THE FEDERAL RESERVE
FedPayments Improvement

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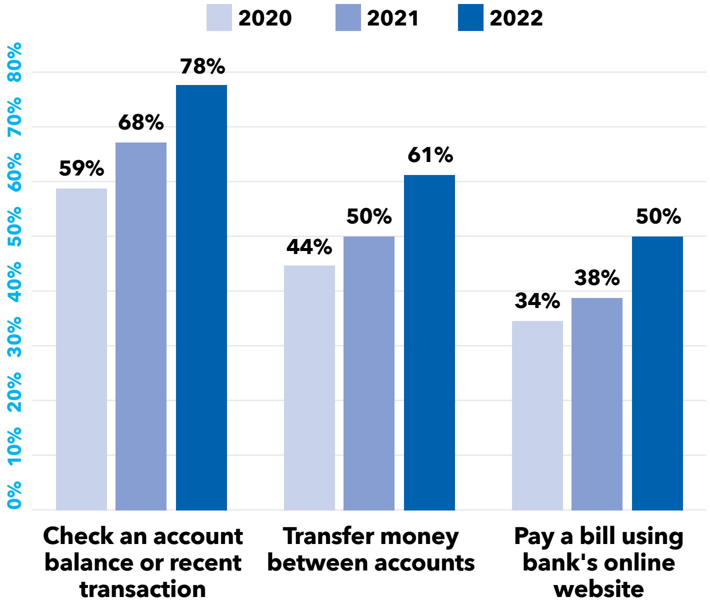
MARKET READINESS BRIEF:
Faster, mobile payments go mainstream as Gen X usage catches up to millennials

Executive summary

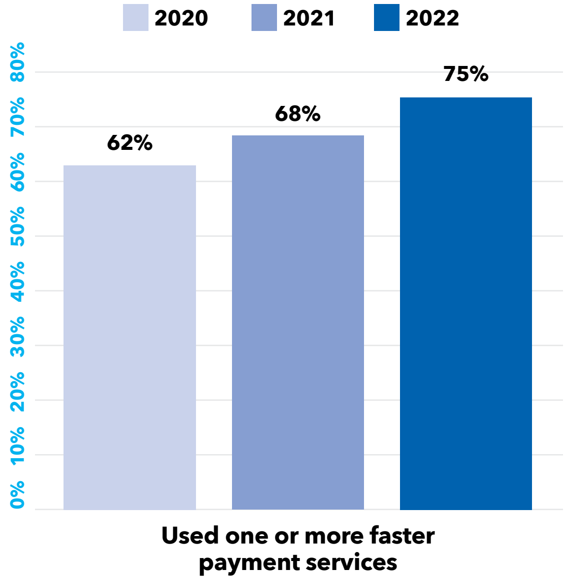
Faster, mobile payments went mainstream in 2022. Mobile payments were used by 74% of the U.S. in 2022 (up from 10% in 2013) and digital wallets were used by 38%. Generation X users (ages 35-54) caught up with millennials (18-34) for the first time in use of mobile devices for banking activities – frequently checking balances, transferring funds and paying bills from a mobile device.

While consumers ages 35-54 are more likely than younger customers (21-34) to have multiple accounts, hold higher deposit balances, and use more profitable services, over half of all consumers surveyed (53%) are now using non-bank mobile apps to make faster payments.

MAINSTREAMING OF MOBILE PAYMENTS
Ages 35-54 – Generation X



FASTER PAYMENT USE
Past 12 Months – Overall



DEFINITIONS

For this report, "faster payments" encompass electronic payment services that provide funds to the payee within seconds or up to a few hours of initiation by the payer, including:

Instant payment services credit the payee's deposit account within a matter of seconds of initiation; some instant payment services are designed to enable transmission of rich data, like extended remittance details, with the payment.

Same-day ACH credits the payee's deposit account by end of day if payment is initiated by the midday cutoff.

Push to card credits the payee's debit card account within minutes of payment initiation.

Digital wallet apps credit the payee's digital wallet within minutes of payment initiation, but funds must be transferred to a bank account for use outside the app's network.

Other key findings

During the second half of 2022, the Federal Reserve Banks[1] commissioned a survey of consumers' interest in and readiness for faster/instant payments. Key findings include:

Continued mainstreaming of mobile and digital commerce:

- Consumers ages 35-54 now use smartphones more often than younger consumers (21-34) for activities such as checking account balances, making bill payments and account-to-account transfers.
- Sixty-seven percent of consumers prefer banking online as opposed to visiting a branch, up from 61% in 2020.
- Most consumers (74%) have now used some form of mobile payment, up from 10% just a decade ago.

Payments are becoming more embedded:

- Most consumers (75%) are already using faster payments, and 61% say they are likely to use them more often in the future.
- The percentage of consumers using one or more payment apps increased by about 50% between 2021 and 2022.
- Nearly a quarter (24%) of consumers indicate they are open to paying a premium for faster/instant service delivery, at least occasionally.
- Consumers note a variety of situations where they could leverage faster/instant payments, including person-to-person (57%), account-to-account (32%) and last-minute bill payments (30%).

Consumers are satisfied with their current financial institutions and expect them to offer faster payments:

- Eighty-two percent of consumers indicate they are satisfied with their current bank, consistent with previous years.
- Nearly 7 in 10 (69%) of consumers think it's important for their primary financial institution(s) to offer faster payments.

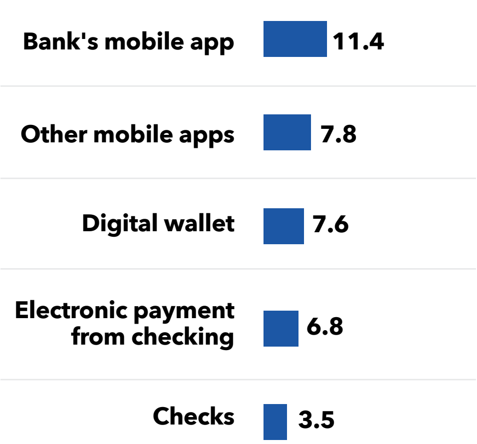
Online and mobile financial services are the new normal

Nearly two-thirds of surveyed consumers indicated they increasingly manage their relationship with their primary financial institution(s) predominantly online or via their mobile devices.

In 2020, younger (18-34) consumers led the way in using mobile devices for banking activities. More recently, middle-aged (35-54) consumers have become the most frequent users of mobile devices for banking activities, including checking balances, transferring money between accounts and making bill payments.

AVERAGE MONTHLY USE BY PAYMENT TYPES

(n=2,005)



These changing behaviors are reflected in the frequency of visiting physical branches, with 70% of those ages 35-54 indicating they only visit their financial institution's branch occasionally, if at all – as compared to those age 55 and older (65%) and those who are 18-34 (63%).

At the same time, younger (18-34) and middle-aged (35-54) consumers used mobile payment apps more often in 2022 than previous years. About 64% of 18- to 54-year-olds are regular users of digital payments and mobile payment apps, compared with only 31% of those 55 and older.

As shown in the chart to the left, those who use their mobile devices for payments tend to do so frequently (over 10 times per month). Regardless of their age group, consumers use their primary financial institution's mobile app most often. Frequency of use is lower for digital wallet apps and other fintech payment apps – about 7.6 and 7.8 times per month on average, respectively.

1 The survey was conducted by Federal Reserve Financial Services, a collaboration of the twelve Federal Reserve Banks. Federal Reserve Financial Services markets the FedNow℠ Service, an instant payment service, and ACH services including Same-day ACH.

In general, consumers are highly satisfied with the mobile payment apps they use. On a scale of 1 to 10, with 10 indicating the highest level of satisfaction, mean ratings of bank mobile apps are around 9, with ease, convenience and speed being the primary reasons cited for satisfaction. For example, one survey respondent stated, "I have added apps [just] so I can pay people when we go out. It's not what I use [all the time], but if it's their only way of getting paid, I add the app."

Payment practices still lean traditional, but mobile options are gaining ground

When asked whether current economic conditions since the onset of the COVID-19 pandemic had changed their shopping behaviors, 56% of surveyed consumers indicated that shopping online versus in person had become more desirable, and 47% indicated that contactless payments were of greater preference. In addition, monitoring fraud and having the ability to pay using a mobile device have continued to be important to surveyed consumers (58% and 45%, respectively).

The increased use of mobile devices to make payments has expanded the number of options available to everyday consumers. Consumers still use traditional payment options extensively, including cash and checks, depending on the situation.

In 2013, just 10% of consumers had made a mobile payment, compared with 74% of consumers in our 2022 study.

Usage of the various payment options depends on the use case or payment situation. For example, more than half of consumers have used cash in the past 12 months for in-person purchases (point of sale) and person-to-person (P2P) transactions, but considerably fewer have used cash to pay taxes or household bills. In contrast, approximately 58% of consumers turn to credit cards when making some in-person and online purchases, and more than half use debit cards for some in-person purchases. Electronic payments (i.e., direct debits from checking accounts) are also popular, particularly for household bills.

In 2013, just 10% of consumers had made a mobile payment, compared with 74% of consumers in our 2022 study – a seven-fold increase in mobile payment usage in less than 10 years.[2] Today, consumers use different types of mobile apps selectively, depending on the payment situation. For example, 37% of consumers have used their bank mobile app to pay a household bill, compared to those who have used Zelle (12%), digital wallets (10%) or "other" fintech mobile apps (18%) to do so. In contrast, 28% have used other mobile apps for online purchases (e-commerce) and 38% have used them for person-to-person transactions, but only 9% have used bank mobile apps for these two payment use cases.

To a certain extent, this pattern is due to the reach of the various networks. With their original focus on P2P transactions and the relatively broad consumer adoption of fintech mobile apps, it makes sense that a larger share of consumers would use these apps for P2P payments. In contrast, banks and other traditional financial institutions have focused on bill payment services for both their consumer and business customers, making their mobile apps a more logical choice for paying household bills. However, it is noteworthy that mobile apps have made significant inroads into online purchases, most likely because of their efforts to expand the types of financial services offered to their business and consumer users.

2 A similar study conducted by the Federal Reserve Banks in 2013 found that 10% of consumers had used a mobile device to make or receive a payment in the prior 12 months.

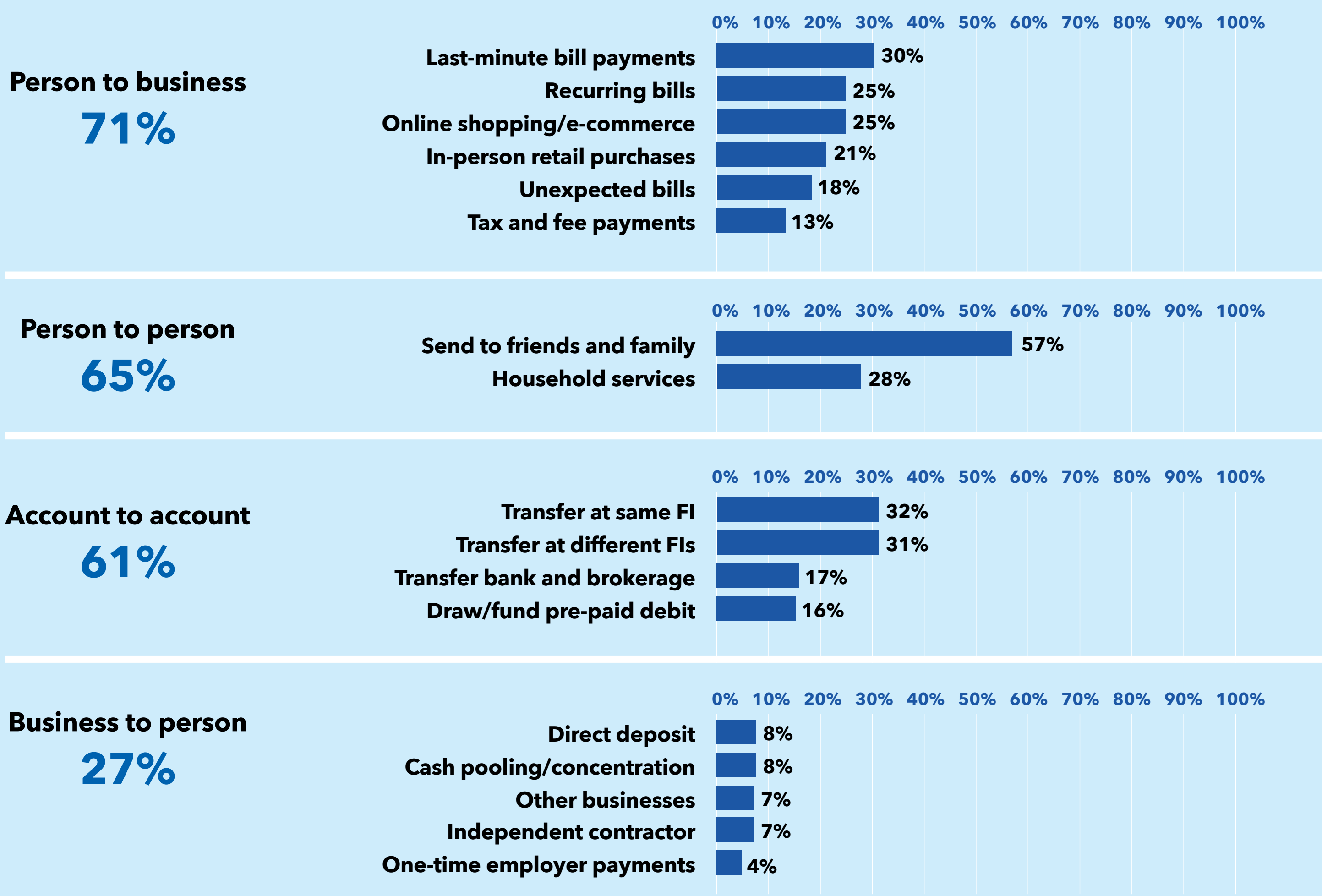
Consumers see the benefits of faster payments in an always-on, on-demand world

With the increasing emphasis on online, mobile and on-demand commerce, 61% of surveyed consumers overall expect to be using faster/instant payment options more extensively in the future, particularly options that offer robust fraud protections. As for mobile payments generally, however, only 43% of older consumers (55+) expect to use faster options, compared with about 74% of 18-54-year-olds. The shift toward using online and mobile channels for commerce that occurred during the COVID-19 pandemic appears to have had an impact on consumers' interest in using faster payments for in-person transactions as well: 65% of consumers indicated they were at least "somewhat likely" to use faster payments for paying friends and family, and 44% indicated they would use faster payments for in-store (point-of-sale) as well as online retail purchases.

This suggests that consumers' interest in using faster/instant payments goes beyond P2P; they would like to use faster payments for a variety of situations and use cases. Specifically, 71% are interested in using faster payments to make payments to businesses, and 61% would like to use faster payments to transfer funds between personal accounts.

The chart below provides a breakdown of the individual payment scenarios, or use cases, consumers are most interested in. In the person-to-business (P2B) category, last-minute bill payments, recurring bills and online shopping payments top the list. Having the ability to use faster payments for last-minute bill payments is important to consumers because, as one respondent stated, "The top challenge I have for paying bills is the due dates for the payment. I sometimes need to be a little late with the payment; it depends on when I get paid." And it is noteworthy that for last-minute bill payments, older (55+) consumers were significantly more likely than the two younger cohorts to express interest in faster payments.

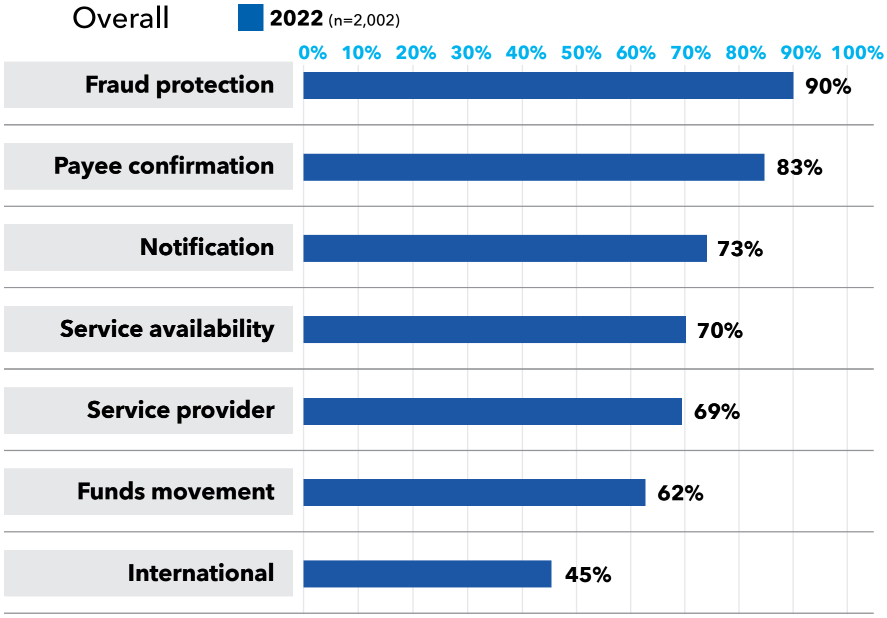
POPULAR USE CASES FOR FASTER PAYMENTS



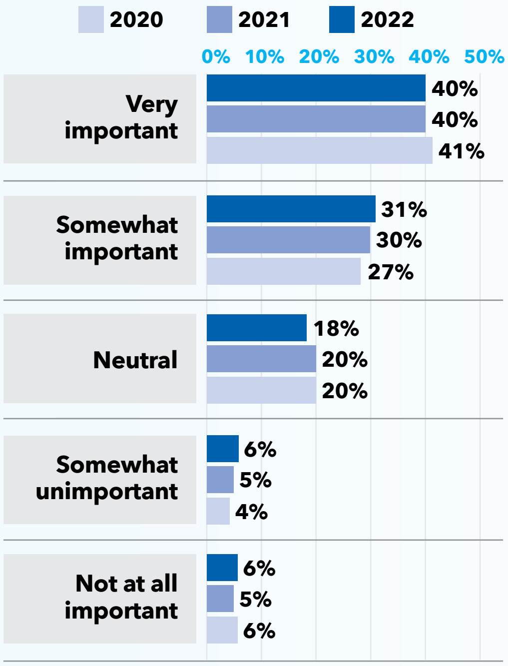
With respect to account-to-account transfers, the ability to use faster payments to transfer funds between accounts at the same institution and at different institutions drew similar levels of interest. In contrast, being able to instantly fund prepaid cards or make transfers to and from brokerage accounts appear to be relatively more attractive to certain consumers, depending on their age and stage of life.

The features consumers are looking for in a faster payment service closely reflect the needs of on-demand commerce and an always-on way of life. The two most frequently cited features of importance, fraud protection and payee confirmation, are essential to consumer confidence in the safety and reliability of online and mobile commerce, so it is no surprise that 90% and 83% of consumers prioritized these features, respectively. Likewise, receiving immediate notification that the intended payee got the payment, or that the funds from an expected payment are available, is important to 73% of consumers. As one survey respondent put it, "When I make the payment or send a payment, I like to see it come out of my bank sooner rather than later."

IMPORTANCE OF FASTER PAYMENT FEATURES



IMPORTANCE THAT FINANCIAL INSTITUTION OFFERS FASTER PAYMENTS

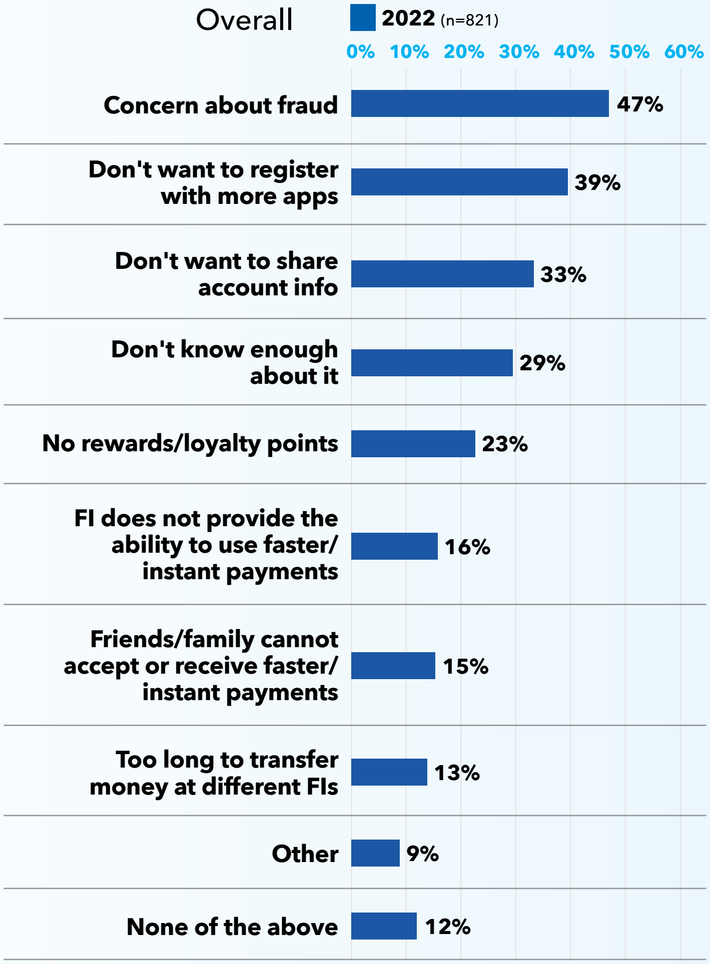


7 in 10 surveyed consumers, including most under 55, want and expect the financial institution(s) they use to offer faster payment services with many of the above features.

Broad adoption of faster payments faces some hurdles

For the roughly 40% of consumers who indicated limited or no interest in using faster payments, their reasons were varied – but as the chart below shows, the top area of concern was the potential for fraud, with nearly half citing that as a potential barrier. Accordingly, faster payment services that ensure users will not be responsible for fraudulent transactions may be able to attract some of these consumers.

BARRIERS TO ADOPTION



Nearly 4 in 10 consumers indicated that they don't want to register with "yet another app," although this barrier was cited less frequently than prior years.

Similarly, about one-third cited not wanting to share account information, a likely corollary to their fraud concerns, although this reason for not wanting to try faster payments was down significantly from previous years. This lack of knowledge about faster payments illustrates the need for broad marketing efforts that tout the benefits of faster payments as well as strong public education programs and safeguards to help protect people from fraud and scams.

Conclusions and implications

The results of this survey of consumers suggest that a significant majority are already using some type of faster payments, including most of the 74% using their mobile phone to send and receive payments. While P2P transactions have been (and will likely continue to be) a prominent use case for faster payments, consumers are eager to use faster payments for other use cases as well. This is especially true for those under the age of 55. For them, the benefits of doing so are clear:

- Convenient, 24x7x365 availability, anytime, anywhere – aligning with how consumers interact with people and businesses today.
- Improved money management capabilities with real-time notifications of payments received, coupled with real-time funds availability, as well as accurate, up-to-the-minute views of account balances that enable consumers to manage discretionary online and in-person purchases.
- Greater flexibility to make recurring and last-minute bill payments with the assurance that the payments are reaching the intended recipients in real time.
- Easier and faster funds transfers between accounts.

The keys to broad adoption of faster payment services include providing robust fraud protection and enabling consumers to pay everyone they choose without having to sign up for a plethora of payment apps. Financial services providers that leverage faster payments to create a suite of instant financial services will be well-positioned to meet consumer needs in an increasingly digital and on-demand economy.

About the survey respondents

The objective of this survey was to assess consumers' current payment practices, awareness of potential benefits of faster payments, and interest in adding faster payments to their available options. Through an online questionnaire, household financial decision-makers[3] provided information on their personal payment activities, their familiarity with and usage of different types of faster payments, and their views on the benefits they expect from using faster payments.[4] They also identified factors affecting their willingness to adopt faster payments. The survey sample included 2,002 adults stratified by age and income in the United States. Table 1 shows the breakdown along key demographic lines:

Table 1: Summary Statistics for Demographics	
Household Income:	
<$35k	25%
$35k-$99k	39%
$100k+	36%
Age:	
18-34	27%
35-44	35%
55+	38%

3 Household financial decision-makers include those who are responsible for "some" or "all" of the payment decisions for their households.
4 The online survey was conducted on behalf of Federal Reserve Financial Services by Phoenix Marketing International with the panel-based sample provided by Dynata and Lucid. The sample of 2,002 was stratified by age and income and allows for a sampling margin of error of +/-3% at a 95% confidence level.

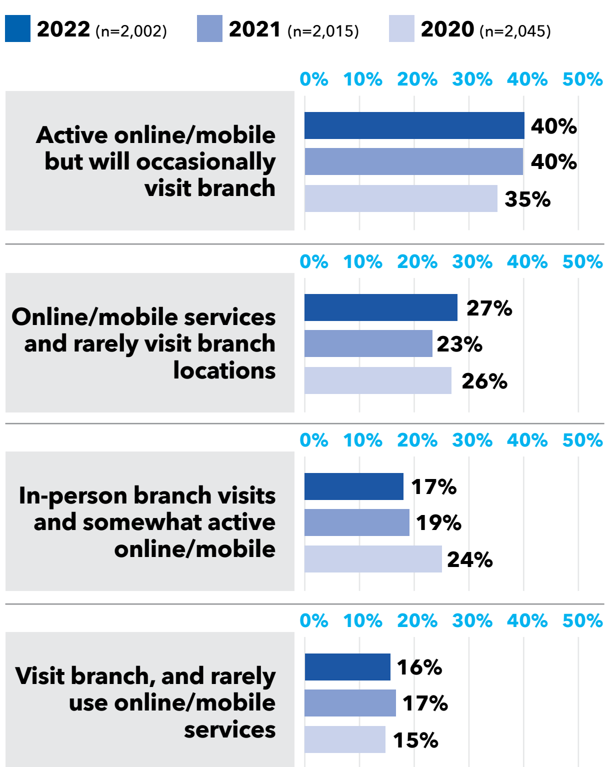
Appendix

ONLINE AND MOBILE BANKING BEHAVIOR BY AGE

	18-34			35-54			55+		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Check an account balance or recent transactions	56%	74%	65%	59%	68%	78%	38%	44%	48%
Make a bill payment using your bank's online banking website or banking app	37%	38%	42%	34%	38%	50%	20%	25%	29%
Receive an alert from your bank	43%	40%	46%	37%	46%	45%	18%	21%	27%
Transfer money between your bank accounts	51%	54%	42%	44%	50%	61%	21%	26%	30%
Send money to relatives or friends within U.S. using bank's app	30%	36%	34%	27%	25%	32%	5%	12%	13%
Send money to relatives or friends outside U.S. using your bank's app	6%	21%	11%	13%	10%	10%	1%	2%	2%
Deposit a check to your account electronically using mobile phone camera	34%	38%	34%	34%	39%	42%	21%	26%	29%
Locate the closest in-network ATM or branch for your bank	27%	26%	28%	20%	24%	27%	12%	12%	12%
None of these	8%	5%	12%	24%	12%	5%	52%	46%	37%

BANKING CHANNEL PREFERENCES

Overall



PAYMENT METHODS USED IN THE LAST 12 MONTHS BY SITUATION

	Overall n=2,002	Household Bills	In-Person Purchases	Online Purchases	Person-to-Person	Taxes
Cash	75%	25%	56%	–	55%	10%
Credit or charge card	68%	40%	57%	58%	–	16%
Debit card	63%	40%	54%	48%	–	24%
Electronic payment*	56%	46%	–	8%	6%	28%
Other mobile payment apps	53%	18%	11%	28%	38%	6%
Check	48%	26%	4%	–	20%	33%
Bank's mobile app	37%	28%	8%	9%	9%	12%
Zelle	29%	12%	5%	5%	25%	–
Digital wallet	25%	10%	12%	14%	8%	5%
General purpose prepaid card	7%	2%	3%	4%	–	2%
Wire transfer	7%	3%	1%	1%	2%	2%
Digital currency	6%	3%	2%	3%	2%	1%
Money service	6%	3%	–	–	3%	1%