4 key factors driving mobile payment adoption

Mobile payments are on the rise worldwide. According to the Global Mobile Payment Market report, the market is projected to grow at an annual rate of 33 percent between 2019 and 2026, reaching $457 billion in 2026.[1]

Much of this growth has been driven by Asia, specifically China, where the infrastructure supports mobile payments. However, there are four key factors that have set the stage for significant mobile payments growth in North America.

The smartphone has evolved beyond the phone

Smartphones have not only revolutionized the way we live and work but how we connect to each other as individuals and with businesses. According to the Consumer Technology Association (CTA), 87 percent of households own a smartphone. The CTA predicts that, within the next five years, smartphone ownership will match that of televisions.

The increase in smartphone ownership has led to a boom in mobile app development and usage. In fact, mobile app usage makes up roughly 60 percent of total digital media time. And the growth in the mobile app market has led to an increase in mobile payments.

Mobile payments provide individuals with an easy and seamless way to make online and point-of- sale purchases, pay bills, or send and receive money. Both individuals and merchants have embraced app-based commerce and in-app payments. Businesses have ramped up investments in mobile apps with innovative use cases that provide an integrated customer experience.

Younger generations are driving mobile payment adoption

While smartphone ownership has increased across all generations, it is the younger generations that are driving the increasing pace of mobile payment adoption.

According to the Pew Research Center, roughly 92 percent of millennials and 85 percent of Gen Xers own smartphones.[2] Individuals in these generations make up most of the mobile payments volume. They are often influenced to use mobile payments by the option to receive rewards, discounts, alerts, and electronic receipts in addition to the convenience mobile payments provide.

Gen Z, those born after 1996, is also pushing the payments environment towards more peer-to-peer payments (P2P) and mobile payments. Gen Z, like millennials, has high expectations for mobile experiences and are more comfortable than other generations with moving money digitally.

As the reliance on digital devices increases, the way all generations interact with money will continue to change with more people switching from cash, debit and credit cards to mobile payments.

Technology advancements enable more convenient and secure payments

Even before the smartphone, there has always been a need to find the balance between convenience and data security in payment innovation. This is what drove the adoption of debit and credit cards, followed by the widespread use of PIN technologies and the EMV chip.

Mobile payments offer an easy and secure way to pay for goods and services. Individuals store their credit card information on their smartphone, in a mobile wallet, for later use. For in-store purchases, individuals can hold their phone near a point-of-sale (POS) device. After authenticating the payment with a fingerprint, PIN or facial recognition, credit card information is securely shared with the POS device using near-field communication (NFC) technology. With two security steps in place, mobile payments for in-store purchases are more secure, and faster, than using a credit card.

Mobile payments also use tokenization to secure payment data. Used heavily in online and in-app purchases, in addition to in-store purchases, tokenization replaces sensitive card data with a token – a one-time, randomly generated alphanumeric ID. There's no tie to the customer or their account info and the token has no value.

Provided they are convenient and secure to use, individuals will continue to embrace mobile payments.

Merchants are driving change

Merchants also benefit from mobile payments. As with individuals, mobile payments provide improved payment security, faster checkout speeds and better data to track customer trends and inventory.

These benefits are driving more merchants to accept mobile payments. To encourage their customers to use mobile payments, many merchants use discounts and other perks, to communicate value to the consumer. Some merchants have successfully combined mobile payments and their loyalty programs within their mobile payment apps. In these instances, customers can receive loyalty points, coupons and perks such as mobile ordering.

Visa and Mastercard have mandated contactless payments in all new POS terminals by 2020. This move will also help increase the adoption of mobile payments as more "tap and go" terminals come online.

The future for mobile payments

The consumer mindset around the use of mobile payments is changing. As payment innovation continues to make mobile payments more secure and as businesses continue to make it easier to use and integrate mobile payments, it's expected that adoption will continue to rise. According to Forrester, there's a "positive relationship between the payment options a merchant offers and consumers' willingness to patronize that business"[3]

It's clear that mobile payments are poised for growth. The mobile payment infrastructure will continue to expand, and merchants will continue to integrate mobile payments as part of their business strategy. But user experience will ultimately drive adoption. As nonusers begin to see the benefits of mobile payments enjoyed by early adopters, they won't be far behind on the adoption curve.

[1] Tapping into the Future of Mobile Payments, GlobalWebIndex, 2019.
[2] Millennials stand out for their technology use, but older generations also embrace digital life, Pew Research Center, 2010.
[3] The Intersection of Payments And Commerce In A Digital World, Forrester Consulting, 2017.

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