

The [Australian Competition and Consumer Commission's \(ACCC\) decision](#) to deny some of Australia's major banks the ability to collectively bargain with Apple and boycott Apple Pay, might have opened a whole new door for digital wallets in Australia.

The banks wanted to bargain with Apple for access to the Near-Field Communication controller in iPhones, enabling them to offer their own integrated digital wallets to iPhone customers. This would have been in competition with Apple's digital wallet, but without using Apple Pay.

A digital wallet is essentially an app on a mobile phone that can provide some of the same functions as a physical purse or wallet. This includes making payments in-store and storing information such as loyalty program points.

In the example of Apple Pay, it used a digital wallet to allow customers to use their phones like "tap-and-go" bank cards. Mobile payments can also be made via wearable devices, such as the Apple Watch and various fitness devices.

Part of the ACCC's rationale in deciding on the banks/Apple case was that, "digital wallets and mobile payments are in their infancy and subject to rapid change". So the ACCC is uncertain as to how competition will develop in this space.

## The Australian market for digital wallets

[Recent research from the Reserve Bank of Australia \(RBA\)](#) confirmed the use of mobile payments accounted for only around 1% of the number of point-of-sale transactions over the week of the survey, which was conducted in November 2016. By contrast, the same research revealed that the share of the number of payments made using credit and debit cards had increased to 52%, driven by the use of these payments cards for lower value transactions.

This has been facilitated by the rapid adoption of contactless payments by both consumers and merchants and according to the RBA's research, in 2016 around one-third of all point-of-sale transactions were conducted using contactless cards.

[According to the Australian Payments Clearing Association](#) by 2016, 77% of Australians owned a smartphone and yet mobile payments at the point-of-sale remain relatively rare.

The very success of contactless payment cards in Australia means that consumers do not see what extra advantage there is in mobile payments. Tap-and-go is increasingly available for even relatively low value transactions at the point-of-sale. Financial institutions have been speedy to issue such cards to their customers and this is matched by merchant's adoption of the terminals to facilitate these payments.

For mobile payments to become significantly more attractive than contactless card payments, it would require the wallets to have additional functionality to appeal to consumers. Examples of this include: the ability to use mobile payment devices on mass transit journeys, to hold loyalty program points, to verify identity and enabling person-to-person transactions.

This breakthrough in functionality for digital wallets could come from another direction, other than the current mobile payments options of Apple Pay, Android Pay and Samsung Pay. Indeed, China provides an alternative example of how digital wallets can be developed, that will in retrospect make the ACCC's decision on Apple Pay, rather passe.

### Digital wallet companies expanding from China

According to [Chinese government statistics](#) , about 750 million Chinese had moved online by 2016, with 95% of them accessing the internet via their smartphones. China's digital payments market was by then nearly 50 times greater than that in the United States.

This is partly explained by the [lack of other viable alternatives](#) in China for non-cash payments. Credit card penetration is low compared to other developed markets, debit cards are not contactless and hence require authentication at the point-of-sale.

China appears to have [jumped directly from cash to mobile payments](#) and hence missed the step into payment cards, particularly credit cards, to which the Chinese consumers appear to have a cultural aversion.

The use of digital wallets in China is being driven by the success of the so-called financial technology firms in China, particularly Alibaba and Tencent. These companies have a vast and protected domestic market at their disposal and an [almost complete absence of data regulations](#).

These companies have been able to move on from offering just instant messaging platforms, to being payment providers via Alipay and WeChatPay, respectively. These apps on a smartphone allows consumers to scan a QR code from a merchants point-of-sale terminal or smartphone, to complete a transaction.

Person-to-person transfers can also be done through these apps. Chinese company Tencent's WeChat was originally a social media platform, but it has now expanded to include payments services, music streaming, taxi booking, photo sharing and a news service, to name only a few functions.

Its [over 800 million worldwide active users](#) now have fewer and fewer reasons to leave its integrated full platform of services. WeChatPay is also increasingly accepted by bricks and mortar merchants in China.

And now WeChat is planning to expand its services into the UK and Europe and is also looking to enter markets in the United States and Southeast Asia. Part of the company's planned expansion is driven by the ever-increasing flow of Chinese overseas tourists.

This flow was 120 million in 2015 and [forecast to be 220 million by 2025](#) . Australia is already a popular destination for Chinese tourists, many of whom will be users of WeChatPay.

Who is to say that Facebook and/or Amazon will not follow Tencent's path into digital wallets? While Apple Pay may have won the battle against some of Australia's banks, it may lose the war against the providers of digital wallets, such as Tencent and Alibaba.

*Steve Worthington does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant*

## Apple Pay may have won the battle but it may not win the war

Written by The Conversation

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