VISA

Visa Consulting & Analytics (VCA)

Digital wallets

In pursuit of a profitable business model

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Weighing up the digital wallet opportunity in the CEMEA region

In January 2023, Visa Consulting & Analytics' (VCA's) team of global payments advisors outlined 10 trends set to shape the payments landscape, formulated using VisaNet data, expert interviews, and in-house research.

In this paper, we provide a CEMEA perspective on: Trend #6 – "Mobile Wallets Are Becoming Universal" – by shining a spotlight on wallets in the CEMEA region, identifying the characteristics of successful wallets, and looking at what is needed to achieve profitability.

In recent years, digital wallets have shot from the niche to the mainstream.

Their use has taken off in every region of the world, the growth trajectory remains strong, and virtually every player involved in the digital payment ecosystem needs to consider how, when and why they should engage with the world of wallets – and whether they should go so far as to launch a wallet of their own.

The stakes are considerable. It is estimated that, by the start of 2023, digital wallets accounted for 49% of global e-commerce payments and 32% of global POS payments, accounting for around US$18 trillion in consumer spending. They are also rated as the fastest growing payment method globally, with compound annual rates through to 2026 forecasted at 15% for POS and 12% for e-commerce.[1]

As ever, the picture across the CEMEA region is diverse. There are already several digital wallet hotspots, while most other markets are rapidly playing catch-up. Across the Middle East and Africa, for example, growth has been strongest in e-commerce, with digital wallets share expected to increase from 20% to 27% in payments volume compared to POS which is expected to grow from 13% to 24% through to 2026.[2] Meanwhile, in Central and Eastern Europe and the Commonwealth of Independent States, the use of digital wallets is expected to grow from 18% to 33%.[3]

Given the prominence of wallets in the payments landscape, many incumbent banks and established fintechs are facing a strategic dilemma – do they launch their own wallet or are they better stepping aside of the game.

Consequently, many intend to launch a wallet of their own or are already in the process of doing so.

The competitive landscape for wallets is varied and dynamic. In most countries, several wallets co-exist comfortably, and there's typically ample space for new entrants. But sometimes it's a "winner takes all market", with one or two dominant players creating strong network effects, and a long tail of smaller challengers that failed to take off and gain scale. Players range from fintechs, neobanks and established banks to super apps, big tech and device manufacturers, with local and regional players leading the pack in most countries.[4]

Another interesting thing about the market is the range of business models that have emerged. Many players have entered the market. Each has taken a different strategic approach. But, although plenty have gathered momentum, very few have achieved profitability.

In this paper, Visa Consulting & Analytics (VCA) lays out its analysis. We take stock of market developments in the CEMEA region, evaluate the strategic options open to any players that wish to enter the market or refine their existing wallet proposition, and set out a path to profitability.

1. FIS/Worldpay, Global Payments Report 2023, 2023: available via https://www.fisglobal.com/en/global-payments-report
2. FIS/Worldpay, Global Payments Report 2023, 2023: available via https://www.fisglobal.com/en/global-payments-report
3. Corefy, Entering the Central & Eastern European market: business and payment trends, 2021: https://corefy.com/blog/entering-the-central-eastern-european-market-business-and-payment-trends
4. FIS/Worldpay, Global Payments Report 2023, 2023: available via https://www.fisglobal.com/en/global-payments-report

Executive summary – five key learnings

This paper provides the detail and some of the evidence base. It can be boiled down to five main learnings:

Learning #1

There isn't a silver bullet business model

A wide range of solutions has emerged which, collectively are referred to as digital wallets. They all have different business models, follow different design approaches, and pursue different strategic objectives. The one thing they have in common is that they all enable customers to make digital payments.

Learning #2

Everyone has something to gain (or lose)

A digital wallet can be capable of creating value and strategic advantage for many different types of organization (such as telco operators, tech companies, fintechs, and incumbent banks). Conversely, the absence of a robust wallet-related strategy can leave them at a competitive disadvantage.

Learning #3

It's a tough way to make money

Countless wallets have been launched. Many have reached significant scale. But, so far, very few of them have achieved profitability. Any wallet player needs to think hard about the wider business case, how long it intends to subsidize loss-making operations, and what the best path is to profitability.

Learning #4

There may be at least two routes to profitability

At VCA we have analyzed the wallet landscape in-depth and concluded that there may be at least two routes to profitability, which enable players to monetize and/or offset the costs – one is to become a niche payment specialist, the other is to transform into a full-service digital bank.

Learning #5

VCA can help

Based, as we are, in the world of payments, VCA has in-depth expertise in the core functionality of a digital wallet (namely its payment capabilities) or a digital challenger bank. And, via multiple wallet-related consulting assignments, we have built a comprehensive offering to advise clients on all stages of the digital wallet lifecycle.

Segmenting the world of wallets

The term digital wallet is applied to a bewildering array of different solutions – from single-function wallets that do nothing more than enable a particular type of payment, to true super apps which bring together a wide range of capabilities and services, like taxi hailing, food delivery, cinema tickets, and even wealth management within one easy customer interface.

So, to begin with, it's worth segmenting the main wallet categories – or archetypes – and the business models that underpin them.

1 common denominator

The one thing that all wallets have in common is payments. Indeed, a typical definition of a digital wallet is "a storage place of secure information necessary to authenticate a customer and initiate an authorization process to make a transaction to purchase goods and services".[5]

2 main funding mechanisms

While every type of wallet enables some form of payment, there are two main funding mechanisms:

Bank or card-connected wallets

This category includes simple pass-through wallets and more complex staged wallets, which store payment information relating to the customer's connected payment card or bank account.

When a transaction is initiated, funds are moved from the customer's card or account to the seller.

Because these wallets do not store any monetary value and instead act as a conduit to a customer's pre-existing account details and/or payment credentials, they tend not to be heavily regulated. Typically, providers only need to be licensed as a Money Transmitter, Payment Service Provider (PSP), Payment Institution, etc.

Also, in some cases, full-service banks may launch wallets of this kind to enable customers to make mobile payments directly from their accounts.

Examples include:

- Apple Pay

- Google Pay

- ING Home Pay

Stored value wallets

This category operates in a similar way to a prepaid payment card, by assigning and maintaining a separate customer account. The customer needs to pre-load the funds in some way before they can transact.

These wallets are widely chosen by customers who value a high-quality UI/UX with adjacent value-adding features, or who do not have access to traditional banking services.

Because they store – and therefore take responsibility – for bona fide funds, these wallets tend to be more heavily regulated. In many cases, providers are licensed as an Electronic Money Institution (EMI), Digital Bank, etc.

Examples include:

- PayPal

- Venmo

- M-PESA

The distinction between bank / card-connected and stored value wallets - is the most essential differentiator defining the business model of a wallet.

5. This definition comes from Gartner, The Gartner Glossary: https://www.gartner.com/en/information-technology/glossary/digital-wallet. Most other definitions are very similar.

4 CVP archetypes

The plethora of wallets operating globally can be categorized into four main types of consumer value proposition (CVP): [6]

Type of digital wallet

Stand-alone wallets

Financial inclusion

Serve un/under-banked segments, acting as substitutes for bank accounts and enabling basic use cases.

Examples include:

- **easypaisa**
- **Tala**

Payment convenience

Conveniently replicate a physical wallet, acting as an instrument to drive engagement and loyalty.

Examples include:

- **Apple Pay**
- **PayPal**

Ecosystem players

Digital enablement

Serve un/under-banked segments, providing a fuller suite of quasi-banking services.

Examples include:

- **M-PESA**
- **Paytm**

Lifestyle enablement

Act as a lifestyle enabler, with frictionless payment services integrated within key ecosytems (e.g. e-commerce, travel etc.)

Examples include:

- **WeChat**
- **Alipay**

Under-banked segments | Banked segments

Target customer segment

6. Adapted from Oliver Wyman, Winner Takes All In The-Battle For E-Wallet-Supremacy, 2018: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/june/Winner-Takes-All-In-The-Battle-For-E-Wallet-Supremacy.pdf

Appreciating the strategic rationale

Many different players, from several sectors, have launched digital wallets for a multitude of reasons. So what, typically, is their strategic rationale? And what business objectives are they pursuing?

Here, we analyse their motivations on a sector-by-sector basis:

Industry sectors	Telco operators	Tech and fintech players	Incumbent banks
Typical objectives:	• Increase telco customer base stickiness and monetization • Enrich and create value from the customer ecosystem. • Diversify the business and unlock new revenue streams. • Increase financial inclusion among unbanked and under-banked people.	• Create new revenue streams with limited risk exposure. • Enrich the customer experience by adding a financial services dimension. • Stand out from the competition. • Ringfence the ecosystem around the core product.	• Defend the existing retail banking business in response to competitive pressures from fintech players (including other wallets). • Build internal digital expertise via a methodical test and learn approach. • Extend reach and relationships among underpenetrated segments.
Examples include:	• M-PESA • Etisalat • Airtel Payments Bank	• Samsung • WeChat • PayPal • Apple	• PayMe from HSBC • DBS Paylah!

Coming clean on the P&L

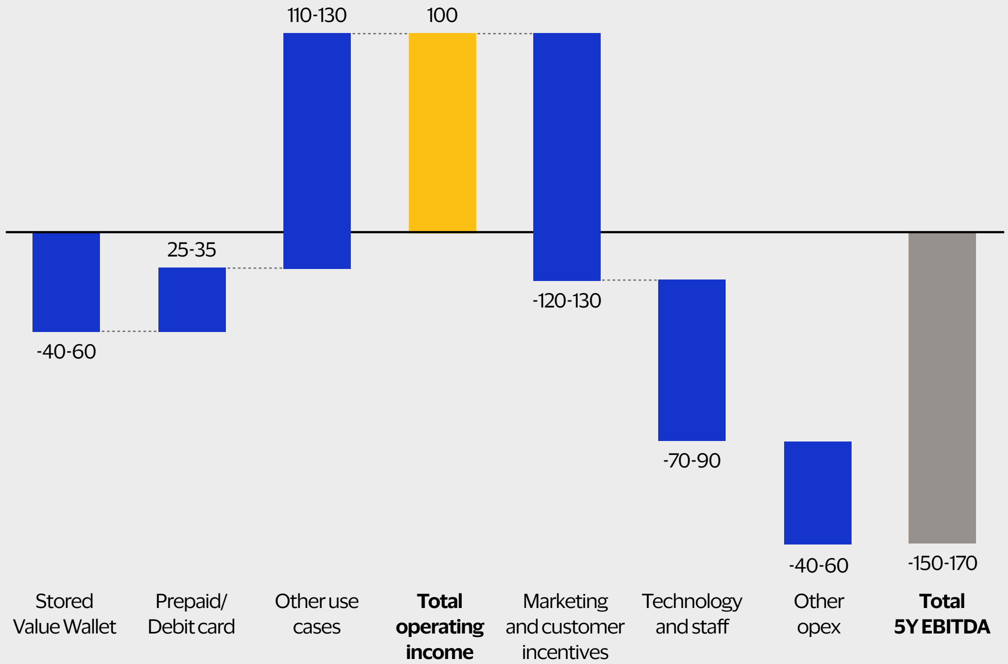
From VCA's analysis, very few digital wallets launched across the CEMEA region have achieved profitability.

From the outside, they may look like successful operations. Typically, they have strong brands, are operated by highly respected organizations, and gain considerable scale. Yet, even after achieving undisputable market success, most are not able to reach break-even or to start generating cash for their investors.

Let's look at an indicative example of a fictitious yet representative fintech project of a digital wallet in an established CEMEA market.

For illustrative purposes only:

Typical stored value digital wallet economics for five-year period after launch (indexed to 100 = total operating income)



First, it's critical to understand that, very often, the stored value wallet use case has a negative operating income, driven by the adverse impact of two factors. From one side, players tend to offer core wallet services (P2P payments, bill splitting, P2M payments, etc,) either free-of-charge or for a very small fee. And, at the same time, they need to absorb all of the wallet transaction costs and, most notably, the cost of the wallet funding transactions – which often exceed the income.

In this example, the operator has added some adjacent use cases (such as a companion payment card, bill payment functionality, remittances, and insurance, to name a few), which brought the total operating income into a positive zone. Yet, this income is not enough to cover general marketing, customer acquisition, and customer incentive expenses that the wallet player needs to bear to achieve the fast growth and scale demanded by investors. Combined with other costs, this leads to negative EBITDA numbers – a pattern we have seen repeated many times over.

Here are some real-life examples:

Middle East

A digital wallet launched by a fintech that had grown quickly by acquiring millions of customers and became one of the leading retail payment methods in the country. Yet, after several years of operations, the wallet business was still experiencing large operational losses.

Southeast Asia

In one Southeast Asian country, a bank-backed digital wallet has grown to become one of the nation's leading payment methods. Yet, after more than five years of operations, it was still making multi-million-dollar losses year after year.

Sub-Saharan Africa

A well-known digital wallet, that has a multi-million customer base spanning several countries in the region, still requires financial support from Its investors after several years of operations.

Pursuing a profitable business model – two potential routes to success

Although there can be no cast-iron guarantees of success, our experience in the market suggests that there may be at least two key routes to profitability, as taken by a relatively small cohort of successful wallet players that were able to build a profitable business. One route is to become a niche payment specialist, and the other route is to transform into a full-service digital bank. Let's consider them one-by-one.

Route one – becoming a niche payment specialist

With this strategy, the player identifies a prevalent payment need among a large segment of customers, which is unmet by existing payment methods, or is only poorly met by them. The player then sets out to meet that need with a digital wallet solution, delivering a seamless and simple payment experience combined with a world-class user interface (UI) design. A key success factor is to gain trust and to scale up quickly in order to create strong network effects and lock-in customers.

Here are a few examples of digital wallet players who are already profitable or stay very close to it:

Example #1: Global
An e-commerce payment specialist

Active since 1998, PayPal has acquired hundreds of millions active customers globally. It offers a high-end UX/UI, backed by strong security and purchase protection offer. It is also integrated with major online marketplaces (eBay, Amazon, Shopify, etc.). More recently it has diversified into new areas such as BNPL and crypto assets.

Example #2: US-based
A niche P2P player

Cash App (formerly Square Cash) is a mobile payment service available in the United States and the United Kingdom that allows customers to transfer money to one another. Founded in 2013 as a no-frills P2P payment app, it has since extended its offer to include storing funds, investing, and cryptocurrency trading, and is heavily used among some youth segments. For 2022, it was reported to have more than 51 active customers, generating a net profit of US$2.95 billion. [7]

Example #3: India-based
A cashless wallet for the under-banked

Founded in 2009, MobiKwik has more than 125 million customers across India[8]. Originally a mobile recharge and bill payment platform, it soon evolved into a full-blown wallet and offers a wide range of cashless payment and BNPL services to an under-banked population with many unmet financial needs.

7. Business of Apps, Cash App Revenue and Usage Statistics (2023), 2023: https://www.businessofapps.com/data/cash-app-statistics/
8. In its most recent annual report (relating to 2021/22), Mobikwik stated that it has 127 million users: https://documents.mobikwik.com/files/investor-relations/meetings/Annual-Report-FY-2021-22.pdf

Route two – becoming a full-scale digital bank

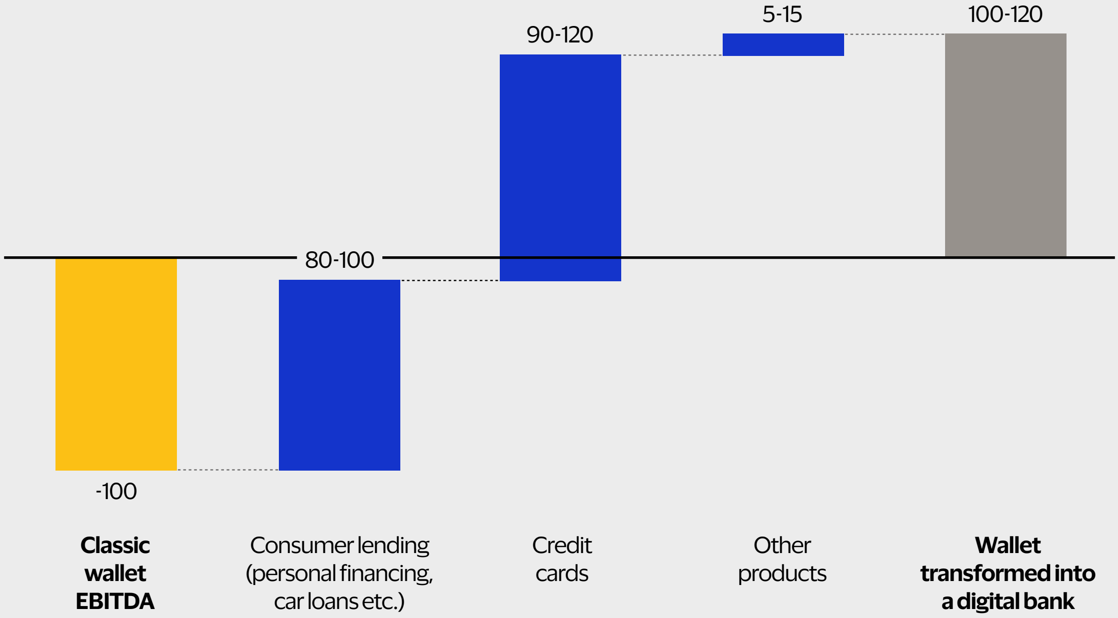
With this route, the player may start out with a classic digital payments wallet, but they have a clear intention to extend its functionality to cover a full range of banking products and services, such as consumer lending, credit cards, and savings and investments.

This can massively expand the income potential, bringing the net results into a profitable zone.

Let's look at an indicative example:

For illustrative purposes only:

Economics of a digital wallet turned into a digital bank (indexed to 100 = classic wallet EBITDA)



Again, this is a fictitious though representative example that illustrates the overall 'shape' of the economics on a mid-term horizon.

Clearly this route takes a wallet into core retail banking territory, and any player would need to be regulated accordingly, with a requirement for a digital banking license or, sometimes, a full banking license. Also, it is a feasible route for an incumbent bank stepping into a digital banking route (an organization that has the capability and appetite to secure the necessary licenses) or for a fintech that is prepared to cooperate with a banking partner.

However, it is important to understand, that launching a digital bank itself is not a silver bullet to success, as many digital banks also struggle to reach a profitable state. At VCA we have identified and analysed the characteristics of the world's most successful neobanks. And, across three business domains, we have arrived at seven success factors.

Identifying seven success factors for digital wallet and/or digital bank profitability

1. Select a clear and focused business strategy

2. Set out a clear roadmap to monetization

3. Build a strong ecosystem of partners

4. Strike a careful balance between free and paid-for services

5. Grab attention with a differentiating viral hook

6. Incentivize profitable behaviors through the CVP design

7. Create an effective and efficient technical infrastructure

How Visa Consulting & Analytics can help

As well as analysing the wallets market globally, VCA has worked on a range of wallet-related strategic planning, solution design, and market entry strategies, both within the CEMEA region and further afield.

Level 1 – Strategy

#1: Assessment of essential capabilities for digital wallet play

Identify **strategic priorities** as well as **key advantages** in terms of both **customer base** and **internal capabilities**.

#2: Competitive landscape analysis

Conduct comprehensive scan of the **supply slide** of digital wallets from competitors **globally, regionally and locally**.

#3: Market readiness analysis

Conduct market research to understand the **demand side** of the country/market to identify potential **unserved blank spaces** within the digital wallet scene.

#4: Strategic scenarios definition

Define **strategic scenarios**, including positioning and target segments, high-level opportunity sizing, requirements, and expert-based cost estimates.

#5: Go to market strategy development

Detail the selected strategic scenario, in terms of its high-level consumer value proposition (CVP), hook product(s), product roadmap, and operational setup.

How Visa Consulting & Analytics can help continued

Level 2 – Design

#6: Wallet app design

Define detailed **CVP**, key anchor benefits, functionalities, as well as overall **user experience and key journeys**.

#7: API support

Identify **API support**, both from Visa's comprehensive portfolio of solutions as well as relevant Fintechs.

#8: Target operating model

Design **target operating model**, including organization structure, IT infrastructure, resources, and capabilities.

Level 3 – Implementation

#9: Wallet implementation

Implement **app functionalities and operating model**, as well as integrate wallet architecture with **bank systems, APIs and other solutions**, and support with the **vendor selection**.

#10: Launch and engagement support

Support the launch of **marketing campaigns** and educate staff and product ambassadors on new opportunities.

To find out more, get in touch with one of VCA leaders in CEMEA region:

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About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

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