Digital Wallets: A Consumer “Must Have” in a Digital World

Drive consumer adoption to support seamless omni-channel purchasing
Consumers increasingly expect to shop in a seamless flow across all channels and form factors such as physical stores, smartphones, tablets and desktops. However, omni-channel purchasing is largely disjointed. Cloud-based digital wallets can close the seams, but only if consumers fully embrace the value proposition. By promoting mass digital wallet adoption, payments players can grow their share of wallet and realize new value across the purchasing lifecycle.

**CHALLENGE**

Why are digital wallets so vital to the future of omni-channel digital commerce?

Digital has disrupted commerce, and there is no turning back. Omni-channel experiences are non-negotiable for many consumers. Consider that 67 percent have started shopping on one form factor, but completed it elsewhere.1 Or that by 2017, the majority (60 percent) of US retail purchases will be influenced by digital channels.2

Commerce participants—including payments companies—know the importance of embracing innovations in digital technology to fully engage their customers, influencing their purchasing behaviors and capturing repeat sales. They also understand that as payment processing fees continue to decrease, opportunities to create value shift from actual transactions to pre- and post-purchase activities.

As such, online and in-store point-of-sale solutions have emerged to facilitate digital purchasing—providing market opportunities for agile new entrants. For example, paying in store using mobile devices is a highly pursued area, and various technologies are in play. Almost all of the technologies use some form of proprietary digital wallet to engage consumers and offer fee sharing arrangements among merchants, issuers, associations and publishers. However, consumers have been slow to adopt the technologies due to restrictive implementations, disjointed purchasing experiences and lack of perceived value-add over current purchasing behaviors.

**RECOMMENDATION**

How can payments players promote widespread consumer adoption of digital wallets?

Digital wallets are the wave of the future in omni-channel purchasing, offering a strong return on investment for payments players in the near- and intermediate-term. For long-term gains, digital wallets must become part of the fabric of people’s everyday lives (Figure 1.) Yet mass adoption has so far been challenging due to security, privacy and flexibility concerns—real and perceived. Payments players can pursue specific guidelines to influence consumer mindshare around adoption and increase share of the wallet for dollars invested while accounting for emerging technologies.customer experiences.

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Figure 1: Digital Wallet in the Cloud for Multi-Form Factor Digital Commerce

![Diagram of Digital Wallet in the Cloud for Multi-Form Factor Digital Commerce]

*Key:*

- Purchase APIs
- Wallet Update APIs
FIVE KEY GUIDELINES

1. Digital wallets must be cloud-based, accessible on any device anywhere

The cloud-based digital wallet must support online and in-store purchases, remaining synced across channels. Host card emulation-enabled (HCE) technology is a viable option for in-store payments, and both MasterCard and Visa have announced support for HCE, although it is currently feasible only on Android devices. In addition, the association rules to qualify HCE payments at lower card-present rates rather than higher card-not-present rates will be key to mass adoption by razor thin margin merchants that are highly sensitive to processing fees. For enhanced security and potential offline use which works across industry, wallet providers should embrace upcoming payment tokenization standards.

2. Digital wallets must provide simple ways for consumers to manage offers

Digital wallets should integrate importing, sorting and prioritizing coupons. At the point of purchase, digital wallets should assist consumers by prompting methods of payment that maximize their discounts and rewards. At a minimum, consumers must be able to manually select discounts for redemption at checkout. Wallets should also store receipts and proofs of purchase, manage transaction history and loyalty rewards. Future capabilities could include simplifying registration processes, warranty tracking and connecting to online product support.

3. Consumers must be able to switch wallet providers without hassle

Some consumers are reluctant to lock into a digital wallet for fear of relinquishing control over their purchasing behavior and history and even losing information when switching providers. To encourage adoption and allay consumers’ fears, digital wallet implementations and integrations should be agnostic of the wallet provider, and transfers should not be difficult. Payments players might worry that this could mean a loss of control over their captive customer base, but they must take a broader view of the benefits—such as overall growth in compatible customer base and better wallet implementations—as more consumers move to digital wallets.

4. Digital wallet security must protect consumers from fraud and malware

Digital wallet technology implementation in the cloud and its on-device representation must be tested and certified as secure against known threats. At a high level, this means incorporating anti-malware measures against vulnerabilities related to opening links, attachments and scanning QR codes and implementing anti-theft measures such as two factor authentication and remote wiping of the on-device wallet.

5. Consumer privacy concerns must be addressed continuously

A key reason for low adoption of digital wallets is that consumers are wary of allowing wallet providers access to sensitive personal and financial information for fear of invasive profiling, misuse or harm. Digital wallet providers must demonstrate their security and privacy commitment through strong policies and continuous compliance monitoring.

OUTCOME

What do payment players stand to gain by promoting digital wallets?

Digital wallets stored in the cloud and accessible on any device anywhere offer a strong value proposition for payments companies, including the following benefits:

- Drive seamless consumer engagement with better customer experiences.
- Capture new value across the purchasing lifecycle with “anytime, anywhere” presence.
- Get more insight into consumers’ purchasing behavior, and influence it in new ways.
- Improve loyalty programs through more relevant and timely offers.
- Be competitive in the growing digital commerce marketplace.

KEY QUESTIONS FOR GETTING STARTED

- How can a cloud-based digital wallet benefit the business?
- What will help customers the most—our own digital wallet in the cloud offering, seamless integration with third party wallets, or both?
- How can we protect the company’s business interests in the growing digital commerce ecosystem?

Recognizing potential gains like these, several proprietary or somewhat open digital wallet implementations are jostling for customer share today. The Belgian mobile wallet is one success. Belgacom and BNP Paribas Fortis are developing a digital wallet solution open to all customers, banks and mobile operators in Belgium.3

Moving forward, broad consumer adoption of mobile wallets will mean convincing all the stakeholders—merchants, publishers, issuers, associations, acquirers, processors and especially consumers—that there is lasting benefit to them as players in the multi-form factor digital world.

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