



Giesecke+Devrient

Juniper Research Future Digital Awards Platinum, Giesecke+Devrient IoT Payment Innovation



Juniper Research Lead Analyst Nick Maynard conducted the below interview with Jukka Yliuntinen, Head of Digital Solutions at G+D in June 2021.

Much has been made of the rise of contactless payments during the pandemic. What do you see as the impact being, and what does this mean for key stakeholders in the market?

Jukka: First of all, I would say it has had a really large impact, for contactless payments there are a few aspects to this. It has been much appreciated by the merchants and the consumers, as this is one way to do touchless, very hygienic payments, but if you take a closer look, there are a couple of categories of users here. Digital natives, for them I think this has been the way to do payments already, they are very easy-going, and understand and embrace this. You also have the older generation, who, at least not in all countries and regions, are not as familiar with contactless payments. There is a migration which has really happened.

Take the example of my mother, she did not really use contactless payments, although she has had a dual interface card for a long period. Now, during the last 12 months or so, she has really used this and been happy with it.

This is not just about the physical cards, but also the digital part, where it's very much about the customer experience, how do you select the card, what kind of wallet do you have, is it a Pay or something from your bank, and then how this whole way of payment is being done. There are a lot of angles on this – if you think about contactless cards only, there is a value proposition for consumers, it's convenient, it also provides quick throughput for merchants, more customers, more money, more sales.

For the issuing bank, it's their card, their brand in the hands of the customer. With mobile contactless, it changes from the issuer point of view, the brand of the bank is not necessarily more dominant, it may be the brand of the device maker, Samsung as an example. That will change the whole proposition and how consumers feel about how they pay, what is the payment means, etc. It has a strategic impact from the vendor and issuer side, how consumers feel and what payments are made.

Nick: Contactless payments have really started growing in markets that were previously quite resistant, such as the US and Germany, this situation has really kickstarted growth in these holdout markets, the strategic imperative around contactless payments is strong and they are now central to the in-store experience.

Jukka: Agreed, the US has been card heavy for some time, but not necessarily contactless, and now contactless is making a breakthrough. For Germany, it was not so much card based as domestic schemes such as girocard or cash, but with the impact of the pandemic we have seen a leapfrogging from the cash payment to contactless payment, it is really accelerating the migration.

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What capabilities has G+D developed in the contactless payments space?

Jukka: We have been in the payments industry for more than 160 years, from cash to plastic cards, to magstripe cards and chip cards, and to the digital payment solutions. For us, as a provider of dual interface cards – contactless cards – which enable a contact interface too, we see huge a migration going contactless across all markets. The US, for example, has seen a big effort by the issuers to roll out dual interface cards. Other markets have seen the same happen.

Looking at digital wallets, it is the same thing. We can see a real bump in usage from late March early April of last year, going strong onwards. All our customers use HCE (Host Card Emulation) for their contactless digital wallets, and the increase in volumes has saturated a bit now more than a year in the pandemic, but the trend is still strong: digital wallets are here to stay!

Also from a revenue perspective, the growth rate hits an all-time high, which has had a positive impact not only on our customers' businesses but also on ours. Another growth topic is payment-enabled wearables. We provide digital solutions for the actual wearables, so that device makers can offer payments with their wearables, with the payment credentials securely stored.

There is a huge demand for this by the wearable vendors, who are bringing new devices into the market, wanting competitive advantages. But also from users, who already have adopted wearables as a means for 'something' now also wanting a payment feature implemented for a simplistic way to pay.

The technology behind it is based on tokenization, a by now well established, interoperable and mature way of securing payment credentials, where we are enablers for market-leading payment providers already, such as the X-Pays and banking wallets and eCommerce, to wearable device makers and even in-car payments.

Contactless mobile and cards tend to be what people immediately think of for contactless payments. What are some of the other, innovative contactless payments form factors that G+D support?

Jukka: We think there is a market demand for wearables – we see many device makers, who typically make wearables like fitness trackers, health trackers or just pure watches, including a more static standalone payment solution. All this can be added to other form factors like jewelry, rings and even clothing, whatever makes sense for the use case.

Sports is a good example: people don't want to carry a wallet, they may not even want a mobile, you have your wearable, or you may even have payment integrated in your jogging jersey or something similar. There is a demand for this segment, and we provide these solutions for instance to Swatch, and enable their solution SwatchPay, where the watch owner easily can pay with their trendy watches – all contactless.

This is a nice use case for them, because it keeps them relevant in the eyes of their customers, and especially the segment they are focusing on, where they are targeted at sports and active users. These types of devices already have their payment feature in them when you buy it, but another use case is to enable payments in already existing devices, maybe months after a purchase. This is for example done by using your mobile phone and NFC, to personalize the payment credentials into these devices. With such possibilities, it makes these devices much more diverse in terms of payment.

What makes G+D's contactless payments solution different to others in the space?

Jukka: We are a technology company providing solutions and enablers for our customers in the B2B environment, and the core in this is the G+D security. We don't want users to worry about the security – they shouldn't even have to think about it. They can confidentially use their payment solutions, knowing there is a state-of-the-art security technology, all happening in the background. Our biggest value proposition is how to bring security and ease of use together, and this is probably the biggest dilemma when it comes to implementing secure payments. You can build a world that is 100% secure, but difficult to use. The key is to know how to enable a beautiful customer experience and still offer safe and secure payments, which are the foundation for creating confidence and trust when it comes to pay.

To start with, for instance, contactless payments, there was a lot of hesitation for users around security: 'Is this secure? Can anyone eavesdrop and steal my payment data while I'm doing this?' To convey a truly secure payment experience, you need to remove borders and concerns any customer may have.

At the end of the day, it is about assuring that the payment credentials are safe, and be transparent around how to enable payments and how to manage sensitive data and credentials throughout its lifecycle – whether it is a chip card or digital wallet, and regardless of form factor. All this is the combination G+D brings with, thanks to our long history in payments.

What do you make of contactless mobile payments' largest competitor, QR code payments?

Jukka: The market is big enough for both contactless mobile payments and QR to grow, since they are not necessarily competing but can complement each other in smartphones using QR or NFC. But in many regions, QR code is a more inclusive way to pay. It really depends on the infrastructure and the evolutionary phase of a region or country's way to pay, QR or NFC.

Of course, we all know QR code payment has had a great adoption in China. If you visit as a foreigner and try to use anything else to pay with than QR, you will be considered an alien!

And China, who historically has been a 'card market,' jumped directly from cash to QR code based – an easy leap, since there was no need for a specific payment terminals, nor a smartphone, but an ordinary phone with a screen and a camera, and consumers were enabled by the app providers to pay contactless in a nice and intuitive way.

However, if you look in other regions, like the US or Europe, they have a vast contactless terminal market, where merchants have invested a lot in hardware and such. So, it is easy to pay with a physical contactless card or digital wallet.

Therefore, I believe it will be difficult to grow larger demand and adoption for users of QR code payments where there already is an infrastructure for touchless payment, and a market that has adopted the same. It is very convenient to use – just tap and pay – and the payment experience is one step less than with having to scan the QR code.

But apart from convenience, again, it is important to ensure that the whole system is secure, not just convenient. So far, we don't see that there will be major differences here between contactless and QR. It is about the end-to-end infrastructure to secure the transaction, not just the QR code.

What do you see the future of contactless payments as? Will elements such as biometric cards significantly alter the landscape?

Jukka: I believe that there is a market for all different types of payment options, and biometric cards is one example. In the last 10 years, there has been varied interest in biometric cards, sometimes more and sometimes less, and now it is back in trend. We're seeing some issuers really starting to issue biometric cards for a specific segment.

At the same time, it is very difficult to see that this would become the dominant method of issuing cards. Not only is there the cost element, but again, is it as convenient as contactless payments, if you need to present your fingerprint? This might not be a good fit for everyone. We believe that in certain use cases and customer segments, it may be a very good option to offer. When it comes to eCommerce, digital cards in digital wallets will be a fraction of digital payments. And here we will see an even larger boost in usage, where physical stores have been pushed online, driven by the pandemic. This means that part of the contactless use will evolve into an e-commerce use.

Also, we will see an increase of use of digital wallets in various form factors, and the way we use them will evolve too. For example, an integrated digital wallet into your wearable, where you just walk into the shop, pick your product, present your wearable to a scanner on the shelf, walk out, and your goods already paid for without you having to use a terminal. Amazon Go's shopping experience, where payment is integrated into the journey, is very similar to this, but is based on Card on File, and not tokenization. But these kinds of customer journeys, are great use cases for integrating contactless payments and adding value.

Featuring this payment means a conscious decision by the consumer to make the payment, with the user deciding with what form factor to use for same payment – be a wearable built into the clothing or a mobile wallet, tap and pay with a card. Leaving the control to the customer, how and when to pay. This the direction we are going towards, to give the control to the customer. But how far and how fast it all happens depends on merchants capabilities, renewal cycles of POS terminals, and development of new capacities for mobile phones.

For sure, contactless payment will be growing, and in the future we might not even have an act of payment anymore: The actual payment is connected with how you identify yourself and based on that you can make a payment that is not linked to a card. Same scenario as when you do a real-time payment and P2P payments. Here we see a lot of pilots and initiatives happening as we speak.

Want to know why we won not only one but two Juniper Awards? Check out our award-winning solutions for secure tokenized Digital Payments:



About Giesecke+Devrient

Giesecke+Devrient (G+D) is an international Group providing security technology and headquartered in Munich, Germany. Innovations by G+D make the lives of billions of people in the digital and physical world more secure. With its products and solutions, G+D is one of the market and technology leaders in payments, connectivity, identities, and digital infrastructures.

Established in 1852, the company achieved sales of €2.45 billion in the fiscal year 2019 and employs 11,500 people. G+D has a presence in 33 countries. Its customer base includes central and commercial banks, mobile network providers, automotive manufacturers, health insurance companies, and governments and public authorities. Further information: www.gi-de.com.



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