



RIGHT TIME. RIGHT PLACE. RIGHT SOLUTION.

CONTACTLESS PAYMENTS

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CHANGING HABITS: THE RISE OF CONTACTLESS PAYMENTS

As has been often said in recent months, these are unprecedented times. And these times have had a direct impact not only on what consumers purchase, but in how they are conducting transactions. Following the onset of the COVID-19 pandemic, avoiding viral spread in terms of health and wellness is now a primary focus globally. The use of digital tools has flourished, especially in terms of contactless payments, which include digital wallets, (such as Google Pay, Samsung Pay, and Apple Pay), along with contactless debit and credit cards.

Contactless payments are not brand new. In fact, the earliest contactless payment technology appeared in the 1990s, but adoption was slow and infrastructure updates lagged. Globally, over the past few years, contactless payments have been embraced more rapidly than in the U.S. For example, in 2018, only 3% of cards issued in the U.S. were contactless compared to roughly 64% in the U.K. and 96% in South Korea. In 2020, there are 175 million contactless cards in the U.S.—more than anywhere else in the world.

WHAT ARE CONTACTLESS PAYMENTS?

The term “Contactless Payments” refers to secure debit, credit, or digital wallet payment methods that use Near-Field Communication (NFC) and Radio Frequency Identification (RFID) that consumers can use to make touchless purchases at a point-of-sale terminal or contactless withdrawals at enabled ATMs. In order to complete a transaction, the consumer simply waves their card or mobile device over the contactless-enabled reader.

STEP 1

Confirm your card has the contactless symbol



STEP 2

Confirm the point-of-sale card terminal is contactless enabled



STEP 3

Tap your contactless card on the reader



STEP 4

It's as simple as that





RADIO FREQUENCY IDENTIFICATION (RFID)

- Technology built on electromagnetic fields
- Uses memory chips that store “tags” (data)
- RFID-enabled readers decode the tags so physical objects within a few feet of each other can communicate with each other



NEAR FIELD COMMUNICATION (NFC)

- Complex technology that falls under RFID
- NFC transmits information when devices are close— usually only within a few centimeters
- NFC is the base technology for mobile wallets, such as Apple Pay, Google Pay, Android Pay, Samsung Pay

Tokenization is the reason that contactless payment security is enhanced. By creating a one-time code for each unique transaction, the consumer’s name, billing address, and card verification code aren’t transmitted by a method that has the potential to be duplicated, such as a traditional magnetic stripe. For example, with a magnetic stripe, fraudsters can use a device called a skimmer to capture personal information to create a copy of a magnetic stripe often used to make fraudulent purchases.

BENEFITS OF CONTACTLESS PAYMENTS

Contactless payments are the next evolution in the payments space. Cards have gone from only having a magnetic stripe, to adding an EMV chip, to this latest version with wireless capability to tap and go. Mobile wallets have evolved in that smartwatches and other wearable devices also allow for quick point-of-sale transactions, offering even more convenience to the consumer. Additional benefits include:

- **Touchless Capability:** With no dipping or swiping, Contactless Payments have the ability to allow members to quickly complete transactions without ever having to touch the transaction terminal. In the COVID-19 era, reducing the need to touch the terminal is a public health benefit.
- **Enhanced Security:** NFC payments are secure. They use the same security standard as EMV chips, which have been proven to reduce fraud and also reduce the amount of in-store counterfeit cards.
- **Faster Transaction Time:** Tap and go transactions are faster than those completed with a traditional chip card. A traditional chip card transaction could take 30 to 45 seconds. A contactless transaction is much faster, clocking in at 10 to 15 seconds. Faster transaction times also mean less time in lines near other consumers as the transaction time adds up.
- **Better Member Experience:** If using a mobile wallet, there's no need to have a physical card present. If using a contactless card, there's no chance of leaving the card behind in the terminal. Contactless cards also are able to work at any terminal, whether contactless enabled or not, because they do it all: insert, tap, swipe, or key entry.
- **Convenience:** With Contactless Payments, 90 of the top 100 tap-enabled merchants in the U.S. have removed signatures as a requirement. There also is work being done to raise contactless payments limits as this channel continues to increase in popularity, which reduces the need to touch a checkout terminal to complete a transaction.
- **Top-of-Wallet Status:** By promoting a better member experience, Contactless Payments also drives primary financial institution status. In terms of a mobile wallet, once the primary card is entered and set, it remains the default card unless manually changed. For Contactless Cards, a workhorse card that does it all is versatile – and if your institution's is among the first in your member's wallet, it will fast become a favorite, top-of-wallet card to use.
- **Reduced Card Wear:** By using a contactless card or mobile wallet, the user isn't repeatedly swiping a magnetic strip or dipping an EMV chip. This eliminates the need to replace cards as frequently, reducing the cost of plastics for the credit union over time. It also is a sustainable, environmentally friendly approach.
- **Driving Incremental Revenue:** As transaction volume shifts from cash to contactless cards, interchange income increases.

COVID-19 & CONTACTLESS PAYMENTS

When contactless cards and mobile wallets were first rolled out, the primary focus was not on their touchless capability—it was on speed, convenience, and the evolution of payment channels. Since then, interest in contactless payments has surged, especially as the world adjusts to the post-COVID-19 pandemic and the resulting new normal. Safety concerns about touchpoints are driving consumer interest in contactless payments, with some retailers even making a shift to cashless transactions. Since March of 2019, use of contactless payments in the U.S. has risen 150%! Visa recently reported that in March 2020 alone, 31 million Americans used a contactless card or digital wallet, an increase from 25 million in November 2019. As consumers continue to exercise an abundance of caution in their public interactions, any way to reduce touchpoints during an essential trip is beneficial.

BY THE NUMBERS

Sources: Visa, PYMNTS, Business Wire

150%

Increase in Contactless Card
Use Since March 2019

**31
MILLION**

Americans Used Contactless
Payments in March 2020

30%

of Consumers Used Contactless
Payments for the First Time
During the Pandemic

**175
MILLION**

Contactless Cards in the U.S.
– More Than Anywhere Else
in the World

**NEARLY
30%**

of All U.S. Consumers Report
Contactless Payments as Their
Preferred Payment Method Post
COVID-19

This sense of urgency driven by consumer demand intensifies the need to implement contactless payments at your credit union. Customers in brick-and-mortar spaces want to keep their distance, which contactless payments helps ensure.

While an institution can wait until existing plastics are depleted before investing in contactless card stock, it now may be advantageous to initiate the process if contactless cards are not already part of a credit union's offering to meet growing member demand.

In terms of mobile wallets, credit unions need to take steps to be added as a participating financial institution within all major mobile wallets (Apple Pay, Android Pay, Google Pay, and Samsung Pay).

“When chip cards first rolled out, members still had the option to swipe at the terminal for a while without being prompted to use their chip feature. This is similar. Members now have gotten into the habit of inserting their card at the terminal. Continued member education is needed to again change habits about how different payment types are used.”

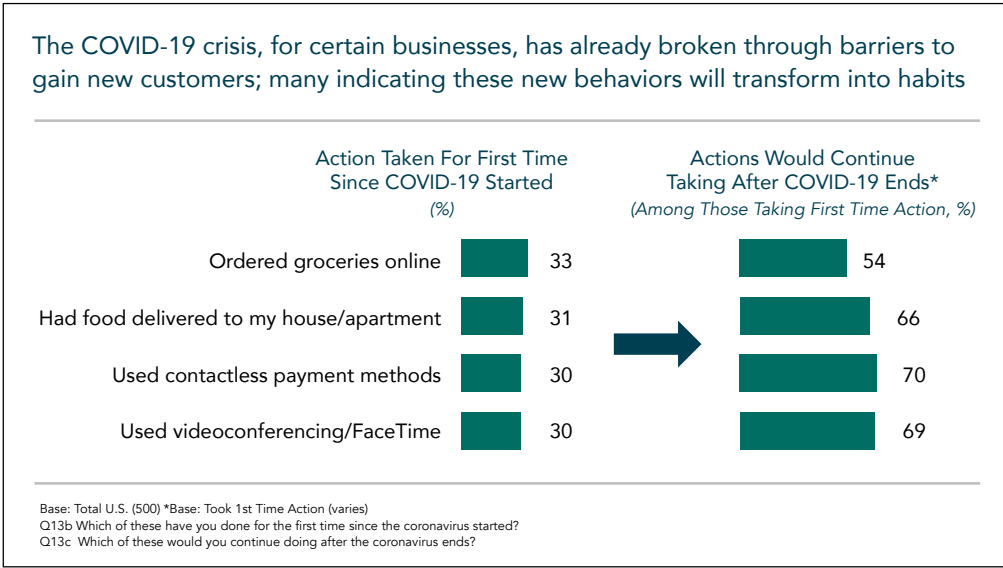
Rebekah Higgins
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Synergent

Payments are the vehicle through which many of your members regularly interact with your credit union. It is an opportunity for revenue growth. As members demand contactless payment options, it is important to meet the demand to ensure members are not lost to competing institutions offering the products and services they seek. Building contactless offerings into your payments strategy is crucial.

CHANGING HABITS, RAISING AWARENESS

Despite the availability of contactless payments, there still are many members who haven’t taken advantage of them. Many financial institutions have automatically issued contactless cards that are in their members wallets, but despite possessing these cards, members aren’t using the functionality.

For those who have changed their habits, many are likely to stick. While 30% of consumers made their first purchase using contactless payments during the pandemic, 70% of those consumers report that they will continue using those payment methods after COVID-19. Contactless payments adopted by members today are likely to be methods that continue to be used in the future.



Source: RTi Research, Payments Journal (<https://www.paymentsjournal.com/contactless-and-covid-19/>)

When educating members, building personas can help tailor your message to your target audiences and can be a starting point for further analysis. Consider the following:

- How do your members interact with your credit union? In person? Online?
- What are the demographics of your credit union members? Some members may feel more comfortable adopting new FinTech. Others may need additional tutorials.



- What are their payment preferences? Based on their analysis, PYMNTS recently identified three personas in this area:
 - o **Debit-centric:** primarily use debit cards for purchases
 - o **Credit-centric revolvers:** primarily use credit cards; carry balances each month
 - o **Credit-centric transactors:** primarily use credit cards; pay off entire balances monthly

"Debit-centric consumers are the most likely to report having downloaded card apps, at 72.6 percent. This is notably higher than the portion of credit-centric revolvers who have done so (64.9 percent), as well as credit-centric transactors, at 48.6 percent," reported PYMNTS in their *Building a Better App Playbook: The Card User Preferences Edition*.

For mobile wallets, push provisioning is a significant area of growth in the contactless space. This technology simplifies the process for members by providing the ability to add cards to a mobile wallet directly from the issuer's app instead of needing to input the card manually. Onboarding members using this streamlined approach further improves the consumer experience.

Newsletters, statement inserts, social media, website content, and lobby signage are all great vehicles to deliver information about Contactless Payments to your members.

CONCLUSION

Contactless payments continue to propel consumers forward in terms of payments advances and in providing touchless transactions. Once habits are changed, they stick. Offering and supporting these in-demand payment methods helps credit unions increase incremental revenue and retain primary financial institution status. Member education is key to continued product adoption.

WHITE PAPER RESOURCES

Banking After COVID-19: The Rise of Contactless Payments in the U.S.
<https://www.forbes.com/advisor/banking/banking-after-covid-19-the-rise-of-contactless-payments-in-the-u-s/>

Building A Better App Playbook: Card User Preferences Edition - July 2020
<https://www.pymnts.com/wp-content/uploads/2020/07/Building-A-Better-App-Playbook-July-2020.pdf>

Contactless and COVID-19 <https://www.paymentsjournal.com/contactless-and-covid-19/>

Contactless Payment: <https://www.investopedia.com/terms/c/contactless-payment.asp>

Deep Dive: Why Contactless Card-Not-Present Transactions Are Gaining New Momentum
<https://www.pymnts.com/next-gen-debit/2020/contactless-card-not-present-transactions-gaining-momentum/>

[present-transactions-gaining-momentum/](https://www.pymnts.com/next-gen-debit/2020/contactless-card-not-present-transactions-gaining-momentum/)

Everything You Need to Know About Contactless Credit Cards
<https://www.forbes.com/advisor/credit-cards/contactless-credit-cards/>

Merchants and consumers turn to tap to pay as part of new daily routines:
<https://usa.visa.com/visa-everywhere/blog/bdp/2020/04/30/merchants-and-consumers-1588276426783.html>

Strategy Analytics: Contactless Payments Preferred Payment Method for Almost 30% of US Consumers Post COVID-19
<https://www.businesswire.com/news/home/20200706005370/en/Strategy-Analytics-Contactless-Payments-Preferred-Payment-Method>

The Rise of Contactless and Push Provisioning in the COVID-19 Era
<https://www.paymentsjournal.com/the-rise-of-contactless-and-push-provisioning-in-the-covid-19-era/>



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