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WHITE PAPER

DIGITAL WALLETS: A STILL-FLUID, REVOLUTIONARY TREND IN PAYMENTS



The digital payments space is a very fluid environment. Tokenization, cloud computing, mobile payments and the evolving digital wallet are changing the way issuers, processors, merchants and especially consumers are thinking about traditional payments.

Increased adoption of smartphones, tablets and other mobile technologies has transformed the ways in which customers make payments. One major trend emerging in this market is increased awareness about digital wallets. We are still in the early phases of the digital wallet transformation but we are observing two categories of digital wallets taking shape. One is the mobile wallet for point of sale and in-app purchasing and the other is digital e-Commerce for online purchases.

What is a Digital Wallet?

Digital wallets are electronic accounts that enable people to manage their bank accounts and make payments utilizing their cell phones. The technology primarily used today is based on the Near Field Communication (NFC) technology.

The main difference between a digital wallet and online transactions via a bank account is that, unlike banks, a digital wallet does not charge any amount of money on every transaction and saves the customer from the hassle of entering card details and PIN number for each and every transaction.

A digital wallet is the digital equivalent to the physical wallet in which we carry money. It is an online platform that allows a user to keep money in it, just like a bank account. A user will establish an account with a digital wallet provider, after which money is added to the digital wallet account using a debit, credit or prepaid card.

The main difference between a digital wallet and online transactions via a bank account is that, unlike banks, a digital wallet does not charge any amount of money on every transaction and saves the customer from the hassle of entering card details and PIN number for each and every transaction. It is easy and convenient because the user just needs to sign into the account with a password or by using fingerprint authentication on a device to make the payment.

Mobile Wallets Moving Forward

Apple has clearly broken down barriers and moved the mobile wallet forward. A mobile wallet allows a consumer to use their phone for a contactless payment instead of using their traditional plastic card at the point of sale.



The introduction of Apple Pay has also paved the way for other tokenized payment options. Apple Pay uses NFC with a secure element tied to a specific device. Android Pay will rely on a form of NFC called Host Card Emulation or HCE. Issuers will potentially like HCE because it allows them to load wallets without the need to access a secure element embedded in the phone that's usually

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controlled by the mobile carrier. However, HCE has generated some speculation regarding security. The cloud configuration used for Android Pay and projected to be used by Samsung is considered by some experts riskier than NFC based on a secure element.

Digital e-Commerce Emerging Via Two Solutions

Two emerging digital e-Commerce solutions are Visa Checkout and MasterPass. These solutions allow consumers to set up all their account information online one time so that the next time they choose to check out, they can simply hit a “buy button” and quickly enter their credentials. As single sign-on solutions, they allow for convenient online and in-app shopping with the added security of Quick Response (QR) codes. Additionally, these digital e-Commerce solutions remove the need to re-enter shipping, billing and payment information prior to making a purchase. Finally, the buy button feature enhances a consumer’s experience when they are trying to check out on a small device.

Convenience, Speed and Flexibility

The convenience, speed and flexibility of doing the transaction securely are the key benefits of a digital wallet. It’s expected that digital wallets will provide a user with a wide variety of services. In the future, it is anticipated that digital wallets will allow a consumer to capture paper items on their phone, manage point balances and react to time-sensitive loyalty offers. The industry vision is that the digital wallet will be capable of sending alerts based on location and issue reward certificates in real time. Consumers want to be in complete control of their finances and they want to be able to manage their money in real time anywhere, anytime.

There are several players in the market today, with a variety of business models and technology supporting their platforms. The current challenge is that there is not one ubiquitous merchant payment acceptance platform that works with every smartphone device make and model, making it difficult, if not nearly impossible, for all players in the equation to connect. There has been a constant flux in the market for the last two years. However, with the introduction of Apple Pay we have started to see some equalization. Google has purchased Softcard, PayPal has purchased Paydiant and Samsung has invested in LoopPay. These strategic relationships are pivoting the market toward an opportunity for equalization to occur.

How Quickly Will Wallet Technology be Supported?

Branded network incumbents MasterCard and Visa have developed an extension to their underlying payment networks that integrates new mobile participants into the payment business model. However, acquirers, issuers and the networks must still code to support multiple new transaction types. Issuers will also be required to sign new contracts, recertify BINs, and agree to new contractual terms and pricing—and all of this will take time.

The effort to make these changes may be warranted, though, as the market opportunity could be quite large. As more solutions enter the marketplace and as NFC adoption grows, this number will continue to inflate. Cardholders will choose a handful of mobile applications and wallets to use. Experience and value proposition will be key drivers of adoption.

The dominant digital wallet players will provide a fast and brilliant experience with a secure authentication process offered by a trusted source that can offer significant value at virtually any location. The transactions will be convenient and secure, support many smartphone platforms, be compliant with industry and regulatory requirements and include secure data protection. The interest in wallets for credit unions will be to stay relevant with their members while still increasing debit and credit transaction volumes and preserving interchange earn.

CO-OP Ready for Rapid Market Growth

Wallets are considered a revolutionary trend in the digital payments industry as they enable consumers to make contactless payments at the POS, in-app and online purchases, all while on the go. CO-OP Financial Services expects the digital wallet space to rapidly grow and continue to change and we are poised to support these new solutions. The bottom line is that a digital wallet is a new concept, and, therefore, its success is highly dependent on the confidence level of end-users.

For more information on CO-OP digital wallets solutions and support, please visit CO-OPfs.org/solutions/mobilevirtual/mobile-wallets, or email MemberServices@co-opfs.org or call 800.782.9042, option 2.

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