

NO CONTACT NEEDED: Contactless credit cards boost the best kind of spending

By John Ginovsky

Consumers who use contactless credit cards were found to spend almost 30% more on average than noncontactless card users.

In addition, contactless users were found to increase their spending in other areas that don't necessarily require contactless capability but are highly valued, such as ecommerce, recurring payments such as cable bills, and cross-border spending, according to a study by MasterCard Advisors.

Tech Topics talked with Jonathan Orndorff, who conducted the study. He says it tracked actual transactions over a 15-month period, and compared test populations who used contactless cards with similar control populations who did not. "That is very important because it's better and more accurate than a survey where you're relying on self-reported data," Orndorff says.

The study divided accounts into low, medium, and high segments based on their monthly spending totals prior to adopting contactless. The 30% lift was consistent across the three segments. "In our highest spend segment, this lift translates into approximately \$600 per month in incremental spend," he says.

Orndorff points to a couple of conclusions of interest to bank card issuers. "One is, if the issuer's strategy is to try to drive top-of-wallet behavior, contactless deserves some level of consideration," he says. Also, "it's forming the basis of several of the developing mobile wallets. Things like ISIS and Google Wallet are leveraging the PayPass [MasterCard's contactless product] contactless rails in order for their mobile wallets to work. Certainly, even in its current form embedded in a card, it seems to drive value. Certainly, on the horizon, as we look at the mobile wallet, the contactless should be considered as part of that effort as well."

He is not sure why spending in noncontactless areas increased among contactless users, but the data was clear. Spending across borders was particularly enhanced, which saw a boost of 50%. "There is something that appears to be unique and different about this that seems to shift this behavior onto the card, driving transactions beyond the tap. There's something psychological we think that's going on that's driving these other behaviors like recurring payments, cross-border, and ecommerce," Orndorff says.

This in turn has further ramifications as the credit card industry moves toward adopting EMV chip standards. "U.S. issuers might want to consider the role of PayPass [or other similar products] in their EMV and EMV travel card strategies. U.S. issuers can look to Canada, where we saw EMV+Contactless strategies successfully deployed by many Canadian issuers," he says.

He notes that EMV cards technically can be issued with or without contactless capabilities, but again points to the Canadian model. "They did the math and said there's enough value here that the bulk of the cards issued in Canada were issued with a contactless functionality...it's something U.S. issuers should consider as well, given the opportunity to get a new card in a cardholder's hand and adding a feature on top of it to potentially drive some new behavior like we see in this study," he says.

About the Author

John Ginovsky is contributing editor of ABA Banking Journal and editor of the publication's TechTopics e-newsletter.

For more than two decades he has written about the commercial banking industry. In particular, he's specialized in the technological side of banking and how it relates to the actual business of banking. He previously was senior editor for Community Banker magazine (which merged with ABA Banking Journal) and was a staff writer for ABA's Bankers News. You can email him at jginovsky@sbpub.com

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