

Payments trends 2023

Mobile wallets are becoming universal

In January, our Visa Consulting & Analytics (VCA) global advisors used VisaNet data, expert interviews, and in-house research to identify [ten trends that are set to shape the payments landscape over 2023](#).

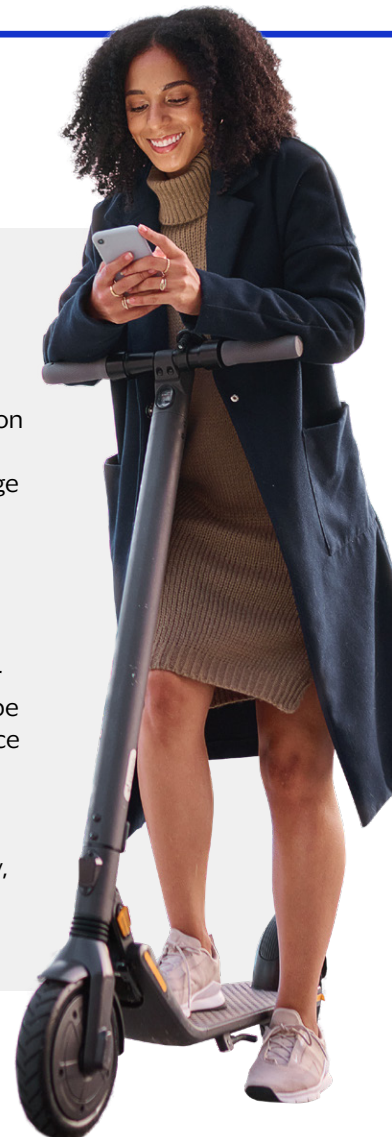
Each month, the team delves into and expands upon each of the ten trends. This month, we deep-dive into mobile wallets becoming universal - by defining mobile wallets, identifying what factors have contributed to their sharp growth, and discussing how they'll impact different stakeholders such as financial institutions and merchants.

The rise of mobile wallets

In recent years, mobile wallet adoption has accelerated across the globe, fueled by the rise of contactless payments. The pandemic precipitated a strong surge in usage of mobile wallets due to the safety they provided with the near-field communication (NFC) technology driving their contactless nature. Mobile wallets provide customers with the flexibility and convenience to make purchases online or in person, withdraw cash and send money to others in an instant.

So, what is a mobile wallet?

A mobile wallet is an application that is primarily used for payments but provides storage functionality for other use cases such as ticketing, digital identity (i.e., driving license), loyalty offers, etc. The app enables users to make online, in-store, person-to-person, or bill payments. It could either be built into the customer's device (e.g., Apple Wallet, Google Wallet, and Samsung Wallet) or downloaded from an app store (e.g., PayPal, Google Pay, Venmo).



For this paper, we have classified mobile wallets based on: A) their implementation type, or B) how consumers view mobile wallets based on the provider. In addition to these, there are other classifications such as store-of-value wallets (i.e., PayPal, M-Pesa) vs pass-through wallets (i.e., Apple Pay, Google Pay).

Implementation view on mobile wallets

Closed-loop wallets

Allow users to top up a spending account via a linked credit or debit card and are tied to specific merchants for in-store payments and online purchases via merchant platforms. They are exclusive to transactions involving that merchant/company or its affiliates.

EXAMPLES INCLUDE ALIPAY, STARBUCKS WALLET, AND AMAZONPAY.

Semi-closed loop wallets

Allow users to transfer virtual funds to other accounts within the same wallet network. They also allow users to pay at offline retailers and online e-commerce websites who they have entered into agreements with.

EXAMPLES INCLUDE VENMO IN US, PAYTM IN INDIA, BIZUM IN SPAIN, AND VIPPS IN NORWAY.

Open-loop wallets

Also known as card-based wallets, allow users to link their credit and debit cards to their mobile phones and make payments by tapping their phone at any NFC-enabled payment terminal.

EXAMPLES INCLUDE APPLE PAY, GOOGLE PAY, AND PAYPAL.

Source: Thunes, Complete Guide to Mobile Wallets

Consumer view on mobile wallets

Tech wallets	Network wallets	Bank wallets	Fintech wallets	Merchant wallets
APPLE PAY GOOGLE PAY	VISA DIGITAL COMMERCE APP CLICK TO PAY	PAZE CITI PAY	PAYPAL VENMO SQUARE	STARBUCKS WALMART PAY

Examples not exhaustive

Mobile wallets have now transcended from being only a value store to a medium for other types of payments (buy now pay later, cross-border transactions) and usage/storage of information, assets, and documents. This diversification can act as an additional revenue stream. In some countries, mobile wallet players have obtained digital banking licenses with the ability to accept deposits and provide other financial services. Examples include PayTM in India which has received a Payments Bank license from the Reserve Bank of India, EasyPaisa in Pakistan, etc.

Certain mobile wallets are thus in some cases evolving into “super apps” that are an all-encompassing, multi-purpose app that provide a broad range of services beyond money management to customers. Examples of these mobile wallets include PayPal in North America, AliPay in China, PayTm and PhonePe in India.

Key drivers of growth for mobile wallets

In 2021, the mobile wallet industry processed over US \$1 trillion worth of transactions, a 31 percent year-on-year increase compared to 2020.¹ Additionally, it is projected that the value of digital wallet transactions will go up from US \$7.5 trillion in 2022 to US \$12 trillion in 2026.²

Four core drivers have contributed to the growth of mobile wallets:

1. Customer experience



Security

Verification of mobile wallet payments using biometrics, encryption, and tokenization of card details makes mobile wallets safer than physical cash and card transactions. This gives customers a high level of confidence in using mobile wallets as a payment method.



Ease of use

Mobile wallets are extremely convenient to download, link financial information with, and use. Customers do not need to carry multiple cards in their physical wallet yet can make payments via card credentials stored on their mobile wallets. QR code-based mobile wallet payments have significantly driven the rise in adoption of wallet payments, especially in large Asia-Pacific markets due to their ease of use and low cost of adoption for merchants.



Speed

Customers can quickly make payments at physical stores by tapping their mobile wallets to NFC-enabled devices or scanning a QR code without having to enter a PIN. Mobile wallets such as Apple Pay, Paypal and eventually upcoming wallets such as Paze are designed to accelerate e-commerce by creating a frictionless and speedy checkout experience.

2. Growth of mobile commerce and e-commerce

The boost of e-commerce and mobile commerce has significantly contributed to the growth of mobile wallets. Customers, especially Millennials and GenZ, have a high level of comfort with online product purchases, bill payments, transactions, and online banking. This combined with the convenience provided by mobile wallets for e-commerce transactions has increased the affinity towards mobile wallets as a payment method.

3. Geographical push

In developing countries within Asia, Africa, the Middle East, and Latin America, with limited infrastructure and access to formal financial services, mobile wallets have been a key driver of financial inclusion. For example, Southeast Asia is the fastest-growing region for mobile wallets, followed by Africa and the Middle East.³

4. Emergence of Real-Time Payments (RTP)

The global adoption of RTP has created an environment that allows consumers, merchants, and financial institutions to pay and be paid instantly. Leveraging a mobile number or QR code, users can easily initiate payments at low/no cost without the need for a bank account. This ability to transact without the need for a bank account has contributed to the uptake of mobile wallets in developing countries.



1. State of the Industry Report on Mobile Money - 2021 - GSMA, https://www.gsma.com/sotir/wp-content/uploads/2022/03/GSMA_State_of_the_Industry_2022_English.pdf

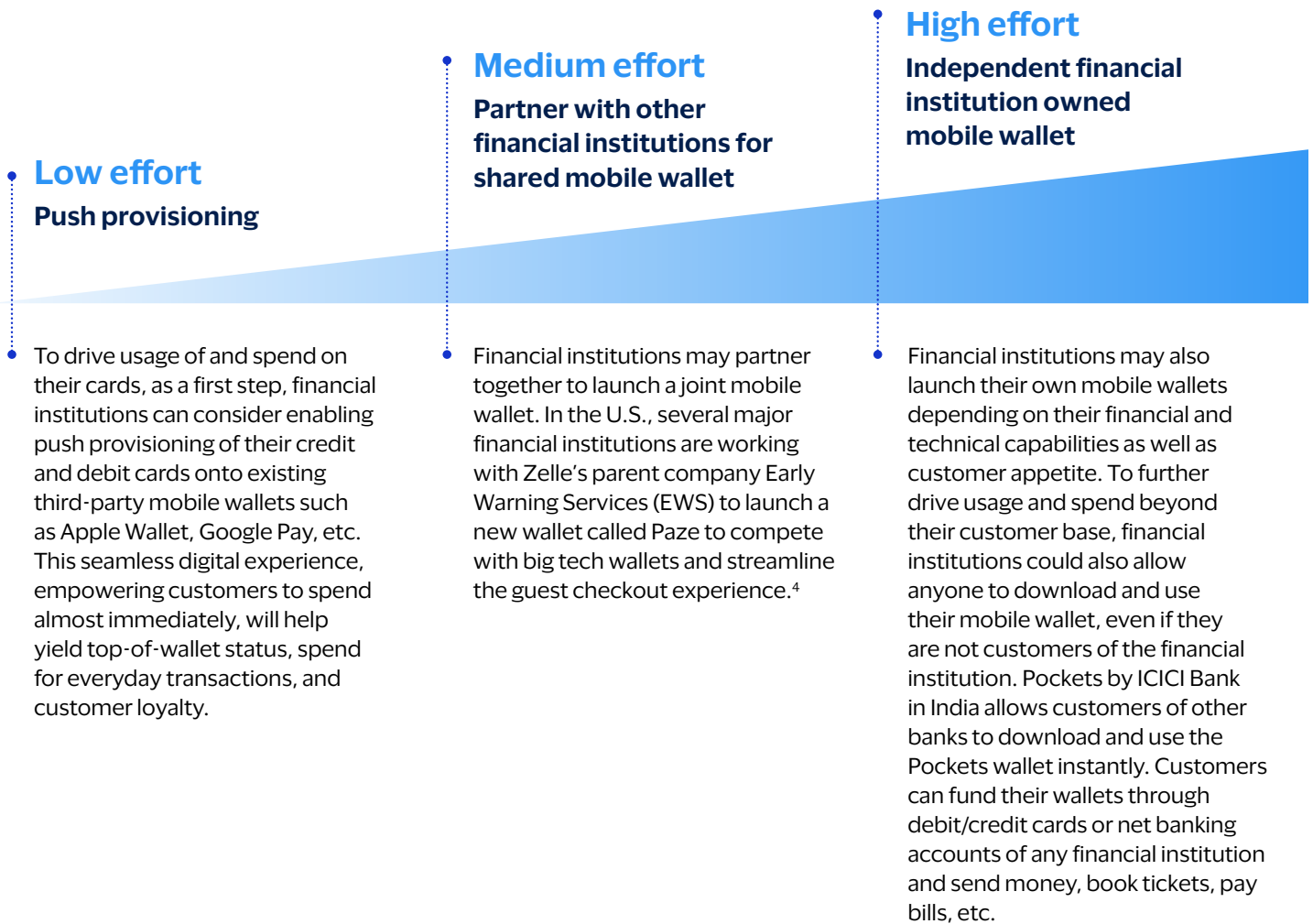
2. Digital Wallets Transaction Value to Grow by 60% By 2026 Globally, April 2022, <https://www.juniperresearch.com/pressreleases/digital-wallets-transaction-value-to-grow-by-60>

3. "Study: More than Half of the World's Population Will Use Mobile Wallets by 2025." GlobeNewswire News Room, 8 July 2021, <https://www.globenewswire.com/en/news-release/2021/07/08/2259605/0/en/Study-More-than-half-of-the-world-s-population-will-use-mobile-wallets-by-2025.html>

What does the growth of mobile wallets mean for financial institutions?

The growth of mobile wallets and the changing expectations customers have of their financial services providers have created a need for financial institutions to innovate with a customer-centric focus to compete with the convenience, speed, and personalized services provided by non-traditional payment channels. Therefore, mobile wallets represent a tremendous opportunity for financial institutions.

As financial institutions think through their mobile wallet strategy, several opportunities exist requiring various levels of effort and commitment:



4. Paze.com, <https://www.paze.com/>

What does the growth of mobile wallets mean for merchants?

Besides financial institutions, merchants are another key player in the payments ecosystem impacted by the growing adoption of mobile wallets. Merchants can benefit significantly by accepting payments via mobile wallets in both physical and e-commerce channels.

- Accepting **mobile wallets** as a payment method allows merchants to broaden their acceptance network by catering to a larger number of customers, especially the younger generations who predominantly use mobile wallets for payments.
- Mobile wallets and their **tap-to-pay** functionality reduce in-store checkout wait times and provide a fast e-commerce checkout experience by ensuring customers don't need to manually enter their card details. This benefit is especially important for merchants where many of their e-commerce customers check out as a guest. In the guest checkout space, a channel that primarily uses manual card entry, mobile wallets have the potential to improve customer satisfaction and reduce cart abandonment rates. Improvements in these metrics can in turn drive higher transaction counts and payment volumes for merchants.
- Mobile wallets provide higher **safety and security** for merchants in handling payments compared to cash storage and card transactions. With the built-in authentication and encryption, merchants are exposed to lower risk with mobile wallet transactions.
- Merchants can push their **loyalty rewards** cards to mobile wallets and drive spend.



Framework for financial institutions to develop a mobile wallet strategy

Mobile wallets are changing the way people manage all aspects of their financial lives. Financial institutions should have a mobile wallet strategy to remain competitive and capture customer spend.

VCA has designed a broad framework to help financial institutions as they think about their mobile wallet strategy:

1 Understand customer needs

Financial institutions need to build an understanding of behaviors, needs, lifestyle patterns, and expectations of existing and potential target customers through market research to calibrate their mobile wallet strategy.

2 Define the growth objective

Financial institutions should define acquisition, growth, and revenue expectations along with cost implications in the mid-to-long term to assess the feasibility and viability of introducing capabilities to compete with existing mobile wallets.

3 Define level of involvement and effort

Based on customer expectations and growth objectives, financial institutions must determine their chosen level of effort and involvement. Can current needs be met through push provisioning (low effort) or is there a need to launch a mobile wallet with other financial institutions (medium effort)? Alternatively, does the financial institution have the appetite to launch an independent mobile wallet (high effort)?

4 Assess internal capabilities

Once financial institutions have defined their approach in terms of low, medium, and high effort, they must assess their internal technical and operational capabilities. Do they have the in-house capabilities to successfully implement their mobile wallet strategy, or do they need to partner with third-party providers and leverage their expertise and APIs?

About Visa Consulting & Analytics (VCA)

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists, and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital, and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.



If you'd like an in-depth conversation on Mobile Wallets and the opportunities for your business, please contact your Visa Account Executive, or email VCA@visa.com

Forward Looking Statements

This content may contain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are identified by words such as "believes," "estimates," "expects," "intends," "may," "projects," "could," "should," "will," "continue" and other similar expressions. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict.

Third Party Logos

All brand names, logos and/or trademarks are the property of their respective owners, are used for identification purposes only, and do not necessarily imply product endorsement or affiliation with Visa.

As-Is Disclaimer

Case studies, comparisons, statistics, research and recommendations are provided "AS IS" and intended for informational purposes only and should not be relied upon for operational, marketing, legal, technical, tax, financial or other advice. Visa Inc. neither makes any warranty or representation as to the completeness or accuracy of the information within this document, nor assumes any liability or responsibility that may result from reliance on such information. The Information contained herein is not intended as investment or legal advice, and readers are encouraged to seek the advice of a competent professional where such advice is required.