

Banking Automation **BULLETIN**



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Cash still king in Germany

Banks in the Ukraine forced to complete EMV migration

The growing influence of independent ATM deployers

Credit crunch focuses minds at BAI Retail Delivery

Country profile: Ukraine



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Contactless conundrum

Barclaycard announced last week that it has reached its target of issuing one million contactless payment cards by the end of the year. The organisation should be commended for its efforts in promoting

contactless, but in reality, with only 6,000 outlets in the UK (0.7% of the total), and extremely low transaction volumes, the industry is still some way from reaching any sort of critical mass. It seems unlikely that the APACS (UK banking industry association) forecast of 5 million cards and 100,000 outlets by mid-2009 will be met.

It is not just the UK that has been slow to adopt contactless – there seem to be underlying characteristics, mainly practical and commercial rather than technical, that are holding back rollout across Europe and much of the world.

Perhaps the most significant short-term issue is the lack of impetus, on both the issuing and acquiring sides. With so few cards in issue, there is little incentive for merchants to upgrade to accept contactless (despite the relatively modest cost of doing so), and with so few terminals deployed, there is little customer pressure or commercial business case for rolling out cards.

The commercial issue for merchants cannot be ignored. In the UK, contactless payments have a lower interchange fee of around 4 pence (€0.05), which leads to a merchant service charge (MSC) of 5-6 pence, but many merchants believe that it is still cheaper to accept cash. This problem is compounded by the fact that many, but by no means all, of the retailer segments where contactless is most suited have relatively low profit margins – and the relative cost of the MSC seems high when compared to the maximum transaction amount of £10.

Does this mean that contactless is doomed?

Certainly not. It is relatively easy to envisage a situation where all payment cards contain contactless technology and all relevant outlets accept the cards. Slightly more difficult to imagine is how we get there.

The industry needs to give contactless a further boost. Perhaps banks could commit to rolling out contactless when existing cards are due for replacement – delaying the cost of implementation, but giving a strong signal to merchants. Or maybe international card organisations could do more to encourage or subsidise merchant rollout of terminals, which would certainly increase the pressure on issuers.

It seems inconceivable that contactless will not be universal in the future – if not on cards in the short term, then on mobile phones in the longer term.

Dominic Hirsch, Editor

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