The US Mobile P2P Payments Forecast

A Selected Chapter from The US Mobile Payments Forecast 2021
Introduction

Thank you for downloading the “US Mobile P2P Payments Forecast,” curated by Insider Intelligence Marketing. The following is an excerpt from the full “US Mobile Payments Forecast 2021” report. In this chapter we break down our estimates for growth in the mobile P2P payments space and detail what’s next for providers. We define mobile P2P payments as a transfer of funds from one individual to another using a mobile device. Includes transfers on tablets; includes transactions made via mobile browser or applications developed by nonbank providers like Venmo, Cash App, Google Pay, and Facebook Messenger, along with transactions made via mobile banking websites and applications developed by banks (e.g., Zelle); excludes both P2P cross-border transactions and peer-to-merchant transactions.

Mobile P2P Payments

Mobile P2P Payment Users

After a surge in adoption in 2020, P2P payment user growth will level off as the ecosystem matures and begins to saturate interested populations. Steady growth in the ecosystem will come as the pandemic helps kick off a new wave of networks entering the field, especially as innovative features attract customers who otherwise might not have recognized the value of P2P.

US Peer-to-Peer (P2P) Mobile Payment Users and Penetration, by Generation, 2018-2025

<table>
<thead>
<tr>
<th></th>
<th>Gen Z</th>
<th>Millennials</th>
<th>Gen X</th>
<th>Baby boomers</th>
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<tr>
<td>2018</td>
<td>6.7</td>
<td>30.1</td>
<td>22.1</td>
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</tr>
<tr>
<td>2019</td>
<td>9.9</td>
<td>35.0</td>
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<td>2025</td>
<td>41.1</td>
<td>59.1</td>
<td>43.8</td>
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</tr>
</tbody>
</table>

Note: mobile phone users who have made at least one P2P transaction via a mobile device in the past month; Gen Z are individuals born between 1997 and 2012; millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964.

Older generations. Mobile P2P is saturating millennials, but Gen Z represents a major growth opportunity as these digital natives age and achieve financial independence and purchasing power—translating into a huge rise in digital payment adoption. Near-term opportunities will widen among previously hesitant baby boomers, who continued to overcome their reservations about the technology during the pandemic. Zelle, for example, saw a 7-point lift in its share of users over 55, which was likely in response to networks enhancing generational gains, according to Lou Anne Alexander, chief product officer at fintech company and Zelle operator Early Warning. Digitally native younger consumers brought older family members onboard, who then invited their peers into the space.

The pandemic. Despite 42.8% of US smartphone-using adults making mobile P2P payments monthly in 2019, per our estimates, many consumers held out until the pandemic, when they sought out an easy and fast way to transfer money without leaving home, per PYMNTS.com. Top P2P providers saw double-digit growth in monthly app downloads in April and May 2020, a trend that continued through the year—30% of US adults signed up for new P2P platforms in H2 2020, per a December 2020 JPMorgan report. Growth is set to continue, with an additional group of US adults planning to adopt P2P post-pandemic, per a January 2021 Zelle report. These gains will likely be driven by network effect: P2P transfers demand that senders and recipients use the same platform, meaning that pandemic-driven gains could perpetuate a virtuous cycle kick-started by new adoptees bringing their peers onboard, who then attract their circles and so forth in the years to come.
Additional use cases. Maturing mobile P2P will enhance the opportunity—and need—for providers to monetize their product, since a bump in volume has put the industry in a better position than ever to begin capturing revenues from the services. To achieve this, providers are incorporating new features into their P2P apps, such as cryptocurrency, stock trading, and disbursements. These provide them with cross-sell and cross-usage opportunities as mobile finance appetite grows: Fintech app downloads grew 15% during the pandemic, with mobile fintechs outperforming banks, per App Annie. For P2P providers, this demand could translate into increased usage by encouraging adoption among users who join the ecosystem for nontransfer reasons.

“I think payment security really has to overcome this perception hurdle. [Mobile] is one of the safest ways to pay, but a certain number of people really think the opposite. So, that’s all about education. Getting someone’s attention and making them understand is challenging. It’s partially generational: When it’s something new and different, there’s a level of mistrust you have to overcome. It sounds easy, but it’s really hard to get people’s attention, tell them that, and make sure it’s coming from a source that they trust.” —Jodie Kelley, CEO, Electronic Transactions Association, Interviewed April 14, 2021

Mobile P2P Payment Spending

Even as users saturate, transaction values of mobile P2P spending will keep growing at a healthy clip through 2025: Dollar value growth will far outpace audience growth, as pandemic-driven adoption and new features boost per-user spending.

The pandemic. Cash dominated small-dollar and gifting transactions in 2019, per the US Federal Reserve System. During the pandemic, however, cash usage declined—and so did paper money’s appeal amid concerns about the risk of currency carrying the coronavirus. Despite overall spending declining, consumers adopted mobile P2P, with 43% of US adults increasing their use of P2P apps in 2020, per January 2021 data from CouponFollow. Long-time use cases, like sending money to family or friends, were likely augmented by people helping neighbors, tipping service workers, gifting, and bill or grocery splitting as social spending declined. Even as discretionary spending returns in the year ahead, newly formed habits will persist, boosting users’ annual spend by nearly $2,000 on average between 2021 and 2025, we estimate.

Bank-like behavior. Some 44% of US users increased their mobile banking engagement by fall 2020, per J.D. Power. Some P2P providers are integrated directly into banking apps, giving them higher visibility that has translated into rising engagement. Others are enabling more bank-like functionalities, including stimulus payment distribution, debit cards, and check deposits—and offering incentives to use them. Besides pulling users into the app more frequently, bank-like features encourage customers to hold a balance that they’re more likely to spend via transfer, ultimately upping volume long term.
Value-adds. Some 84% of customers said they believe P2P apps are easy to use, per the January 2021 Zelle data, giving providers a base that intuitively understands the product—along with access to a captive and engaged audience as they make their ecosystems richer. The same additional products that attract first-time users also drive higher returns: Venmo’s credit card was designed as an engagement driver, for example. With 88% of customers reporting P2P app satisfaction, per Zelle, new services and use cases should boost that further, completing the virtuous cycle and increasing engagement. Marqeta found that nearly nine in 10 consumers expect to use P2P apps at the same frequency they do now after the pandemic.

What’s Next
As P2P faces slowing user growth but a lengthening spend runway, providers will focus on a few key areas to maximize potential.

Security. Six in 10 P2P customers surveyed by Zelle in 2020 were concerned about fraud—and justifiably so, since the rate of P2P fraud has grown 733% since 2016, per Javelin data cited by Consumer Reports in January 2021. Though networks are safe, scams are proliferating. This can cause churn and concern among customers who fall victim to cons and lose money: P2P app reviews citing “fraud” or “scam” are outpacing overall user gains, per an analysis by The New York Times and Apptopia cited in an October 2020 Times article. This indicates reputational difficulties. Providers may lean into both education about common scams and improved identity verification to boost safety and avoid misinformation-based attrition.

Clearer differentiation. Just 25% of P2P users rely on only one payment app, and almost 20% use four or more, per December 2020 Mercator data. But not all apps are created equal, with providers boasting various services, perks, and use cases. In order to attract more customers to their app—and in turn boost spending—providers will increasingly develop differentiating features, and then leverage internal and external marketing to boost awareness, spark interest, and cultivate loyalty accordingly. They’ll also likely turn to incentives in the form of both limited-term offers and long-run rewards programs, as a way to entice customers to forge habits around their apps more than those of competitors.

Use-case consolidation. Increasing maturity in the consumer ecosystem will push P2P providers to broaden their potential user base. Just as an uptick in microbusinesses using P2P to accept payments began pushing dollars into the space last year, providers will increasingly formalize their pursuit of business users in search of platform growth. We’re likely to see more offerings like Venmo’s business profiles or QR code functionality as a way of onboarding more of these entities and their owners. Such moves can not only expand user ecosystems, but also pull some retail dollars into the P2P space.

Conclusion
Mobile P2P Payments are just one piece for the broader Mobile Payments market. Proximity mobile payments, or point-of-sale (POS) transactions made by using a mobile phone as a payment method, are another method that will drive overall mobile payments in the next five years.
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