



# What Is a Digital Wallet?

*By Geoff Williams*

*Edited by Melanie Pincus*

*Reviewed by Whitney Blair Wyckoff*

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If you want to simplify how you make payments – and you don't want to rely on physical cash and credit cards – you may want to use a digital wallet, also known as an electronic wallet, e-wallet or, when used on your phone, [mobile wallet](#).

In casual conversation, people don't always refer to "digital wallets." They'll just say something like, "Do you use Venmo?" If you pay for stuff with a service such as Apple Pay, Google Pay, [PayPal or Venmo](#), you're already using a digital wallet.

If you don't know much about digital wallets, it can take time to wrap your head around the concept. Read on to learn more about how they work and how to find the best one for you.

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## How Do Digital Wallets Work?

A digital wallet could hold your credit cards, debit cards and maybe some additional item, such as boarding passes, hotel reservations, gift cards and concert tickets.

Broadly, a digital wallet is a payment system that protects users' banking information and passwords and allows consumers to make safe transactions online, in apps, in stores and even at ATMs. Mobile wallets work by using contactless near-field communication, which allows your phone to complete transactions through nearby payment terminals.

Note that you may not be able to use your digital wallet for all transactions, and some digital wallets are more widely accepted than others.

"Venmo, for example, is a great app to use for sending money between friends, but isn't widely accepted at many retailers," says Amy Shunick, the chief financial officer at Bennett Packaging in Kansas City, Missouri, and an avid digital wallet user. "Many times, you can shop online and use PayPal, but if you're in the physical store, you need either cash or a debit or credit card."

There are also digital wallets for consumers who own cryptocurrency. With a [cryptocurrency wallet](#), you can store your personal crypto key, send and receive funds, and more.

## **How to Choose a Digital Wallet**

What digital wallets make sense for you will depend on multiple factors. For instance, if you have an iPhone, you may use Apple Pay, while Android users may favor Google Pay.

Most e-wallets are free, but you might come across some fees.

"Many digital wallets will also charge you transaction fees, usually when transferring money to your bank," Shunick says. For instance, Venmo charges a 1.5% fee if you request an instant transfer of funds from your Venmo account to your bank account. But the company waives this fee if you use its standard option, which usually delivers funds within one to three business days.

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You could spend quite a while deciding what type of crypto wallet to use, says Tal Lifshitz, an attorney, partner and co-chair of the cryptocurrency, digital asset and blockchain group at the Miami-based Kozyak Tropin & Throckmorton.

"There is no one-size-fits-all approach to choosing a digital wallet, and these applications are advancing rapidly, so a review or product from a few months ago could already be stale," Lifshitz says. There are different types of wallets that serve different functions and have different strengths, he says. "Figure out what's important to you – security, user experience, whatever. Then work from there."

If you're hoping for a digital wallet, or several of them, to completely replace your actual physical wallet, you may not be able to find that just yet. In many states, it's still not possible to store your driver's license or state ID on your smartphone.

But that may change soon. For instance, Apple is working with several states to add driver's licenses and state IDs to Apple Wallet.

### **Are Digital Wallets Safe?**

While a thief could grab your wallet and get access to your credit cards in seconds, digital wallets encrypt your information to help safeguard it from hackers. Even if somebody steals your phone, the thief would likely still need a passcode or biometric authentication to access the information in a digital wallet. You may also be able to lock your mobile wallet from another device if you lose your phone.

Crypto wallet users worried about safety are not paranoid, Lifshitz says. "People are out to get you and your wallet. But fortunately, the technology exists to make sure your assets are safe and secure, if you have the right wallet and you handle it properly."

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### **Pros and Cons of Digital Wallets**

There are quite a few pros and cons, and of course, how you feel about these pluses and negatives will vary.

#### **Pros**

- **There are a lot of different digital wallets.** The variety of e-wallets means that you should be able to find products that fit your needs. For

crypto users, "there are so many wallets to choose from and anyone can find the right wallet for their needs and the resources to make sure they handle their wallet safely and securely," Lifshitz says.

- **Digital wallets are convenient.** At least, it's convenient for shoppers who have gotten used to having things that used to only be in their physical wallets stored digitally.
- **Security features.** It can be harder for a thief to get ahold of the information in your digital wallet than your physical wallet.

## Cons

- **There are a lot of different digital wallets.** You aren't seeing double. All of that variety can be overwhelming. "Don't get frustrated and abandon it," Lifshitz advises. "Try out a few. Many are free. Once you have the feel (for crypto wallets), the research makes more sense." Plus, Shunick points out that – at least right now – people often need multiple digital wallets to manage their money in the way that they want.
- **Digital wallets could encourage overspending.** Having easier access to your cards can have downsides. "That convenience can also be a negative when it means your impulse buying increases because you constantly have your digital wallet at your disposal," Shunick says. "Digital payments are quick, easy and usually automatic since you enter your account information one time and never need to again."
- **There may be fees involved with an electronic wallet.** Be sure to look into any potential fees when you start using a digital wallet.

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