

Consumer Payment Cards: Lessons from consumer surveys

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Disclaimers

- The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System
- Results from the 2011 Survey of Consumer Payment Choice (SCPC) are preliminary and subject to change

Outline

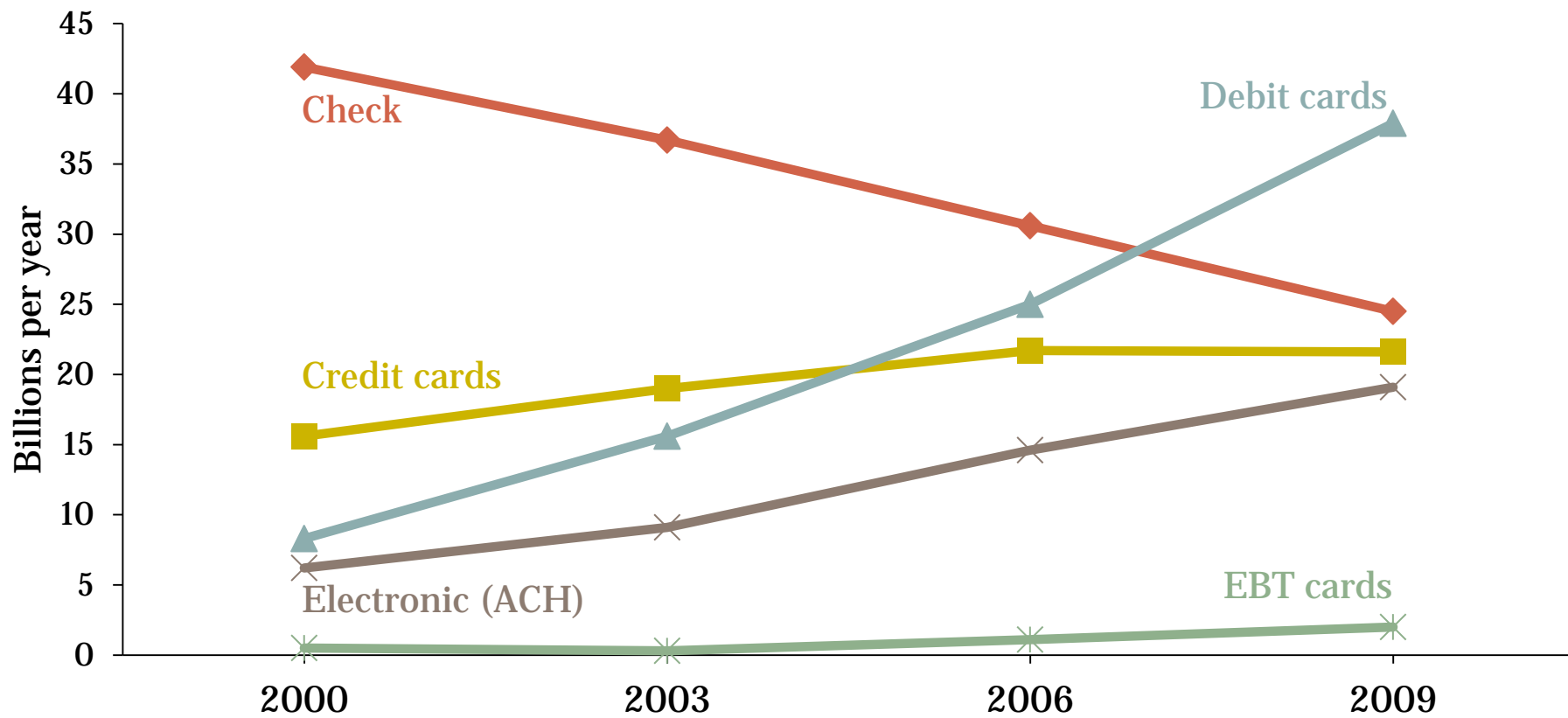
- **Background: card payments in the U.S.**
- **New consumer payments data results (2010 – 2011)**
- **Recent regulatory changes affecting payment cards**
- **Boston Fed Research**
 - Consumer payment choice
 - Analyses of recent policies
 - Credit score and payment choice
 - Card payments and income transfers

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Total Payment Use in the U.S.

Cards and electronic payments are replacing checks in U.S. non-cash payments

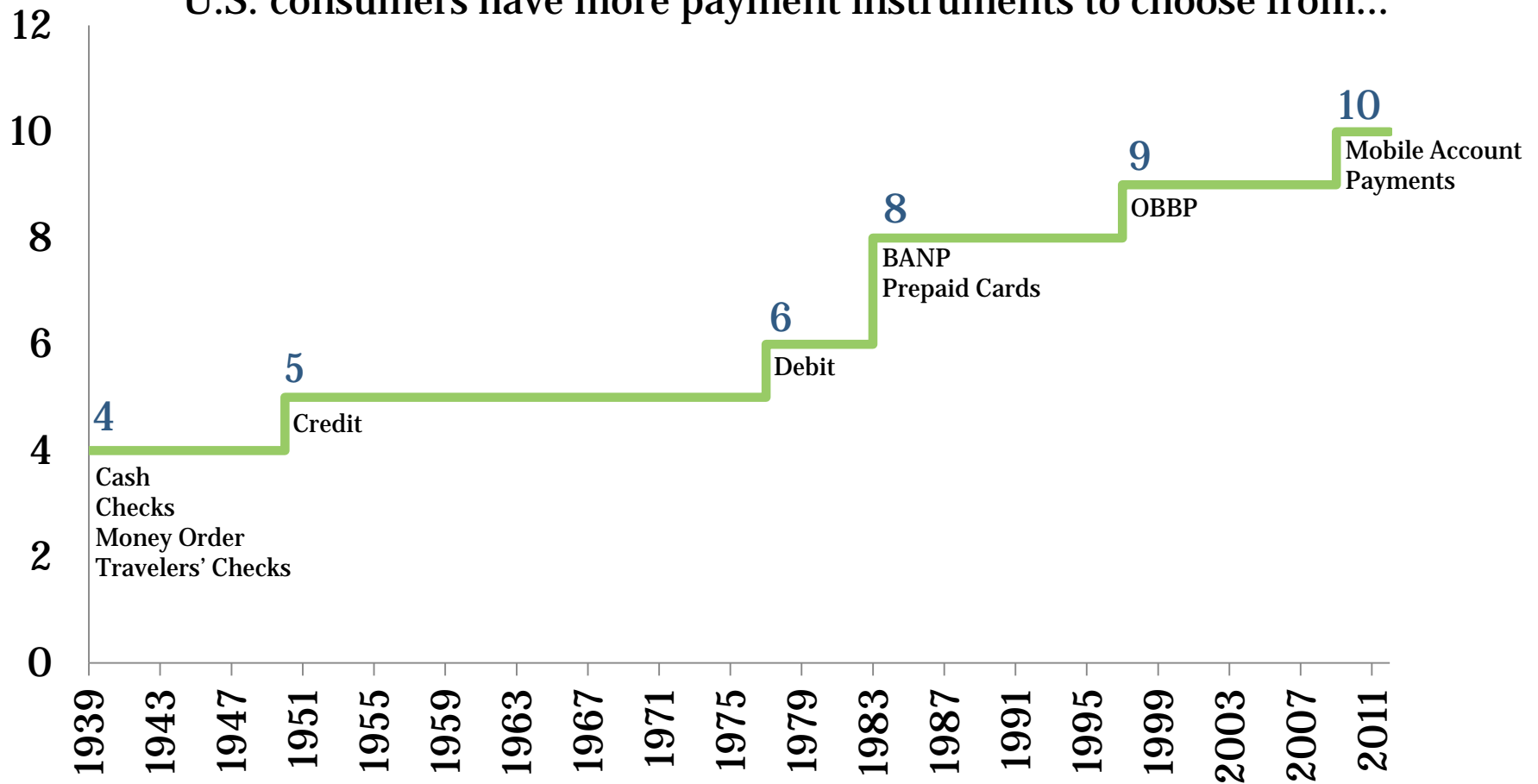
Number of U.S. payments by all sectors (household, business, government)



Source: Federal Reserve Payment Study (FRPS)

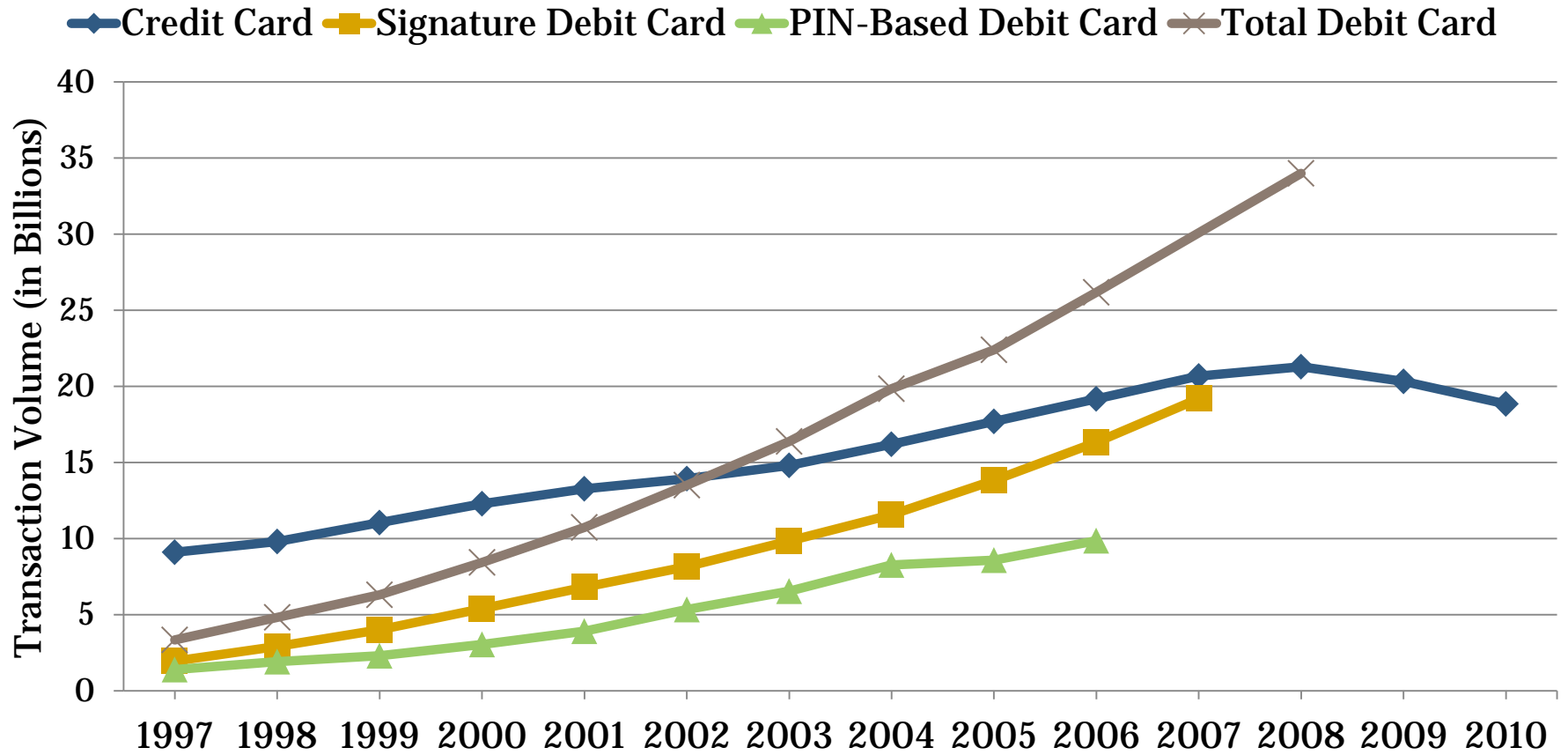
Payments Transformation

U.S. consumers have more payment instruments to choose from...



Credit and Debit Cards

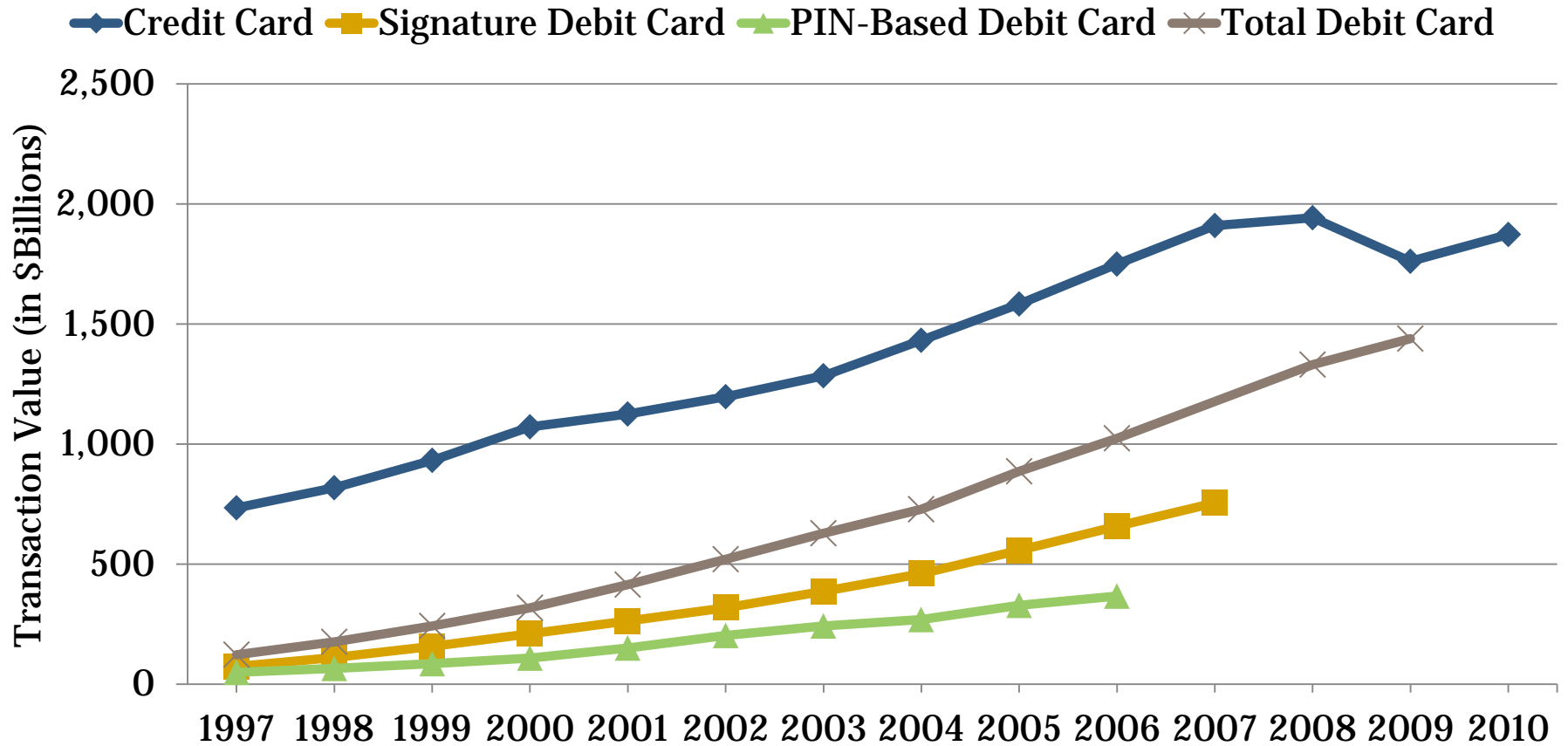
Volume of Card Transactions



Source: Nielson Report

Credit and Debit Cards

Value of Card Transactions



Source: Nielson Report

Credit Cards: Consumers

	2010
% of households with credit cards	68.0%
Median number of credit cards among adopters	2
Average value of new charges on bills	\$1,500
Median value of new charges on bills	\$500
% of credit cards households carrying a balance	39.4%
Average balance carried among households with a balance	\$7,100
Median balance carried among households with a balance	\$2,600

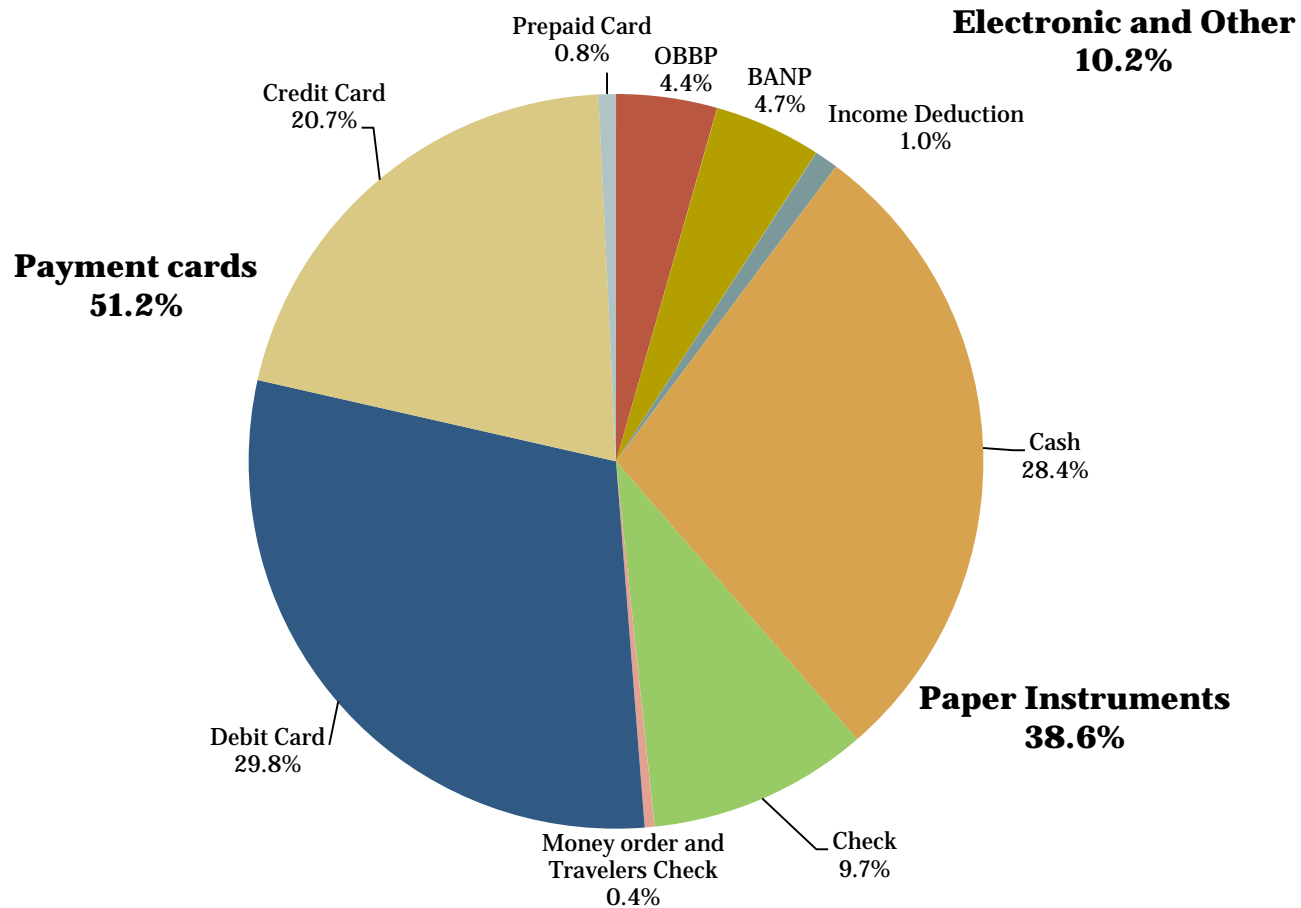
Source: 2010 Survey of Consumer Finances (SCF)

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Survey of Consumer Payment Choice

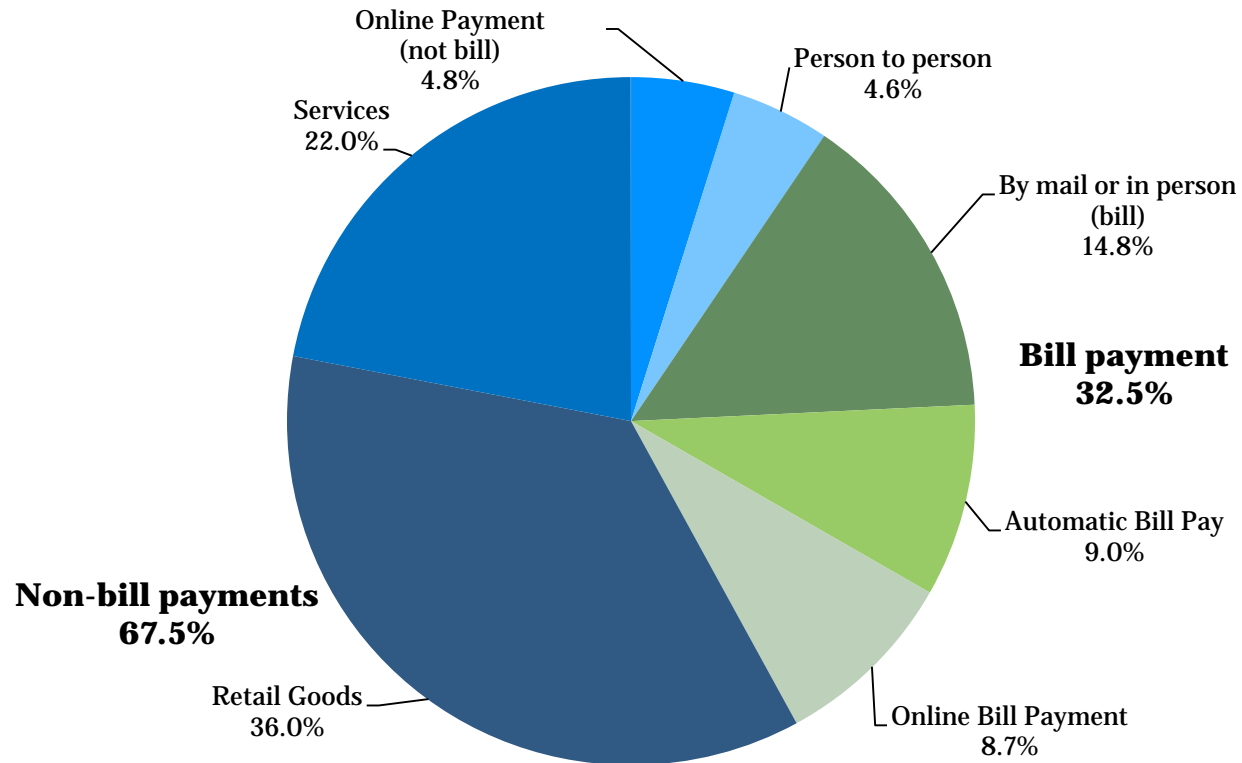
- Federal Reserve Bank of Boston administers a survey of consumers every year starting in 2008
- Representative panel of U.S. consumers, 18+
- Adoption, use and number of payments for nine payment instruments (paper, cards, electronic)
- Consumers' attitudes about six characteristics of payment instruments
- To understand cash and noncash payment behavior of U.S. consumers

Percent Share by Instrument, 2011



Source: 2011 Survey of Consumer Payment Choice (SCPC), preliminary results

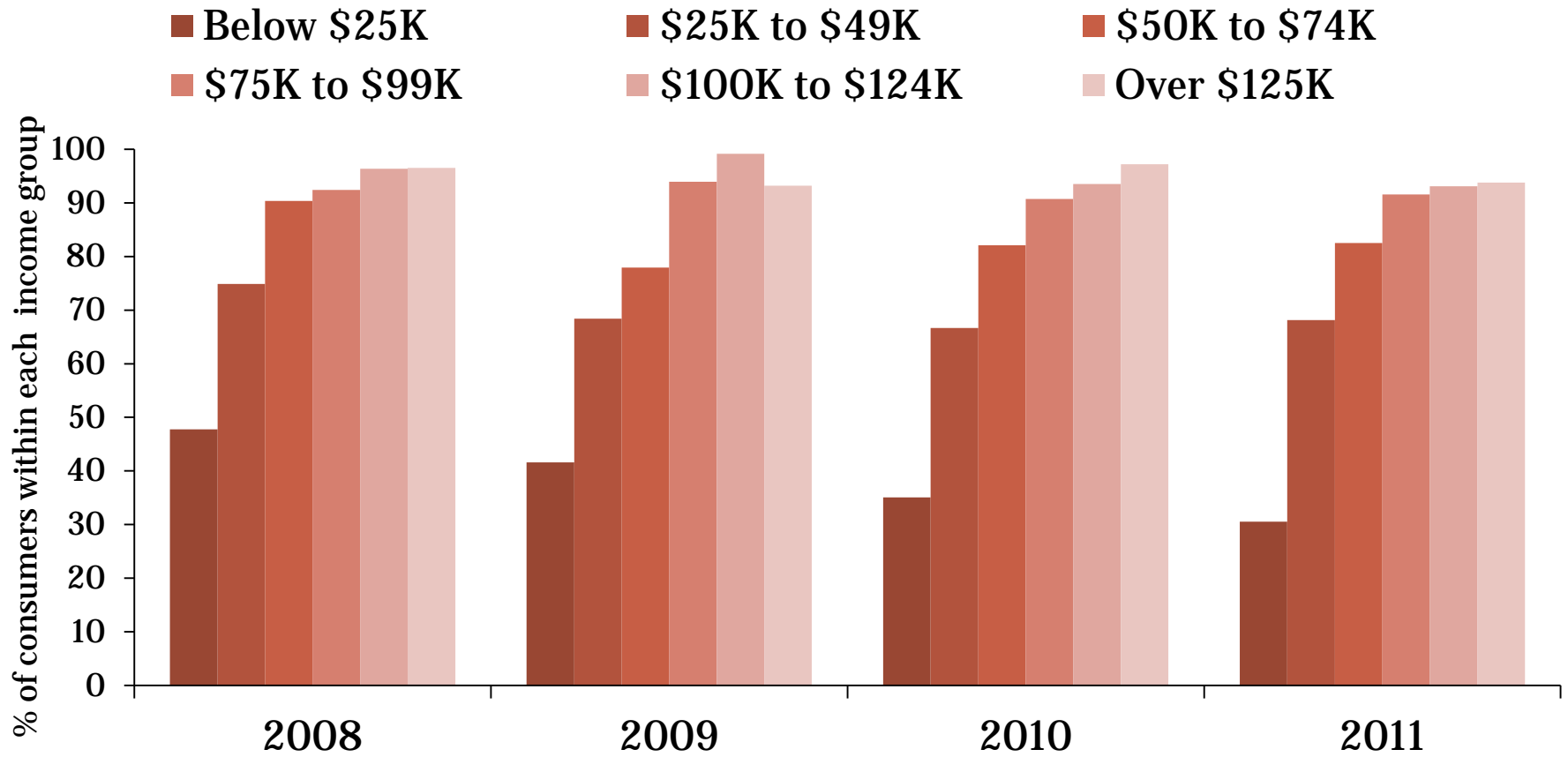
Percent Share by Transaction, 2011



Source: 2011 Survey of Consumer Payment Choice (SCPC), preliminary results

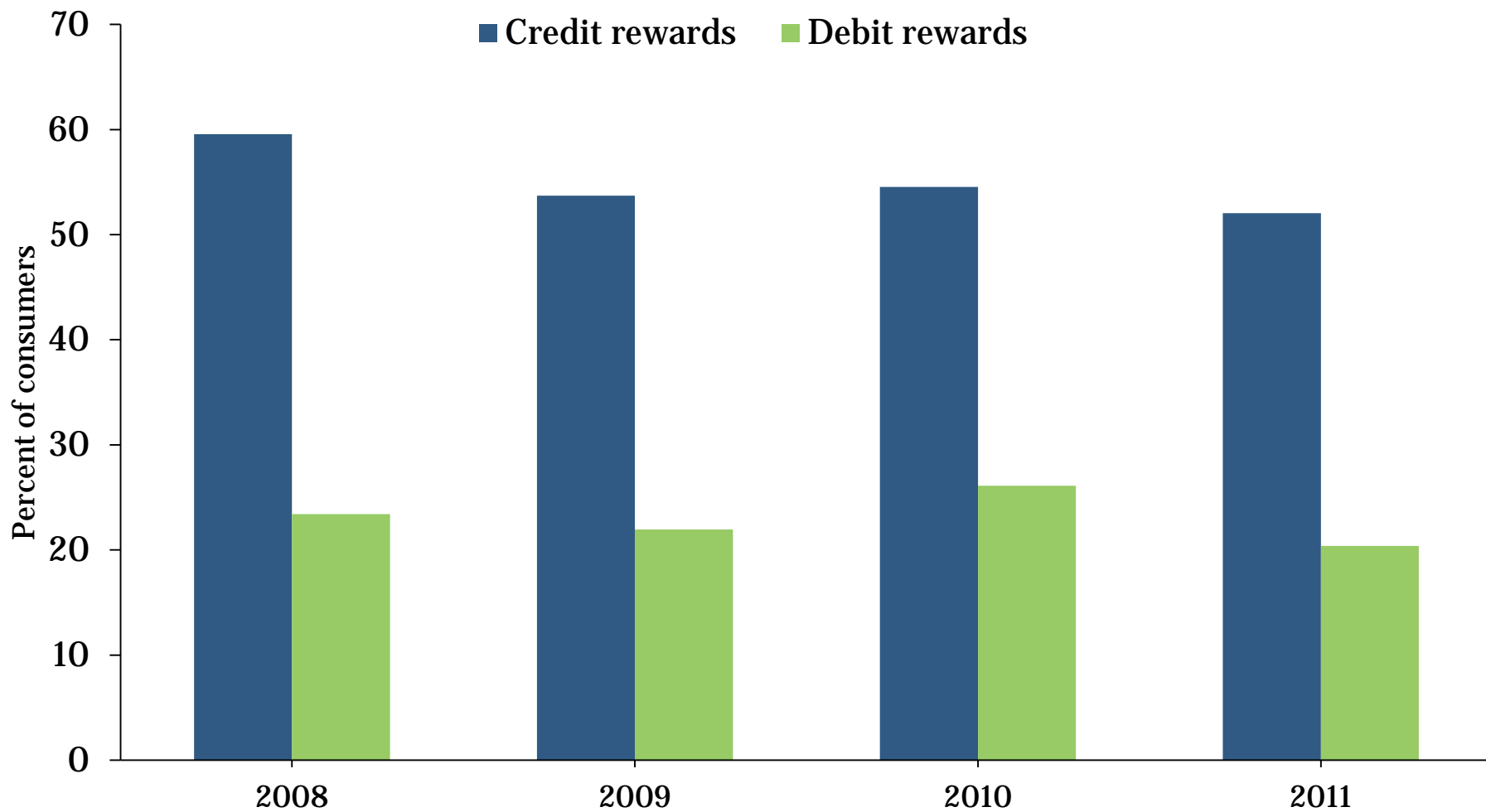
Credit Card Adoption by Income

Adoption of credit cards increases with income



Source: 2008, 2009, 2010, and 2011 Survey of Consumer Payment Choice (SCPC), preliminary results

Adoption of Reward Cards



Source: 2008, 2009, 2010 and 2011 Survey of Consumer Payment Choice (SCPC), preliminary results

Reward Credit Cards Increase with Income

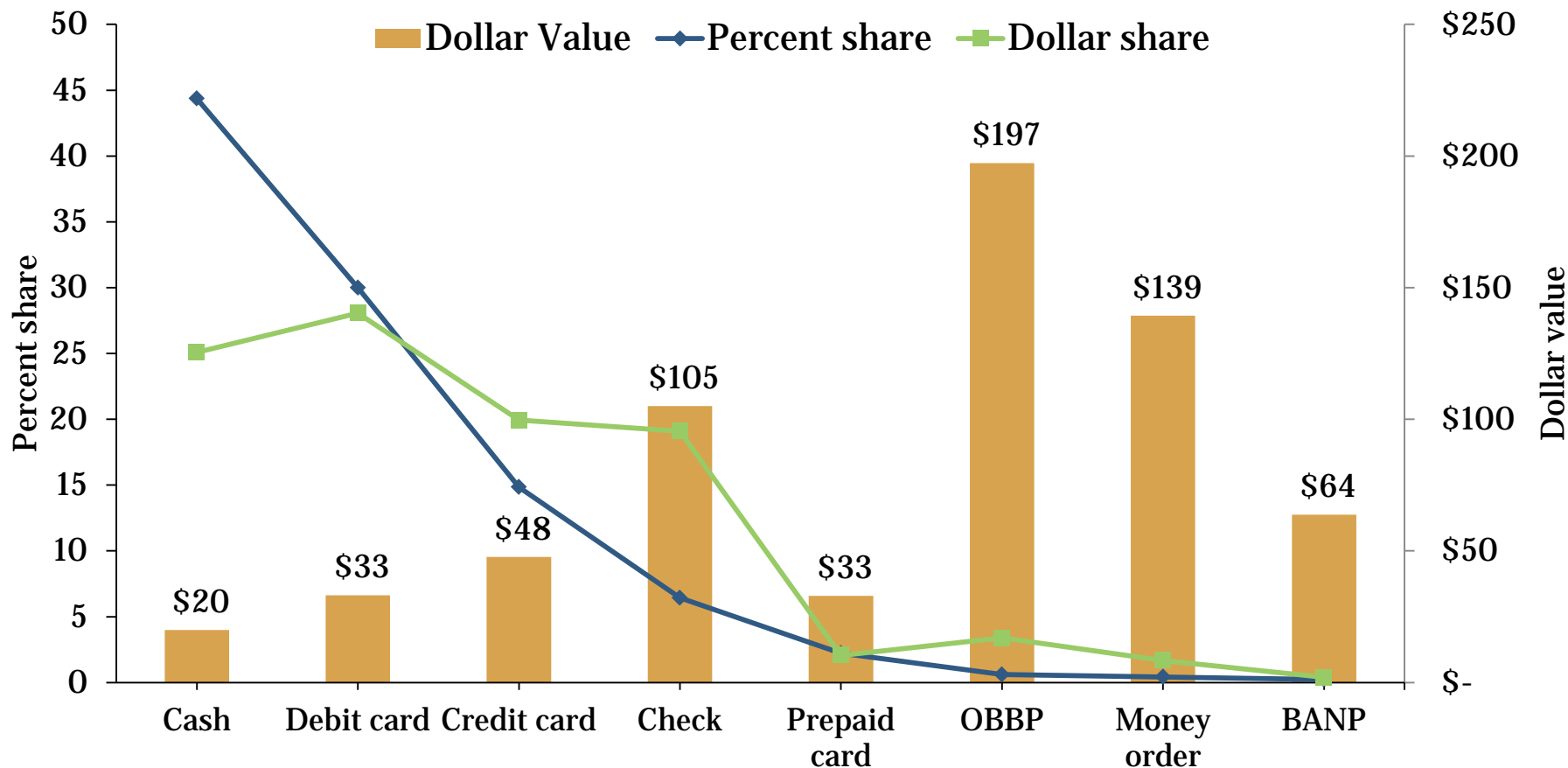
Income Category	% of consumers with rewards
Among all credit card holders	74.8
Below \$25K	53.2
\$25K to \$49K	61.2
\$50K to \$74K	80.1
\$75K to \$99K	83.7
\$100K to \$124K	76.2
Over \$125K	93.1

Notes: Percentages reported are conditional on adoption of credit cards.

Source: 2011 Survey of Consumer Payment Choice (SCPC)

Diary Results for Non-bill Payments

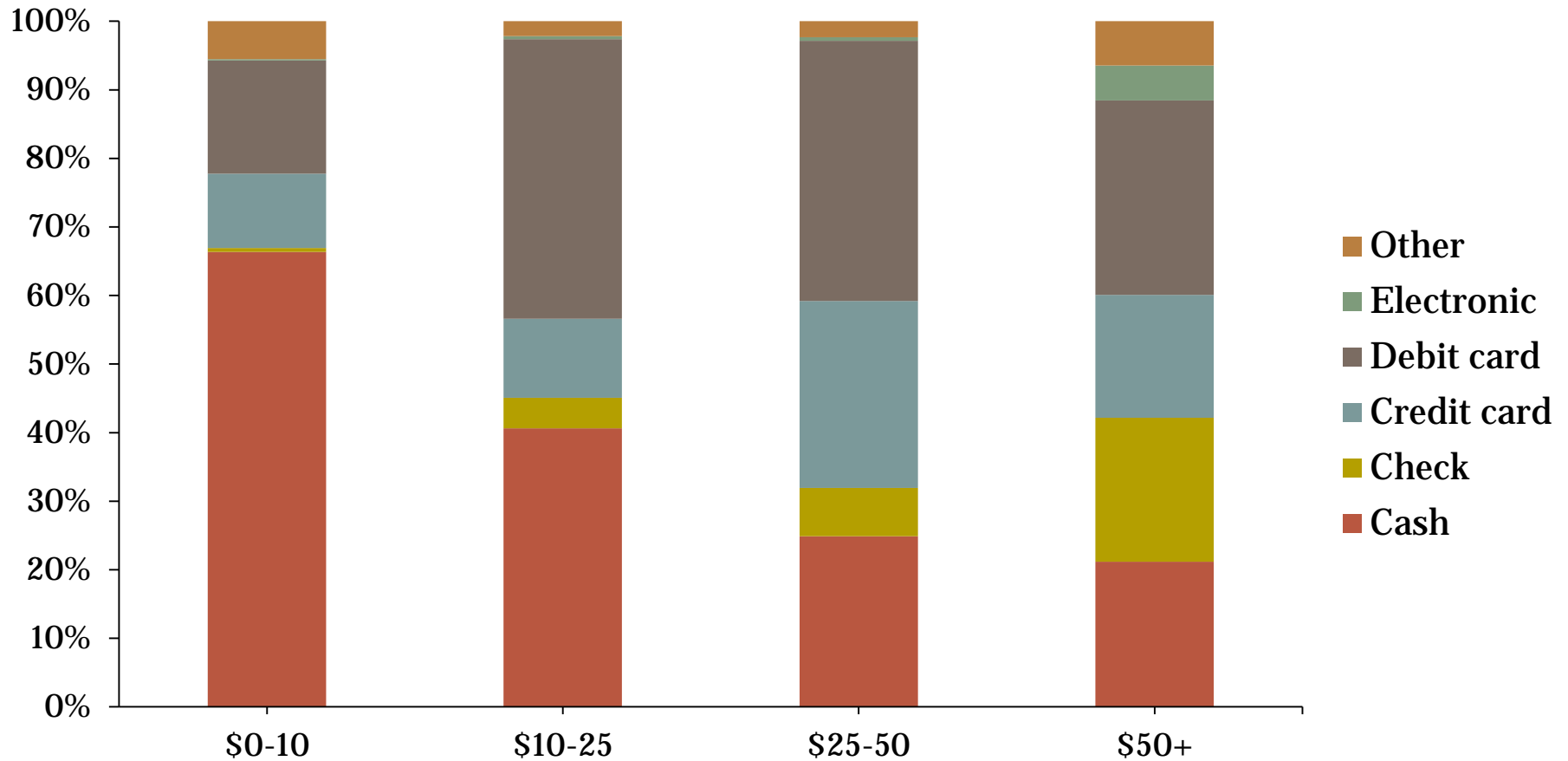
Shares and average values of each payment instrument



Source: 2010 Diary of Consumer Payment Choice (DCPC), preliminary results

Payment Amount and Payment Choice

Payment instrument shares by transaction dollar values



Source: 2010 Diary of Consumer Payment Choice (DCPC), preliminary results

How Consumers Rate Payments

		Average rank	Acceptance for payment	Acquisition & setup	Cost	Convenience	Record keeping	Security
Viewed most favorably overall	Debit card	4.0	4.4	4.0	4.0	4.3	4.1	3.1

Viewed favorably	Credit card	3.8	4.5	3.7	2.9	4.3	4.3	3.1
	Cash	3.7	4.6	4.3	4.5	4.0	2.3	2.7
	Online banking bill pay	3.7	3.5	3.5	4.0	3.9	4.2	3.2
	Check	3.6	3.5	3.8	3.9	3.1	4.2	2.9

Viewed least favorably	Prepaid card	3.2	3.8	3.4	3.4	3.4	2.8	2.7
	Bank account number	3.2	2.5	3.4	3.7	2.9	3.9	2.6

Source: 2010 Survey of Consumer Payment Choice (SCPC), preliminary results

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Credit CARD Act of 2009

- Protect consumers from “unfair, deceptive, or abusive practices”
- Provide more transparency and disclosure to consumers
 - Limited rate increases, advance notice required
 - Highest rate balance must be paid off first
 - Provide reasonable amount of time to make payments, fixed due date
 - Statement warnings, universal definitions, minimum font size
- Too soon to measure full effect, late and over-limit fees reduced

Overdraft Protection

- In 2009, banks received an estimated \$20 billion from overdraft fees for debit card and ATM transactions, typically \$35-\$39 per overdraft
- After July 2010, consumers must “opt-in” debit overdraft program
- Many consumers continue to opt in

Durbin Amendment to the Dodd-Frank Act

- Federal Reserve set interchange fee on debit cards
- Apply to issuers over \$10 billion as of October 1, 2011
- Issuers can receive interchange fee:
 - 21 cents + 5 basis points + 1 cent fraud prevention \approx 24 cents (for average debit card transaction of \$38)
 - Interchange fees lower, especially for signature debit
 - Not clear yet if merchants or consumers benefit

DOJ Settlement

- DOJ settlement with Visa and MasterCard allows merchants to steer customers to pay with less-costly payment methods
- Allows more flexible discounts and price differentiation by payment method
- Merchants can inform customers about cost of accepting different payment methods
- Discounts rarely observed so far
 - “Menu costs”
 - Lack of full information

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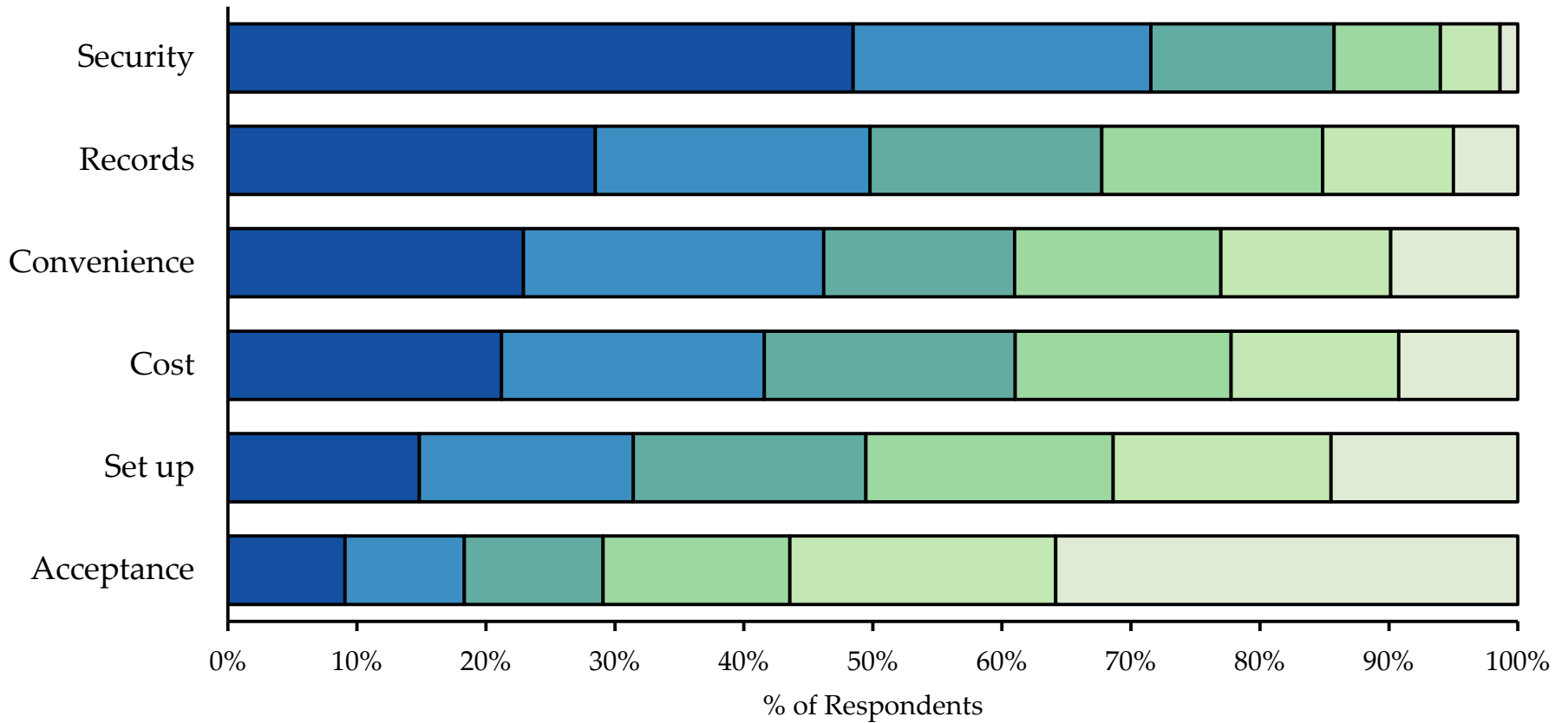
Consumer Payment Choice

- Estimate effect of demographics, income and payment characteristics on consumer payment choice
- Perceived characteristics of payments affect payment behavior
- Convenience, cost especially important
- Security mixed

Consumer Payment Choice

Ranking of Importance of Payment Characteristics

■ 1st ■ 2nd ■ 3rd ■ 4th ■ 5th ■ 6th



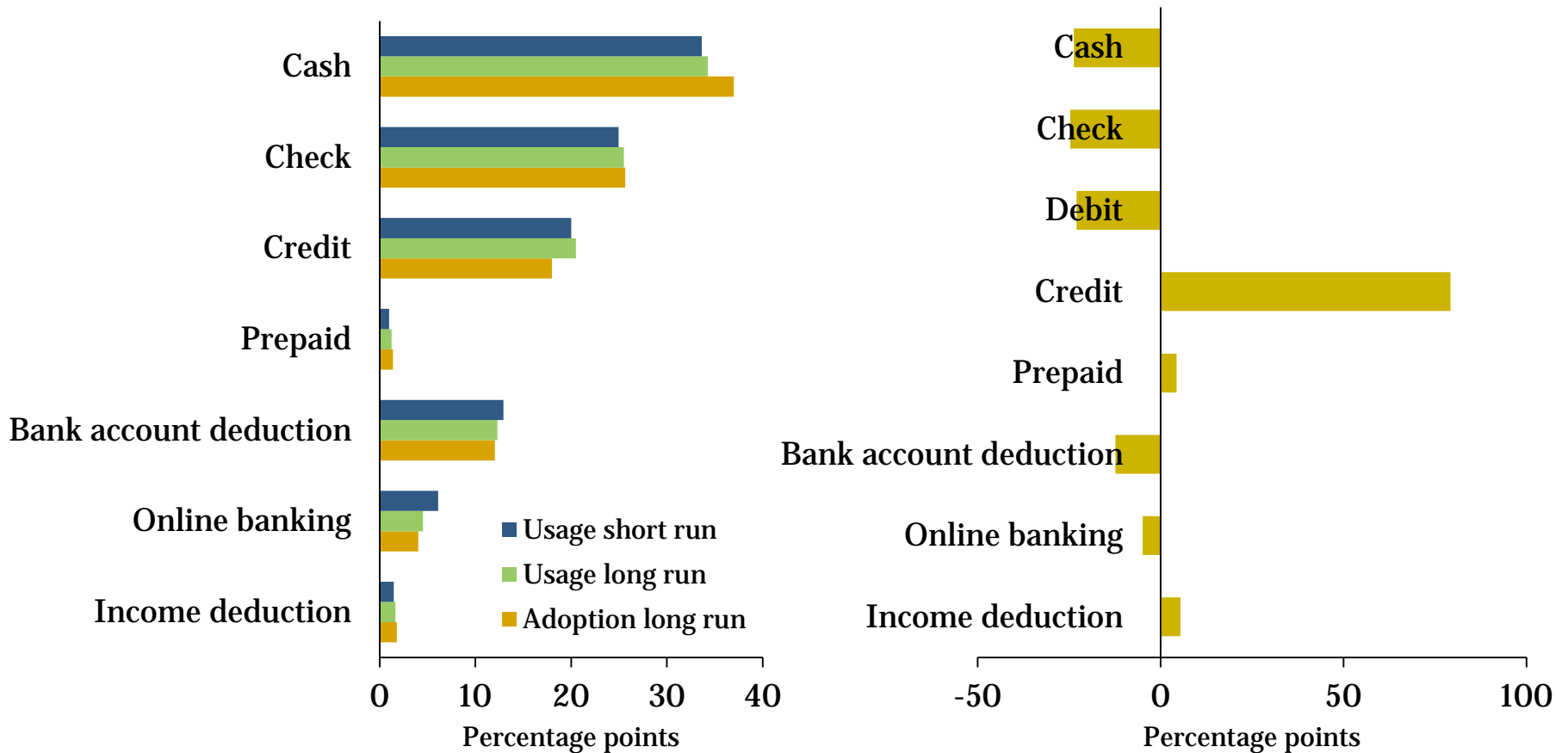
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Durbin Amendment

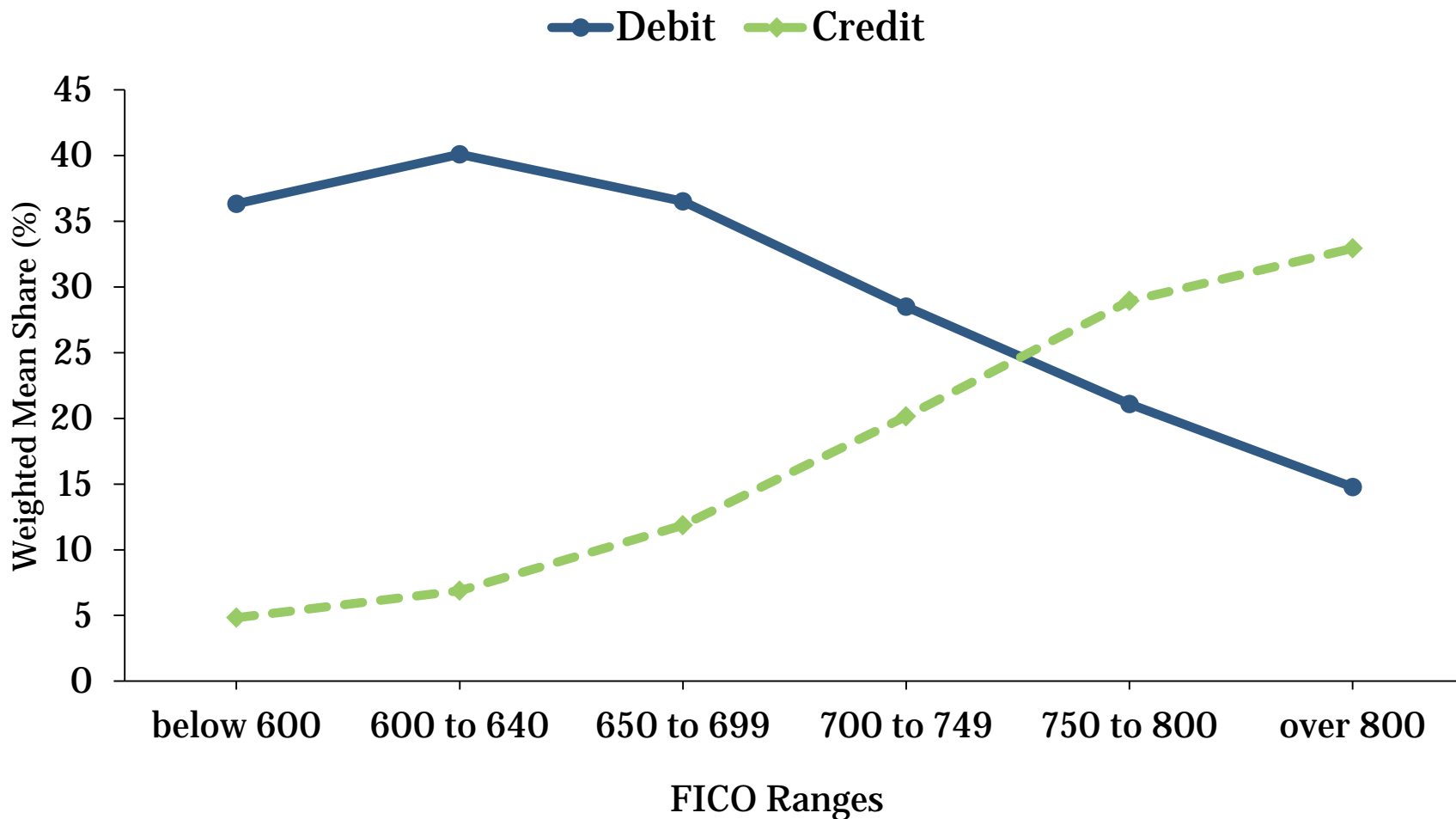
- Stavins (2011) “Potential Effects of an Increase in Debit Card Fees”
- If debit card fees increased:
 - least educated, lowest income, and youngest most affected
 - credit cards viewed as closest substitute for debit cards
 - debit card setup fee could lead to drop in debit adoption

Durbin Amendment

- Koulayev, et al. (2012): debit fees would increase cash, check use



Credit Score and Payment Card Use



From Hayashi and Stavins (2012), "Effects of Credit Scores on Consumer Payment Choice"

Credit Cards Cause Income Transfers

- Credit cards costly to merchants
 - High interchange fees → high merchant fees
- No surcharge rule → costs passed onto all consumers: cash and card users
- Result: cash/debit users subsidize credit card users, especially reward card users

Credit Cards Cause Income Transfers

- Credit card spending and rewards correlated with income → transfer from low-income to high-income
- Allowing merchants to price according to their cost of payment methods might reduce transfers

Consumer Payments Research Center (CPRC)

Find papers, articles, and data on
consumer payments

<http://www.bostonfed.org/economic/cprc>

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