

# Making contact

The introduction of contactless cards should bring an end to low value cash transactions. After years of hype, the UK market is beginning to take to the technology, says Jessica Twentyman



**T**he introduction of contactless payments in the UK may have been a long time coming, but it finally seems as if significant progress is being made.

In May 2007, members of the UK banking industry confirmed plans for the national introduction of contactless technology on a number of UK credit and debit cards, enabling their holders to make low-value payments of £10 or less without entering a PIN number.

Instead, customers will be able to 'wave and pay', by simply holding a new secure

contactless card over a card reader in participating retail outlets.

The roll-out, led by Visa Europe and MasterCard, will start in London, covering the City financial district and Canary Wharf. After this initial phase the upgrade will expand across London, followed by a gradual national upgrade during 2008 as card issuers replace debit and credit cards to their own timescales.

Industry estimates suggest that over five million contactless cards will be issued by the end of 2008, with the first banks to issue cards including Bank of Scotland, Barclaycard,

## feature | contactless card payments

Citi, Euroconex Technologies, Halifax, HSBC, Lloyds TSB and Royal Bank of Scotland.

Research undertaken by Visa and MasterCard suggests that they will be a hit with UK consumers. "Our experience of testing MasterCard and Maestro PayPass among staff at Royal Bank of Scotland's offices in Edinburgh and London has shown us that consumers love the convenience, simplicity and security of being able to 'tap and go' when paying for everyday items such as newspapers, sandwiches and drinks," says John Bushby, general manager for the UK, the Republic of Ireland, Nordic and Baltic countries at MasterCard Europe.

Certainly, that has been the case in the US, where contactless payment is now firmly established in the fast food, leisure and sports sectors, specifically because of the speed at which transactions and small-ticket purchases can be processed. McDonalds, 7-Eleven and many national football league stadia, for example, already accept MasterCard PayPass or the Visa Wave cards.

### Disruptive behaviour

But where does all this leave UK retailers?

The truth is that they may be facing significant disruption.

"For retailers considering rolling out contactless payments to their customers, there are two main concerns: having readers used at the point of sale that are able to handle contactless payments, and how to integrate contactless [technology] into the overall payments processing engine that a retailer has in place," says Steve Whiting of Postilion, a specialist in payment processing technology.

"From a business strategy point of view, meanwhile, retailers have to judge the potential for generating profitable business against the cost of implementing the systems to support contactless payments," he adds.

In other words, while there may well be a demonstrable enthusiasm among customers to expand the reach of contactless payments, retailers have to be sure that the cost of supporting those payments makes sound business sense.

So far, there is a marked reluctance among many retailers to embark on yet

another costly and complex card initiative that follows hard on the heels of the introductions of Chip and PIN, payer authentication, and the PCI:DSS [payment card information data security] standard, according to Mark McMurtrie, marketing director of The Logic Group, a specialist in card transaction processing software.

"We've been surprised by the lack of interest in contactless payments among retailers - to date, there's been a noticeable lack of demand," he says. "Mostly, that's down to poor communications from the financial services industry, which has failed to engage retailers and get them behind the proposition."

Plus, he adds, a number of key technical and certification issues still have to be resolved before most retailers are likely to take the plunge.

### Early adopters

However, both Whiting and McMurtrie agree that most retailers will ultimately introduce contactless payments. But only once the business case has been proved by a handful of pioneers.

These pioneers are likely to be companies that already operate a flexible payment environment based on open standards, predicts Postilion's Whiting. "Contactless support is in a similar situation now to Chip and PIN a couple of years ago. When retailers were rolling out Chip and PIN support, they had two choices: either to upgrade their existing proprietary technology, or to replace it with a modular open systems product," he says.

"For organisations that are running the newer, open payment platforms, adding contactless support will be pretty simple, as their systems are already set up to be flexible and handle additional features," he adds. By contrast, those retailers that chose to adapt their older, existing systems to support Chip and PIN are now potentially faced with having to upgrade their existing technology again.

In June 2007, for example, card payment specialist Commidea launched a new contactless reader that can be integrated with its existing fixed countertop Chip and PiIN products.

"For our customers it's just a bolt-on, but it's important for us to anticipate

emerging customer needs and new market demands. This is the first in a suite of contactless solutions currently in development. It's a product range that we're eager to see evolve as the concept of a cash-free point of sale catches on with retailers," says Bill Barritt, strategic development director at Commidea.

There is an important lesson here, says Mark Collyer, a consultant with systems integration company Morse. It will be retailers who have the foresight and resource to implement flexible, open payment processing environments that will benefit as new technologies come online in future.

"Soon retailers will be looking to integrate a stack of other payment technologies into their technology environments, such as biometrics as a means of authenticating payments, or kiosks where customers can pay instead of using a checkout."

Like the cashless society, many of these new developments may well emerge at the demand of the banks or of consumers, rather than retailers themselves. Given that, retailers would be well advised to ensure the technologies they purchase today have the staying power to support the retail environment of tomorrow.

