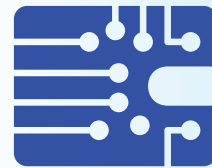


# Digital wallets and instant payments

*Transform consumers' money movement with the FedNow<sup>®</sup> Service*

In today's world, people and businesses want to move and spend money in an instant using their preferred payment method. With the Federal Reserve's FedNow Service, digital wallet providers and their partners can make it happen.

Instant payments offer digital wallet providers a major opportunity to improve customer experience and drive user growth and engagement with their products. These organizations can work with financial institutions and issuing partners to simplify users' ability to fund and defund wallets in an instant, making money movement more convenient and friction-free, especially as usage of account-to-account payments rises<sup>1</sup> in the U.S.



## Definition:

**Digital wallets** are defined as financial applications on a device that

allow customers to store funds, track payments, and make transactions through e-commerce checkout and person-to-person transactions.

## BY THE NUMBERS

**57%**

of U.S. adults are estimated to use a mobile wallet in 2024<sup>2</sup>

**31%**

growth in digital wallet use by businesses in 2023<sup>3</sup>

**60%**

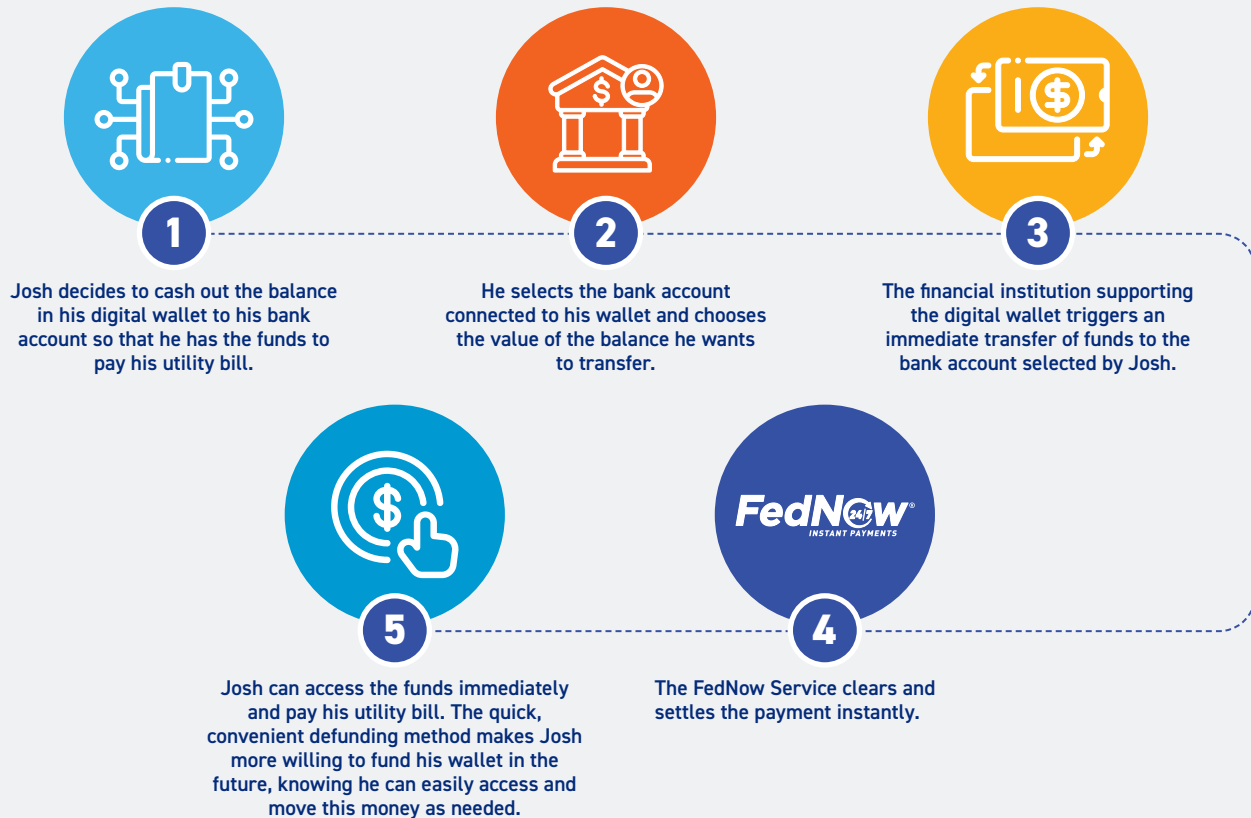
of mobile wallet users are motivated to use mobile wallets for convenience<sup>4</sup>

**25%**

of consumers are challenged by the slow speed of payments and want better options for instant money management<sup>5</sup>

## How digital wallets work

Thirty percent of consumers want to transfer money between accounts, making it a top use case.<sup>6</sup> Digital wallet users do this in two fundamental ways: loading funds into wallets and moving money from wallets back to bank accounts. Here is one example of how the FedNow Service can let consumers defund their wallet:



## Benefits of offering instant wallet funding and defunding

Instant payments can help players across the digital wallet space improve the customer experience and grow wallet use.

- **Consumers** – Access a wider variety of payment methods, view up-to-date balance information in real time, improve control over finances by getting access to funds immediately, lower risk of incurring overdraft penalties.
- **Wallet providers** – Speed up bank transfers and top-ups, offer access to funds 24x7x365, improve customer loyalty by encouraging users to store an easily transferrable balance, increase transparency into balances and spending options, diversify funding mechanisms offered to prospective and current users.
- **Merchants** – Increase transaction volume by simplifying shoppers' ability to pay with wallets, limit chargebacks by ensuring consumers are spending funds they have, lower costs by cutting down on transaction fees, offer store credit and discounts through a popular payment method.
- **Financial institutions** – Bolster customer loyalty and account engagement by simplifying customers' ability to transfer funds from wallets back to accounts, meet businesses' desire to access instant payment services from their financial institution,<sup>7</sup> decrease interbank credit risk through instant clearing and settlement.

## Next steps

Enabling wallet funding and defunding through instant payments can be a key strategic opportunity as digital wallet payments continue to rise in popularity. Now is the time to start preparing for and implementing instant funding and defunding through the FedNow Service. Below are next steps to take:

### Wallet providers

- Assess the needs of users and merchant partners when it comes to use cases and funding mechanisms.
- Talk to your financial institution partners about their offerings or plans to offer instant payments — they will need to provide connection to the FedNow Service. Visit [FRBServices.org](https://FRBServices.org)<sup>®</sup> for a list of [financial institutions live on the service](#).
- Work with financial institution and industry partners to build and enable seamless funding and defunding mechanisms, including request for payment (RFP) enablement.
- Educate users on the benefits of instant payments and new capabilities they could provide to boost popularity, especially among the 79% of Gen Zers who use digital wallets.<sup>8</sup>

### Merchants

- Build out digital wallet acceptance across types (near-field communication, QR code) to get volume from the growing share of consumers who prefer to pay with wallets.
- Talk to wallet providers and financial institution partners about the benefits of instant payments.

### Financial institutions

- Get to know instant payments and the benefits they provide.
- Assess your retail and business customers' habits and pain points surrounding digital wallet usage.
- Evaluate whether increased instant payment access within wallets would bolster customer loyalty and engagement with bank accounts because of the ability to fund/defund wallets faster and easier.

## Learn more

Visit [FedNowExplorer.org](https://FedNowExplorer.org) for more information or contact us directly at [SYSFedNowCommunity@chi.frb.org](mailto:SYSFedNowCommunity@chi.frb.org) with questions.

<sup>1</sup> Worldpay GPR 2024 – The Global Payments Report

<sup>2</sup> Emarketer Forecast, March 2024 – June 2024

<sup>3</sup> 2024 Federal Reserve Payments Insight Brief – Consumer Survey

<sup>4</sup> Apple Pay @9 Report - PYMNTS

<sup>5</sup> 2024 Federal Reserve Payments Insight Brief – Consumer Survey

<sup>6</sup> 2024 Federal Reserve Payments Insight Brief – Consumer Survey

<sup>7</sup> 2024 Federal Reserve Payments Insight Brief – Business Survey

<sup>8</sup> 'Got leather? Almost a third of consumers prefer carrying physical wallet' - PYMNTS