



Payments System Research Briefing

Walmart Checking and Apple Savings: Different Motivations, Similar Outcomes?

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Walmart and Apple have announced plans to offer traditional financial accounts. Walmart's consumer checking account may advance financial inclusion by increasing account access to unbanked and underbanked consumers. Apple's consumer savings account may change how credit card issuers offer rewards to their customers. Both offerings are likely to increase competition in the financial services industry, though whether they ultimately benefit consumers remains to be seen.

While fintechs and traditional financial institutions continue to introduce new types of financial services, Walmart and Apple recently announced plans to offer more traditional financial services: checking and savings accounts, respectively. This *Payments System Research Briefing* examines the two companies' new offerings, their motivations and target markets, the likely outcomes for their respective customers, and potential implications for the financial services industry.

Walmart: From check cashing services to checking accounts

With Walmart's emphasis on low prices, many of its customers have relatively lower income than the average U.S. consumer. More than 50 percent of Walmart's 100 million consumers have income of less than \$50,000.^[1] Lower-income consumers may not have a bank account (unbanked) or may rely heavily on alternative financial services (underbanked), which may be one reason Walmart has long offered an array of financial services.

In the early 2000s, Walmart started offering financial services such as check cashing and money transfers. In 2007, after previous unsuccessful attempts to get a banking charter, Walmart began opening Walmart MoneyCenters in its stores to expand its financial services, including money orders and bill payments. Through a partnership with GE Money Bank and Green Dot Corporation, Walmart introduced the Walmart MoneyCard among other prepaid card offerings.^[2] MoneyCard can be funded through direct deposit or with cash and offers cash back, overdraft protection, access to ATMs, online bill payment, and a savings feature with no monthly fee.^[3] Walmart reports that more than one million of its customers use MoneyCard.

In June 2021, Walmart announced that it would convert MoneyCard from a prepaid card to a checking account through Green Dot's Go2bank mobile banking app. This conversion provides MoneyCard users with the additional benefits of access to a secured credit card with no credit check or annual fee, higher interest on savings, and enhanced rewards. MoneyCard accountholders can manage their finances either digitally or at any Walmart location or Green Dot retail distribution location nationwide. The Go2bank app also provides alerts and security features to help users manage their accounts.^[4]

In September 2022, Walmart announced plans to introduce digital checking accounts for beta testing to thousands of its employees and a small percentage of its online customers, working with a fintech company called One (Nguyen and Cavale 2022). Within a year, One aims to make the accounts available to all of Walmart's 1.6 million U.S. employees—nearly 90 percent of whom earn \$40,000 or less, with the majority (76 percent) earning \$25,000 to \$40,000 (Zippia 2022; Walmart 2022). One plans to eventually offer services to Walmart's customers and expand its services to include loans and investments.

Apple: From digital wallets to savings accounts

Compared with Walmart's customer base, Apple customers tend to be higher earners who can pay more for products that offer a desired user experience (Dudovskiy 2021). Despite their high prices, Apple products are heavily adopted; as of February 2022, 124.7 million people used iPhones in the United States alone (Laricchia 2022).

Although Apple has been facilitating payments via its Apple Pay digital wallet since 2014, the company's entry into financial product offerings is more recent, and financial industry experts speculate that Apple's motivation may be to create a financial ecosystem for their customers (Cocheo 2022). In 2017, Apple introduced Apple Cash, a person-to-person payment service that leverages a debit card or Apple Cash balances held in the Apple Wallet. When a user receives funds from another user, the funds are added to a virtual debit card and can be used instantly to pay someone or make Apple Pay purchases in stores, within apps, and on the web.^[5] Users can also choose to transfer funds from Apple Cash to their bank accounts.

In 2019, Apple partnered with Goldman Sachs to issue its no-fee Apple Card. Although a merchant-branded credit card is not novel, the Apple Card is innovative in that the application process is streamlined, the card is provisioned directly to the consumer's Apple Wallet, and rewards are automatically deposited daily (not monthly or quarterly) to the consumer's Apple Cash balance (Apple 2022). Apple Card also allows users to analyze their spending patterns and calculate how much they could save in interest by paying off different portions of their balances.

In 2022, after announcing its intention to begin offering a "buy now, pay later" product, Apple pivoted and announced that it would instead launch Apple Savings, a high-yield, no-fee account also through Goldman Sachs. This account would not require a minimum deposit nor a minimum balance, and Apple Card users would be able to direct their daily cash rewards into their

Apple Savings account or add funds from a linked bank account or Apple Cash. Apple Savings accountholders could withdraw funds at any time, fee free, by transferring them to a linked bank account or to their Apple Cash balance. Ultimately, Apple plans to allow Apple Savings accountholders to spend and send funds directly from their Apple Wallet.

Likely outcomes and potential implications of Walmart checking accounts and Apple Savings

How will the financial services offered by two major U.S. companies affect the financial landscape? Each company's particular strengths—such as a broad geographical footprint, large customer base, and digital innovations—may affect financial service providers as well as consumers, through increased competition and perhaps by inciting changes to industry fee structures.

Largely because of its customer base and widespread physical locations, Walmart's checking accounts may more effectively foster financial inclusion than bank-centric initiatives. Efforts thus far to improve the availability and accessibility of low-cost bank accounts to underserved consumers, such as Bank On, have relied on consumers finding them, often through intermediaries such as financial institutions or nonprofit community organizations.^[6] Rather than using intermediaries, however, Walmart can reach their unbanked customers directly. Walmart's partnership with Green Dot Bank has transitioned more than one million Walmart MoneyCard holders from prepaid accounts to checking accounts, which means that any MoneyCard holder who was previously unbanked is now banked. In addition, a segment of Walmart's 1.6 million employees, as well as its customers, will likely become banked with the introduction of One. As one of the nation's largest retailers and employers, Walmart has the potential to make a substantial contribution to banking unbanked consumers alone. For comparison, Bank On relied on more than 60 partner institutions to add its 3.8 million accounts in 2020 (Toh 2022). If Walmart's efforts succeed, they would suggest that meeting unbanked individuals where they are—or using existing relationships—may be an effective approach to financial inclusion.

Walmart's sizeable captive market and plentiful locations could prove an advantage in the financial market and incite more competition among financial institutions and neobanks offering transaction accounts. Walmart's 100 million+ customer base and more than 4,500 locations (with an additional 90,000+ for Green Dot) are comparable to even the largest banks'; JP Morgan, for example, serves 66 million households (including 5 million small businesses) and has 4,700 branches. Physical locations may also offer Walmart an advantage relative to neobanks, which only have a digital presence, particularly in serving the needs of cash-based consumers. Additionally, just as neobanks' elimination of overdraft fees have led some financial institutions to dial back their fees, Walmart's low-fee checking accounts could place even more competitive pressure on the financial institutions that continue to charge them. Although Walmart charges a fee of \$15 per overdraft, this fee is still lower than the approximately \$30 average (Bennett and Goldberg 2022).

Meanwhile, Apple's savings account may increase competition among credit card issuers' rewards offerings. Because Apple Savings customers will likely use the account to store and earn interest on their Apple Card daily rewards, Apple Savings may incite change in how credit card issuers pay rewards to their consumers. Competing card issuers may adopt more frequent rewards cycles, another mechanism through which credit card issuers seek to attract consumers. These changes in rewards programs will likely benefit rewards cardholders. However, if competition among credit card issuers becomes more aggressive and raises credit card interchange fees, merchants may pass their increased credit card acceptance costs on to consumers, including cash and debit card users, harming low- and middle-income consumers who tend to use cash and debit cards more often (Felt and others 2020).

Apple Savings may also enable Apple to collect data and gain insight into the balances and behaviors of its consumers, giving the company a competitive advantage if it revisits offering a buy now, pay later product. While some buy now, pay later providers rely on the collection of data from open banking, Apple would have firsthand data on its customers on which to base decisions to extend credit (Fitzgerald 2022). Such a data-driven approach would also benefit consumers because they would unlikely receive credit offers that they may be unable to repay, helping them eliminate impulse purchases.

Conclusion

Walmart and Apple have strong customer bases with particular characteristics that may advantage these merchants in offering financial services and increase competition in the financial services industry. In launching consumer checking accounts, Walmart has the potential to advance financial inclusion and incite changes to industry fee structures. With its consumer savings accounts, Apple could incite changes in the credit card and buy now, pay later markets. Whether the new services will realize these potential outcomes, however, remains to be seen.

Endnotes

- [1] As of 2016, about 53 percent of Walmart shoppers had annual earnings of \$49,900 or less; 26.8 percent earned \$25,000 to \$49,900 and 26.1 percent earned \$25,000 or less. An additional 18.3 percent earned \$50,000 to \$74,900 (Finances Online 2022). As of 2017, 47.5 percent of U.S. households had annual earnings of \$50,000 or less (FDIC 2018). According to the 2017 FDIC National Survey of Unbanked and Underbanked Households, low-income households were significantly more likely to be unbanked and use alternative financial services.
- [2] Although initially a Visa-branded reloadable card issued by GE Money Bank (later GE Capital Retail Bank), MoneyCard expanded to have both Visa- and Mastercard-branded reloadable cards in 2011, and both cards have been issued by Green Dot Bank since 2013 (Green Dot 2011; Digital Transactions News 2013).
- [3] Cardholders who had direct deposits of \$500 or more in the previous month do not incur a monthly fee.
- [4] Go2bank offers overdraft protections of up to \$200, free access to 50,000 ATMs, up to two days of early access to earned wages or four days early for government benefits, and up to 7 percent cash back rewards in the app on a wide variety of retailers.

- [5] Apple Cash card is a virtual, reloadable debit card operated by Green Dot Bank.
- [6] According to the American Bankers Association, “Bank On connects consumers to safe and affordable bank accounts. The Bank On national platform, led by the nonprofit Cities for Financial Empowerment Fund (CFE Fund), helps individuals navigate the marketplace and easily identify accounts that meet their needs” (2022).
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