

RESEARCH

Wearables to account for 20pc of mobile proximity payments by 2020: report

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Apple's Apple Watch Edition

By CHANTAL TODE

Payment transaction volume on wearables will reach \$501 billion by 2020, growing at a compound annual growth rate of 177 percent and representing 20 percent of total mobile proximity transaction volume, according to a new report from Tractica.

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The potential of wrist-based payments is already in evidence via radio frequency identification bands at festivals and live events, with the demand expected to double this year and cashless payments a key application. Disney's MagicBand is already the most successful wearable closed-loop payment and ticketing solution, with more than 11 million bands having been issued.

"Wearable payments provide a convenient and quick way for making payments, especially for small to medium sized transactions, and work similar to any other contactless payment like a contactless card," said Aditya Kaul, research director at **Tractica** and lead author of the Wearable Payments report. "Once a customer has gotten accustomed to using a contactless card, they are highly likely to transition towards a

wearable payment solution in the future, or use them interchangeably.

“In addition, there are likely to be many users who will try contactless payments for the first time using a wearable device,” he said. “If you are a merchant that has yet to support contactless technology, it is not too late to upgrade to support contactless payments, which in turn will enable support for wearable payments as well.


“Overall, wearable payments are very likely to reduce checkout times, reduce queues, and improve the overall customer experience.”

A nascent market

The report defines wearable payments as proximity payments or transactions made physically at a POS terminal using a smart watch, fitness tracker or payment wristband. It does not include iBeacon-triggered payments, payment within apps or ecommerce payments using a wearable device such as a smart watch.

Despite the expected growth, wearable payment transaction volume will only represent less than 1 percent of total cashless transactions in retail by 2020, which are expected to cross \$50 trillion by that time.

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The wearable payments market is just getting started thanks to the launch of Apple Pay for the Apple Watch. With the soon-to-launch Android Pay and Samsung Pay as well as other digital wallets also supporting smart watch payments, volume is expected to pick up significantly from \$3.1 billion expected to be transacted on wearables in 2015.

Additional recent developments in this market include Barclays' launch in Britain of bPay, which includes a payment wristband. Watchmaker Swatch is expected to soon launch a smart watch that will include payments via UnionPay in Europe and China.

In China, Alipay, the largest mobile payment provider, is partnering with Xiaomi, the largest fitness tracking company, to enable payments via the Mi fitness band.

“There is already a considerable volume of closed-loop payment transactions taking place using wearable wristbands, like the Disney MagicBand or other similar devices being used by resorts and hotels,” Mr. Kaul said. “Also, live events like festivals and concerts are have seen a massive uptake of wearable RFID bands for both ticketing and

payments over the last 12 months.”

Payments evolve

Payments are already evolving thanks to the growing adoption of contactless point-of-sale readers, increased comfort with using contactless cards and burgeoning presence of near field communications payments on mobile devices.

Mobile transactions are growing at 50 percent to 60 percent year-over-year while non-cash transactions, mostly through cards, are growing at a rate of 10 percent.

The wearable payment band, smart watch, or fitness tracker is expected to add another layer of ease and convenience.

The participation of some of the biggest names in technology, banking and payments is proof that this market is here to stay, according to the report.

Tractica believes that Apple Pay is the best candidate for the killer app that will make the smart watch an indispensable wearable device.

Market fragmentation

The biggest barrier for wearable payments is likely to be merchant support for contactless payments, either through mobile or cards. Wearable payments will only work if there is a contactless terminal being supported at the merchant.

In the United States there is also the issue of multiple players trying to attain dominance in mobile payments. For example, a number of major merchants are blocking Apple Pay and other mobile wallet solutions in favor of their own system.

It is not clear at this point if CurrentC, the mobile payments solution from merchants, will have apps on wearables. If such apps are available, it is possible they will only be supported on Pebble.

Wearables payments could suffer as long as the various players continue to push their own platforms rather than collaborating and partnering around scalable solutions that will help grow the market as a whole.

Tractica expects some players will be forced to abandon their initiatives just as the major wireless carriers in the U.S. have abandoned their mobile wallet solution.

“Rather than support their own payment solution, merchants should expand their support for all solutions, lowering their own risk of alienating customers, and allowing other companies to innovate,” Mr. Kaul said.

“They are better off opening up support for Apple, Samsung, and Google wallet solutions that are better equipped to drive the market in the long term, especially when it comes to mobile and wearable payments,” he said.

Final Take

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