Top 10 payment trends to watch in 2013
Meeting—and exceeding—evolving consumer expectations

Technology-driven change has become a constant for merchants, financial institutions, and processors. That reality has created a shifting landscape of new capabilities, new competitors, new rules, and new customer expectations. It can all be complicated and confusing, but an assessment of that landscape indicates several clear trends affecting the industry.

One of the most prominent of those is mobility. Consumers have adopted smartphones and tablets with amazing speed and integrated them into their daily lives. The challenge now for the payments industry is how best to include payments in that mobile mix. It is working to provide the functions consumers want, take advantage of geolocation capabilities, work across multiple channels, and leverage a growing wealth of mobile purchase data—and do it all profitably.

Meanwhile, the topic of security comes up in virtually any discussion of payments. Security has always been a top concern, but in this age of digital information and payment methods, there are new threats. For their part, consumers worry about compromised personal information and data breaches—and about companies knowing too much about them. But they are not only worried—many are confused by the various products and their components. From their perspective, threats are often invisible and difficult to identify and understand, a natural consequence of the fact that sophisticated security measures often involve deep technical expertise.
As always, the payments industry is working within a growing, and sometimes uncertain, regulatory framework. As it continues to adapt to the realities of the Durbin amendment, it also needs to keep an eye on new developments. New regulations, litigation, and an increasingly active Consumer Financial Protection Bureau have put everything from credit and debit cards to security and data privacy under increased scrutiny. Now legislators are turning that kind of scrutiny to prepaid cards and mobile payments. In a very real sense, dealing with changing regulations and significant gray areas is the new normal.

To help merchants and financial institutions navigate this changing landscape, Vantiv and Mercator Advisory Group conduct annual research into consumer attitudes about evolving payment methods. The consumer perspective is vital because when it comes to payments, it will ultimately be consumers who pick the winners and losers.

The Vantiv/Mercator Insight Series combines those consumer views with perspectives from industry executives. Changes between the original research, conducted in February 2012, and the most recent version, conducted a year later, are especially revealing. The findings from this year’s research have been distilled into 10 trends, presented here, that we see reshaping the industry today. These trends cover a lot of ground, from the changing nature of multichannel commerce to the drivers of mobile payments, the evolution of micropayments, and the complexities of digital wallets. They cover the challenges and opportunities that merchants and financial institutions face in this environment. And they explore what consumers want and fear, what they are adopting, and how they want the industry to adapt.

What emerges is a picture of consumers who have serious reservations about the new payment options being created, but are enthusiastic nonetheless. The industry should leverage that enthusiasm to shape the changing world of payments to the mutual benefit of merchants and financial institutions, as well as the consumers they serve.
HOW CONSUMERS SHOP

<table>
<thead>
<tr>
<th>Shopping Method</th>
<th>Usual Shop</th>
<th>Have Shopped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Researched and purchased online</td>
<td>55%</td>
<td>57%</td>
</tr>
<tr>
<td>Researched online before entering store, purchased it there</td>
<td>46%</td>
<td>61%</td>
</tr>
<tr>
<td>Saw product and purchased in that store w/o online research</td>
<td>48%</td>
<td>50%</td>
</tr>
<tr>
<td>Researched and purchased online; picked up in store</td>
<td>25%</td>
<td>50%</td>
</tr>
<tr>
<td>Saw product, checked prices on phone, purchased online</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Saw product, checked prices on phone, bought in another store</td>
<td>17%</td>
<td>38%</td>
</tr>
</tbody>
</table>

1. The Rapid Emergence of Omnicommerce

The range of shopping, purchase, and payment channels available to consumers continues to grow, creating challenges and opportunities for retailers.

Because of the proliferation of mobile devices, consumers today are making regular use of multiple channels in their shopping activities. In this year’s survey, 61% of all consumers said that they own a smartphone or tablet, up from 48% in last year’s research. In addition, 82% of young adults and 74% of those earning $100,000 or more a year reported owning such devices.

Computer and mobile access has a strong influence on all purchasing-related behaviors, both online and in the store. For example, online research and purchasing of products over $50 (cited by 56% of respondents) has become more common than in-store shopping and purchasing without online research (46%). Nearly half of the respondents said that they have conducted research online before making an in-store purchase. And 28% (and 35% of smartphone owners) said that shopping for higher-priced items has involved “showrooming”—finding a product in a store, then looking online using their mobile phones to find the cheapest price for it and buying it online or in another store. Thirty-five percent say they have used this showrooming technique at least once to purchase online; 38% have used it to look in the store and then purchase in another store, according to a Roper/Vantiv study (see chart).

These multiple channels continue to blur the traditional lines between the electronic and brick-and-mortar worlds. Thus, it is increasingly important for merchants to find ways to enable “omnicommerce,” and provide a consistent customer experience across all channels.

“Merchants need to interact with customers in the ways that customers expect, and do it in a consistent, secure way,” says Donald Boeding, president of Merchant Services at Vantiv. With omnicommerce, he says, payments need to be seen as one element in a much broader picture. “This is not about just providing, for example, a mobile app,” he explains. “It’s about surrounding your customers with things that allow them to experience your brand in a positive way.”

That may sound challenging, but there is a large potential upside. “The emergence of omnicommerce creates extraordinary opportunities for merchants to interact with consumers from the time they start thinking about products to the time they walk in the
door to the time they buy, either in the store or online. It creates an opportunity for brands to become a bigger part of the consumer’s lifestyle,” says Boeding.

Financial institutions are not immune to the demands of this increasingly multichannel world. Their customers are also becoming accustomed to interacting in the channels of their choice—and they need to be reached via an “omnichannel” approach. Institutions often think of this in terms of a shift to mobile banking and payments, but in reality, it is something more. Mercator’s research has found that mobile-banking users are also active users of branches, ATMs, and computer channels. In other words, mobile isn’t a replacement for those other channels, it’s a complement to them—and banks have to meet consumers in all those channels. That means offering consistent information and service across channels, while creating channel-specific interoperability that takes best advantage of each channel; both are necessary for superior customer experience. “That’s the difference between ‘multichannel’ and ‘omnichannel,’” says Ed O’Brien, director of the Banking Channels Advisory Service at Mercator.

Some large banks are beginning to address these issues, says O’Brien. “They’re looking at having all their systems, such as core banking, back office, CRM, loans, credit cards, and mortgages, tied in across channels in real time,” he says. “The idea of providing an outstanding customer experience—to serve the customer in a 360-degree environment—is becoming a major theme for them.”

2. Mobile Payments: Reality Lags Behind the Rhetoric

Consumers have rapidly embraced smartphones and tablets—the key enablers of mobile payments. At the same time, awareness of mobile payment methods has increased somewhat, according to the research. But interest in actually using mobile payments has not followed suit.

Consumer interest in mobile payment forms has remained essentially flat year-over-year, and for some types, it has even showed a decline. For example, consumer interest in “tapping or waving a mobile phone at checkout to pay” fell from 14% to 10%. Overall, just 15% of respondents said that they would prefer to use mobile payments over a credit, debit, or prepaid card today.

There are several likely reasons for this lackluster response. One is security, which respondents cited as the top reason for their lack of interest in using mobile payments. Another is the complexity of mobile payments, especially for those who are not familiar with how they work.

ACTUAL USAGE OF MOBILE PAYMENTS

- Tap/wave mobile phone at checkout to pay: 1% (2012), 1% (2013)
- Swipe credit/debit card through reader on clerk’s tablet: 2% (2012), 2% (2013)
- Pay for landscape/plumbing by swiping card on contractor’s phone: 17% (2012), 19% (2013)
- Using “contactless” credit/debit by tapping it at checkout: 5% (2012), 6% (2013)
- Pay at online retailer using mobile web or app on smartphone: 4% (2012), 7% (2013)

MOBILE: MOVING SLOWLY

Consumers are more aware of mobile payment methods, but relatively few have had any actual experience using them.
MOBILE PAYMENT BARRIERS

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why not personally use mobile payments?</td>
<td>44%</td>
</tr>
<tr>
<td>Why won't mobile payments be common?</td>
<td>48%</td>
</tr>
<tr>
<td>Security problems</td>
<td>48%</td>
</tr>
<tr>
<td>No smartphone</td>
<td>23%</td>
</tr>
<tr>
<td>No need for service</td>
<td>16%</td>
</tr>
</tbody>
</table>

MOBILE INSECURITIES

When consumers who said they are not interested in using mobile payments were asked why, the most-cited reason was “security problems.”

mobile payments. But just as important may be the disconnect between marketing messages and the reality of consumers’ lives.

Although consumers hear a great deal about mobile payments from companies and pundits, the infrastructure for those payments is still quite limited. Thus, actual usage remains fairly low. Using merchant tablet point-of-sale (POS) systems with cards continues to be the most common mobile payment experience (19%). This is particularly true for smartphone owners; nearly one-third have used them, up from one-fifth in 2012. But usage falls off quickly from there. Only 7% of consumers (and 11% of smartphone owners) say they have used mobile ecommerce, up from 4% (and 8% of smartphone users) in 2012—the only category of mobile payments to show a significant year-to-year increase. Just 2% of consumers say that they have used a contactless mobile phone at checkout.

“Consumers may be tiring of the mobile payments hype,” says Ken Paterson, vice president of Research Operations at Mercator. “There has been a real build-up of expectations and awareness—surprisingly so, considering how little mobile payments infrastructure has been deployed.” As a result, he says, “payments stakeholders may need to more carefully manage expectations in the market in order to avoid more consumer disappointment.”

Delivering on the promise of mobile payments will also help, and we may be seeing more of that soon. “I think there will continue to be small successes here and there with mobile,” says Dean Seifert, senior vice president of Product Strategy at Vantiv. But in reality, companies have been laying the groundwork for mobile payments for some time. “At some point, all the tests and all the pilots of the last few years will come to fruition, and we’ll see a steady crescendo of large-scale programs being announced over the next two to three years,” he says.

In fact, mobile payments may be experiencing a phenomenon often seen with the emergence of new technologies. “The world tends to overestimate a technology’s short-term impact and underestimate its long-term impact,” says Seifert. “It seems clear that mobile payments will eventually have a huge impact, and merchants and financial institutions need to consider that in their long-term strategies.”

For their part, consumers seem to be thinking of that longer-term impact. Although their current interest is lagging, they feel positive about the future of mobile payments. Two-thirds of consumers expect mobile payments to be common in five years, and 39% see themselves using such payment methods in that time frame—with both figures representing an increase over last year’s.
3. Mobile Wallets: Cutting Through the Confusion

Digital wallets are expected to play a key role in enabling convenient mobile payments, and consumers have heard a lot about them. But they have reservations about using them.

Consumers are more aware of digital wallets than they were last year (44%, up from 32%). In addition, more consumers believe that a digital wallet would be more convenient than carrying credit cards (35%, up from 27%). However, only 10% said that they are interested in actually using a digital wallet at a retail point of sale—a decline from last year’s 13%.

Security concerns are partly to blame. Many consumers say they are worried about storing card information on their mobile phones, which they see as easy to lose and vulnerable to hacking. But more fundamentally, many consumers simply do not understand what these wallets are and how they fit in their lives.

Currently, consumers are faced with a confusing array of hundreds of digital wallets with varying functionality, and there is a lack of standards for the technology used in wallet-based payments. What’s more, consumers have little or no personal experience with them. Just 1% said that they have used a contactless digital POS wallet, and even among smartphone owners, usage stands at just 2%. “When we discuss wallets directly with consumers, they are often unfamiliar with the concept and need explanations. There is a lack of specifics about digital wallets in the marketplace, so consumers probably don’t see the real value proposition for them yet,” says Paterson.

Recent developments may make it easier for consumers to get a hands-on appreciation for digital wallets. For example, some wallets now rely on QR codes projected by the merchant for the consumer’s phone to read. This may make it possible to speed up the rollout of mobile payments by utilizing smartphones and apps, while limiting the modifications required to merchant POS systems.

Some wallets use the cloud to store payment and card information. Thus, sensitive information is not shared with the POS terminal or even stored on the mobile device, so a lost phone is less of a security concern. Consumers are already familiar with this concept. One-third are now using payment methods that store information with an online retailer, which suggests that they should have a high comfort level with a cloud-based wallet approach.

“It is doubtful that the market will support so many wallet options for long. The winners will be those that provide a clear and succinct value proposition...
for consumers,” says Seifert. That will mean providing security and the ability to use the wallet at a broad range of retailers—and giving consumers functions that go beyond payments alone. “Consumers will probably choose wallets based on packages of services around the payments capabilities,” he explains. “A fast-food restaurant might let you use your smartphone to order food ahead of time, or a grocery store could provide phone-based shopping-list capabilities. Ultimately, then, the wallet and payment can be embedded as part of a broader solution, and the issue will be less about the technology involved and more about engaging the customer.”

4. Selling Consumers on Mobile Security

Consumers have a number of security concerns with traditional card-based payments, and they are carrying those perceptions into the emerging world of mobile payments.

Despite efforts by the payment industry to increase security, 16% of consumers said that they had a credit or debit card canceled within the past year due to a data breach; 15% saw fraudulent charges to one of their accounts because of a stolen account number. Each of those figures represents a 1 percentage-point increase over last year. Such events have a significant impact on consumer attitudes. Among those whose cards have been compromised, 57% said that they think about security when reviewing statements, 54% said they are more cautious when using their cards, and 46% said that they think about security with every transaction.

The research also looked at consumers’ views of the security of various payment methods. Prepaid cards (both general-purpose and store-branded) topped the list, cited by 67% of consumers as a secure type of in-store payment. That was followed closely by credit cards, cited by 64%. However, this year, consumers felt slightly less secure with all payment card methods than they did in 2012, with the exception of using a debit card online, which consumers now view in a slightly more favorable light. In general, all emerging payment forms are considered less secure than traditional ones—and NFC-based mobile payments are viewed as the least secure method. Just 19% said they believe mobile technology is secure for payments. However, men, smartphone owners, and particularly young adults are most likely to consider smartphones secure for payments.

In fact, doubts about security are a key barrier to the broader rollout of mobile payments. When consumers who expressed low interest in mobile payments were asked why, security issues topped the list.
“The lack of a security narrative in the industry for mobile means that consumers tend to fill in the blanks for themselves—often, with misconceptions,” says Paterson. The research found a number of widely accepted “myths” about security. For example, 63% of consumers said they believe that mobile phone signals are easily intercepted by criminals, and 50% believe that to be the case with contactless card signals. Similarly, 39% believe that payment cards can be read through a wallet, pocket, or purse. Even some established security procedures run into consumer-perception problems: although 56% of consumers said that using a PIN makes card transactions safer, 38% said that they prefer to sign during a transaction so they don’t disclose their PIN to onlookers.

These findings point to an opportunity to complement technical security efforts with increased publicity and enhanced education about the effectiveness of those efforts—especially with mobile payments. It’s also worth noting that 69% percent of consumers expect that the “zero liability” that comes with their credit cards will be extended to mobile payments. “That’s not a given in the industry right now,” says Seifert. “But that expectation is there, and the mobile world is going to have to move to zero liability, because customers are going to weede out the issuers and merchants that don’t provide it.”

5. EMV: Confusing Consumers

The implementation of EMV technology—and its related effort and expense—is on the minds of both merchant and financial institution executives in the U.S. But it seems to be largely off the radar for consumers.

EMV cards are slowly showing up in the U.S. market, and merchants are in the early stages of implementing EMV-capable terminals. Just 15% of consumers said that they have an EMV-equipped debit or credit card. One-fourth of those said they have used the card in EMV chip-mode outside the U.S.—not surprising, since the U.S. is one of the few countries that has not implemented EMV. Financial institutions have tended to give these cards to frequent travelers and/or high-volume customers, and the research found that those earning $100,000 or more, tablet owners, and young adults are more likely than average to own a chip card.

However, consumers seem to be confused about the EMV card. Nineteen percent were not sure whether they had one. Many believe the signals from cards can be picked up easily by criminals. And 65% percent of those who have the cards said they have used them in chip-mode in the U.S. “That’s a near impossibility, given the very low deployment of EMV POS terminals here today,” says Paterson.

Few U.S. consumers have EMV cards, and a good number aren’t even sure whether or not they do—which points to the need for more consumer education on this front.
“The card brands, issuing financial institutions and merchants, will want to provide their consumer customers with information on not just how to use the cards, but also the benefits of doing so, specifically the EMV card’s ability to create a more secure shopping experience,” says Patty Walters, senior vice president of Merchant Products and Security at Vantiv. Companies that roll out EMV earlier than their competitors may be able to differentiate themselves based on their commitment to security.

EMV may also be a catalyst for innovation that consumers can understand and are interested in, says Walters. “Once you have the hood open on that infrastructure, you have opportunities to implement things like Dynamic Currency Conversion, Point-to-Point encryption, and mobile payments,” she says. As merchants pursue those opportunities, they may want to publicize those innovations, and point out the increased convenience they will bring to consumers.

But consumers are ambivalent about the way companies collect and use this data—and emerging payment methods are only complicating their views.

Consumers are typically happy to receive the offers and promotions made possible through the use of consumer data. Although mobile coupons are relatively new, 29% of consumers in the Roper/Vantiv study said that they have at some point purchased a product in a store using a coupon they had just received on their phone. In the Mercator/Vantiv study, 15% of consumers reported that they do so regularly. And consumers have clearly demonstrated that they are comfortable using their mobile phones to compare products and prices as part of the in-store shopping process.

Offers are appealing enough that they can affect consumers’ choice of payment type, as well as their preference for a given retailer or product. Forty-four percent of respondents said they would switch their current preferred payment type if they were to receive a discount on a purchase for using another payment type. Young adults, tablet owners, and smartphone owners are especially willing to switch for a discount. Forty-two percent of all consumers say they would switch if the new method offered rewards.

While consumers like offers, they are less excited about the idea of using...
consumer data to produce offers. Thirty-seven percent said that they don’t like to be asked for an email address to receive a discount or a promotional price. When considering mobile payments, 76% said that they worry about receiving too many inappropriate or irrelevant offers or messages via email or text; 72% said that they worry about mobile payments requiring them to share too much personal data with vendors. Some consumers seem to lack faith in the process, too: more than half said they would worry about not getting a promised coupon or discount when using mobile payments—that is, that they might provide personal information without receiving any benefit in return.

All of this underscores the importance of maintaining control over customer data and building greater sophistication in using that data to create offers. To do so, merchants and financial institutions will have to strike a balance between understanding their customers and not being too intrusive. Even though customers clearly like offers, 69% worry about “receiving too many offers on my phone while I shop, even if I okayed it.” Faced with that mind-set, companies will need to use customer histories and other consumer data, along with capabilities such as geolocation, to carefully target offers to the right customer in the right place at the right time.

7. Consumers Adjust to Evolving Payments

As payment technologies and methods evolve, consumers are adapting along with them. In some ways, their behavior remains unchanged, and in some ways it is changing significantly.

The leading reasons why consumers prefer one payment method over another have held steady since last year, with 80% of consumers citing the importance of methods that are no-cost/low-cost, 78% citing convenience/fast to use, and 73% citing being secure against fraud. Of those who prefer methods such as prepaid and debit cards, about 3 out of 4 said that they like the ability to track and manage spending. Those earning more than $100,000 a year were especially likely (83%) to view that ability as important.

Consumer payment-related behavior can be influenced by merchants and financial institutions. More than 2 out of 5 consumers said that they would switch payment methods to get a discount. About 1 out of 3 and about half of young adults, smartphone owners, and tablet owners would be more likely to use mobile payments if they were offered rewards programs similar to those in today’s credit card programs.

Meanwhile, consumers continue to em-
brace online shopping through a variety of methods: 41% said that they enter credit or debit card numbers online; 34% have used a card that’s on file with an online retailer; 38% use PayPal; and 32% pay bills from an online banking website. Just 7% of consumers and 11% of smartphone owners make mobile payments from online retailers.

Mobile technology is already changing consumer shopping behavior in stores, and looking ahead, the addition of mobile payments will be a primary driver of further changes. Within five years, 39% of consumers expect to use mobile payments in general and 10% to 14% of consumers expect to prefer using mobile-based payments across a variety of specific activities, such as in-store shopping, large purchases, and online purchases.

But once again, security is a concern. The research explored the ways in which consumers are addressing this with their smartphones, where they believe they have a fair amount of control over security. Consumers are especially worried about losing their phones and compromising the information they contain. Not surprisingly, 77% of smartphone owners said that they would prefer to have two security codes on their phone—one for the phone itself and one for any payment applications it contains. But those worries don’t always carry over into actual behavior. Just 38% have a security code on their mobile device, and the most commonly used code is a simple password with four or fewer characters. “That may change as more phones include valuable payment information that consumers want to protect,” says Paterson.

8. Small Payments, Big Potential

Over the last year, micropayments between individuals have caught the public’s eye, but those methods are getting varying degrees of traction with consumers.

The concept of mobile micropayments—which used to encompass cash transactions such as babysitter payments or yard sale purchases—has been adopted by small businesses, or micromerchants, allowing tradespeople to easily accept credit cards using a device attached to their mobile phone. And person-to-person (P2P) transfers—used in place of a check to pay back a friend, for example—can now rely on credit cards or a separate service. In essence, these methods are blending and overlapping, but overall they indicate a growing interest in using mobile devices to transfer money among individuals.

A lot of attention has been focused on card readers attached to mobile phones and tablets. Fifty-seven per-
cent of consumers said they are aware that small merchants can use such readers. That awareness is even higher among consumers under age 35 (64%) as well as those earning more than $100,000 a year (70%). Nevertheless, usage is low—just 6% of consumers indicate they have used this approach to pay for services, up from 5% last year. Sixteen percent expressed interest in using this method.

P2P payments present a similar picture, with 42% of consumers saying they are aware of mobile phone-based P2P money transfers, but just 4% using this method and 12% saying that they are interested in it. One barrier to wider use is the time it takes to transfer money via ACH networks. “It may be a few days before the other person gets their money,” says Seifert. Faster transfers are possible if both sender and receiver are part of the same P2P service, he adds, “but that means the other person has to share private information with the service, as well as sign up ahead of time, which reduces the level of convenience.”

In addition, micropayments are seen as relatively insecure by consumers. Among those with low interest in mobile P2P, 43% said security is a top concern; with mobile wallet acceptance, that figure is 58%. Consumers see the smartphone itself as being vulnerable, and just 25% consider the card reader on a mobile phone to be secure.

Consumers see the usefulness of these methods and want to adopt them, but the industry has to make these transfers faster and more secure. In the meantime, however, adoption is likely to be slow. Says Seifert, “That’s because there is an alternative that works: write a check and mail it.”

### 9. Share of Wallet: Gradual Change

Proven payment methods such as cards and cash continue to account for the largest share of wallet, but new approaches are gradually changing the mix.

Today, various types of payment cards can be found in consumers’ wallets. Debit (71%), general-purpose credit (69%), and store credit cards (38%) are most widely owned. Debit card owners usually carry their debit cards with them. General-purpose credit cards are more likely to be carried by the consumer (65%), than store credit cards (32%). Loyalty cards are carried by 69% of consumers, and they take up the most wallet space, with an average of 3.3 carried among owners, compared to an average of 2.1 for both general-purpose credit and store credit cards.

“As digital wallet providers consider their capabilities, they should think about this variety, and, especially, the importance

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**FAT WALLETS**

Consumers carry a variety of cards, but most have a general-purpose credit card. Loyalty cards account for a larger share of wallet than other payment forms.
ATTITUDES TOWARDS PREPAID CARDS

I can trust GP prepaid cards
- 2012: 62%
- 2013: 62%

I can trust retailer prepaid cards
- 2012: 57%
- 2013: 61%

Useful for online purchases
- 2012: 49%
- 2013: 55%

Will use as a substitute for checking account
- 2012: 16%
- 2013: 23%

PREPAID’S APPEAL

Consumers see prepaid cards as being secure and providing a practical payment method for a variety of uses, both online and offline.

The research found that the anticipated increases in prepaid purchases will be driven by several factors. Nearly one-fourth of consumers said they plan to use prepaid cards as a substitute for a traditional checking account, with 32% of young adults 18-34 expecting to make that change. Consumers also see prepaid cards as offering higher security and limited risk, as well as being useful for making online purchases and helping with budgeting/spending control.

“I think we’ll see prepaid used in unique and non-traditional ways in the near future,” says Ed Paciolla, director of Prepaid Programs at Vantiv. For example, he says that prepaid could be bundled with a small business payment solution, so that when the business accepts payment via mobile phone, the funds would go into a prepaid account. This would give the business owner fast access to funds and a convenient way to use a prepaid card for business expenses.

As mobile payments ramp up, they should gradually gain a larger share of wallet. For example, 14% of consumers expect to prefer mobile payments for small in-store purchases five years from now, which will occur at the expense of cash. Similarly, 11% expect to use them for household services such as plumbing and landscaping, at the expense of credit cards and checks. And 12% expect to use them for large purchases, at the expense of debit and credit cards.
tion worry about betting on the wrong technology. As a result, they often hesitate to move ahead with new programs—especially in the mobile payments and wallets arena.

This year, however, the research showed that financial institutions have a significant advantage in these emerging approaches—and a powerful imperative to move forward. When asked who they would prefer as a digital wallet provider, 50% of consumers pointed to their banks/credit unions, giving those institutions the highest ranking. That was followed by major card networks (43%), online providers such as Paypal (20%), major companies such as Apple, Amazon and Verizon (13%), and third-party developers such as Google (9%). Among customers who would consider using mobile wallets in the future, financial institutions fared even better, with 69% of consumers saying they preferred their banks or credit unions to provide them.

At the same time, card networks and third-party providers are moving fast to deliver mobile wallets. In short, banks have an opportunity—but they need to exploit that opportunity soon.

Financial institutions have developed a high level of trust among and relationships with consumers that can help allay fears about security and privacy. They maintain cardholders’ personal and financial information, which means consumers using bank or credit union wallets and payment tools don’t need to share sensitive data with a new, unknown provider. “Financial institutions have an opportunity to leverage their trust and their widely used online and mobile banking programs to integrate mobile wallet technologies around existing debit and credit cards, as well as deposit accounts,” says Paterson.

But as they pursue wallet programs, institutions should think about doing more than having their payment tools available at the point of sale. Customers making purchases will be receiving last-minute offers from other providers, and financial institutions will have to create their own offers in order to stand out, explains Royal Cole, president of Financial Institution Services at Vantiv. Otherwise, institutions will miss an opportunity to enhance brand awareness at that increasingly important point of sale—and perhaps lose customers to other providers that maintain a higher profile.

“Financial institutions have a capability that third parties and retailers can’t easily match. They can lend money, issue credit, and provide bank services,” says Cole. Thus, a bank might offer a small loan with easy terms to a customer making a large purchase, encouraging them to use the bank’s mobile payment method. That can help that bank retain customers—or even find new ones. “You might offer that to someone who’s not a customer yet, so that can get that relationship started.

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\begin{array}{c|c|c|c|c|c}
\text{PREFERRED DIGITAL WALLET PROVIDER} & \text{All respondents} & \text{Respondents most likely to use mobile wallets} \\
\hline
\text{Banks, credit unions} & 50\% & 69\%
\hline
\text{Major card networks} & 43\% & 59\%
\hline
\text{Online payment providers} & 20\% & 27\%
\hline
\text{Major technology companies} & 13\% & 18\%
\hline
\text{Major eCommerce companies} & 13\% & 18\%
\hline
\text{Wireless providers} & 13\% & 17\%
\hline
\text{Major retailers} & 12\% & 17\%
\end{array}
\]

IN BANKS THEY TRUST

Consumers rank banks and credit unions at the top in terms of preferred wallet providers—a reflection of the trust built up by those institutions.
About Vantiv

Vantiv is one of the leading integrated payment processors in the United States. Known as Fifth Third Processing Solutions since 1971, the company, headquartered in Cincinnati, Ohio, changed its name to Vantiv in 2011, and became a public company in 2012. Vantiv’s credit, debit, prepaid, and data security solutions help businesses and financial institutions of all sizes get the most out of payment activities.


Still, with so many currents moving in so many directions, industry executives often find it difficult to know with precision how to proceed. The result, the Vantiv/Mercator research has found, is often hesitation. But in a fast-changing industry, sitting on the sidelines can quickly mean missing out on new opportunities.

There are many steps merchants and financial institutions can take in this environment. They can explore and conduct pilots, tests, and trials. They can partner with third parties and tap into the technologies and business expertise of the industry ecosystem. And they can listen, paying close attention to what customers say they want—and what they say they worry about—with payment technologies. That’s critical, because customers have more control and more choice—and the competition is working hard to meet their needs.

The industry is changing, and it is changing fast. By moving forward sooner rather than later, merchants and financial institutions can learn how to maximize opportunity and minimize risk in this environment—and be active participants in guiding the ongoing evolution of the industry.

Conclusion

As these trends illustrate, merchants and financial institutions need to stay in step with consumers—and often, lead them. The changing payments environment can present consumers with an overwhelming set of options. That means the industry needs not only to create new products, but also to help consumers understand how those innovations can be used in their daily lives.

The changing payments environment can present financial institutions with new opportunities. For example, mobile banking platforms can build on their foundation of trust by expanding their mobile banking platforms and adding features that customers want. These might include mobile check deposit, alerts, budgeting and personal financial management tools, as well as the ability to manage coupons. With such features, says Seifert, “financial institutions can gradually enhance their own platforms and help their customers migrate from traditional payments to a digital and mobile-based payment environment—and maintain relationships with those customers along the way.”

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