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Contactless Payments: Consumer Attitudes and Acceptance in the United States

A Smart Card Alliance and Javelin Strategy & Research Report

*Sponsored by the Smart Card Alliance Contactless Payments
Council*

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Introduction

Since mid-2005, leading financial issuers have put over 17 million contactless payment devices into the hands of U.S. consumers. That number is expected to grow significantly by the end of 2006. Financial institutions that have announced programs to provide consumers with contactless credit and debit cards or key fobs that contain a contactless chip include American Express, Bank of America, Citibank, Citizens Bank, GE Consumer Finance, HSBC Bank, JPMorgan Chase, KeyBank, and Wells Fargo. Contactless mobile payment pilots using mobile phones equipped with contactless technology are also being conducted, with Visa and JPMorgan Chase completing a pilot in Atlanta and MasterCard, Nokia and 7-Eleven launching a pilot in Dallas.

So far, the introduction of contactless payment has focused on markets in which transactions are typically of lower value, where consumers pay primarily with cash, and where speed and convenience are critical. The over 35,000 merchant locations in the United States that now accept contactless payments include quick service restaurants (McDonald's[®], Arby's[®], Jack in the Box[®]), convenience stores (7-Eleven, Sheetz, Wawa), pharmacies (CVS/pharmacy[®], Walgreens, Duane Reade), theaters (AMC Theaters[®], Regal Entertainment Group), and sports venues (Philadelphia Eagles, New York Yankees).¹

Contactless payment in the United States is simply another way to present a card to a merchant's point-of-sale (POS) system. There is little distinction between the functionality of a contactless payment card and a standard magnetic stripe card. Instead of "swiping" or "inserting" a payment card, the contactless card or fob is tapped on or held within 2 to 4 inches of a reader and the payment information is communicated wirelessly. American Express, MasterCard, and Visa have selected ISO/IEC 14443 as the contactless standard in the United States and have implemented contactless payment transactions to leverage the current payments infrastructure.

An independent survey of consumer attitudes toward contactless payment devices, commissioned by the Smart Card Alliance and conducted by Javelin Strategy & Research in August, 2006, indicates that there is a large, untapped market for the use of these devices. This white paper describes the results of the survey and the implications of these results for financial institutions contemplating adoption of a contactless payment option.

Survey Methodology

In August 2006, Javelin Strategy & Research collected data about consumer experience with and attitudes toward contactless payments. The data were collected by conducting an online survey using a random-sample panel. The survey targeted respondents based on representative proportions of gender, age and household income compared to the online consumer average.

A total of 3,135 people responded to the survey. Of this total, 2,447 respondents (78.1%) had used or were likely to use contactless payment.

The overall margin of sampling error was ± 1.75 percentage points at a 95 percent confidence level. The margin of error was larger for certain subsets of respondents.

¹ Up-to-date news and information about contactless payments can be found at <http://www.smartcardalliance.org/pages/activities-councils-contactless-payments-resources>.

Current Consumer Experience

A variety of merchants currently accept contactless payments, including both well-known national merchants (such as McDonald's and 7-Eleven) and regional retailers (such as Wawa and Sheetz). Of the consumers surveyed, 13% of the survey respondents indicated that they have already used contactless payment and their reactions to it were uniformly positive. These respondents reported that they found contactless payments both fast (95%) and easy to use (96%).

The Javelin survey also found that consumer use is not confined to credit/debit payments only. While 42% and 40% of respondents reported using contactless debit or credit cards respectively, respondents also reported using other forms of contactless payment devices available in the market today. 40% reported that they have used ExxonMobil Speedpass tokens and 18% reported that they have made transit payments using a contactless payment device.

Retail clerks have caught on quickly to this new form of payment as well. According to the survey results, 88% of current users reported that "the cashier knew how to accept my contactless payment." The majority of consumers surveyed therefore encountered no difficulties with merchants not knowing how to accept contactless payments.

Concerns about safety would be a potential barrier to widespread acceptance; however, the research found that consumers currently perceive contactless payment to be at least as safe as swiping a credit or debit card. Of the over 2,400 respondents who indicated that they have used or are likely to use a contactless payment option, 84% considered the option to be at least as safe as a magnetic stripe credit or debit card. In fact, 41% of both current users and future adopters cited contactless payments being "a secure way to pay" as a reason to use contactless payments.

Implications for Financial Institutions

The results of the Javelin survey reveal both challenges and opportunities for financial institutions considering contactless payment programs.

Challenges

The most critical challenge revealed by the survey is in closing the gap that exists with consumers who are unfamiliar with contactless technology and who might be hesitant to use contactless payment devices because they perceive that contactless payment may not be secure. A total of 51% of both current users and potential adopters rated security as their main concern with using contactless payment options. In addition, 61% of those who indicated that they were unwilling to adopt contactless payment selected "I do not think it is a safe form of payment" as the most critical reason for that decision.

It appears, however, that security concerns can be addressed equally effectively by both experience and education. Current users and potential adopters were asked how safe they would feel if they were to make a purchase with a contactless payment device as compared to a regular debit or credit card. Only 36% of the respondents who had never tried contactless payments indicated that they would feel safe using contactless payments, in contrast to 60% of the respondents who had already tried contactless payments.

Having some information about contactless payments also alleviates consumer concern about security. Of survey respondents who were unfamiliar with contactless payments, only 34% felt comfortable using these payments. In contrast, 59% of those who were familiar with contactless payments indicated that they felt comfortable.

Increased familiarity through education and experience increases the likelihood that consumers will adopt contactless payments. Among consumers who had never used contactless payments, those who were familiar with the concept rated the likelihood of their adopting it at 3.65 on a scale of 1 (very unlikely) to 5 (very likely). In contrast, those who were unfamiliar with the concept rated their likelihood of adoption at 3.05.

The population segments most in need of education and experience appear to be older consumers and consumers at the lower end of the income ranges surveyed. Respondents over 55 were the most unfamiliar with contactless payment options, as were respondents with an annual income of less than \$25,000.

Opportunities

According to the results of the Javelin survey, a majority of consumers are ready to try using contactless payment devices. The survey responses clearly indicate that the strongest motivator for such use is convenience. Both current users and potential adopters rated speed at checkout as the most compelling reason for using contactless payment (71%). Other significant factors included ease of use (65%), security (41%), and the ability to carry around fewer items (35%). Only 25% of the survey respondents who had never used such devices indicated that they would be unlikely to use them in the future.

The results reveal that consumers regard such devices both as a viable alternative to cash and magnetic stripe payment cards and as a payment option for both high- and low-value transactions. Current users and potential adopters were asked about the smallest and largest transaction amounts for which they would be willing to use contactless payments. A total of 85% indicated that they would use contactless payments for purchases of \$50 or more. Only 5% would restrict their use to transactions valued at \$10 or less.

The same respondents are also willing to use contactless payments for small purchases, in amounts ranging from less than \$1 (24%) to \$10 (24%). The responses were spread fairly evenly over the spectrum of choices, which included lower limits of \$1 (19%), \$3 (12%), and \$5 (22%).

Other important results of the survey reveal consumer attitudes toward the form factor of the contactless payment device. Consumers appear to be quite open-minded about what they carry to make contactless payments. Current users and future adopters showed no clear preference for any particular form factor. New payment device types such as mini-cards or key fobs were approximately equal in preference to the traditional card form factor (48% vs. 46% of respondents). Such flexibility on the part of the consumer represents an excellent opportunity for financial institutions to differentiate their product offerings by offering new forms of contactless payment devices.

Summary

The results of the Javelin survey indicate that the market for use of contactless payments is large—and largely untapped. A significant majority of U.S. consumers are ready to adopt contactless devices for financial payments. Those who have already adopted contactless payment find the contactless experience to be uniformly positive and express a high degree of confidence in the technology.

Adopting contactless payments can be a win-win situation for consumers and merchants alike. The major factor driving adoption and use—convenience—represents a benefit for both parties to the transaction. In addition, consumers are willing to use contactless devices for both low- and high-value transactions.

The survey indicates that the major challenge to widespread use of contactless devices is reassuring consumers that contactless payment is safe. Fortunately, however, contactless payment appears to be an easy sell once information about it reaches the consumer. Both education and actual use alleviate consumer concerns about security.

Consumers are also willing to try contactless devices that are embedded in a wide variety of form factors. Financial institutions that are considering offering programs for contactless payment can leverage consumer willingness to clearly differentiate their particular offering.

For more information about the Javelin Strategy & Research study and contactless payments, please contact the Smart Card Alliance at 1-800-556-5628 or send an email to contactlesspayments@smartcardalliance.org. Additional documents and reports on contactless

payments and related payments industry topics can be found on the Smart Card Alliance web site at <http://www.smartcardalliance.org>.

About the Smart Card Alliance

The Smart Card Alliance is a not-for-profit, multi-industry association working to stimulate the understanding, adoption, use and widespread application of smart card technology. 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. and Latin America. For more information please visit <http://www.smartcardalliance.org>.

About the Contactless Payments Council

The Contactless Payments Council is one of several Smart Card Alliance technology and industry councils. The Contactless Payments Council was formed to focus on facilitating the adoption of contactless payments in the U.S. through education programs for consumers, merchants and issuers. The group is bringing together financial payments industry leaders, merchants and suppliers. The Council's primary goal is to inform and educate the market about the value of contactless payment and work to address misconceptions about the capabilities and security of contactless technology. Council participation is open to any Smart Card Alliance member who wishes to contribute to the Council projects.

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