

Digital Wallets

How Do They Work?

What Is a Digital Wallet?

A digital wallet is an app or online service that securely stores your payment information and other digital items, allowing you to make electronic transactions using a compatible device.

In addition to debit and credit cards, many digital wallets can store loyalty cards, gift cards, boarding passes, event tickets, and more. By keeping everything in one place, digital wallets can reduce the need to carry multiple physical cards and provides quick access to your payment methods.

Sometimes the words “digital wallet” and “mobile wallet” are often used interchangeably, but there are slight differences to their meanings.

A **digital wallet** is the broader term for any electronic wallet that stores payment information and other digital assets.

A **mobile wallet** is a type of digital wallet that is accessed through a mobile device, such as a smartphone or smartwatch, and is commonly used to make contactless payments in stores.

How Do Digital Wallets Work?

After adding a payment method to your digital wallet, you can use it to make purchases online, within mobile apps, or at participating retailers.

For in-store purchases, simply hold your mobile device near a payment terminal displaying the contactless payment symbol, which resembles a sideways Wi-Fi icon. Your device securely communicates with the terminal to complete the transaction. Digital wallets use the following technologies to complete transactions:

- **Near-Field Communication (NFC):** NFC enables secure, contactless payments by allowing your mobile device and a payment terminal to exchange encrypted information when they are in close proximity.



- **QR Codes:** Some merchants process payments via the scanning of a QR code. The QR code holds data that, once scanned, will begin the steps towards processing a payment.

How To Use a Digital Wallet

Digital wallets offer a fast and convenient way to make purchases in a variety of situations. Below are a few ways you can use your digital wallet:

- **Online Shopping:** Many online retailers allow you to pay using a digital wallet. When using a digital wallet at check out, your payment and shipping information is automatically filled in. This makes for a faster checkout experience.
- **In Stores:** Use your smartphone, smartwatch, or other compatible device to make contactless payments by simply tapping your device at checkout.

- **In Mobile Apps:** Similar to online shopping via a browser, you can complete purchases within supported apps without having to manually enter your payment and shipping information.
- **At ATMs:** Some financial institutions and ATMs allow you to withdraw cash using your mobile wallet instead of the physical card.

When making a purchase using your digital wallet, you may be asked to enter your device password or verify your identity with either a fingerprint or facial recognition.

Types of Digital Wallets

There are several digital wallets available, each offering different features, supported devices, and payment capabilities. Some of the most widely used digital wallets include:

- Google Pay
- Apple Pay
- Samsung Pay

Before choosing a digital wallet, verify that it is compatible with your smartphone, smartwatch, or other devices and that it supports your preferred payment methods.

Are Digital Wallets Safe?

Digital wallets are designed with advanced security features to help protect your personal and financial information from fraud and other unauthorized access. Many digital wallets incorporate multiple layers of security, including:

Tokenization: Instead of sharing your actual card number during a transaction, digital wallets generate a unique encrypted token. This token is used to process the payment, helping to protect your account information if a retailer experiences a data breach.

Device Security: Digital wallets work alongside your device's built-in security features, such as PINs, passwords, screen locks, two-factor authentication (2FA), and biometric authentication.

Ways To Make Digital Wallets Safer

While digital wallets offer strong security on their own, it is important to follow additional cybersecurity practices to keep you and your sensitive information safe.

To keep your information secure, use strong passwords, enable biometric authentication, and turn on two-factor authentication. Additionally, regularly monitor your financial accounts for unauthorized activity, avoid making financial transactions over unsecured public Wi-Fi networks, and keep your device up-to-date with the latest security enhancements.

Advantages and Disadvantages of Digital Wallets

Like any payment method, digital wallets have both benefits and potential limitations.

Advantages

- Enhanced security through encryption and tokenization.
- Convenient access to payment cards, as well as other digital items.
- Fast, contactless payment options in stores and online.
- Reduced need to carry physical cards.

Disadvantages

- Not all retailers or payment terminals accept digital wallet payments.
- Initial setup may require familiarity with mobile technology.
- If your mobile device is lost or stolen, you may temporarily lose access to your digital wallet until the device is recovered or secured. However, there are security features available to remotely lock or erase your device if it is lost.