

The Banking & Payments Show: Apple Pay's dominance

Audio

On today's episode, we discuss Apple's dominance in the digital wallet arena. In our "Headlines" segment, we look at the ramifications of The Kroger Co.'s about-face on Apple Pay and how the EU is scrutinizing Apple Pay in its antitrust investigation. In "Story by Numbers," we examine how Gen Z's use of iPhones will keep Apple competitive in the digital wallet space and the success of Apple's new savings account. And in our new segment, "What

If,” host Rob Rubin presents a few hypotheticals and discusses what things would look like if they were true. Tune in to the discussion with our analyst David Morris.

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Episode Transcript:

Rob Rubin:

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David Morris:

I think Apple may stick with the affluent skew. It's buy now pay later product is also more affluent skewing in some ways than some may realize out there. And there's other avenues beyond consumer banking that they can explore. There's wealth management and other things that I think could be on the table. What could derail this juggernaut? I'm not sure, other than some kind of regulatory intervention, and that goes for other kind of financial services paths that we haven't even gotten into.

Rob Rubin:

Hello everyone and welcome to the Banking and Payment Show, a Behind the Numbers Podcast from eMarketer, sponsored by TransUnion's TruAudience Credit Inform Marketing Solutions. Today is May 30th. I'm Rob Rubin, GM of Financial Services and your host today. If you enjoy this podcast, please give us a five star rating and subscribe.

The title of today's episode is Apple Pay's Suite Domination, refers to how Apple Pay is looking in the digital wallet space, which is pretty good. I invited back Principal Analyst for Payments at Insider Intelligence David Morris to unpack why Apple will dominate digital wallets for the foreseeable future and how everyone else must deal with it.

Hey, David, how you doing?

David Morris:

Hey, Rob, great to be here. How are you?

Rob Rubin:

I'm doing well. Hey, before we get into it, Dave, are you ready for some quickfire questions?

David Morris:

I am indeed, Rob. Shoot.

Rob Rubin:

Have you ever used Apple Pay personally?

David Morris:

I have, yeah. I'm a convert. Recent.

Rob Rubin:

How recently?

David Morris:

Well, I hate to admit that I went to McDonald's yesterday.

Rob Rubin:

Ah.

David Morris:

I did do that for lunch. I work very hard, Rob.

Rob Rubin:

I know.

David Morris:

So I shoot out of here, get a little lunch at McDonald's, come back. Apple Pay comes in handy.

Rob Rubin:

I get it. I love their shakes. Do you use any other digital wallets?

David Morris:

Yeah. Historically the PayPal Wallet has been my go-to, but I've found Apple Pay more relevant post-pandemic.

Rob Rubin:

Okay. Now a question. Why did the digital wallet go on a diet?

David Morris:

Why did the digital wallet go on a diet? I don't know, Rob. Why?

Rob Rubin:

It's terrible. To shed some bytes.

David Morris:

Oh.

Rob Rubin:

It's bad. I said that.

David Morris:

You know what's funny is at least you teed that up, Rob, and I had a feeling this was a joke this time. I have evolved since last we spoke.

Rob Rubin:

There you go. That was fun.

David Morris:

Yeah.

Rob Rubin:

We have a lot to cover so let's get right to the Headlines.

In the headlines, we chat about a top story or two as it relates to our episode. I've chosen two recent stories that we published for the Headlines today. The first article, Kroger's Apparent About Face on Apple Pay Signals Sea Change. The article highlights that Kroger, which is the fifth-largest retailer in the US has until now held out enabling customers to check out using Apple Pay. So Dave, why is this a sea change?

David Morris:

Well, I would actually reframe it as a capitulation more than a sea change. I mean, you've got Walmart and Kroger. They're the last ones standing. And Kroger has finally pulled the plug, capitulating on consumer pressure to have Apple Pay at the point of sale. And recognizing

that as much as Kroger may like to, it cannot compete on tech. It had its ambitions with a wallet, it's not going to happen.

Rob Rubin:

So given all that, Dave, when do you think Walmart's going to fall and start accepting Apple Pay?

David Morris:

Well, I think, unlike Kroger, which I don't think has the tech chops necessarily, Walmart, I think, has made its ambitions in financial services clear for a long time. I mean, the original major player in alternative financial services is Walmart, where it still has a very large footprint. It's had remittances, it's had prepaid. It's been a lifeline to the underbanked in this country. So it's got a real foundation there and you know that it's ramped up its own FinTech operations, has neobanking aspirations within that. It's already gotten that started by transitioning its branded prepaid cards into essentially neobank checking accounts. So it's got a lot going on there. And it does have Walmart Pay, which it may not be used to the extent that Apple Pay is used, but I think you do have some Walmart Pay loyalists that have bought into Walmart Pay. It's not just dead on arrival. And I think Walmart has a lot of the same ambitions from a retail standpoint that you could argue that Amazon and even Apple would have. So I don't think it's going to fail or fall for quite some time, frankly.

Rob Rubin:

But it will eventually, right?

David Morris:

Well.

Rob Rubin:

Yeah.

David Morris:

Yeah. I think if you're looking at how things look today, you could argue that at some point Walmart may also have to capitulate, but let's also take a look back. Walmart is the most

aggressive retailer on the planet when it comes to guarding payments. It will shut Visa out. It will shut MasterCard out. It's done things like this.

Rob Rubin:

Right.

David Morris:

I mean, it goes to bat when it's about protecting margins and being able to increase its own market power.

Rob Rubin:

So they don't feel any pressure from their own customers to offer this? That's not an issue. Because that would be what they would react to in a different way, right?

David Morris:

Yeah, I think that's the long game here. If you take a look at how well Apple is doing with younger generations, and Walmart pivoting into a more affluent space given its digital retail ambitions, that may come to pass. I mean, the Walmart customer is historically less affluent and less likely to own iPhones.

Rob Rubin:

Right.

David Morris:

So it is not necessarily going to get the same kind of pressure to convert to Apple Pay like Kroger did, I think, for that reason.

Rob Rubin:

Now, let's go to the second headline. EU Probe Into Apple Pay Could Spur Global Anti-Competition Scrutiny. According to Bloomberg, Apple is under growing pressure after the European Commission asked retailers for more information regarding its anti-trust investigation. It seems, Dave, that not everyone is excited about Apple Pay's suite domination. Could this slow Apple Pay down?

David Morris:

That's very well put too, Rob.

Rob Rubin:

Yeah.

David Morris:

Short answer is, yes, it could slow it down. There's a juggernaut, it's called Apple Pay. It has more than 500 million global users. And one legislative body in the world has finally done something in order to approach it's growing, and I'd say disproportionate market power.

Rob Rubin:

Yeah.

David Morris:

Reigning it in via antitrust.

Rob Rubin:

Yeah.

David Morris:

And that's certainly going to help other companies compete by opening up that NFC tap and pay capability. Google Pay, I think PayPal, because these are already large at scale wallets, would be able to benefit from that. So they could gain some ground. But you're really talking about that in light of Apple's growing ecosystem and all of the other levers it has to be able to engage customers and continue to grow.

Rob Rubin:

Right, exactly. So just to sum up, I think that what we're saying is that the Kroger announcement is probably a capitulation. It's a sea change in that they're the last retailer aside from Walmart. But Walmart still stands alone, going to at least put up a fight for a little while, and that legislative bodies like the EU and in the US might also help to slow Apple Pay down, but I think it might have more to do with their iPhone and being able to all allow people to use the tap to pay feature within the iPhone. Would you agree with that?

David Morris:

Yeah, I think that's a fair assessment. I'll get this wrong on the math, but I think Walmart sales is at least three times that of Kroger.

Rob Rubin:

Right.

David Morris:

I mean, you're still, it's the largest retailer in the world.

Rob Rubin:

It's big, big, big.

David Morris:

And so it's a different animal. I would also add that I think there's definitely a lag in the US. The EU has always been a little more out front than the US on antitrust and privacy. I don't see the same thing happening here, at least to the same degree, although you've got regulatory agencies grumbling about it.

Rob Rubin:

That is true. In our next segment, Story By Numbers, we're going to pick up this thread a little more. In Story By Numbers, we pick a number or two that helps us dig deeper into the episode's topic. Today for Story By Numbers, I want to focus on two numbers as it relates to Gen Z consumers, which we've talked about a little bit as it related to Walmart. The first number is really two numbers, 97% and 80%. We forecast that 97% of Gen Z consumers will have smartphones by 2026, and 80% of those phones will be Apple iPhones. How could Apple Pay's suite domination break, because I don't really see it?

David Morris:

That stat blows me away. I love it. I mean, that really encapsulates, I think, the work that it's competitors have in front of themselves to court the generation that everybody wants to ensure is a part of their own ecosystems. You have Gen Z, which is digital first, digital natives. They like it easy. They like it seamless. Everything digital. They're mobile forward to the point of probably being physical exclusive to some extent. iPhone in hand. They love buy now pay later, which of course Apple is rolling out Apple Pay Later and they want to save money. And

you've got the Apple savings account right there, scooping up Gen Z funds. So frankly, I'm not sure I do either barring some type of regulatory intervention.

Rob Rubin:

Yep.

David Morris:

Which I think is a difficult sell in the US. It's not the EU.

Rob Rubin:

How could they intervene? What's one thing that they could do that would enhance the competition in digital wallets?

David Morris:

I think that one avenue is kind of through the back door of ensuring that customer's data privacy is respected. That's something the Consumer Financial Protection Bureau is taking a look at. And the agency has also at least put a couple of lines down about market power, and Apple and big tech market power in general. It just has yet to unfold.

Rob Rubin:

What about access to some of the technology that makes their products better?

David Morris:

I think the question would be whether or not there are entities that are excluded from using that technology. So that should certainly be on the regulatory agenda. That's really not something that I've heard a lot about though. It's not as if Apple is excluding others from proprietary technology here in the US. There is the NFC issue, but that's more of an outlier.

Rob Rubin:

Okay. My next number is 1 billion, and that's how much Apple's new savings accounts swept up in deposits in four days. Dave, Apple Pay is part of a much larger ecosystem. And you mentioned it just before, but can we go through a little bit about why the ecosystem itself is important?

David Morris:

What a great stat. I mean, amazing growth there. I mean the ecosystem and this, I would look a little more generally out there, at not just Apple, but you have Venmo, you have PayPal, you have Google, you have Cash App. These are all essentially either originally P2P systems, even Apple, or mobile based systems that continue to grow and grow and grow and grow and they're tethering broader and deeper usage by building out product sets within that ecosystem, and that's how they're ultimately growing. So you know, have Apple Pay, that's been around for almost 10 years now, but you have over time layering in products to broaden, and deepen the engagement. Most recently this savings account play. But before that you've got the Apple Cash prepaid card, you've got P2P, you've got the Apple Card.

Rob Rubin:

And now you have Apple Pay later, you have the savings accounts now.

David Morris:

Exactly.

Rob Rubin:

It's all works within the Apple Wallet. Dan Van Dyke and I talked about this a long time ago, that that's going to be a super app.

David Morris:

Oh yeah. I mean, it is a super app. I think. It's the Western world's version of the most advanced super app in my opinion. I think PayPal arguably as well. But the savings account, too, you're looking at an ecosystem that in and itself becomes, I think, an argument for market power. And then you have the products, that individually may not necessarily compete or out-compete. Apple Card doesn't have the volume probably that the Chase Sapphire cards do yet. It's not the biggest card.

Rob Rubin:

Right.

David Morris:

But it's just one more spoke in that wheel. And with the savings account, you've got no fees and above 4% APR. You also have this great little hook that you have to be an Apple Card

holder.

Rob Rubin:

When they do that, and this really looks at the profile of the audience that they're trying to capture with the product, is that they're really looking at a much more affluent customer, when they're associating a credit card to a savings account. So that the audience that they're getting today are much more affluent in terms of the savings account. And I think what we should focus on is how are they going to expand on that? In other words, it's kind of easy pickings to get some of that money up front because of the curiosity, the high interest rates. But what other kinds of financial products they begin to offer or what relationships they develop with other financial service partners, Goldman being one that they've really partnered with around the savings account, for example, is really going to tell how fast and far they want to get into FinServe.

David Morris:

Yeah, definitely. And I think I would just reiterate the affluent skew here. That's always been Apple's bread and butter. Its ecosystem is growing beyond affluence, of course, as it grows in scale. But you're looking at being able to leverage a low risk affluent consumer.

Rob Rubin:

Why I say it's going to change, is because of what we've been talking about in Story by Numbers, and I'll use this as a transition to our next one which we're going to talk about this even more, is that 97% of Gen Z consumers are going to have smartphones and 80% iPhones in 2026. And what that means is that 97% of Gen Z consumers won't all be affluent in 2026. They reach a much broader audience with their technology product and once they start to push into other financial services, they're going to reach into more mass market types of financial service products, Apple Pay Later as an example of that.

And that really brings us to our final segment. We've come up with this new format. We're calling it What If? I state a future outcome and we discuss what ifs, assuming that future outcome is true. So let's see. The first one is Apple expands its Apple Card audience in the next three years, so just what I've been saying, and provides significant advantages to its customers, either the best customer experience, the best rates, flexibility, to use it with Apple Pay over other cards, in other words, to make the Apple Card, the Apple Pay card of choice. What if Apple did that? So I'm going to stick to my format. How would big issuers react?

David Morris:

With a fair amount of disappointment and maybe a little bit of resentment.

Rob Rubin:

But what would they do on the we're going to counter that move with this one.

David Morris:

I think what the best playbook that I would look at is how issuers have handled the Amazon. It has its own ecosystem, right?

Rob Rubin:

Yep.

David Morris:

It's a shopping ecosystem. And you have a Synchrony issued private label card that's an Amazon card, and you have a Chase co-branded Amazon card. So Chase has been writing Amazon's growth for years through that co-brand.

Rob Rubin:

Chase is, they were the original card, right? With Amazon? The Synchrony Amazon private label card is newer than the Chase card. Isn't that right?

David Morris:

I think it's the other way around.

Rob Rubin:

Oh, really?

David Morris:

But they've both been around for some time.

Rob Rubin:

All right.

David Morris:

Yeah. And you know what you have there is you have what, at this point \$400 billion that other issuers are shut out of in Apple sales, unless they get their cards into the Amazon wallet. So they do this in a couple of ways. Points redemptions, for instance, I don't know if you've ever done this. I don't because they shave off the value of the points when you redeem this way. But if you have a Discover Card, you have these any number of other cards, they've partnered with Amazon to go through the back door. You can redeem points at Amazon. That allows that issuer through the back door and into the wallet where hopefully that credit card holder doesn't forget all about the Discover Card. So that's one way to do it.

Rob Rubin:

Okay.

David Morris:

You can ratchet up the rewards, of course. A lot of people think that ends up being a losing proposition, war by attrition.

Rob Rubin:

It also focuses in on a small segment of the credit card population, which is the best rewards go to the most affluent consumers.

David Morris:

Well, or to the most loyal.

Rob Rubin:

Yeah.

David Morris:

I mean it has a loyalty play. But there is the option to do that as well. But you are inevitably looking at being marginalized, I think, and you can look at that again. It's why Venmo now has a Venmo credit card. I mean, they want to be able to capture that ecosystem revenue.

Rob Rubin:

Right.

David Morris:

These are cards, ultimately including Apple Card, that I think are the most competitive threat to bank branded cards by far. They're growing outside of the banking ecosystem. They're growing via these companies that are going to potentially disremediate for the banks. So it's a big threat. It's not just Apple.

Rob Rubin:

Right? Venmo's a verb.

David Morris:

Venmo's a verb.

Rob Rubin:

Chase isn't a verb.

David Morris:

No>.

Rob Rubin:

Not in that context.

David Morris:

That's a good point. Yeah, yeah. And I want to go back, Rob. I actually have a different take briefly. I think Apple may stick with the affluent skew. It's buy now pay later product is also more affluent skewing in some ways than some may realize out there. And there's other avenues beyond consumer banking that they can explore. There's wealth management and other things that I think could be on the table. Back to your question, what could derail this juggernaut? I'm not sure, other than some kind of regulatory intervention, and that goes for other kind of financial services paths that we haven't even gotten into.

Rob Rubin:

Right. Or something comes along that unseats the iPhone as people's predominant communication device. Which we don't see today, but 20 years ago maybe we didn't see the iPhone either.

David Morris:

Some kind of technological change that shifts the landscape, yeah.

Rob Rubin:

Right. I think that would be one. The second what if is the EU and US regulators find Apple Pay is an anti-competitive digital wallet and forces Apple to make changes to open up competition. What if regulators tell Apple they have to let others use the NRC?

David Morris:

I think that the EU has opened that door by saying that they can't block access. The one way I would look at it is that at least in the US certainly, they're not going to force consumers to choose anything. They can provide the choice. This reminds me of a discussion you and I had back several months ago about the payment networks and interchange and the way some of that has been structured where you can help facilitate choice. Something that forces choice, I think is probably dead on arrival at a regulatory level anyway.

Rob Rubin:

What if, you know when you tap and you use Apple Pay, it just gets processed? What if regulators tell Apple that instead of just sort of tapping and going, there's a little intermediate button, which is you have to present all of the cards loaded in the digital wallet so that you can choose which card to pay this particular transaction with.

David Morris:

I don't see it happening. I think it's a great idea if you don't want Apple to continue to kind of churn away at the competition.

Rob Rubin:

Yeah.

David Morris:

I think that consumers do have the choice of including their card of choice. That would be the first thing that Apple would say.

Rob Rubin:

Right.

David Morris:

I mean, I can put any card I want in that wallet, and if I'm choosing the Apple Card over the others, and it's because I'm obtaining some kind of competitive benefit?

Rob Rubin:

Like a cash reward, cash back reward.

David Morris:

Yeah, like 3% cash back.

Rob Rubin:

On all transactions.

David Morris:

Then I don't see that there's an argument there. I think that is where, and this is maybe into just the antitrust realm of market power itself, you go back to the power of the ecosystem. I don't think a product-based focus here is necessarily the route to argue against Apple. It's the power of the ecosystem itself and the market power that invariably has over consumers, the whole ambit of products, in addition to all of that data that they can get from every consumer that uses that wallet. That's actually why they're happy to say, "We're not going to share third party data with other marketers." Why would they want to do that?

Rob Rubin:

They don't have to.

David Morris:

Well, they want to use it.

Rob Rubin:

Yeah.

So, Dave, that's all the time that we have for What If, and I think that this was a really good exercise. We talked a lot about how big issuers might react to anything that could be an anti-

competitive advantage that Apple has. And also what would happen if the regulators started to step in and force Apple to change or open up its product, which might be also a challenge for them. So, Dave, thank you so much for joining us today. It was, as always, a ton of fun.

David Morris:

Yeah, great to be here, Rob. I love the new format.

Rob Rubin:

Yeah.

David Morris:

And thanks for having me.

Rob Rubin:

Awesome. I'll speak to you later.

David Morris:

Okay doke.

Rob Rubin:

I want to thank everyone for listening to the Banking and Payment Show, an eMarketer Podcast sponsored by TransUnion's TruAudience Credit Inform Marketing Solutions. Also, thank you to our editor, Todd. In today's episode, we referenced two articles we recently published on Apple Pay and data from our new mobile Proximity Payments Forecast Report. We have links in the show notes. Our next episode is on June 13th, and you'll not want to miss it. See you then.