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# Contactless Payments

## Where We've Been and Where We're Going

As the U.S. payments landscape continues its transition to a more electronic-based ecosystem, today's customers expect a wide variety of options when it comes to paying for their purchases. And while contactless payments are no stranger to the marketplace, the technology behind this payment method is being used to enable the newest forms of payment acceptance expected to dominate the marketplace – smart cards and mobile wallets.

Contactless card payments provide immediate benefits to both the merchant and the consumer in that they offer more control for the consumer (the card does not leave the cardholder's hand) and increased efficiency for all with an expedited checkout process. And with Near Field Communication (NFC) capability as part of the integrated offering, merchants accepting mobile wallets at their point of sale will soon be able to take advantage of real-time couponing and loyalty programs.

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Contactless payment is one application of contactless smart card technology—a technology that has already been around for some time but continues to evolve with the payments landscape. Simply put, a contactless smart card houses a small embedded antenna that allows the card to communicate with a device reader (in this case, the merchant's point-of-sale system) using Radio Frequency Identification (RFID) to complete the transaction. And all of this can be done without any need for physical contact (swipe) to complete the sale—hence the term *contactless*.

According to the Smart Card Alliance, the most basic form of a contactless payment transaction is as follows: The transaction is initiated when the consumer holds the card in close proximity (less than 2-4 inches) to the merchant's point-of-sale (POS). Payment account and security information is then sent wirelessly (via radio frequency) from the contactless payment card to the terminal. The POS system routes the transaction over

the existing payment processing networks, authorizing the transaction through the existing issuer systems. The sale is then complete and the consumer proceeds through the line with their card never even leaving their possession.<sup>1</sup>

Taking this technology into the mobile payments arena and adding the NFC functionality is part of what makes contactless a future driver in the marketplace today. NFC is a set of standards for smartphones and point-of-sale systems that enable a connection (using RFID) which can ultimately allow for two-way communication. With this capability, customer retention and brand loyalty can be taken to the digital airwaves—with both the merchant and the consumer benefiting from this two-way exchange. A possible scenario is as follows:

- 1. Consumer goes to pay for purchase at participating retail location.**
- 2. Using his mobile wallet, consumer pays for purchase via contactless reader.**

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## The Contactless Roadmap

ExxonMobil was one of the U.S. pioneers of the tap (or wave in this case) and go philosophy, having launched their SpeedPass™ product back in 1997. With SpeedPass, ExxonMobil customers could pay at the pump with nothing more than a wave of their key fob—a faster, more efficient way to pay being the main benefit. American Express® was next to follow in 2003 with their ExpressPay™ “waveable” product. MasterCard® jumped in next with PayPass™—a “tap and go” product—and in 2004, Visa® introduced Visa payWave™. All these products, whether waved or tapped, support the contactless functionality and can be used at any participating merchant location.<sup>2</sup>

When it comes to determining a target audience for NFC/mobile wallet adoption, a 2011 Javelin study<sup>3</sup> claims mobile banking customers are a good place to start, with 40 percent of them reporting that they would be likely to store their payment card information on their phone to make a mobile payment, compared to only 14 percent of all consumers. They go on to report that much of the foundation on the consumer roadmap to contactless payments has already been laid: mobile phone usage is at 84 percent among all consumers and smart phones are now being employed by 35 percent of all mobile users.

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3. Smartphone device and device reader exchange payment data and immediately a coupon is generated and sent to the consumer.
4. Consumer downloads coupon to mobile wallet and coupon is redeemed at point of purchase, via NFC technology, during next visit.
5. And this is just one of many possibilities offered by this functionality.

As a result of this mutually beneficial data exchange, the consumer now has a loyalty offering that can be applied to his next purchase, while the merchant improves the likelihood of repeat business and builds brand loyalty from that particular consumer. As this example proves, contactless technology has far surpassed its original tap and go offering.

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Premium Card Solutions future proof terminal enables you to accept Contactless and more.

**SWIPE** Let them swipe. And keep business as usual. Your customers currently pay with debit and credit cards, and that's not going to change anytime soon. You need a terminal that accepts payments as quickly and securely as it always has – and one with the built-in technology to accept any new payments on the horizon.

**CHIP CARDS** Let them use chip cards. And fight fraud. Referred to under many different names, the chip-enabled payment card has successfully driven down face-to-face fraud around the world – and is making its way into customers' wallets in the U.S. The Future Proof terminal accepts chip cards and significantly reduces your chance of accepting counterfeit cards.

**TAP** Let them tap. And keep the lines moving. Contactless readers enable customers to wave or tap their bank cards at the point of sale, bypass the signature and go. Behind the scenes, the technology works just like a swipe. This means speedier checkouts and safe, secure transactions for you and your customer.

**MOBILE WALLET** Let them use their mobile wallets. And keep customers coming back. Contactless readers enable customers to pay with many of the mobile wallets that are becoming available. This technology allows them to pay with a simple wave of their smart phone at the point of sale and will eventually allow you to offer coupons, loyalty discounts and more. This two-way communication is the next step in payments and with the Future Proof terminal, you will be ready for it.

## The Merchant Perspective – What the Future Has in Store

Those merchants who choose to accept contactless payments at their POS realize the benefits in several different areas. According to the Smart Card Alliance, contactless transactions are 63 percent faster than cash transactions and 53 percent faster than traditional credit card transactions. The drive-through environment tends to see the most significant time savings with anywhere from 12-18 seconds being saved on each individual transaction.<sup>3</sup>

Contactless payments also result in fewer requirements to handle physical cash, in addition to improved operational efficiencies. And for those merchants offering mobile wallets as a form of payment acceptance, the NFC technology available with contactless readers opens a wide range of possibilities for customers to utilize their services anywhere and anytime. Below are just a few examples:

**Ticketing** –Tap an NFC device to purchase rail, airline, movie, concert or event tickets. A PIN is required for this option.

**Transportation** –In addition to ticketing, NFC also has applications for parking.

**Boarding Pass** –An NFC device may act as a boarding pass, reducing check-in delays and staffing requirements.

Other marketing opportunities include:

**Virtual Tour Guide** –Tap an NFC tag for information or an audio/video presentation at a museum, monument or retail display (similar to a QR code).

**Coupons** –Tapping an NFC tag on a retail display or SmartPoster may give the user a coupon for the product.

**Marketing** –Tap a SmartPoster tag to see information, listen to an audio clip, watch a video or see a movie trailer.

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## Concluding Thoughts

Ultimately, contactless payment acceptance (as a stand-alone solution) offers three key benefits: speed, security and an increase in overall spend. The benefits significantly multiply, however, once NFC is added. With NFC technology, the contactless merchant now has the ability to offer their customers the payment options they want and in a way that promotes brand loyalty and customer retention. And with mobile payment acceptance on the brink of saturating the payments landscape, contactless truly is the new wave of the future.

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A 2011 MasterCard survey reports that 62 percent of Americans who use a mobile phone would be open to using their device to make a purchase. And this number has the potential to grow significantly once the mobile wallet becomes a mainstream method of payment.<sup>4</sup> VeriFone also reports that NFC technology will be the most used solution for mobile payments by 2015.<sup>5</sup>

Additional studies conducted by MasterCard on their proprietary contactless offering (*PayPass*) provide even more impressive results. The study shows that within the first 12 months of their first contactless transaction, *PayPass*-enabled accounts spent almost 30 percent more on average. Not to mention, the 30 percent was consistent across the board, including low, medium and high spend segments (determined based on monthly spend prior to adoption). Even more substantial is the lift in cross-border spend, which exceeded 50 percent in all spend segments.<sup>6</sup>

From a merchant perspective, it seems clear that the numbers speak for themselves.

1. Smart Card Alliance "Accepting Contactless Payments: A Merchant Guide"
2. Federal Reserve Bank of Kansas City "Payments System Research Briefing: Contactless Payments"
3. Javelin Strategy & Research "2011 Contactless Near Field Communication (NFC) Mobile Payments"
4. Smallbiztechnology.com "Ignore Mobile Users at Your Own Peril: 3 Steps To Help You Cater to Tiny Screen Customers"
5. verifonezone.com "VeriFone NFC Strategy"
6. Businesswire.com "New MasterCard Advisors Study on Contactless Payments Shows Almost 30% Lift in Total Spend Within First Years of Adoption"