How Addressing Consumers’ Concerns About Data Security Opens the Doors to Growth
The past decade has seen digital payment solutions expand from using a credit card online to tapping a mobile device, entering a phone number, scanning a QR code, using an instant messenger app, and even using face recognition technology during checkout. With this explosion of consumer options, hackers are becoming more sophisticated and aggressive, and they are making occasional headlines by stealing customer data.

Consumers are embracing these new options to conduct digital commerce and valuing the ease, convenience, and often-superior customer experience to visiting a traditional retail store. At the same time, many consumers harbor lingering worries about security. Nevertheless, digital payment channels are expanding, with the financial services industry investing hundreds of millions of dollars to strengthen data security.

How banks encourage digital commerce while embracing security has become a vital strategic consideration.

Against this backdrop of growing consumer engagement in digital coupled with security concerns, one question stands out: How much more engagement and growth in digital commerce would there be if consumers’ security concerns were addressed?

Understanding and harnessing this relationship between consumers’ security concerns and their preparedness to engage in digital commerce is crucial. How banks encourage digital commerce, while at the same time embracing appropriate security protocols, has become a vital strategic consideration. Competitors that acknowledge and address consumers’ concerns can capture a larger share of the growing digital commerce market—and they will be more prepared and best positioned for our digital future.

Digital Payments Have Room to Grow

Consumers are becoming more digital, a trend that has accelerated with the proliferation of mobile devices. The 2015 Visa Digital Commerce Study reveals that 87 percent of consumers with Internet access or smart mobile devices routinely check and send email (see About the Visa Digital Commerce Study on page 11). Already 25 percent conduct banking or financial services activities, and 13 percent purchase physical goods or services on a daily basis using their mobile devices (see figure 1 on page 2). As more people own smart mobile devices and use them to make digital purchases and payments, increased data sharing—both voluntary and involuntary—will create more concerns about the safety of personal and payment data.

Today, about 12 percent of consumer spending occurs through digital channels (see figure 2 on page 3). Given the size of U.S. retail spending, we estimate retail digital spending—including online, mobile in-store, and mobile not-in-store—to be about $640 billion.

Digital commerce is gaining traction, but not all digital spending is equal. In fact, significant opportunities exist for digital payments to grow. According to Visa consumer research, 16 percent of non-recurrent retail spending (which accounts for 25 percent of all spending) is conducted through digital channels, while only 11 percent of recurrent spending (75 percent...
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Incidence of routine online and mobile activities

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check and send email</td>
<td>87%</td>
</tr>
<tr>
<td>Read news or general content information</td>
<td>72%</td>
</tr>
<tr>
<td>Make and receive phone calls</td>
<td>65%</td>
</tr>
<tr>
<td>Access social networking sites</td>
<td>62%</td>
</tr>
<tr>
<td>Send and receive text messages</td>
<td>61%</td>
</tr>
<tr>
<td>Access the internet</td>
<td>55%</td>
</tr>
<tr>
<td>Play games</td>
<td>51%</td>
</tr>
<tr>
<td>Use instant messaging</td>
<td>39%</td>
</tr>
<tr>
<td>Watch movies or videos</td>
<td>29%</td>
</tr>
<tr>
<td>Conduct banking or financial activities</td>
<td>25%</td>
</tr>
<tr>
<td>Take photos</td>
<td>25%</td>
</tr>
<tr>
<td>Research information related to purchase</td>
<td>23%</td>
</tr>
<tr>
<td>Download music</td>
<td>18%</td>
</tr>
<tr>
<td>Download and use mobile apps</td>
<td>16%</td>
</tr>
<tr>
<td>Use GPS features</td>
<td>14%</td>
</tr>
<tr>
<td>Purchase a physical good or service</td>
<td>13%</td>
</tr>
<tr>
<td>Purchase digital content</td>
<td>10%</td>
</tr>
</tbody>
</table>

Note: Percent of banked customers who conduct each activity at least once per day online, on a smartphone, or on a tablet among those with Internet access or smart mobile devices.
Sources: 2015 Visa Digital Commerce Study; A.T. Kearney analysis

of all spending) is conducted digitally. For recurrent spending, there are large variations in digital versus non-digital spending. For example, only 5 percent of grocery and pet supply purchases are made digitally, while 35 percent of small electronics and housewares and about 25 percent of clothing, footwear, accessories, and entertainment purchases are digital. The wide range in digital volumes across merchant categories spotlights the opportunities for growth.

Concern about security is one of the largest obstacles to the expansion of digital commerce and payments.

Today’s retail digital spending levels, while noteworthy, have much room to grow. As consumers adopt digital devices and as they grow more comfortable using them to make payments, and as merchants become better prepared to accept digital payments, we will see a substantial increase in digital commerce.

Digital innovation is making it even easier to use smart mobile devices for payments, by allowing consumers to store credit card information and use digital wallets. Merchants are also innovating by offering new payment options, including point-of-sale solutions such as Square, LevelUp, and PayPal that let merchants accept payments through dongles attached to mobile devices.
or through mobile apps on both the merchant and consumer devices. Payment technologies such as Apple Pay and Google Wallet offer quick, seamless, and safe mobile payments by using tokenized transaction information and stored payment methods that can be accessed with the tap of a mobile device or the scan of a fingerprint. Online solutions such as Visa Checkout and PayPal's online service also offer an easy payment experience by allowing consumers to pay using payment information that is stored behind a username and password. Eliminating friction in consumers’ shopping and purchase process will further support the growth of digital commerce.

Security Concerns Hold Back Some Consumers

Even as innovative digital payment solutions proliferate, retail digital spending has not yet become mainstream. Understanding and addressing the obstacles to consumer adoption of digital payment solutions is an important opportunity for financial services competitors in the payments ecosystem. Given the inevitability of broad digital commerce, banks’ stewardship of digital security is a strategic imperative.

Although consumer access and merchant acceptance are growing, several factors are limiting consumers’ willingness to make digital purchases. According to the Visa research, concern about security is one of the largest obstacles to the expansion of digital commerce and payments for U.S. consumers.

Security concerns are preventing migration from non-digital purchases to both mobile purchases and online channels. While consumers are also influenced by non-security concerns (such as not being able to see and feel an item before buying it or having to wait for the product to be delivered), addressing security concerns is the largest migration opportunity.
Take a closer look at the factors holding back consumers (see figure 3). For those who make purchases using payment cards in a store, the main issue holding them back from conducting those transactions through a mobile channel is security (37 percent). Security is also a concern for those who decide to conduct transactions using a payment card in a store instead of online (24 percent). Other concerns associated with making purchases online include not having the ability to see and feel an item before making a purchase (51 percent), having to wait for the product to be delivered (41 percent), and online product availability (26 percent). Issues not related to security are being addressed by retailers and Internet companies that offer free shipping and returns, more available products, and even same-day delivery, and retailers will continue to innovate in inventory management and product delivery. Payment security will soon be the primary customer concern for financial service providers to address.

Figure 3
Reasons for not using digital payment methods for transactions currently conducted with a card in-store

<table>
<thead>
<tr>
<th>Reasons for not making the purchase online</th>
<th>Reasons for not making the purchase on a mobile device</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prefer to see and feel the product before I make a purchase</td>
<td>I am worried about the security of conducting purchase transactions with a mobile device</td>
</tr>
<tr>
<td>I don’t want to wait for the products to be delivered</td>
<td>I don’t have any payment apps on my mobile device</td>
</tr>
<tr>
<td>The products I purchase with a payment card inside a retailer are not available online</td>
<td>I do not know if the retailers where I use a payment card offer the ability to pay for those items with a mobile device</td>
</tr>
<tr>
<td>I am worried about the security of conducting purchase transactions online</td>
<td>The retailers where I use a payment card don’t offer the ability to purchase their products or services with a mobile device</td>
</tr>
<tr>
<td>The retailers where I use a payment card don’t offer the ability to purchase products or services online</td>
<td>The screen on my mobile device is too small and hard to use for making a purchase</td>
</tr>
<tr>
<td>I do not know if the retailers where I use a payment card offer the ability to purchase their products or services online</td>
<td>I am worried that the transaction might fail and not go through</td>
</tr>
<tr>
<td>I am worried that the transaction might fail and not go through</td>
<td>The products I purchase with a payment card inside the retailer are not available for purchase on a mobile device</td>
</tr>
<tr>
<td>I do not know how to make a purchase online</td>
<td>I don’t understand or know how to use my mobile device to make a purchase</td>
</tr>
</tbody>
</table>

Note: Percent who selected each option among banked consumers who make purchases with a card in-store and have the ability to make purchases digitally. Sources: 2015 Visa Digital Commerce Study; A.T. Kearney analysis

A Golden Opportunity

Security presents an opportunity. By taking a leadership role in addressing security concerns, banks will strengthen both their relationship with customers and their relevance in the payments ecosystem. Addressing these concerns will help bank customers feel more at ease when making digital payments, which will result in an increase in spending volume using digital methods, allowing banks to capture incremental digital payments volume and helping banks secure their go-forward rule in digital commerce.
Banks now have an important opportunity to innovate and differentiate:

**Customers will gain more confidence when making digital payments.** More people will engage with their bank as they migrate to making digital payments, both mobile and online.

**Customers will see their bank as a trusted data security partner.** More people will make digital payments when they see their bank as a safe and reliable provider, which will improve loyalty to the bank.

**Customers will conduct more digital commerce.** Banks will be better positioned to capture the incremental digital spending volume.

To estimate the potential volume migration from non-digital to digital spending channels from addressing consumers’ security worries, we have developed a modeling framework that examines five factors (see figure 4): consumers’ current payment behaviors, their ability to conduct digital transactions, the incidence of security concerns, the likelihood of migrating non-digital spending to digital channels if security concerns are addressed, and the share of non-digital spending they would be willing to migrate to digital.

According to the World Economic Forum, cybersecurity is one of 2015’s biggest risks to organizations.¹ With data hacking and cybersecurity incidents at Target and Home Depot making recent headlines, consumers are more concerned about the security of their personal information when making online and mobile purchases, although many are willing to share personal data for appropriate compensation or benefit (see sidebar: Data Sharing Could Become an Opportunity for Consumers and Banks on page 6). The financial services industry’s preparedness

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¹ *Think 2014 was bad for hacking? Worse is to come.* Cisco CEO John Chambers’s interview with CNBC, 2015 World Economic Forum in Davos
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Data Sharing Could Become an Opportunity for Consumers and Banks

The more digitally engaged a consumer is, the more likely that consumer has concerns about information privacy. Nevertheless, many are willing to share their information in exchange for some type of benefit.

The explosion of digitally sourced consumer data is creating both new consumer needs and potential business applications. Of the 85 percent of banked consumers who report conducting digital activities online or on a mobile device, 90 percent are at least somewhat concerned about the privacy of the data they share while conducting those activities. However, 82 percent of these concerned consumers are still willing to share their personal information activities for some benefit:

- 59 percent are willing to share personal information to prevent fraudulent transactions.
- 48 percent will share in exchange for monetary compensation.
- 25 percent would share if they receive targeted, value-added services from the providers that they share information or do business with.
- 22 percent are willing to share if they receive marketing offers or promotions from partners of the providers that they share information or do business with.

While consumers have an opportunity to benefit from sharing data, there is also an opportunity for banks to play a vital role in managing the sharing of personal information in exchange for benefits. According to the Visa research, consumers were most willing to share information with their primary bank to prevent fraud or in exchange for monetary compensation. Consumers’ willingness to share their personal information in exchange for some benefit is a business opportunity waiting to be pursued.

Focus on Security Translates into Business Growth

So which consumers should banks focus on? In the United States, based on the Visa research, consumers can be segmented into six categories based on their digital and purchasing behaviors (see figure 5 on page 7). Three groups have a high potential for migrating to digital payments if security concerns are addressed: native digital shoppers, digital optimists, and tech-savvy card users. They make up more than half of the banked population, they are affluent,

Many consumer groups have potential for migrating to digital payments if security concerns can be addressed.

2 Digital activities include sending emails, browsing the Internet, conducting social networking activities, or shopping either online with a laptop or desktop computer or on a mobile device, such as a smartphone or tablet.
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Figure 5
U.S. consumers fall into six digital commerce segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>Description</th>
<th>Demographics</th>
<th>Digital behaviors</th>
<th>Growth potential for digital payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Native digital shoppers</strong></td>
<td>I am comfortable with technology and grew up using digital devices for purchases, banking, and all kinds of financial transactions. But I am concerned about the security of digital payments, whether online or on my mobile device. On the other hand, I think this potential risk is the price you pay for convenience and speed.</td>
<td>18% 35.3 $74 12.1 24% 71%</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td><strong>Digital optimists</strong></td>
<td>I am always on my mobile phone or my computer. These devices make my life easier. I don’t worry about security of digital purchases. I know the device manufacturers and payment providers have this under control, and my bank has my back when it comes to fraud.</td>
<td>15% 41.0 $64 10.1 18% 0%</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td><strong>Tech-savvy card users</strong></td>
<td>While I am not a super techie, I do love my mobile devices and my computer, and I consider myself savvy about using them. When it comes to making purchases, I rely on plastic. It’s easy to pull out my card for everything, and I never have to carry cash. It seems simpler than downloading an app and using my phone to buy something.</td>
<td>25% 48.0 $67 8.5 10% 36%</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td><strong>Cash-preferred consumers</strong></td>
<td>Technology has made my life easier by being connected and having easy access to information. But when it comes to making purchases, it’s about budget control. I prefer to use cash so I can control my spending. After all, I can only spend what’s in my pocket.</td>
<td>11% 48.1 $54 6.9 7% 42%</td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td><strong>Digital-light consumers</strong></td>
<td>I am a technology newbie. Although I have a mobile phone, I don’t use the more advanced features. I am more likely to spend time on my desktop or laptop for gathering information or making financial transactions. When I shop, I prefer to use cash or plastic.</td>
<td>22% 53.4 $51 5.2 5% 32%</td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td><strong>Traditional shoppers</strong></td>
<td>I haven’t fully embraced the technology wave that has swept over people who seem to carry a mobile device wherever they go. When I shop, I like to visit stores, look at merchandise, and touch the items I want to purchase. When it comes to payment, I prefer cash or plastic. They’re simple to use, and it’s what I have always done.</td>
<td>9% 57.3 $48 3.3 2% 0%</td>
<td>Low</td>
<td></td>
</tr>
</tbody>
</table>

Note: The digital engagement score is based on consumers’ use of mobile and digital devices used in their everyday lives. Scores range from 0 (not digitally oriented) to 5 (high digital orientation).
Sources: 2015 Visa Digital Commerce Study; A.T. Kearney analysis
and they are digitally engaged—and that adds up to significant growth potential for digital commerce.

New and existing security solutions could create big volume gains for digital payments and dramatically boost its share. Across these consumer segments, digital payments as a percentage of spending could double and in some cases even triple: from 24 to 48 percent among native digital shoppers, 18 to 31 percent among digital optimists, and 10 to 30 percent among tech-savvy card users (see figure 6). Overall, across all consumers, the volume of digital payments could jump from 12 to 29 percent of U.S. retail spending—an increase of about $900 billion (see figure 7).

**Figure 6**
*Addressing security concerns could boost digital payments*

**Figure 7**
*Digital payments could increase significantly by addressing security concerns*

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**Note:** Percent of total annual spending using digital methods among banked consumers in each segment. Digital methods include online and mobile (in-store and not-in-store). Numbers may not equal 100 because of rounding.

Sources: 2015 Visa Digital Commerce Study; A.T. Kearney analysis

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**Note:** Assuming about $5.3 trillion annual U.S. retail spending

Sources: 2015 Visa Digital Commerce Study, U.S. Census Bureau monthly sales for retail and food services; A.T. Kearney analysis
Although security concerns are holding back digital purchases, there is one more obstacle to clear: consumers’ limited awareness and understanding of security alternatives, which inhibits their ability to assess the options (see figure 8).

While many are unclear which data security solutions are best, they do scrutinize alternative security providers and have a favorable predisposition toward their primary bank as providing the best safeguard and security of their personal information. Market research has also shown that consumers prefer bank-provided security solutions. Forward-thinking banking competitors will take advantage of this market dynamic by promoting security solutions and helping consumers migrate to digital commerce.

Figure 8
Consumers have undifferentiated opinions about security options

Influence of security solutions when deciding whether to use digital payments

Note: Percent of banked consumers who have security concerns and are at least somewhat likely to migrate from non-digital to the digital payment method if security solutions exist who said each method would completely or mostly influence their decision to make digital purchases

Sources: 2015 Visa Digital Commerce Study; A.T. Kearney analysis
A Prosperous Pursuit

Banks are in a unique position to pursue and promote security solutions that improve consumers’ comfort and confidence in digital payments. Rather than viewing security concerns as an obstacle, financial services providers should embrace consumers’ concerns as an important strategic opportunity. Providing security solutions will both serve as an opportunity for competitive differentiation and create real value for customers.

Addressing digital payment security concerns can create incremental purchasing volume and new revenues as more consumers adopt digital solutions. By providing solutions that address consumers’ concerns, banks will strengthen customer relationships, bolster their relevancy in the digital payments ecosystem, and take a leadership position in addressing digital security concerns, helping define their future role in financial services.

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About the Visa Digital Commerce Study

The 2015 Visa Digital Commerce Study was conducted with a nationally representative sample of U.S. consumers at least 18 years of age who are banked, meaning they have a checking or savings account with a financial services provider. Conducted in November and December 2014 with an online panel of more than 10,000 respondents, the study addresses consumers’ digital commerce behaviors and preferences.
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