

them for much more than just payments. Can merchants surmount

challenges to seize the digital wallet opportunity?

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Money Mobility Tracker® Series

## What's Inside

#### 04 Introduction

Especially popular among younger consumers, digital wallets are now the fastest-growing payment method in the United States.

## 06 Convenience Translates to Higher Usage and Spending

Digital wallets are topping other methods in both usage and spending values — making them a must-have in every merchant's suite of payment options.

#### **Broadening Merchant Adoption**

Despite overwhelming demand, fewer than six in 10 small businesses offer digital wallet payments to their customers.

## 18 Consumers Crave Additional Uses and **Features**

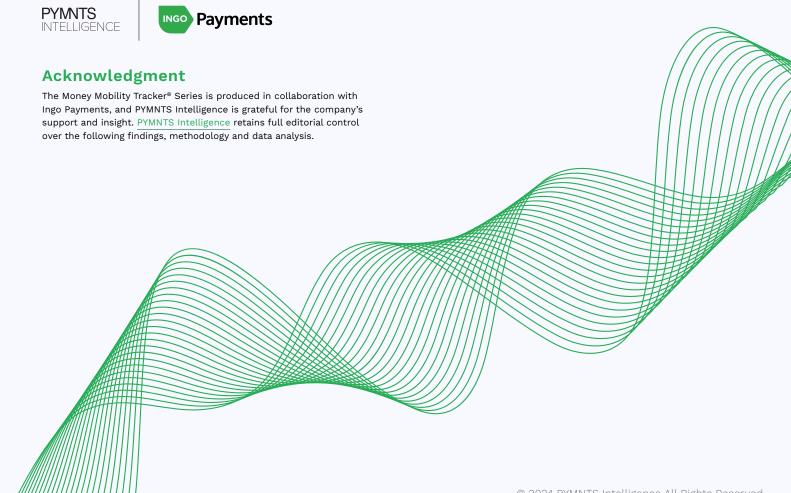
New uses for digital wallets are growing — in accordance with consumers' wishes.

#### 24 Seizing the Digital Wallet Opportunity

Convenience, innovative features and robust security are driving digital wallets to top-of-wallet payment status. Here's how merchants can stay in the loop.

#### 26 About

Information on PYMNTS Intelligence and Ingo Payments



4 | Money Mobility Tracker® Series | 5

## Introduction

Digital wallets have revolutionized the payment space in recent years, providing an easy, contactless and secure way to make purchases and transfer money through the convenience of smartphones. Digital wallets are currently the <u>fastest-growing</u> payment option in the United States, especially among younger consumers, with the majority of Americans now saying they use <u>digital</u> <u>wallets</u> more often than traditional payment methods. Even more intriguingly, consumers who use digital wallets tend to <u>spend more</u> than nonusers. According to a new Worldpay report, digital wallets are set to <u>overtake debit cards</u> in transaction value in North America for in-store payments by 2027.

Digital wallets' popularity and payment values make them a priority tool for businesses to incorporate into their payment suites. However, merchants have some catching up to do to keep pace with this unstoppable trend. Some notable stumbling blocks — including perceptions about security, complexity and legacy technology — are still holding many back.



#### **Spending Soars**

## Convenience Translates to Higher Usage — and Spending

Growth in <u>digital wallet</u> usage is outpacing that of all other payment methods in the U.S., with the share of users climbing 12 percentage points since 2023 alone. The main driver of this growth is convenience — which is also fueling greater spending with digital wallets than with other payment methods.

31%
Additional spending by digital wallet users compared to nonusers

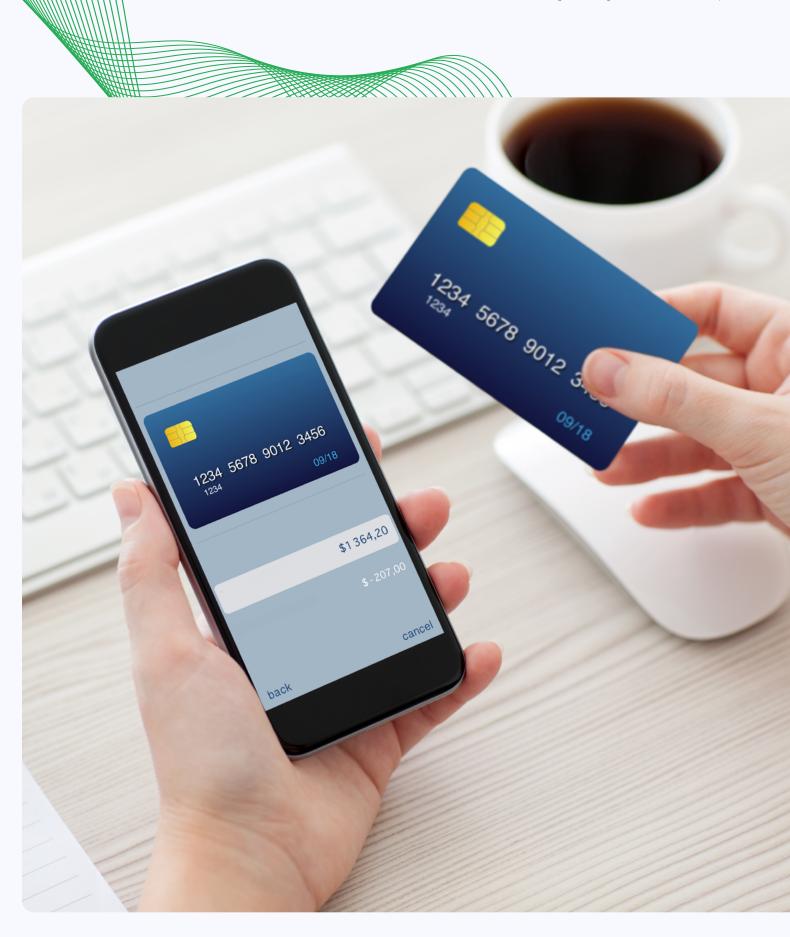


#### **Spending Soars**

## Digital wallets are projected to overtake debit cards at the point of sale by 2027.

A recent Worldpay report made waves by announcing that digital wallets, already the most-used payment method by 53% of Americans, are on track to surpass debit cards in transaction value at the point of sale (POS) in North America by 2027. This reflects a projected drop in transaction value for debit cards from 28% in 2023 to 23% in 2027, along with a doubling in value for digital wallets — from just 15% to 31% during the same time frame.

Worldwide, this means that digital wallets will account for nearly half of POS transaction value by 2027, up from 30% last year. This will make them the only payment method to increase their share of transaction value during the period, with all other forms of payment, including debit and credit cards, shrinking as users switch over to digital wallets. More than 161 million U.S. consumers will use digital wallets in 2024, experts say — approximately 57% of the population. The most popular digital wallet option in the U.S. is Apple Wallet (49% of users), followed by Google Wallet (30%) and Samsung Wallet (13%).



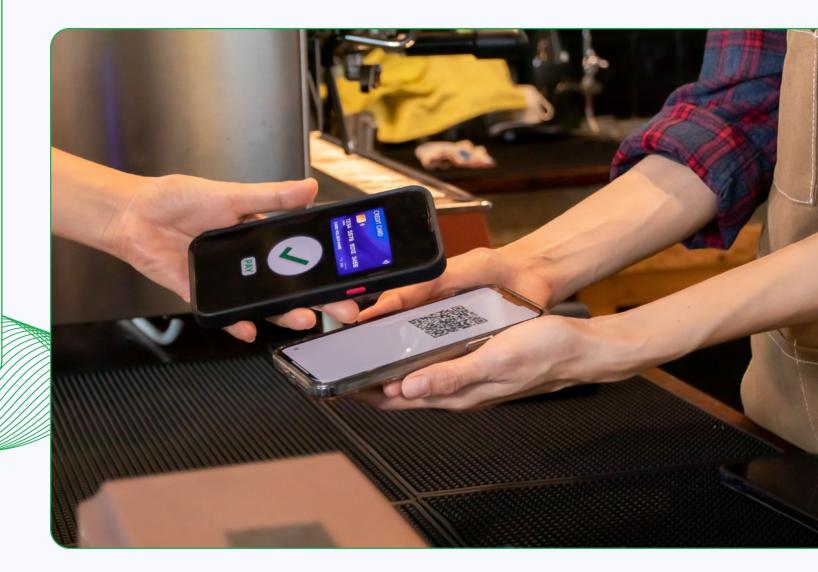
10 | Money Mobility Tracker® Series | 11

#### **Spending Soars**

## Digital wallet users spend more than nonusers.

When consumers were asked to name their reasons for using digital wallets, <u>convenience</u> topped the list, at 41%. That convenience also seems to be making it easier for consumers to spend more when they use digital wallets than with other payment methods. A recent Forbes survey found that 47% of Americans said they spend more money when using digital wallets compared to traditional payment methods. Younger generations are among the biggest extraspenders using this method, with more than 60% of Generation Z and 51% of millennial users saying digital wallet use increases their spending. High earners are the top demographic saying they spend more when using digital wallets, at 61% of those in the \$150,000-plus annual income bracket.

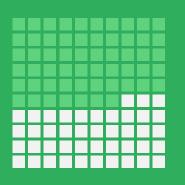
A recent PYMNTS Intelligence survey confirms that on average, digital wallet users spend 31% more across all purchase types than nonusers. The greater prevalence of younger and high-income digital wallet users likely feeds this trend, with the study finding the greatest digital wallet usage among Gen Zers (79%) and consumers earning more than \$100,000 (57%). These spending habits make it especially compelling for merchants to provide digital wallet payment options at checkout.



#### **Overcoming Hurdles**

## **Broadening Merchant** Adoption

Despite overwhelming consumer demand, fewer than six in 10 small businesses currently accept digital wallets. Hurdles to merchants' implementation of this payment method range from concerns about the need for technology upgrades to perceptions of the wallets' higher fraud risk. Strong security measures and digital payment providers not only can offer reassurance but also can help more businesses reap the benefits of the digital wallet opportunity.



57%

of small businesses accept digital wallet payments from their customers.



#### **Overcoming Hurdles**

## Digital wallets are a ripe opportunity that too few businesses are taking.

As consumer adoption accelerates, J.D. Power reports that only 57% of small businesses now accept digital wallets, despite their nearly universal acceptance of credit and debit cards, at 94%. Merchants' inconsistency of acceptance offers a major opportunity for new entrants to the space, given that 51% of all users — including 78% in Gen Z — say they would stop shopping at a merchant that did not accept digital wallets.



Why aren't more merchants seizing this opportunity? Technology hurdles and perceptions of greater fraud risk are playing a large role. The potential complexities of upgrading POS systems to accommodate digital wallet options can postpone adoption for smaller merchants. In addition, perceptions about security risk and difficulty of use may be coloring merchants' views. According to the Merchant Risk Council's 2024 Global eCommerce Payments and Fraud Survey, digital wallets, mobile payments and debit transfers were the top three payment methods reported in terms of fraud rates. J.D. Power's 2024 U.S. Merchant Services Satisfaction Study also found that a perception of difficulty of use or a complicated process was the main reason for small businesses' unwillingness to accept digital wallets.

#### **Overcoming Hurdles**

## Payment providers can help more merchants — and their customers — reap the benefits of digital wallet payments.

Merchants are naturally concerned about the security of their payment offerings, with J.D. Power reporting that 22% and 21% do not accept credit cards and debit cards, respectively, due to concerns about fraud and theft. However, digital wallets offer an extra layer of security through tokenization.

"It's difficult to compromise a payment done through a digital wallet because the actual account information is provisioned and tokenized," Sean Gelles, senior director of payments intelligence at J.D. Power, noted in an article about the study. "If someone steals the token, it's useless to them."

Moreover, Gelles finds it curious that 17% of merchants don't accept digital wallets because they believe they are difficult to use. On the contrary, he says, for most merchants, digital wallets are as easy to implement and use as any other payment method.

Integrating digital wallet payment acceptance is typically quick and affordable for even the smallest of businesses. Most payment providers or credit card processors can support digital wallets, and accepting them is often as simple for merchants as upgrading to a new credit card reader with near-field communication (NFC) capabilities. Readers can range from free to within \$500, depending on the payment provider. In addition, for small businesses that do not accept credit cards, setting up an account with mobile card processors such as Square and PayPal is another option, with minimal upfront costs and no account fees.

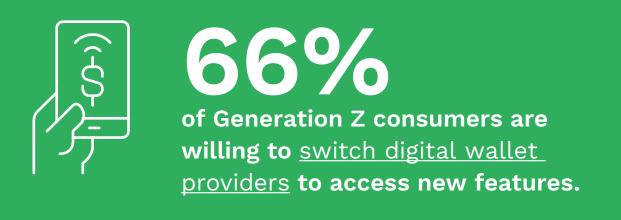


18 | Money Mobility Tracker® Series Money Mobility Tracker® Series | 19

#### The New All-in-One Accessory

## Consumers Crave Additional Uses and Features

Leveraging digital wallets for payments alone may soon be passé as demand grows for new and expanded money movement options and features. Digital wallet uses such as the ability to store driver's licenses, passports and event tickets are on their way to becoming must-haves for consumers as well.





### The New All-in-One Accessory

## Consumers wish to pursue new ways of moving money using digital wallets.

According to recent PYMNTS Intelligence research, consumers are highly interested in pursuing additional money mobility uses for digital wallets. Although 35% of consumers still think they would use digital wallets primarily for making purchases, 45% are most interested in using the tools to move money in new ways, such as through account-to-account transfers or recurring payments.

In fact, 18% of consumers say that transferring money between a bank account and a digital wallet's cash balance is their top choice of a feature that could be added to a digital wallet. Meanwhile, 12% of consumers think monthly bill pay would be the most important additional way to move money with their digital wallets. This feature piqued the interest of more than one-quarter of consumers, primarily millennials (33%), those who earn more than \$100,000 per year (29%) and parents with children in the home (31%), again suggesting that digital wallets' financial utility has only begun to be tapped.

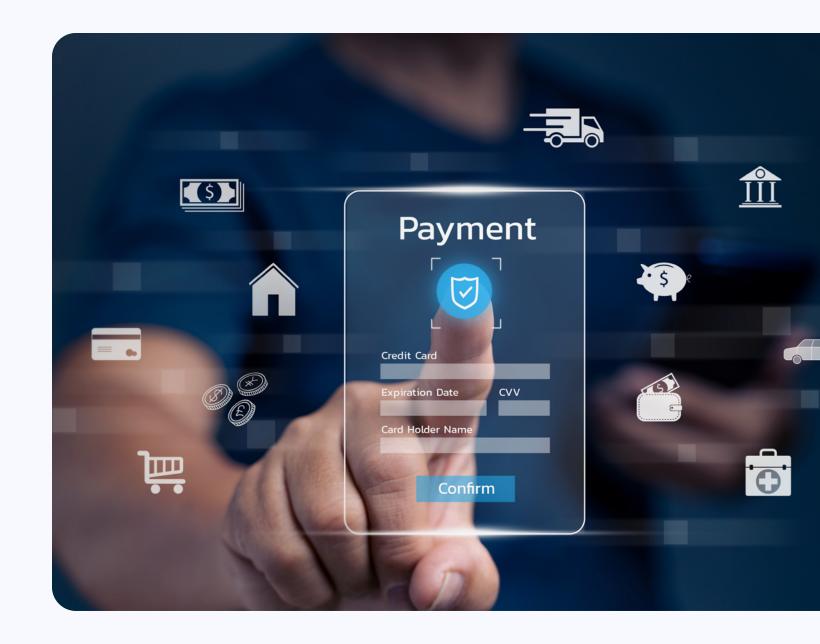
## New digital wallet features are attracting younger, higher-earning customers.

Moreover, consumers are so enamored of digital wallets that more than half are interested in leveraging them for uses beyond the purely financial. Digital wallets have the capacity to provide features such as document storage for driver's licenses, passports and event tickets. While 51% of consumers show at least some interest in using digital wallets' other features, interest rises to 78% among Gen Z and 75% among millennial consumers. In addition, interest in utilizing digital wallets in new ways rises with income, culminating at 59% among consumers who earn more than \$100,000 per year.



# 37% of customers are willing to switch digital wallet providers to access new features.

Additional digital wallet uses are so compelling that 37% of customers said they would <u>switch</u> to a digital services provider that offers digital wallet features beyond one-time card payments. At 66%, Gen Z consumers were the most likely to say they would switch. Not providing the fullest complement of use cases for digital wallets, therefore, could lead to a loss of business for providers. What all this amounts to for merchants is that digital wallet adoption for payments — and even beyond — is becoming a growing necessity.



Money Mobility Tracker® Series | 23

24 | Money Mobility Tracker® Series | 25

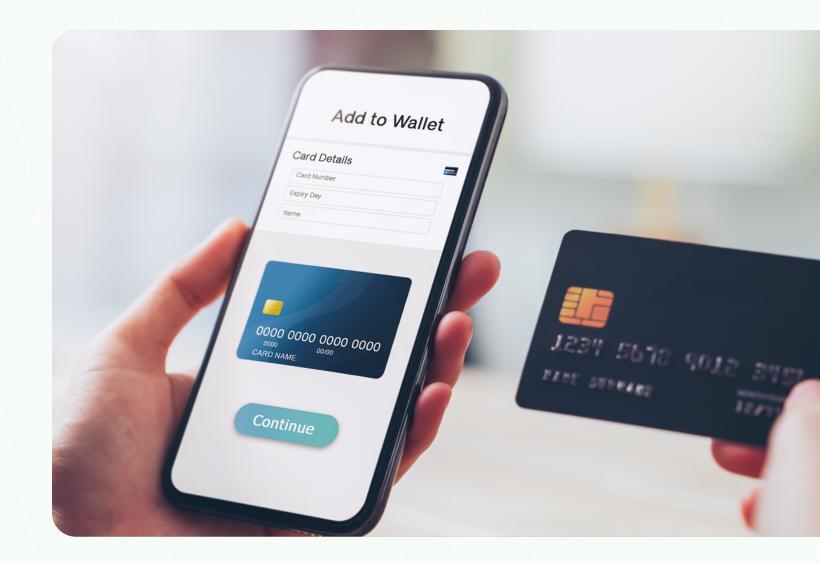
#### **Call to Action**

## Seizing the Digital Wallet Opportunity

In a relatively short space of time, digital wallets' convenience and ease of use have won over the majority of consumers and continue to gain new converts. The ability to make payments with just a tap or a scan of a smartphone eliminates the need to carry physical cards or cash, streamlining transactions both online and in-store. Additionally, digital wallets offer improved organization and tracking of expenses, allowing consumers to better manage their finances and gain insights into their spending habits. The potential for integrated rewards and loyalty programs further enhances the appeal of digital wallets, offering users additional value for their transactions.

With 53% of consumers, including 79% of the crucial Gen Z demographic, now naming digital wallets as their go-to payment method, adapting to this trend is more important than ever for businesses. Partnering with payment providers can provide the tools and support that businesses need to offer a comprehensive suite of digital wallet solutions through a range of integration options, from POS terminals to plug-ins.

As new use cases ensure digital wallets' further growth, businesses that do not adapt may risk being left behind. By meeting consumer demand for these payment options, businesses have the opportunity to position themselves at the forefront of the evolving financial technology landscape.



## **About**

## **PYMNTS**

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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Ingo Payments is the money mobility company. Our mission is to give people and businesses instant, digital and secure access to their money. We provide embedded API and iframe-supported payment solutions and deliver fully digital, cloud-based platforms that bridge the gap between legacy payments infrastructure and new payments technologies to deliver modern, bespoke payment experiences. Whether it's instant account funding, payments or payouts, businesses can count on Ingo to tailor our platform and services to meet their needs. Headquartered in Alpharetta, Georgia, Ingo employs more than 240 professionals and serves some of the largest brands in North America.

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