

FINANCIAL SERVICES sectorREPORT

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Cashing in on Technology

Contactless payments signal the end of the road for cash



One of the fastest moving and most exciting trends in the Financial Services industry right now is contactless payments. With Mastercard, VISA and American Express all embracing the new technology and moving it forward at lightning speed, it is going to have a huge impact on the way that consumers pay for products and services.

For the card scheme providers, the opportunity represents one of the biggest strategic objectives for the next few years. Instead of focusing so heavily on competing with each other for traditional marketshare, the wider opportunity is in cash, and the worldwide opportunity for converting cash payments into plastic payments is estimated to be worth several hundred billion pounds per annum.

The technical explanation of this chip based technology is that it uses radio-frequency identification (RFID). In practical terms, it means that European consumers will soon be able to make transactions by waving their card in front of a point-of-sale (POS) terminal which is equipped with a contactless reader. Geared towards the high volume, low value "every day" transactions, the card scheme providers claim that the system will make the purchase process faster and easier, while offering all the same security protections as traditional payments.

The US has the fastest growth and acceptance of contactless payments, with some 10 million consumers using this technology to transact at over 160,000 terminals in 30,000 merchant locations. Whilst the Asia Pacific region is also ahead of the game here in Europe we are about to see the market unfold with the UK, Germany and Italy predicted to be the biggest markets.

From a consumer point of view this new technology represents a purchasing revolution and those with a contactless card will be able to use it to pay for their everyday items. It works in exactly the same way as the existing Oyster card on the London Underground offering the ultimate in convenience - no need to enter a PIN code, no need to sign any paperwork, no need to delve into your pockets to get the right change. You just wave the card at a reader and 'off you go'. Likewise from a merchant's point of view, the potential benefits are huge - not least that the average 'basket value' is understood to be significantly greater using card over cash.

Major brands won't miss out either, as using the latest Near Field Communication technology contactless payments will soon be made available via mobile phones. Handsets will be able to download electronic marketing messages and money-off vouchers from 'Smart' billboards that will be redeemable at point of sale. Of course the key to successfully delivering highly targeted marketing messages to handsets will surely be dependent upon the data that's driving it. This may be historical transactional data, third party lifestyle data or a combination of the two - and if it's done well, opens up enormous opportunities to put a brand's latest offers literally into the hands of the consumer at just the right time.

"Cash men" like Arthur Daly and Del Boy Trotter may resist the new technology, but for the rest of us, a near-cashless world could soon become a reality. Has the mobile phone finally overtaken the Euro as the biggest threat to the Queen's head?