SRM Perspectives

What the Future Holds for Consumer Payments:

Credit Cards and Digital Wallets

Introduction

Consumer payments continue to evolve at a rapid pace, leaving many financial institutions across the U.S. wondering where to place their focus while managing limited budgets and human capital. From the rise of instant payments and buy now, pay later to regulatory headwinds and the "all things digital" movement, there's no shortage of topics to cover when it comes to the future of consumer payments. This is the first in a series of SRM Perspectives papers to delve into what the future could have in store. To kick off the series we chose two topics – credit cards and digital wallets. Let's explore.

The Credit Card Remains Supreme

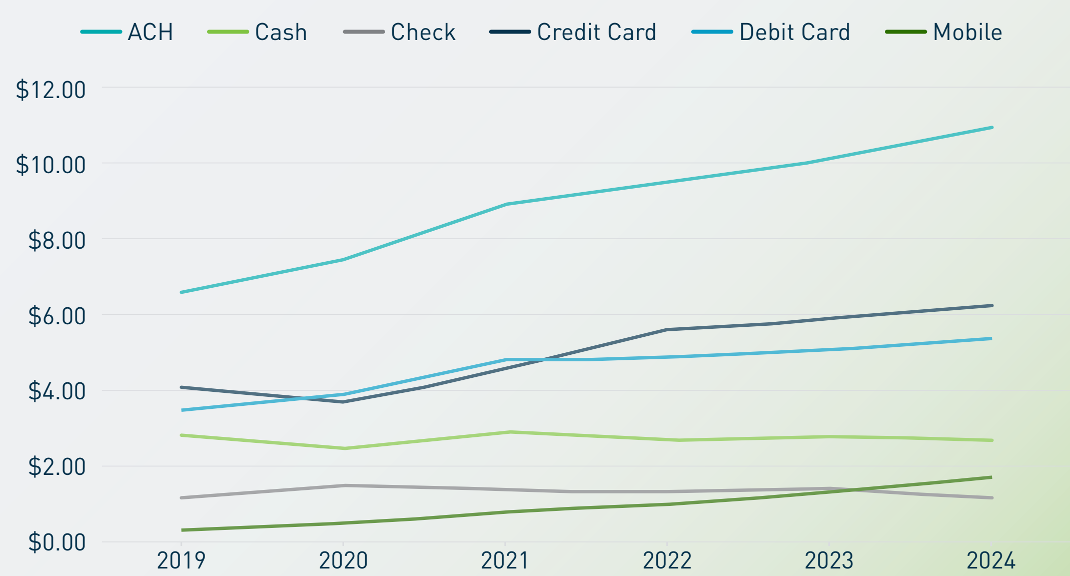
The hype cycle may not be in credit cards' favor right now (despite Chase, American Express, and Citi's best efforts, to name a few), but don't sleep on the established payment method – it still generates over half of all consumer payments revenue in the United States and continues to benefit from mid-single digit growth in payment volume and transactions.

Market Growth: The U.S. consumer credit card market continues to expand, both in volume and transactions (See the first and second figures below). Interestingly, credit cards have picked up the most payment share post-Pandemic recession, benefiting from the continued shift of paper to electronic along with expanded acceptance and credit access. While debit card usage demonstrates resilience, it's credit that has been winning the race the past few years.

The spending, however, is not all equal. It is being fueled by high-income households, typically defined as mass-affluent and affluent (households earning greater than $100,000 annually). These segments account for ~70%+ of spending (see first figure below) while representing less than 40% of U.S. households (see the figure on page 4).

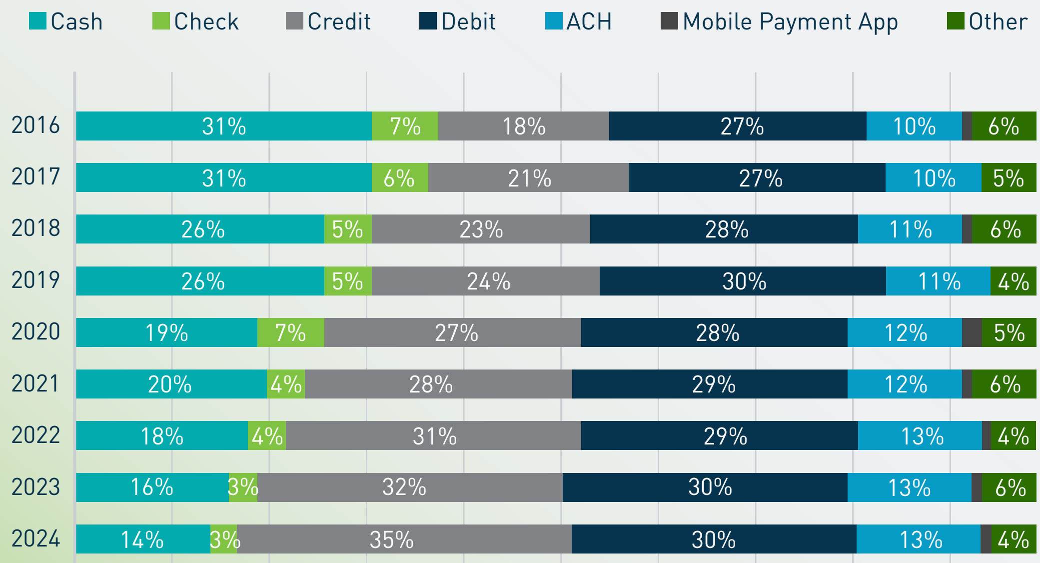
While lower income segments are still spending on credit cards, share is shifting towards affluent segments. This trend is amplified through recent product announcements targeting this segment.

U.S. Consumer Payment Volume by Payment Type ($T)*



Source: *National Payment Volumes, Detailed Data, DFIPS (CY 2021) Nilson, Nacha, Zelle/Venmo/Cash app Press Releases, SRM analysis and estimates.*

Share of Payment Instrument Use by Household Income



Source: *Federal Reserve 2025 Diary of Consumer Payment Choice*

Major Issuers Doubling Down on Premium Cards: Chase, American Express, and Citi are doubling down on premium card value propositions, layering on experiential perks, lounge access, and subscription credits, while raising annual fees to match – AMEX topping $895 with its Platinum Card update, Chase not far behind at $795 with its Sapphire Reserve refresh, and Citi re-entering the high end market with Strata Elite at $595.

Notably, these products increasingly cater to affluent, experience-oriented users – especially younger demographics like Millennials and Gen Z – blending travel, dining, digital-first experiences and journeys (e.g., onboarding, instant card issuance, wallet integration, rewards redemption / shopping, self-service, etc.), and personalization into high-touch reward ecosystems. The premium tier remains a fierce battleground as the race to attract and retain affluent cardholders intensifies.

As these issuers compete for the top end of the market, others are now filling the void with "premium-starter" cards that offer solid value at a lower price point. Citizens recently launched its Summit Reserve card at $295 (discounted to $95 for customers that maintain Citizens Quest Checking Account and $0 for customers that maintain a Citizens Private Client Checking relationship) while BMO launched its Escape credit card at a $150 annual fee. These issuers are seeking to deepen existing relationships while opportunistically acquiring new-to-bank cardholders from Chase, AMEX, and Citi premium card defectors. Regional and franchise issuers will likely continue this trend to ensure market relevancy within their footprint and retain spending or capture new spending from their most valuable customers.

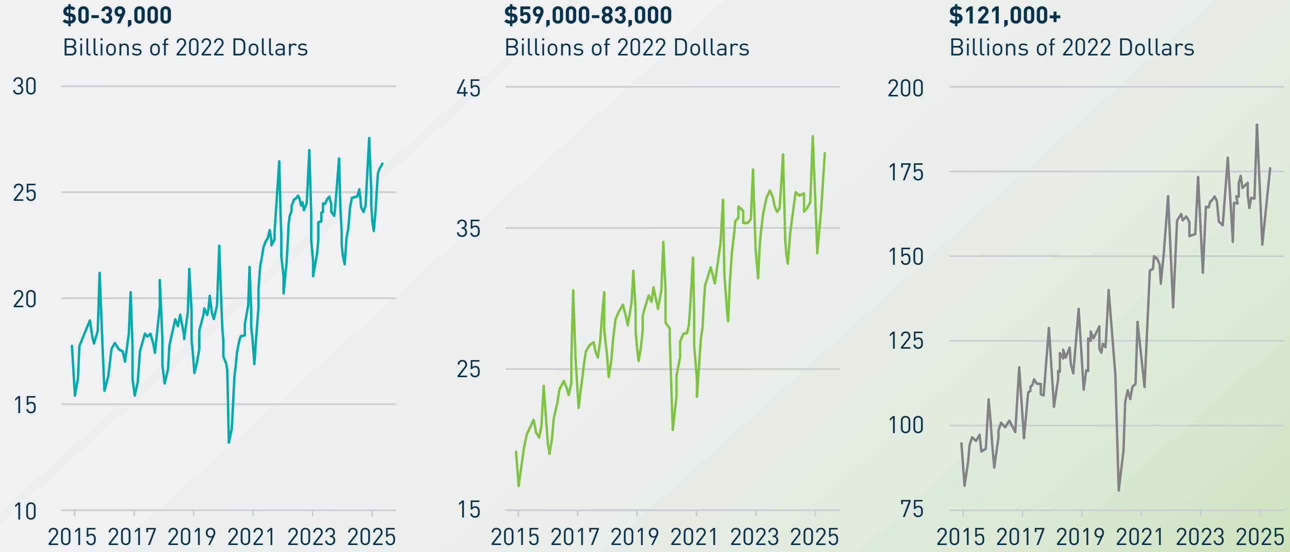
Innovation through Ecosystems and Personalization: Innovation can come through many forms. One way is through product refreshes and launches mentioned above by offering explicit value to the cardholder (e.g., 4x points on flights, $200 statement credit for travel, etc.) The challenge with this approach is it can be copied and quickly turn into an arms race for the most scaled issuers.

The goal for issuers is to drive top-of-wallet spend and long-term engagement. To accomplish this and drive sustainable differentiation, the most sophisticated issuers balance product-level value propositions with ecosystem integrations and personalization.

Integrations can occur both vertically within the product stack (e.g., loyalty / rewards redemption, travel booking, shopping, BNPL / installments, etc.) and horizontally across other financial institution products and partnerships (e.g., accelerated earning or redemption for linking FI-owned deposit account, cross-promotions with specific merchants or co-brand partners, digital wallets, etc.). These types of integrations provide greater product utility and enable the issuer to better control and tailor the cardholder experience, while driving engagement not only as a payment tool, but as a digitally embedded lifestyle membership pass.

Aggregate Spending by Income Group

January 2025-May 2025



Note(s):*The figure shows total real credit card expenditure accross income groups. Nominal values are deflated to 2022 sollars using the Personal Consumption Expenditures price index. Note that the vertical axis is scaled up by a factor of 7 for high-income consumers relative to low-income consumers.*

Source: *Federal Reserve of Boston*

Data-driven personalization is becoming a differentiator by unlocking immense value as issuers deploy advanced analytic models to analyze troves of transaction data. In turn, issuers can tailor rewards, deliver hyper-targeted offers, curate experiences / deals, and overall remain relevant through proactive engagement with the cardholder.

All combined, this offers a unique opportunity for issuers of all sizes to create a network effect where each transaction feeds into a richer, more personalized ecosystem of engagement – thereby shifting the card from financial-centric to lifestyle platform and becoming the operating system of consumer commerce.

Regulatory and Industry Considerations: While the regulatory environment is slightly less concerning under the current administration, revenue headwinds persist with the potential for network routing competition (potentially leading to reduced credit card interchange), late fee caps, and interest rate legislation. Any structural changes will directly impact the funding base for rewards programs and likely alter issuer profitability dynamics.

In addition, alternative payment methods pose a threat to credit card's dominance. Digital currencies, account-to-account transfers, BNPL, and the growth in real-time payment systems (along with Open Banking) pose long-term substitution risks for credit cards. While these alternative payment methods will be profiled in an upcoming SRM Perspectives report, issuers cannot ignore the gradual encroachment of these alternatives. Credit cards currently retain advantages in branding, rewards, consumer protection, and acceptance; issuers must continuously invest in their programs to remain at the forefront of consumer minds and compete for top of wallet status.

In summary, the U.S. consumer credit card market remains robust, with growth concentrated in rewards-driven competition, innovation, and digital integrations. While scale provides many advantages, smaller issuers still have a right-to-win.

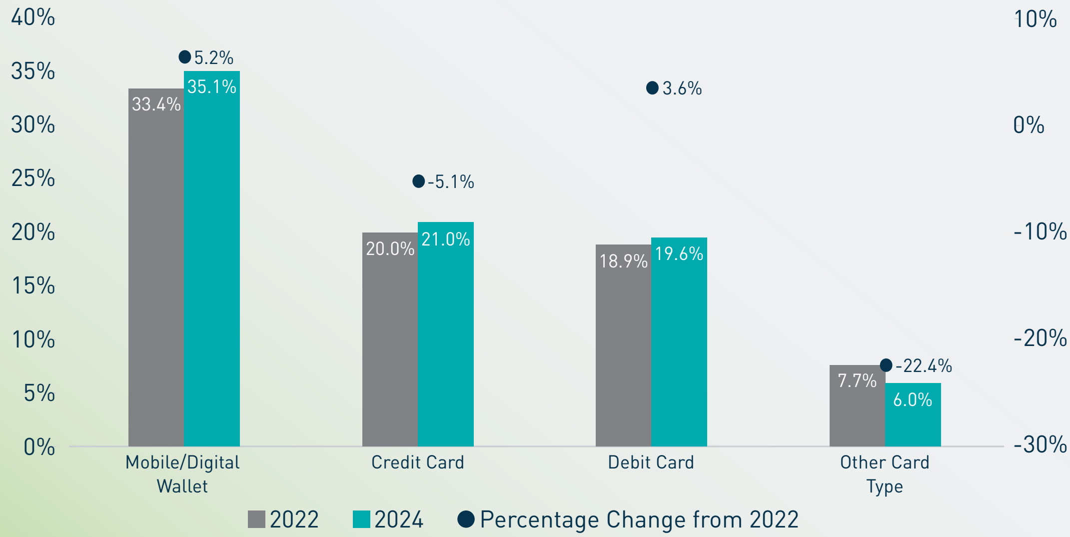
Expansion of Digital Wallets

While card payments may still reign supreme, there's been a shift in how consumers access their plastic. Along with everything else, they're going digital. Digital wallets are now used for 35% of online purchases across the globe, while direct usage of credit and debit cards as a form factor has declined. Is this kind of shift expected to continue and where are digital wallets headed in the future?

First, let's frame what a digital wallet is for the purposes of this paper. In 2013, digital wallets used to mean PayPal at online checkout or QR code on a phone at Starbucks. Today, it's a broad category that covers fintech or mobile operator contactless payments using a mobile phone

Mobile Wallet Use Rises for Online Purchases, While Cards Remain Core

Select Payment Methods Used in Latest Transation



Source: *PYMNTS Intelligence: How Mobile Wallets are Changing Payments Worldwide*

at the physical point of sale, to specific merchant owned wallets offering a "one click" payment experience online. While several common digital wallets cross multiple use cases, below are some examples of digital wallets available by payment type:

Primary Payment Type	Digital Wallet
Tap to Pay at the POS	Apple Pay, Google Pay, Samsung Pay
Online Checkout Buttons	PayPal, Click to Pay, Paze
P2P Apps (actively enabling purchases)	Venmo, Cash App
Merchant offerings	Amazon, Walmart Pay

Digital Wallet Usage

In the U.S., consumers still haven't adopted digital wallets for most of their purchases. Only 19.4% of consumers say they would use digital wallets for any type of transaction, while 31% say they would use them for online purchases. And, of the 31% that would use a digital wallet for online purchases, the majority would leverage a non-PayPal wallet.

While many consumers claim they aren't planning to use digital wallets, they're still the fastest growing payment form factor for in-store purchases over the past two years. Digital wallet usage grew 8.4% from 2022 to 2024, followed by physical debit and credit cards. This data suggests that although digital wallets aren't new, they still have tremendous momentum and runway to grow.

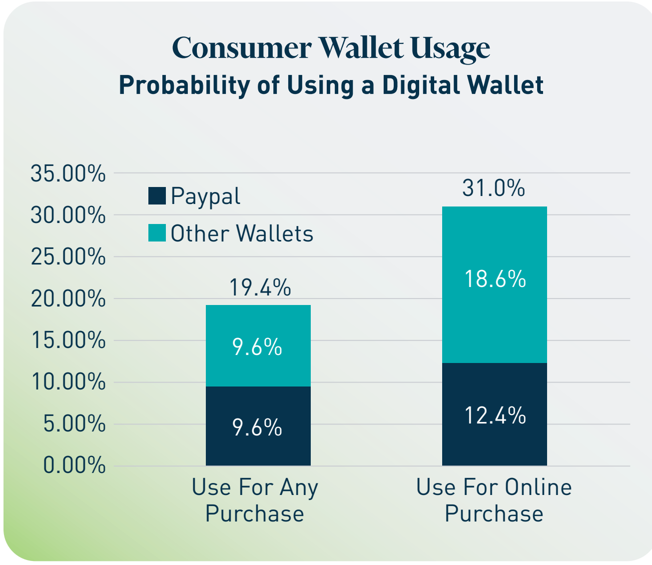
Change in Payment Methods for Instore Purchases

Between 2022 and 2024

Cash	-10.10%
Bank Transfers	-36.40%
Debit Card	+7.40%
Credit Card	+2.80%
Digital Wallet	+8.40%

Source: *PYMNTS Intelligence,U.S. data*

Leading digital wallets in the U.S. are Apple Pay with 38% market share, PayPal at 28% and Google Pay with 15%. (Source: Capital One Shopping Research). It's important to note that all three digital wallets mentioned support credit and debit card payments as the underlying payment source.



Source: *PYMNTS Intelligence 2024 Data, U.S.*

Past and Present Drivers of Digital Wallet Adoption

Gen Z and Millennials Dominate: One of the biggest drivers of digital wallet adoption is age. 97% of Gen Z and 93% of Millennials have a card loaded in a mobile wallet, while only 51% of Baby Boomers do. As older generations age out of the population and more Gen Zs move into their prime spending years, we expect digital wallet adoption and usage to continue.

Convenience and Speed: Tapping a phone at the point of sale is simply faster than pulling a card out, and one-click to make a purchase online is far faster than entering a card number. Further, being able to leverage the same digital wallet (e.g., Apple Pay, Google Pay) at both the physical and online point of sale tends to create a habitual experience for consumers.

Security: The notion that cards numbers are replaced with unique tokens by form-factor is appealing to both consumers as well as merchants and card issuers. Following massive national merchant breaches in the U.S., the development of tokenization to prevent card numbers or encrypted card numbers from being stored at rest was a welcome respite and one that all parties had skin in the game to embrace. This was a huge selling point behind Apple Pay in 2014 and other wallets in their infancy.

Distribution: Digital wallets like Google Pay and Apple Pay come preloaded on mobile devices consumers are already buying, while card processors and issuers are making it easier to provision cards to wallets – even before a physical plastic is received. It's no wonder Apple Pay holds the highest share of digital wallet payments when iPhones represent 55.9%% of the mobile phone market in the U.S. [Source: SimplyMac, July 2024]

While looking in the rearview mirror is easy, the future of digital wallets is anything but clear and simple.

Wallet Expansion Beyond Plastic

With Gen Z aged 13 to 28, they still have a lot of room to grow – into careers and into bigger spenders which will no doubt lend a significant boost to digital wallet usage. But beyond the obvious, how might digital wallets expand and continue shaping the future of banking?

Pay by Bank: Expect more digital wallet providers and fintechs to support the merchant demand for accepting non-card-based payments at the digital point of sale. Pay by Bank functionality could be the future of paying for goods and services, like DoorDash, Uber Eats, and other quick delivery establishments seeking to reduce expenses and improve liquidity. See SRM's blog post "Pay by Bank: Hot or Not?" for deeper insights (https://srmcorp.com/pay-by-bank-hot-or-not/)

Wallets as Hubs: Wallets could become the next checking account. Digital wallets are mostly spending tools today but could become receiving hubs as well. Employers could start pushing paychecks directly to employees' wallets immediately after their shift. Further, imagine those payments going directly to potentially lower cost wallets such as PayPal, Cash app, or another non-card-based wallet. Consumers will then be able to manage their money earned and money spent on one convenient app.

Issuer Owned Wallets: Paze is a digital wallet solution developed by Early Warning Services and supported by major banks such as Chase, PNC, Capital One, Bank of America, Truist, US Bank and Wells Fargo. As such, Paze has the scale to be successful with supporting banks equating to 48.2% share of credit card and 33.4% share of debit purchase volume. This relatively new wallet will be a new avenue for consumers who have more trust and confidence in their banks than they do Apple, Google, and other fintech providers.

Regulation: Debit and credit card revenue is at risk as regulators, lawmakers, and courts continue to weigh in on interchange, late fees, and network routing. In the future, there could be a breaking point at which card issuing financial institutions believe other forms of payment yield better economics and improve their relationship with customers.

Outlook and Strategic Recommendations

In the near term, traditional card payments are expected to continue their modest growth trajectory and credit cards will be expanding mainstays for the mass affluent and rewards savvy. But, with digital wallet adoption and usage expanding at a faster rate and new payment rails like RTP and FedNow, financial institutions need to develop strategies to remain relevant in the face of further disintermediation and new payment rails.

If your organization is looking for near and long-term strategies to grow in the payments ecosystem, here are a few items to consider:

- **Customer First Approach:** Small and midsize issuers can win in the credit card space by developing or augmenting their product offerings around relevant value propositions grounded in data and integrated into digital-first experiences.
- **Prepare for Instant Payments Send**: Develop a plan for how and what use cases your organization enables and implements instant payment send capabilities.
- **Evaluate New Partnerships:** Consider whether your financial institution should participate in an FI-backed digital wallet such as Paze.
- **Top of Wallet Strategy:** Determine your path forward for remaining top of wallet with consumers in existing and new third-party digital wallets. Ensuring you have frictionless digital customer experiences in place is one key to success.
- **Open Banking:** If your financial institution hasn't done so already, consider whether leveraging an open banking solution could support the integration of new payment types into digital wallets.

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