



Wave good-bye to swiping

CUSTOMERS CAN PAY WITHOUT A PIN, SIGNATURE OR CASH

Marian Light was running errands in her hometown of Kansas City one afternoon when she made a quick stop at a 7-Eleven for a fountain drink. Her payment method: a dollar bill and some coins fished from the depths of her purse.

“I just would feel silly charging something under \$2,” Light said. “And I don’t have a debit card.”

Banks and credit card issuers want to change that purchasing philosophy by converting what traditionally have been cash purchases at quick-service merchants into electronic payments—and the “contactless” payment method may be the way to make that transition happen, said Terri

Bradford, a payments system research specialist for the Federal Reserve Bank of Kansas City, who recently authored an article on contactless payment.

So instead of digging for money, paying the cashier and fumbling with change, Light could complete the entire transaction with just a wave of her hand. By flashing a contactless debit or credit card in front of a small terminal at the register, Light could cut her transaction time by as much as half. And not just at the convenience store, but also at fast food restaurants, gas stations, movie theaters and other businesses with this newest fast-pay capability.

“One challenge for networks and

issuers is to get cardholders to use their existing cards more, in particular as a replacement for cash,” Bradford said. “Toward that end, the card industry is trying to make acceptance of card products more appealing.”

This means offering customers a method that is quicker than a cash transaction and more convenient than entering a PIN or signing a receipt. Although eliminating this verification step could mean easier access by non-authorized users, the small purchase limit on the contactless device prevents major trouble if it is lost or stolen. Plus, cardholders wouldn't be liable for fraudulent use.

If Light's bank issues her a contactless debit card, she will use it—contactless seems fast and easy, she said. But Light also supposed she'd be shopping more often and buying more than just a soda because she wouldn't be limited to cash on hand.

That's exactly what card issuers are predicting: increased small-purchase spending, and in turn, gained revenue from what would have been cash purchases. For merchants, customer loyalty and patronage likely would rise as a result of the ease of shopping. This would help offset any additional costs such as new equipment and transaction fees.

How it works

The contactless payment method works like debit and credit payments do, but doesn't require a physical swipe to make the purchase. Instead, radio frequencies embedded in the contactless device complete the purchase when it's flashed in front of the payment terminal. The customer sees a confirmation signal, and no additional steps are needed to complete the transaction. The device can look like a traditional debit or credit card, or the technology can be embedded in other items such as key fobs (similar to frequent-shopper cards from grocery stores or small wands). Meanwhile, card issuers also are exploring placing the technology into other items for convenience such as cell phones, watches and money clips.

The functional goal of contactless payment for merchants and customers is speed. Because the check-out process is streamlined, less staff

time at the cash register is necessary, and the time customers spend waiting in line and actually paying are both reduced.

Research from CVS—which recently implemented the method at 5,500 pharmacy stores nationwide, including in the Midwest—shows the average contactless transaction is 12.5 seconds while a traditional card transaction is 26.7 seconds and cash is 33.7 seconds.

Evolving to contactless payment

In 2005, paying with a debit card tied with cash as the most frequently used payment method for in-store purchases, according to a study from American Bankers Association and Dove Consulting. And during the last two years, 45 percent of consumers reported paying less



CONTACTLESS PAYMENT is featured at quick-service merchants where customers want speed, such as fast food restaurants and convenience stores. Users wave the device at the terminal to pay. No additional steps are needed.



LESS TIME WAITING IN LINE and faster transactions are benefits of contactless payment. Merchants like this 7-Eleven in Missouri see this new option as a way to reduce the time customers spend waiting to pay, which can increase during rush-hour times.

often with cash. Their substitution: debit cards (53 percent), credit cards (40 percent) and checks (7 percent), according to the study.

To spur continued growth in card payments, issuers now are promoting the contactless payment method, although the technology and concept is not new. In 2003, both American Express and MasterCard launched their own versions of contactless payment cards, as did Visa in 2004. Banks also have begun to distribute contactless debit and credit cards to current and new cardholders.

However, ExxonMobil can be credited with launching contactless payment in the United States when the fuel company introduced its "Speedpass" almost 10 years ago. Speedpass is a free service that allows customers to pay for gas at the pump with a flash of a key fob.

Rolling out Speedpass when the contactless payment concept was a foreign one was based on a simple goal: customer convenience, said Don Turk, ExxonMobil spokesperson. Although the concept was unfamiliar and the technology was new at that time, Speedpass was embraced by

many dealers and customers, Turk said. The payment option has grown steadily during the past decade; now more than 6 million Speedpass key fobs are active and can be used at more than 14,000 ExxonMobil stations nationwide.

For seven Exxon stations throughout Wyoming, installing contactless payment options is an investment in the future, said Brad Christiansen, chief operating officer for Red Eagle Oil, owner of the stations.

"Technology is going to be a market position," he said, adding contactless payment will be an integral part of that. "They (customers) are after the convenience of it, and for us to be in the convenience business, we need to address that."

Since its inception a few years ago, the percentage of customers in

Wyoming who use ExxonMobil's Speedpass is still small, but the payoff for the stores has been significant. The average number of times a customer visits the station has increased to 2.7 times a month from 1.7 times a month since Speedpass was introduced, Christiansen said. Contactless pay at the pump has not reduced inside business, such as snack and beverage purchases that also can be made with Speedpass. The average non-fuel purchase amount has jumped about \$2.60 higher since Speedpass was introduced, he said.

"You can see the impact over the long term," Christiansen said.

He predicts two factors will spur contactless payment growth in Wyoming and elsewhere: customer education and an increased variety of merchant use, such as at grocery stores, to make the payment option more mainstream. According to Bradford's article, this is likely to happen, and now is the time.

"Momentum seems to be building for contactless payments," she said. "And a rise in their use seems probable."

Bradford suggests that the recent interest in contactless payment likely can be attributed to the widespread merchant acceptance of debit and credit card payments. This acceptance, coupled with the shift away from cash and checks, has created “a ripe atmosphere,” Bradford said. “And issuers, realizing the opportunity to capitalize on the revenues to be gained by converting cash transactions, have demonstrated both an interest and willingness to explore ways to differentiate their card products.”

While the concept is still being introduced in many Midwest businesses, several banks and credit card issuers have recently implemented contactless payment terminals around the re-

gion. Last year in Colorado, Chase Bank U.S.A. introduced its “blink” contactless payment card to hundreds of thousands of shoppers for use around the state, according to the company.

popular, especially with younger clientele. Since the beginning of the year, her store has accepted contactless payments, but only a few shoppers use them, she said.

Burtin is in favor of the new method because most of her customers—the majority pay with cash—are in a hurry. Plus, it would free up staff from the cash registers. Burtin supposes, just like anything new, it will take time for the word to spread, cards to be issued and customers to become comfortable with this new payment method.

As customers continue to make the transition away from checks and cash to debit and credit cards, Bradford speculates contactless pay-

“ **Momentum seems to be building for contactless payments. And a rise in their use seems probable.** ”

ments may be the next “payment wave.” Her article suggests both merchant and consumer acceptance will be high in the next few years as the payment method becomes more familiar in the coming months. Contactless payment has made its introduction and should catch on.

“I think right now is the best time for this to happen,” Bradford said of the newest payment trend. “Just as the magnetic stripe expedited card payments as compared to the impression machines and telephone authorization, contactless technology has the potential to do the same.”

Nationwide participating merchants include McDonald’s, Arby’s, Walgreens, Cold Stone Creamery, Regal Entertainment Group movie theater chain, as well as several NFL stadiums such as Arrowhead Stadium, home to the Kansas City Chiefs.

Enticement

Card issuers want to make contactless payment attractive to merchants, who have the option whether to place a terminal at their registers. For example, Visa recently announced it would lower fees charged to certain retailers to accept debit and credit card purchases that total less than \$15. Visa also raised the total purchase amount requiring a signature to \$25, allowing lesser transactions to be completed faster.

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BY BRYE STEEVES, SENIOR WRITER

Many merchants view this additional payment option as a plus for customers, but aren’t sure yet to what extent it will be used. Some merchants wonder if contactless payments will actually replace cash purchases, or if they would be used only by those who already pay with traditional debit and credit cards.

Marcey Burtin, a 7-Eleven store manager in Missouri, predicts contactless payment will be

FURTHER RESOURCES

CONTACTLESS: THE NEXT PAYMENT WAVE?

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