



Smart Card Alliance

Contactless Payments: Delivering Merchant and Consumer Benefits

A Smart Card Alliance Report

Publication Date: April 2004

Publication Number: PT-04002

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About the Smart Card Alliance

The Smart Card Alliance is the leading not-for-profit, multi-industry association of member firms working to accelerate the widespread acceptance of multiple applications for smart card technology. The Alliance membership includes leading companies in banking, financial services, computer, telecommunications, technology, health care, retail and entertainment industries, as well as a number of government agencies. Through specific projects such as education programs, market research, advocacy, industry relations and open forums, the Alliance keeps its members connected to industry leaders and innovative thought. The Alliance is the single industry voice for smart cards, leading industry discussion on the impact and value of smart cards in the U.S. For more information, visit www.smartcardalliance.org.

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Executive Summary

Consumers Benefit from Contactless Payment

Millions of U.S. consumers are already paying for purchases using contactless payment, with millions more expected this year as new financial industry-backed contactless payment initiatives are launched nationwide. Consumers love the convenience and speed of paying with a contactless card or fob—no more fumbling for cash, counting change, or worrying about whether they have enough cash for a purchase. In many cases, consumers also don't need to sign a payment card receipt or enter a personal identification number (PIN). While paying with a payment card but through a contactless interface may appear to be a minor difference, the impact on today's busy consumer is significant.

Both MasterCard International and American Express have been conducting contactless payment pilots in the United States and have reported strong consumer approval. These pilots use radio frequency (RF) communication between a contactless device and a point-of-sale (POS) terminal to transmit consumer payment information. The speed, convenience, and control of contactless payment transactions result in consumers favoring the contactless payment device and the merchants accepting contactless transactions.

Other contactless payment initiatives (for example, U.S. transit systems and ExxonMobil Speedpass) have reported similar positive consumer reactions.

Merchants Benefit from Contactless Payment

Contactless payment is particularly attractive in merchant segments where speed and convenience of payment are essential (for example, quick-service restaurants, gas stations, convenience stores, parking facilities, transit services, entertainment venues, and unstaffed vending locations).

Merchants may realize a number of benefits from contactless payment:

- Fast transaction times move customers more quickly through the payment process.
- Increased customer spending, increased frequency of purchases, and increased customer loyalty increase revenues.
- Reduced cash handling, improved payment terminal reliability, and streamlined payment processes improve operational efficiency and reduce operating costs.

The new contactless payment initiatives in the United States also offer merchants opportunities to increase differentiation and customer satisfaction in highly competitive retail markets.

Contactless Payment Delivers a Positive Business Case

Merchants can implement a contactless payment solution quickly and easily and start accepting the contactless payment cards and fobs that are now being issued. American Express, MasterCard, and Visa have standardized on a single contactless payment standard in the United States, ISO/IEC 14443, and are implementing or recommending a contactless payment approach that leverages the existing payments infrastructure. What this means is that merchants can easily add a contactless RF payment terminal to their existing POS systems and start accepting contactless payment. The business case for certain merchant segments shows significant increases in revenue with a modest investment.

Merchants who can benefit from faster transaction speeds and increased consumer convenience should assess the business case for upgrading POS systems to support contactless payment, along with traditional magnetic stripe payment. The combination of positive consumer experience, standards-based technology, use of the existing payments infrastructure, and support from major financial industry players offers compelling business drivers for contactless payment. In 2004, merchants can take advantage of the nationwide rollout of financial payments industry-backed contactless payment solutions to create a strategic competitive advantage and increase sales.

About This Report

This report was developed by the Smart Card Alliance to discuss merchant benefits and the business case for implementing contactless payment in the United States. This report provides answers to commonly asked questions about contactless payment, such as:

- What merchant segments can benefit most from contactless payment?
- What financial organizations in the United States are supporting contactless payment?
- What are the benefits and business case for adopting contactless payment?
- What does a merchant need to do to implement contactless payment at the point of sale?
- Are there issues for merchants to consider in a contactless payment implementation?

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