

Payment Objects

An evolution in convenience



Abstract

In an increasingly active and mobile society, payment objects represent the next phase in frictionless, efficient retail payments.

For consumers, issuers and merchants, several emerging uses make the case for the deployment of compact, wearable and fully mobile forms of payment. In this CPI Card Group® (“CPI”) white paper, we explore the latest converging trends impacting both open-loop and closed-loop payment object applications and share strategies for leveraging this exciting technology to elevate your brand and improve the customer experience.



Background

In what was once simply a dream, today's consumers can purchase goods and services at numerous merchant locations using a variety of payment objects, ranging from smart watches and wristbands, to jewelry, key fobs, stickers and even coffee mugs.

As the world becomes increasingly connected through an array of Internet-enabled devices at home, work and everywhere in-between, the rise of the payment object represents a natural evolution in convenience, versatility and speed. One in four consumers globally possesses a wearable device, according to a 2017 study.¹ Whether buying a sports drink at the gym, grabbing a coffee on the road or hustling through a subway turnstile, consumers seek a frictionless, seamless purchase experience.

Payment objects represent the next frontier in convenient payment technology—a revolution that in many ways has already arrived.

The payment object - defined

The term “payment object” refers to any portable device, article or item that a consumer can use to transact a payment. Payment objects are often confused with wearables; however, “payment object” is a broader term that refers to any payment form factor, whereas “wearable” refers specifically to any device worn on the body, such as a smart watch or ring. A wearable falls under the definition of payment object if it contains technology, such as a chip and antenna, app or data that allows it to be used for paying for goods or services.

A payment object consists of two parts: the technology and the form factor. Typically, the embedded technology is a micro-chip and antenna. Leading payment technology firms have reduced and regulated the size of the chip and antenna combination to accommodate form factors as small and diverse as key fobs, silicone bracelets and clothing, or even coffee mugs and teddy bears.

Payment objects may work within closed-loop or open-loop payment networks. Closed-loop systems incorporate those payment methods that can be used at only a single location, event, retailer or vendor. For example, in the events sector, closed-loop wristbands are used to load multi-day festival or season tickets and allows attendees to gain entrance and purchase concessions and merchandise onsite. This sector accounted for 55 percent of wearable payment device shipments in 2015.²

Similarly, payment objects are growing in popularity at theme parks, resorts and cruise ships, which feature secure environments amenable to closed-loop ecosystems. Disney's MagicBand® technology allowed the company to serve an additional 3,000 visitors at its theme parks during the 2013 Christmas season.³ Disney now offers MagicBands in a variety of payment object formats, including key chains and jewelry.

Open-loop payment systems, such as those incorporated into Apple Watch and Samsung Watch, may be used anywhere contactless payments are accepted. The user simply loads their debit or credit card into the app or digital wallet and can then wave or tap their device at the grocery store, coffee shop or big-box retailer.



A technology whose time has come

The convergence of several recent trends is setting the stage for an explosion in payment objects.

One of these trends is the remarkable growth of the global wearable technology market. Analysts predict this market will be worth \$25 billion in 2019.⁴ As consumers cozy up to devices like fitness trackers and smartwatches, their willingness to utilize them for multiple applications – including payments – will only increase, following a similar trajectory to that of smartphones. In fact, a February 2018 study found that a quarter of Europeans expect to start making payments with wearable devices.⁵

The second trend is the shift towards contactless payments. The global value of contactless transactions is projected to reach \$1.3 trillion in 2019, more than doubling in two years.⁶

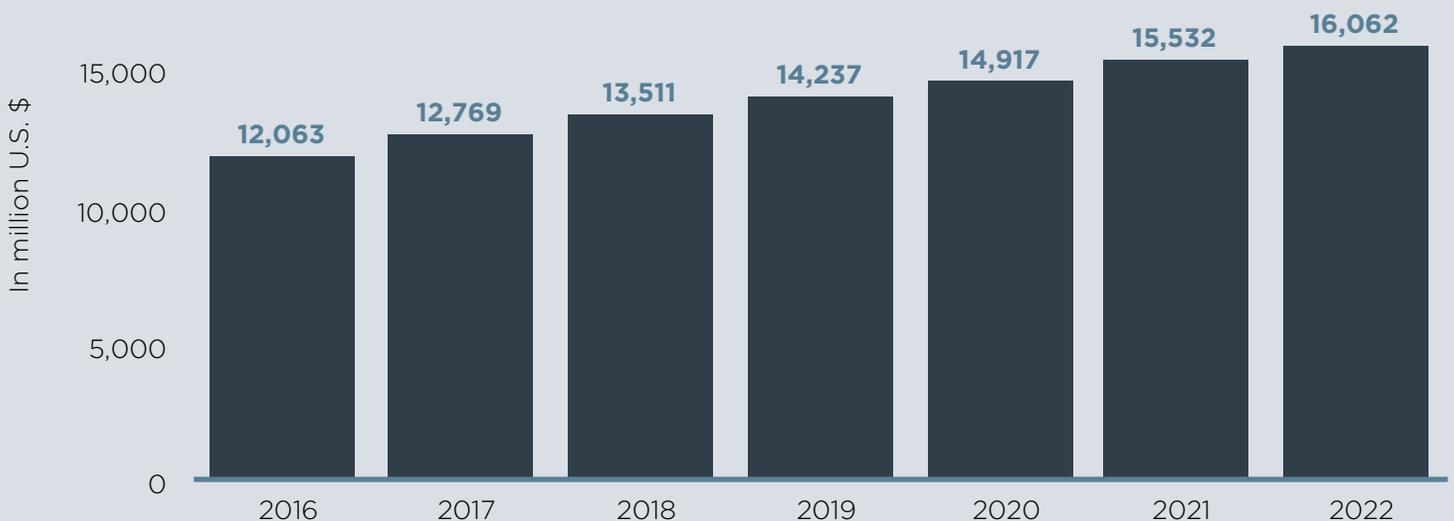
The third trend is consumers' growing comfort with contactless payments and digital wallets. Consumers around the world continue to see value in the speed and convenience of tapping to pay. Outside the U.S.,

more than 40 percent of in-store Visa transactions occur with a tap.⁷ And, as providers continue to design payment objects to work in tandem with – or as an extension to – mobile device apps, the popularity of paying with a digital wallet will translate into a growing appetite for paying via smart watch, sticker, bracelet or key fob.

Bottom-line, today's consumers are seeking a highly convenient, frictionless payment experience. According to a Forrester survey, 35 percent of respondents said a primary driver of wearable device ownership was that they were tired of pulling their phone out of their pockets.⁸ This creates an opportunity for financial institutions, prepaid program managers, as well as startup companies who are new to the payment space to offer their customers a differentiated product and a fresh form of brand awareness.

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Projected Revenue for the Wearables Market



Statista_June 2018_Selected region only includes countries listed in the Digital Market Outlook.

Source: <https://www.statista.com/outlook/319/100/wearables/worldwide#market-revenue>

Challenges for issuers and merchants

Despite these positive tailwinds, there are some challenges related to the widespread adoption of payment objects. These include:

- **POS infrastructure** - To truly take off, most retailers, transit terminals and sports venues must be upgraded to contactless EMV® POS terminals and outfitted to accept a wide range of payment methods. However, this should not be a roadblock. According to Visa, more merchants are turning on contactless card acceptance at point-of-sale terminals—about 70 of Visa's top merchants now accept contactless cards, up by more than 20 in a year.⁹

And within everyday spend categories, the majority of merchants allow customers to tap to pay at checkout. 64% of food and grocery, 81% of quick service restaurants and 92% of drugstore and pharmacy merchants allow customers to tap to pay.¹⁰

- **Perception of security** - Consumers and merchants alike have long expressed concern with the security protocols behind contactless payments. Yet such fears are already easing as the use of wearables and payment objects become more commonplace. According to a recent Mastercard® study, fraud concerns around contactless payment technology have declined by 24 percent across Europe.¹¹

- **Customer authentication protocols** - Some international markets such as the European Union (EU), require strict customer authentication protocols restricting contactless payments to a maximum of €30 before requiring the customer to enter a PIN code.¹² However, other markets like Australia, where the limits are higher, 82 percent of consumers make a contactless transaction at least once a week.¹³



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Undeniable benefits

While there are some challenges near term, the limitless potential and benefits associated with payment objects for consumers, issuers and vendors cannot be denied. These include:

- **Unparalleled versatility** – As payment object usage expands into new industry sectors and practical applications, the ability to handle a wide range of payment methods and systems will become paramount. Although 77 percent of consumers want their current financial institution or card network to accept the newest methods of payment, only 38 percent of connected consumers think their smart phone is the answer.¹⁴ This presents an opportunity for innovative payment objects to take center-stage. The unique portability, convenience and versatility of payment objects can be the catalyst for consolidation in the payment sector.
- **Unbeatable convenience** – Numerous studies have shown that consumers are seeking the same frictionless, retail buying experience that they enjoy online at Amazon.com in brick-and-mortar settings. According to a 2017 survey, 83 percent of consumers said they would use a connected device to enable a more seamless buying and paying experience.¹⁵ Nowhere is this thirst for convenience more evident than in the fitness sector. According to a 2017 survey, nearly half of consumers desired to make a purchase before or after exercising but were unable to because they were not carrying a form of payment.¹⁶ The same survey found that 60 percent of consumers, including 80 percent of millennials were interested in using a contactless or wearable device for payment during exercise.¹⁶
- **Faster transactions** – Another major advantage of payment objects is speed. For example, public transit agencies are deploying payment objects like wristbands and key fobs to improve commuter time and efficiency. According to Juniper Research, the value of contactless transit tickets purchased through smart wearable devices will reach \$1 billion by 2022.¹⁷
- **Next-level branding** – There are compelling business benefits to be reaped as well. As merchants and financial institutions experiment with payment cards, mobile apps and other applications, they are learning that innovative branding approaches can result in new customers and market growth. Payment objects represent an additional opportunity for companies to amplify their brand personality, build customer loyalty and gain top-of-wallet status. With the right technology partner, companies can take advantage of innovative design capabilities to help their payment objects capture the uniqueness of their brands. A payment-enabled key fob, for example, doesn't need to compete within a wallet at all – particularly if consumers find it to be the simplest and most streamlined way to complete a physical purchase.
- **Big Data—unleashed** – Beneath the surface, payment object systems can unlock a wealth of customer data, allowing issuers and merchants to capture emerging buying trends, enable highly-targeted promotions and enhance the overall customer experience. A 2017 report estimated that wearable advertising spend alone will reach \$68.7 million by 2019.¹⁸ Through smart wearables or payment-enabled items connected to mobile apps, companies will have the opportunity to send customized, interactive notifications about sales promotions, discounts and new product launches directly to their customers, in real-time.



Which benefits or features listed below do you find most appealing for yourself and your business when thinking about accepting digital wallets? (Select all that apply)



Base: 800 US professionals responsible for their organization's payments strategy

Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

Source: <https://www.jpmorgan.com/jpmpdf/1320743940930.pdf>

Getting started with payment objects

Pairing the appeal of closed-loop or open-loop programs with the seamlessness of payment objects allows companies to offer their customers a new level of convenience, while engendering loyalty and enhancing their brand. The promise behind such a payment offering is rooted in its capacity to fundamentally transform the standard of convenience consumers associate with them.

Companies can insert Adaptives™ into any number of branded payment objects to create a compelling form factor. Adaptives™ utilizes CPI's certified and patent pending personalization method paired with one of the smallest, thinnest, and most flexible contactless payment object technologies available in the market. With CPI as a technology partner, companies can help to transform payments across the retail, grocery, fuel, transit, events and other sectors and enhance the customer experience and position themselves as innovation leaders.



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About CPI Card Group

CPI Card Group is a leading provider in payment card production and related services, offering a single source for credit, debit and prepaid debit cards including EMV chip and dual interface, personalization, instant issuance, fulfillment and digital payment services. CPI has more than 20 years of experience in the payments market and is a trusted partner to financial institutions. Our solid reputation of product consistency, quality and outstanding customer service supports our position as a leader in the market. Serving our customers from locations throughout the United States, we have a large network of high security facilities, each of which is certified by one or more of the payment brands: Visa, Mastercard®, American Express and Discover®. Learn more at www.cpicardgroup.com.



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