



Tipping point

There are few technologies to have filled more column inches in the past three years than contactless payments. As distribution of cards and deployments of contactless-enabled PoS terminals gathered pace, it seemed this form of payment was finally being embraced into the mainstream. But the industry remains fragmented and customer response lukewarm. Is this technology really coming of age?

Predictably, the payments companies who have placed large bets on contactless say a new day is dawning. In its annual results statement at the beginning of the year, Visa said that its revenues had climbed thanks to the "rapid adoption" of contactless payments. UK consumers spent £460 million on Visa contactless in the year to November 2013. This represents more than a fourfold increase, from payments of just £96.7 million in 2012.

Mark Austin, director of contactless at Visa Europe, believes the solid set of financials are representative of a shift in public perception. "This is a sign of increased consumer awareness and

confidence, as well as the growth in acceptance," he says.

Large-scale deployments have certainly helped contactless' cause. Many High Street names, including the likes of Marks and Spencer, McDonald's and Boots, have kitted their stores out with the technology. Likewise, card issuers have upped distribution of contactless-enabled cards: one in three people in the UK now have a card in their wallet or handbag. But the two need to go hand in hand, says Mark McMurtie, director at Payments Consultancy. "The issue with contactless is that it has been a classic chicken and egg scenario," he says. "Do you issue the contactless cards before the retailers have upgraded their acceptance infrastructure, or do you do it the other way around?"

Raja Ray, product manager at VeriFone, admits that the case for contactless isn't attractive enough to entice IT directors to upgrade their hardware before the end of the natural hardware lifecycle. "In many retail segments, contactless by itself is



probably not a compelling enough proposition to demand a proactive upgrade. So they'll implement it as they upgrade their PoS systems and upgrade their card acceptance systems," he says.

But Ray also suggests that there will be increasing pressure from consumers to accept contactless – especially in light of developments around mobile payments (m-payments). "For the first time there will be a consumer demand that will require filling. We're going to start seeing customers saying, 'I'd like to use my phone because I can see other people doing it.' At the moment, there isn't that demand among customers, although there's demand in the industry; retailers see the service benefit."

The retailer POV

The benefits for retailers are two-fold. The first is a cost-saving benefit, the second time saving. Roy Ford, IT director at Spar, realised merchants could save 40 per cent on processing fees if customers paid by contactless.

Time savings are particularly applicable in high volume retailers, such as a coffee shop or a Marks and Spencer at a train station in central London. Both serve high volumes of customers – particularly during peak times. Serving customers more quickly can mean more cash ringing in the till.

Is the time-saving incentive similarly compelling for consumers? Alex Kwiatkowski, head of financial insights Europe at analyst firm IDC, is sceptical. "Is that convenience factor enough? Am I in that much of a hurry that I've got to pay for my cup of coffee by contactless because I could not wait the 30 seconds it takes for me to hand over a £5 note and for the barista to give me my change?"

Worries about security continue to hamper take-up too, says Bernhard Lachenmeier, head of products and marketing at SIX Payment Services. "Customer concerns about security is one of the major hurdles to widespread uptake of contactless payments so far," he admits. Yet he's not conceding defeat just yet. "That is not to say that there is no hope of encouraging a change in perception towards the technology. While many Europeans may

struggle to remember the days before chip and pin, this technology was also met with hostility from consumers in its early year," adds Lachenmeier.

With more use, customers are likely to become less wary of contactless and more attuned to its merits, says McMurtie. "Quite rightly, consumers always have concerns, but these are dissipated with usage, and also with reassurance from their bank and from the retailer. A greater push towards education should help speed up adoption."

Visa Europe's Austin agrees that retailers need to be educating both their staff and customers about how the technology works. "You do need to make customers aware that contactless is now a payment option for them, and you need to make sure your staff are confident in accepting contactless cards," he says. And card issuers need to play their part too, he adds. "Retail support is crucial in encouraging consumers to use contactless payments, but it's not the only factor: there's an onus on us and on our members who issue contactless cards to do our bit to encourage usage."

With more than 36 million contactless cards now having been issued in the UK and 300,000 merchants accepting payment through this method, it seems this has reached a tipping point. And the needle on the dial could be moved a few more inches by some high-profile upcoming deployments. A major milestone will be the roll-out of a contactless payment pilot by Transport for London across the London transport network later this year. Londoners can already tap their credit or debit card instead of an Oyster Card on the capital's buses, but a similar system is expected to be implemented across the entire network later this year.

There are other predictions for the medium-to long-term future of alternate and contactless payments. M-payments is a major growth area, says Lachenmeier. "The next step for contactless will be incorporating NFC technology into smartphone devices. With consumers increasingly completing a number of day-to-day tasks from their mobiles, this could prove to be a popular solution."

"So far logistical issues have stood in the way of widespread adoption of contactless technology via smartphones – mobile-enabled contactless payments rely on the right deals between credit card companies, banks, mobile manufacturers and mobile networks. However, Visa has made moves to bring mobile networks on board across Europe, which could be a sign that the contactless revolution is on its way. Vodafone, Orange and Telecom Italia signed deals with Visa across Spain, France and Italy last year, so contactless smartphone technology will be one to watch in 2014," he predicts.

Gazing into the crystal ball, technologists conjure images in the mind's eye of paying for groceries via wearable technology. But Kwiatkowski warns against technology for technology's sake. "Just because something is technologically possible, that doesn't make it operationally desirable."