

U.S. Consumer Payment Choice

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Disclaimers

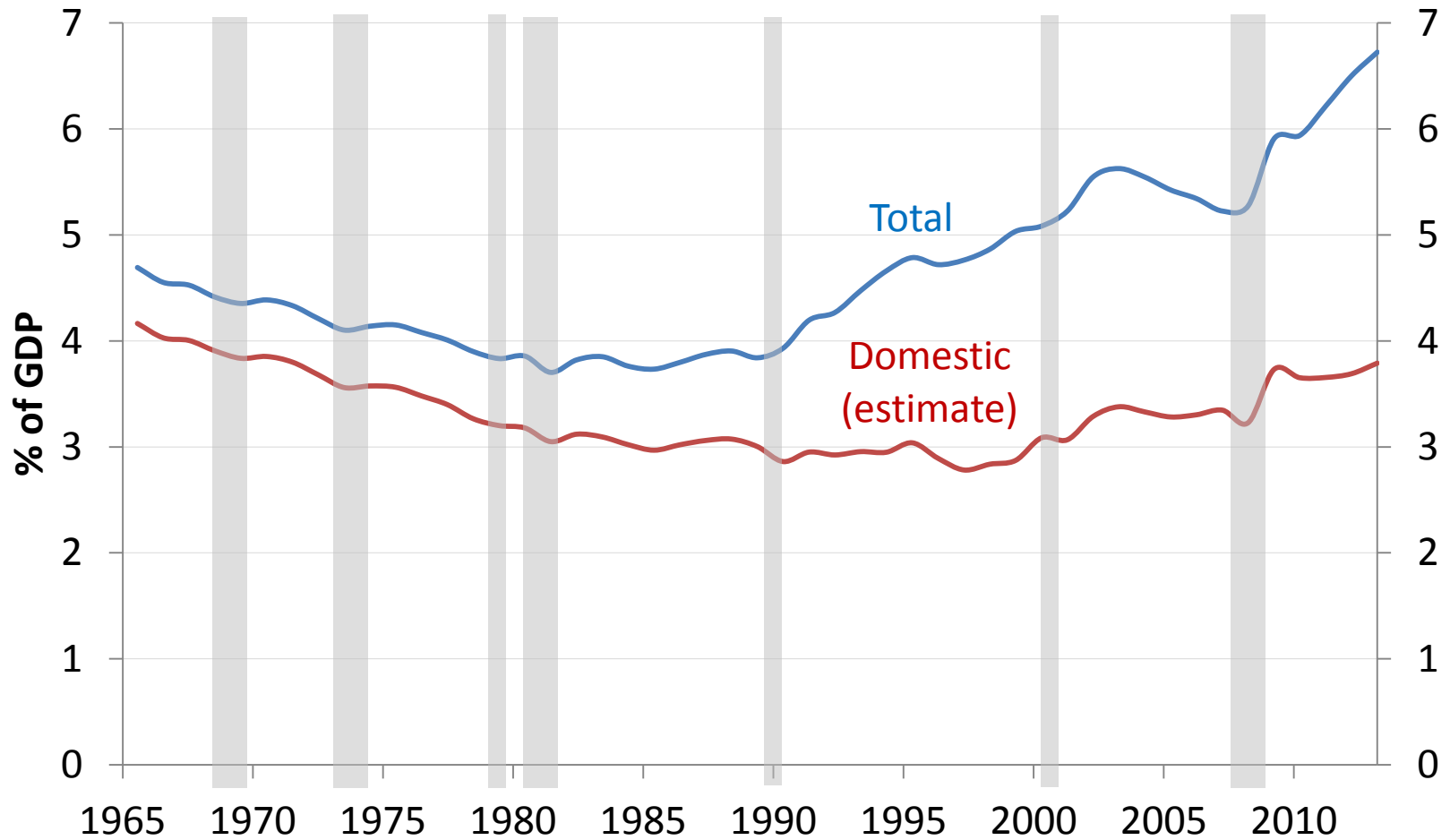
- The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System
- Results from the 2013 Survey of Consumer Payment Choice (SCPC) are preliminary and subject to change

Presentation Overview

- Overview of the U.S. payments
- U.S. Consumer payment choices
 1. Adoption: *What's in Your Wallet?*
 2. Use: *How Do You Use It?*
- What determines consumer behavior?
- Concluding remarks

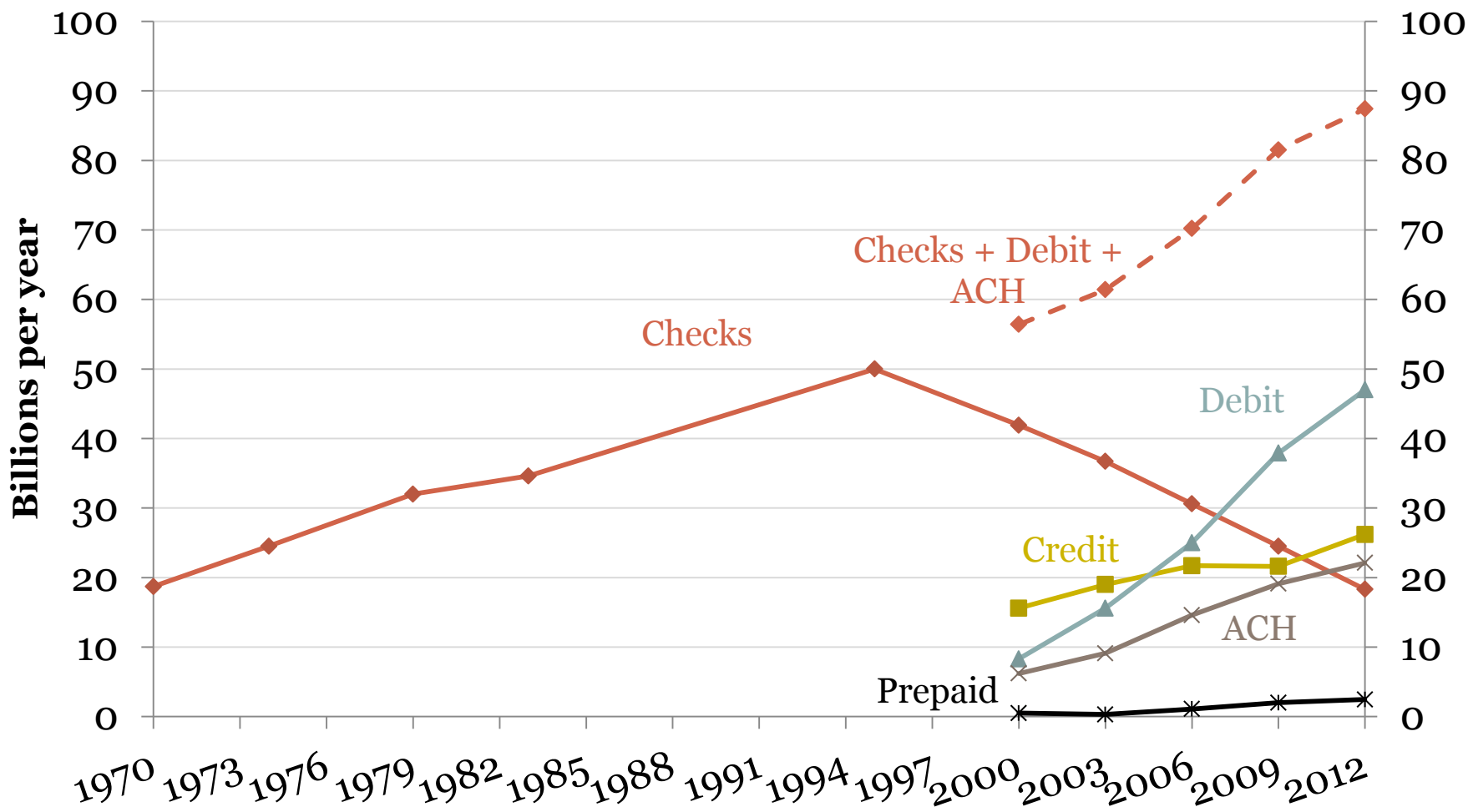
U.S. Payments: Consumers, Businesses, and Government

U.S. Currency in Circulation



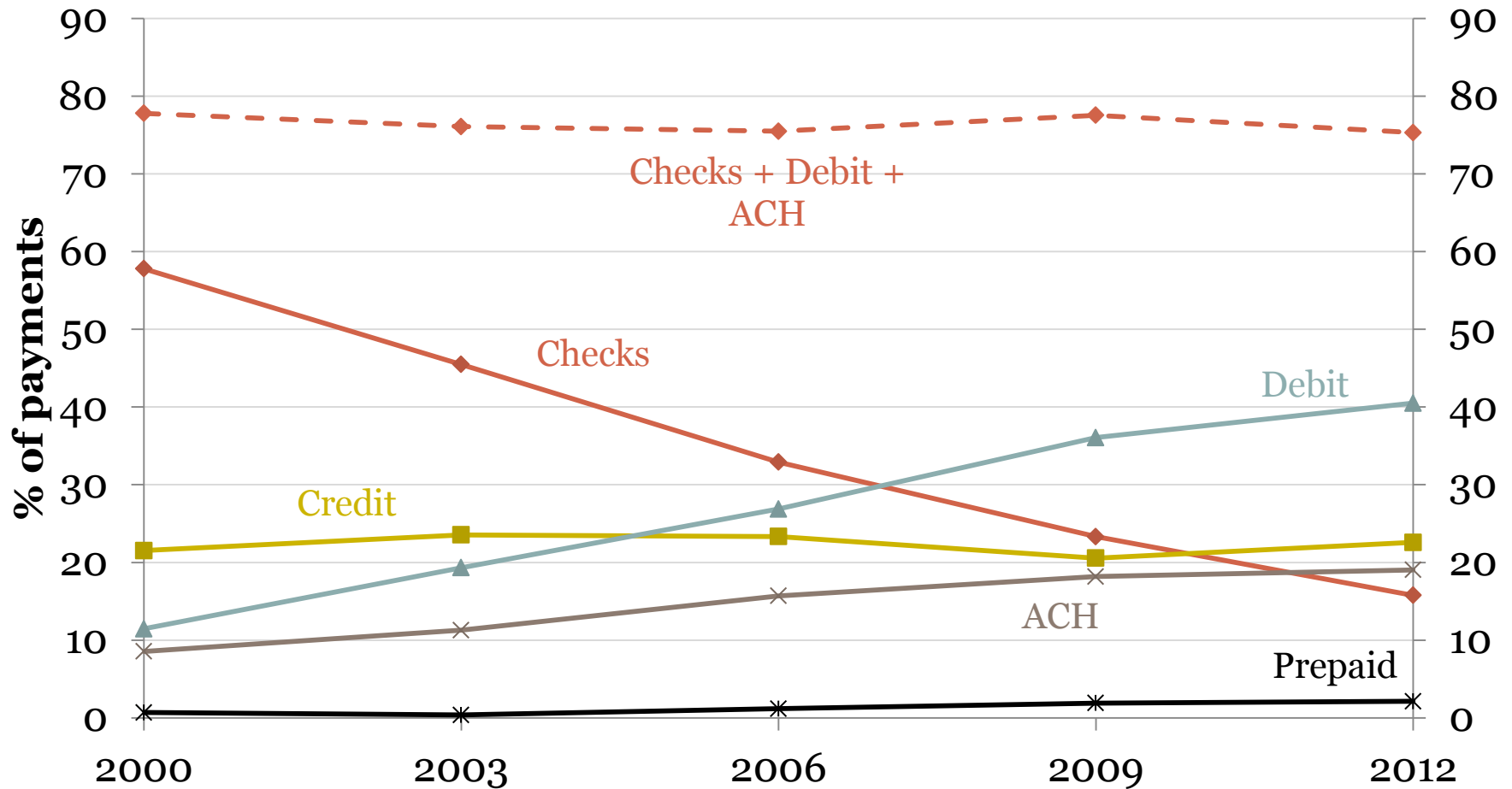
Source: Bureau of Economic Analysis / Haver Analytics, Federal Reserve Board / Haver Analytics, authors' calculations.

Number of Noncash Payments



Source: Federal Reserve Payment Study (FRPS)

Share of Noncash Payments



Source: Federal Reserve Payment Study (FRPS).

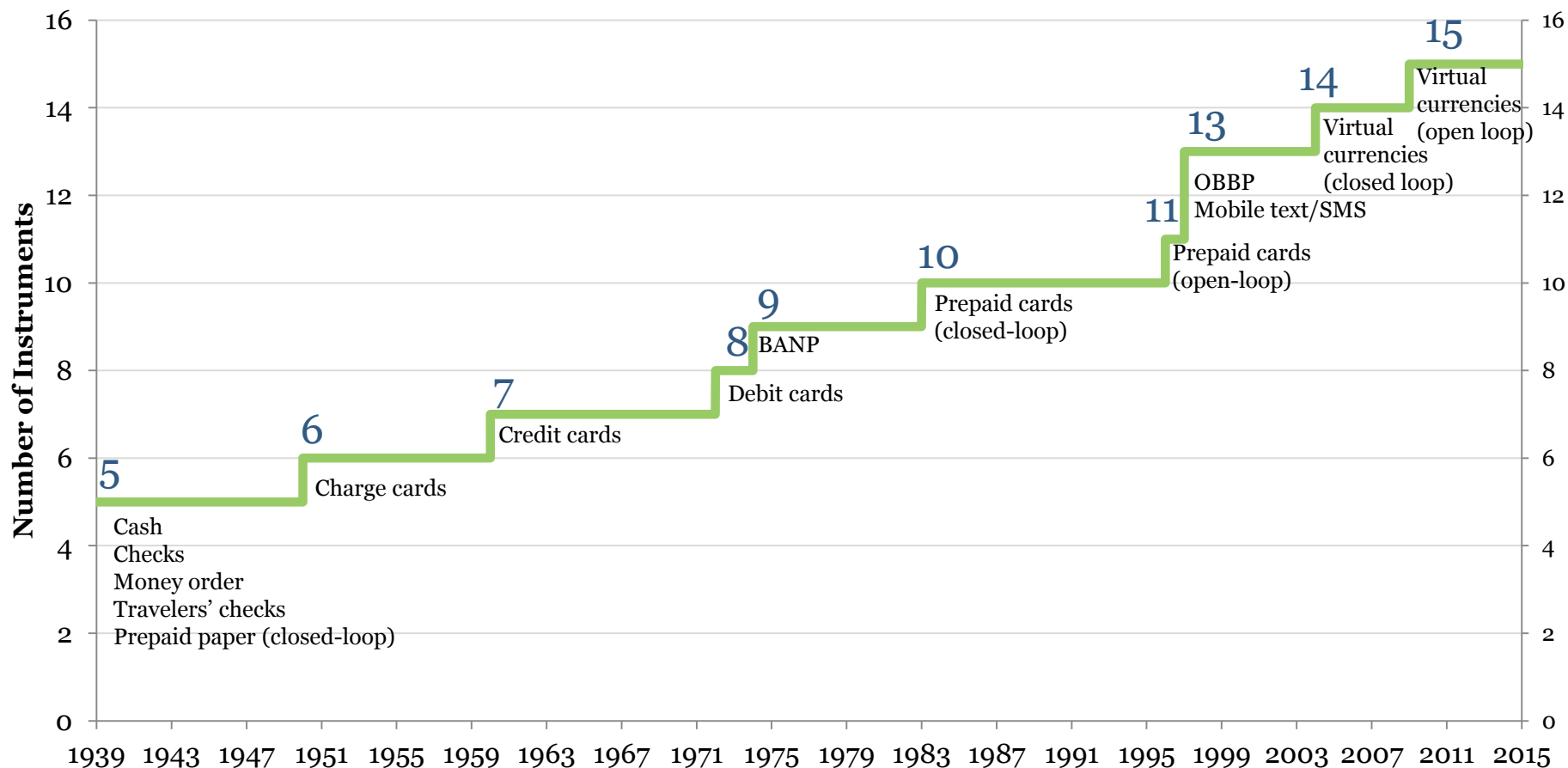
What's in Your Wallet?

U.S. consumers only

Cash Holdings (2013)

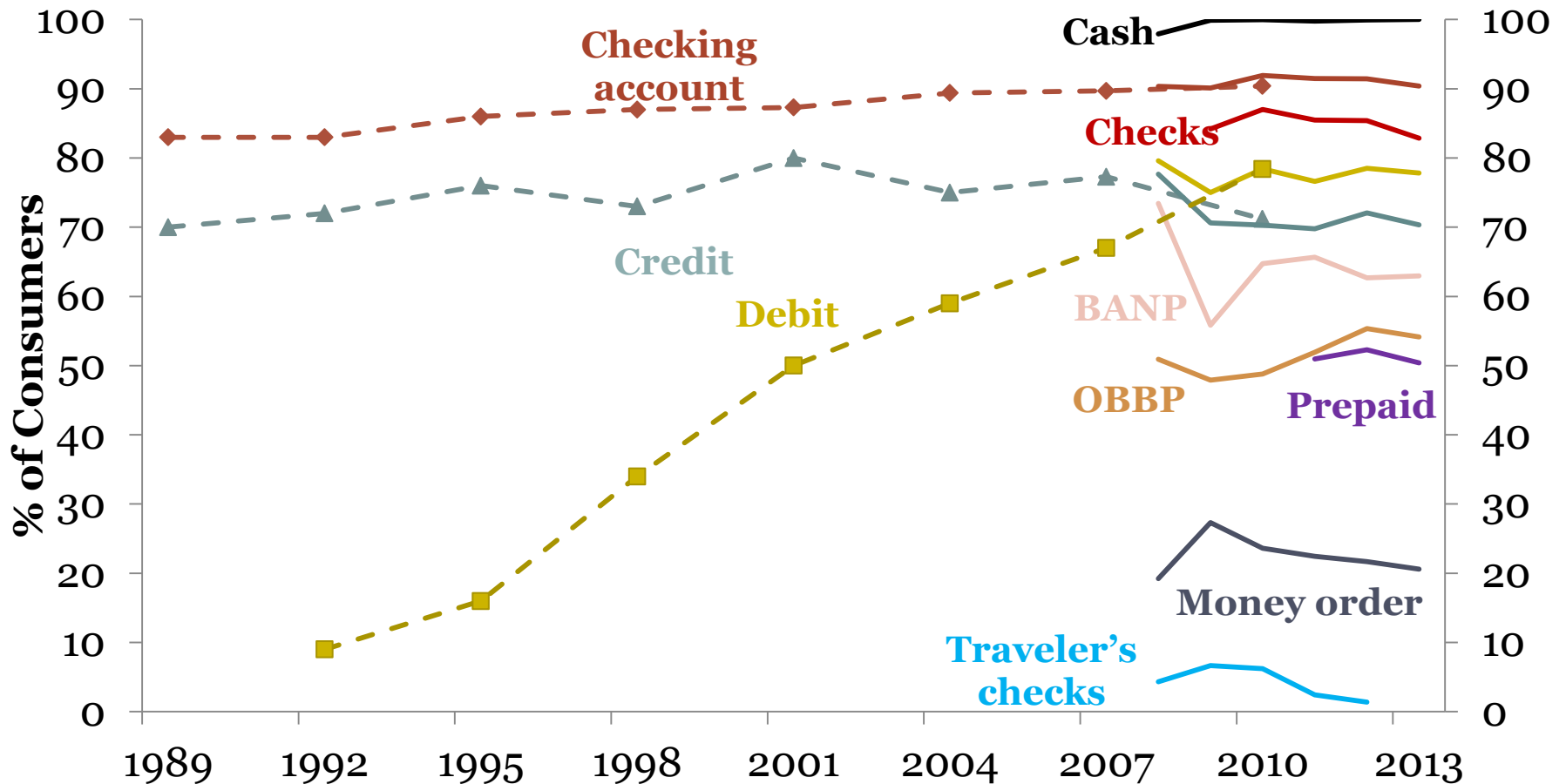
| | Mean (\$) | Median (\$) |
|---------------------------|---------------------|-----------------------|
| Total | 508 | 65 |
| On person (wallet, purse) | 64 | 29 |
| On property | 461 | 9 |

More Payment Instruments to Choose From



Source: Author's research.

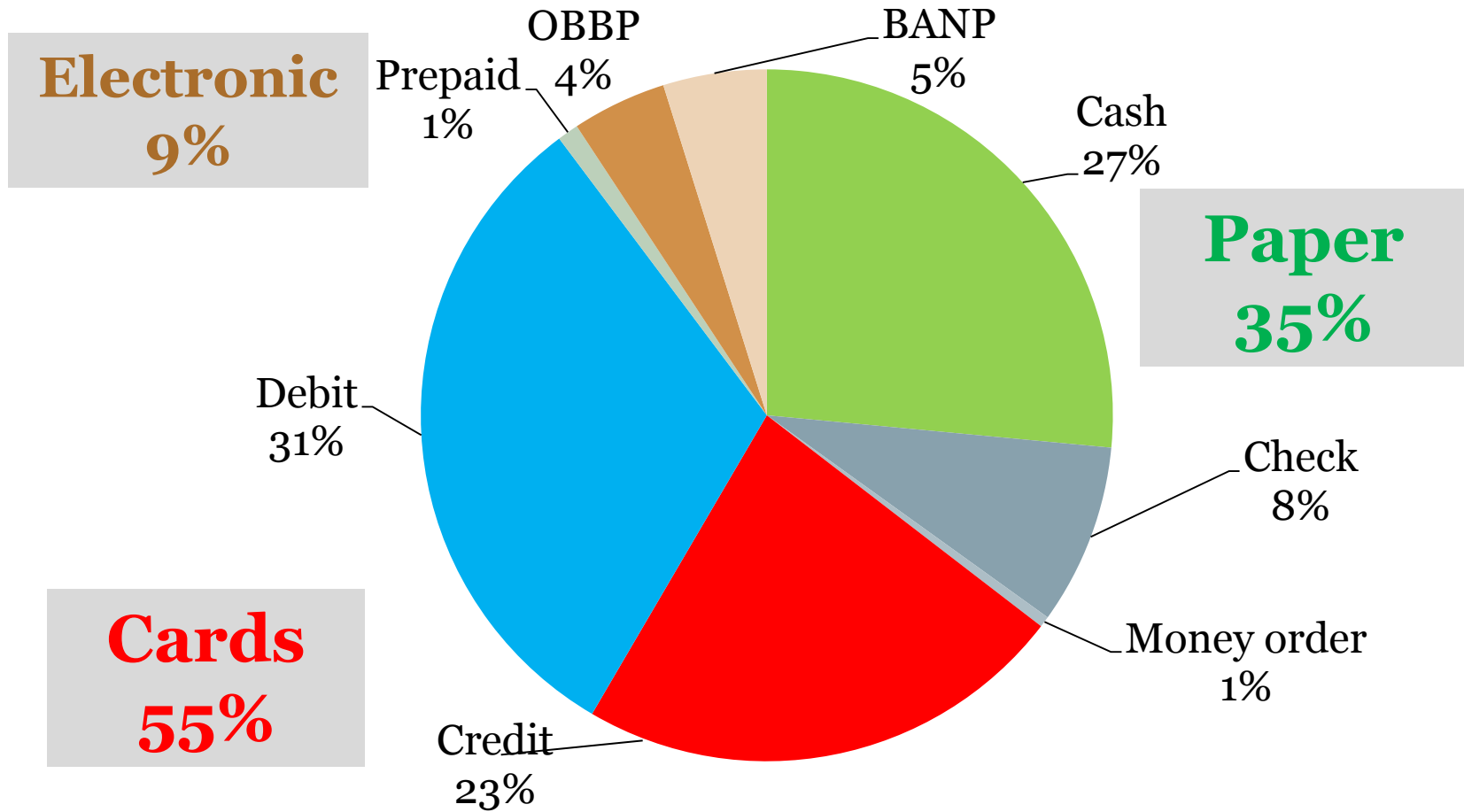
Aggregate Adoption of Payment Instruments



Source: Survey of Consumer Payment Choice; Survey of Consumer Finance

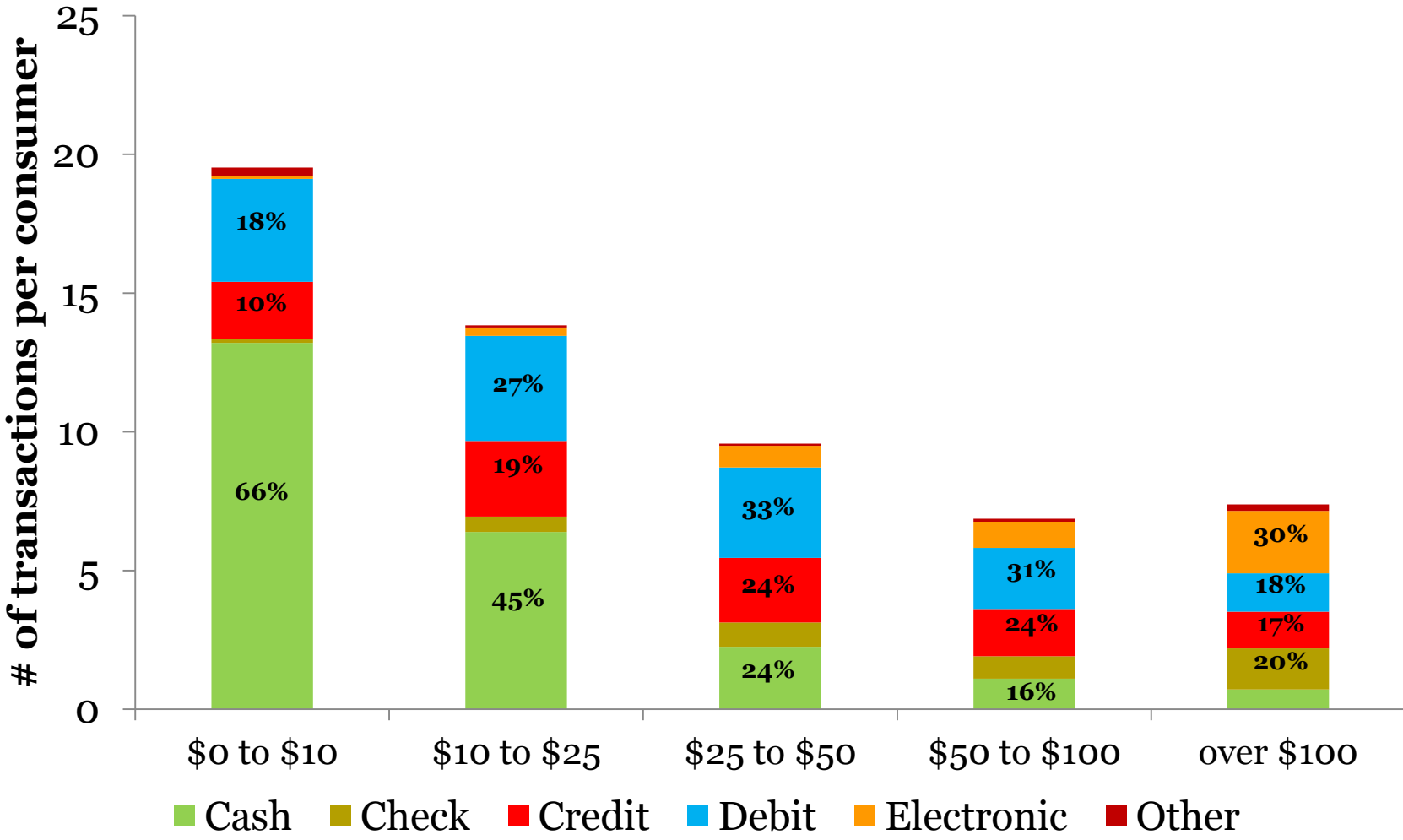
How Do You Use It?

Use of Payment Instruments (2013)

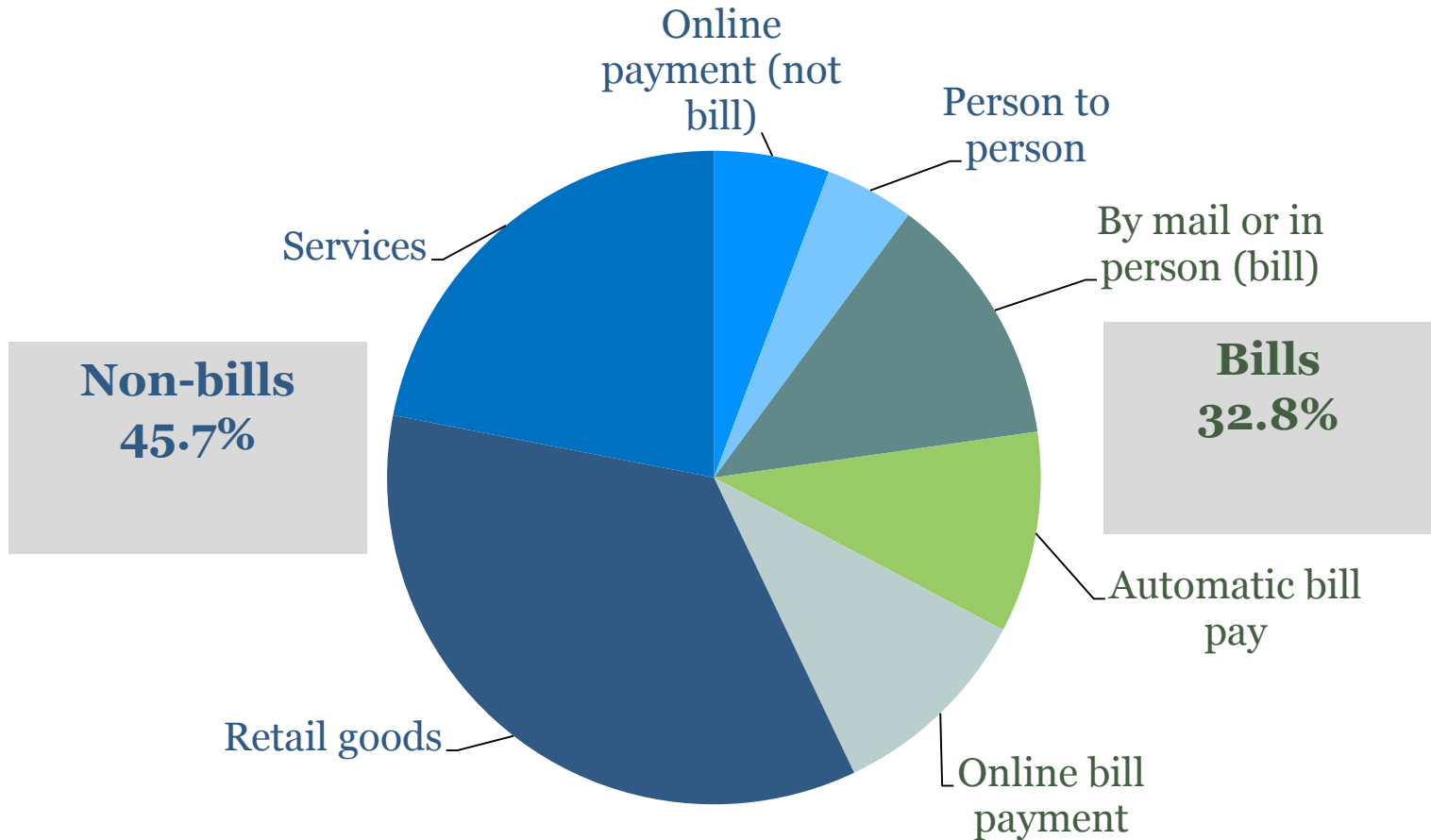


Note: 1% are paid with "Other"

Payments by \$ amount



Payments by Transaction Type (2013)



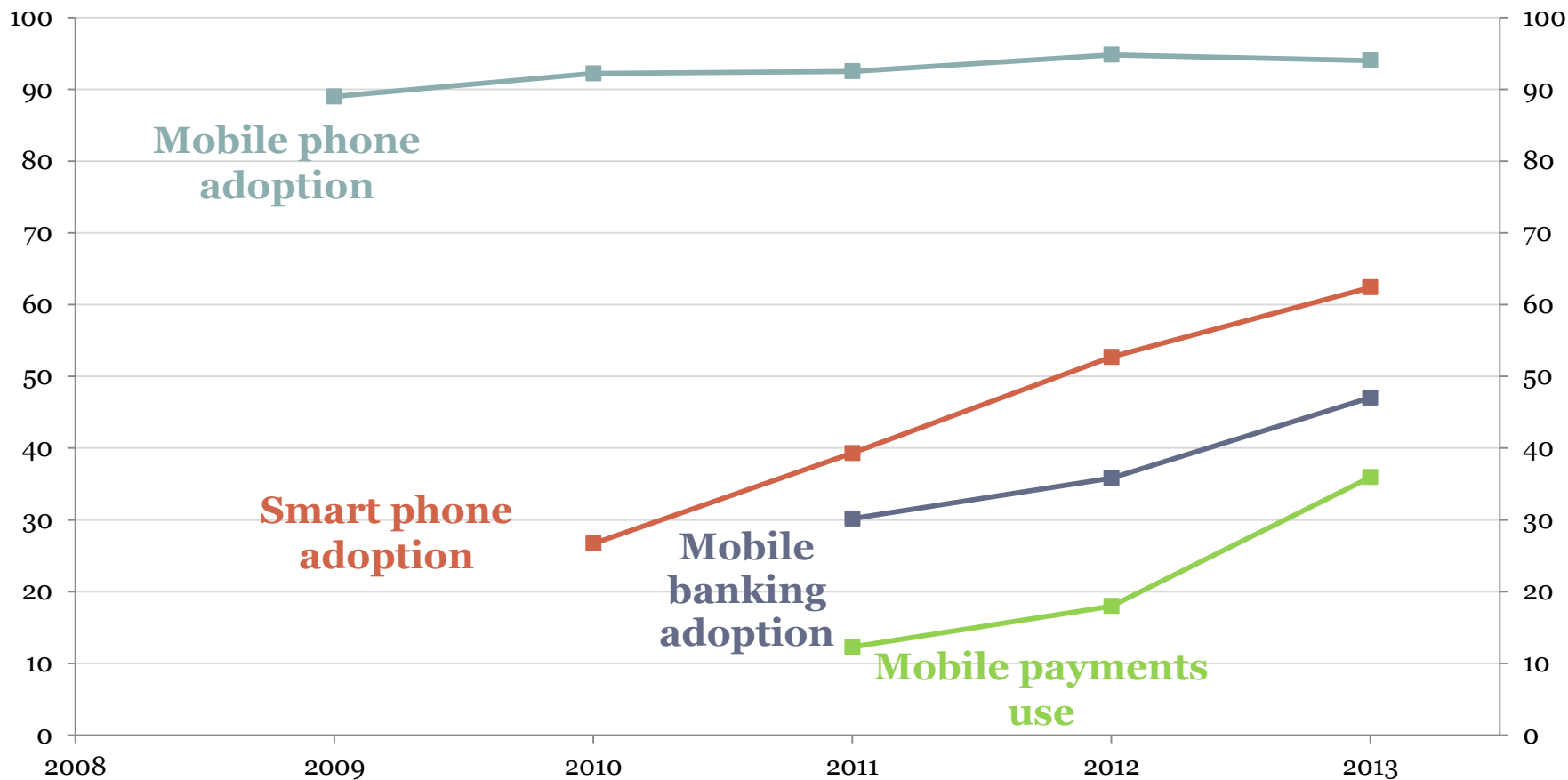
2013 Survey of Consumer Payment Choice

Credit Cards: Consumers

| | 2013 |
|---|---------|
| % of households with credit cards | 68.0% |
| % of credit cards households carrying a balance | 38.1% |
| Median balance among households with a balance | \$2,300 |

Source: 2013 Survey of Consumer Finances (SCF)

Mobile Banking and Payments



Source: 2008-2013 Survey of Consumer Payment Choice

What Determines Consumer Payment Behavior?

What Affects Demand for Payments?

- Demographics:
 - ✦ Age
 - ✦ Gender
 - ✦ Race
 - ✦ Education

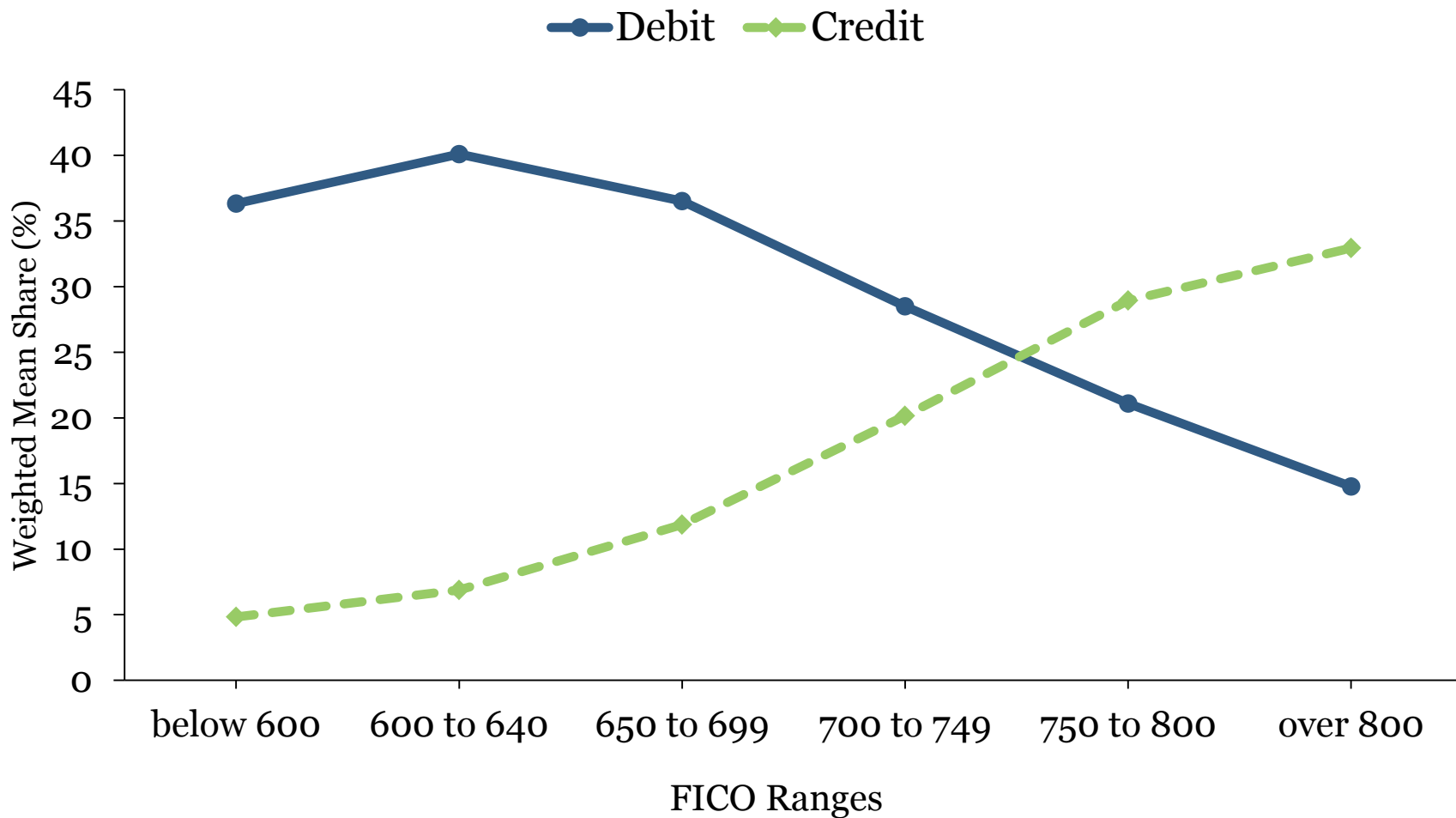
- Income: individual and household

- Characteristics of payments:
 - ✦ Security: risk of theft/loss
 - ✦ Acceptance
 - ✦ Cost
 - ✦ Convenience
 - ✦ Speed

Credit Card Adoption Rises with Income (2013)



Credit Score and Payment Card Use



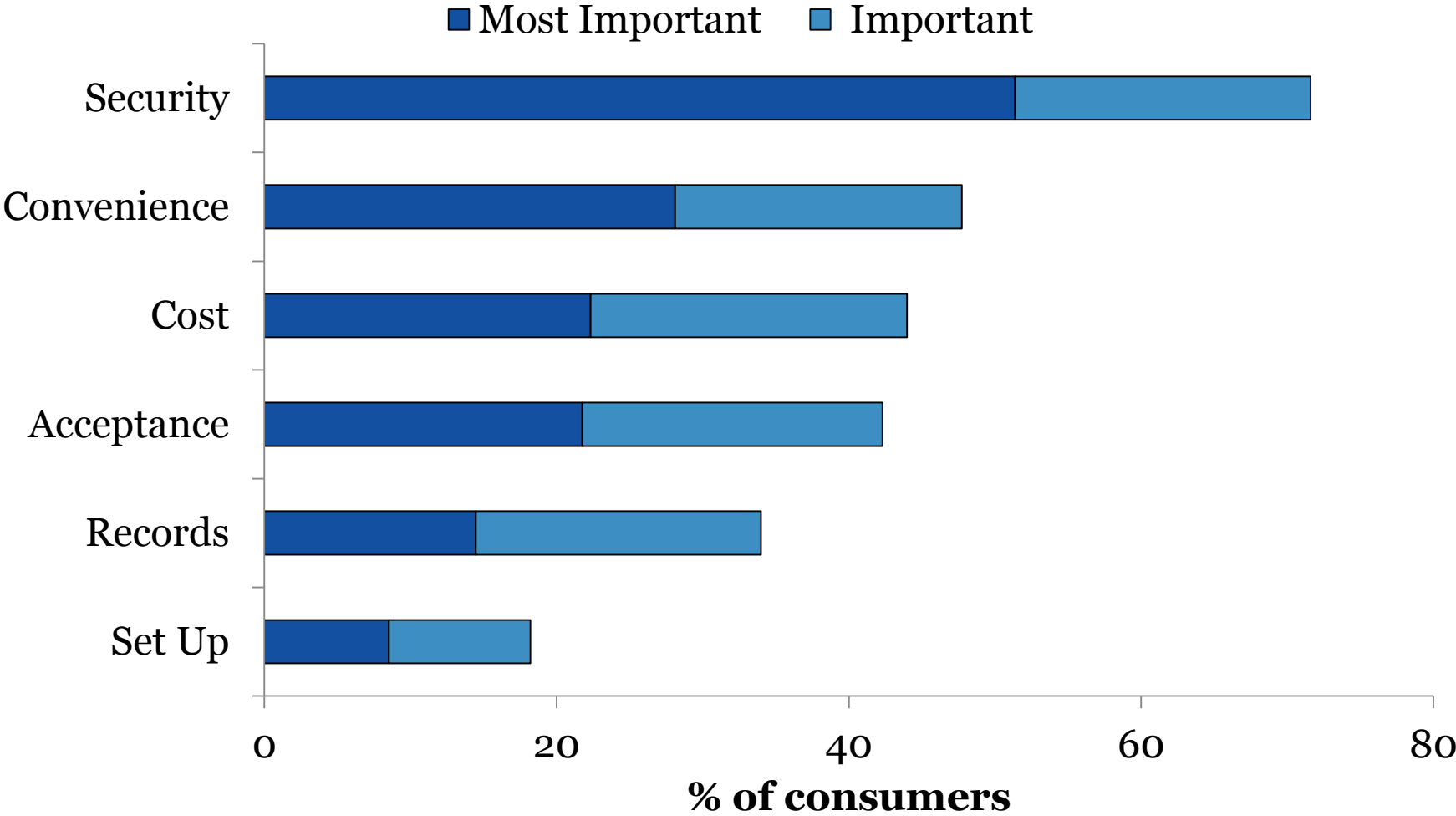
From Hayashi and Stavins (2012), "Effects of Credit Scores on Consumer Payment Choice"

Security Is Most Important!

- *Ranking of all characteristics*

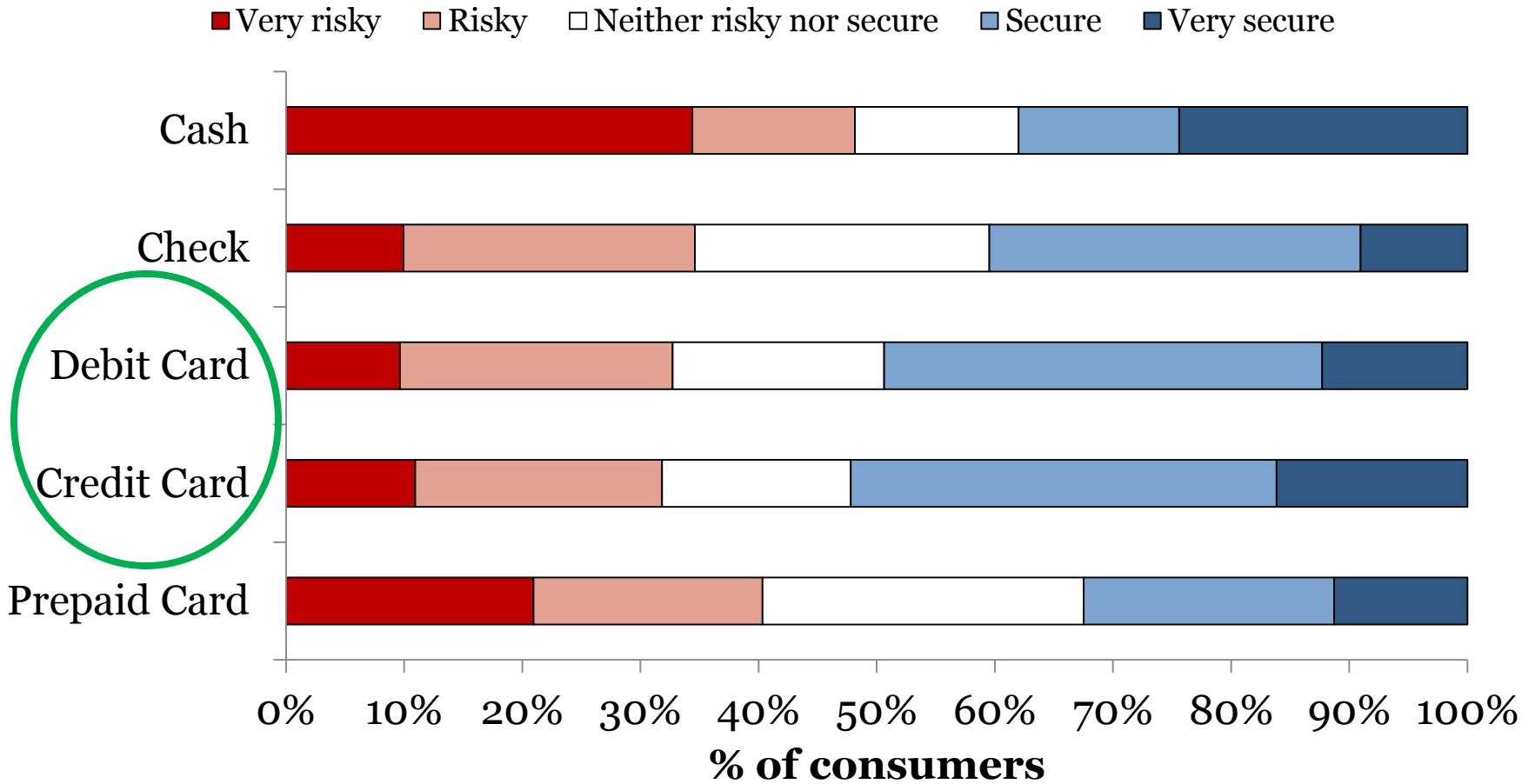
| Characteristics | SCPC survey year | | | | | |
|-------------------|------------------|------|------|------|------|------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Security | 1 | 1 | 1 | 1 | 1 | 2 |
| Convenience | 2 | 2 | 2 | 2 | 2 | 1 |
| Cost | 4 | 3 | 3 | 3 | 3 | 3 |
| Acceptance | 5 | 4 | 4 | 4 | 4 | 4 |
| Payment records | 6 | | 5 | 5 | 5 | 5 |
| Set up | 8 | | 6 | 6 | 6 | 6 |
| Control of timing | 3 | | | | | |
| Speed | 7 | | | | | |

Importance of Payment Characteristics (2012)

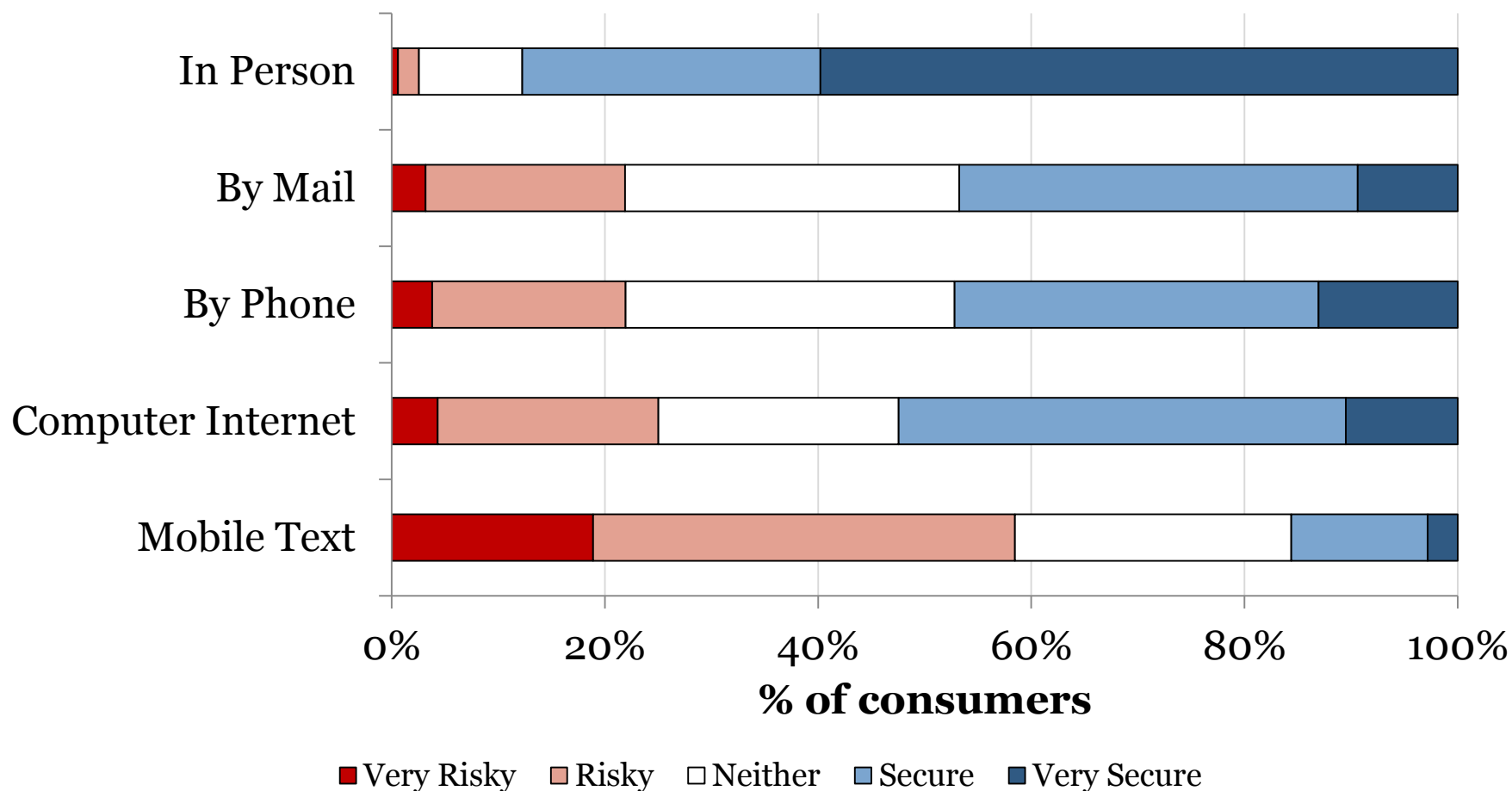


2012 Survey of Consumer Payment Choice

Security Ratings by Payment Instrument

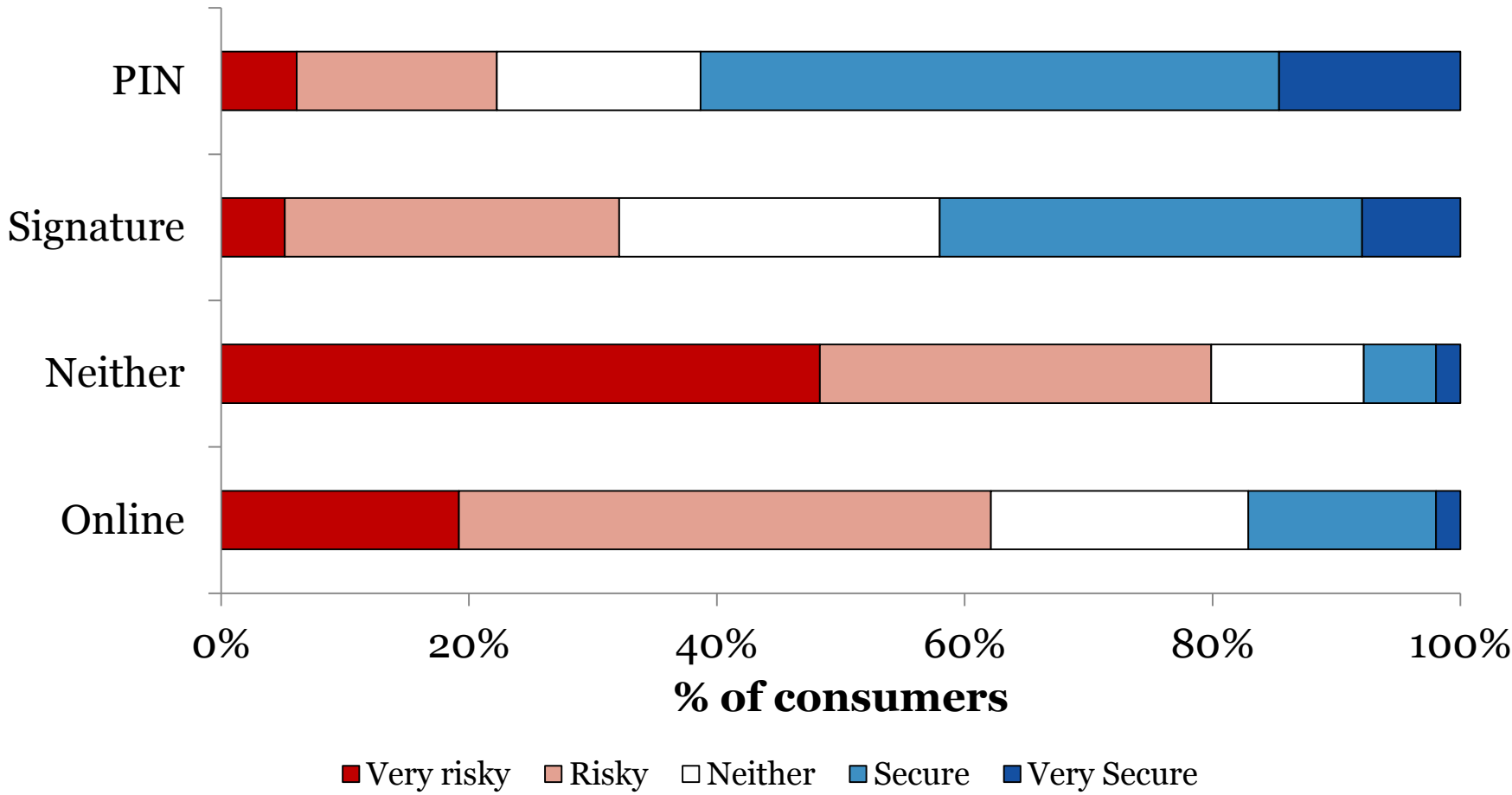


Security by Payment Location



Source: 2012 Survey of Consumer Payment Choice;

Security by Type of Debit



Payment Method Adoption and Use

Higher debit and credit security → higher use, BUT: small effect



| Adoption | Debit | Credit | Prepaid |
|-------------------------------------|-------|--------|---------|
| Acceptance | * | * | *** |
| Cost | *** | *** | |
| Convenience | *** | *** | |
| Set up | *** | *** | |
| Records | *** | *** | |
| Security of financial wealth | | ** | * |
| Security of personal information | * | | |
| Security of transaction information | | | |

| Use | Debit | Credit | Prepaid |
|-------------------------------------|-------|--------|---------|
| Cost | * | *** | |
| Convenience | | *** | *** |
| Records | | | * |
| Security of financial wealth | *** | *** | ** |
| Security of personal information | | | * |
| Security of transaction information | | * | |

Merchant Steering

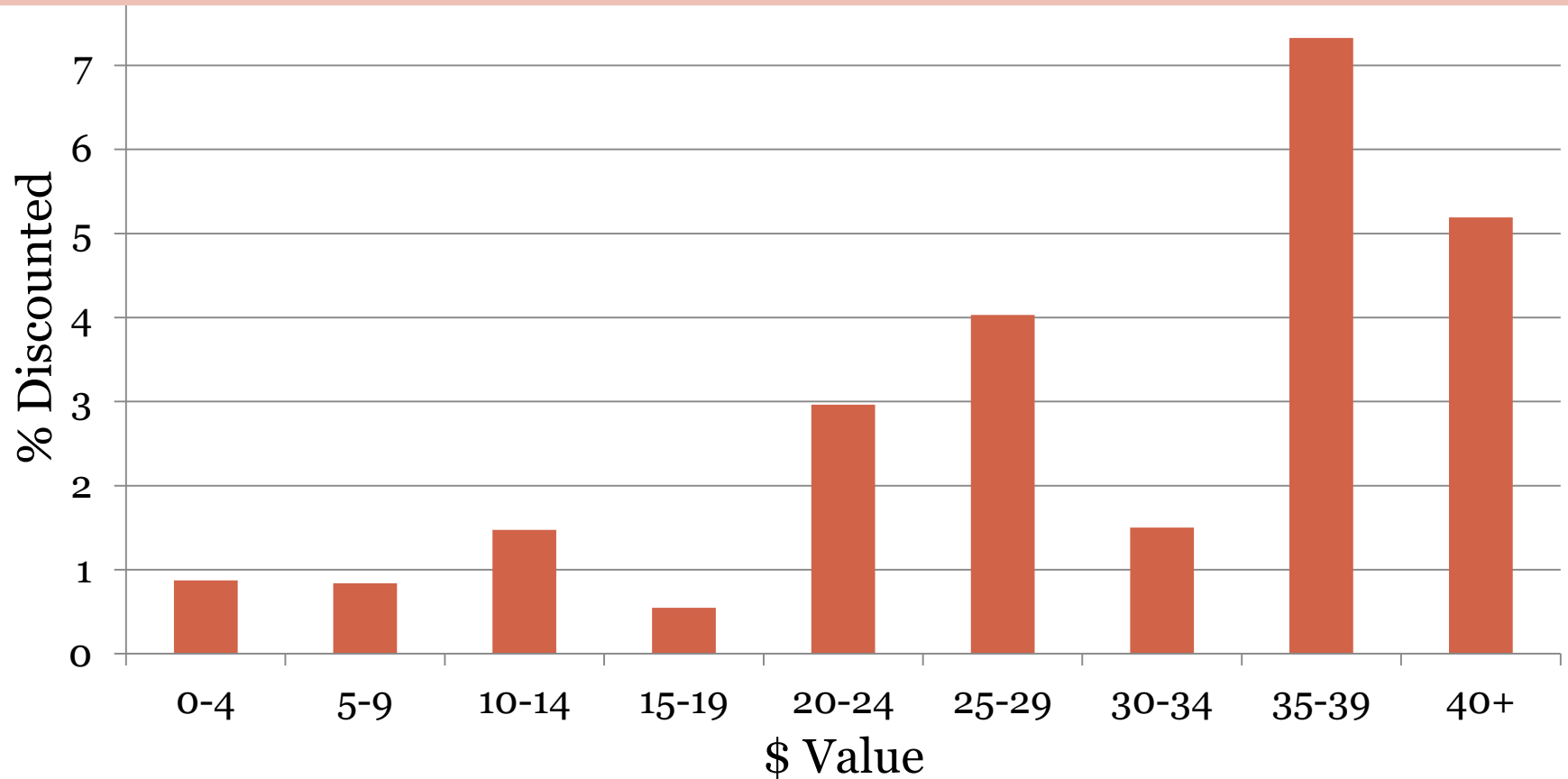
- Merchants are now allowed to discount or surcharge based on payment method
- BUT: still very rare, only selected markets
- % transactions with discount or surcharge:

| Cash Discount | Debit Discount | Credit Surcharge |
|---------------|----------------|------------------|
| 1.7 | 1.8 | 1.2 |

Source: 2012 Diary of Consumer Payment Choice

% Cash Transactions with Discount

Transactions over \$20 more likely to get cash discount



Concluding remarks

Major trends

- Cash is alive and well, checks declining
- Transformation in payment markets
 - Paper → electronic
 - ✦ *Consumer preferences, technology, coordination*
 - ✦ *Technology is changing fast but payments are not*
- Battle over payment card revenues
 - ✦ *Credit CARD Act of 2009*
 - ✦ *Interchange fee regulation for debit cards (Reg II)*
 - ✦ *Merchants can steer consumers to cheaper payments*

Federal Reserve 2012-2016 strategic plan

- *Planned improvements to U.S. payment system*
 - **Faster:** deduction and notification time
 - **Safer:** less fraud, loss, and data breaches
 - ✦ EMV finally implemented?
 - ✦ Improved cyber security?
 - **More attention to end users**
 - ✦ Consumers, businesses, nonprofits

Consumer Payments Research Center (CPRC)

Find papers, articles, and data on
consumer payments

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

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