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Black Friday A Black Eye For Apple Pay?

Credit unions, processors say it's too early to agree with gloomy take on digital wallet's performance.

BY MARC RAPPORT



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As irresistible as it is for pundits — I'm in that guilty lot, too — to jump on the bandwagon, it's also hard to resist being the first to jump off. That's why I found this headline from *Business Insider* so interesting: "[Apple Pay Is Showing Signs That It Could Be A Flop.](#)"

The author bases that supposition on the 41% decrease this Black Friday compared with last among the number of people who were in a situation to buy with Apple Pay. Last year, the first year it was available, that figure was 4.6%, according to [the shopping research firm InfoScout](#), while this year it was 2.7%.

This "suggests that use of Apple Pay may actually be decreasing, adding to concerns that Apple Pay could end up being a flop," the *Business Insider* piece says.

There are two countervailing points to make here. One is that there are a heck of a lot more Apple Pay-enabled devices out there today than last year, thus expanding the field of potential users. It's not surprising, therefore, that a smaller percentage of people would be using the payment option, since the newer users are not likely to be first users of new payment options.

On the other hand, Apple Pay has been massively promoted, so presumably the adoption numbers should be higher. And with emerging competitors like Samsung Pay and Android Pay — and now Walmart Pay and Chase Pay — getting into the fray, it seemed like a good time to ask several players in our credit union space what they thought about Apple Pay adoption and the mobile wallet thing in in general.

Too Soon To Tell

The main takeaway is that it's too soon to tell, or to quote one of America's finest pundits ever: "[The report of my death was an exaggeration.](#)" That was from Mark Twain in 1897, at a time when apples were to be eaten, not waved at the cash drawer. And that's also part of the problem here: Availability at the point of sale.

Here's how one executive at the biggest member in our movement wraps it up: "We need to

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take a step back to truly evaluate the success of Apple Pay,” says Randy Hopper, vice president of credit cards at [Navy Federal Credit Union](#) (\$71.97B, Merrifield, VA). “The service didn’t even exist 15 months ago and it’s still the number one mobile payment provider.” He declined to provide specific numbers on usage but said that while the numbers have “not been staggering, the initial enrollment levels are worth calling a success.”

And, Hopper adds, “it indicates that consumers are willing to try mobile payments but still don’t have enough opportunities to use it at point of sale.”

Wanda Chambers, senior vice president of payment services at [Suncoast Credit Union](#) (\$6.6B, Tampa, FL), was a bit more blunt in her assessment. “Our adoption and usage rates have been disappointing,” she says of the 17,000 enrolled accounts that have been generating about \$200,000 in sales a month. “The adoption rates have fallen significantly short of the hype.”

That said, she adds, “But I wouldn’t call it a flop. Apple made one of the most significant advances for mobile wallet platforms to date.” Chambers says “while most of the players couldn’t decide on what direction to take — NFC, QR codes, etc. — they made a decision and moved forward. Apple brought tokenization to the forefront in a big way, and it works well.”

Ken Myhra, director of payments at [BECU](#) (\$13.88B, Tukwila, WA), says 2015 will end with his credit union having issued just more than 50,000 Apple Pay tokens, approximately 3.5% of its combined credit and debit card portfolio that are notching just shy of three transactions each per month. Interestingly, he notes that on the credit side, where the data are easy to see, the average purchase amount is about half that of a standard card-present swipe transaction.

Myhra says adoption rates exceed expectations in his shop and that BECU is working with its partners to get a handle on what benchmarks should be for Apple Pay use. He also scoffs at the idea that Apple Pay has fallen so far short of the expected mark that it could be considered any kind of failure.

“These digital wallets are introducing new payment terminals on new payment form factors using new technology,” the BECU executive says. “Online banking took 20 years to gain mass adoption, mobile banking is still on the steep upward curve after eight years. To say the digital wallet is a flop after only one year and just a handful of solutions on the market may be a bit presumptuous.”

View From The Vendors

“We’re definitely seeing continuing interest from our credit unions,” says PSCU CEO Chuck Fagan. He says about 140 of his CUSO’s clients are live on Apple Pay, with more in the implementation process. Two also are live on Samsung Pay. Android Pay is out there, and the company is also eyeing competition from keeping-it-inhouse rivals like Walmart Pay.

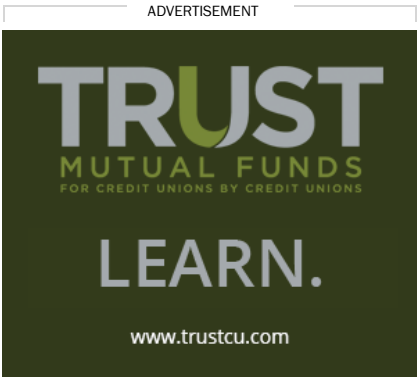
“It’s still very fragmented, with a bunch of different entrants,” Fagan says. “MCX is in a pretty strong test phase, and in our space, CU Wallet is still out there. I would say the biggest trend I see is that all this is coming to light fast.”

PSCU rival CSCU, the big CUSO that represents credit unions processing through FIS, also has seen adoption rates in some cases “so close to zero it’s not even funny,” says Tom Davis, senior vice president of finance and technology.

But, he adds, “It’s such a small group of users, it’s too difficult to measure.” And he notes that comparing last year’s Black Friday numbers with this year’s is not particularly valid. The newness factor is gone, for one thing. There isn’t the rush of first adopters eager to try the new technology, for one thing, and the year-long sales of iPhone 6 smartphones has diluted the field of potential Apple Pay users, lowering the usage rate.

The service’s stickiness also is a harbinger for success. “Consumer adoption rates for Apple Pay continue to trend low. Those consumers that have tried Apple Pay, however, do tend to

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continue to use it for future purchases where Apple Pay is accepted,” says Amy MacMullen, senior product manager at CO-OP Financial Services.

“We believe Apple Pay will be a success,” MacMullen says. “Currently, one of the obstacles is Apple Pay is not universally supported by merchants, making it hard for consumers to remember where it’s accepted and where it isn’t. They use it for one purchase and then are unable to use it at another merchant, and this becomes frustrating for the consumer.”

Credit union card processor TMG provided these Black Friday-Cyber Monday figures:

Of the more than 3.8 million transactions processed by TMG that weekend, 3,673 were made via Apple Pay.

- Apple Pay debit transactions accounted for 58 percent of total Apple Pay credit and debit transactions during the holiday weekend. The average Apple Pay debit transaction was \$25.80; average Apple Pay credit transaction was \$45.53.
- Of the cardholders who made at least one Apple Pay transaction over the holiday weekend, the largest segment (31%) was composed of consumers in their 30s. Consumers age 18 to 29 and age 40 to 49 made up the next largest groups at roughly 24% each.
- Apple Pay holiday shopping among TMG’s clients happened most often at Trader Joe’s, Whole Foods, Starbucks, Groupon, McDonald’s, Sprout’s Farmers Market, Walgreens, Panera Bread and Uber.

And Brian Day, director of digital strategy at the Iowa-based processor, says, “Apple Pay is not a flop. It would be one story if all merchants were accepting and consumers weren’t using, but the reality is that the number of terminals is still so small for Apple Pay and Android Pay.”

He says more terminals and more incentives to use digital wallets will spur adoption growth in 2016 and beyond.

Competition And Opportunity

That’s Richard Crone’s view, too. “Mobile payments are less about the payment than about the data and the ability to create a marketing platform,” the payments consultant says.

He points to research he did with UBS that show that just more than 5% of iPhone users regularly use Apple Pay but says that adoption by financial institutions themselves has slowed dramatically in the past few months.

About 2,400 now offer the service, an outsized proportion of them credit unions, but “we originally thought that number would be about 5,000 or 6,000 by now,” Crone says.

“Apple Pay is here to stay,” he adds. “Whatever you may see domestically in slow adoption is more than made up for internationally. It’s already a worldwide currency because it uses iTunes as a backbone to provide registration credentials and prepopulate its use.”

Crone also says the newest entries like Chase Pay and Wal-Mart Pay “should be a slap in the face to credit unions” with their branding ability and considerable reach. The ability to do two-way communications with members through cloud-based platforms that use data deep dives to target offers is also an advantage of Apple Pay competitors like CU Wallet that can white label.

“When the biggest retailer in the galactic empire says we’re going to have a branded digital wallet, that also increases the opportunity for credit unions to have their own branded wallet, because that API can be available to you if you agree to their terms and support their links,” Crone says.

“In fact, credit unions may be in the best possible place because they’re not encumbered by the relationships that commercial banks have with retailers,” Crone says.

The opportunity is there, along with the competition, in other words. Credit unions need to join together to leverage scale in negotiating, but they have the opportunity to use their unique relationship with members to capitalize on the digital wallet revolution.


Indeed. We live in interesting times.

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