

ELECTRONIC TRANSACTIONS ASSOCIATION

# INDUSTRY INSIGHTS

## Near-Field Communication & Mobile Payments 101: Why It's Important for Business

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## What Is NFC??

Considering its evolution from radio-frequency identification (RFID) technology, near-field communication (NFC) has come a long way since its inception in the early 2000s. NFC is now found in a large variety of everyday devices and applications. The enablement of NFC ultimately allows for two electronic devices to interact and send data between each other when brought into close proximity. Today, NFC can be used for an assortment of purposes, ranging from video- and data-sharing to payment acceptance across a multitude of avenues. With more than 1.9 billion smartphones enabled with NFC worldwide, mobile payments using NFC are being conducted more than ever - especially given the onslaught of COVID-19.



The implementation of NFC within smartphone devices has enabled technology providers to develop and offer consumers secure, seamless, and innovative options to make and accept payments. Technology providers on the consumer side, such as smartphone companies, have developed and rolled out their digital wallet payment services as a means to simplify the payment experience for consumers. Conversely, technology have developed the devices necessary to offer small and medium-size businesses (SMBs) the capability to accept and process these mobile payments based on NFC technology.

Over the course of 2020, use of in-store mobile payments using these NFC-capable devices increased by 29%, and this trend appears as if it will continue to grow. A contributing factor to this growth is because people are able to easily link their bank account and/or card information to a mobile wallet, making payment seamless. Fintech providers, , have created a vast network of partnerships and connections to simplify this process for consumers. Once synced, consumers can merely tap their smartphones to a supporting device at checkout to pay for goods and services, without the need for cash or cards.

The primary use case for NFC today is enabling contactless transactions at the point of sale (POS). This ensures a seamless, secure, and easy transaction experience for mobile device users and merchants. In a post-COVID world, the increased need for a touch-free payment has accelerated the use of contactless cards and mobile wallets as well as the adoption of contactless hardware.

Aside from payments, NFC can also be used for the following:

- Scanning identification documents like passports or employee badges
- Accessing buildings and hotel rooms with digital keycards
- Attending events with electronic ticketing and providing wristbands with credentials and payment capabilities?
- Tagging products by using NFC chips to track items or display product information?
- Paying tolls on highways through toll tags

## How Is NFC Useful in Payments??

Smartphones today have essentially become an extension of our bodies. Using our phones for payments will become as integral to our everyday lives as using them for the camera, messaging, social media, and web browsing have become.

The basic expectation from a growing number of customers is for retailers to offer NFC-enabled payments options. Paying by smart device is becoming the new normal and can increase customer engagement. It is less of a hassle to pay with a smartwatch or phone, which is already handy compared to carrying a wallet or purse for cash or physical card. Aside from their convenience, NFC transactions, at 12.5 seconds, are faster than normal dip transactions (chip cards), swipe transactions (26.7 seconds on average), and cash transactions (33.7 seconds on average).

As mobile wallets become more predominant, users will expect all retailers to accept multiple wallets as forms of payment, similar to how most businesses accept all credit cards. Given the option of using a smart device rather than a card, even if both are available, it's likely that Gen Z and Millennials will always choose to pay using their smart device.

Merchants may be missing out on revenue opportunities if they are not accepting NFC forms of payment. Strategy Analytics completed a study showing that NFC payments will account for more than \$130 billion in consumer retail worldwide by 2020, across 254 million NFC-enabled devices being used by cardholders. On average, those cardholders are using NFC for transactions at least five times per month.

The pandemic has clearly accelerated the acceptance of NFC. A recent study shows that 3 in 4 people plan to continue using NFC when the pandemic is over. When polled about using cash, 55% of U.S. consumers have doubts about handling cash - even when the average ticket is below \$25. Of the transactions under \$25, 80% of those are now NFC transactions.

Marketers can also take advantage of NFC, by collecting real-time data to target customers more efficiently and deliver more personalized data. These valuable customer analytics can help drive revenue and increase profits. One-time customers can be converted into return customers who spend more without the merchant needing to add a step to the checkout process to scan a code or type in the customer's information.

Simply put, NFC is here to stay and will continue to grow. With the exponential growth of anytime, anywhere online shopping, merchants must work harder for a customer's business. NFC is an option a business can no longer bypass.



## How Is NFC Implemented in Payments?

Accepting NFC payments may be easier than you think. Generally, most terminals made within the last five years that have a touchscreen already have the technology to accept these payments. There should be a symbol somewhere on the device that will show you if your terminal is enabled for accepting these transactions. If your device does not have this symbol, you can reach out to the customer service team or sales representative at your merchant services provider for a reader that allows you to make such transactions. These terminals may range in price from \$50 to a few hundred dollars, depending on what is needed to make the existing terminal compatible.

Once the merchant has the proper terminal in place, the consumer will need either a smartwatch, smartphone, or NFC-capable card to complete the contactless transaction. When the consumer's card or device is held near the terminal, the NFC technology works to complete the transaction just as if a card was swiped or dipped into the terminal. When the consumer holds their form of payment within inches of the device, it picks up the information being transmitted and completes the transaction. This works only when the device and form of payment are within very close proximity, ensuring that the transaction is secure and private. The technology used is similar to how ID cards and badges are used for entering offices and other secured locations.

As consumer adoption of contactless payments grows, it is imperative that merchants offer customers this payment method. There are no added steps for a merchant, and many consumers are already familiar with using this technology. The transaction is quick, secure, and easy to complete. Accepting and offering NFC payments allows merchants to expand their sales by meeting the needs of consumers' growing demands for contactless payment options.

Merchants can also integrate and expand customer loyalty rewards by using the same technology. NFC allows for a streamlined, secure sale with the ability to better track consumer habits and trends. This combination offers customers the ability to use available rewards while completing a payment without any contact, and consumers are more likely to conduct business with a merchant that offers loyalty rewards integrated within the payment feature.

Ultimately, our drive for technology innovation in the payments space will continue to evolve. The need for contactless payments was accelerated by the COVID-19 pandemic and will continue to grow at an increasing pace as consumer demand continues to rise.

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