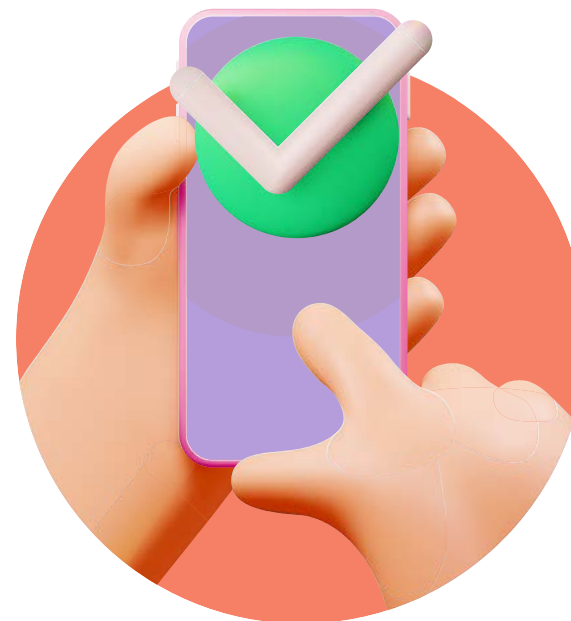


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MOBILE WALLET ADOPTION



APPLE PAY @8

STILL THE BIG FISH IN A SMALL MOBILE WALLETS POND

August 2022

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INTRODUCTION

By 2014, the iPhone revolution thrust Apple into a position to attempt another ambitious vision. The company launched Apple Pay in October that year, promising a future in which smartphones with digital wallets would replace cards at the point of sale. At that time, only the new iPhone 6 could run Apple Pay, Google Pay had not yet launched in-store payment capabilities and very few merchants accepted contactless payments of any kind.

Eight years later, credit and debit cards still rule the in-store payment space despite three-quarters of retailers now

accepting Apple Pay and Google Pay. Mobile wallets are less popular for in-store payments than they were in 2019, and consumers are rapidly adopting contactless cards for touch-free check-outs. Ironically, smartphones have also opened other ways to pay in-store — such as directly through a merchant's app — further sidelining mobile wallets.

That said, Apple Pay gained significant momentum in the last 12 months, especially among younger consumers, but the wallet remains a relatively niche player for in-store purchases — not the disruptor it was intended to be in 2014.



HERE ARE THREE DATA POINTS THAT EXPLAIN WHY:

Purchases by Apple Pay jumped in the last year, but mobile wallets' share of in-store checkouts remains below pre-pandemic levels.

Over the last year, Apple Pay padded its lead over the mobile wallet competition in the U.S. capturing 48% of in-store mobile wallet checkouts — nearly three times the share of Google Pay (17%) and miles ahead of PayPal, Walmart Pay and Samsung Pay. Apple Pay also accounted for 9.3% of eligible purchases in Q2 2022, defined as physical checkouts by a shopper with a compatible iPhone at a merchant that accepts the wallet, versus 6.1% in 2021.

Mobile wallets as a whole, however, have still failed to catch on with mainstream shoppers. Despite the rising adoption of compatible smartphones and a prolonged pandemic that strengthened the appeal of contactless checkouts, mobile wallets accounted for just 5.8% of in-store transactions in Q2 2022. This marks a 29% rebound compared to the 4.5% share PYMNTS observed in 2021, but it remains below the pre-pandemic level of 6.1% in 2019.

Contactless cards remain the biggest competitor to Apple Pay at the physical point of sale, capturing five times more in-store checkouts than Apple's digital wallet.

While Apple dominates the U.S. mobile wallet market, it remains a small fish in the larger pond of in-store transactions. Consumers spent just 3.1 cents of every in-store dollar using Apple Pay in Q2 2022, or \$199 billion out of \$4.9 trillion in total sales at U.S. merchants that accept the wallet. To put this in perspective, this means Apple Pay now captures 20% more spend than store cards, but only a tiny fraction of spend by card and cash. As a share of checkouts, mobile wallets come in a distant fourth place among in-store payment methods, far behind debit cards, which account for 44% of purchases, credit cards (27%) and even cash (19%).

Contactless cards represent the real competition for Apple Pay and other mobile wallets — and the cards are winning. Consumers made 14% of their most recent in-store purchases using contactless cards — about 2.5 times as many transactions as all mobile wallets combined, and five times more than Apple Pay alone. Mobile wallets and contactless cards are distinct technologies with different potential use cases, yet they both offer the same core appeal at the cash-register: convenient, no-touch checkout. Cards are a familiar form factor that consumers like and use. For consumers to use mobile wallets more at the physical point of sales, they have to offer more than just an easy way to pay.

Mobile wallets are gaining ground faster with younger consumers, and Generation Z shoppers make nearly one in 10 in-store payments this way.

Consumers in all age groups opted to use mobile wallets for physical check-outs more frequently in Q2 2022 than 12 months earlier. Apple Pay is bigger hit with young, digital-first consumers. Generation Z consumers made 9.4% of their in-store purchases using mobile wallets, up from 7.3% in 2021, and nearly all of them used Apple Pay. Mobile wallet use among millennials and bridge millennials climbed to 7.9% and 7.7%, respectively, from slightly below 6% in both cases.

PYMNTS has been monitoring consumer adoption and use of Apple Pay since the wallet was released in 2014. We continued our annual research this year by surveying a census-balanced panel of 2,285 consumers who both own a smartphone and made at least one in-store transaction during the preceding 24 hours. We asked respondents how they made their purchases and their reasons for choosing one payment method over another. We also conducted research on brick-and-mortar businesses that accept mobile wallet payments, allowing us to combine insights from both consumer and merchant sides of the transaction.

PART 1

A BIG FISH IN A SMALL POND:

APPLE NOW DOMINATES THE MOBILE WALLET SPACE.

However, it only captured 9.3% of potential transactions and roughly 3 cents for every dollar spent in stores.

Apple Pay cemented its status over the last year as the biggest fish in the mobile wallets pond. In Q2 2022, Apple Pay captured 48% of in-store mobile wallet transactions, up from 46% in 2021. Google Pay closed the gap significantly in the last year but accounted for only 17% of mobile wallet check-outs. PayPal — briefly the leader in 2020 — saw its market share plummet for the second year in a row. Walmart Pay rebounded from its mid-pandemic low while Samsung Pay became less relevant than ever.

Consumers, however, chose Apple Pay for only 9.3% of eligible in-store transactions, defined as purchases at a merchant that accepts the wallet by a shopper with a compatible device. This means nine in 10 consumers with iPhones in their pockets preferred to pay some other way. Even Apple's famously loyal customers have limited interest in the brand's mobile wallet.

Zooming out to look across all in-store payments makes the picture clearer; consumers used Apple Pay for just 2.9% of all physical transactions. Apple still holds a commanding lead over Google Pay (1%) and the other stragglers, but the gaps narrow because this view ignores the fact that Apple Pay works only on iOS devices, while the other wallets are device agnostic.

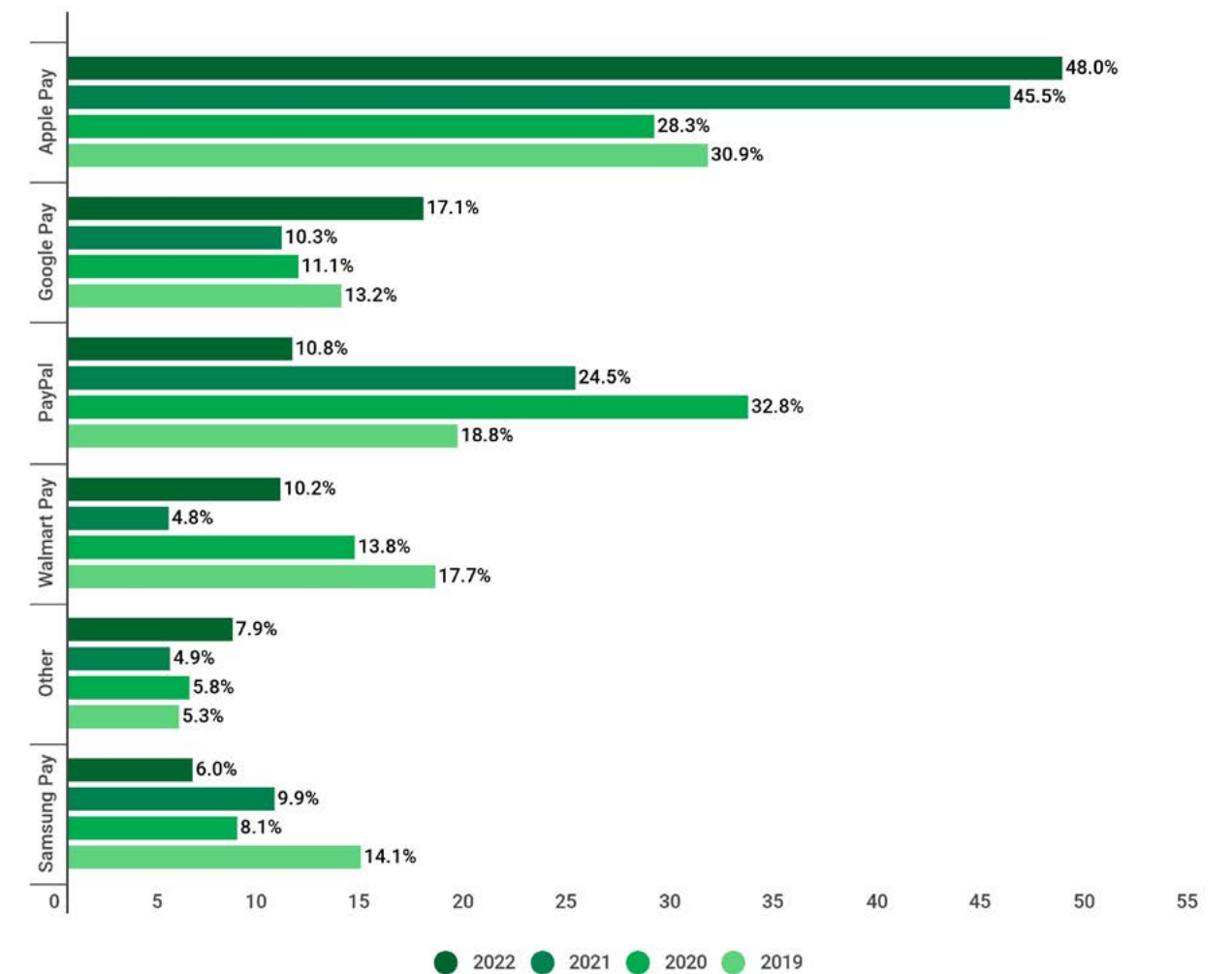
Ultimately, Apple Pay remains a small player in the overall in-store retail payments field. We estimate that the annual in-store sales at all U.S. retailers total \$6.5 trillion per year, and \$4.9 trillion of this takes place at merchants that accept Apple Pay — but Apple's wallet accounts for just \$200 billion.

MOBILE WALLET ADOPTION

Figure 1:

Mobile wallet usage in the last 24 hours

Selected mobile wallets usage for purchases during last 24 hours, among mobile wallet users

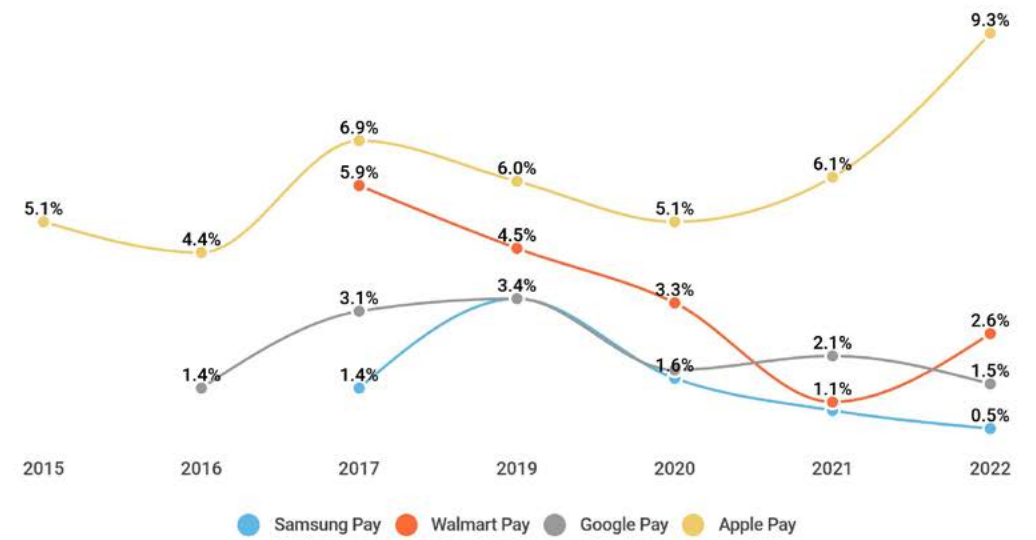


Source: PYMNTS.com

Mobile Wallet Adoption, July 2022

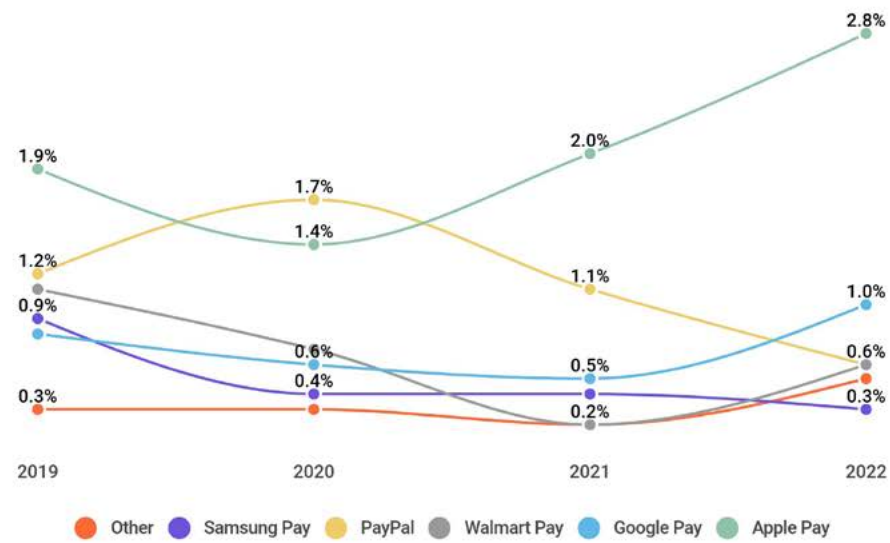
N = 129: Consumers who made any in-store purchases with a mobile wallet in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

Figure 2:
Share of transactions in which select digital wallets were used
2A: Share of eligible transactions (merchant accepts wallet and shopper has compatible device)



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 129: Consumers who made any in-store purchases with a mobile wallet in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

2B: Share of all in-store transactions



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 2,573: Consumers who made any in-store purchases during the past 24 hours prior to being surveyed, fielded June 16, 2022 – June

Figure 3:
Apple Pay sales indicators (in billions of dollars)
Amount spent on Apple Pay sales related to national indicators



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 62: Consumers who made any in-store purchases with Apple Pay in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

PART II

DEBIT AND CREDIT CARDS DOMINATE IN-STORE TRANSACTIONS, AND CASH PURCHASES TOP MOBILE WALLETS BY MORE THAN THREE TIMES.

Mobile wallet checkouts rebounded in Q2 2022 but remain below the pre-pandemic high.

Apple Pay has built a commanding lead over its direct competitors, but the entire mobile wallet space is still trading water. In Q2 2022, mobile wallets achieved their first year-over-year growth since we launched this study in 2019, accounting for 5.8% of in-store transactions versus 4.5% a year earlier. However, this remains below the pre-pandemic level of 6.1% set in 2019.

Debit cards led in Q2 2022, capturing 44% of physical check-outs, followed by credit cards (27%) and cash (19%), which made a modest comeback from the mid-pandemic low point.

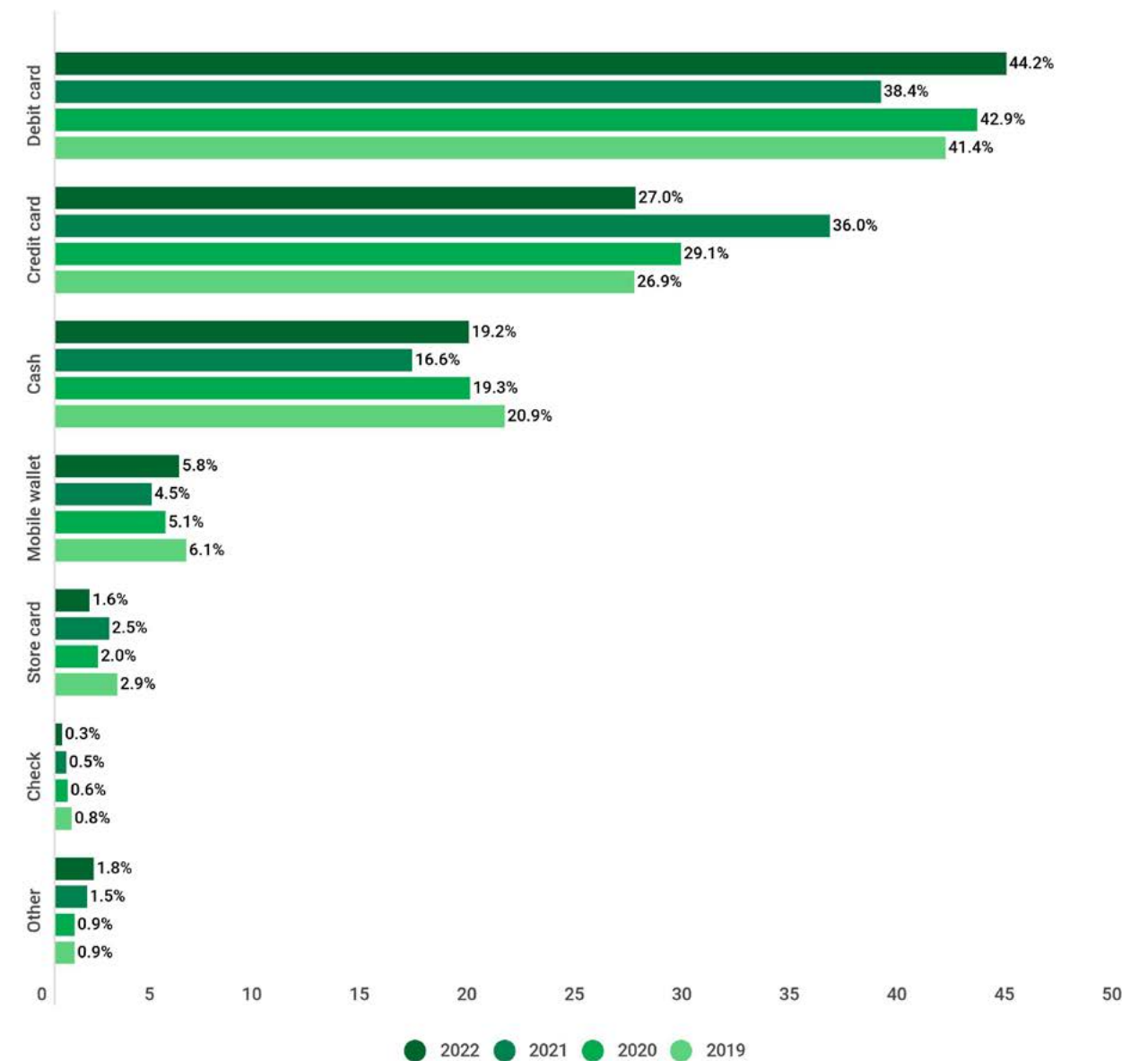
Despite their modest rebound in the share of in-store purchases, mobile wallets are ceding ground to other payment methods in average receipt value. In Q2 2022, purchases by mobile wallets averaged just over \$90, unchanged from 2021, while the average purchase value of all other payment methods we studied surged. Leading the pack in average transaction value growth were retail store cards, with receipt values up 25%, followed by credit cards (23%), cash (18%) and debit cards (16%).

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Figure 4:

Payment method used in last transaction

Payment method consumers used in the last purchase they made in the 24 hours prior to being surveyed



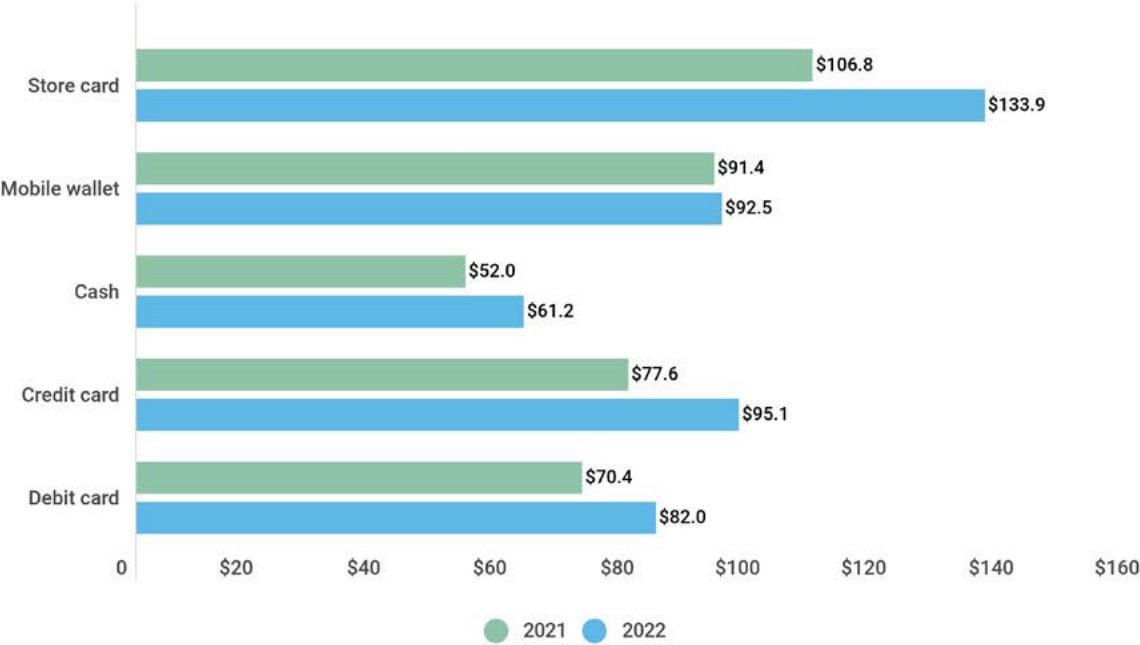
Source: PYMNTS.com

Mobile Wallet Adoption, July 2022

N = 2,573: Consumers who made any in-store purchases in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

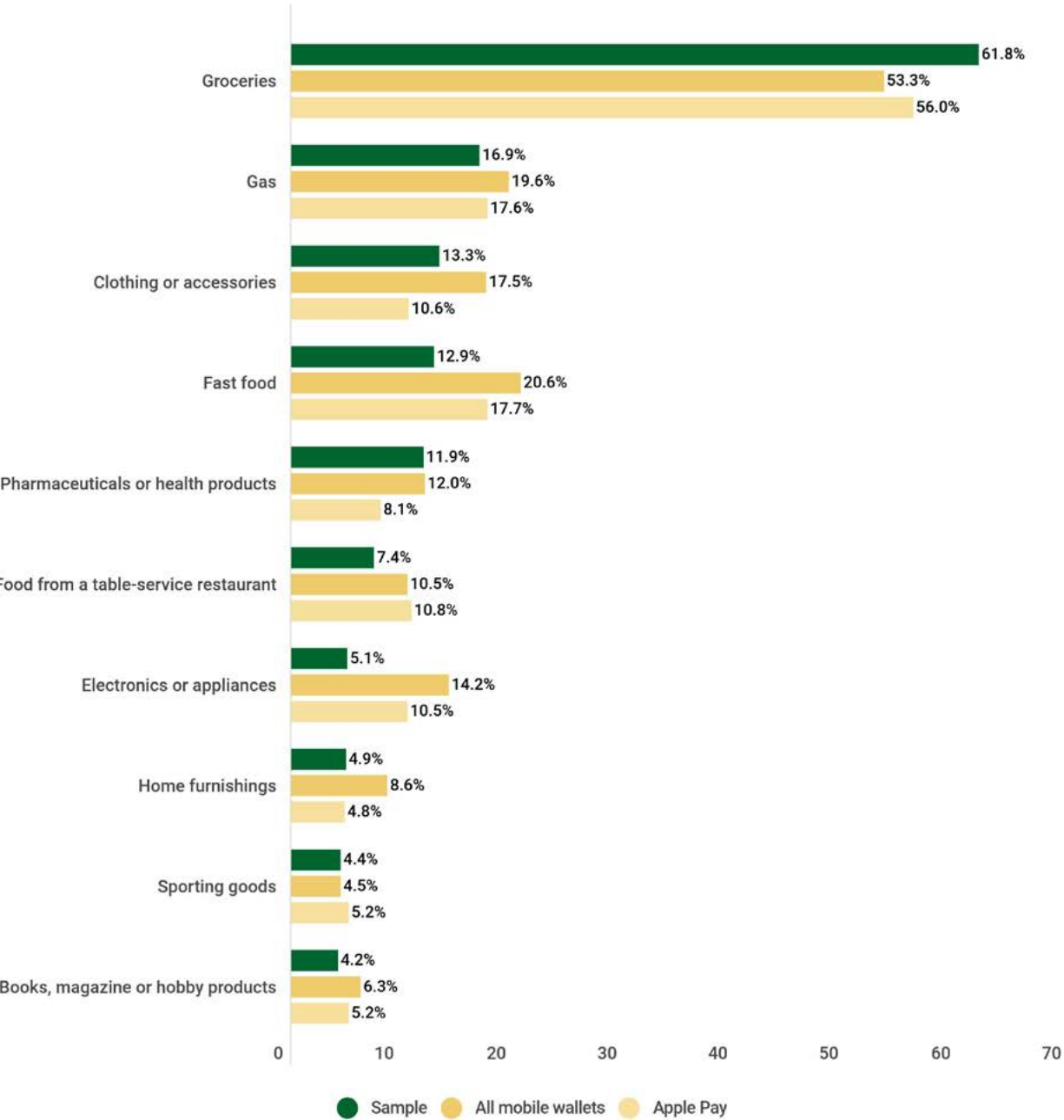
Consumers turned to mobile wallets primarily for everyday spend rather than larger, more extravagant purchases. Groceries seized the spotlight in Q2 2022, capturing 53% of all mobile wallet purchases and 56% of Apple Pay transactions, roughly in line with the 62% observed across all purchase methods. Fast food is also a favorite among mobile wallet users, accounting for 21% and 18% of all mobile wallet purchases and those by Apple Pay, respectively. Mobile wallets have not disrupted in-store payments – consumers use them as just another way to make routine purchases.

Figure 5:
Average purchase value
Average expenditure, by payment method



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 2,573: Consumers who made any in-store purchases in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

Figure 6:
Goods purchased in last transaction
Types of products purchased in most recent transactions



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 2,573: Consumers who made any in-store purchases in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

PART III

CONTACTLESS CARDS

ARE APPLE PAY'S TRUE COMPETITION —

and they are winning. Tap-to-pay has leapfrogged mobile wallets as the leading touch-free payment for in-store purchases.

A deeper dive into the data reveals that Google Pay and other mobile wallets are not the main threat to Apple Pay. The dominance of debit and credit cards in physical checkouts plus accelerating adoption of contactless card payments mean that mobile wallets have already missed their best chance to disrupt the market.

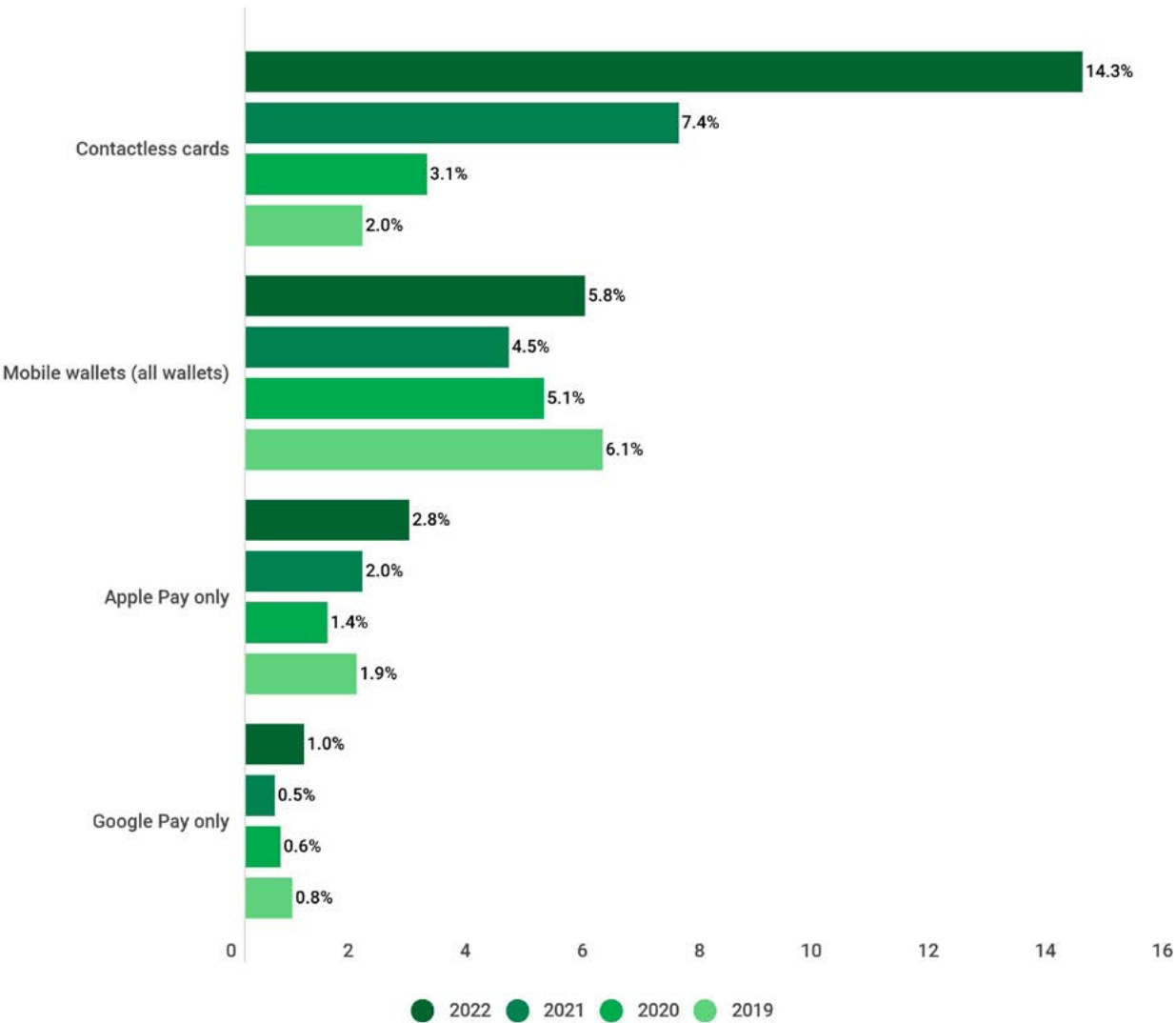
We parsed debit, credit and store card check-outs into contactless and traditional (swipe and chip) transactions and found that contactless card payments have rocketed past mobile wallets. In Q2 2022, contactless card payments accounted for 14% of in-store purchases, 2.5 times more than mobile wallets.

We expect contactless cards' rapid ascent to continue. Card issuers are still rolling out contactless cards to their customers, and many merchants still lack the technology to accept them. In our 2020 survey, contactless card transactions accounted for just 3.1% of overall in-store check-outs by card. This jumped to 7.4% in 2021 and to 14% in 2Q 2022.

Furthermore, many consumers who paid for their latest in-store transaction by card but opted to use swipe or chip technology indicated that contactless payment was not available. Thirty-four percent of these respondents said the merchant did not offer the option at the point of sale, and 23% reported that their cards did not support contactless payment.

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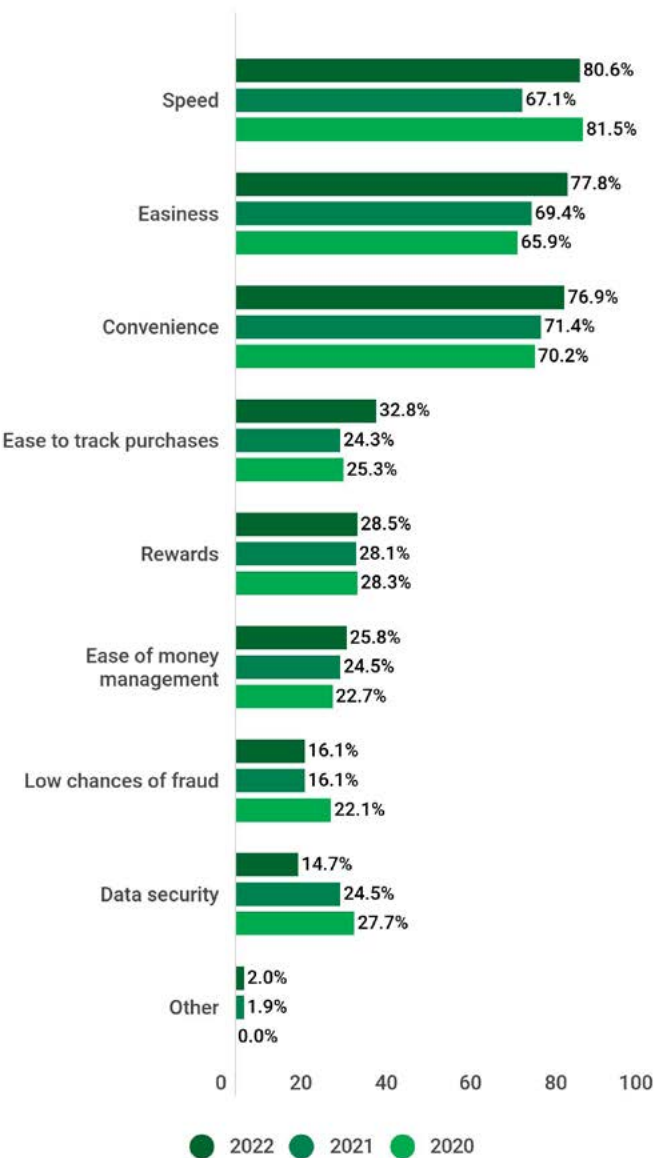
Figure 7:
Contactless cards versus mobile wallet payments
Share of contactless in-store transactions, by card (debit, credit and store card) and mobile wallet



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 2,573: Consumers who made any in-store purchases in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

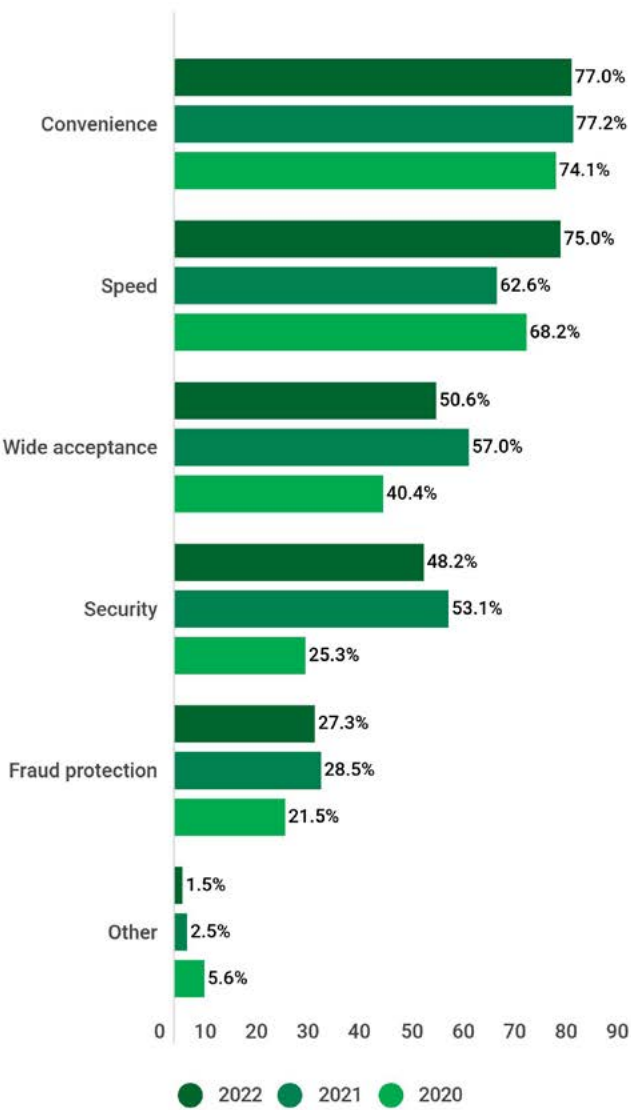
Figure 8:
Reasons users choose to pay with mobile wallets and contactless cards

8A: Reasons for paying with mobile wallets



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 129: Consumers who made any in-store purchases with a mobile wallet in the 24 hours prior to being surveyed, fielded June 16, 2022 –

8B: Reasons for paying with contactless cards



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 185: Consumers who made any in-store purchases using a contactless credit, debit or store card in the 24 hours prior to being surveyed, fielded

Consumers reach for contactless cards for essentially the same reasons as they do mobile wallets – and this makes the two payment methods direct competitors. In Q2 2022, 81% of mobile wallet users cited speed as a key reason for paying with this method, while 75% of contactless card users said the same. Similarly, 77% of both groups identify convenience as an important driver.

Notably, consumers appear to feel that contactless cards are more secure than mobile wallets. Just under half (48%) of contactless card users cite security as a leading reason for choosing this method, while only 31% of mobile wallet users identify either low chances of fraud (16%) or data security (15%) as important factors.

PART IV

EVEN AMONG DIGITAL-SAVVY YOUNGER CONSUMERS,
MOBILE WALLETS REMAIN A NICHE PAYMENT METHOD.

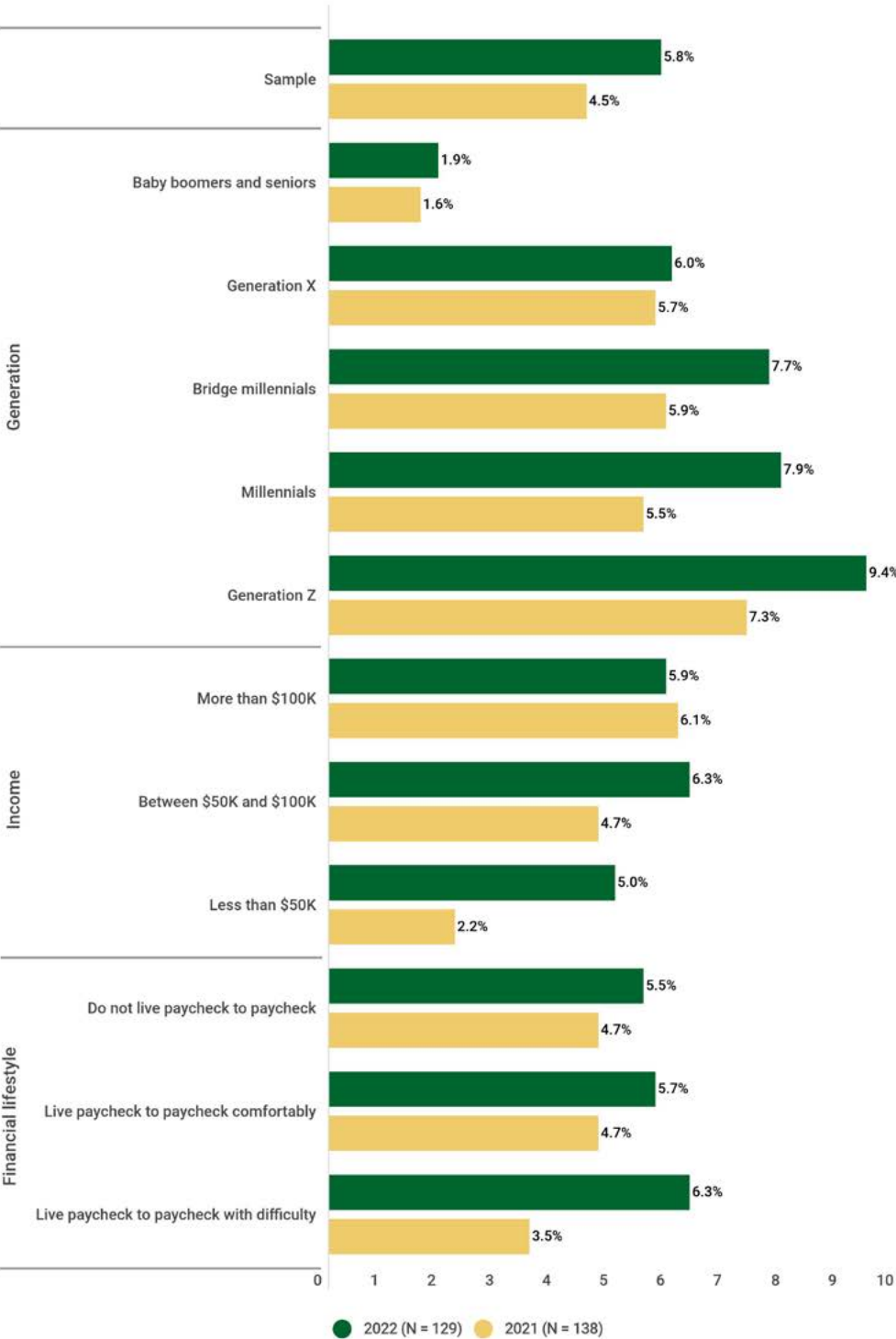
Adoption jumped significantly in Q2 2022, however, and Generation Z consumers made nearly one in 10 transactions using mobile wallets, followed by about 8% for millennials and bridge millennials.

Mobile wallets achieved significant gains in popularity among Generation Z and millennials in the last year, but overall adoption remains low even among these young, digital-first consumers. In Q2 2022, Generation Z consumers made 9.4% of their in-store purchases by mobile wallet — a 29% jump over 2021. Millennials paid this way 7.9% of the time, reflecting 44% growth versus 2021, with bridge millennials close behind at 7.7% of transactions and 31% growth. Generation X and boomers and seniors exhibited significantly lower penetration rates as well as slower growth in the last year, though mobile wallets still recorded gains among these older consumers.

Turning to income and financial lifestyles, we observed deepening adoption rates of mobile wallet usage across all segments except the highest income group (those earning \$100,000 or more per year), which stayed flat at 6%. Low-income consumers’ usage of mobile wallets for their most recent in-store purchases in the preceding 24 hours climbed 127%, greatly outpacing the other segments, including middle-income earners, whose usage grew 34%. Those living paycheck to paycheck who struggle to pay their bills increased their use of mobile wallets 80% over 2021, followed by consumers living paycheck to paycheck comfortably (21%) and users who do not live paycheck to paycheck (17%) — though all from single-digit bases.

MOBILEWALLETADOPTION

Figure 9:
Use of mobile wallets, by demographics
Consumers who used mobile wallets in the last purchase they made in the 24 hours prior to being surveyed

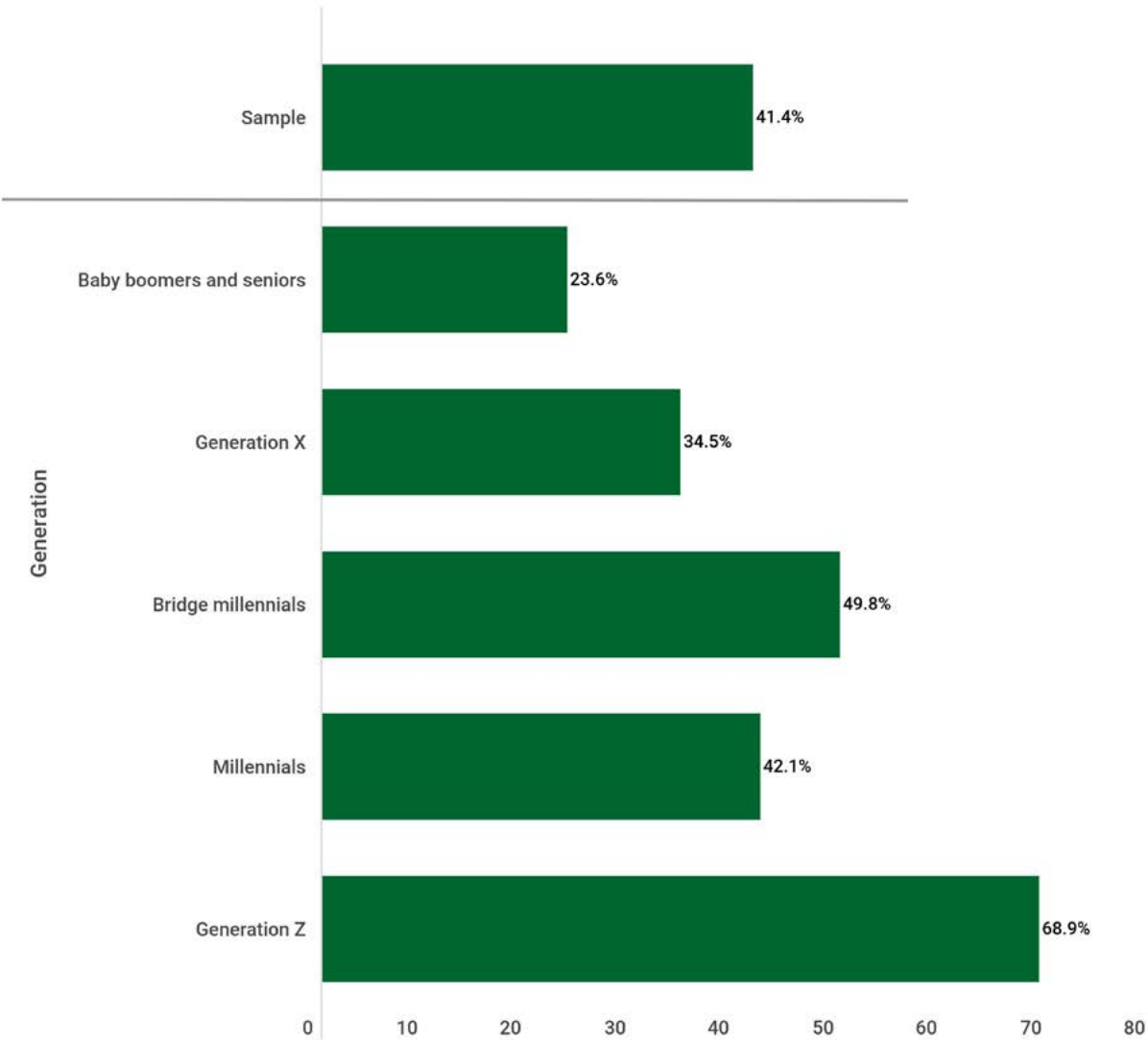


Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 2,573: Consumers who made any in-store purchases in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

While overall mobile wallet usage for in-store purchases remains limited, consumers who do use mobile wallets show a preference for merchants that accept them. Among consumers who checked out with a mobile wallet during the preceding 24 hours, 41% said that at least once in the last month they had chosen a specific merchant because they could use their preferred wallet to pay.

Sixty-nine percent of Generation Z consumers in this cohort said they chose a merchant for at least one in-store purchase in the last month because it accepted their preferred mobile wallet. Large shares of bridge millennials (50%) and millennials (42%) did the same. Even 24% of mobile wallet-wielding baby boomers and seniors said that mobile wallet acceptance drove their choice of merchant at least once in the last month.

Figure 10:
Consumer likelihood to switch merchants due to mobile wallet availability
Share of respondents who decided to make purchases at specific merchants because they accept select mobile wallets



Source: PYMNTS.com
Mobile Wallet Adoption, July 2022
N = 129: Consumers who made any in-store purchases with a mobile wallet in the 24 hours prior to being surveyed, fielded June 16, 2022 – June 22, 2022

CONCLUSION

In the last year, Apple Pay has further solidified its commanding lead as the mobile wallet of choice in the U.S. Still, very few of Apple’s famously loyal customers reach for their iPhones to pay for in-store purchases, and Apple Pay’s share of all physical in-store retail payments remains conspicuously low. The increase in Apple Pay transactions in the last year is largely explained by a rebound in overall mobile wallet check-outs, and to lesser extents, upticks in the shares of merchants that accept Apple Pay and iPhones new enough to run the wallet app.

Mobile wallets are still less popular for in-store transactions than they were before the arrival of the pandemic, however, meaning that Apple has primarily grabbed a larger piece of a stagnant pie. Debit and credit cards remain king, with contactless cards representing the real competitor for Apple Pay and other mobile wallets. Contactless cards offer the same basic appeal of convenient, touch-free payments, and they benefit from the deep incumbency of debit and credit cards. Even tech-savvy Generation Z and millennial consumers have shown limited aggregate interest in mobile wallets, although adoption is growing. Apple will need to rethink its wallet strategy to escape winning the mobile wallet battle only to lose the contactless war.

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