

Payments Executive Brief

Digital Payments Apps: An Overview

This is the second in a three-part series of Executive Briefs focused on consumer-facing digital payments technologies. The series provides an overview of digital wallets, digital payments apps, and retail apps, including their functions and characteristics and the opportunities they present to community banks.

As ICBA's Executive Brief on digital wallets demonstrated, consumer use of digital payments technology is increasing due to the convenience and speed these options offers. The same rings true when exploring digital payments apps. The transaction value of payments apps worldwide will amount to an estimated \$14 trillion by the end of 2022.

Today, two in three Americans use or have used digital payments apps. More than 80 percent of individuals between 18-34 use digital payments apps, compared to 76 percent of Americans ages 35-49, 57 percent of those ages 50-64, and 42 percent of those age 65 or older. Businesses are getting into the game too. Not only are they accepting consumer payments via digital apps, they are also beginning to use these apps to make payments to consumers, often in the form of cashback, refunds and reimbursements.

What are Digital Payments Apps and How Do They Work?

The App – Digital payments apps allow businesses and consumers to make and receive payments digitally without the need to use cash, check or a physical card. Payments using a digital app can be made through mobile devices and wearables, online, and in physical stores.

Payment Instrument – Digital payments apps are always supported by a payment instrument that functions behind the scenes, such as a credit or debit card or bank account, and a settlement network that moves the funds between parties. A settlement network is the infrastructure facilitating the actual movement of money for a digital payments app.

Settlement – While messages are sent back and forth outlining the payment details originated in the apps, the physical funds are moved and made available through a settlement network. Most digital payments apps use existing settlement networks, such as Nacha's ACH network, The Clearing House's RTP network, card networks (both debit and credit), and, once launched, the Federal Reserve's FedNow Service.

Digital Payments App Opportunities for Community Banks

Digital payments through apps represent a significant opportunity for community banks to:

- **Address customer expectations** – Nearly a third of U.S. consumers would like to pay with their smartphone all the time, and that desire will continue to rise. By leveraging digital payments apps and making it easy for consumers to connect to their accounts, community banks can provide the ease and convenience consumers seek when making payments.
- **Grow revenue** – By improving the digital payments experience for customers, community banks can remain at the center of the transactional experience. This can help them tap into the increasing share of spending via digital and mobile channels.
- **Jumpstart and strengthen faster payments offerings** – By investigating in how new real-time payments solutions can enhance current digital banking offerings, banks can better position themselves to support faster payments options as they become available.

Distinguishing Between Digital Wallets and Retailer Apps:

Digital wallets, such as Apple Pay, are virtual systems that function similarly to physical wallets. Digital wallets can store payments cards, rewards and loyalty cards, gift cards, boarding passes, movie tickets, insurance cards, and more. They can therefore be used to make in-store and e-commerce purchases, collect rewards, gain admission to events, and more.

Retailer apps, such as the Target app or Walmart Pay, allow consumers to browse for goods at that retailer and purchase goods through a payment instrument, such as a credit, debit or gift card. Unlike digital wallets, retail apps only work at specific merchants. Additionally, retail apps, unlike wallets, do not allow users to store other types of non-payment credentials, such as insurance cards.

Characteristics of Select Digital Payments Apps

Consumers and businesses are leveraging a wide variety of digital payments apps to conduct financial transactions, including Zelle, Venmo, ExcheQ, Cash App, and more.

While these apps have unique attributes and features, they all provide the speed, convenience, and ease consumers and businesses seek when making and receiving payments.

Digital Payments App	Provider	Predominant Payment Use Case	Settlement Network Used	Funds Availability
Cash App <i>(formerly known as Square Cash)</i>	Square	P2P	Card Networks, ACH Network	Instant and up to three days (depending on payment method)
ExcheQ	North American Banking Co.	A2A, P2P	ACH Network	Same Day or Next Day
PayPal	PayPal Inc.	B2B, C2B, P2P	Card Networks, ACH Network, RTP Network	Within minutes up to three days (depending on payment method)
Venmo	PayPal Inc.	C2B, P2P	Card Networks, ACH Network, RTP Network	Within minutes up to three days (depending on payment method)
Zelle	Early Warning Services LLC	A2A, P2P, B2C	Card Networks, ACH Network <i>(and soon the RTP Network)</i>	Within minutes up to three days (depending on enrollment status of recipient)

P2P: person-to-person; A2A: account-to-account; B2B: business-to-business; C2B: consumer-to-business; B2C: business-to-consumer

Digital Payments App Opportunities for Community Banks

Consumers and businesses are increasingly looking for seamless, fast, and convenient payments experiences. Digital payments apps are one solution to meet their expectations. That's why community banks should begin exploring how to meet this customer demand if they haven't already.

While some of these apps present the potential for deposit disintermediation, there are solutions that support banks in strengthening their relationships with customers via digital channels. Providing a solution that customers want and that keeps community banks at the center of their customers' financial life will help banks retain and grow market share, setting them up for long-term relevancy and success.

To get started, banks should:

- **Talk to their core technology providers**, which can offer digital payment solutions that can integrate seamlessly into existing systems.
- **Discuss opportunities with ICBA Bancard**. ICBA Bancard offers resources and products to support community banks' efforts to explore, incorporate and enhance digital payments offerings in their platforms. For instance, ICBA Bancard [recently announced](#) a partnership with Ondot to offer a white-label digital payments app to community banks.
- **Explore fintech solutions and API integrations**. Fintechs can serve as partners to support banks with implementing and growing digital payments offerings. They have the expertise and technology to support banks' digital payments strategies, and they are often small and flexible enough to execute quickly and at a more approachable cost. Open APIs can also serve as a means to develop or easily connect to platforms that can enable the digital payments offerings today's customers seek.

To better support consumers' and businesses' desire for a quick and convenient transactional experience, community banks should consider digital payments apps as part of their digital payments offerings or look to enhance current offerings to meet customer needs into the future.

ICBA Bancard has developed a Digital Payments Strategy Tool to help community banks develop or evolve their digital payments strategy. Community banks can leverage this tool to help determine how best to incorporate digital payments apps into their overall strategy to meet the evolving needs of customers today and tomorrow.

Visit [ICBA Bancard](#) to get started with the tool and download the companion [Digital Payments Strategy Guide](#)SM for more insights.

