

## Digital Wallets and Digital Identity, a race for contact with customers

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*Digital wallets and digital identity have become the focal point of competition for the customer relationship. This reality is poised to increase as CBDC wallets, fast payments systems, new consortiums, and other trends accelerate rapidly across the digital economy. There are significant consequences for those focused on keeping -or getting- the customer relationship, as well as the data and insights that come from this direct contact. As a result, digital wallets and linkages to digital identity are key parts of the conversation among FIs. Consumer demand for a secure, embedded, simple payments delivery system will shape the path forward for wallet providers as consumer adoption is essential. The February edition of DataTalk explored digital wallets and digital identity in the context of increasing competition for direct contact with customers. This briefing note summarizes the discussion held on February 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.*

**Digital wallets and the customer experience.** For Financial Institutions (FIs), digital wallets bring forth a number of benefits. On one hand, they support existing operations, products, increase engagement, security and consumer trust which, in turn, improves the overall experience for existing consumers; on the other hand, digital wallets also drive the capture of greater sets of information, which help creating new products and tailored solutions for potential customers. Digital wallets also allow customers to gain more control of their data and choice over how and with whom it is shared, which could also drive usage.

**Managing risks.** While the benefits of digital wallets and digital identity (digital ID) technology are numerous, the risks cannot be overlooked. More personal data stored on a digital wallet means a higher risk of fraud or unwanted disclosure of sensitive information; therefore, FIs work to ensure the security of the information from their customers and communicating transparently the finality of the data being gathered by them. For emerging markets with cash-based economies, FIs are also looking to find ways to incentivize adoption and usage for consumers and merchants.

**Customer choice will drive adoption.** With multiple wallet types already available, keeping consumer needs at the center will be key to a usable and essential service. While consumer desires will drive product engagement, it is not enough to consider services alone; interoperability and usability will also drive demand, making them strategic considerations for FIs that are in the race.

**Digital wallets and digital IDs are gaining momentum.** As digital wallets continue to proliferate, competition for the leading digital wallet providers is heating up. As use cases begin to emerge, broad adoption of digital wallets that encompass payments, identity authentication, and other services are gaining traction. Digital IDs will also be a building block for the digital economy as it has the capacity to develop beyond verification and authentication and encompass other user information enabling advanced data sharing and analytics. For many in an increasingly digital economy, digital wallets and digital ID offer a secure, convenient way to conduct transactions, verify identity online, store and transfer personal information, and much more.

*We look forward to continuing the DataTalk series on Monday March 20 9:00 PM Washington DC / Tuesday March 21 9:00 AM Singapore, where we will focus on big data and its applications for driving innovation and risk management in financial institutions.*