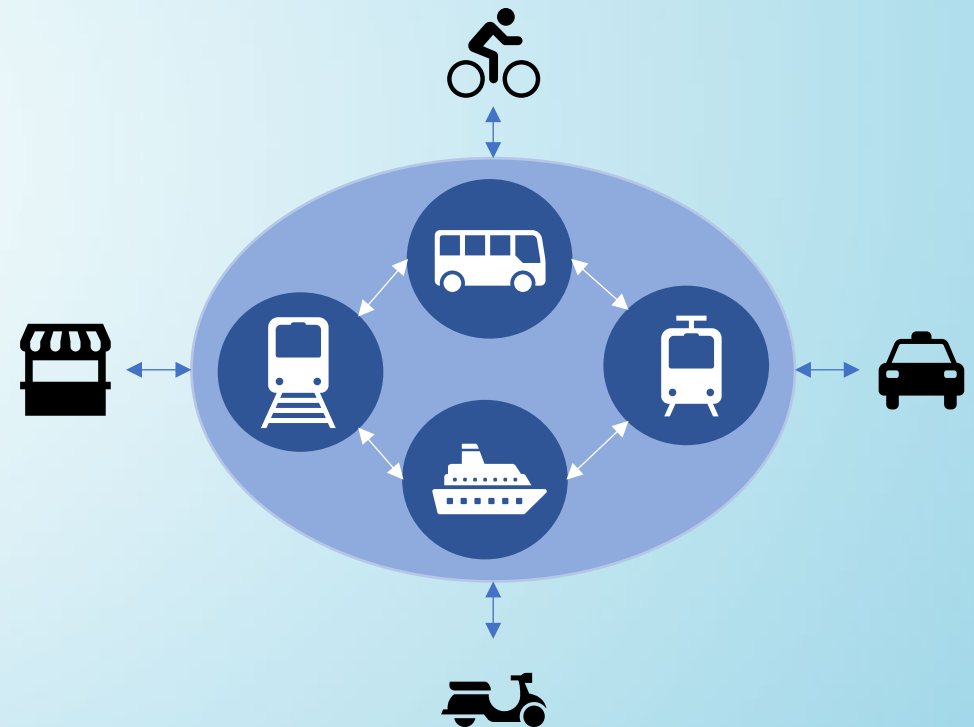


- **Financial Inclusion** – Closed-loop cards serve unbanked and underbanked riders
- **Cost Efficiency** – Lower transaction fees and better revenue control compared to open payments
- **Flexibility** – Custom fare programs, partner integrations, and fare media acceptance

Linked Partnerships: Expanding Beyond Transit

Transit agencies are increasingly forming linked partnerships to integrate various mobility services, including:

- **Rail, bus, and micro-mobility (bikes, scooters, ride-hailing)** under one fare/payment system
- **Regional collaboration** – enabling travel across multiple transit agencies with a unified account
- **Retail & Loyalty Integration** – using transit cards for small purchases or rewards programs





Israel Maldonado
Director of Fare Technology and Operations
San Diego MTS

The Agency

San Diego Metropolitan Transit System

- Largest Public Transit Provider in the County
- Bus and Light Rail Service
- North County Transit District Provides Commuter Rail
- Carried over 75M riders for FY24



The Agency and Fare Systems

History 101

- **1990s-2005: Paper-based system** – Mainly paper ticket machines, local data, cash only transactions.
- **2005-2021: Card-based system** – Compass Card system by Cubic, network connectivity, credit card payments accepted.
- **2021-Present: Account-based system** – PRONTO system by INIT, real-time cloud-based communications, open architecture, supports open payment validation.

The Agency and Open Payments

- Implemented July 2024
- Over 600K taps, equal to about 1.6% of electronic ridership
- Good option for special event attendees
- Not as easy to manage as closed loop
 - Complexity of the Mass Transit Transaction (MTT) model and the debt recovery process.
 - Merchant services ecosystem lacks a deep understanding of the transit use case.
 - Reduced fare benefits are more complex to track and apply than closed loop.

Back to the Future!

- What is next?
- How about “automated validation”?
 - Would significantly reduce the need for physical validators and costly infrastructure

The Cash Customer, and the Untapped Market

David Sutton, Senior Executive Officer, TAP/Finance LA Metro
The Future of Closed Loop Transit Products and Linked Partnerships
at the Identity & Payments Summit, San Diego 2025



**Open payment makes transit quicker,
easier, & more accessible for:**

- Banked riders
- Credit and debit card users
- Apple and Google Pay users





**But, what about
our cash and
low-income
riders?**



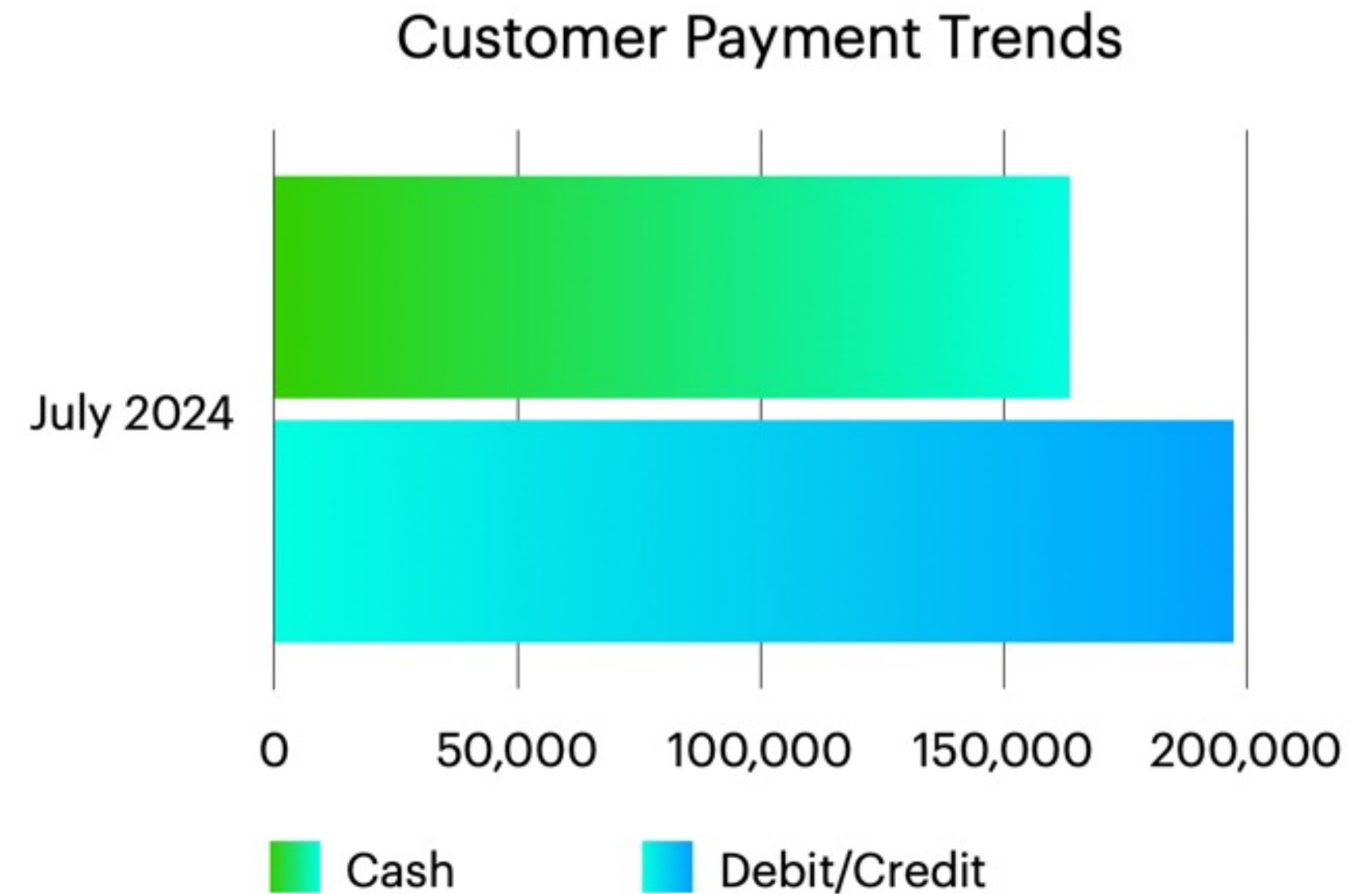
37%

of bus riders paid with cash at the farebox



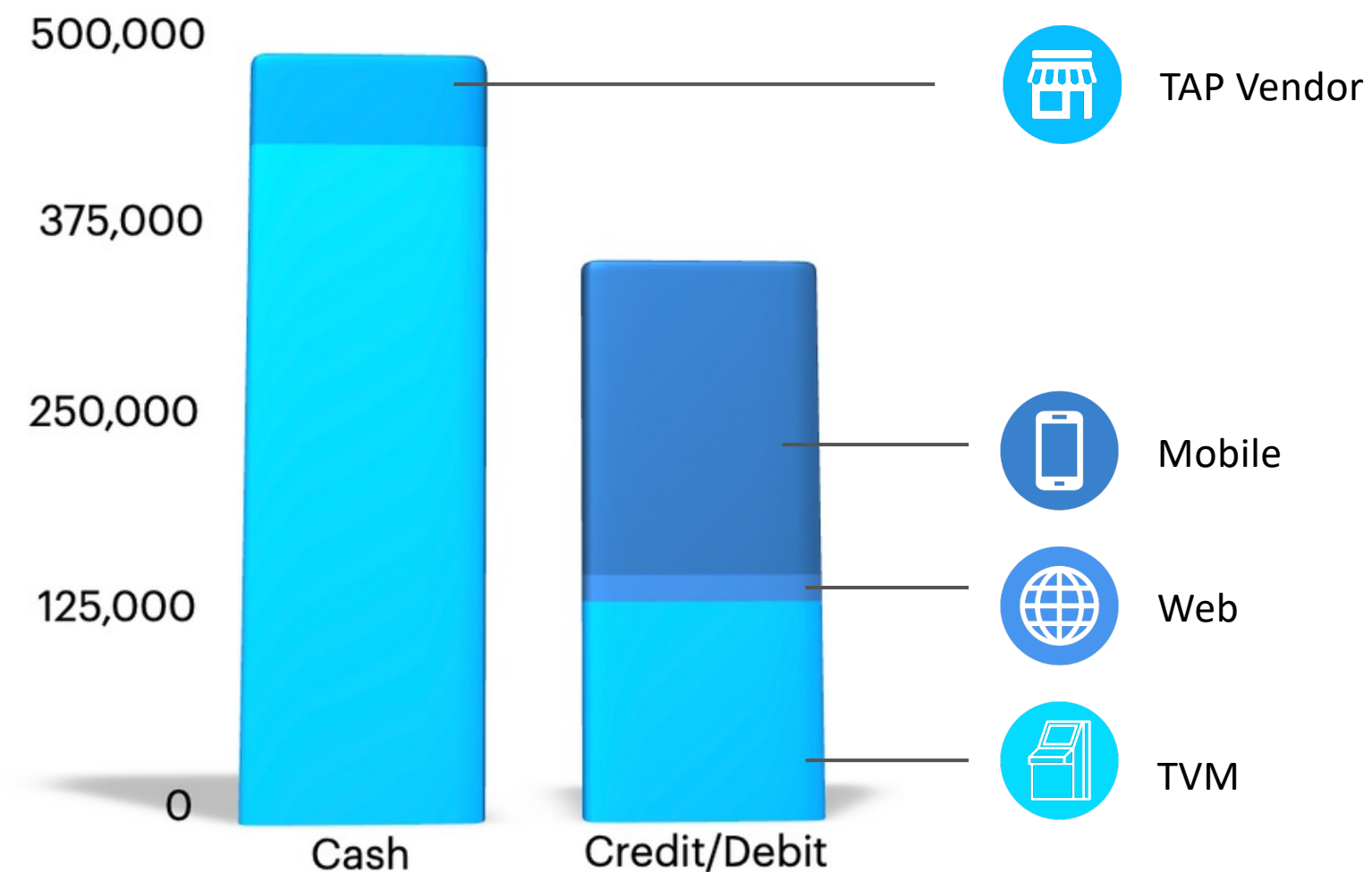
197,000

customers used cash to reload
their TAP card



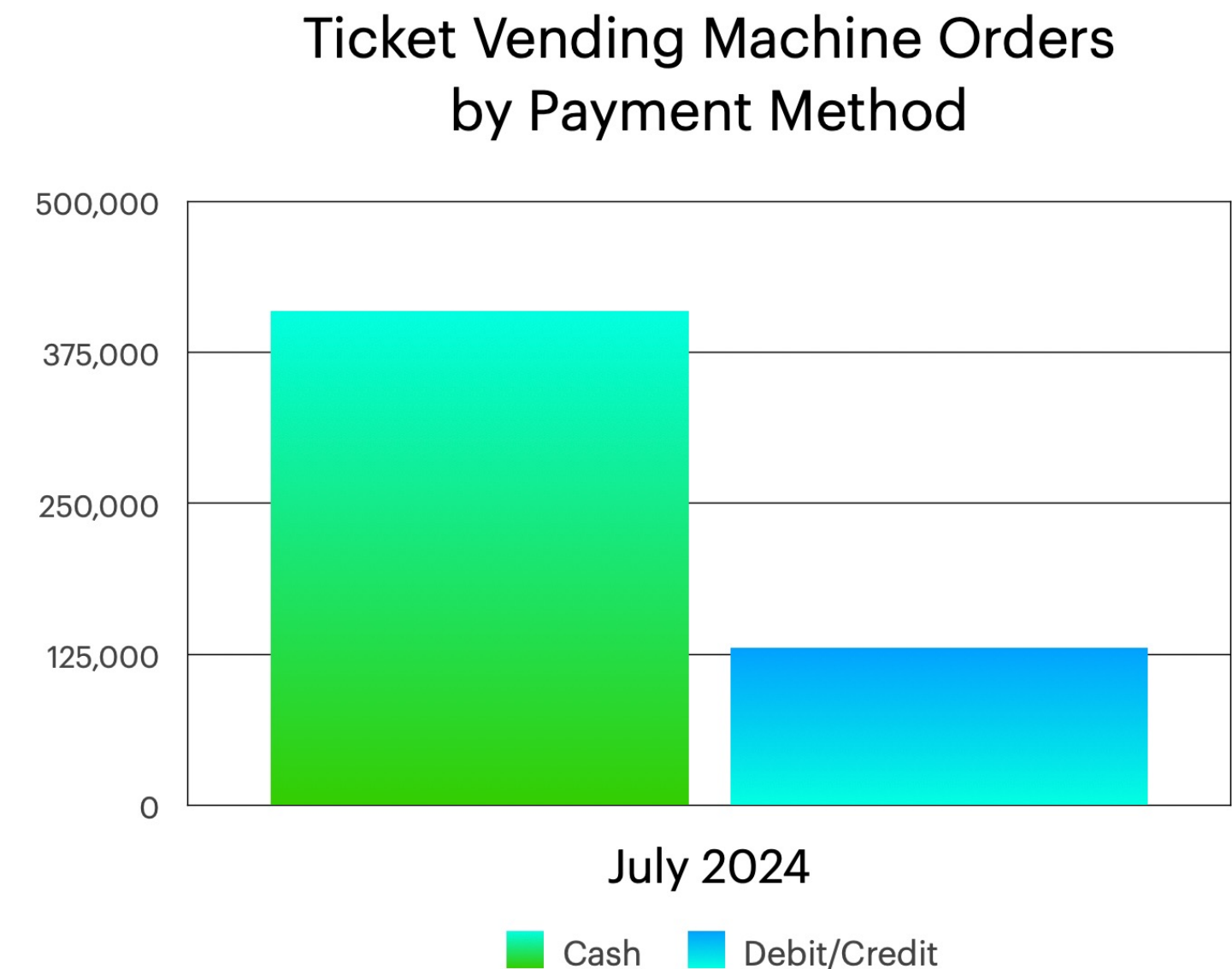
Order Payment Trends

Cash vs. Credit/Debit



There were **more cash transactions than credit or debit** for TAP Card reloads across the system.

At ticket vending machines (TVMs),
over 408K
transactions were paid
for with cash.



Even though cash is not the ideal solution, disenfranchised groups **often perceive it as the only option.**

5.9M

U.S households are unbanked

Data retrieved from the [FDIC](#)

Many of these households are:

- Low-income & transit dependent
- Hispanic or Black
- Have a disability or
- Single mothers



Many of these households are:

- Do not qualify for credit
- Cannot afford bank fees or balance thresholds
- Distrust banks
- Lack identification
- Prefer anonymity


Using cash has **unintended consequences**

Unbanked individuals are often subjected to the highest fees.



Prepaid cards, which are often considered a gateway to financial inclusion, tend to have higher costs, such as transaction, reloading, and ATM withdrawal fees.

Using cash also increases the risk of theft or violence.



Over 88,000

TAP Cards are purchased from a Ticket Vending Machine (TVM) every month*

*on average

Over 126K

TAP Cards were purchased each month
(2024 Averages)

In-person:



TVM: approx. 90K



TAP Vendor: approx. 4K

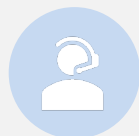
Online or over the phone:



Mobile: approx. 32K



Web: less than 300



Customer Service: less than 10

Monthly Cash Sales at Ticket Vending Machines



\$3.6M

or more in cash is collected

The average cash sale is

\$1.37

LA Metro studies show that 62% of cash customers hesitate to load large amounts, concerned they'll need the cash for other purposes.

Most customers use cash to load Stored Value, rather than purchasing other fare products like passes.

The average Stored Value sale is:

\$5.59

**Let's work
together to
build an
equitable
solution**



It has worked in the past

In 2011, as a part of the ComCast-NBC merger process, the FCC mandated the creation of 'The Internet Essentials' program. This nationwide initiative offered affordable broadband and digital skills training to low-income households nationwide.

**Let's work
together to
build an
equitable
solution**



There are long-lasting benefits for **everyone**

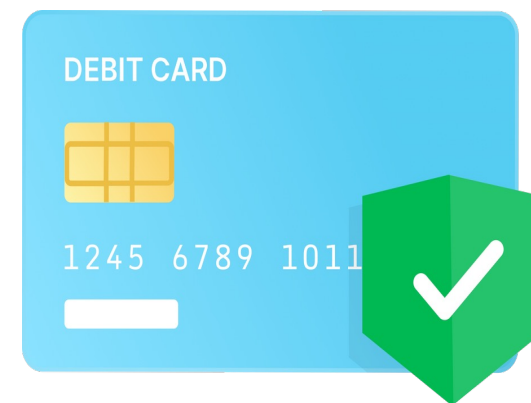
Customers benefit from:

- greater purchasing power
- increased access to transit benefits
- safer money management
- financial planning resources

**Let's work
together to
build an
equitable
solution**

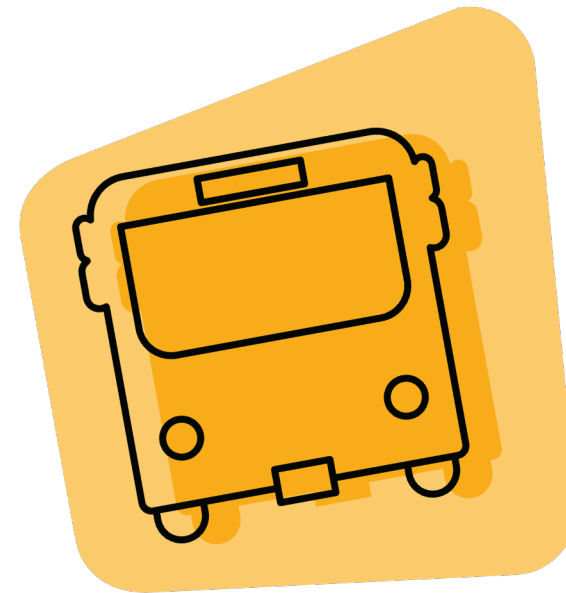
There are long-lasting benefits for **everyone**

Payment Providers benefit from:



- increased customer base
- partnerships with low-income programs
- replacement of smart cards with debit cards

**Let's work
together to
build an
equitable
solution**

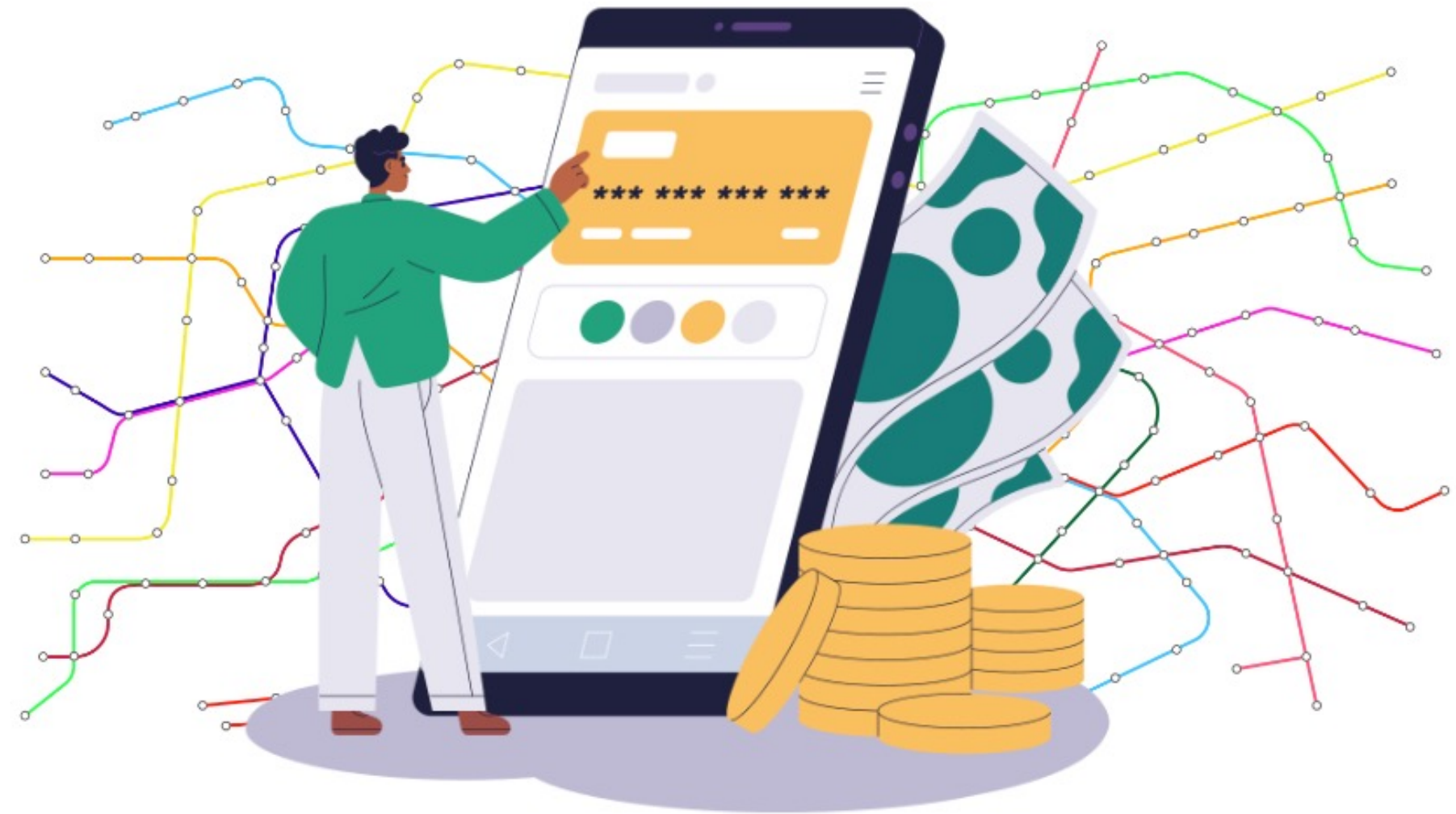


There are long-lasting benefits for **everyone**

Transit agencies benefit from:

- diverse and equitable payment solutions
- increased ridership
- globalized payment solutions
- partnerships with low-income programs

Our strategic alliances drive change by **developing equitable solutions for cash-based and low-income customers.**



Our preferred solution



The financial product

- Has lower transaction fees for general purposes
- Has no transit transaction fees
- Is compatible with mobile wallets
- can be used for transit and general purposes (i.e., grocery stores)
- Integrates lower threshold amounts
- Allows for custom branding
- Has rewards features (i.e., gamification, points, sign-on)

Our payment providers:

- Has a plan cash and regular fare riders before the World Cup 2026, and a plan for Reduced Fare and low-income riders after 2026**
- Do not require our customers to provide excessive information*
- Provide a seamless user experience
- Can provide test payment cards
- Supports shared revenue
- Effectively facilitates quality card company recommendations

*The customer information we collect for many of our reduced fare and low-income riders aligns with Know Your Customer (KYC) standards

** See the TAP customer journey deck

Getting a card

How does the current process work, and how might it change in the future?

Getting a card

Currently: Helena, a senior rider, goes to a train station and uses a ticket vending machine (TVM) to purchase a TAP card with cash.

In the future: Helena can purchase a contactless, EMV TAP debit/credit card using cash.

How it works now:



How it could work:

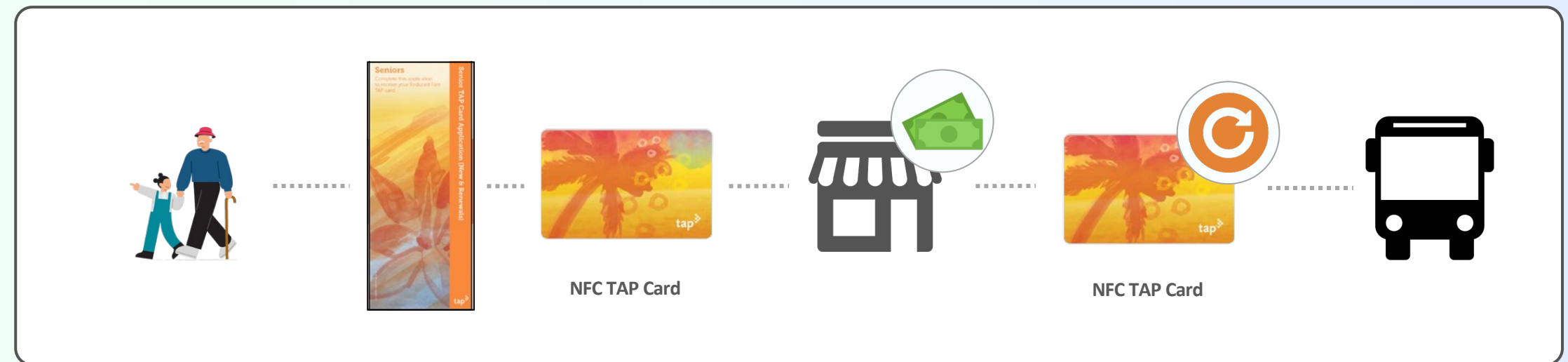


Getting a card

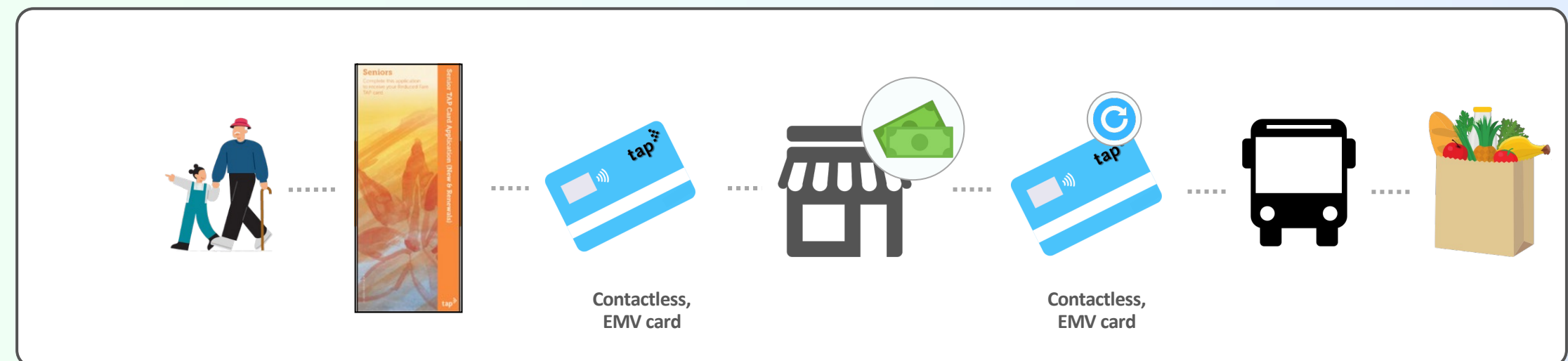
Currently: Paul applies for the Reduced Fare program and receives a TAP card from a program administrator. He frequently reloads his fare at a vendor location in small increments, in case he needs to save cash for other essentials like groceries.

In the future: Paul can use a contactless, EMV TAP card to ride transit, purchase groceries, and more.

How it works now:



How it could work:

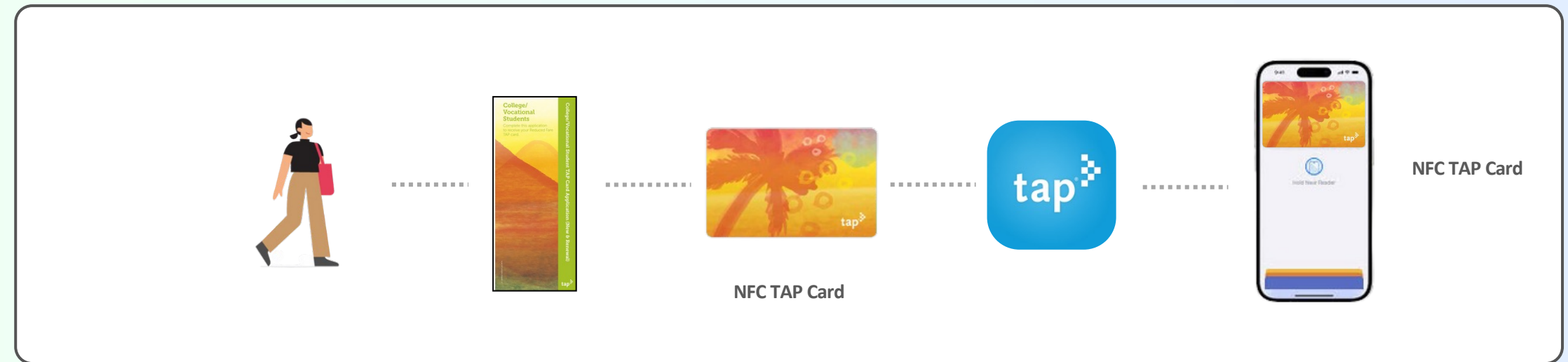


Getting a card

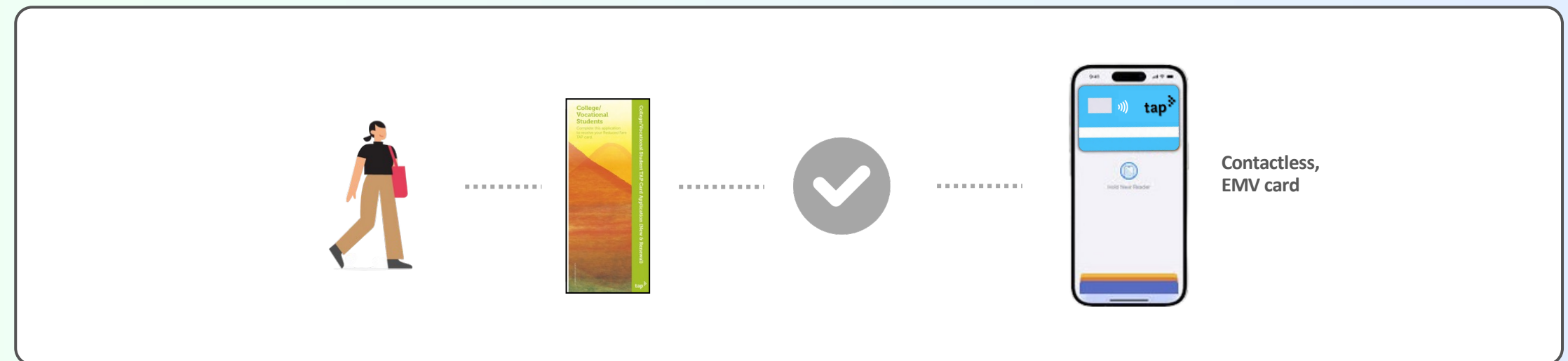
Currently: Sofia applies for the Reduced Fare program and receives a TAP card from a program administrator. She downloads the TAP LA mobile app to virtualize the card and add it to her digital wallet.

In the future: Sofia does not need to get a plastic TAP card. Instead, she can choose to get her TAP contactless EMV card issued digitally.

How it works now:



How it could work:



Questions?

Call me at 213-922-5633 or write: sutton@metro.net

Closed-Loop vs Open-Loop Systems

Discussing the benefits and challenges of transit payment architectures.



Angela Miller
VP and General Manager, Umo Mobility Group
Cubic Transportation System

Thank You

Q&A