Jupiter Media Metrix

Merging Digital Wallets with Peer-to-Peer Payments to Drive Consumer and Merchant Adoption

Digital wallets and peer-to-peer (P-to-P) payment systems have failed to attract meaningful adoption for business-to-consumer (B-to-C) transactions. However, P-to-P payments have become common for consumer auctions, renewing hope that other payment-related offerings might yet succeed.

Research Topic

• Peer-to-Peer Payment Options

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Key Questions

- Why have wallets failed to gain consumer adoption?
- Why have P-to-P payments failed to gain adoption at merchant sites?
- What would be the value proposition of an integrated digital wallet and P-to-P payment product?

Key Finding

Digital wallets and P-to-P payment systems perform essentially the same function to the end user; therefore, the chasm between the two is an artificial barrier to adoption. Vendors, payment providers, and financial portals must expand wallet-like functionality in order to realize significant consumer adoption.

Wallets and P-to-P Payments: Standalone Deployment Is an Artificial Barrier to Adoption

Consumers will resist using payment offerings that are primarily positioned based on the needs of suppliers and merchants, particularly because they perceive a risk that they might lose control of their personal finances. Current disparate wallet and P-to-P offerings primarily reflect technology roots and venture capital funding sources rather than an integrated design and launch effort. Neither product has yet to achieve momentum with mainstream merchants and consumers.

Defined by Jupiter as "peer-to-peer" rather than "person-to-person" due to potential use by both businesses and consumers, wallets and P-to-P payment technologies essentially perform the same end-user function: moving money online more conveniently through a number of different interfacing methods. Still, today's nonintegrated products fail to meet consumers' essential needs for trust and convenience. Wallet adoption has proven elusive, even though countless models have been tried over the last five years: closed and open deployments, consumer-direct and affiliate distribution, server and client-based data storage, and more. P-to-P payment deployments are also failing to capture end-user adoption at merchant sites, and only PayPal—one of more than 15 offerings—is widely used for consumers that transact with one another at auction sites.

Consumer Financial Needs Are Basic, but Online Financial Products Are Not

Until alternative online payments are easier to use than time-tested methods such as credit cards, consumers will want no part of them. Traditional methods such as coins, paper, credit cards, and debit cards—even fare tokens and cards—may seem cumbersome, but to consumers, they are relatively secure, ubiquitous, and easy to use. By contrast, online payment mechanisms require consumers to place trust in unproven systems and memorize multiple passwords, log-ins, URLs, and procedures, as well as overcome fears that crooks will clean out their accounts before malicious activity can even be detected.

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Payment providers (e.g., banks, portals, payment processors, and merchants) must integrate disparate online payment methods into a single, multifaceted offering. When offered as standalone products, specialty payment services such as stored value cash; micropayments, used for low-value purchases; teens' and kids' cash; and one-time-usage payment numbers only complicate matters for customers. Credit cards dominate online because they most closely mimic the simplicity of off-line payments. Use of P-to-P payments has grown rapidly among auction users simply because new markets created an online exchange for which no existing payment method was adequately convenient or secure. Consumers will finally begin to use online payment methods when the versatility, convenience, and trust they provide surpass those of today's physical wallet and its contents.

Integrated Wallets Offer More to Merchants, Banks, and Eventually, All Payment Providers

Integrated wallets closely mimic physical wallets by interfacing with payment methods, merchants, and other payees, offering a number of key benefits to payment constituents:

- **Merchants.** Because integrated wallets will be the single consumer payment interface used at both commerce and auction sites, they will precipitate increased usage of transfer payments from asset accounts and will therefore reduce the costly dominance of credit card payments at merchant sites. Merchants pay dearly for credit card payments today—sometimes more than three percent of total revenues—but they have not had the ability to change consumer payment behavior in order to potentially lower payment expenses by half or more. PayPal has demonstrated that online consumers can be weaned off credit cards, having successfully driven transfer fee usage (that is, the funding of payments via bank deposit accounts rather than credit cards) from just 10 percent to 50 percent via consumer education, sweepstakes incentives, and other programs.
- **Banks and financial portals.** These providers have seen their wallet and P-to-P offerings languish, but by relaunching these capabilities as a single integrated product they stand a better chance of reversing their fortunes and realizing stronger customer loyalty and revenue. The best bet for realizing customer adoption is for banks and portals to launch an integrated wallet that is co-branded with a recognized credit card provider, though the former may not be able to wait for the latter to surmount its fears of reducing credit card–based payment revenue at merchant sites.
- **Payment providers.** These players will be hesitant to forgo any substantive revenue derived from merchant fees, but if they time the launch of integrated wallets correctly, they will preserve or even grow market share at the expense of slower-moving competitors. Digital wallet and P-to-P payment start-ups have no significant commerce-based revenue to lose by expanding their product capabilities, but they may need to merge with other companies in order to successfully broaden their products' capabilities.

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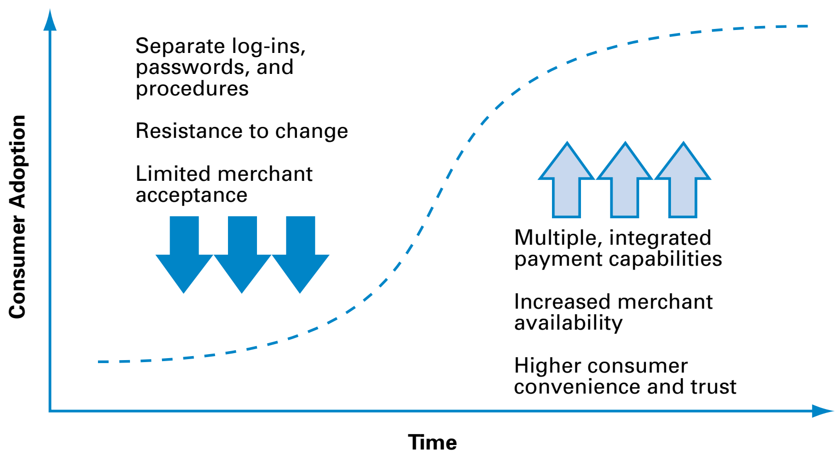
Consumers' Need for Convenience Is Not Met by Disparate Payment Offerings

Fig. 1 Drivers and Inhibitors of P-to-P Payment and Digital Wallet Adoption



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Jupiter Concept: Mobile Wallet

Integrated wallets will eventually be ideal for mobile devices, paving the way for mobile wallets. Such a system will resolve the longstanding debate over the merits of wallets that store personal data on secure servers versus those that store data on consumers' hard drives; mobile devices will store payment data both locally and portably, connecting to PCs via the Internet or cable and to merchants via infrared or online methods. However, the mobile wallet will not succeed as a specialty payment device. Instead, it will be a general-purpose replacement for many commonly used payment methods.