FUTURE OF POS

Mobile wallets find their home in the future of POS

For years mobile wallets have been a solution in search of a problem – until now. COVID-19 has reframed the retail point-of-sale (POS) and with it, how consumers want to pay, giving wallets a new relevance for safer in-store payments

By Michael Moeser

Original research from
AMERICAN BANKER

Introduction

Since their introduction, mobile wallets have held the promise of representing the future of in-store point-of-sale (POS) transactions. Yet, time and time again, they have consistently underdelivered due to a lack of a clear user value proposition and low merchant acceptance rates. However, in one fell swoop COVID-19 changed everything.

Wallet adoption has been jumpstarted as consumers are finding them to be a safer way to pay and merchants have quickly expanded acceptance to meet growing market demands for contactless options. As a result, wallets are experiencing a surge in usage, particularly among Gen Z and millennials, thereby, cementing their role in the future of POS.

Key Findings

- The consumer response to the pandemic has been dramatic – shopping less frequently in-store, more online and adopting a hybrid channel model. This has caused retailers to expand e-commerce sales, add curbside pickup and buy online/pickup in-store options, as well as to offer delivery services.
- Consumers have also changed how they pay in-stores and for hybrid channel purchases with 21% of consumers changing their primary payment method altogether in just over a year's time. Safety and convenience were top motivators behind this shift, forcing retailers to add card acceptance and to add contactless options where they did not exist.
- Mobile wallets, which already had a moderate level of adoption prior to the pandemic, received a strong boost in new users and increased usage among existing users for both general purpose (GP) wallets such as Apple Pay and retail wallets such as Starbucks.
- Half of consumers are now active GP mobile wallet users. The figure jumps to about two-thirds for Gen Z and millennials, as well as more than half for Gen X.
- There is a core set of mobile wallet payment "evangelists" who were hard core users before the pandemic and since COVID-19 this segment has expanded in size. Consumers are now more willing to attempt to use mobile wallets at retailers even though they may not be accepted. While safety and convenience have been key reasons for increased wallet usage, there are also consumers who want to "try out new payment trends" and are being incentivized by rewards and coupons for wallet usage.
- The expansion and adoption of new contactless payments, self-checkout and checkout-free technologies all serve to support the expansion of mobile wallets since they either leverage the same infrastructure, such as contactless cards, or are more reliant on mobile wallets, such as checkout-free tech where consumers "check-in" to a store using a wallet or scan items into a mobile wallet. Additionally, as checkout-free options expand they create an opportunity for mobile wallets to reimagine a consumer's shopping and payments experience, much like Uber did with taxi cabs and rideshare.

Why read this report?
The pandemic's onrush caught consumers and retailers ill-prepared to deal with the needed safety changes for in-store shopping, forcing both groups to set aside old payment habits and acceptance norms. The flood of contactless cards and the new-found utility in mobile wallets only added to the demand for change. The net effect is that any pre-pandemic logic on mobile wallets is no longer relevant and new wallet insights are needed to navigate the market.

About this report

American Banker, an Arizent publication, conducted this survey to explore changing consumer attitudes and expectations toward conducting in-store transactions at POS terminals, with a particular emphasis on adoption and usage of general purpose and retailer mobile wallets.

The survey was conducted online in the U.S. with 494 adults, ages 18-74 during May 10-25, 2021, and is reflective of the general population based on a number of demographic factors including age, race, gender, etc. The survey was inclusive of banked, underbanked and unbanked consumers, as well as being representative of all U.S. geographic regions.

COVID-19 has changed how consumers shop

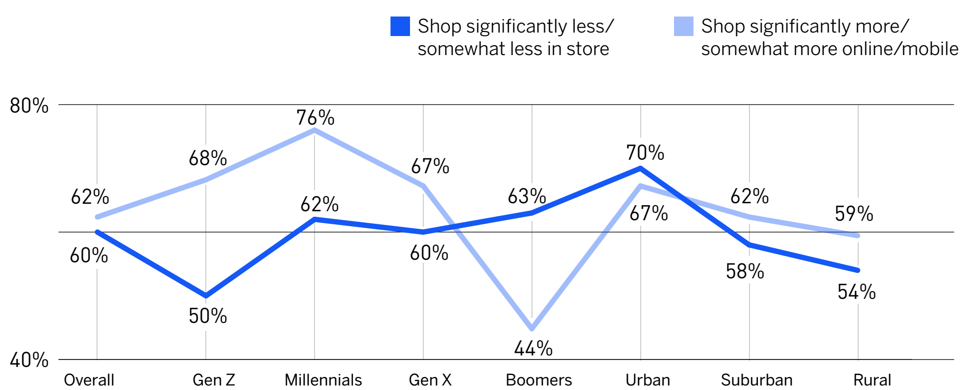
Consumers have responded to the pandemic by adjusting their shopping habits. Specifically, there's been a shift away from physical in-store purchasing and a greater adoption of digital shopping, both online and mobile. Further, given that in-store shopping trips are down, it is more likely that when consumers do shop in "brick and mortar stores" that trips are more likely planned than "spur of the moment."

There's also been a blurring of the division between the online and in-person channels with the rise of retailers allowing consumers to shop online while handling fulfillment with the customer traveling to the store for curbside pickup (where customer stays in the vehicle) and buy online/pickup in-store (where customer goes briefly into the store to pick up their purchase at a special counter). Additionally, some retailers have also adopted local delivery services to handle the fulfillment of an order, copying food delivery services such as DoorDash, or even using them directly such as Postmates.

Overall, 60% of survey respondents reported shopping significantly less or somewhat less in-store since the COVID-19 pandemic began. This level was consistent across millennial, Gen X and boomer generations with Gen Z coming in at a slightly lower level at 50%. Given that COVID-19's impact was particularly acute in major cities and urban centers it should come as no surprise that urban respondents reported the highest level in reduction of in-store shopping at 70%. This was a statistically significant finding when compared to suburban (58%) and rural (54%) respondents.

Shopper attitude toward retailers that don't offer buy online/pickup in-store, curbside pickup or home delivery services: ***"I think they lose a lot of business by not offering these options,"*** Suburban, Gen X Female

Consumers are shifting from shopping in-stores to online



Q: Since COVID-19, how often do you shop in-stores? Since COVID-19, how has your online/mobile (including apps) shopping changed?

Source: American Banker Future of POS Survey May 2021

In direct contrast to the reduction of shopping in-stores, consumers readily increased their online purchases from the relative convenience and safety of their phones, tablets and laptops. About 62% of respondents reported shopping significantly or somewhat more online as a result of the pandemic. The biggest statistical difference existed among younger generations with Gen Z at 68%, millennials at 76% and Gen X at 67% in comparison to boomers at 44%.

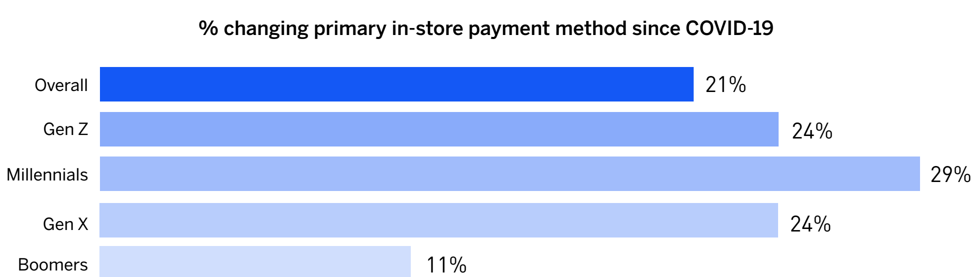
There were two major impacts as a result of the change to consumer shopping habits: 1) the broadening of e-commerce selling adoption and 2) the expansion of digital payments acceptance. Retailers that had eschewed online selling in the past, such as restaurants who catered only to dine-in customers, were thrust into adopting online selling as a means to surviving the economic fallout of the pandemic's lockdown restrictions. Additionally, retailers that had not accepted cards or mobile wallets in the past were pushed into accepting digital payments as consumers and retail workers became increasingly reluctant to handle cash.

There was a seismic shift in consumers' primary payment preferences

Traditionally, consumer changes in payment preferences at POS are gradual as new habits take time to form and old ones need to fade into memory, but the shift caused by the pandemic was seismic in nature – in the span of just over one year, from when the national emergency was declared in mid-March to this survey being conducted in mid-May, 21% of consumers changed their primary method of payment for in-store purchases.

The Federal Reserve of San Francisco's 2019 Annual Consumer Payment Diary illustrates how gradually consumers change their payment habits in normal times by how usage of cash has fallen and debit has risen. In 2018, cash held a 26% share of consumer purchases by volume, down from a 31% share in 2016 and debit's share grew to 28%, up from 27% over the same period of time. In other words, it can take years to move just a few percentage points in payment habits during a "non-pandemic" time.

The shift in how consumers pay in-stores since COVID has been seismic



Q: Since COVID-19, have you changed your primary form of payment for in-store point-of-sale purchases?
Source: American Banker Future of POS Survey May 2021

In more closely examining the 21% of consumers who changed their primary payment method it appears that younger and middle-aged generations were more affected than older consumers. Only 11% of boomers changed their primary in-store payment method as a result of the pandemic, which during a normal period time would be significant. However, the change pales in comparison to the 29% of millennials and 24% of Gen Z and Gen X consumers who changed their primary in-store payment method.

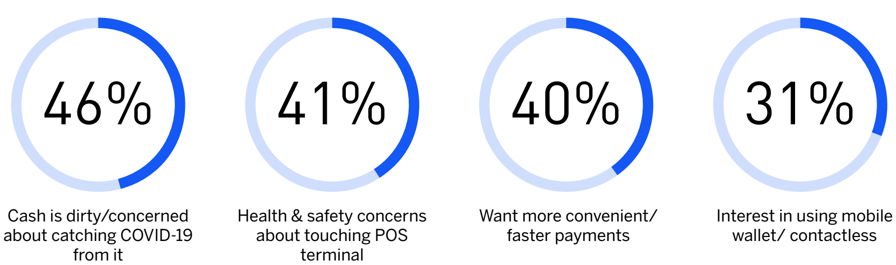
The biggest motivator to changing a preferred payment method was the flight to safety. During a time of uncertainty in the pandemic, fear of catching the virus loomed greatly in consumers' minds and influenced their decisions on how to pay for purchases.

The top two reasons for changing preferred payment methods at POS were safety related. About 46% of survey respondents reported that their fear of cash being dirty and catching COVID-19 from it prompted them to change their primary payment method. Additionally, 41% were concerned about the health and safety of touching a POS terminal. The point about a POS terminal being a potential vector for spreading the virus was the recognition that it is a "high touch" surface, handled by many consumers, similar to door handles, yet they are almost never cleaned.

A secondary motivator to consumers changing their preferred in-store payment method was the allure of mobile wallets and contactless cards and their enhanced performance characteristics. Approximately 40% of consumers who switched payment methods reported that they wanted a more convenient and faster way to pay in-stores. Almost one third (31%) expressed interest in trying a contactless card or mobile wallet.

Safety was a top motivator to change in-store payment methods

% citing reasons for changing primary in-store payment method



Q: What were the main reasons why you changed your primary form of payment for in-store point of sale purchases?
Source: American Banker Future of POS Survey May 2021

Retailers wanting exact change and never seeming to have it was cited by 14% of all shoppers as a reason to change how they pay in-stores, yet among boomers that reason rose to 25%.

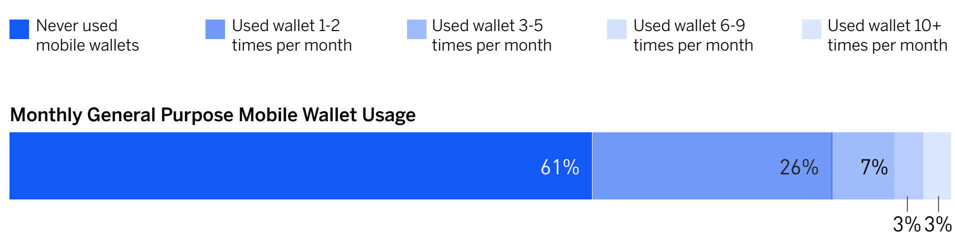
While mobile wallets and contactless cards had been available to the general public prior to the pandemic, the growing search for new payment alternatives, particularly for those unwilling to touch a POS terminal or handle cash, cast contactless options into the spotlight. The rapid expansion in contactless merchant acceptance, mobile wallet provider promotions and an increase in contactless card issuance all made the contactless alternatives rise up in the consideration set of new payment options for consumers.

The stage was set for rapid mobile wallet growth before the pandemic occurred

Unlike contactless cards which were relatively new to the market, general purpose (GP) mobile wallets, such as Apple Pay, had been in market for a number of years before the pandemic and were slowly gaining traction among users as well as major retailers who accepted them including CVS, Walgreens, Target, Kohl's, Albertson's, Whole Foods, Trader Joe's and Dick's Sporting Goods. Additionally, certain retailer wallets, such as Starbucks, had developed a cult-like following of users leading up to the pandemic. This meant that the stage for an increase in mobile wallet adoption, usage and merchant acceptance were primed for take-off as the pandemic unfolded.

About 39% of consumers were actively using a general purpose (GP) mobile wallet, such as Apple Pay, Google Pay and PayPal QR, at least once or twice per month before the pandemic struck, meaning that wallets were not as much of a niche payment product as some media may have portrayed them to be. Among the different generations, mobile wallet usage, as could be expected, skewed more toward younger people, but it was still broad enough to include boomers: about half of Gen Z (56%) and millennials (48%) were regular monthly wallet users as well as over one third of Gen X (36%) and one quarter (25%) of boomers. This broadscale adoption is reflective of the fact that technology was not necessarily a major barrier to usage by older generations.

Almost 40% of consumers used mobile wallets before the pandemic

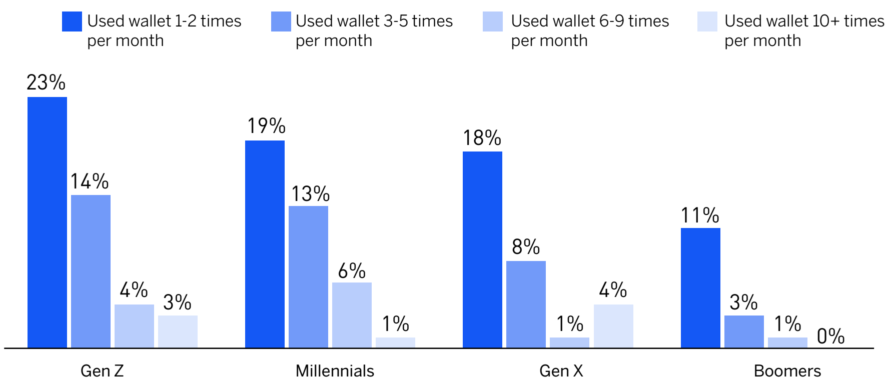


Q: Before COVID-19 how often did you use a mobile wallet/pay by phone (e.g., Apple Pay, Google Pay, PayPal QR code, etc.) for in-store purchases?
Source: American Banker Future of POS Survey May 2021

Retailer-specific wallets, such as Starbucks and Walmart, also had surprisingly high adoption rates pre-pandemic, albeit not as strong as GP mobile wallets given their more limited usability. Overall, 30% of users reported to be active monthly users of retailer mobile wallets or about three quarters the rate of GP mobile wallets.

One major difference between the GP mobile wallets and retailer wallets was their adoption levels across generations. While GP wallets had broad adoption even with boomers, retail wallets did not, possibly due to their limited useability and lower likelihood that boomers would frequent specific merchants such as Starbucks, Dunkin' Donuts, Walmart, etc. Monthly active user rates before the pandemic for retail wallets peaked with Gen Z at almost 45%, Then steadily declined with millennials at 39%, Gen X at 31% and boomers at 15%.

Younger consumers were heavy retail wallet users before COVID-19

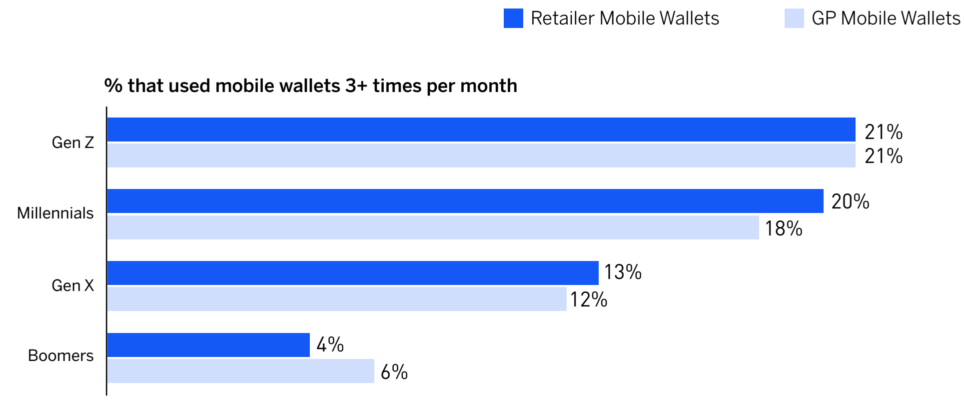


Q: Before COVID-19 how often did you use a retailer-specific wallet/pay by phone (e.g., Walmart Pay, Starbucks app, etc.) for in-store purchases?
Source: American Banker Future of POS Survey May 2021

There also appeared to be a core set of mobile wallet "evangelists" or promoters before the pandemic. These are consumers who try to use a new payment product at merchants who may not necessarily accept it or be fully prepared to accept it and therefore end up training cashiers and front room staff in adoption of a new payment type. Evangelists can be best identified by three or more uses of a GP or retail mobile wallet per month.

Gen Z and millennials best fit the description of being evangelists with roughly 20% of both generations actively using GP and retail wallets three to five or more times per month. While older generations were not as strong in their wallet evangelism, there were still pockets of Gen X and boomers who were actively promoting their usage and "see me-be like me" influencer adoption tactics. This means they were actively asking cashiers at POS if the store accepted wallets, testing out if they did work, etc.

Mobile wallet evangelists existed before the pandemic



Q: Before COVID-19 how often did you use a mobile wallet/pay by phone (e.g., Apple Pay, Google Pay, PayPal QR code, etc.) for in-store purchases? Before COVID-19 how often did you use a retailer-specific wallet/pay by phone (e.g., Walmart Pay, Starbucks app, etc.) for in-store purchases?

Source: American Banker Future of POS Survey May 2021

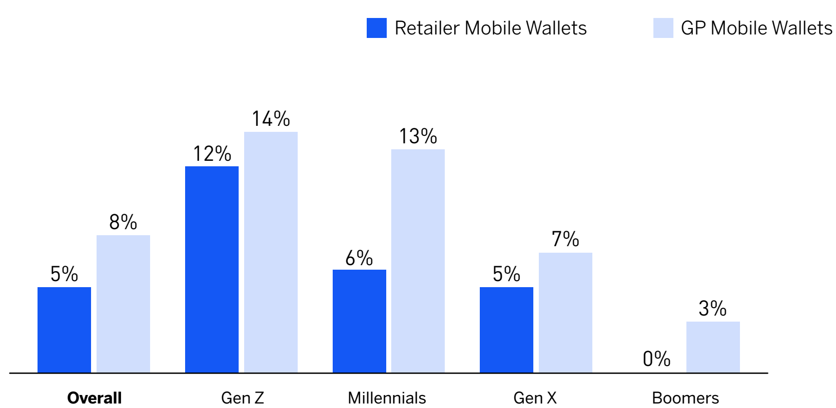
Gen Z and millennials are heavy users of prepaid cards (reloadable and single use) at 24% and 20%, respectively, compared to only 12% of Gen X and 8% of boomers.

The pandemic leads to an increase in mobile wallet adoption and usage at POS

Mobile wallets experienced a well-spring of first-time adoption and usage during the pandemic across both general purpose (GP) and retailer-specific wallets at 8% and 5%, respectively.

The overall first-time adoption figures were greatest among the two youngest generations and then declined among the older two generations. For GP mobile wallets, 14% of Gen Z, 13% of millennials and 7% of Gen X reported first-time use compared to 3% of boomers. For retailer wallets, Gen Z saw the biggest increase with 12% reporting as first-time users followed by millennials at 6% and Gen X at 5% with boomers showing no increase in adoption.

One-in-seven Gen Z and millennials have started using mobile wallets since COVID-19

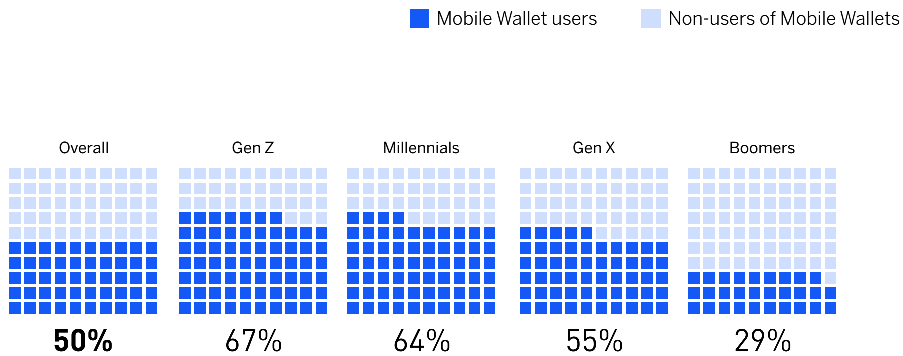


Q: Since COVID-19, how was your usage of mobile wallets (e.g., Apple Pay, Google Pay, PayPal QR code, etc.) changed? Since COVID-19, how was your usage of retailer mobile wallets (e.g., Walmart Pay, Starbucks app, etc.) changed?

Source: American Banker Future of POS Survey May 2021

The increase in wallet adoption translates into two significant milestones: 1) Overall, mobile wallet users have reached 50/50 parity with non-users and 2) A majority of consumers under the age of 54 are now active users of GP mobile wallets with Gen Z at 67%, millennials at 64% and Gen X at 55% . Around half are also active users or retailer wallets with Gen Z at 62%, millennials at 55% and Gen X at 44%.

Half of consumers are now mobile wallet users



Q: Since COVID-19, how has your usage of mobile wallets (e.g., Apple Pay, Google Pay, Samsung Pay, PayPal QR code) changed?

Source: American Banker Future of POS Survey May 2021

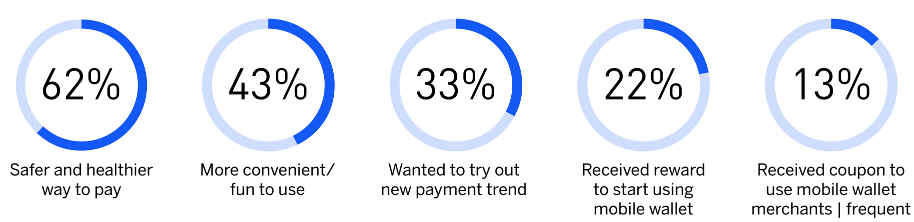
About 15% of Gen X, 14% of Gen Z and 9% of millennials reported that their decision to adopt mobile wallets was because a family member or friends convinced them to start using a mobile wallet.

Safety and convenience were the top two motivators getting non-users to start using wallets with 62% of new users reporting that wallets are a safer and healthier way to pay and 43% reporting that wallets are more convenient and fun to use.

However, getting new mobile wallet users is not just about safety and convenience as 33% wanted to simply "try out this new payment trend." Also, incentives played a role in driving first-time usage – 22% noted that they received a reward for using a mobile wallet for the first-time and 13% stated that they received a coupon or discount at some of the merchants they frequent to use their mobile wallet.

Saftey and convenience were key drivers for increased wallet usage and adoption

Top reasons consumers started using or increased usage of mobile wallets



Q: Why did you start using or increase your usage of mobile wallets since COVID-19?

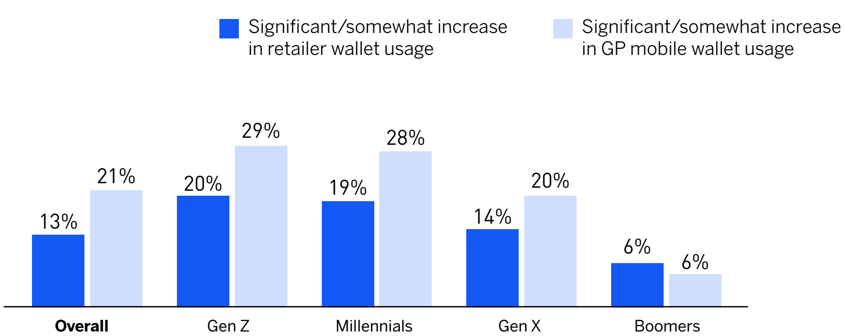
Source: American Banker Future of POS Survey May 2021

Overall 21% of consumers reported using their GP mobile wallets significantly or somewhat more since the pandemic started and 13% of consumers reported a similar behavior of increased usage of retailer wallets. While younger generations reported higher levels of increased usage it should be noted that all generations reported an increase in usage across both GP and retail wallets.

The increase in usage of GP wallets was at a much higher level for Gen Z at 29% and millennials at 28% when compared to Gen X at 20% and boomers at 8%. When distilling the data down to a significant increase in usage, the differences were statistically significant for Gen Z and millennials, both at 14%, compared to Gen X at 4% and boomers at 1%. In other words, while all groups had an increase in usage, the youngest two generations had the greatest proportion of users who significantly increased their mobile wallet usage.

Retailer-specific wallets also experienced a growth in consumer usage, although not as strongly as GP wallets that could be used across multiple retailers. The heaviest increase in retailer wallets was led by Gen Z at 20% and millennials at 19%, followed by Gen X at 14% which was just above the overall average of 13%. Boomers, in contrast, lagged significantly behind in their increase in usage of retail wallets with only 6% reporting greater usage since COVID-19.

Mobile wallet usage is up across the board since COVID-19



Q: Since COVID-19, how has your usage of mobile wallets (e.g., Apple Pay, Google Pay, Samsung Pay, Paypal QR code) changed? Since COVID-19, how has your usage of retailer mobile wallets (e.g., Walmart Pay, Starbucks app, etc.) changed?
Source: American Banker Future of POS Survey May 2021

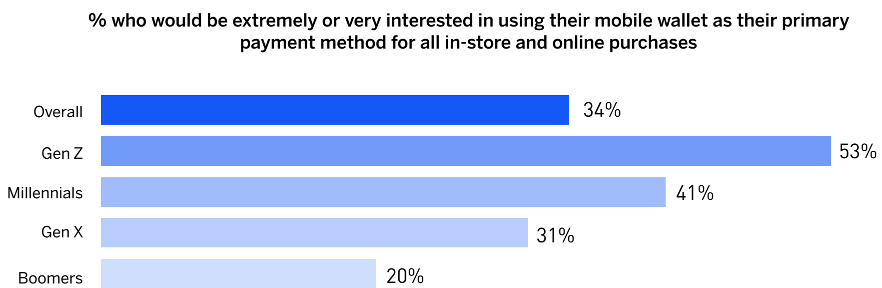
The role of mobile wallets in the future of POS

There is significant interest in using mobile wallets as a primary payment method for not only in-store POS transactions, but also for online purchases as well. Approximately 34% of all respondents reported that they would be extremely or very interested in using mobile wallets for all purchases conducted both in-store and online. Another 30% stated that they would be somewhat interested in using a mobile wallet for all transactions, putting the total interest level in using mobile wallets for all in-store and online purchases at almost two thirds (64%) of consumers.

Among the generations, Gen Z stood out as having a majority (53%) expressing an extremely interested or very interested sentiment to adopting a mobile wallet as their primary payment method for all in-store and online transactions. This was a statistically significant finding when compared to Gen X at 31% and boomers at 20%. Additionally, 28% of Gen Z respondents reported that they would be somewhat interested in using a mobile wallet as a primary payment method, bringing the total Gen Z wallet interest level up to 81%.

About half (48%) of urban respondents expressed interest in becoming 'mobile wallet payment-first' compared to 32% of suburban and 23% of rural adults.

There is a significant group of consumers who would like to be mobile wallet payment-first



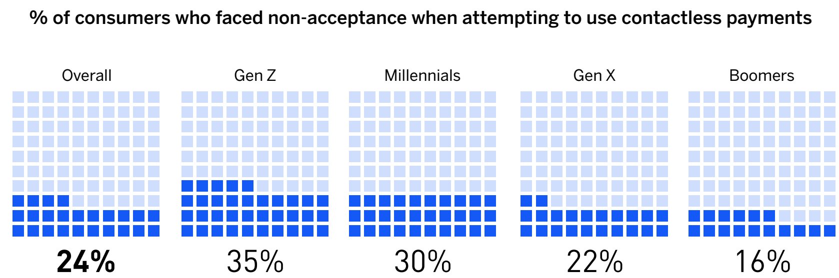
Q: If you could use your phone (mobile wallet) to pay for all your purchases in-stores or online, how willing would you be to use it as your primary payment method?
Source: American Banker Future of POS Survey May 2021

One litmus test of the dedication consumers have to a particular payment form is their willingness to attempt to use it at merchants and be rejected for non-acceptance. The higher the level of willingness to try and fail can be inferred as to being more dedicated, even to the point of being a payments evangelist.

Overall, 24% of consumers reported that they had visited a retail store since COVID-19 with the intention to complete a purchase with a mobile wallet or contactless card only to find out that the store didn't accept contactless payments at the register. The highest level of failed attempts was among Gen Z at 35% and millennials at 30%, followed by Gen X at 22% and boomers at 16%.

Generally, bad payment experiences can translate into negative feelings toward a retailer and a decrease in the willingness to return to shop at the store in the future. For Gen Z, this experience rang true. About 58% of Gen Z respondents who attempted to use a mobile wallet and were turned down because the retailer didn't accept contactless payments reported that they would be less interested in shopping at the retailer.

A quarter of consumers experienced non-acceptance in their contactless payment attempts



Q: Have you ever visited a store with the desire to use a contactless card or mobile wallet to complete your purchase only to find out the store doesn't accept contactless payments?

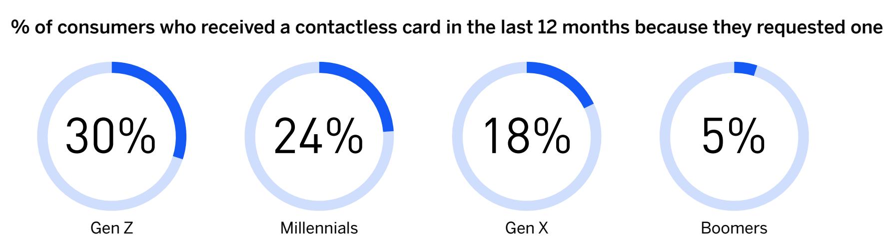
Source: American Banker Future of POS Survey May 2021

In contrast, the failed payments experience did not carry through to other generations that were turned down because the retailer didn't accept contactless payments. Only 25% of millennials, 22% of Gen X and 14% of boomers reported that they would be less interested in shopping at the retailer as a result of the bad experience. However, a possible explanation could be that older generations may have been more tolerant of such mishaps given that the retail landscape has been adjusting to the impact of the pandemic. If this is truly the case, the window of forgiveness may be brief for older generations wanting to use contactless payments and being rejected before they decide to shop elsewhere.

Contactless card adoption and usage will shape the future of POS in favor of mobile wallets

There is strong interest in owning and using contactless cards at POS. Among the users who had received a new contactless card in the last 12 months that replaced an existing non-contactless card, 30% of Gen Z and 24% of millennials reported that they had contacted the card issuer directly and specifically requested a contactless card to replace their non-contactless one in their wallet.

Gen Z and millenials were proactive in getting their cards upgraded to contactless



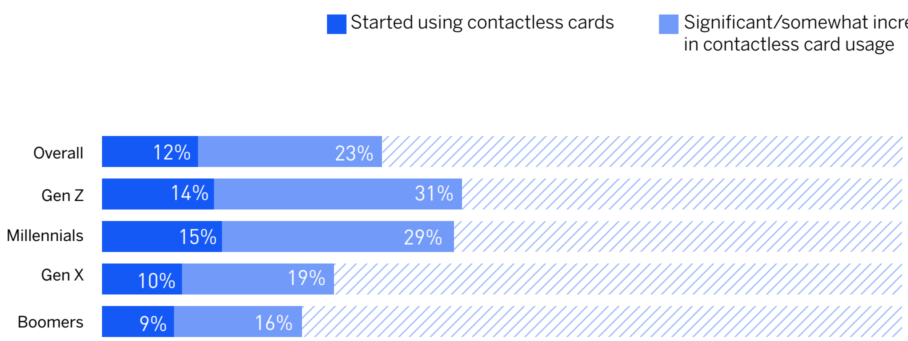
Q: Did one or more of these contactless cards replace an existing card you already had that was not contactless in the last 12 months? Why was the card(s) replaced?

Source: American Banker Future of POS Survey May 2021

Since COVID-19 began, approximately 12% of consumers reported to have started using contactless cards for in-store purchases and 23% reported that they are using them more often – in other words, 35% of consumers have adopted or have increased their usage of contactless cards since the pandemic. This payment usage is sending a clear signal to merchants that they need to accept contactless payments in-store to meet consumer demand and acts as a benefit to mobile wallet users wanting to use them in-stores.

Almost half of Gen Z and millennials demonstrated combined contactless cards adoption and increased contactless card usage since COVID-19 at 45% and 44%, respectively. This can be further broken down as 14% in adoption for Gen Z and 15% for millennials with increased usage at 31% for Gen Z and 29% for millennials. Even older generations demonstrated strong adoption and increased usage of contactless cards with Gen X at a combined 29% level (10% adoption and 19% increased usage) and boomers at a combined 25% level (9% adoption and 16% increased usage).

Contactless card adoption and usage is up since COVID-19



Q: Since COVID-19, how has your usage of contactless cards changed?
Source: American Banker Future of POS Survey May 2021

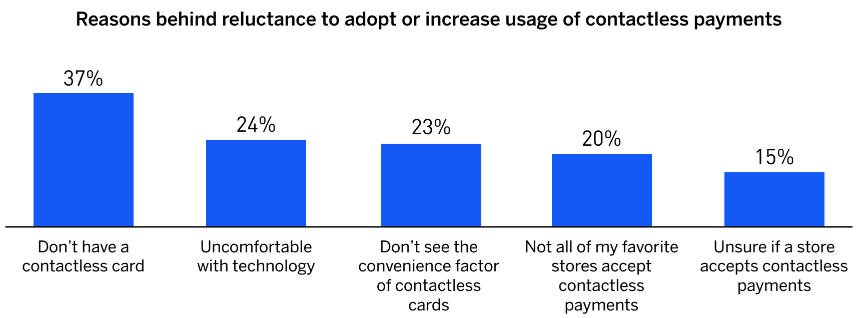
The biggest barrier to overcome the reluctance to use contactless cards has more to do with ownership than it does with fear of failure in use attempts. The top reason keeping consumers from adopting or using contactless cards more at POS is the lack of ownership of a contactless card which was cited by 37% of adults overall and 53% of Gen Z and 39% of millennials.

The next two barriers are more educational in nature and almost evenly tied for second place – being uncomfortable with the technology or that it will work every time came in at 24% and not seeing the convenience factor of contactless cards came in at 23%. As contactless payment acceptance continues to expand, as well as contactless card issuance, it is likely that fear of the technology not working will lessen. Similarly, broader adoption for use cases such as transit and ticketing as consumers return to mass transit and sporting/entertainment venues will increase the convenience factor of contactless cards, as well as mobile wallets.

About 16% of urban adults started using contactless cards and 29% used them more often since COVID-19 compared to just 6% of rural adults started using them and 19% used them more often.

The last two barriers were more infrastructural in nature as 20% of consumers reported that not all their favorite stores accept contactless payments being a barrier to their increased contactless payment adoption. A further 15% of consumers expressed being unsure if a retailer accepted contactless payments, something easily resolved with simple signage.

Lack of contactless card ownership is the biggest barrier to greater adoption



Q: What are the main reasons why you have been reluctant to adopt of increase usage of contactless cards for in-store purchase?
Source: American Banker Future of POS Survey May 2021

Self-checkout adoption and checkout-free technology will spur mobile wallet usage

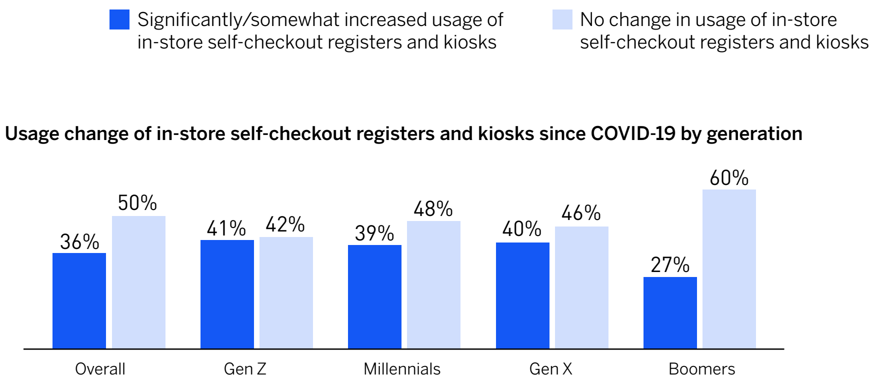
The pandemic spurred a strong consumer interest for increasing the usage of self-checkout registers and kiosks as well as maintaining a strong grip on existing users to not return to manned registers.

Since COVID-19, about 36% of consumers reported using in-store self-checkout registers and kiosks more often. Increased usage was almost even across the three youngest generations with Gen Z consumers leading the way at 41%, followed by millennials at 39% and Gen X at 40%. Only boomers were below the average, but still registered a 27% increase in usage.

There was no appreciable decline in self-checkout usage as 50% of consumers reported no change in their usage of in-store kiosks. Notably 60% of boomers had no change, reflecting the fact that the pandemic did not make these users revert to human-operated registers.

Overall, there is strong interest in using checkout-free technologies that allow a consumer to skip the checkout register and use their mobile wallet to "check-in" to a store and pay for their purchases.

Consumers are showing strong demand for self-checkout



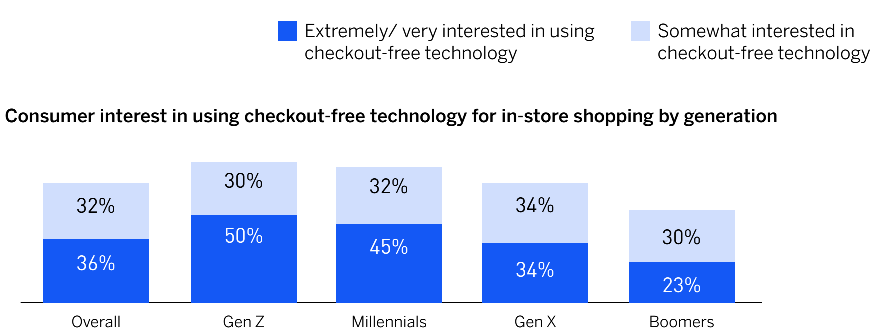
Q: Since COVID-19 how has your usage of in-store self-checkout registers and kiosks changed?

Source: American Banker Future of POS Survey May 2021

Two thirds (68%) of adults expressed interest in using an in-store checkout technology where the items placed in a basket or shopping cart are automatically scanned by the cart, such as a Smart Cart, or a store camera, such as Amazon Go and a running total is kept until the consumer leaves the store with goods, and without having to visit a register. This checkout-free technology is reliant on a consumer using a mobile wallet to "check-in" to the store and pay.

This high interest level bodes well for a technology that has not yet achieved a nationwide rollout and is largely still in a "test and learn" phase. A majority (80%) of Gen Z respondents and 77% of millennials expressed interest in checkout-free technology. In examining the top two box interest levels (extremely and very interested) Gen Z scored a 50% and millennials scored a 45%. Even boomers were interested in checkout-free technology with half (53%) having reported an interest in using the tech, although only 23% were extremely or very interested.

There is a strong interest using checkout-free technology



Q: How interested would you be in using an in-store checkout technology where the items you place in a basket or shopping cart are automatically scanned by the cart, such as a Smart Cart, or a store camera, such as Amazon Go, and added to a running total?

Source: American Banker Future of POS Survey May 2021

Not all new POS technologies are of interest to consumers as 58% said they were not very interested or not at all interested in using facial recognition, iris scan or other contactless biometric payment for point-of-sale purchases in stores.

Conclusions

- The pace of change at retail POS as the pandemic unfolded has been unprecedented since the advent of credit cards in the 1950s. Retailers have tossed out entire playbooks in an effort to survive by adding e-commerce channels, morphing physical and digital shopping, adopting card acceptance and rolling out contactless options. Consumers have also drastically changed how they pay. In the past, change in payment habits proceeded at a glacial pace of one or two percentage points each year. In the COVID environment fully one fifth of consumers switched their preferred payment method. The net effect for retailers, merchant acquiring banks, card issuers and fintechs is that the pace of change no longer allows for long product development, piloting and rollout cycles. If a merchant wants to add a new technology or capability such as e-commerce or mobile wallet couponing, the opportunity is fleeting as the cost of waiting could mean the survival of the business. The same could be said for consumers wanting to choose a safer and more convenient way to pay in-stores.

- Mobile wallets have been thrust into the spotlight as the future of POS and are the new battleground for banks, wallet providers and merchants. They already had good adoption levels before COVID and are now actively used by half of consumers, with two thirds usage among Gen Z and millennials. The old adage about mobile wallets being "a solution in search of a problem" has been completely smashed by COVID-19 as they offer the safety and convenience consumers want in a physical retail transaction. "Fun to use," rewards and couponing are new value propositions now being associated with mobile wallets, giving them momentum beyond the pandemic. The impact is that the top of wallet position no longer translates into a physical wallet or purse, but the top of an Apple Pay or Google Pay wallet, as well as the choice between a PayPal wallet vs. Google or Apple wallet. Credit unions and banks that don't have their cards mobile wallet-enabled will miss out as payment preferences become more established. Acquirers need to work with merchants to help integrate rewards and coupons for general purpose wallets to drive consumer loyalty. The last nail in the coffin for physical coupons has been hammered in by COVID-19 as consumers want contactless, digital alternatives.

- While retail wallets have benefited from the expanded adoption and increased usage of mobile wallets in general, their limitation to being used at a physical footprint of stores will keep them from expanding their usage. As delivery services such as DoorDash, Uber Eats, Postmates and Instacart have grown in response to consumer demand, retail wallets need to follow the shoppers by integrating their wallets with these services. This follows a similar path to how Apple Pay has become a more common payment option for online websites, retail wallets should follow suit when third party delivery services are used for their goods. These payment options can be offered as simple payment APIs offered to delivery service vendors.

- The growing consumer migration to self-service checkout and checkout-free technologies at retail POS presents a massive opportunity for the mobile wallet ecosystem including banks, credit unions, acquirers, wallet providers, technology enablers, fintechs and loyalty program vendors, among others. Not only do consumers want to avoid cashiers, they also want to avoid the checkout register altogether which will make them more dependent on mobile wallets. The ability to instantly create a shopping list with coupons and product alternatives to trial for a customer when he or she “checks-in” at a store with a mobile wallet will provide merchants, banks and others the chance to influence and steer the consumer shopping experience. It can also steer a consumer to change merchants based on the experience being offered which may include savings, rewards and better product choices.

About Arizent Research

Arizent delivers actionable insights through full-service research solutions that taps into its first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. Arizent has leading brands in financial services including American Banker, The Bond Buyer, Financial Planning, National Mortgage News, and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance. For more information, please visit www.arizent.com

Interested in learning more about how to put Arizent's full-service research capabilities to work for your company? Please contact: Janet King, Vice President Research, janet.king@arizent.com, 207-807-4806.