

Consumer Payment Choices in an Era of Innovation and Policy Intervention

Scott Schuh

Federal Reserve Bank of Boston

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The views expressed in this presentation 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.

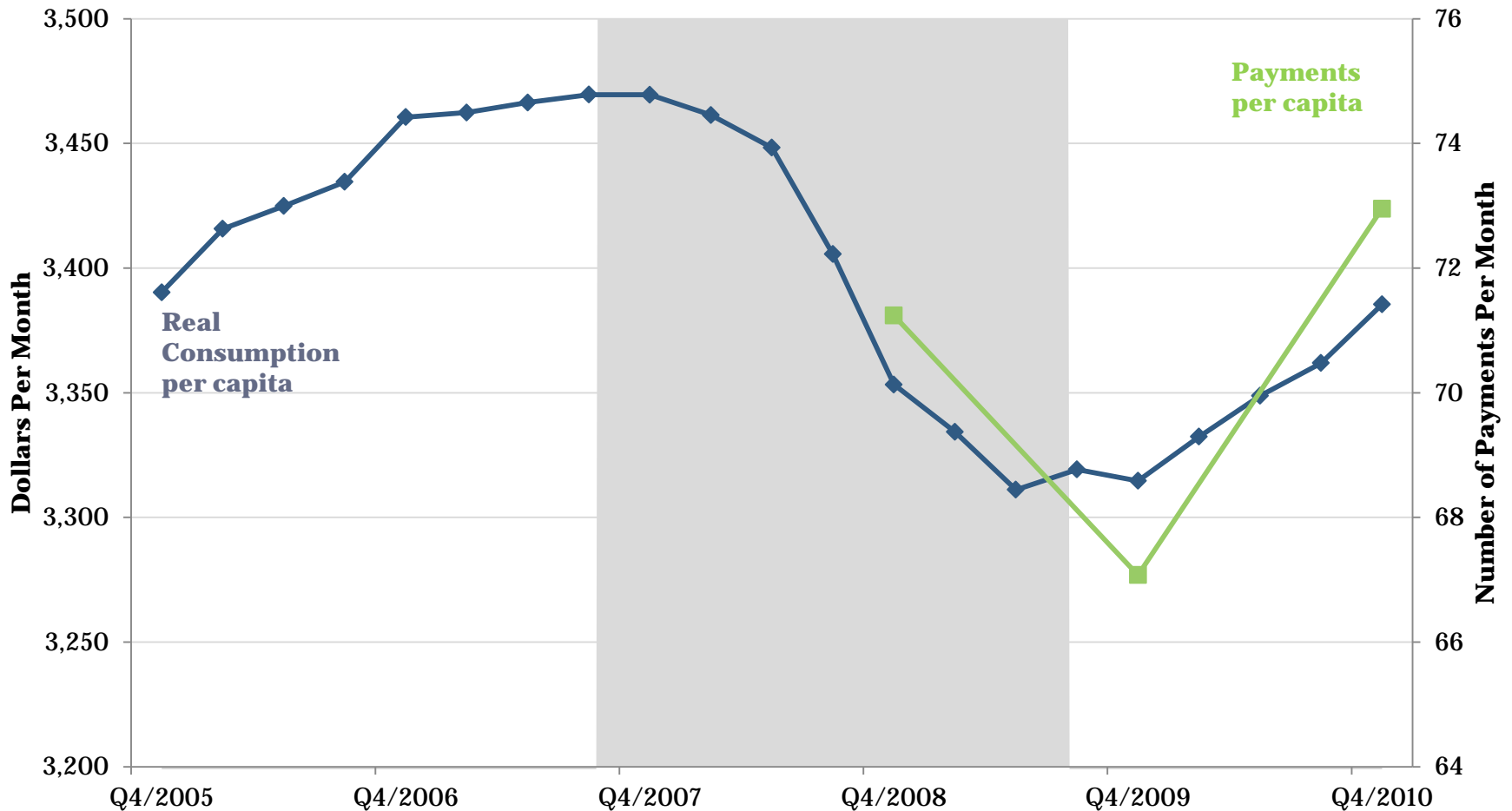
Today's Topics

- Recent trends in consumer payments
- New policies shaping payment decisions
- Consumer payments in 2013 and beyond

Boston Fed Consumer Payments Data

- *Survey of Consumer Payment Choice*
 - Survey of about 2,000 consumers' payment behavior
 - Implemented annually in the fall, 2008-2012
 - 2011-2012 results still in production
- *Diary of Consumer Payment Choice (new!)*
 - Piloted with small samples in 2010-2011
 - Full sample of about 2,600 consumers in 2012

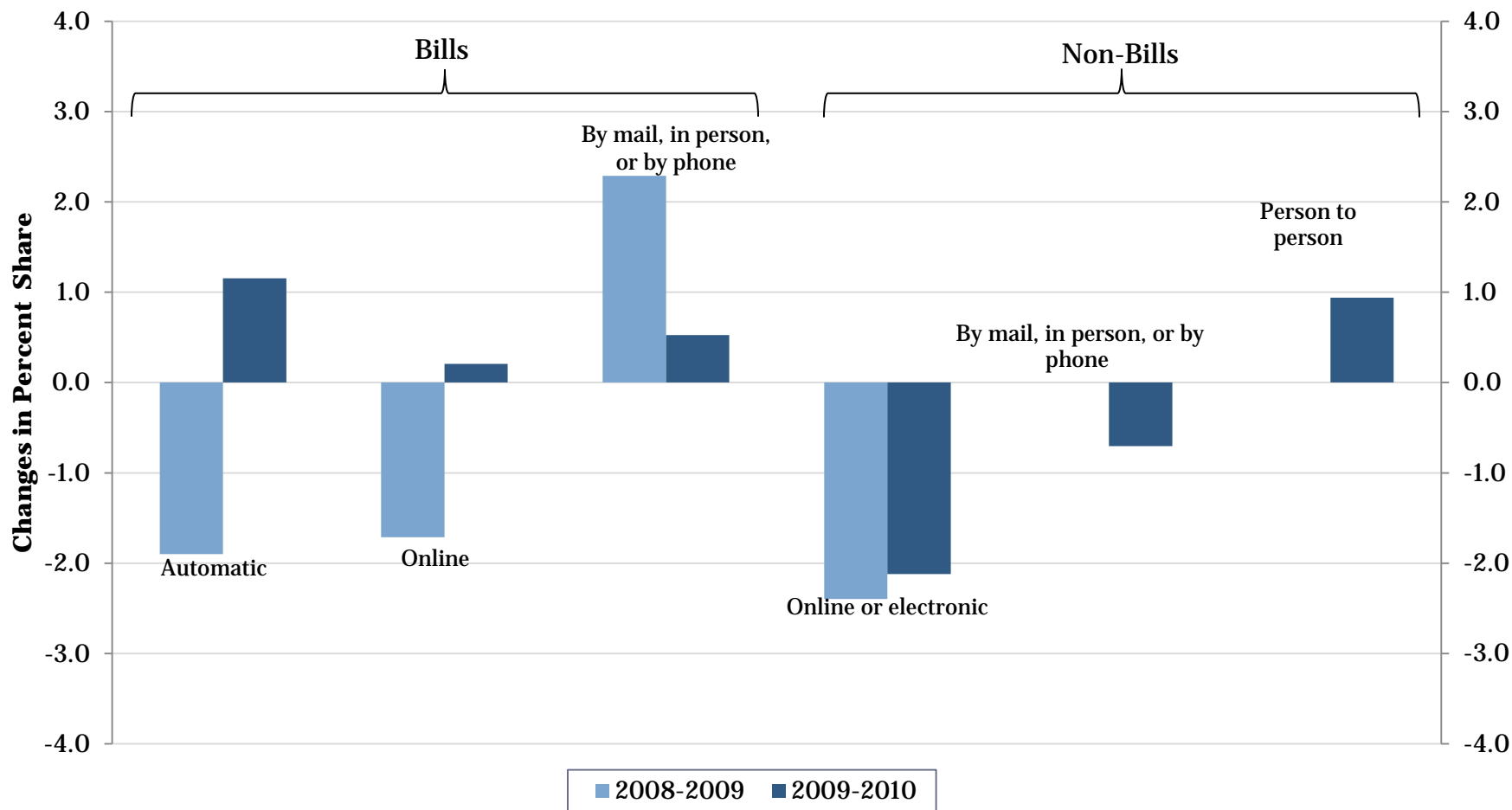
Consumer Payments and Consumption 2005–2010



Note: Consumption is the inflation-adjusted value of goods and services bought.

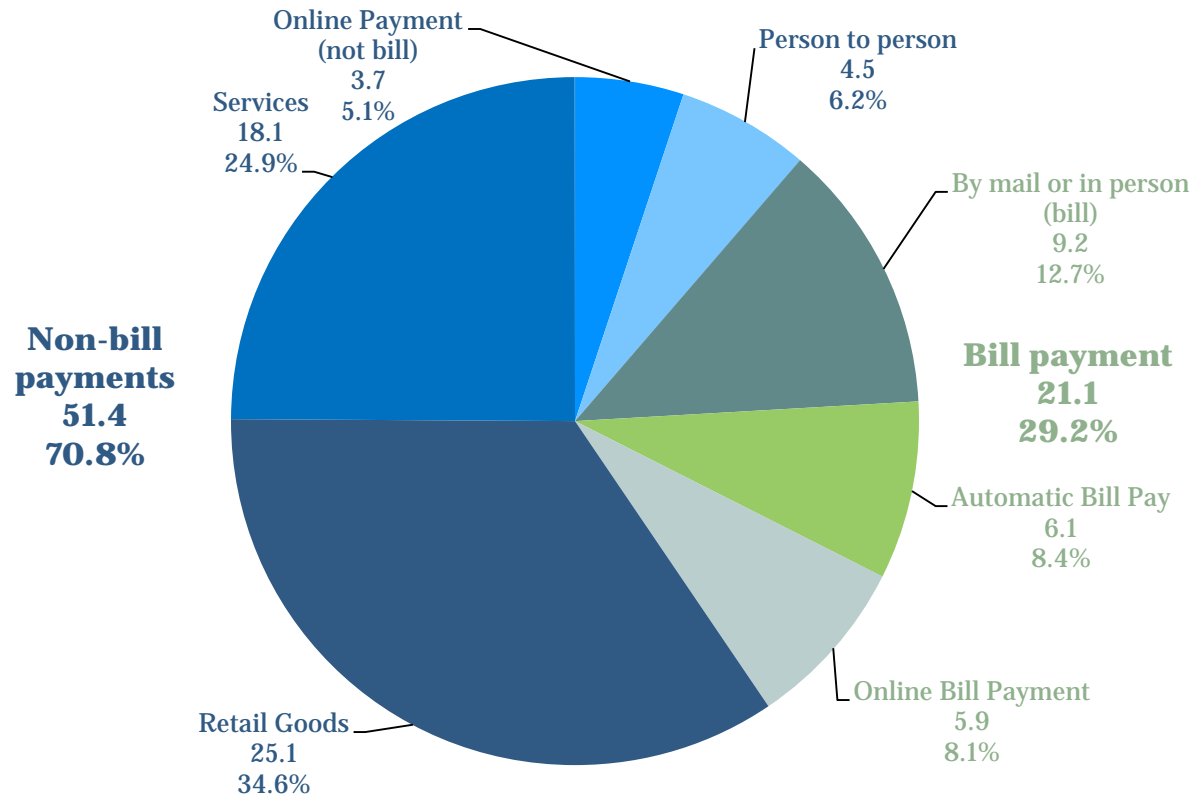
Payments is the number of times consumers made a payment for consumption and non-consumption transactions.

Changes in Consumer Payments by Transaction 2009 and 2010



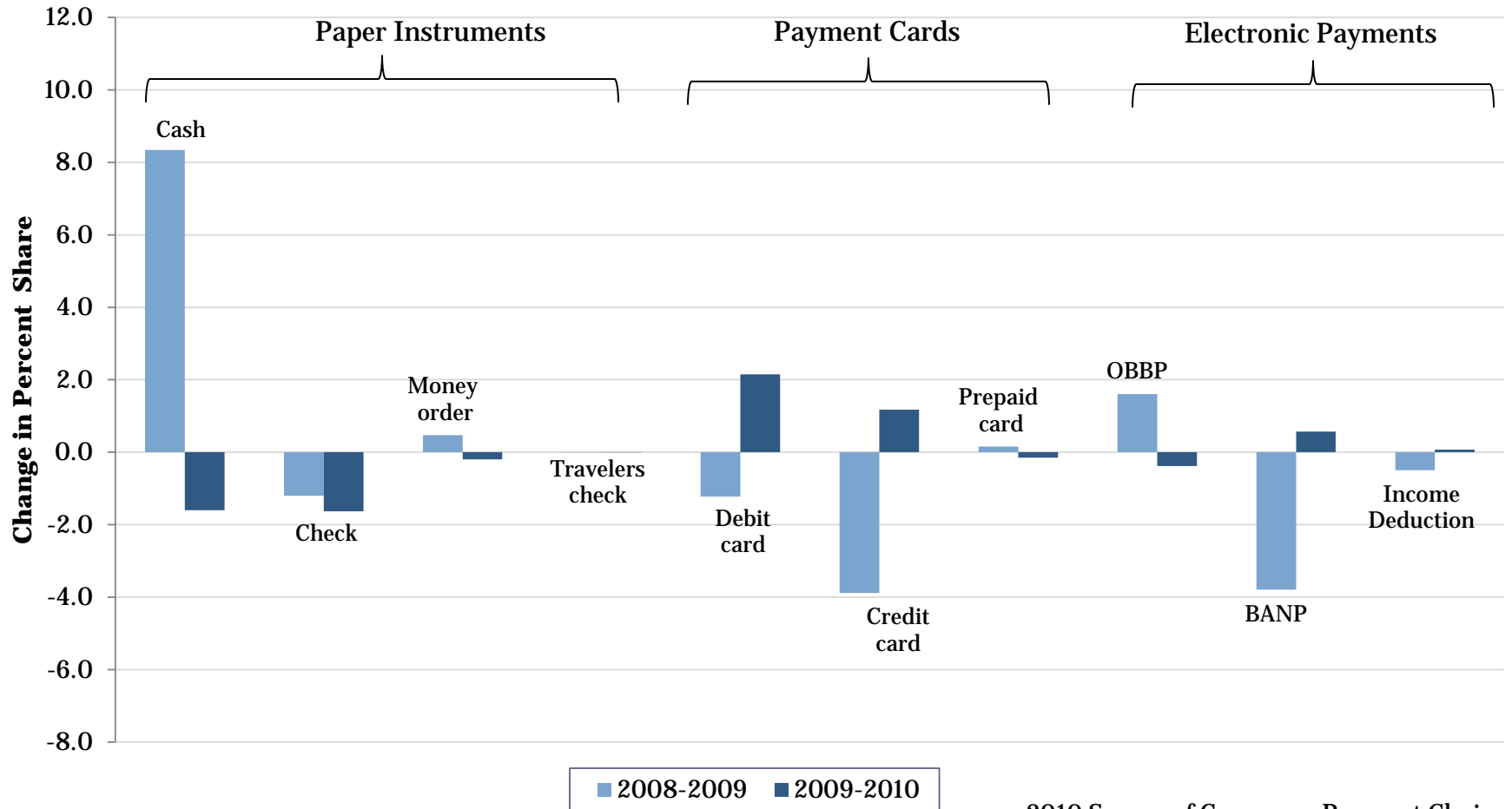
2010 Survey of Consumer Payment Choice

Number of Payments Per Month by Transaction, 2010

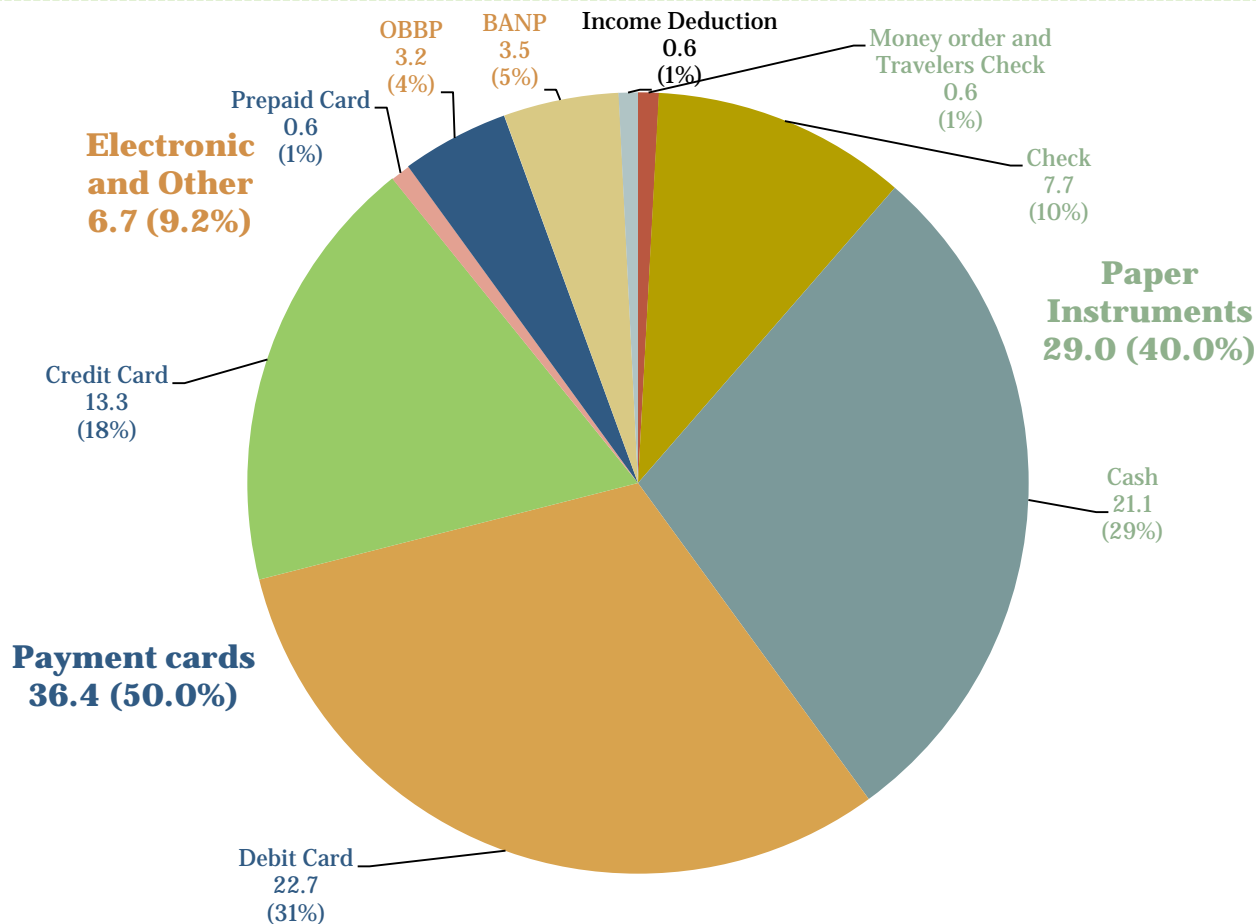


2010 Survey of Consumer Payment Choice

Changes in Consumer Payments by Instrument 2009 and 2010

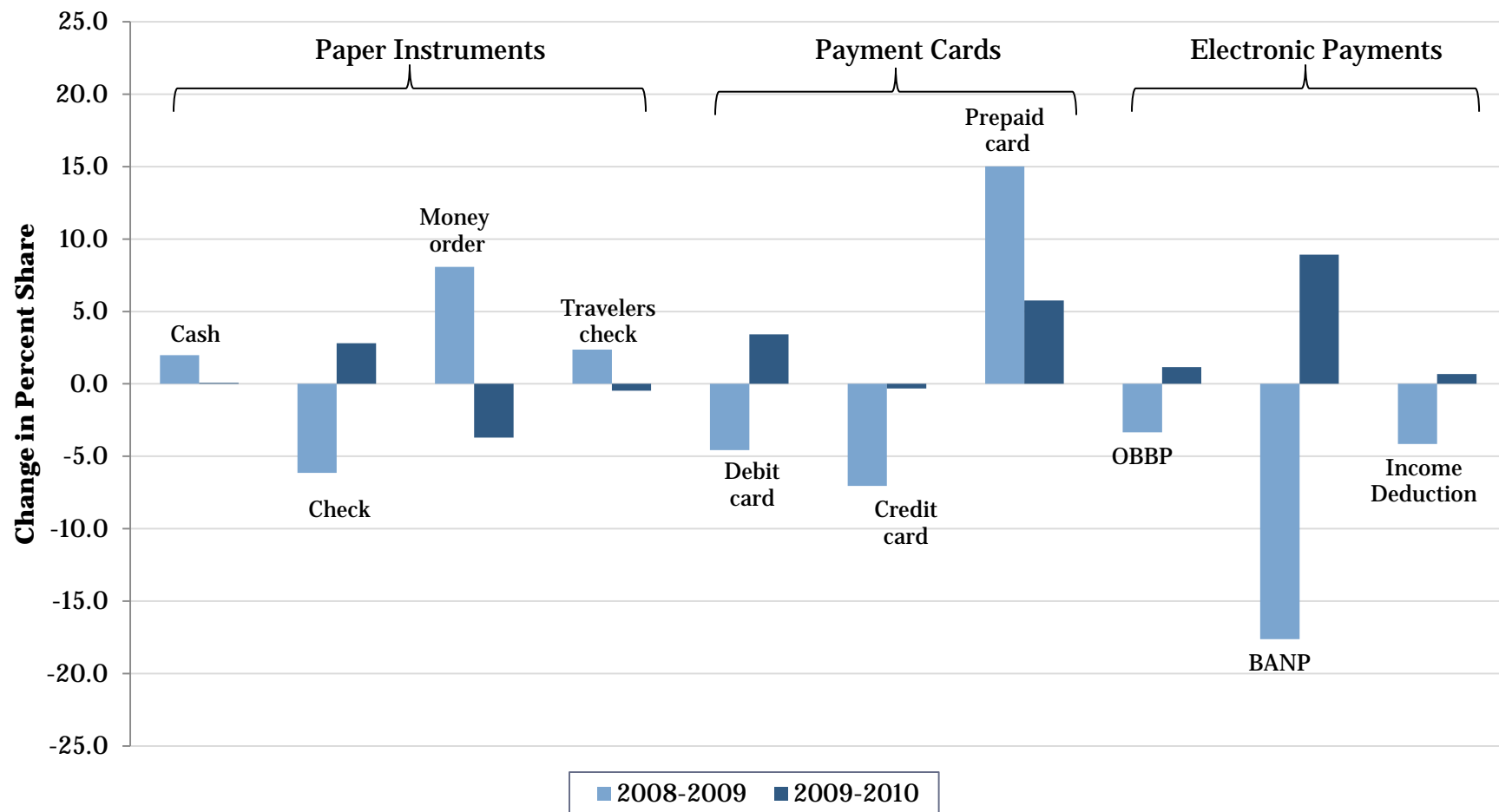


Number of Payments per Month by Instrument, 2010

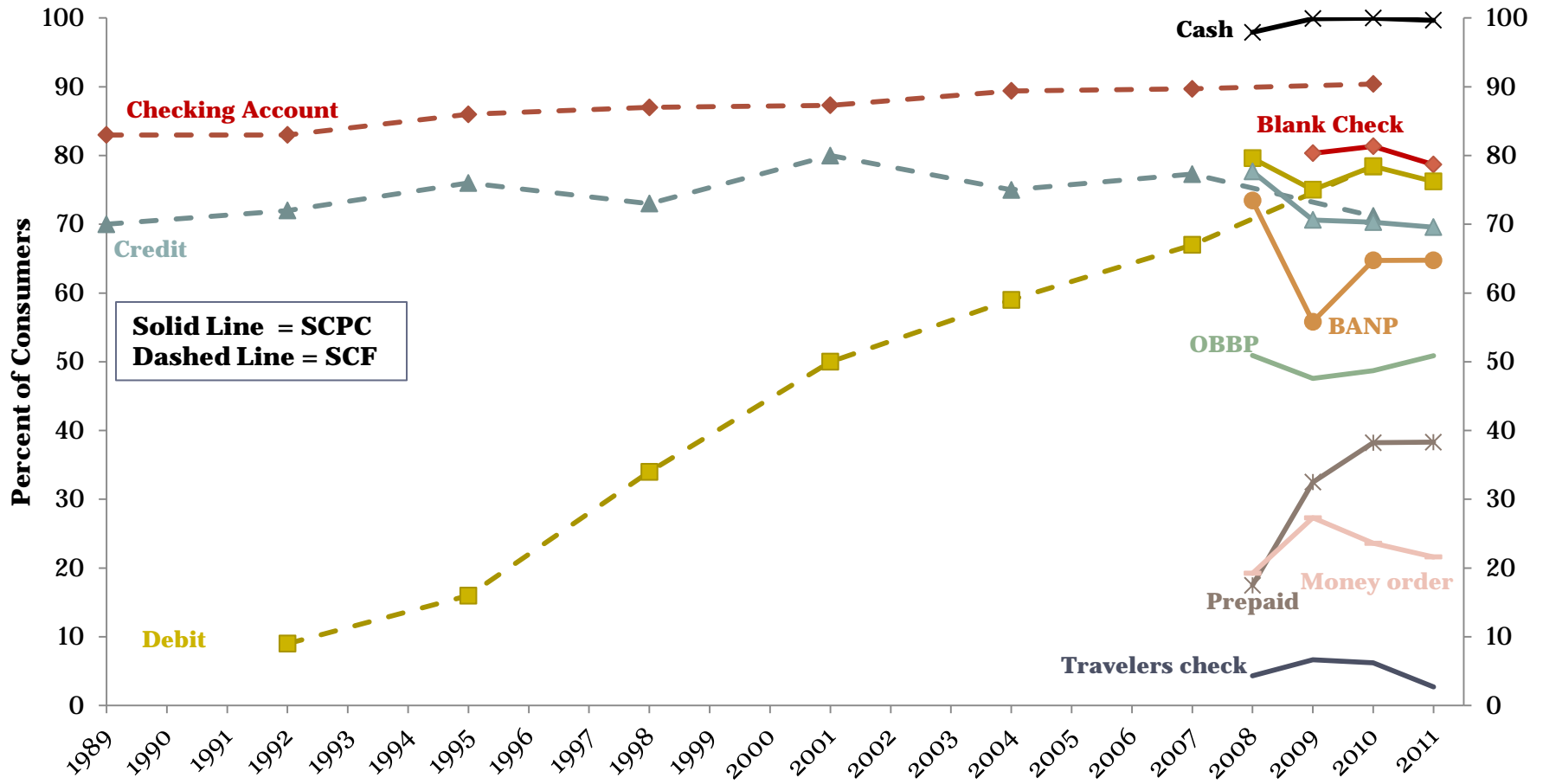


2010 Survey of Consumer Payment Choice

Changes in Consumer Adoption by Instrument 2009 and 2010

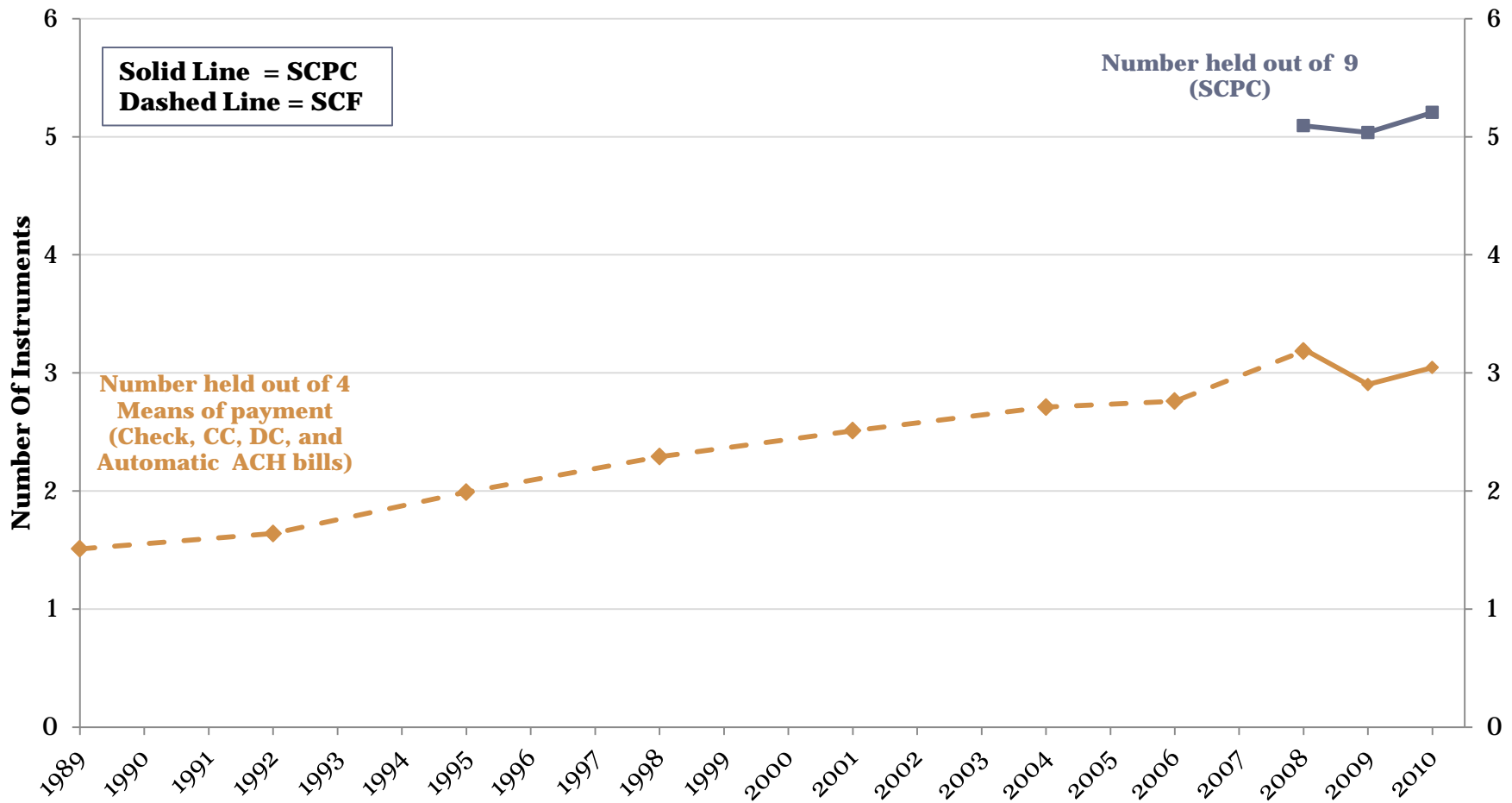


Consumer Adoption of Payments, 1989-2011



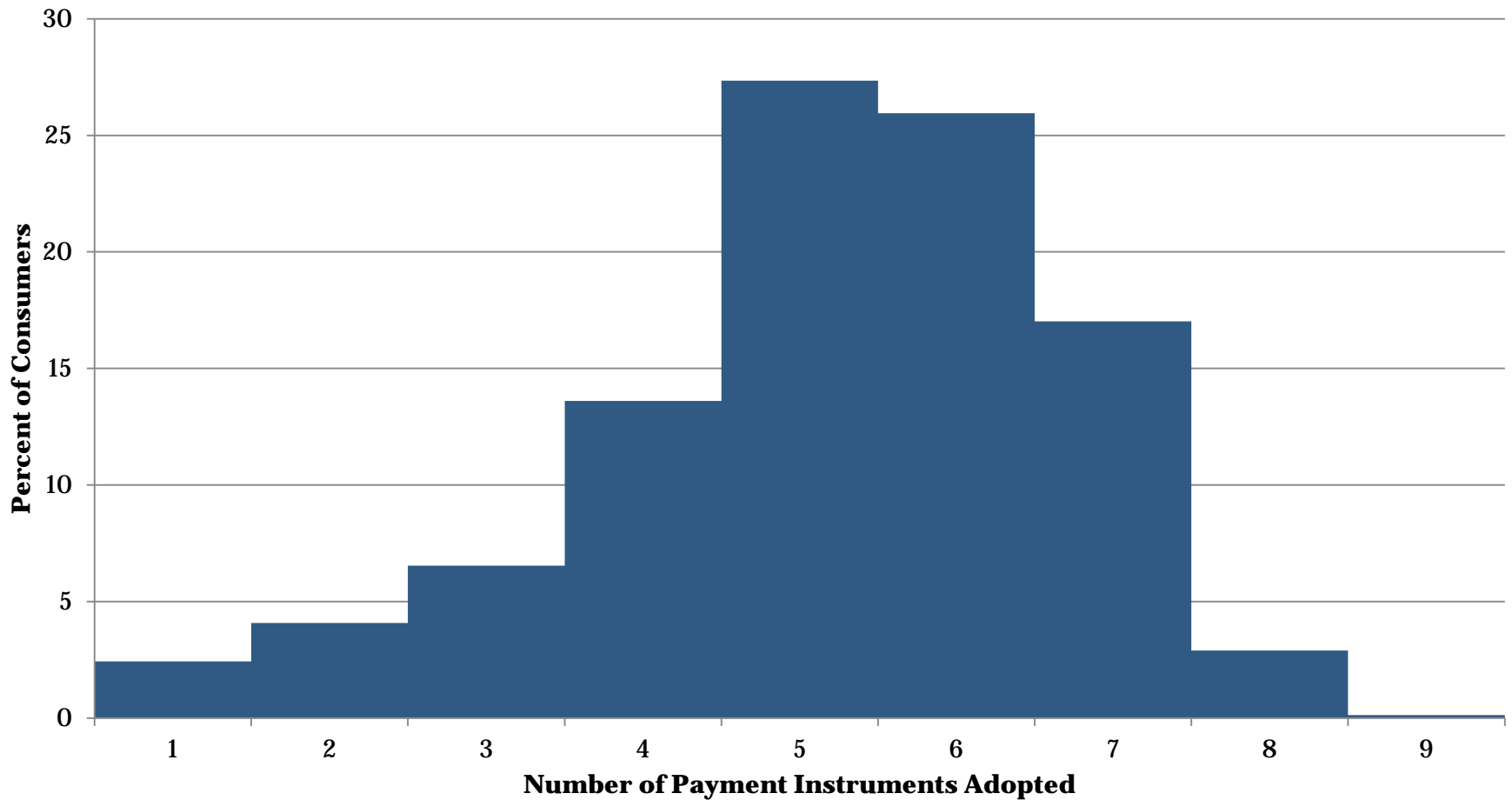
Survey of Consumer Payment Choice
 Survey of Consumer Finance

Number of Payment Instruments Adopted per Consumer, 1989-2010



Survey of Consumer Finance; Survey of Consumer Payment Choice

Most Consumers Hold 5 or 6 Instruments



2010 Survey of Consumer Payment Choice

Consumer Portfolios of Payment Instruments

Most popular bundles...

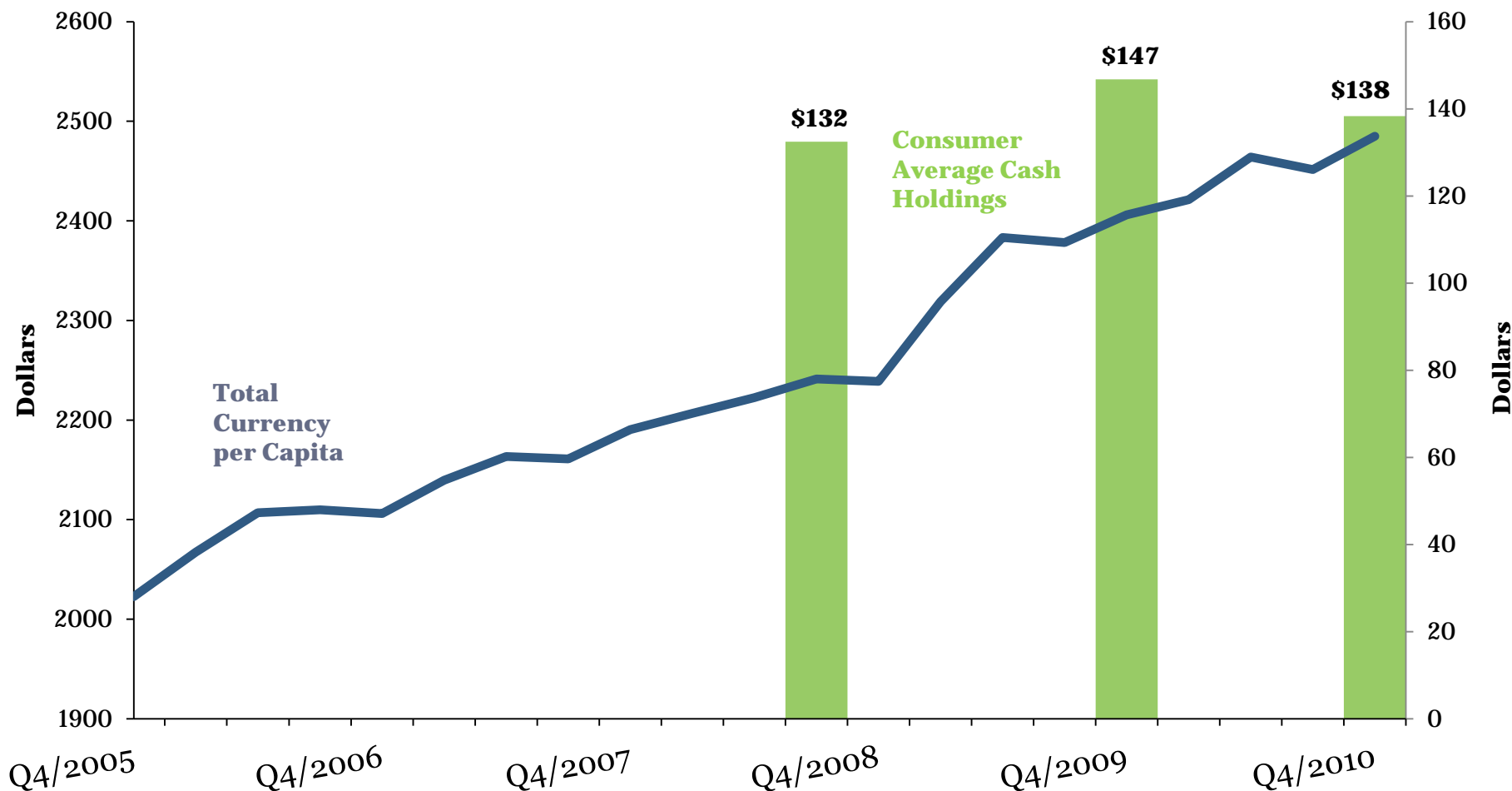
Number of PI	Cash	Check	Travelers Check	Money Order	Credit Card	Debit Card	Prepaid Card	OBBP	BANP	Percent of Consumers
6	X	X			X	X		X	X	11.8
7	X	X			X	X	X	X	X	9.1
5	X	X			X	X			X	7.2
5	X	X				X		X	X	3.9
4	X	X			X	X				3.7

Most popular bundle when specified PI is not adopted...

PI Not Adopted	Cash	Check	Travelers Check	Money Order	Credit Card	Debit Card	Prepaid Card	OBBP	BANP	Percent of Consumers Without PI
Check	X			X						19.4
Credit	X	X				X		X	X	12.7
Prepaid	X	X			X	X		X	X	19.1
OBBP	X	X			X	X			X	13.9

2010 Survey of Consumer Payment Choice

U.S. Domestic Currency in Circulation



Source: Federal Reserve Statistical Release, 2008-2010 Survey of Consumer Payment Choice (SCPC)

Note: Capita is defined as 18+ non-institutionalized civilians. Cash holdings exclude large values.

Consumer Cash Management, 2010

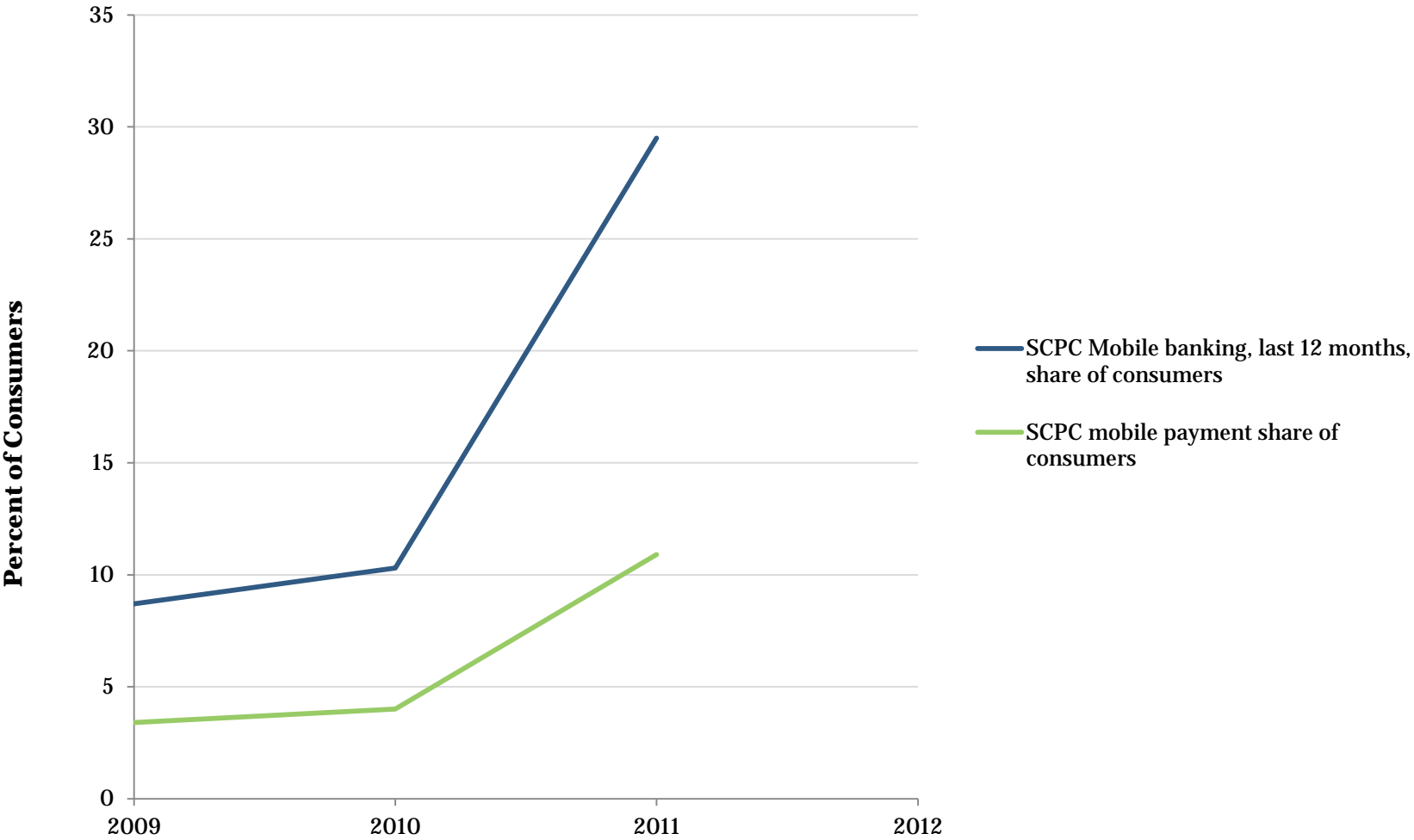
- Median cash on person: \$ 66
- Median cash withdrawn/month: \$502
- Amount/withdrawal: \$124
- Withdrawals/month: 6

Median withdrawals at:

- Employer: \$389
- Check cashing store: \$263
- Bank teller: \$ 96
- ATM: \$ 52
- Retail or grocery store: \$ 19
- Family or friend: \$ 19

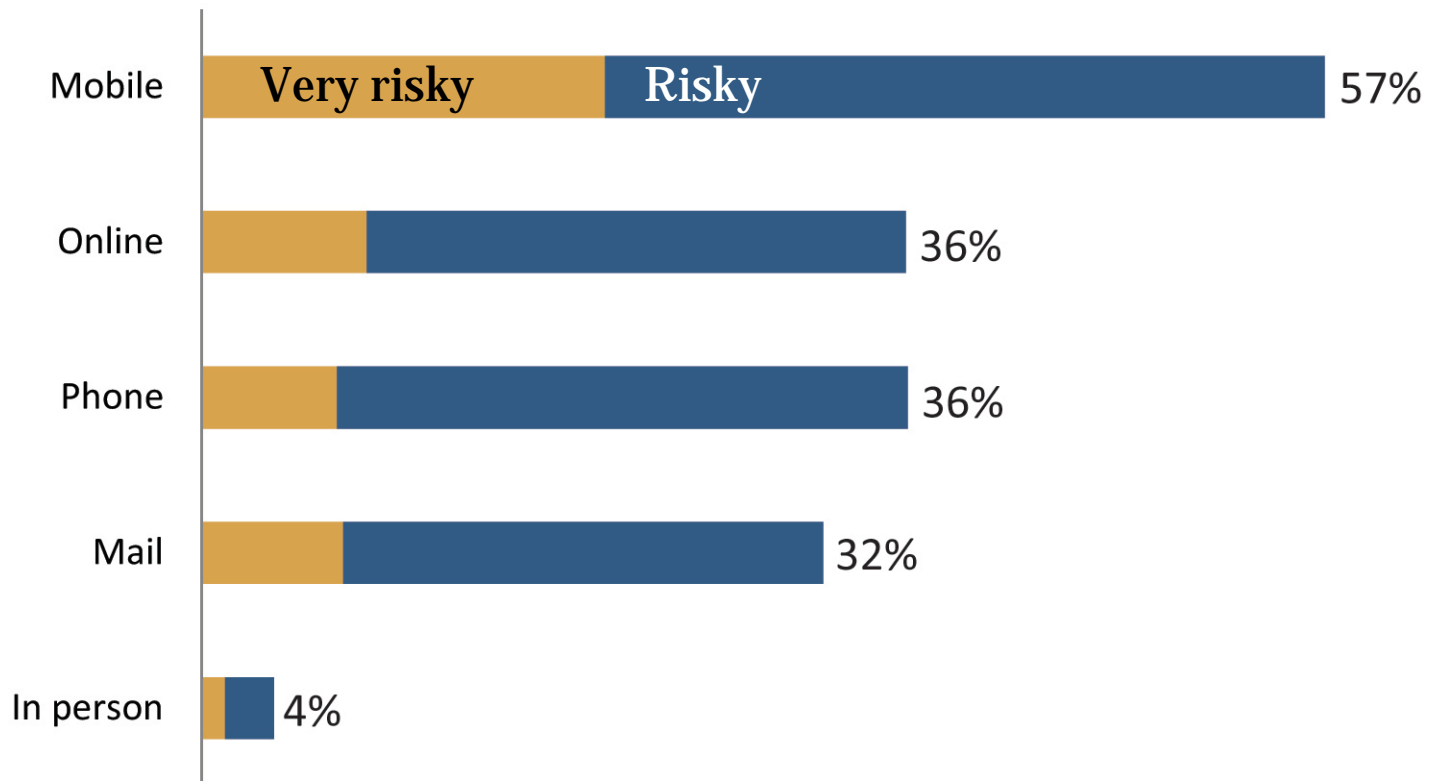
2010 Survey of Consumer Payment Choice

Mobile Banking and Payments



2000-2011 Survey of Consumer Payment Choice, preliminary data

Consumers Say Mobile Payments Are Riskier



2011 Survey of Consumer Payment Choice, preliminary data

New Public Policies toward Payments

2010

- Opt-in overdraft protection (Fed)

2011

- Debit interchange fee limits (Fed)
- Discounting and card fee disclosure (DoJ)
- Some banks propose debit fees

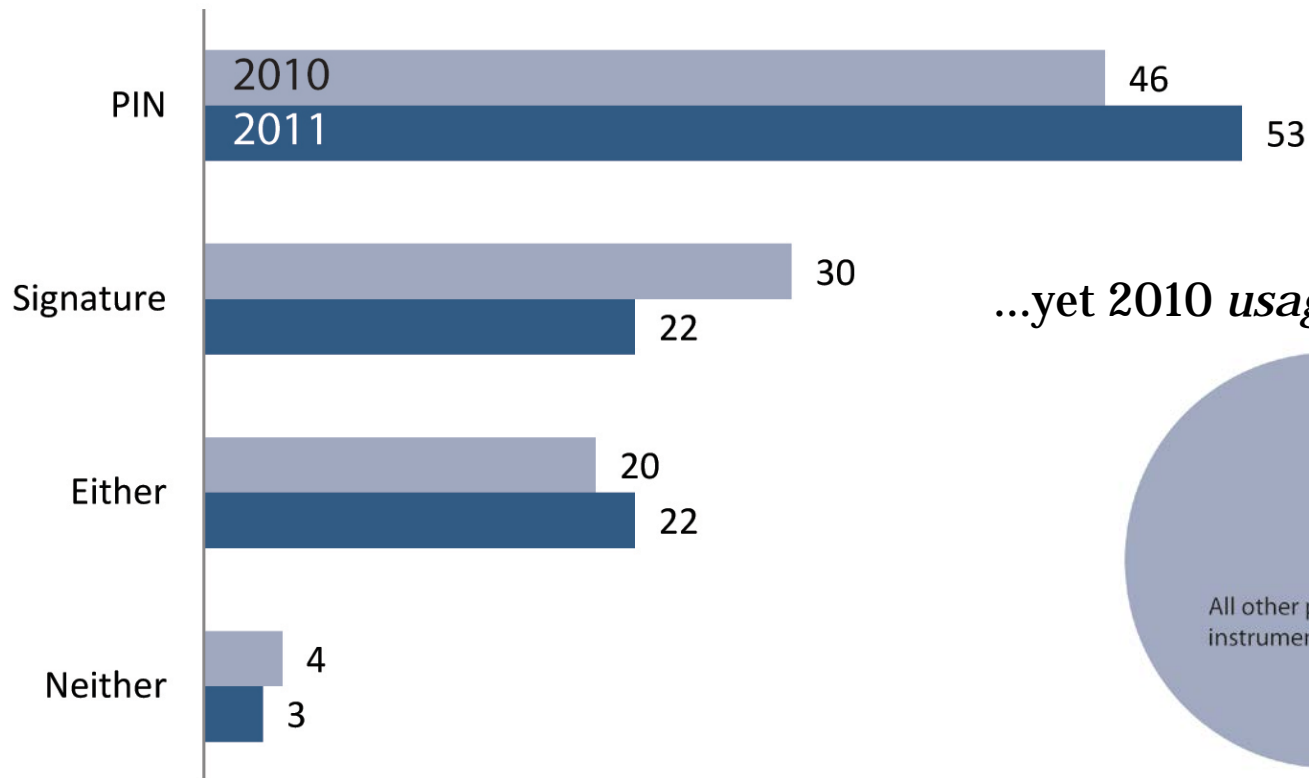
2012

- Proposed rulemaking, prepaid cards (CFPB)

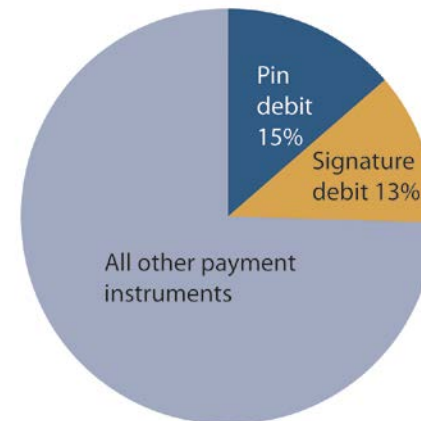
2013

- Proposed rulemaking, student cards/accounts (CFPB)
- Credit card surcharging (DoJ)

Consumers Prefer PIN Debit Payments...

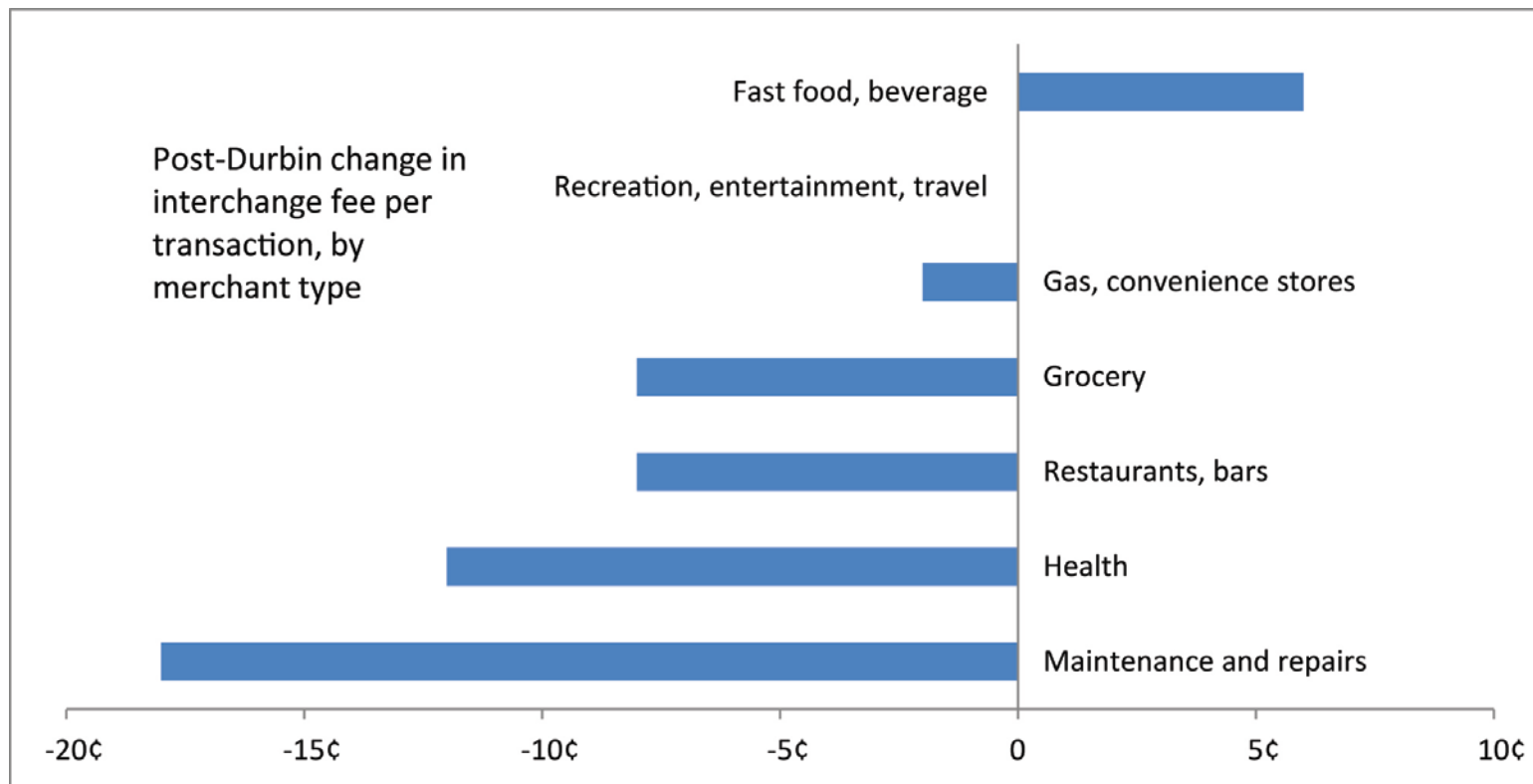


...yet 2010 *usage* is almost even



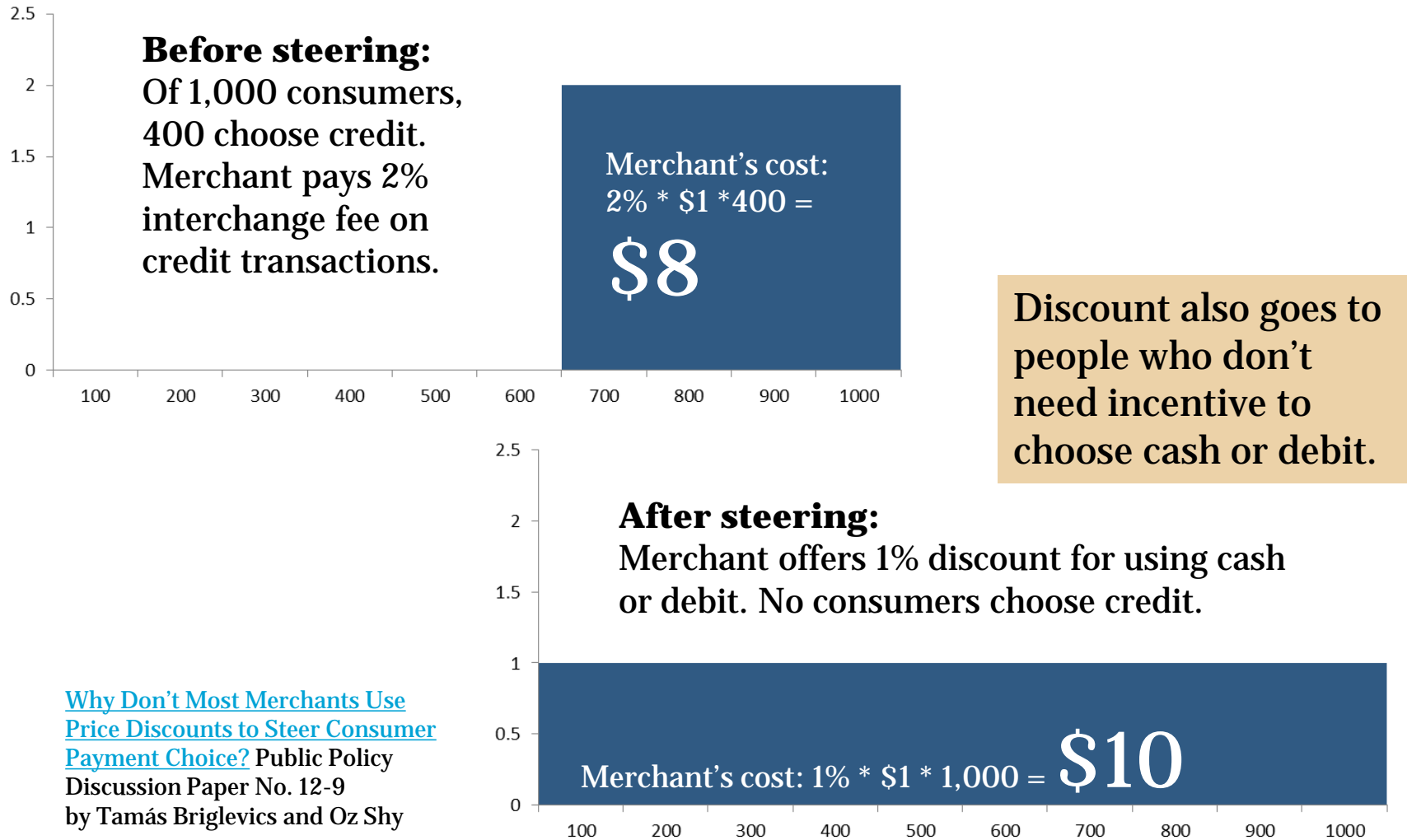
2010-2011 Survey of Consumer Payment Choice, 2010 Diary of Consumer Payment Choice, preliminary data

Debit card fee cap estimated to increase fees paid by merchants with small-dollar transactions



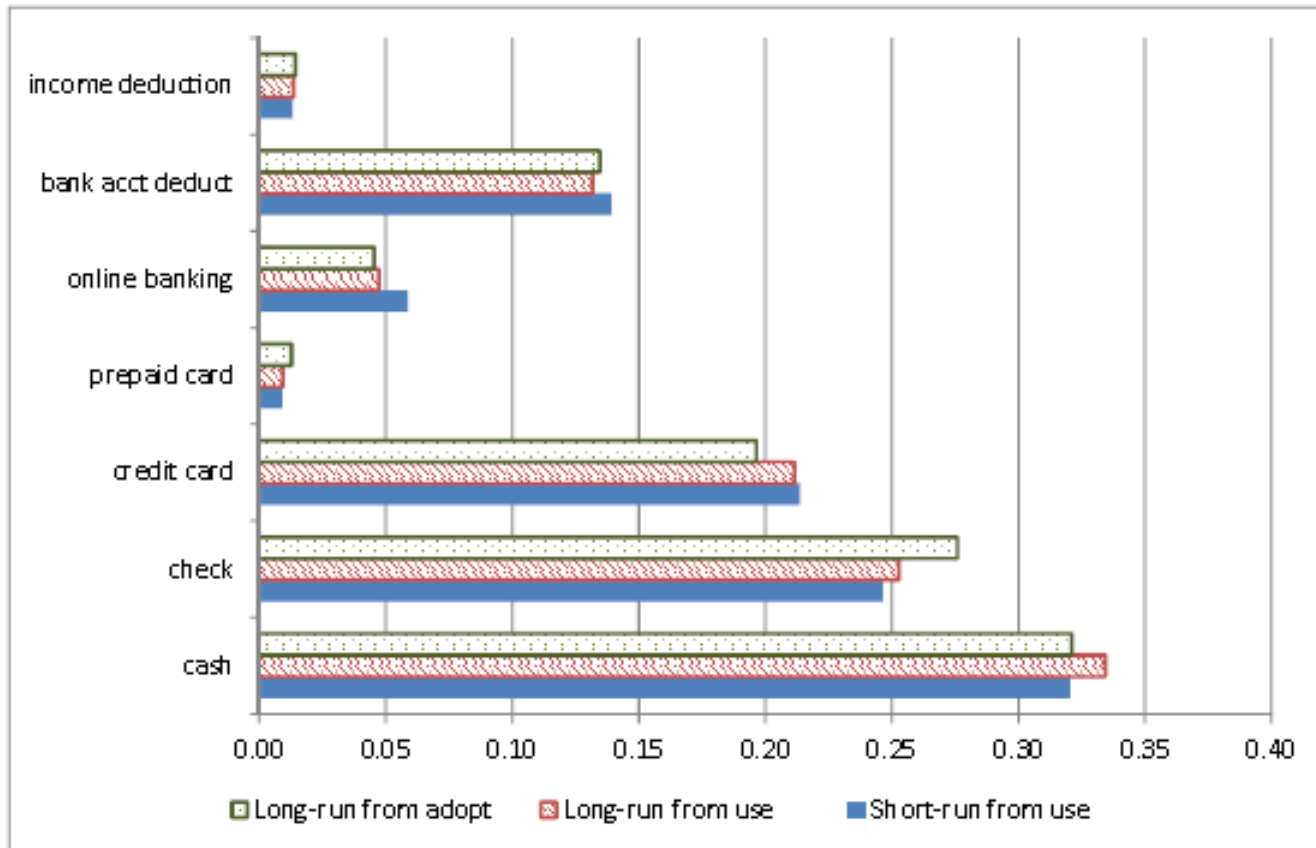
[Who Gains and Who Loses from the 2011 Debit Card Interchange Fee Reform?](#) Public Policy Discussion Paper No. 12-6 by Oz Shy

Steering Consumers To Lower Cost Payments May Not Benefit Merchants



[Why Don't Most Merchants Use Price Discounts to Steer Consumer Payment Choice?](#) Public Policy Discussion Paper No. 12-9 by Tamás Briglevics and Oz Shy

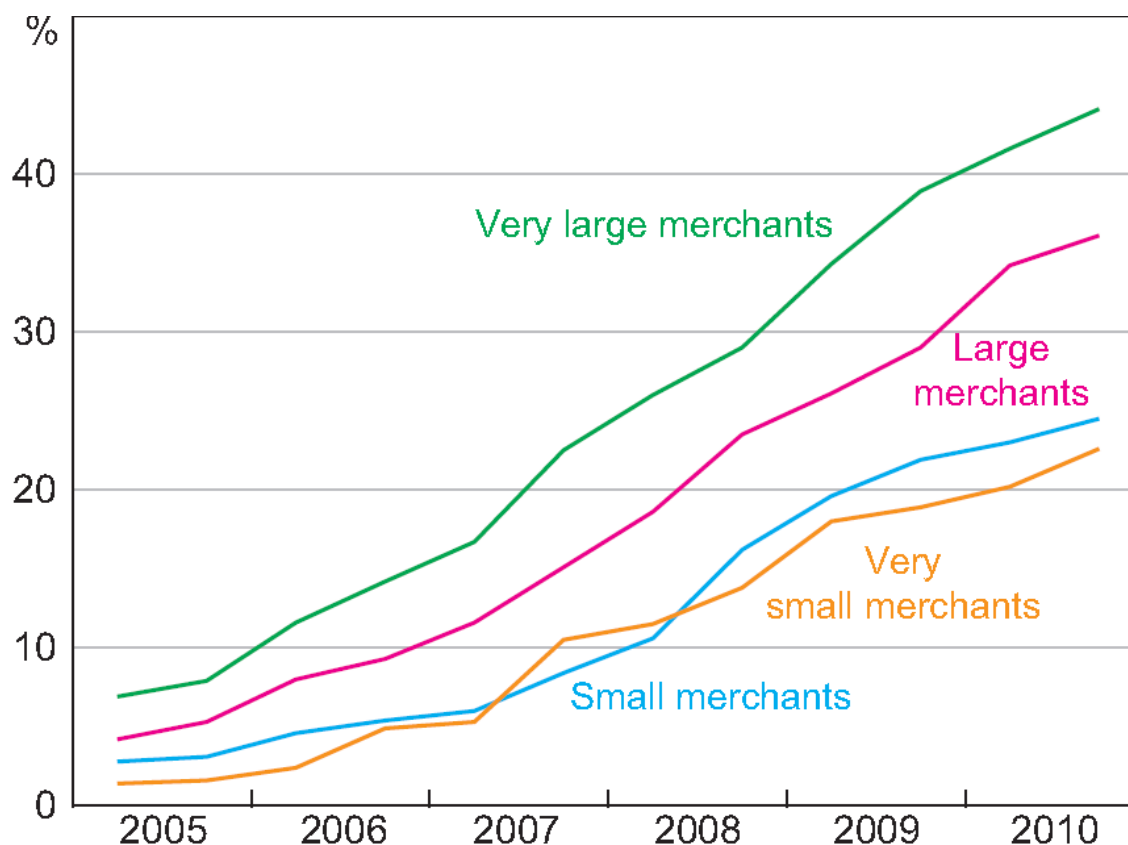
Faced with fee for debit, consumers would likely switch mostly to cash and check



[Explaining Adoption and Use of Payment Instruments by U.S. Consumers](#), Working Paper No. 12-14 by Sergei Koulayev, Marc Rysman, Scott Schuh, and Joanna Stavins

Will U.S. Merchants Surcharge Credit?

Experience of Australia suggests “yes” – over time



[Reserve Bank of Australia, 2010](#)

2013 and Beyond

- CFPB proposed regulations on prepaid cards
- The *Diary of Consumer Payment Choice*

2012 CFPB Proposed Rulemaking for Prepaid

General purpose reloadable prepaid cards (GPRPC)

- ✦ Should GPRPC be subject to Regulation E (electronic funds transfers)?
- ✦ Require standard disclosures?
- ✦ Protect consumers from unauthorized transactions?
- ✦ Regulate fees and information in GPRPC?
- ✦ Inform/teach consumers about GPRPC?
- ✦ Require deposit insurance on card balances?
- ✦ Regulate overdraft situations on card balances?
- ✦ Force provision of savings for card holders?

CFPB proposed rulemaking: Disclosures of fees and terms

Why:

- Consumers can comparison shop
- They know whether FDIC insured or not

Consumers say:
Prepaid cards are
more
expensive than
debit cards.

Survey of Consumer Payment Choice, 2010

CFPB proposed rulemaking: Limited liability for unauthorized charges

CFPB to evaluate:

- Make limited liability standard?
- Costs and benefits

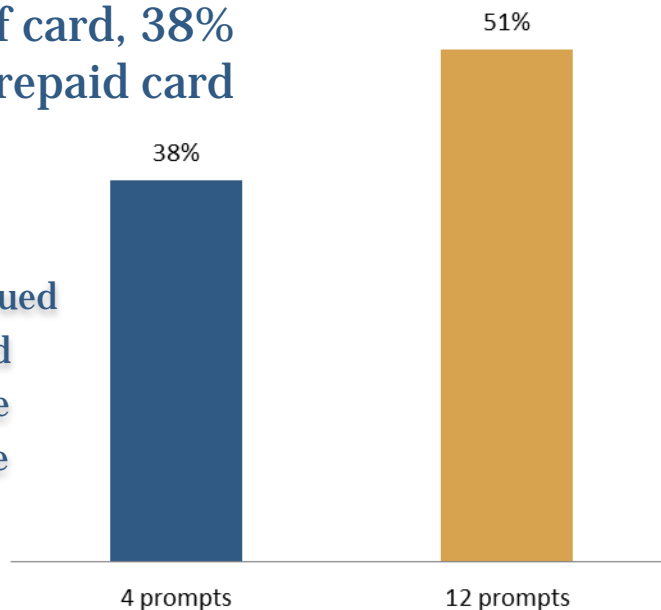
Consumers say:
Prepaid cards are
very risky
compared to other
payment methods.

Survey of Consumer Payment Choice, 2010

Survey Results Show Consumers Are Unfamiliar with Prepaid

Of consumers prompted with 4 types of card, 38% said they had a prepaid card

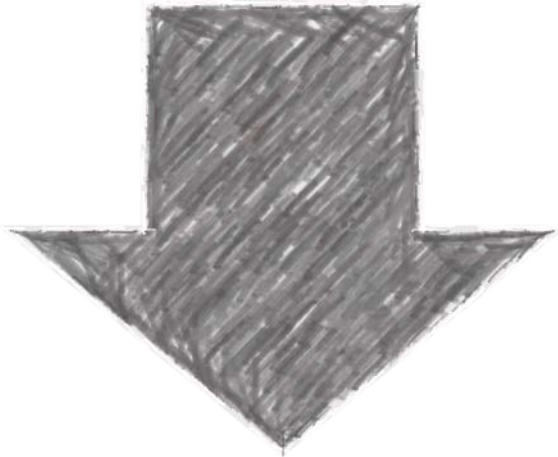
1. Government issued
2. Employer issued
3. General purpose
4. Specific purpose



Of consumers prompted with 12 types of card, 51% said they had a prepaid card

1. Gift card
2. General purpose prepaid card
3. Public transportation card
4. Phone card
5. Direct Express
6. EBT
7. Payroll card
8. Incentive card from employer
9. Benefit card
10. Overseas remittance card
11. Merchant rebate card
12. Location specific card

Summary of consumer view: How prepaid compares to other cards



- Harder set up
- Less convenient
- Less accepted
- Poor records
- Risky
- Pricier than debit

Source: 2010 Survey of Consumer Payment Choice

Diary of Consumer Payment Choice

3-day diary collects detailed info from U.S. consumers

- Online and in-person
- Cash deposits, cash withdrawals, cash on hand
- Use of mobile devices

Time	Amount Spent	Payment Method	Location	Device	Merchant Type	Merchant Name
am pm	\$ _____	11	2	6	44	
am pm	\$ _____	P	L	D	M	
am pm	\$ _____	P	L	D	M	
am pm	\$ _____	P	L	D	M	
am						

Receiving or getting cash:

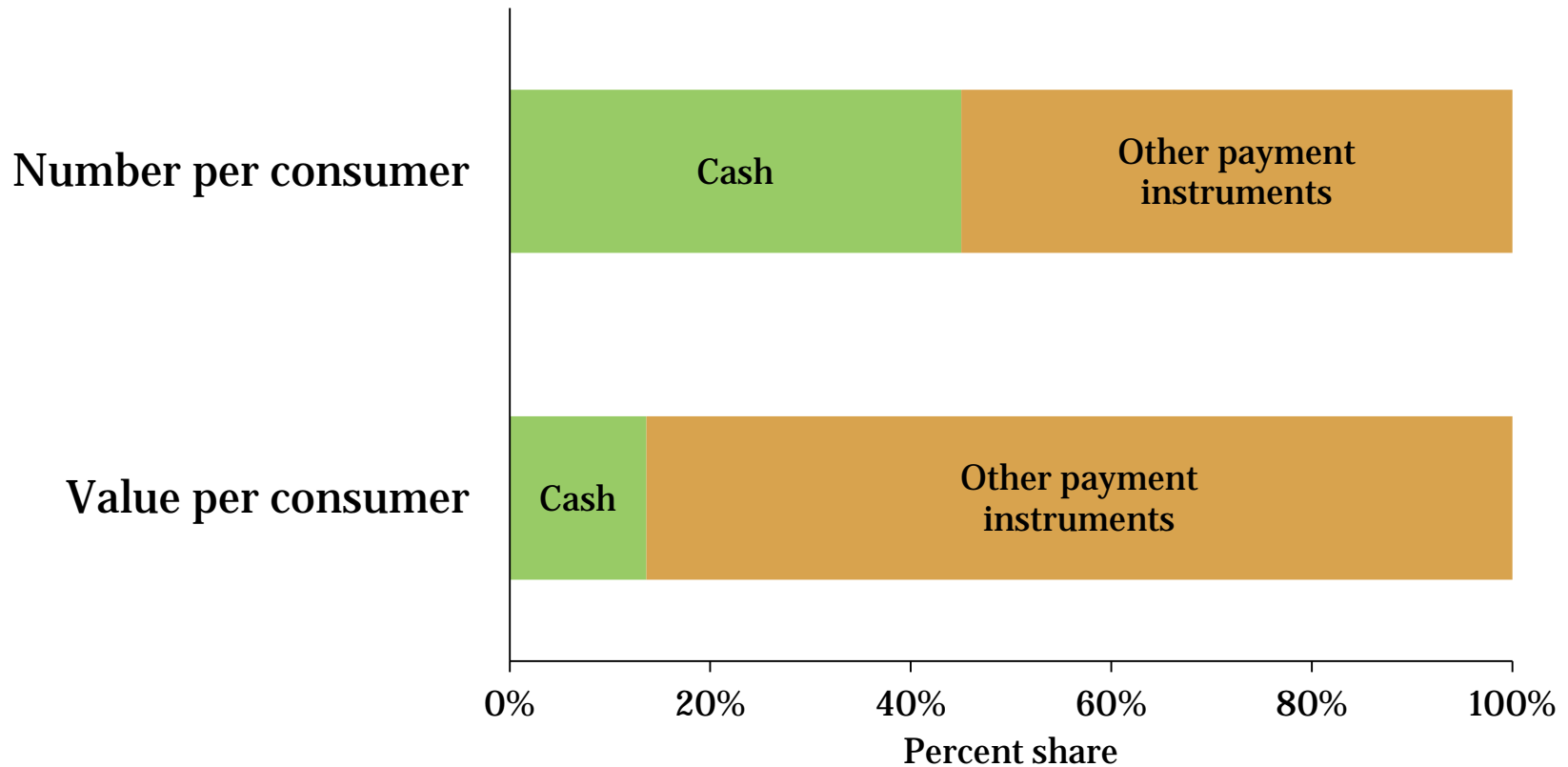
Time	Cash Amount	Cash Location	Cash Source	Did you pay a fee?
am pm	\$ _____	8	8	Y/N
am pm	\$ _____	C	S	Y/N

Dollar amount, date, time of day, payment instrument, purchases and payments, merchant type

About the Diary of Consumer Payment Choice

- Random selection of DCPC (2,700) & matched SCPC (2,100)
- Random assignment of 3-day diary periods Sept. 29-Nov. 2
- Voluntary diary memory aids
- Require nightly data entry and online survey questionnaire
- Collecting all domestic spending (including vacations)

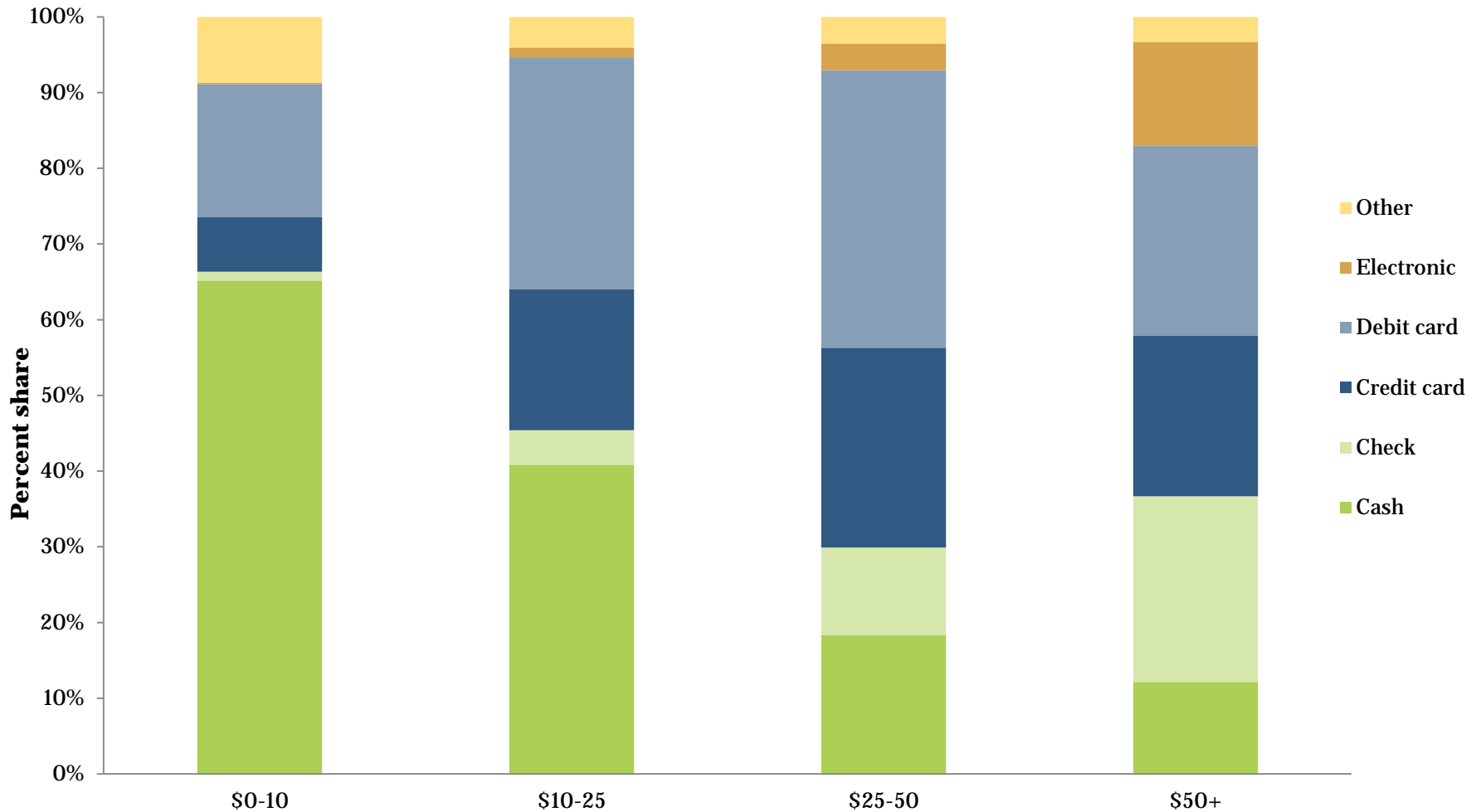
Cash is used often but for small \$ amounts



“Other payment instruments” include check, money order, traveler’s check, debit , credit, prepaid, online banking bill payment, bank account number payment, other payment method, and unreported payment method

2011 Diary of Consumer Payment Choice

Payment Choice Varies by Transaction Amount



More to come in 2013....

- **Diary results**
- **Boston Fed research plans**
- **Steering of payments in the marketplace**
- **Maturation of mobile technologies**
- **Federal Reserve strategic plan**
 - **Announced by Cleveland Fed President Pianalto (Oct 2012)**