

Major US banks plan to take on ApplePay and PayPal with a new digital wallet

Article

The news: Major US banks are banding together to create a digital wallet in hopes of staving off increasing competition from rivals like **ApplePay** and **PayPal**, [per](#) The Wall Street Journal.

More on this: Large banks including **Bank of America**, **JPMorgan Chase**, and **Wells Fargo** will all offer the digital wallet, which will hold consumers' debit and credit cards.

- The wallet, which has yet to be named, will be supported by Early Warning Services—the same fintech that powers payment app **Zelle**.
- When launched, the new digital wallet will support **Visa** and **Mastercard**, reaching over 150 million customers.
- The details around how the wallet will work are still unclear, but the banks plan to begin rollout of the wallet in the second half of 2023.

Why are banks doing this? The banks' new payments service might seem redundant with Zelle, but there are some key reasons why they might benefit from this move:

- **Better fraud controls:** Rampant fraud has plagued Zelle, and banks may have to reimburse customers affected by payment scams. If the banks' proprietary digital wallets are safer than Zelle, they will not only cement consumer loyalty, they'll also keep more money in their own pockets.
- **Stave off competition:** Big Tech is starting to claw deeper into the consumer banking space. Large firms like **Apple** and **Google** are taking deposits, offering consumer credit, and even providing insurance products. Traditional banks seeking to remain a one-stop shop for consumers must match or improve on their competitors' offerings.
- **Challenging economic outlook:** The threat of a recession and rising inflation have forced banks to increase their loan loss provisions—taking a chunk out of their profits. The economic outlook remains uncertain, as it's unclear whether the Fed will continue to fight inflation with rising interest rates or reverse course. Banks may soon see their net interest income lifeline run dry.

Will it work? For this initiative to succeed, banks must overcome a series of challenges, put in the time and work, and be patient.

- Banks will be hard-pressed to attract non-casual customers, especially with so many consumers already fiercely loyal to more established competitors like Apple. Banks also have a poor track record in payments, thanks to the controversy around Zelle.
- While the banks' desire to address the fraud associated with Zelle is noble, they'll need to completely solve the fraud problem to make an impression on consumers. A slight

improvement won't be enough to attract new customers. Banks must ensure consumer data security is iron-clad.

- Banks must strongly differentiate themselves from competitors. A similar offering won't be enough to entice consumers to switch their digital wallets. Banks will need to provide top-tier customer services and ensure their digital wallet offers unmatched ease of use.
- While banks began 2023 with major cost cuts, they must balance spending reductions with meaningful tech spending. A half-hearted investment in this venture could further hurt the banks' bottom lines.

Features That Would Make US Incumbent Bank and Neobank Users Feel Most Secure When Using Digital Banking, June 2022

% of respondents

	Incumbent bank users	Neobank users
I get guaranteed reimbursement for fraudulent transactions	67.1%	68.1%
I receive real-time alerts for sensitive transactions	50.8%	43.1%
My bank monitors for my stolen information online	42.8%	35.3%
I can enter a code from a text message or email to complete sensitive transactions	37.0%	29.2%
My bank provides me information on how to avoid fraud	20.9%	20.6%
I can set spending limits for my card	19.2%	20.1%
I can track my credit score through my bank	17.7%	18.5%
My bank tracks my location to confirm my identity	14.2%	14.4%
None of the above would make me feel secure when using digital banking	2.4%	5.8%
Other	0.1%	0.0%

Source: Insider Intelligence, "Spotlight: US Neobank Digital Trust 2022," Sep 2022
277307 InsiderIntelligence.com

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