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Global View

Insights and Interviews from Granite Global Ventures

Converting to Cashless

Welcome to the first Global View from Granite Global Ventures, which provides insights and interviews on expanding global innovation. This month, Scott Bonham, GGV managing partner and cofounder, talks with Remy de Tonnac, chief executive officer of INSIDE Contactless, a semiconductor company dedicated to the advancement of contactless technology. Together, they look at the prospects of a cashless world, along with the technology and business environment that could turn this vision into reality sooner than many think.

Scott: *The Economist* recently declared that the world will move entirely to electronic payments in 15 years. How realistic is that prediction?

Remy: I believe it can happen. Take a look at Japan. Three years ago there were no mobile phones embedded with the near-field communications (NFC) technology for conducting contactless payments. Then NTT DoCoMo, Japan's leading telecom provider, introduced mobile phones with NFC, acquired a bank to manage the financial transactions, and signed on the country's leading fast food chains, gas stations, ATMs, and other retailers. We're now seeing a growing use of cashless payments at these merchants being made through consumers' mobile phones.

Scott: In most countries, it appears that credit cards are the preferred means for contactless electronic payments.

Remy: That's true. The SmartCard Alliance reported in April 2007 that more than 20 million contactless payment cards have shipped in the U.S. alone. Other leading adopters of contactless cards are London, Paris, Tokyo and Singapore.

Scott: Where are you seeing adoption in the U.S.?

Remy: Financial institutions such as Chase, Citibank, and Wells Fargo are all issuing credit and debit cards embedded with chips for contactless payments. In the U.S., point-of-sale systems at every McDonalds, 7-11, CVS, ShopRite, Tulley's coffee, BP and many other gas stations now have readers for contactless credit cards, and this will extend to other local, regional, and national retail outlets in the US through 2007.

Scott: What accounts for the regional differences in contactless payment adoption?

Remy: In Japan, you have a unique situation where a single company, NTT DoCoMo, was able to create the ecosystem to support contactless payment using mobile

phones. In the U.S., there are well-established ecosystems for managing credit card payments. Adding the contactless chip brings convenience, cost-savings and security without changing the existing ecosystems, so it has been very popular in these markets.

Scott: What are the prospects in Europe and the U.S. for introducing mobile phones that allow contactless payments?

Remy: In Europe, we're now seeing discussions among the financial institutions, phone manufacturers, and telecom service providers to establish an ecosystem, so you could see contactless payments using mobile phones there in the next one to two years. In the US, the reader infrastructure of more than 350,000 terminals is a positive development for mobile phone-based payment acceptance. However, with a greater number of competing mobile communications standards in the U.S., it will be a few more years before the ecosystem is in place to support contactless payments with mobile phones.

Scott: Clearly financial institutions save money by eliminating the operational costs associated with transporting and managing cash. What are the benefits to merchants and consumers?

Remy: Merchants save some costs in eliminating the need to manage cash, but the more powerful drivers are the ability to increase the speed of customer transactions, the level of consumer spending, and customer loyalty. For consumers, the big attraction is convenience. American Express has reported to the Smart Card Alliance that contactless transactions are 63 percent faster than cash and 53 percent faster than using a traditional credit card. MasterCard has noticed a cash displacement with 75% of its cashless transactions being for purchases below \$25, and the firm is seeing an overall increase in spend.

Scott: In Japan, some merchants offer consumers discounts for making contactless payments. Should merchants and financial institutions in other countries consider similar offerings?

Remy: The ecosystem for each region is going to be different, but it's valuable to look at other regions for examples of successful business models. In Japan, the merchants are offering these incentives because they are realizing the financial benefits they get from cashless payments. It is a good case study of how merchants and customers can both win by going cashless.

Scott: One last question. We've talked about the economic motivators. What technology innovations will drive consumers' contactless payment adoption?

Remy: You've saved the best question for last. The NFC technology in mobile phones is the basis for some very exciting applications – certainly core payment but also other value added applications. We have various pilot projects including one with a municipal transit agency where we are placing smart posters with contactless chips at bus terminals. If the consumer holds an NFC enabled mobile phone close to the smart poster it will send a message saying when the next bus will arrive.

You can also share music or video games between two NFC phones simply by holding them up to each other. Because NFC provides greater security, it's very attractive to media companies that want to reach mobile users but also protect their digital

content. Ultimately, these rich new applications may prove the strongest incentives for moving consumers from cash to contactless payments.

To learn more visit:

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