

# ***Are We at a Contactless Inflection Point?***

*George Peabody  
Mercator Advisory Group  
CTST 2009*

# *Are We at a Contactless Inflection Point?*

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## **Agenda**

- Where We Are: Contactless in the Wider Context
- The Trouble with Contactless: Asymmetric Benefits
- Mobilizing Contactless

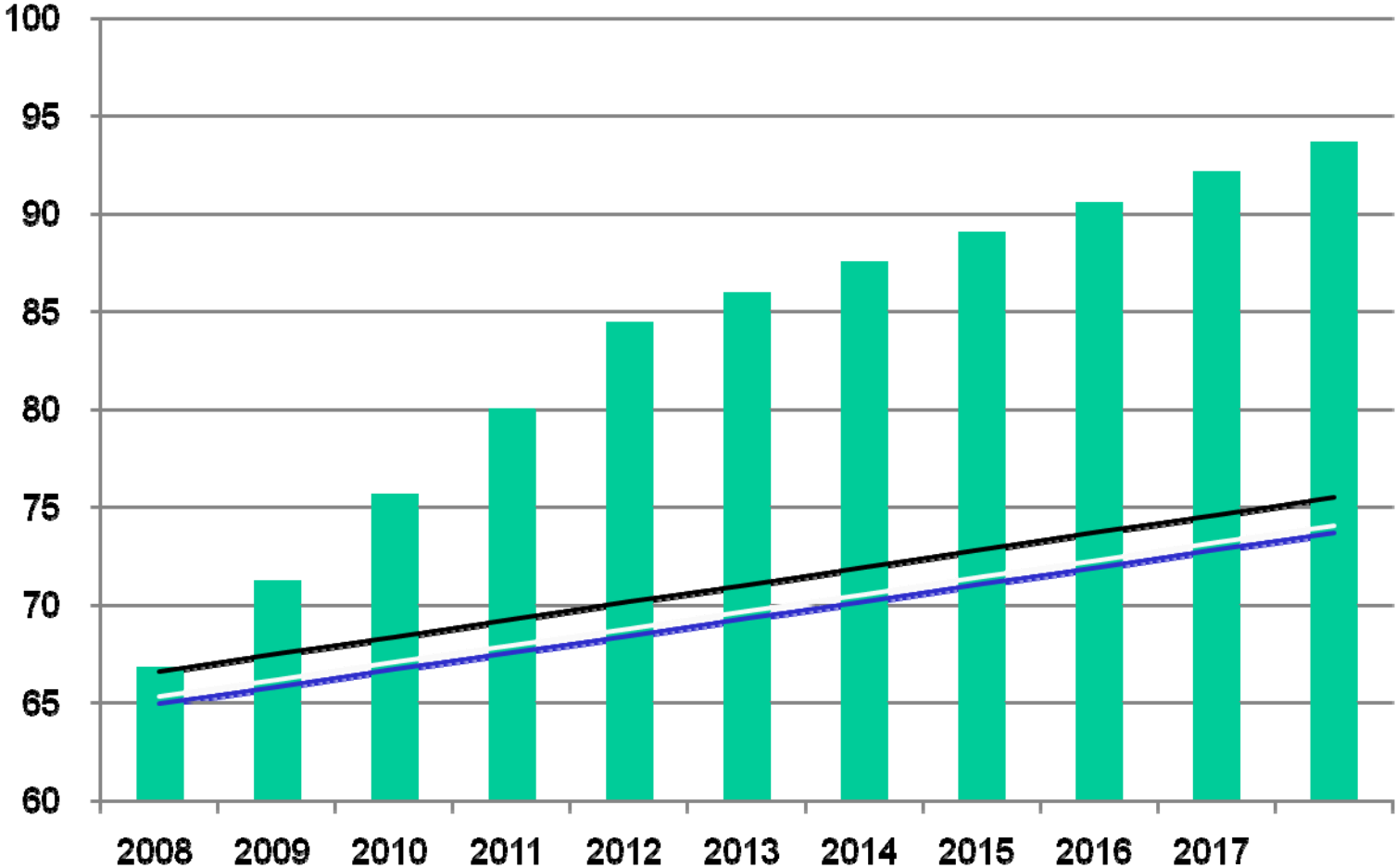
# ***New Territory and Uncomfortable Ground for the Payments Industry***

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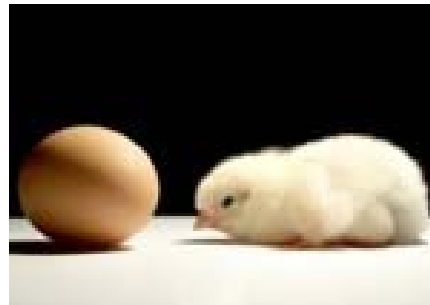
- Credit card industry under the magnifying glass
  - New regulatory environment, the Credit Cardholders' Bill of Rights
- US merchants near revolt over:
  - PCI compliance costs
  - The cost of payment processing
  - Open loop rewards programs
  - POS equipment lifecycles
- A National Security Crisis
  - Moving toward the heart of the payment network
  - International organized crime
  - International industrial espionage

# *If the “New Frugality” sticks, then PCE will decline and with it transaction volumes*



# ***For Contactless Payments: The Chicken and Egg Stare Down Continues***

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# *There is Progress to Report*

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- Contactless Readers
  - Contactless readers > 700,000 globally
  - VivoTech reports over 340,000 installed units in US
  - Large retailers / QSRs / Pharmacies adopting
- Card Issuance
  - Close to same levels as last year
  - Improved targeting to drive usage
- US Transit considering open loop more seriously



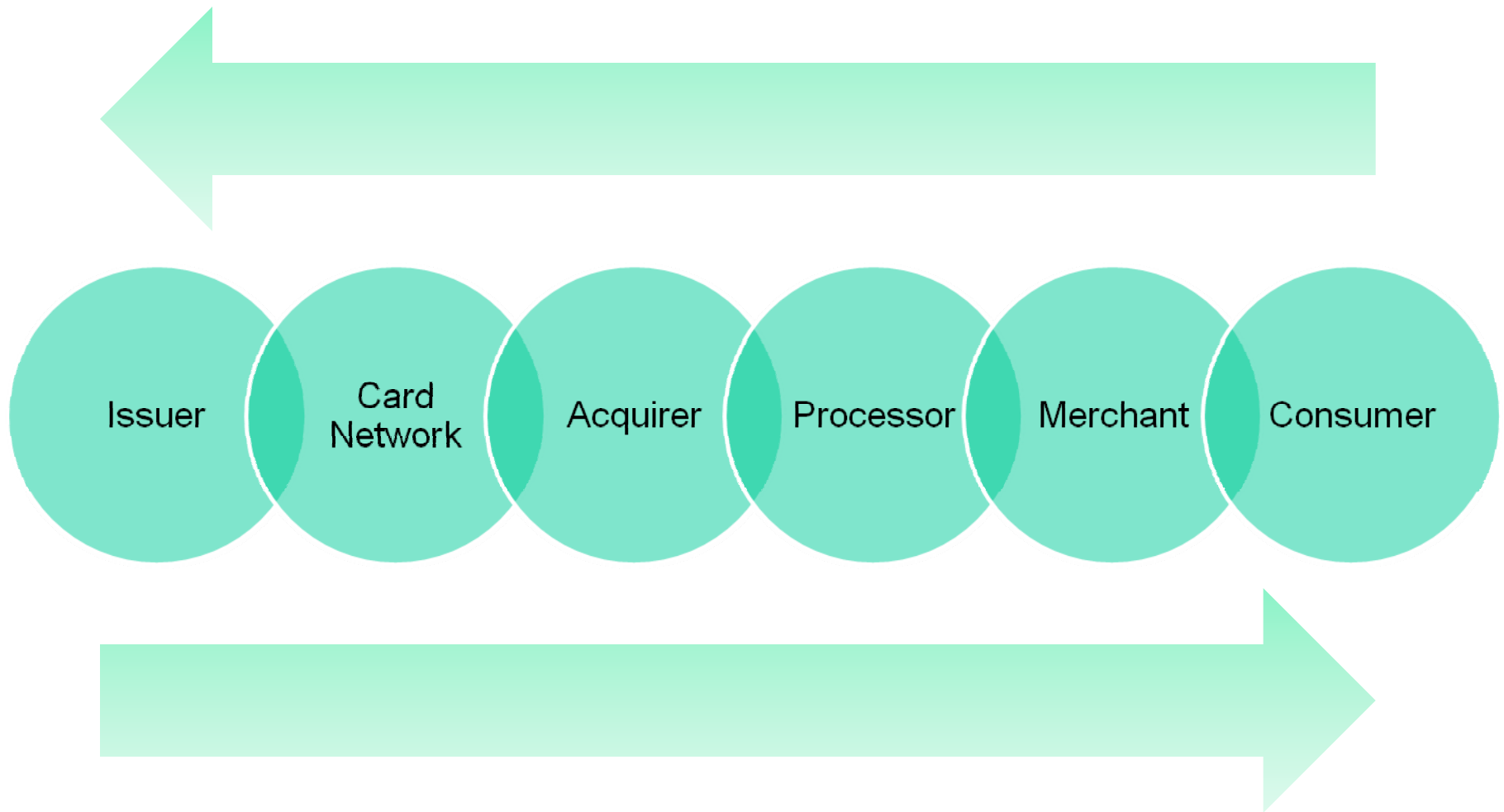
## *But are we at a tipping point?*

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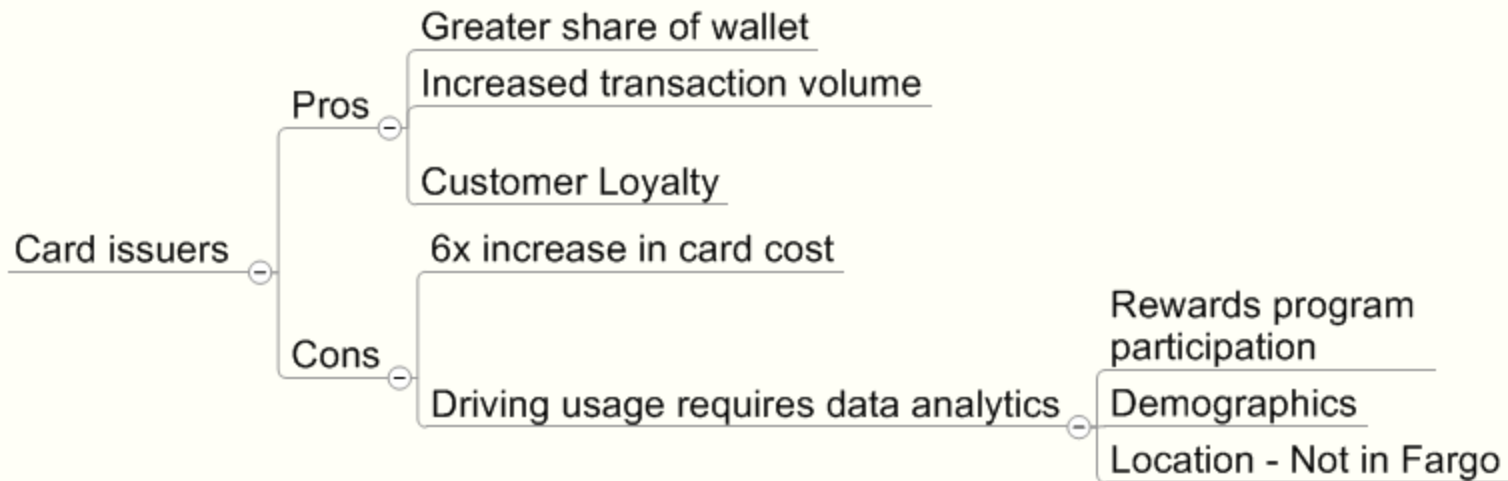


- First Data's view:
  - Debit cards did not take off until 40% of the retail locations that mattered (grocery) became debit-enabled
  - 40% of retail locations that matter are now contactless-enabled
  - Therefore, contactless is poised for growth
- Issuer view:
  - Satisfied with contactless program
  - Data analytics required to target card issuance to increase usage over earlier 10% activation and contactless usage rate
  - Tie in with Issuer-based Rewards and Loyalty program helping drive usage

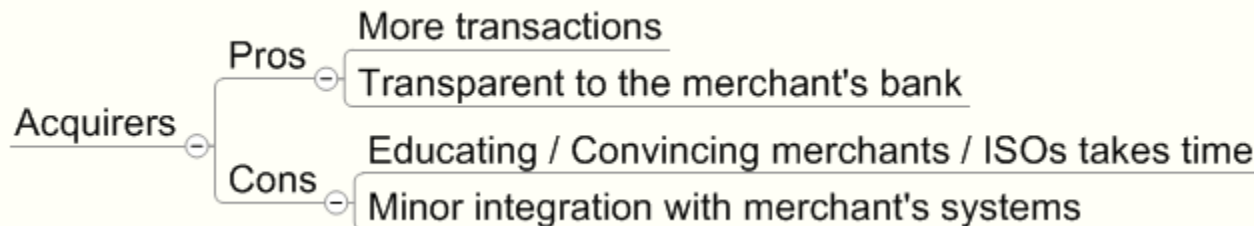
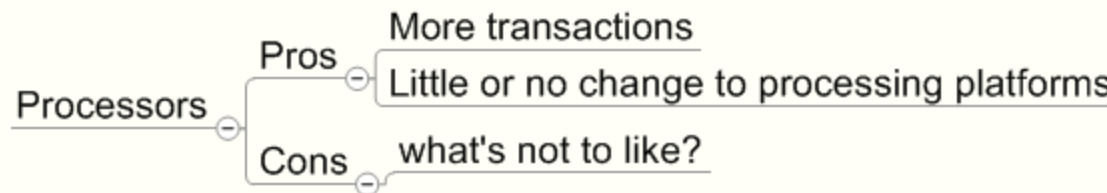
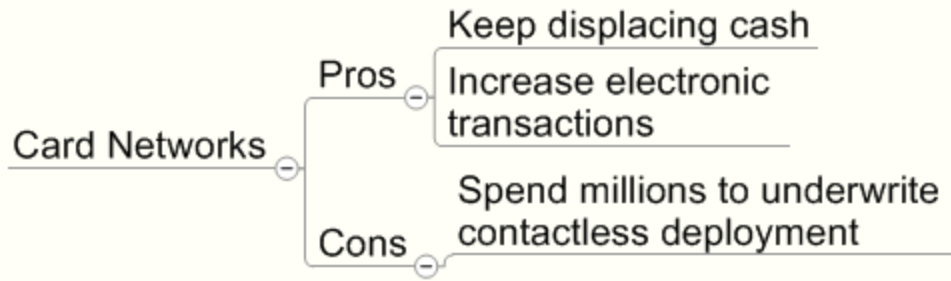
# *The Payment Industry Value chain*



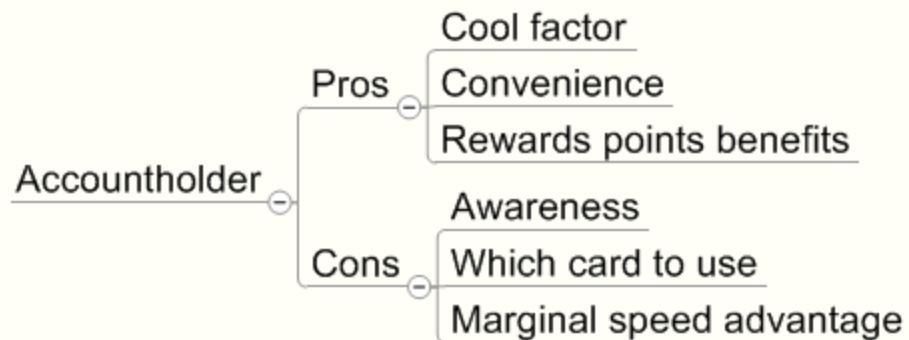
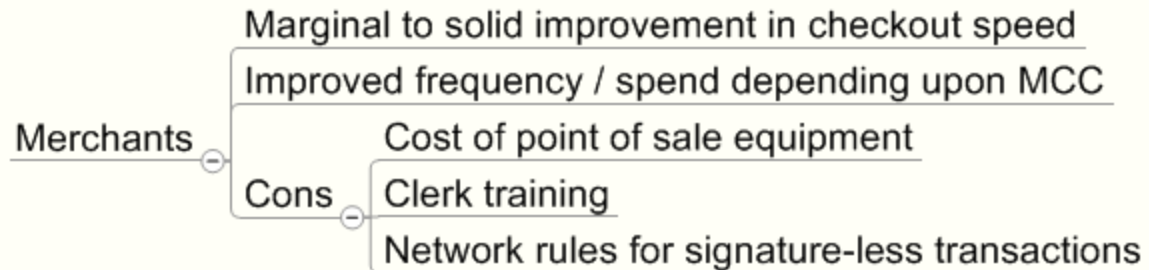
# Issuer Benefits outweigh Costs



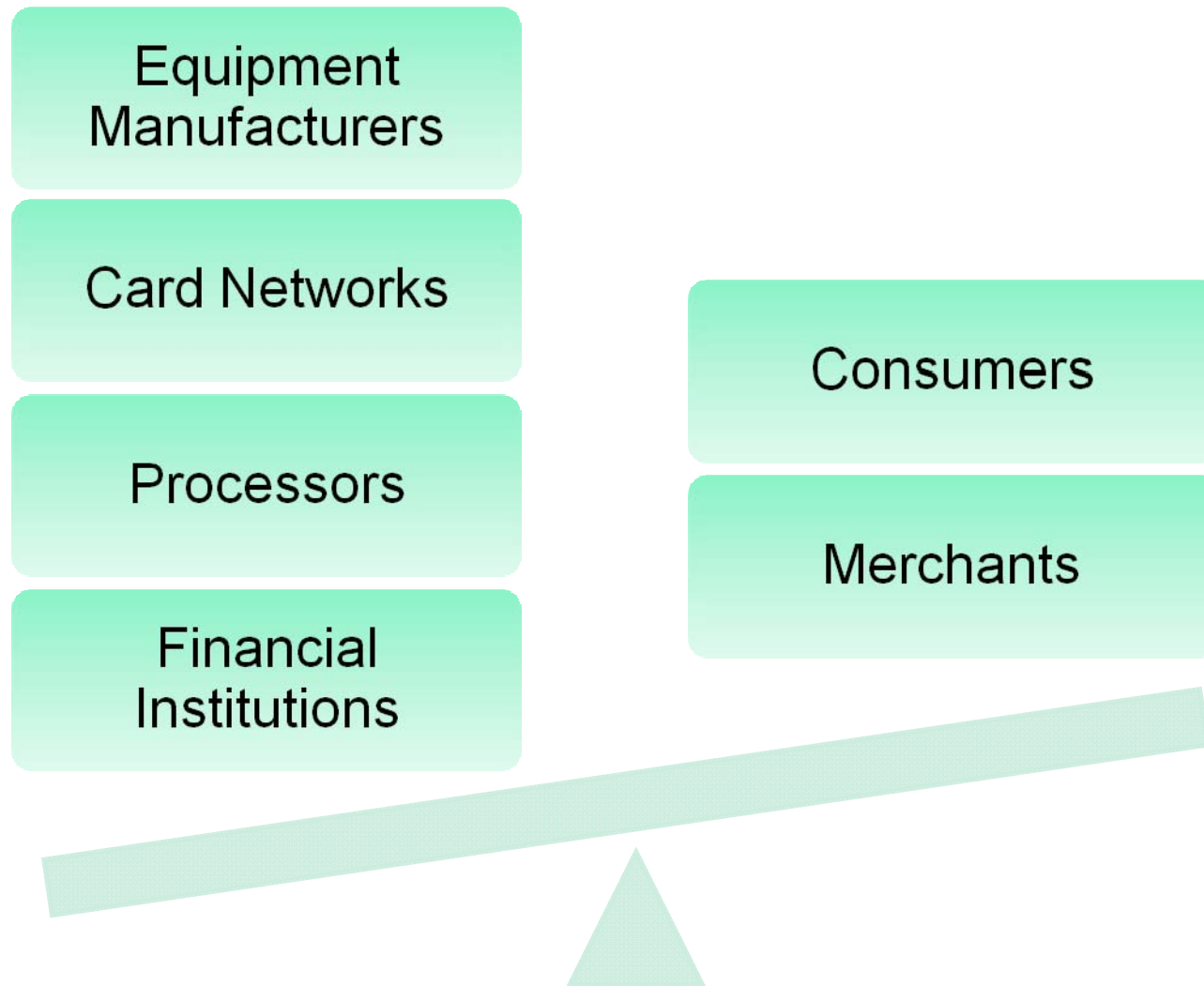
# Processor Benefits Outweigh Cost



# *But Merchants and Accountholders Don't Benefit Equally*



# *The Asymmetry of Benefit in Contactless*



# No More Talk About Cool Factor

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Or



# No More Talk About Cool Factor

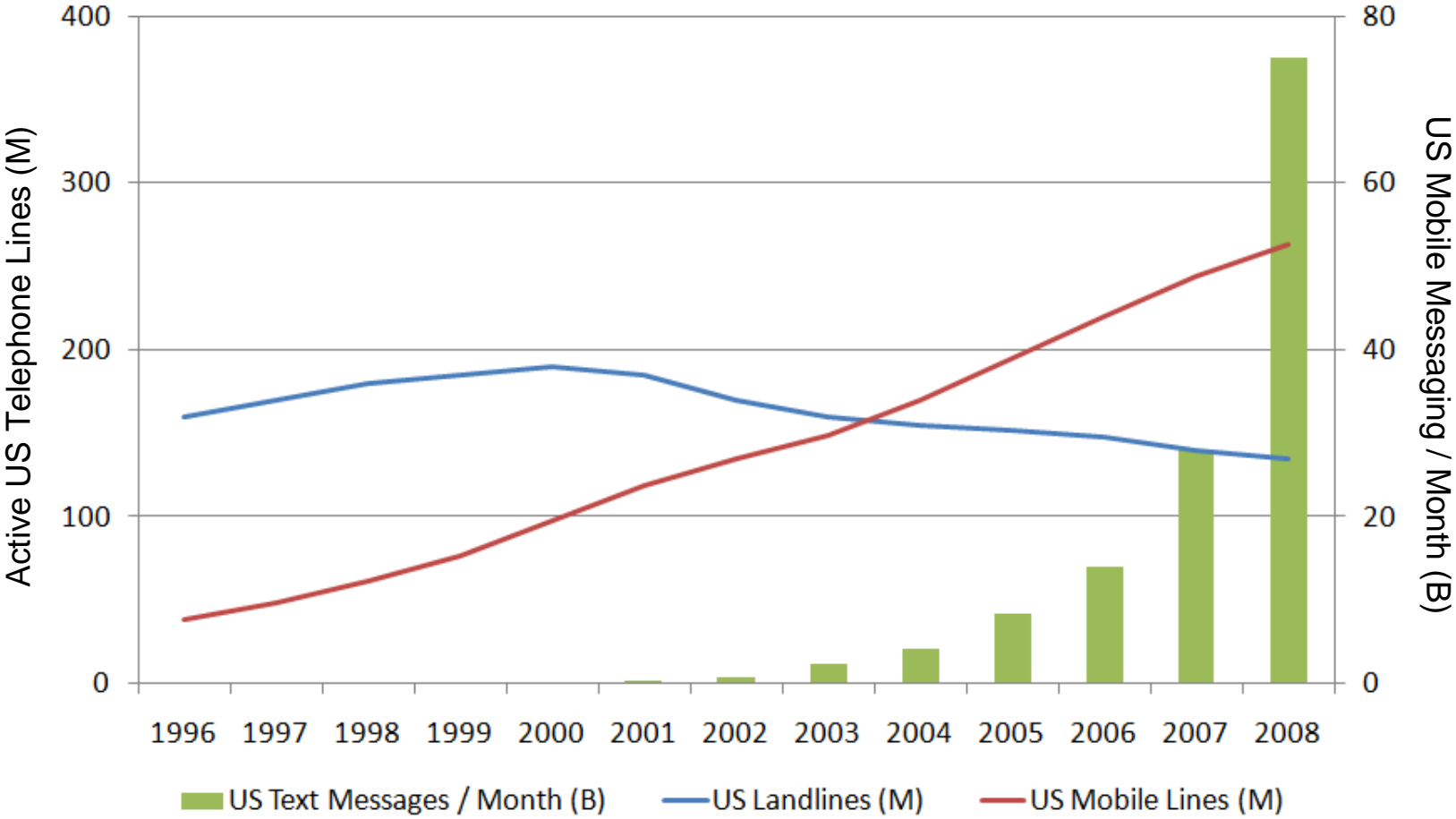


# *Not much of a user interface*

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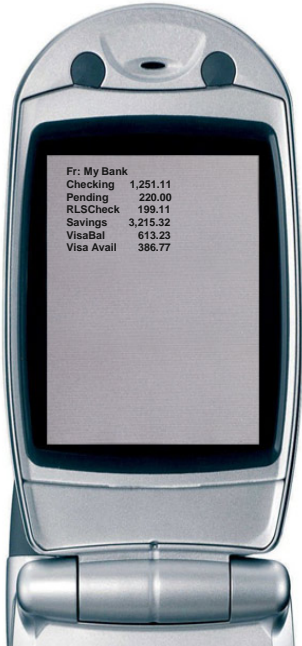
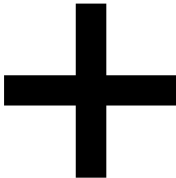


# US Consumer Communications is Shifting to Mobility and Driving SMS Volumes



Source: CTIA, FCC

# The User Interface is in the mobile handset, as close as your pocket or purse



# Adding Text Messaging Requires No Change and Delivers Real Value to Cardholder and Merchant



- **Situational Relevance of Transaction Information**
- **User-centric data**
  - Convenience for cardholder
  - Actionable information
- **A New Communications Channel**
  - Marketing
  - Fraud management
  - Collections
- **Another touchpoint between issuer and cardholder**

*Increased Value Has to Be Delivered beyond  
Processing*

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# Instant Receipting

Better Marketing Data

Rewards

Balances

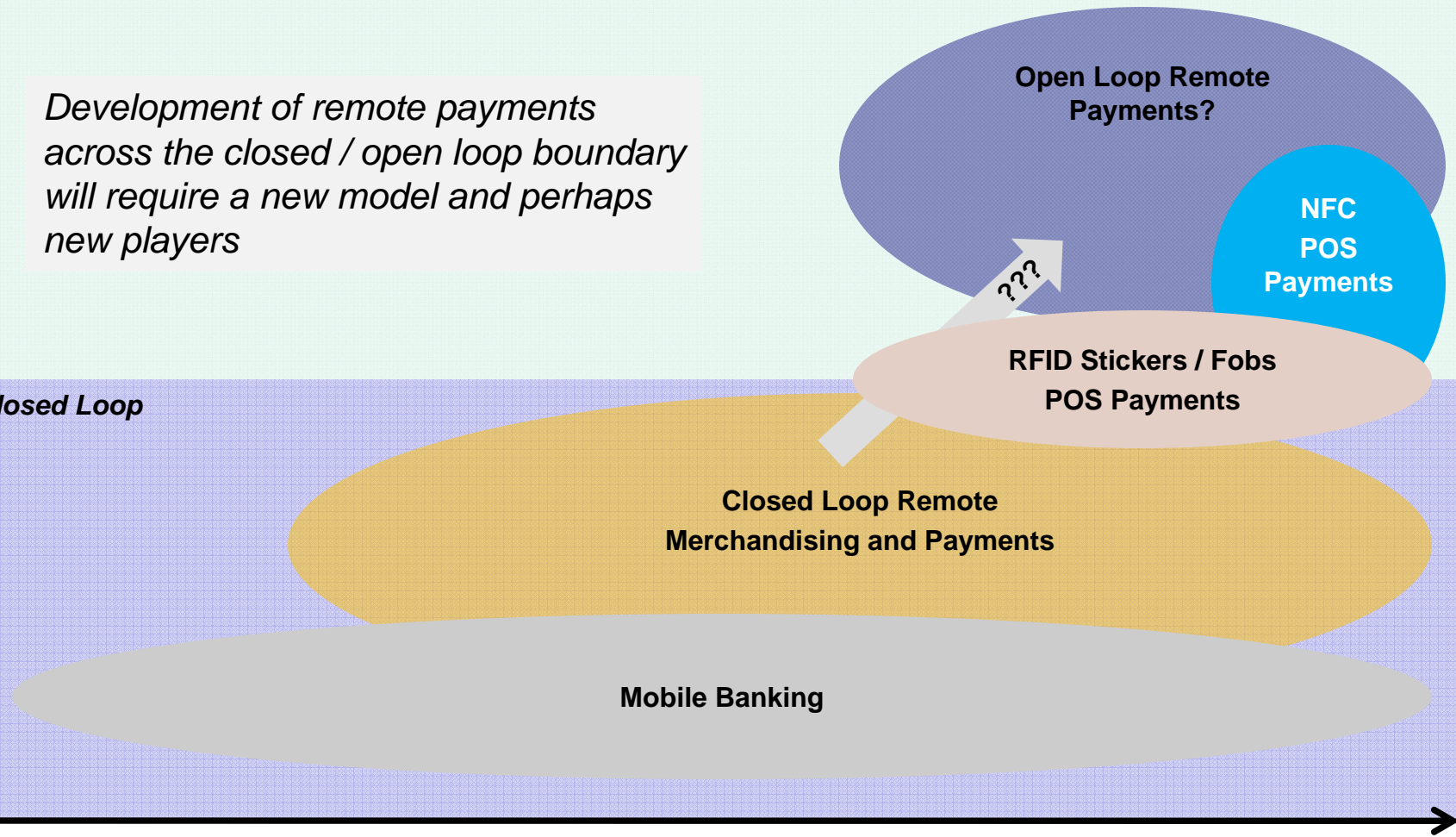
**Security**

# M-Commerce, Mobile Marketing and Software on Smartphones shifts NFC View

## Open Loop

*Development of remote payments across the closed / open loop boundary will require a new model and perhaps new players*

## Closed Loop



2007

2008

2009

2010

2011

# Mobile is a low-cost, targeted Channel that complements its predecessors



***Thank you***

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