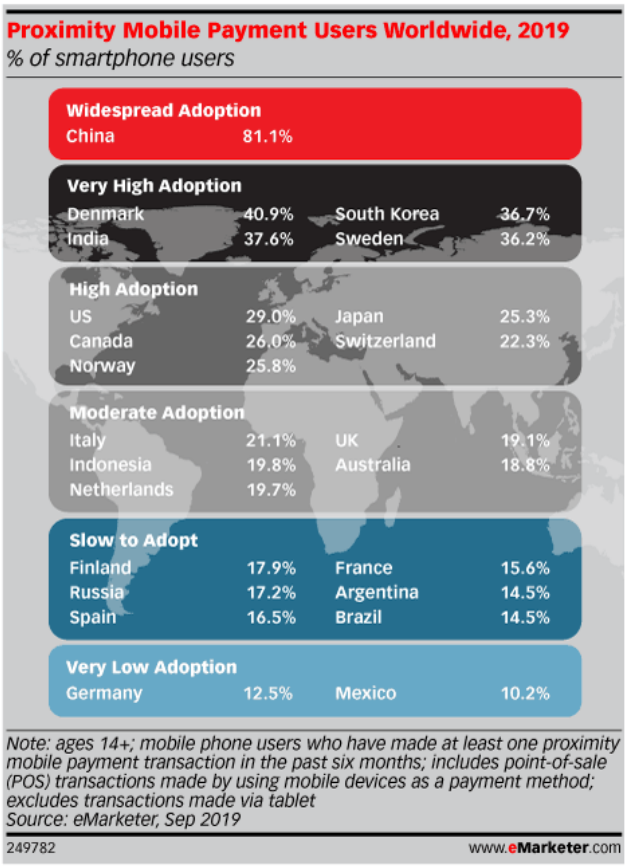
Contactless Competition and Digital Limitations Stifle Proximity Mobile Payment Growth in the UK

ARTICLE

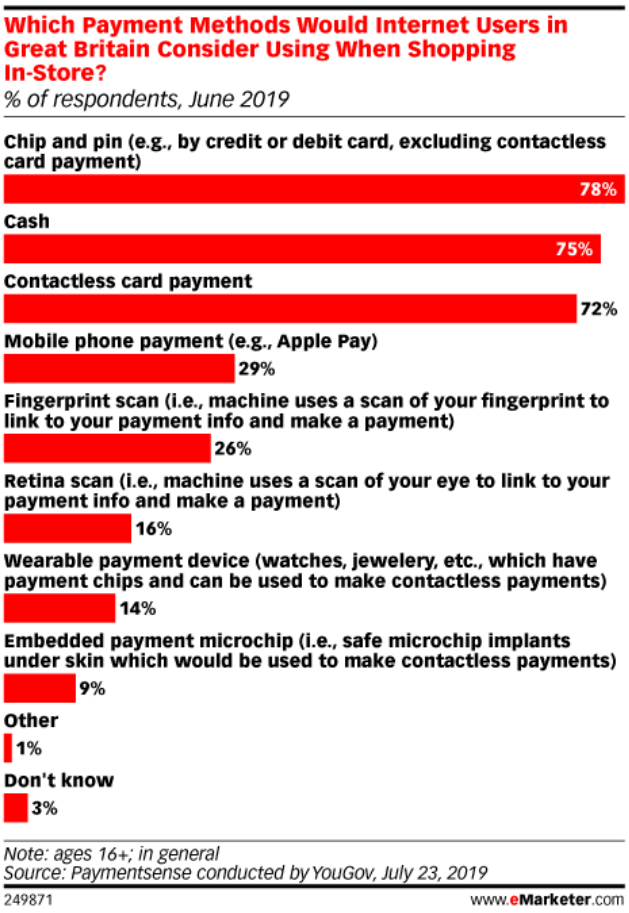
Bill Fisher

The UK lags behind many countries we track when it comes to proximity mobile payments, falling into the "moderate" bucket in our adoption categories in 2019. No other country comes remotely close to China's rate of penetration among smartphone users—81.1% vs. just 19.1% in the UK.



Contactless cards have been around in the UK since 2007, and consumers have taken to their use with gusto. This has stymied proximity mobile payment adoption.

A June 2019 survey from Paymentsense and YouGov indicated that internet users in Great Britain were particularly keen on contactless card payments when making in-store purchases. Such payments were only slightly less popular than chip-and-PIN payments and cash, and streets ahead of mobile phone payments.



One recent regulatory edict promises to help the cause of proximity mobile payments, though. A September 2019 update to Payment Services Directive 2 (PSD2), an EU directive that went into effect in January 2018 to modernize Europe's payment services, mandated that payment service providers in the EU must apply so-called “strong customer authentication” (SCA) when a payer initiates an electronic payment transaction.

SCA is a two-factor authentication requirement for online payments. Low-value payments for remote (online) transactions below €30 ($35.40) won’t require authentication, and contactless payments at the point of sale are also exempt, though only under certain conditions. A single transaction must not exceed €50 ($59.00), and the cumulative amount of previous contactless payments since the last time SCA was performed (e.g., by inputting the card pin) must not exceed €150 ($177.00).

Exceeding €50 in a single transaction obviously exempts contactless card payments, given the maximum transaction amount currently stands at £30 ($40). However, it's that "cumulative amount" that might be a sticking point, particularly in major urban areas where contactless cards are used habitually for both retail and transportation.

This is one area where proximity mobile payments have a head-start, given they are largely exempt from SCA thanks to the biometric security already inherent in such payment methods (i.e., fingerprint scanners).

Unsurprisingly, some major UK banks are looking to bring biometrics to the contactless card space. Earlier this year, NatWest and Royal Bank of Scotland trialed contactless cards with fingerprint scanners built in. The technology acts exactly like a contactless card, except a user must hold their finger or thumb on the card's built-in sensor to validate the payment. The card uses inductive-loop technology, drawing power from the card terminal, so no external power source is required.

Such technology not only negates the £30 ($40) limit that contactless cards currently adhere to, but also meets the requirements of SCA. Oh, and you don't have to worry about your phone battery dying, which was a very real problem that was discovered by Financial Times journalist Jemima Kelly late last year, and detailed in a column for the publication.

While traveling on the London bus network in October 2018, Kelly was approached by a ticket inspector and asked to show her ticket for travel. She had tapped into the bus with her iPhone using Apple Pay, but since boarding, her phone had run out of battery and she was unable to prove that she had paid. The inspector took her details, and, to cut a long story short, by May 2019 she was facing a heavy fine and a criminal conviction.

Both the fine and conviction were ultimately quashed, but the saga illustrates a cautionary tale—the mobile revolution touches most all facets of daily life, but sometimes there are alternatives that work perfectly well and that offer an altogether less-risky option.

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Report by Jasmine Enberg Oct 24, 2019

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