

A Forrester Consulting  
Thought Leadership Study  
Commissioned By JPMorgan Chase  
September 2017

# The Next Phase Of Digital Wallet Adoption

What It Takes To Convert Skeptics, Engage  
Early Adopters, And Prepare Merchants

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**Project Director:**

Pippa Jollie,  
Principal Market Impact  
Consultant

**Contributing Research:**

Forrester's eBusiness & Channel  
Strategy research group

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Digital wallets are key to your future success.



Your competitors are gearing up to accept digital wallets.



Digital wallets must meet the expectations of consumers.

## Executive Summary

Consumer and merchant digital wallet adoption is taking a short break in preparation for the next wave of progress. During this break, the digital wallet landscape is preparing for adoption on two fronts:

- › **Consumers, in varying stages, are exploring digital wallets.** Moving all consumers to active use of digital wallets will be an evolutionary process of satisfying the demand for features and experiences in addition to transacting safe, flawless payments. Some consumers (Power Users) are further ahead than others; the key will be to help Light Users and Non-Users find their way.
- › **Merchants are busy getting ready for digital wallets.** They are making technology and infrastructure investments in preparation for emerging digital payments opportunities and exploring features to improve the customer experience.

JPMorgan Chase commissioned Forrester Consulting to continue work on a multiyear project that seeks to better understand the emerging role of digital payments and provision merchants with the knowledge and perspective to take advantage of the new payments landscape. Conducted in the summer of 2017, the study consisted of a quantitative survey of 1,500 US consumers ages 18-plus who go online at least weekly, as well as a survey of 800 professionals across a variety of industries who are responsible for their company's payment decisions.

A digital wallet payment is a non-cash payment that allows customers to make purchases from their smartphones or other devices by acting as an electronic wallet, digitizing payment information.

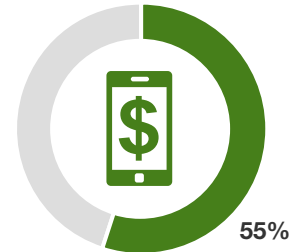
# Building For The Future

There is an intermission in digital wallet adoption, with little change in adoption and acceptance rates by consumers and merchants since our last study in October 2016 (Figure 1). But there are key signs that both businesses and their customers are busy building for the future.

As digital wallet adoption remains steady with both groups, it's a great opportunity to study motivations and behaviors, identify needs and opportunities, and get ready for an exciting second act. On the consumer side of the stage, smartphone ownership increased from 79% in the October 2016 study, to 83% in the June 2017 study. Certain features motivate each digital wallet user type, and early adopters can help encourage increased usage among lighter, more cautious users. On the merchant side, more than half say they are likely to update their POS or eCommerce systems to offer the latest digital wallet solutions in the next 12 months.

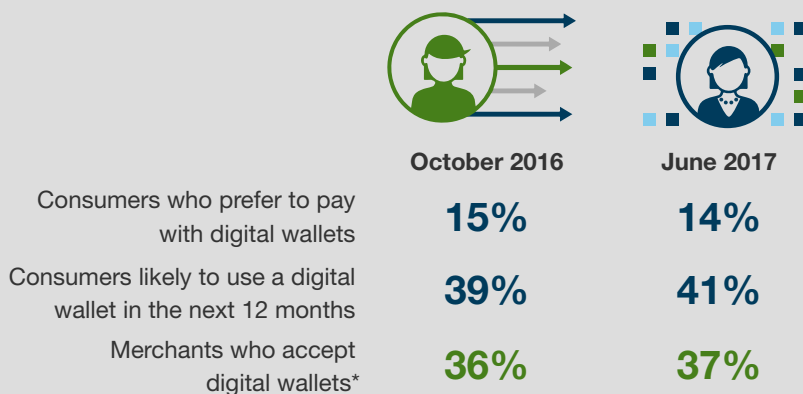
At the end of this break, consumers will be more savvy and demanding and will have higher expectations as they see more capabilities emerge in digital and mobile payments like order ahead, self-service pay, and instant coupons and reward redemption. Merchants must be ready to capitalize on the increasing awareness and interest and satisfy the demand for not just a better paying experience, but a better overall shopping experience. Understanding consumers as digital wallet users will help merchants be ready to lead the way to digital wallet adoption.

**Merchants likely to upgrade their systems to accept digital wallets in the next 12 months**



Base: 800 professionals responsible for their organization's payments strategy  
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

**Figure 1**



Base: 1,500 US consumers ages 18-plus who go online at least weekly

\*Base: 800 professionals responsible for their organization's payments strategy  
Source: Commissioned studies conducted by Forrester Consulting on behalf of JPMorgan Chase, October 2016 and June 2017

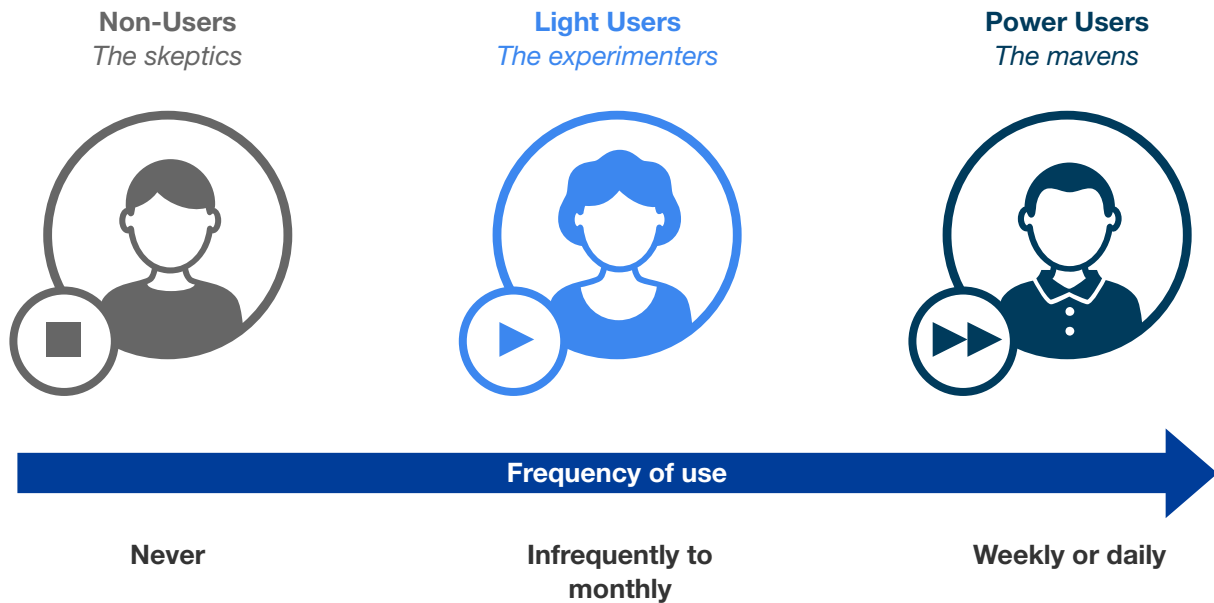
Despite the pause in adoption this year, **41% of consumers are likely to try digital wallets in the next year, and merchants are ready for them.**

# Non-Users, Light Users, Power Users

Consumers are still exploring digital wallet technology and learning more about digital wallet features and capabilities. Some are waiting to see when making the switch to digital wallets will be a bigger benefit than carrying their regular wallet stuffed with debit, credit, and loyalty cards. In this study, we used self-reported frequency of digital wallet use to segment users into one of three profiles (Figure 2):

Figure 2

## 3 levels of digital wallet users:



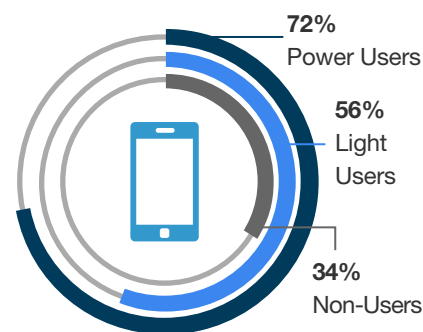
Base: Base: 1,209 self-reported non-users of digital wallets, 183 monthly or infrequent digital wallet users, and 108 weekly or daily digital wallet users  
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

Each group has the following characteristics (Figure 3):

- › **Power Users lead the way.** Respondents in the survey who fell in the Power User category tend to be younger and more affluent and say that they love technology, own an above-average number of technology devices, and are the first among their peers to try applications, including banking technology online. They also report higher awareness of the possible features of digital wallets. Those features, such as order ahead, self-service pay, and instant coupons/rewards, keep them using digital wallets over other forms of payment (Figure 4).
- › **Light Users follow their Power User friends.** Light Users exhibit comfort with technology, but their adoption and interest are more moderate relative to those of Power Users. In areas where they might be concerned about stability or security, such as using banking technology online, they move closer to Non-Users (Figure 3). And when asked what would incent them to use digital wallets over other payment methods, their first choice echoed the experience-driven favorite of Power Users (“Order ahead and pay”), but their third choice aligned with Non-Users (“More and better security features”) (Figure 4). Light Users’ interest and willingness to learn make them an ideal focus for digital wallet adoption if they have the right resources.
- › **Non-Users wait to be convinced.** Although they are behind both Power Users and Light Users in awareness of features, 33% did feel they were informed to some extent about digital wallets, 16% felt they were completely confused, and the rest landed in the middle of the spectrum. The top four reasons Non-Users gave for not using digital wallets were 1) concern about security, 2) haven’t taken time to figure it out, 3) don’t think their merchants accept digital wallets, and 4) don’t think digital wallets are different enough from debit or credit cards to use them. This combination of caution and skepticism reflects the need for both thoughtful education and letting their Power User and Light User friends show them the benefits of digital wallets.

Respondents in the consumer survey are interested in using digital wallets to improve their shopping experience, and their top areas of interest, especially for Power Users and Light Users, are ones for which digital wallets are well suited — improved security, order ahead and pay or self-service, and the ability to store and use coupons/rewards directly within the digital wallet (Figure 4). While Power Users are actively trying features and Light Users are following them, there is still a need for both merchants and providers to incorporate features that make it worthwhile for consumers on the fence to leave their physical wallet in their pocket and move to digital wallets. And when they do, like Power Users, they will have a hard time leaving their homes without their digital wallet on their smartphone.

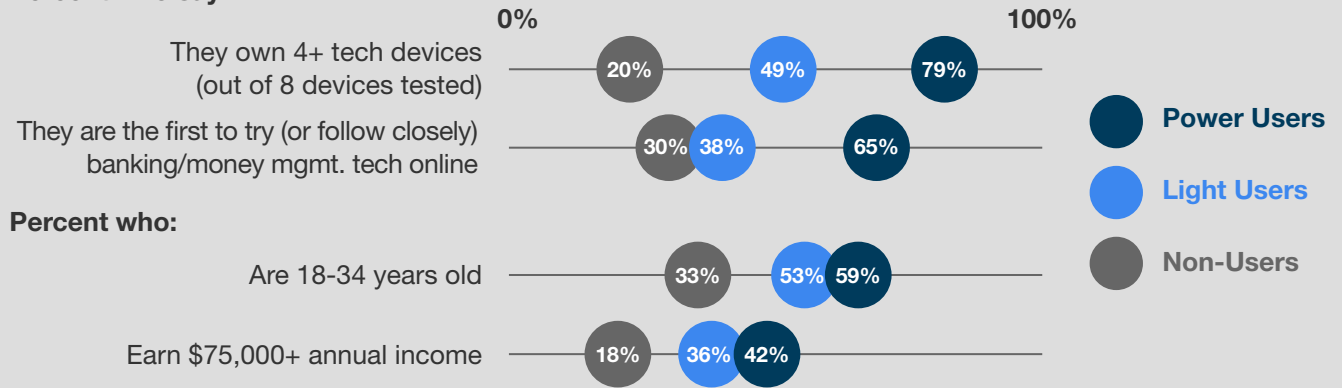
“Which would you be more worried about going without if you left it at home: your smartphone or your wallet?”



Base: 108 weekly or daily digital wallet users, 183 less frequent digital wallet users, and 1,209 non-users  
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

**Figure 3**

**Percent who say:**



Base: 1,209 self-reported non-users of digital wallets, 183 monthly or infrequent digital wallet users, and 108 weekly or daily digital wallet users  
 Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

**Figure 4**

**What features would incent you to use digital wallets over other payment methods, if anything?**  
 (Select all that apply)



Base: 1,209 self-reported non-users of digital wallets, 183 monthly or infrequent digital wallet users, and 108 weekly or daily digital wallet users  
 Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

## TIME TO CLEAR UP DIGITAL WALLET MYTHS

Security has been a top concern in both studies that Forrester Consulting has completed on behalf of JPMorgan Chase, and Forrester's own research has found users and merchants alike concerned about security.

However, digital wallets typically store and transfer sensitive payment data digitally using encryption and tokenization, which go a long way in making payments safer than using a physical card that can be stolen or duplicated easily. There is an opportunity here for digital wallet providers and merchants to educate consumers about the security advantages of digital wallets.

Power Users and Light Users — the consumers in this study who report they have tried digital wallets (19%) — expect merchants to accept digital wallets at a much higher rate than Non-Users (approximately one-fifth of people who report not using a digital wallet still expect merchants to accept them) are keeping ahead of that expectation (Figure 5), and they could see their investments pay off by letting their customers know that they are ready for the digital wallet age.

### Top digital wallet misconceptions:



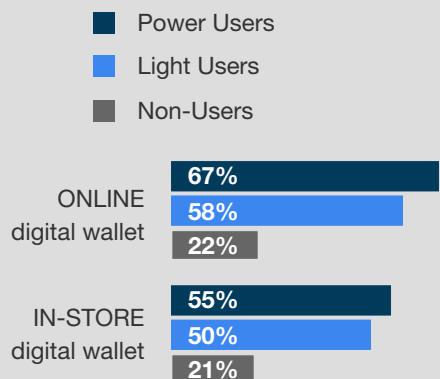
Poor security



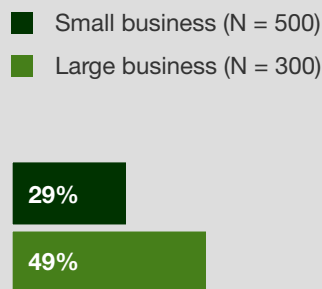
Low merchant acceptance

Figure 5

### Consumers who expect merchants to accept digital wallets:



### Merchants who accept digital wallets:



Base: 1,209 self-reported non-users of digital wallets, 183 monthly or infrequent digital wallet users, and 108 weekly or daily digital wallet users  
Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017



While just 19% of all consumers have used digital wallets, many still expect merchants to accept them: 50% or more of digital wallet users and roughly one-fifth of Non-Users expect them.

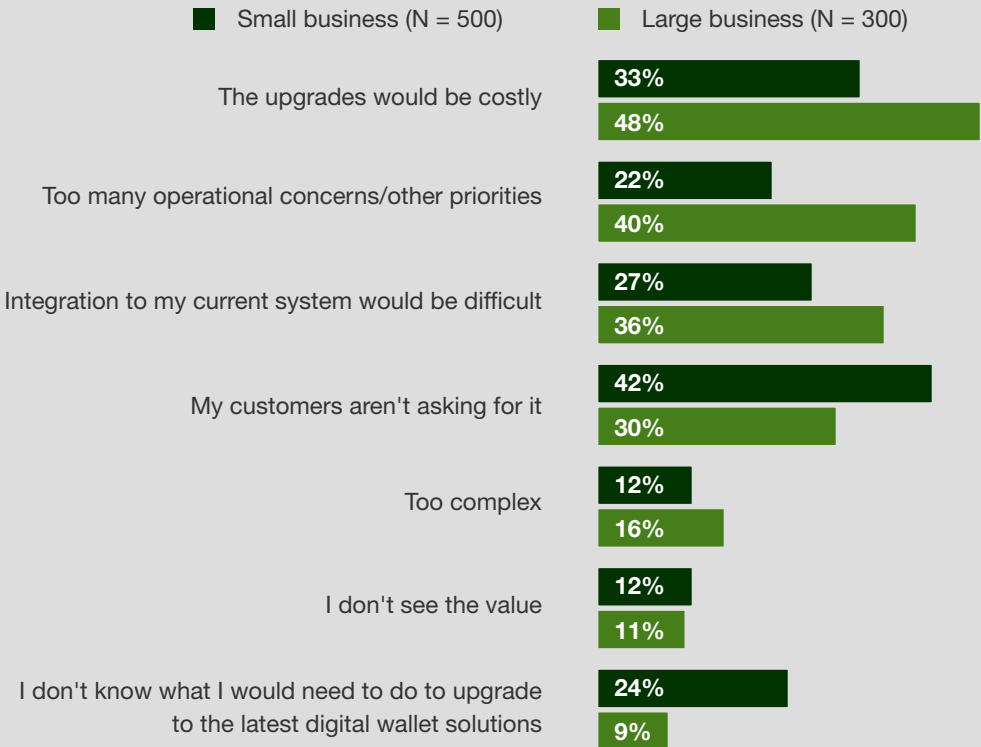


# Merchants At Work

Merchants and providers are actively working to put technology in place. Their first effort is to integrate payments into applications and mobile web experiences, eliminating the need for consumers to enter credit card information on their mobile devices.<sup>1</sup> With Europay, MasterCard, and Visa (EMV) chip card reader mandates, US businesses of all sizes are implementing chip card reading capabilities at checkout, which usually include near field communication (NFC) technologies that power quicker and more robust digital wallet checkout capabilities.<sup>2</sup> But there still seems to be a gap in this effort, with large merchants citing the cost of such efforts as their top barrier, and small merchants saying their customers aren't asking for it (Figure 6).

Figure 6

**When thinking about updating your POS or eCommerce system to offer the latest digital wallet solutions, what are the biggest barriers to doing so? (Select all that apply)**

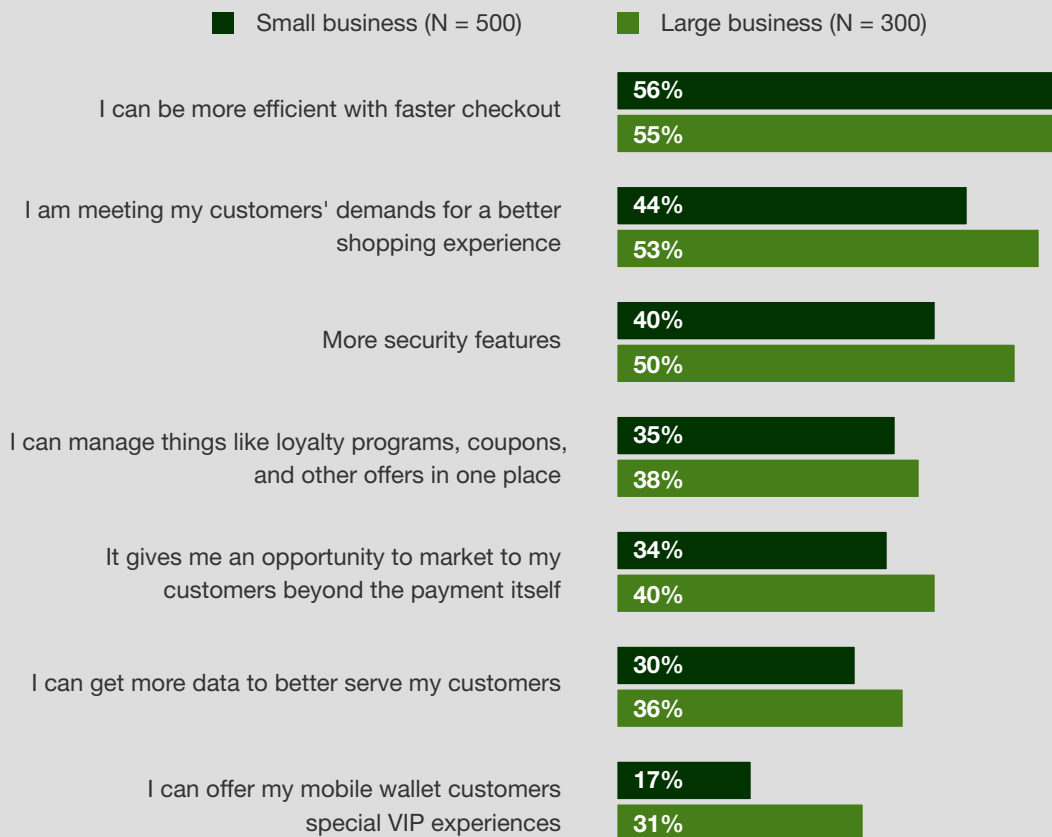


Base: 800 US professionals responsible for their organization's payments strategy  
 Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

As merchants work through bringing both themselves and their customers over to the digital wallet side, they see the opportunity for both operational efficiency and customer engagement. Both small and large businesses rated the ability to be more efficient with faster checkout as the most appealing benefit in accepting digital wallets. Balancing that was their second most appealing benefit — meeting their customers' demands for a better shopping experience (Figure 7). With their eyes on the next phase, merchants are busy prioritizing mobile efforts.

**Figure 7**

**Which benefits or features listed below do you find most appealing for yourself and your business when thinking about accepting digital wallets? (Select all that apply)**



Base: 800 US professionals responsible for their organization's payments strategy

Source: A commissioned study conducted by Forrester Consulting on behalf of JPMorgan Chase, June 2017

# Key Recommendations

The digital and mobile payments infrastructure will expand, and merchants will continue to implement digital wallet enablers like NFC POS acceptance devices at checkout and online integrated mobile payments. But sustained growth relies on bridging the gap with customers through outreach and education about digital wallet security, acceptance, and features, and creation and delivery of exceptional customer experiences.

Forrester's in-depth survey of consumers and merchants about digital wallets yielded several important recommendations:



**Dispel the security myth.** Digital wallets are both safer and faster than physical cards. Merchants need to get the word out and show customers how the technology works and why it's more secure.



**Become a trusted advisor on digital wallets with customers to help drive "power use."** Merchants must execute information campaigns to help customers understand what digital wallets they accept and how best to use them to enhance their shopping experience. To do this, they can create compelling messaging and incorporate it into the shopping experience online and in-store, promote easier checkout, and train frontline staff to engage and help customers with digital wallet and loyalty apps. To really engage customers in the power and versatility of digital wallets, businesses should put offers and coupons in digital wallets.



**Incorporate compelling features and offers for consumers.**

Respondents in the consumer study are interested in using digital wallets to improve their shopping experience, like order ahead, self-service pay, and coupon/rewards redemption — things that benefit both consumers and merchants by saving time and money.



**Take care of Power Users; the Light Users will follow.** Power Users love to try new things and are a source of information and help to their friends. Light Users are interested and willing to learn from Power Users. Non-Users are keeping an eye on things, and when they see others enjoying the advantages of digital wallets, they won't be far behind on the adoption curve.

## Appendix A: Methodology

In this study, Forrester conducted an online survey of 1,500 US consumers ages 18-plus who go online at least weekly, as well as a survey of 800 merchants across a variety of industries who are responsible for their company's payment decisions. The purpose of these surveys was to better understand the role of digital and mobile payments and to unearth insights that can help merchants prepare for tomorrow's payment strategy opportunities. Questions provided to the consumers asked about their use of technology and digital payments and their awareness of and propensity to use digital wallets. Merchants were asked about their perception of consumers' use of digital payments and their own awareness and use of payments technology. The study began in May 2017 and was completed in June 2017.

## Appendix B: Supplemental Material

### RELATED FORRESTER RESEARCH

"US Mobile Payments Will More Than Triple By 2021," Forrester Research, Inc., January 25, 2017.

## Appendix C: Endnotes

<sup>1</sup> Source: "US Mobile Payments Will More Than Triple By 2021," Forrester Research, Inc., January 25, 2017.

<sup>2</sup> Source: Sienna Kossman, "The big chip card switch: living with EMV," creditcards.com, March 22, 2017 (<http://www.creditcards.com/credit-card-news/emv-chip-cards-one-year-later-consumer.php>).