

Substantial Benefits across the US Payments Ecosystem

A new study from A.T. Kearney demonstrates the clear value of contactless cards for consumers, merchants, and financial institutions--driven by improved speed and convenience at the point of sale.

- Analysis of payment behaviors in US-like countries suggests a lift of up to 30 percent in the number of transactions per card three years after issuance.[1]
- At least 70 percent of all consumer payment transactions are expected to be card-based by 2022, compared with an estimated 62 percent in 2017.
- Strong US consumer adoption of contactless cards could translate into a reduction in retail cash payment volume of about \$190 billion through 2022--improving productivity, reducing cash-handling costs, and enhancing security for merchants.
- Merchant infrastructure for accepting contactless payments is already in place in the United States, with 48 percent of face-to-face transactions occurring at enabled locations and 70 percent of terminals having the necessary hardware.
- US banks could see incremental card-related earnings of more than \$2 billion between now and 2022 as a result of issuing contactless cards.
- The US market is ready to adopt contactless payments, with issuance expected to accelerate significantly over the next three years.

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07:03 ET

CHICAGO, July 23, 2018 /PRNewswire/ -- A.T. Kearney has released first-of-its-kind research [Link to Report: Why US Banks Should Make Contactless Cards an Immediate Priority] exploring the US market outlook for contactless card payments, finding that contactless cards can yield meaningful strategic and economic benefits to merchants and financial institutions while improving the experience for consumers.

"As we've seen globally, contactless cards provide an opportunity to dramatically evolve payments at the point of sale—an experience that has remained complex and fragmented in the United States," said Bob Hedges, global head of A.T. Kearney's Financial Institutions Practice. "With today's

US consumers and merchants ready to adopt contactless, banks can significantly benefit from rolling out contactless cards while delivering fast, simple, convenient, and secure experiences for the entire ecosystem."

A.T. Kearney anticipates that contactless card rollout and consumer adoption will accelerate the migration of transactions from cash to cards thanks to the improved consumer experience that these cards offer. "In an increasingly mobile-first, digital-first world, consumers expect seamless experiences in their daily lives, and payments are no different," Hedges says. "Contactless cards deliver on those expectations, translating into fast adoption and habituation once contactless cards are introduced into a mature market."

Speed and convenience of contactless cards drive consumer behaviors

US consumers still conduct nearly 50 billion cash transactions a year (26 percent of all consumer payments) with a value of \$1.6 trillion (16 percent of all consumer spending). A.T. Kearney's global study shows that rolling out contactless cards could drive a significant lift in the number of transactions per card well beyond the natural card payment trajectory prior to the promotion of contactless cards.

The study reveals several compelling findings:

- In the US-like countries studied, contactless card adoption has translated into five to 40 new transactions per card per year.
- Consumer card transactions increased up to 30 percent over the three years after rollout.
- Globally, contactless usage has been particularly strong at high-transaction-volume merchants with low average ticket sizes where checkout speed and convenience matter (food and grocery, quick-service restaurants, restaurants, and drug stores and pharmacies).
- In the United States, A.T. Kearney forecasts at least 70 percent of all consumer payment transactions will be card-based by 2022, compared with an estimated 62 percent in 2017.

The US market is ready for contactless

For merchants, contactless cards provide a way to increase the speed of service, grow sales volume by serving more customers during peak hours, reduce the time and money spent on cash handling, and improve customer loyalty. As a result of the 2015 migration to EMV contact chips, US merchants have largely enabled the terminal infrastructure to accept contactless cards:[2]

- As of March 2018, 48 percent of Visa face-to-face card transactions took place at contactless-enabled merchants.
- Seventy percent of merchant locations have hardware that is capable of accepting contactless payments.
- More than 95 percent of new terminals shipped are contactless-capable.

From consumers' perspective, contactless cards are not a new way to pay but rather a faster, more convenient way of paying with a card—a method that many already prefer.

"It is a myth that US consumers and merchants are not ready for contactless," says Monica Gabel, an A.T. Kearney principal who led the research effort. "Our readiness metrics suggest that the time to promote contactless adoption is now."

Contactless card growth expected to accelerate through 2020

Given merchants' readiness, consumers' interest in improving the point-of-sale experience, and banks' high level of interest, A.T. Kearney anticipates seeing significant contactless card issuance momentum over the next 12 months. The potential to accelerate the shift to contactless card-based transactions represents a compelling economic opportunity for US banks while at the same time reducing operating costs through streamlined cash-handling operations:

- **By introducing contactless cards, banks could generate more than \$2 billion in incremental card-related earnings over the next five years.**
 - The incremental number of card transactions and amount of payment volume that migrate from cash transactions will allow banks to generate incremental revenues and earnings (net issuing costs) from rolling out contactless cards.

- **Banks could achieve industry-wide cash-handling cost savings of up to \$22 billion through 2022, or 6 percent of annual consumer banking operating expenses.**
 - As cash transactions migrate to cards—and decrease the amount of cash activity in the retail marketplace—banks can reduce their cash-handling costs, streamline their cash-related operations, and capture significant operating savings.

- **Banks could achieve a stronger market leadership position.**
 - Meaningful strategic benefits can be accrued by banks that launch contactless cards early and position themselves as innovators and leaders. Leadership in contactless rollout and promotion could result in market share gains through stronger customer acquisition, a greater share of wallet, and increased customer loyalty.

With compelling economic and strategic benefits and growing industry understanding of those benefits, a wave of US banking industry commitment to contactless should begin in 2018 and roll through 2019 into 2020. The US banking industry's embracing of contactless will yield significant benefits to consumers, merchants, and all participating banks.

A.T. Kearney research and modeling methodology

To assess the potential impact of the rollout of contactless cards in the United States, A.T. Kearney studied the global impact of the introduction of contactless cards on consumer payment behavior and migration of cash transactions to card transactions. A.T. Kearney analyzed consumer payment behavior in the top 15 global economies and conducted a focused analysis of six countries where the "pre-contactless" consumer payment behaviors were similar to the United States' current consumer payment behavior.

A.T. Kearney's analysis is based on global Visa card transaction data (sourced from VisaNet, Visa's transaction processing network) and industry sources (for example, Bank of International Settlements, Euromonitor, RBR, Reserve Bank of Australia, Bank of Canada, and The Nilson Report).

About A.T. Kearney

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

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[1] Six countries—Australia, Canada, Ireland, New Zealand, Switzerland, and the United Kingdom—where the "pre-contactless" consumer payment behaviors were similar to the United States' current consumer payment behaviors.

[2] EMV is Europay, Mastercard, and Visa—the global standard for computer-chip cards and the technology used to authenticate transactions.

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