

Tracking Apple Pay: November 13, 2014 Early Read on Top-of-Wallet Implications

Overview: Apple Pay-related announcements continued this week. On the merchant front, Whole Foods also announced that ~1% of its recent transactions were through Apple Pay. The retailer has been among the more aggressive in its support with signage at the point-of-sale and social media promotion on Twitter. On the issuer front, new card support continues to be announced; Bank of Oklahoma and its six affiliates launched last Friday, and Regions Bank went live on Wednesday. As cardholders have more options to use Apple Pay with merchants and cards, the question of which card is top of wallet will gain in importance. This week's update looks at the default card positioning within Apple Pay and implications for issuers and merchants.

Default Card Process Overview

The first card that users load into Apple Pay (often from iTunes) is the default top-of-wallet card. Every card added after that can become the default card, but it requires user actions to change the Passbook Settings (see Figure 1).

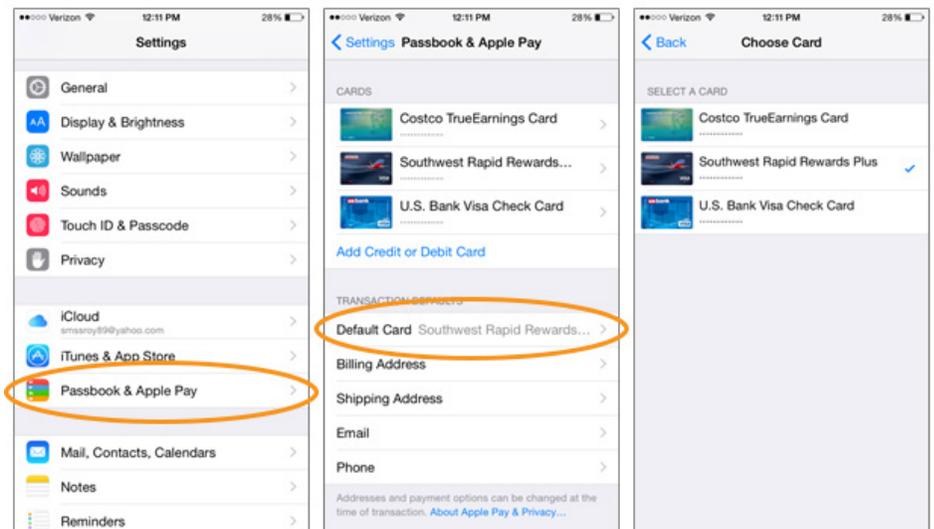
If the default card is deleted, the next card loaded becomes the default card. Importantly, changing the order of the card images in Passbook does not change the default card.

For in-store purchases, users have two options:

1. Use the default card
2. Select a different card in Passbook just prior to completing the transaction

For in-app purchases (Figure 2), the user also has the option to select a different card, shipping address, and contact information by tapping the blue arrows at the right.

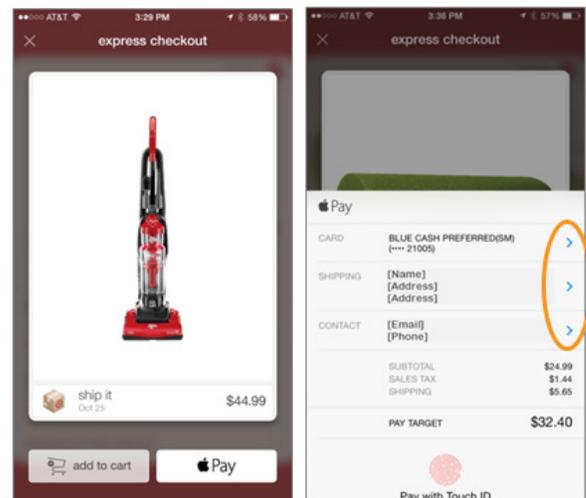
Figure 1: Default Card Selection Process



Issuer and Merchant Considerations

- **Timeliness:** Issuers who are already active with Apple Pay have an advantage.
- **Incentives:** Issuers are increasingly recognizing the advantages of being first in wallet and are offering incentives to conduct Apple Pay transactions (e.g., Wells Fargo), and they are thinking strategically about card loading, as evidenced by Chase urging customers to load cards in iTunes prior to the Apple Pay launch.
- **Implications:** Mobile payment via app and mobile web is the fastest growing transaction category, and consumers are likely to rely on their default payment type for most of these transactions given how easy it is to make a payment. Issuers who achieve "top-of-wallet" status in Passbook may see increased card spend and customer loyalty. Meanwhile, merchants could see a mix change between credit and debit spend if issuers create incentives for cardholders to prioritize credit in the mobile wallet.
- **Co-Brand Cards:** Merchants should consider how users prioritize their co-brand cards, including the possibility of friction at the POS if Apple Pay users must take multiple steps to select the store-brand card during checkout. Apple Pay does not change the default card based on where a purchase is taking place.

Figure 2: In-App Purchase Transactions



For more perspective on these topics and others, please contact:

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Source: Apple.com, Apple announcements, company filings, and First Annapolis Consulting research.

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