



Follow The Leader On Contactless And EMV

by [Steve Brown](#)

Many of you are undoubtedly familiar with the children's game Follow the Leader. First a line leader is chosen while the rest of the children gather behind him or her. The leader then moves around the room performing various actions like hand clapping, foot stomping, arm waving or whistling. All the children in the line are supposed to mimic the leader's actions and anyone who doesn't is out of the game.

This reminds us a bit of what's happening now in the US payments realm, where merchants here are still scrambling to catch up with other countries around the globe with respect to chip cards. The October 2015 liability shift notwithstanding, many merchants in the US have still not transitioned their terminals to accept chip cards. Outside the US, countries have used chip technology for many years so we will have to follow the leader.

Contactless payments are another area where non-US countries are the leaders. For those of you who are unfamiliar and haven't traveled extensively overseas perhaps, contactless payments are found quite commonly and they let shoppers wave their smartphone in front of a reader at the cash register to make a payment. Their credit card is automatically billed without the consumer ever taking it out of their wallet.

Contactless payments have reached a tipping point in Europe in fact, where a growing number of consumers in dozens of countries across the continent are using contactless payments to make their everyday purchases according to data from MasterCard and Visa.

For perspective, in the Q2 of 2015, tap transactions in Europe grew by almost 170% from the previous year and consumers already using contactless have tapped 20% more, according to MasterCard.

MasterCard's data also shows that each year since 2012, individual cardholders have on average doubled the number of times they tap to pay. This data highly suggests more confidence among consumers and an increasing acceptance of contactless by retailers in Europe.

Comparable data for contactless payments in the US doesn't exist, but anecdotally, it's clear that widespread use of contactless payments hasn't yet hit our shores aggressively. EMV will change this though as it provides the foundation for contactless transactions, so they are gaining some ground here. This has moved forward even more recently, thanks in part to the rollout of Apple Pay and the recently overhauled Google Wallet. But we're nowhere near the levels Europe has witnessed.

This all makes sense when you consider that Europe was light years ahead with respect to EMV so it has a similar lead when it comes to contactless payments. According to a recent report by NCR Corp., there are around 62 contactless payment projects live, or about to launch, in Europe. Meanwhile, the number of countries accepting contactless payments doubled between early 2013 and early 2014; the number of contactless point-of-sale (POS) terminals tripled during the same period. MasterCard and Visa have both said that all POS terminals across the continent will be able to accept contactless transactions by 2020.

Contrary to what's happening in Europe, interest among US consumers for contactless payments appears to be ho-hum at best--at least for the present. A recent Harris Poll showed that only 27% of Americans expressed interest in tap-and-pay payments this year vs. 24% in 2013. Among smartphone users, interest is unchanged at 37%. This is not the case in many countries outside the US, where consumers have wholeheartedly grabbed onto the idea of contactless payments.

At this point, it's clear that Europe is still playing the leader in contactless and EMV technology, though pundits do expect the US to eventually catch up. History certainly suggests that Americans will follow the lead of their European counterparts and banks need to be prepared for the tidal shift. The pressing question now is when this will happen and not if, so keep your eyes open to see it coming.

BANK NEWS

HVCRE Update

Bankers are alerted that once a loan is determined to be High Volatility Commercial Real Estate (HVCRE) it continues to have a 150% risk weight until permanent financing is received. HVCRE is defined as "a credit facility that finances or has financed the acquisition, development, or construction (ADC) of real property." Loans that are exempt from this classification are those that finance the acquisition, development or construction of one- to four-family residential properties, real property that would qualify as community development investments, or loans to businesses or farms with gross revenues of \$1mm or more. In addition, other ADC loans may be exempt from the HVCRE classification if: the loan has an LTV less than or equal to 80%, the borrower contributes capital to the project in the form of cash or unencumbered marketable assets of at least 15% of the appraised "as complete" value, and the borrower's capital must be contributed prior to bank funding and remain in the project throughout the life of the project. The life of the project concludes when the credit facility is converted to permanent financing, sold or repaid in full.

Housing

The S&P/Case Shiller index of home prices has reached its highest level since Nov 2007 and is up almost 31% from its low mark of Feb 2012. It now sits only 5.2% below the all time peak hit in Jul 2006.

Crisis Gaps

Research by Deloitte of executives, managers, analysts and crisis professionals from companies worldwide finds respondents believe the biggest gap in their organization is: don't know or not applicable (31%), information management (17%), crisis communications (17%), decision making process (14%), response organization (13%), and private-public communication (9%).

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