



The Rise of Contactless Payments



Summary: While many daily tasks are beginning to resemble pre-Covid life, some habits picked up during the pandemic are likely to continue, including the use and expectations of contactless digital payments. We explore how to embrace this perpetual payment trend as it continues into 2023.

China gave literal meaning to “money laundering” when banks began [deep cleaning their money](#) during the COVID-19 pandemic. Even though the World Health Organization didn’t recommend the practice, cash is far from sterile. Research shows that nearly 95% of tested dollar bills harbor bacteria, including some that can cause severe infections like pneumonia.

To avoid unnecessary contact with people and money, [digital payments soared](#) during the pandemic. While some of the increase could be attributed to a boost in online shopping and the temporary shutdowns of brick-and-mortar stores, the trend has continued despite more Americans returning to in-person shopping.

Soapsuds aside, community financial institutions (CFIs) should be aware of how the contactless payments landscape has evolved, turning even the most cash-friendly consumers into digital payment enthusiasts. By recognizing how vital these payment options are to consumers, CFIs can better understand and serve their customers in 2023.

Less resistance to frictionless payments. Data indicates a strong preference for frictionless payment methods, even as consumers replace online shopping carts with in-person retail experiences. These include, but aren’t limited to the following:

- Digital wallets/virtual credit cards
- Tap-to-pay credit and debit cards
- In-app payments
- Social payments, such as Zelle and Venmo

According to Visa, tap-to-pay transactions grew by 30% in 2020, and nearly half of American consumers won’t shop at a store that doesn’t offer contactless or frictionless payments.

Frictionless payments provide consumers with an easy and seamless checkout experience no matter what, where, or how they purchase. All digital businesses, including CFIs, should consider the growing use and expectation of frictionless payments as part of its customer experience, including at their own ATMs.

Rewarding debit card use. A survey by 451 Research found that [debit cards overtook credit cards](#) as consumers’ most preferred payment card during the pandemic, a complete flip from previous data. The reasons are many, including uncertainty over unemployment and a recession, along with a strong reluctance to get into debt.

Younger consumers with security concerns are also behind the flip, choosing PIN-based or contactless debit cards that offer additional protection over standard chip credit cards. CFIs can benefit from this trend by rewarding debit card use as a contactless payment option, such as a loyalty or points program.

Another popular payment trend brought on by the pandemic is [Buy Now, Pay Later \(BNPL\)](#). In most BNPL purchases, the first installment and subsequent payments are made with debit cards. CFIs wishing to cater to debit card preferences should consider adding a BNPL element to their list of contactless features.

The big financial institutions are overlooking digital wallets. McKinsey's 2022 Digital Payments Consumer Survey found that consumers have a measurable [preference for digital wallets](#) provided by their financial institutions. However, further research suggests a disconnect, as the same consumers listed providers who are, in fact, not banks (e.g., PayPal and Apple Pay).

This isn't surprising since very few financial institutions offer a digital wallet. But the good news is that where there is a disconnect, there is opportunity. Consumers still wary of adopting a digital wallet cite a [lack of trust in fintech](#) as the main reason. CFIs who can offer a card that consumers feel confident adding to their digital wallet can participate in this contactless payment trend.

Contactless payments are here to stay. As the country slowly returns to normal, it's becoming clear that contactless payments are one pandemic habit that Americans aren't likely to give up anytime soon.

By understanding the events and emotions behind the consumer shift to contactless payments, CFIs can recognize the importance of including such options in their business model. In doing so, they can better serve their customers and meet their expectations in various payment touch points.

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ECONOMY & RATES

Rates As Of: 01/18/2023 06:52AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.71	0.29	0.29
6M	4.82	0.06	0.06
1Y	4.62	-0.08	-0.08
2Y	4.12	-0.31	-0.31
5Y	3.51	-0.49	-0.49
10Y	3.43	-0.44	-0.44
30Y	3.56	-0.40	-0.40
FF Market	FF Disc	IORR	
4.33	4.50	4.40	
SOFR	Prime	OBFR	
4.31	7.50	4.32	

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