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What's driving growth in proximity mobile payment usage?

Article

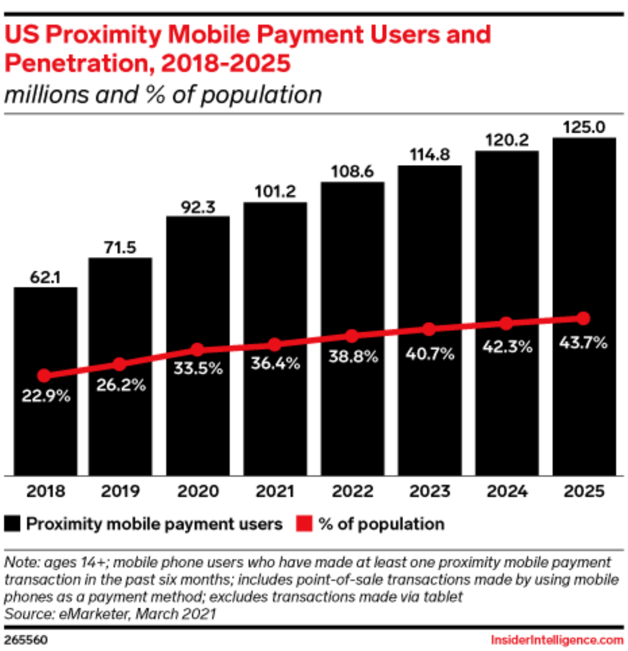
Mobile payments have proven their value during the pandemic as a way to limit our risk to exposure instead of paying with cash or card. Last year, per our estimates, smartphone usage in the US surged to an average of 182 minutes daily (from 154 minutes pre-pandemic), which extended to payments.

In response, major providers have intensified their efforts to attract new converts—heightening the competition for status as the "primary wallet." Mobile payment adoption and volume had been growing steadily pre-pandemic, with providers jostling to increase their market share. But attitudes shifted in 2020, and a surge in growth spurred providers to develop a host of new features. These were aimed at narrowing the gap between proximity payments, P2P, and mcommerce providers as wallet companies aimed to meet all mobile payment needs.

Growth is set to continue post-pandemic, as providers build out their suites of services to improve customer user experience, tap into new demographics, and boost loyalty.

Proximity Mobile Payment Users

After a 2020 surge, mobile proximity payment user growth rates will temper slightly before winding down to a 4.0% rise in 2025 as the sector matures, due to expansions in access and generational growth.



The pandemic effect on proximity mobile payments

Pre-pandemic, a fifth of US adults who hadn't yet adopted mobile proximity payment technology expressed an interest in doing so, according to a 2020 Total System Services report. People's desire to limit physical contact during the payment process is thought to be the main reason for the bump in adoption of this technology. Some 19% of US consumers surveyed by Forrester for the National Retail Federation (NRF) made a mobile payment in-store for the first time in May 2020 alone, and this trend is thought to have continued as the pandemic stretched on. Growth in a maturing ecosystem is expected to continue as consumers become more aware of and comfortable with “tapping and scanning.” As we have seen in more advanced contactless ecosystems, such as the UK, more convenient use cases, like transit, lead to increased adoption.

Expanded access to digital payments

As more brands actively promote contactless payments, new players are stepping into the ring. Most notable among these has been PayPal, which enabled QR code payments in May 2020. This move could encourage adoption of the technology among its 305 million users, especially as other players add popular retail partners that may bring customers onboard. Established and new wallet providers alike are introducing incentives to new contactless payment adopters: PayPal is offering first-time users $10 cash back on a $20 CVS purchase, for example. Such incentives, and the incorporation of new features to generate loyalty, are proven tactics to win over nonadopters and ultimately broaden mobile wallets’ user base.

Generational shifts

Millennials and Gen Zers constitute the bulk of mobile proximity payment users right now: Combined, they will make up 68.9% of users in 2021 and reach 71.4% by 2025, per our estimates. Unsurprisingly, groups already immersed in digital technology favor mobile payments. Gen Z in particular is set to drive growth as it gains purchasing power, though this trend will taper off as the technology permeates younger users. Baby boomers will continue a similar gravitation toward mobile wallets in tandem with overall digital adoption gains, partly driven by the pandemic and partly encouraged by younger family members.

To learn more about where proximity and P2P payment usage stands today—and how it's set to surge, Insider Intelligence subscribers can read our recent report:

Report by Jaime Toplin May 21, 2021

US Mobile Payments Forecast 2021