

NEXT-GEN DEBIT

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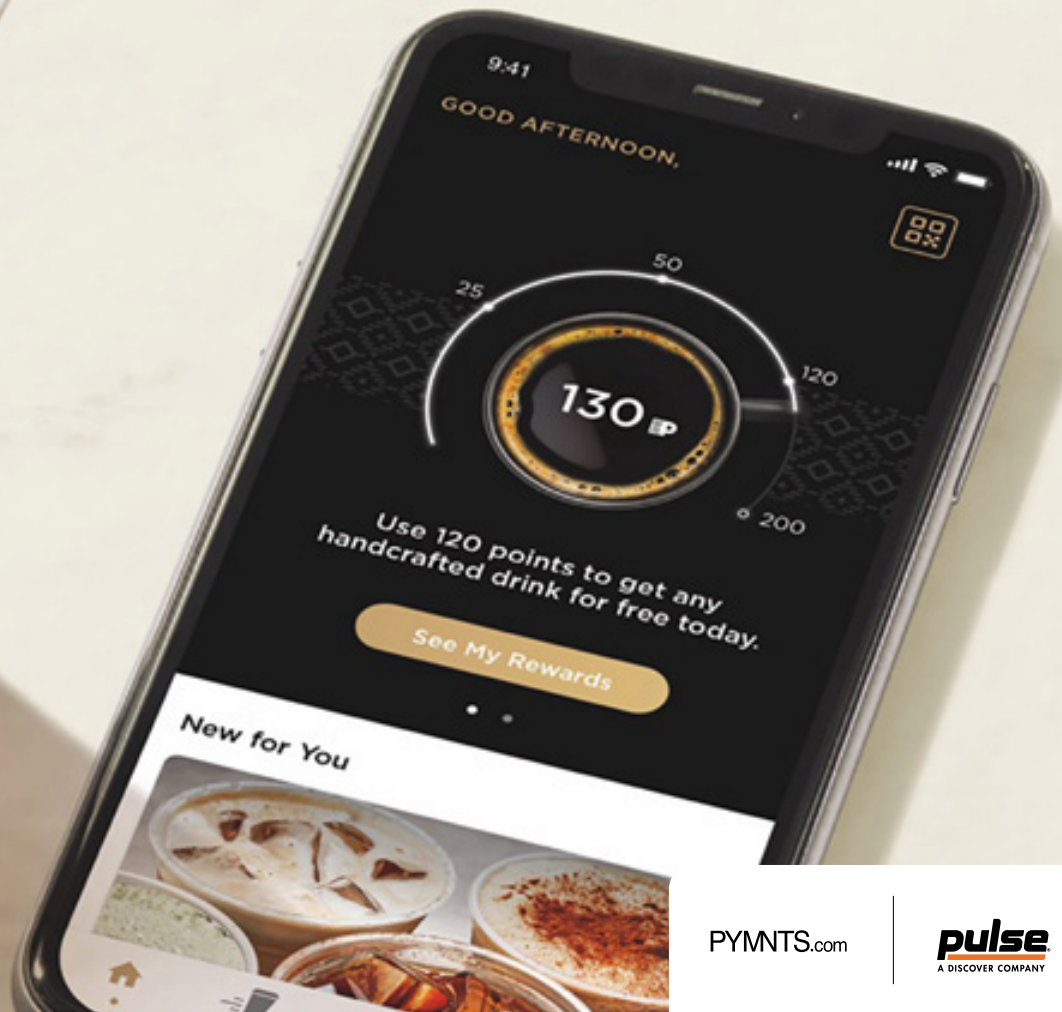


OCTOBER/NOVEMBER 2021

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WHAT'S INSIDE



Contactless transactions continue to grow in popularity with shoppers around the world. Available vaccines may be making face-to-face interactions more tolerable for consumers, but many of them are not so sure they want to return to their pre-pandemic shopping habits.

Research **showed** that one in six consumers made their first-ever contactless purchases last year, and nearly nine in 10 of those first-time users plan to continue using contactless payments. Digital debit card transactions in the United States grew some 73 percent in 2020, while contactless credit card transactions grew only 38 percent, reflecting consumers' rising desire to use debit cards to avoid both interest charges and the physical need to hand over a card for purchases.

Retailers and banks, meanwhile, have noticed these changes in consumer spending habits and are teaming up not only to encourage shoppers to use contactless digital methods

but also to assuage public fears of fraud and identity theft. Governments are also jumping on the contactless bandwagon, raising spending limits on transactions to tempt shoppers into using contactless debit cards to pay for their weekly groceries or mobile wallets to pay their taxes or purchase fishing licenses. The efforts are working: The number of consumers in the United Kingdom using contactless debit transactions **increased** from 7 percent to 27 percent in just four years, for example.

NEXT-GEN DEBIT DEVELOPMENTS AROUND THE WORLD

Mobile contactless transactions continue to grow in popularity as a preferred way to do business, and some estimates claim that mobile payments on platforms such as Apple Pay, Google Pay and Venmo will overtake the number of contactless card transactions by 2023. A new **report** indicates that the number of mobile wallet transactions could rise 92 percent by 2023. Consumers still are hesitant about trusting the technology, however, and

digital wallet services must work to educate customers as well as tokenize transactions to make them safer to use.

Government action can help spur economic growth, and several countries are helping encourage their citizens to have faith in the technology supporting contactless debit and credit transactions. In the U.K., for instance, government and banking officials have **approved** a 50 percent increase in spending limits on such transactions, making it more palatable for those looking to use card-not-present (CNP) transactions for higher-value purchases. To fight fraud, many banks are redesigning mobile apps to allow consumers to control the spending limits on their debit cards.

U.S. retailers recently enjoyed a strong back-to-school season as shoppers **returned** to stores, albeit without their physical credit or debit cards in hand. Major retail chain Target fared especially well, seeing the strongest increase in purchases during August. Credit purchases at the store were up 21 percent from August 2020 and debit purchases were up 11 percent. CNP transactions were up significantly for sports apparel merchants as well. CNP purchases on credit cards at these retailers were up 5 percentage points from last year, while debit card use increased 121 percentage points from the same period.

For more on these stories and other next-gen debit developments, check out the Tracker's News and Trends section (p. 10).



PEET'S COFFEE ON DRIVING COFFEE LOVER LOYALTY WITH CONTACTLESS PAYMENT OPTIONS

The pandemic forced many consumers to set aside their daily coffee runs for brewing at home. For the drinks they could not make at home, and for those who could not stay away from their local coffee bars, contactless payment methods and apps that enabled customers to order and pay with a finger tap offered businesses new ways to stay in contact with their most loyal customers while also attracting new ones. In this month's Feature Story (p. 7), PYMNTS spoke with Lisa Regelman, director of loyalty and growth marketing for [Peet's Coffee](#), on how the specialty coffee roaster leveraged contactless payment technology to cater to the consumers' changing needs and introduce new products to attract younger, tech-savvy customers.

DEEP DIVE: HOW BANKS, MERCHANTS AND GOVERNMENTS ARE TEAMING UP TO MAKE CONTACTLESS DEBIT PAYMENTS EASIER AND MORE SECURE

Contactless debit transactions are becoming more popular worldwide as consumers discover the technology that allows them to go cardless both online and in-store. Retailers, banks and governments have noticed and are working together to educate and market to consumers about the opportunities for making purchases without the need for cash or a physical card. This month's Deep Dive (p. 14) explores the factors surrounding a boom in contactless debit transactions and how consumers are being encouraged to spend their money this way.



5 FIVE FAST FACTS



92%

Expected growth in transaction volumes for mobile payments by 2023

1 IN 6

Share of consumers who made their first-ever contactless payments last year

\$443.49B

Predicted transaction value of digital debit card purchases by 2023

62%

Share of contactless purchases made on Canadian debit cards during the pandemic

34M

Number of new contactless transactions recorded in an eight-week period during a Dubai bank's customer campaign



Peet's Coffee On Powering Loyalty With Contactless Payment Options



With all the upheaval in the world during the pandemic, one thing has remained constant: The masses still need their caffeine. It is more important than ever for brands to connect with their customers and make it as easy as possible to access and pay for their favorite beverages of choice — caffeinated or not.

“We are fortunate to have so many loyal customers who have been with us since the beginning,” said Lisa Regelman, director of loyalty and growth marketing for **Peet’s Coffee**.

Since its founding in the San Francisco Bay area in 1966, Peet’s has developed a loyal following of customers who enjoy its fresh, gourmet coffee from high-quality beans, and its signature dark roasts are found on grocery shelves across the country. The company generated revenues of \$983 million in 2019, and an initial public offering raised \$2.5 billion and valued the company at approximately \$17.3 billion in 2020.

Consumers’ coffee preferences may stay the same, but how customers want to pay for their purchases has changed; contactless and convenient is the preferred way to pay for many people in 2021. To remain competitive, merchants must pivot to meet the needs and desires of customers on the go.

“Like many others, we have seen a dramatic shift to digital ordering since March 2020, and with it a need to find ways to create the connection we have with our customers in-store, but through a digital platform,” Regelman said. “This might look like a handwritten note

on your morning breakfast order, a warm greeting when you come in-store to pick up your mobile order, or through more one-to-one communication in our app and emails [that are] tailored based on what we know you love and want to know about.”

That sort of connection with customers is what keeps them coming back and what attracts new customers, Regelman said, adding that Peet’s is attracting more Gen Z and millennial consumers through the introduction of cold beverages, expanded breakfast and plant-based options as well as the availability of mobile order-ahead and delivery.

PANDEMIC-DRIVEN PAYMENT SHIFTS

Fears of virus transmission during the pandemic forced many consumers to stay home, but they still wanted their coffee fix. Contactless payment options became much more in-demand and, like many merchants, Peet’s had to evolve the payment options it accepted. To maintain the safety of employees and customers, Peet’s enabled and expanded existing contactless payment options. This included mobile wallet options within the company’s loyalty app and contactless debit options that did not require customers to use cash or hand a card to baristas at the point of sale.

“Going into the pandemic, Apple Pay and Google Pay were both options in-store,” Regelman said. “We have since enabled Apple Pay within the Peet’s app as well as expanded

payment choices to include credit cards for both our iOS and Android apps.”

“We were also thrilled to be able to move quickly to enable digital tipping in April 2020, a feature that has allowed us to provide additional income for our team members on the front lines and addressing a request by our customers.”

Customers liked the ability to brew Peet’s coffee at home, but Regelman said that many customers still wanted their go-to prepared beverages that were harder to make at home, like espresso beverages, cold brew and other iced beverages.

“We’d seen these shifts start to happen prior to the pandemic, and they became even more pronounced,” she said, adding that the shift also happened at the same time customers showed an increase in demand for plant-based products, such as oat milk beverages and the launch of the new Everything Plant-Based Sandwich.

“Consumers’ ordering and payment expectations are being driven by convenience, choice and security,” she said. “We are continuously exploring ways to meet these expectations and continue to actively engage our customers in conversation to understand what they want and how we can deliver on that.”

LINKING DEBIT TO DIGITAL WALLETS

The timing of new product offerings and expansion of order-ahead and delivery services enabled Peet’s to get the right products to a new, younger audience at the right time, she said. This expansion also allowed the company to appeal to the needs of loyal, long-standing customers, known as Peetniks.

The company relaunched the Peetnik Rewards loyalty program based on feedback from customers who wanted to earn rewards faster and sought more choice and control in how they accessed and paid for their purchases.

The app not only allows customers to earn rewards and order their favorite menu items ahead, but it also allows them to connect their credit or debit cards, as well as PayPal and Venmo accounts to the app’s digital wallet feature, enabling them to pay with the scan of a QR code. Regelman said that P2P apps will continue to proliferate even after the pandemic has subsided.

“They also invite a new customer: one that is more tech-savvy and who trusts these platforms, be it Venmo, Zelle or PayPal, which we leverage for payments on Peets.com,” she said. “That trust translates into reduced friction in purchase and ultimately in choice of with whom they choose to transact, which translates into longer-term loyalty.”

NEWS & TRENDS



CONTACTLESS DEBIT TRENDS

CNP TRANSACTIONS MADE UP 33 PERCENT OF DEBIT CARD PURCHASES IN SPORTS APPAREL AS BACK-TO-SCHOOL SHOPPERS RETURNED TO STORES

As pandemic restrictions eased this fall, students returned to newly opened classrooms. Back-to-school shoppers predictably returned in droves to purchase supplies and clothing needed for the return to in-person studies. According to a September 2021 [report](#) from credit union service organization PSCU, major retailer Target saw the strongest increase in purchases in August, with credit and debit purchases up 21 percent and 11 percent, respectively, from August 2020. The report also found that CNP purchases made at U.S. retailers increased during the recent back-to-school shopping season. The sports apparel category saw particularly large growth, with CNP credit card purchases up 5 percentage points compared to 2020 and CNP transactions representing 33 percent of debit card purchases — a notable 121 percentage point increase from August 2020.

CNP transactions occur when payment is accepted without capturing electronic data from a card that has been swiped, scanned or tapped at a point of sale. While considered to be a payment method often subject to fraudulent activity, CNP payments made over the phone, by mail order, online or manually entered by a merchant are increasingly becoming preferred rather than losing a sale.

PANDEMIC SPARKED INCREASE IN CONTACTLESS DEBIT PAYMENTS FOR CANADIAN RETAILERS

The pandemic fueled an apparent increase in eCommerce transactions among Canadian shoppers in 2020. Payments Canada released a September 2021 [analysis](#) of shopper habits, finding that 67 percent of Canadians made more retail purchases online in March 2021, up from 38 percent who purchased online in March 2020. In addition, the report found that 58 percent of shoppers have used cash less often for purchases since the pandemic began, and approximately 40 percent were uncomfortable even handling cash. This led to the use of contactless payments growing dramatically in 2020, increasing 13 percent in volume and 10 percent in value from 2019.



An increase in contactless transaction limits from \$100 to \$250 by most networks helped inspire consumers to open their digital wallets more often.

Debit cards were Canadians' preferred method of payment during the pandemic, according to the report. Debit card purchases accounted for 62 percent of all contactless transactions, up 10 percent from 2019. By contrast, credit card payments accounted for the remaining 38 percent of contactless transactions, representing a 10 percent drop in volume and a 13 percent drop in value since 2019, mostly because of factors such as growing concerns over personal finance.

UK RAISES SPENDING LIMITS FOR PURCHASES MADE WITH CONTACTLESS CARDS

U.K. government and banking officials recently **authorized** a more than 50 percent increase in spending limits for contactless card transactions. The spending limit was increased to £100 (\$138 USD) as of October 15, part of an agreement among the government, banks and retailers designed to help boost the economy as the U.K. recovers from the economic downturn.

The move is also a nod to the increased use of contactless payments, as the number of such payments in the U.K. has risen in four years from 7 percent to 27 percent of all transactions. The increase is a notable appreciation in the limit, which was last increased by 50 percent in April 2020 from £30 (\$41 USD) to £45 (\$62 USD).

David Postings, chief executive of UK Finance, said the increase would allow consumers to pay for higher-value transactions. A number of banks, however, expressed concern about

the possibility of fraudulent transactions, and many are improving their online apps to allow consumers to disable the option or lower their individual spending limits on their cards. Several banks, including Lloyds Bank, Halifax and Bank of Scotland, said consumers would have control over the limits on their debit cards through banking apps.



MOBILE MOVEMENTS

REPORT: MOBILE CONTACTLESS PAYMENTS WILL OVERTAKE CARD TRANSACTIONS BY 2023

Mobile contactless transactions are expected to nearly double by 2023 and overtake the number of contactless card transactions. A recent **report** forecasts that transaction volumes for mobile payments will rise from 26 billion in 2021 to 49 billion in 2023, representing a 92 percent growth rate. Factors cited in the report include enhanced security of tokenization and increasing the cross-channel payment capabilities of mobile contactless payment options such as Apple Pay and wearable devices.

The report suggested that digital wallet services take advantage of opportunities to offer loyalty schemes and personal financial management to encourage customers to switch to contactless mobile wallets in what it called a competitive market. One of the hurdles the industry faces, according to the report, is that consumers still don't entirely trust the security behind mobile wallets. Ninety-nine percent of all contactless payment transactions, therefore, will be fully tokenized to improve security and ease consumers' fears.

MOBILE WALLETS PRESENT OPPORTUNITY FOR GOVERNMENTS SEEKING TO STREAMLINE PAYMENTS

The rising popularity of contactless payments and mobile wallets is an opportunity for governments to simplify communication with citizens and collect bill payments. A recent **report** outlines the advantages of implementing contactless technology, with data showing that one in four smartphone owners use mobile wallet payment methods, and slightly more than one-third use these methods a few times a month.

The report also showed that 70 percent of bill payers prefer to use digital channels such as websites and mobile and other smart devices to make bill payments. Only 36 percent would consider using mobile wallets to pay bills, however. Security was ranked as the number one barrier to using the technology, creating an opportunity for governments to educate consumers, especially older consumers who may not be familiar with the safety features, on contactless payments' benefits.

The report concluded that mobile wallets are a potential way for governments to better serve citizens not only by ensuring more on-time payments and streamlining collections but also by sending notifications and alerts and making it easier to sign up and pay for driver's licenses, permits and tax bills.

DEEP DIVE



WHY **DEBIT IS DRIVING** THE A2A PAYMENTS EXPANSION

Contactless payments have risen in popularity during the pandemic as consumers have sought easier and safer ways to pay for the things they need. At the same time, debit is becoming the payment vehicle of choice for debt-wary consumers who prefer to spend from their checking accounts rather than run up tabs on their credit cards.

Approximately one in six consumers **made** their first contactless purchases last year, and nearly nine in 10 of those first-time users plan to continue using contactless payments, according to a recent survey. In addition, some nine in 10 people with bank accounts **were** using debit cards, primarily due to a decrease in cash usage to reduce the risk

of virus transmission. Consumers ages 18 to 24 made up the largest group of debit users at 96 percent, while those ages 65 and up represented the lowest share of debit users at 68 percent.

In August 2021, debit purchases **were** up 33 percent from August 2019, whereas credit purchases were up just 23 percent. Does this rise in popularity mean that debit cards will be the death of credit cards, and how does debit converge with the growth in contactless payments? The following Deep Dive examines recent trends in contactless and CNP debit usage. It also explores where trends in this space are likely to head in the near future.

THE RISE IN DIGITAL DEBIT USAGE

The pandemic led to a shift not only in digital payments but also in debit as consumers became more concerned about their finances. The health crisis also contributed to debit's popularity through the distribution of stimulus checks via prepaid cards, debit cards and direct deposits into consumers' checking accounts. One [study](#) reported that digital debit card transaction value in the U.S. grew 73 percent in 2020. Meanwhile, digital credit card transaction value rose just 38 percent — marking the first time since 2014 that credit's share of digital transaction values fell below 50 percent.

There is little doubt that debit is gaining popularity, especially among younger and more debt-averse populations who want more control and visibility into their finances. This same group has the technological know-how to leverage apps such as mobile wallets to use debit more easily and safely both online and at the point of sale.

CONTACTLESS, CNP AND PINLESS DEBIT TRENDS

Merchants looking to attract and keep customers have been working to make it easier for shoppers to use their debit cards while keeping physical contact to a minimum. Mobile wallets, such as Apple Pay and Google Pay, as well as account-to-account (A2A) platforms, such as Square, Venmo and Zelle, that allow a direct connection to checking accounts continue to proliferate. A new [report](#) forecasts that transaction volumes for mobile payments will grow from 26 billion in

2021 to 49 billion in 2023, representing growth of approximately 92 percent.

Merchants have been wise to pay close attention to debit's rise in everyday transactions. Another [survey](#) found that non-acceptance of debit cards impacts the amount that shoppers spend and that 70 percent of consumers would not return to a merchant that does not accept debit.

While consumers may prefer to reduce contact when using their debit cards, they do not necessarily feel secure about the technology. The [report](#) suggests that digital wallet services take advantage of opportunities to offer loyalty programs and personal financial management to encourage customers to switch to contactless mobile wallets.

CNP transactions, which occur when a payment is accepted without capturing electronic data from a card that has been swiped, scanned or tapped at a retailer point of sale, are also on the rise. U.S. retailers reported a considerable increase in CNP transactions during the back-to-school shopping season. A September 2021 [report](#) found that in the sports apparel category, CNP credit card purchases increased 5 percentage points year over year, while CNP transactions represented 33 percent of debit card purchases — up 121 percentage points from August 2020.

Another type of contactless debit includes single-message transactions processed through debit networks without the need for PINs, or PINless transactions. A PIN is typically used in-store but, as transactions shift

online, PIN authentication becomes more difficult. PINless transactions allow merchants to route contactless or online transactions to domestic debit networks to drive more savings. One of the factors holding back the expanded use of PINless debit is that some local debit networks still have not adopted the technology necessary to process such transactions — even if merchants have. One **report** found that many card issuers do not enable PINless functionality when issuing bank debit cards, resulting in merchants not being able to process PINless sales up to 50 percent of the time.

The limitations on PINless usage also seem to be a matter of what brings in revenue for the banks issuing debit cards. The 2010 Durbin Amendment capped the interchange or swipe fees that merchants are **charged** for processing debit transactions to 22 cents — a move that discouraged some network providers from honoring PINless transactions because of the potential cost.

In general, merchants still cannot choose which payment networks can process online debit card transactions, leaving them at the mercy of banks that may or may not honor online PINless debit. If more merchants were able to process PINless debit transactions at lower cost and on competing networks, one **report** argues, U.S. merchants could drive up to \$3.1 billion in savings as consumers shift to doing more business online.

Contactless, PINless and CNP debit have been gaining in usage, but analysts remain guarded as to whether these trends will hold. They **predict** that digital debit's growth will shrink in 2021 and slowly rise again in the next two years to reach a value of \$443.49 billion in 2023.

Still, it appears that these contactless payment methods are popular among consumers. While merchants seem poised and encouraged to offer the services as a convenience to customers hesitant to shop in person, it remains to be seen if networks and issuing banks will meet their demands.



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