Beyond Apple Pay: Opportunities for Banks in the Wallet Space

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Introduction

In July 2024 following the EU ruling, Apple opened access to the NFC antenna, enabling third parties to provide contactless payments on the iPhone. Until then the Apple Wallet was the only option for contactless payments on iOS, and banks and other third parties were limited to offering only Apple Pay for contactless NFC payments on Apple devices.

Following the announcement, Mobey Forum's member banks got together to discuss the implications of this development on banks' wallet strategies more broadly. In the discussion, they agreed that even though Apple's announcement opens new ways for banks to engage with their customers, it is very difficult for a single bank to succeed in creating a (payment) wallet, but rather the best recipe for success would be for banks to come together or for a third party to create a local wallet solution.

Furthermore, new entrants to the wallet market will find it hard to compete with the user experience of Apple Pay, but there is an opportunity to develop a wallet with superior user experience to the *Apple Wallet.* The opportunity lies in introducing elements such as digital identity and tokenised assets into the wallet experience.

What has Apple opened

Following Apple's expansion of NFC access for third-party apps on iPhones, users in the European Economic Area with iOS 17.4 or later can now execute NFC transactions directly through compatible iOS apps, powered by Host Card Emulation (HCE)

With the iOS 18.1 update, developers will gain the ability to leverage thSecure Element (SE) for NFC transactions from within their apps. This update is available in Australia, Brazil, Canada, Japan, New Zealand, Switzerland, the UK, and the US. (Source: https://developer.apple.com/)

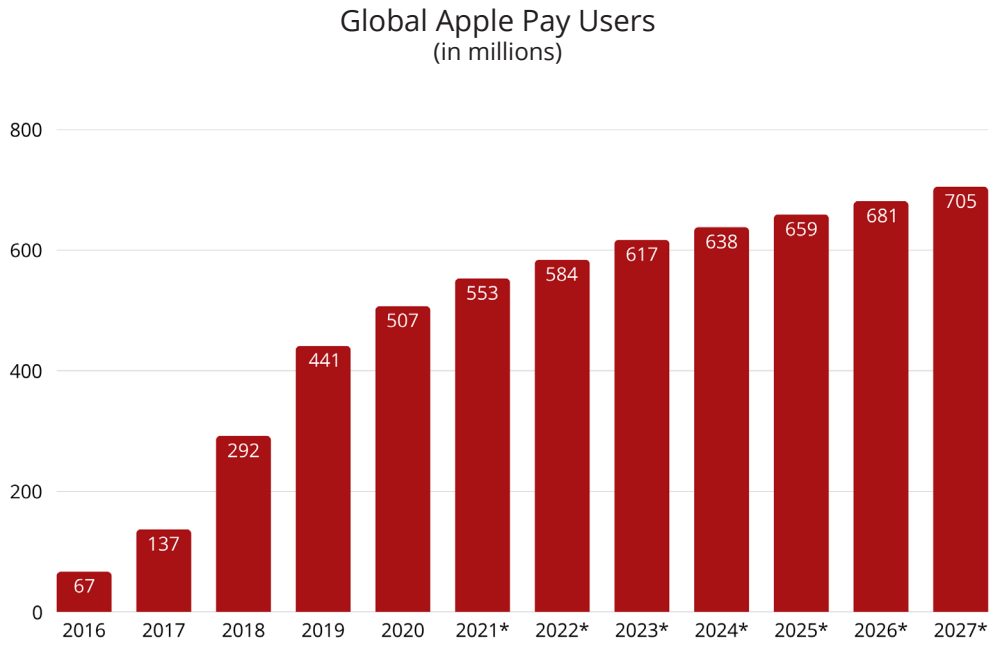
While the underlying mechanisms differ between HCE and SE, the front-end experience is consistent. As it stands today, when it comes to tap-to-pay payments, the customer experience, such as default payment selection, field detection, double-click authentication, etc. remains largely the same on HCE and SE.

From a value proposition standpoint, SE extends beyond payments to include identity use cases, such as government-issued IDs.

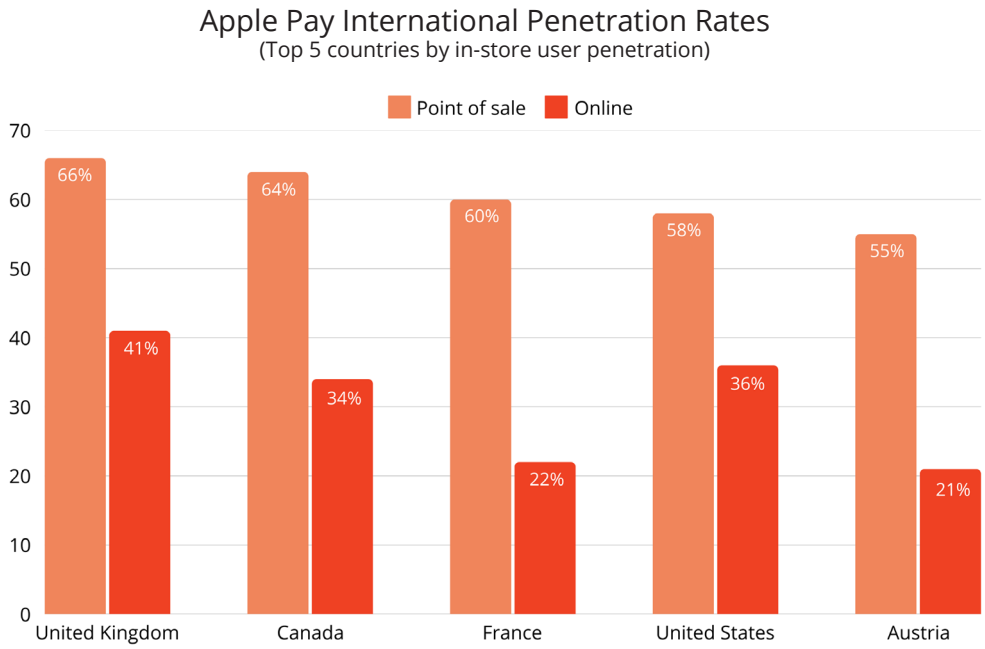
Table 1: Apple NFC Access - Regional Differences

	Regulatory driven	Voluntary
Regions	EEA	Australia, Brazil, Canada, Japan, New Zealand, the UK, the US, Switzerland
Technology	Host card emulation	Secure element
Use cases	Payments, transit, loyalty etc	all + identity
Fees	Free of charge	Charges apply
Key dates	July 2024	August 2024

Apple Pay: A Snapshot



*Estimate or projection



Source: https://capitaloneshopping.com/research/apple-pay-statistics/

Implications for Banks' Wallet Strategies

European Union's ruling prompts banks to consider their options: should they stick to the status quo, wait for alternative solutions to emerge in their markets, or invest in developing their own wallets?

There are arguments for banks to create their own wallets – such as being able to directly influence the user experience, reducing costs, increasing app engagement, and creating a top-of-wallet experience, but while these are desirable goals for a bank, this ship may have sailed already. A successful single-bank-owned wallet seems to be exceedingly difficult to accomplish as there is no business case for the banks and no added value for merchants or customers. The cost of transaction for a single bank-owned wallet can be even higher than that of Apple Pay.

Furthermore, a study by Consult Hyperion reveals that a key feature of successful wallets today is that they are bank-driven, but not single-bank wallets.

A more viable option could be collaborating or participating in a wallet that is not the bank's own as this could still increase the ability to engage with customers. Existing wallets where banks collaborate, such as Bizum, Vipps, Blik, Swish, and Twint, demonstrate that banks joining forces to create a wallet is a viable approach and it can be successful.

However, this strategy is not without its challenges either. The difficulty for banks to go in this direction is twofold:

- All large banks in the specific market need to agree and invest in the common solution.
- Even though the customer experience of the wallet can be better than Apple Wallet, all banks will have the same customer experience when it comes to the wallet, leaving little room for differentiation.

What Does a Successful Wallet Include

The business case for launching a wallet that focuses solely on payments is no longer compelling. Payments are undoubtedly a critical component of any wallet but competing with Apple Pay on the payment functionality alone is probably an impossible task – the user experience of Apple Pay is already seamless and offers little room for improvement. A competitive wallet must go beyond payments to offer a broader range of features and an enhanced user experience. New wallets have an opportunity to provide a better user experience by addressing limitations of the customer experience of the Apple Wallet. This is the area where banks can win if they join forces.

Collaborative bank wallets could also integrate digital identity services to enhance wallet functionality. Credentials such as concert tickets or hotel bookings can be tied to secure customer identities, creating added convenience and security. With the increasing importance of sensitive credentials, banks are well-positioned to become trusted custodians of these assets.

By leveraging their reputation for security, banks can differentiate their offerings. Digital identity (and other verified credentials) and CBDCs (and other tokenised assets) are very valuable assets compared to a tokenised card number and storing and exchanging these assets via NFC should be handled by entities more strictly regulated than a tech company like Apple. This provides a strong opportunity for banks.

Another potential avenue for innovation is the development of context-aware wallets that intelligently select the best payment method based on the user's location or transaction type, enhancing convenience and stickiness.

For example, on top of the payment method, the wallet could display the bank's other offers, such as instalments or other Buy-Now-Pay-Later (BNPL) options, whether card-based or not.

Some less transformative, but already existing examples of enhancing the wallet's user experience can be found with Twint. Twint has included features beyond payments with services like parking, loyalty, and gamification elements. Its consistent and convenient customer experience has been key to its adoption.

One major challenge for new entrants to the wallet market will be convincing users to switch from Apple Pay and Google Pay to their wallets. They can enhance their appeal by introducing value-added services, as described above. Other, more immediate ways of attracting users to the wallets could be through cashback rewards, building in a social element that leverages people's relationships, or fraud reduction through secure app-based communication.

To compete effectively, local players have the advantage to leverage local knowledge and tailor their offerings to the regional market. Apple's global dominance doesn't account for local nuances, and this presents an opportunity for banks to differentiate their wallets.

Moreover, while opening NFC access addresses some technical barriers, acceptance remains an issue, particularly for account-to-account (A2A) payments. A2A payments are gaining traction globally, with even players like Mastercard and Visa entering the space.

CASE STUDY: Vipps MobilePay Introduces Tap-to-Pay on iOS

On December 9, 2024, Vipps MobilePay became the first company in the world to launch a tap-to-pay feature on iOS on the third-party app Vipps. At the same time Vipps MobilePay also launched on Android to provide same feature to all Norwegian Vipps app users regardless of device choice.

The Vipps MobilePay's tap-to-pay solution on iPhones is built using HCE (Host Card Emulation) technology, enabling NFC transactions without relying on a physical secure element. The service currently supports BankAxept cards, with plans to include Mastercard and Visa in the near future. Loyalty features have also been introduced, allowing users to manually link loyalty cards, although efforts are ongoing to streamline and enhance this functionality. The user can

choose to make the Vipps wallet the default option and use the double-click functionality for fast payment.

Resolving Challenges in Development

Developing the tap-to-pay feature within the required timeframe was not straightforward and some aspects of the process required special attention:

- Finding and integrating the right SDK supplier.
- Reaching agreements with card issuers to ensure their inclusion.
- Coordinating work across companies in different time zones and with diverse cultures.
- Conducting extensive testing to ensure reliability and a good user experience.

Next Steps

Vipps MobilePay has outlined plans for 2025 that include:

- Expanding to support international cards, as the service currently only works with Norwegian cards such as BankAxept.
- Launching tap-to-pay in Denmark and Finland
- Adding more advanced loyalty features to improve user engagement

Market Dynamics in Norway, Denmark, and Finland

In Norway, tap-to-pay was introduced by Vipps MobilePay in a market where Apple Pay had not yet been launched by all major banks. However, several of these banks also introduced Apple Pay in parallel with support for Vipps tap-to-pay, creating direct competition

Apple Pay is already well-established in Denmark and Finland, which means Vipps MobilePay will need to persuade users to switch.

About Vipps MobilePay

Vipps MobilePay is one of Europe's largest fintech companies based on one Nordic mobile wallet and 2 brands: Vipps in Norway and Sweden, and MobilePay in Denmark and Finland. Vipps MobilePay serve a total of 12 m users and +400.000 shops and online stores.

Source: Vipps MobilePay

Conclusion

The EU ruling for Apple to open the NFC access compels banks to reconsider their strategies in the wallet ecosystem. While single-bank wallets offer control over user experience, they lack a viable business case. Trying to compete with Apple Pay's seamless user experience may not be worth the effort, but at the same time, the Apple Wallet leaves plenty of opportunity for developing a better solution. Collaborative wallets among banks emerge as the most potential strategy: successful wallets Vipps, Twint, Swish, and Bizum highlight the potential of joint efforts.

To compete, wallets must go beyond payments, integrating value-added features such as digital identity services and regionally tailored solutions. However, market fragmentation remains a challenge, as an oversupply of wallets could push consumers toward the simplicity of Apple Pay. Regulatory support could be a force to foster collaboration and mitigate fragmentation.

The challenge remains in getting banks to agree on collaboration and finding ways to differentiate their offering if they do collaborate.

A Mobey Forum report on account-to-account wallets coming out soon!