

# Payments Executive Brief

## Digital Wallets: An Overview

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

As customer expectations continue to shift, digital wallets—or mobile wallets as they are sometimes called—continue to grow in popularity as a preferred payment option. While adoption in the U.S. is still in its infancy, it is growing fast. Today, almost one in four consumers use digital wallets on a daily basis, and 40 percent of consumers use digital wallets weekly or multiple times per week. Research suggests that by the end of 2020, 64 percent of consumers will have used a mobile wallet, which is up from 46 percent in 2018.

Given the increasing adoption, community banks should view digital wallets as an important opportunity to meet customer payment desires into the future, keeping your bank central to the customer payment experience and allowing it to capitalize on the revenue opportunity digital wallets present.

## What are Digital Wallets?

A digital wallet is a virtual system residing on a mobile device that functions similarly to a physical wallet. In addition to payment cards (i.e. credit and debit cards), digital wallets can also store rewards/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.

## Why Community Banks Should Consider Digital Wallets

Today's consumers value convenience and ease in their payments preferences, and digital wallets respond to those needs. In fact, 54 percent of consumers use digital wallets because they are convenient, and 43 percent use them because they are fast.

Today's consumers also seek security in their transactions. Digital wallets have advanced security measures in place, including everything from biometrics, like Apple Pay's fingerprint ID, to two-factor authentication, real-time notifications, and tokenization, making digital wallets a safer way to store sensitive information. Digital wallets don't transfer actual credit card information during a transaction, but instead use a token, so account information can't be compromised in a breach. Studies show that 35 percent of consumers use digital wallets because they are secure.

And while overall digital wallet adoption is expected to grow to 64 percent by the end of this year, adoption by millennials is already at 63 percent. As the largest U.S. demographic group, expected to be the highest-earning generation in history by 2025, meeting millennials' digital payments needs will allow community banks to capitalize on new revenue opportunities.

## Digital wallets differ from digital payments apps and retailer apps.

- **Digital payments apps**, such as Zelle or Venmo, allow businesses and consumers to make and receive payments digitally. Unlike a digital wallet, they do not provide for the ability to store additional credentials, beyond payment cards, that could be of great value when making transactions or conducting everyday tasks.
- **Retailer apps**, such as the Target app or Walmart Pay, allow consumers to browse for goods at the select retailer and purchase goods through a payment instrument, such as a credit/debit card or gift card. Unlike digital wallets, retail apps only work at that specific merchant. Additionally, retail apps do not allow users to store additional credentials beyond store-specific or payment cards.

## Types and Characteristics of Digital Wallets

Today, the most established digital wallets are Apple Pay, Google Pay and Samsung Pay. While all three have similar characteristics\*, there are some distinctions that differentiate them from each other.

Digital Wallet	Compatible Devices	Where It's Used	P2P Payments?	Availability	Global Users
Apple Pay	Select iPhones, Apple Watch, Select MacBooks and iPads	In store with Near Field Communication (NFC) terminals, in app or web transactions via Safari	Yes	41 countries	<u>441 million</u>
Google Pay	Select Android Devices	In store with NFC terminals, in app or web transactions	Yes	29 countries	<u>67 million</u>
Samsung Pay	Select Samsung Galaxy phones and watches	In store with NFC, magnetic stripe or EMV terminals, in app transactions, and web transactions at sites that accept Visa Checkout	No	24 countries	<u>10 million</u>

\*As of 2019

### Capitalizing on the Digital Wallet Opportunity

Digital wallets offer significant opportunities for community banks to be “top of wallet” in new ways. Bankers should:

- **Ensure credit and debit card products are compatible with established digital wallet providers.** This is the first step to earning a spot in your customers' digital wallets. ICBA Bancard credit and debit cards are digital wallet compatible.
- **Enhance credit and debit card loyalty and reward programs to encourage top-of-the-wallet placement.** Consumers are motivated by rewards programs. Sixty percent indicate that rewards influence their decision to use a card, so consider offering programs that are attractive to your customers.
- **Incent customers to sign up for a digital wallet.** Regardless of digital wallet type, offering incentives drives your customers in a digital direction and demonstrates that you are a cutting-edge institution that understands the current financial landscape and values customer needs. And by demonstrating these characteristics, customers could be more inclined to position your card as the default card in their digital wallet.
- **Consider card technology that puts payments control in the hands of customers,** such as transaction alerts, the ability to turn on and off cards, or report a card as stolen. Solutions like these, which ICBA Bancard offers, can empower your customers and give them the confidence and ability to better manage their financial lives.
- **Stay current on digital wallet advancements** to take advantage of new opportunities that could be of value or present a possible threat. For instance, some digital wallet solutions are developing products that position them as payment providers, such as Samsung Pay's Samsung Pay Cash prepaid cash card and Apple Pay's Apple Card. Understanding what's new can help you better position your products and services for your customers.



Digital wallets are not a fleeting phenomenon. While your current customers may not yet be active digital wallet users, tomorrow's customers will be. As such, digital wallets will be a significant part of the future of digital payments and your customers' payment experience.

ICBA Bancard has developed a Digital Payments Strategy Tool to help community banks determine how best to incorporate digital wallets into their overall strategy. Visit ICBA Bancard to get started with the tool and download the companion [Digital Payments Strategy Guide<sup>SM</sup>](#) for more details.