

RFID Payment Systems Take Off

A new report says the use of contactless smart cards and other RFID payment systems will continue to rise.

June 9, 2003 - Within five years, RFID payment systems will be as common as credit card payments in fast food restaurants, video stores, movie theaters and other outlets that do a lot of low-value transactions. That's the conclusion of a new study by Celent, an IT research and consulting firm to the financial services industry. The report, titled "Contactless Payments: Replacing Cash with Convenience: The Case for RFID," was written by Ariana-Michele Moore, a senior analyst at Celent. She interviewed merchants, consumers, and such companies as Texas Instruments, MasterCard, and Bank of America. The study indicates that there are enough benefits for consumers, merchants and banks to overcome obstacles to adoption, which include consumer concerns about security and investments in new equipment that merchants would have to make.

Celent's study focuses on markets that have a lot to gain from speedier transactions on purchases between \$20 to \$100. Contactless payments offer convenience for consumers, because it can reduce transaction times and eliminate long lines at theaters, fast food restaurants or when buying lottery tickets on a big jackpot night.

Moore points out that contactless payments are executed in close proximity to the reader, lessening the likelihood of interception. That should reassure consumers that the technology is safe. And losing your key fob or contactless smart card shouldn't be a problem. "Most banks will deploy the same liability limits to RFID devices as they do to credit cards," says Moore.

Merchants will have to invest in new point-of-sales equipment, plus software, integration and processing costs. "They will also lose part of their traditionally cash-based revenue to merchant discount fees," Moore says. But the report suggests that those merchants who have participated in early pilots are satisfied that these costs would be offset by the increase in sales that comes from making purchases more convenient.

Banks also stand to benefit because they will earn fees on low-value purchases that have always been done in cash. Plus, contactless smart cards might provide a competitive edge in a down market, according to Moore. "For payment providers, RFID is appearing at a time when spending is weak and competition is tight among issuers who are trying desperately to distinguish their card from the multitude on the market today," she says.

The report includes details on pilot studies being done by major corporations, which show exactly how RFID payments systems are providing value to merchants and consumers. The competing types of RFID technologies are also explained, along with the drawbacks and benefits of each.

Moore's report is available only to people who subscribe to Celent's services. The company declined to provide information on its subscription prices. -- By Lynn DeRocco

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