CONSUMERS’ ROLE IN THE PAYMENTS TRANSFORMATION

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Disclaimers

• The views expressed in this presentation are those of the author and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.

• Results from the 2012 and 2015 Diary of Consumer Payment Choice (DCPC) and the 2015 Survey of Consumer Payment Choice (SCPC) are preliminary and subject to change.
The Consumer Role

- Boston Fed consumer payments data looks at consumer role (demand) in payment choice
- Consumers have lots of payment choices
- With so many options, how do consumers decide?
- Consumers are slow to change
- Consumers and innovation
U.S. surveys of consumers

  - Adoption of deposit accounts and payment instruments
  - Use (# per month) of payment instruments by 7 payment types
  - Respondents rate payment instruments on characteristics

  - Collaboration with the Federal Reserve Bank of San Francisco Cash Product Office and Federal Reserve Bank of Richmond
  - Use (# and $) of payment instruments for all payment types
  - Types of payees and consumer expenditures
Consumers have more choices...
Consumers adopt new & keep old

Three characteristics affect choice

- Consumer
- Payment instrument
- Transaction
Demographics & income affect use

Three kinds of security

security of wealth

security of personal info

privacy of transaction
Debit ratings low after Target breach

Consumers answering after the breach assess debit card security more poorly

No long-run effect found

- No evidence that the breach announcement caused any long-term changes in payment behavior

Rise in security → slightly more use

Only security of wealth is relevant

<table>
<thead>
<tr>
<th>Security’s effect on use</th>
<th>Credit</th>
<th>Debit</th>
<th>Prepaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial wealth</td>
<td>***</td>
<td>***</td>
<td>**</td>
</tr>
<tr>
<td>Personal information</td>
<td></td>
<td></td>
<td>*</td>
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<tr>
<td>Transaction information</td>
<td></td>
<td>*</td>
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</tr>
</tbody>
</table>

For credit & debit cards, the economic effect is small

Preferences differ for bills and non-bills

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Bills</th>
<th>Nonbills</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile phone payment</td>
<td>28</td>
<td>42</td>
</tr>
<tr>
<td>Traveler's check</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Money order</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>OBBP</td>
<td>17</td>
<td>26</td>
</tr>
<tr>
<td>BANP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debit card</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Percentage of consumers preferring each payment method

Source: 2015 Diary of Consumer Payment Choice, preliminary and unofficial. Note: Not comparable to 2012 DCPC due to questionnaire and sample changes.
Cash favored for low $ in-person

Percentage of consumers preferring each payment method

- **Cash**
  - < $10: 18%
  - $10-25: 37%
  - $25-50: 47%
  - $50-100: 45%
  - $100+: 37%

- **Debit card**
  - < $10: 68%
  - $10-25: 21%
  - $25-50: 29%
  - $50-100: 35%
  - $100+: 43%

- **Credit card**
  - < $10: 12%
  - $10-25: 39%
  - $25-50: 20%
  - $50-100: 13%
  - $100+: 8%

Source: 2015 Diary of Consumer Payment Choice, preliminary and unofficial. Note: Not comparable to 2012 DCPC due to questionnaire and sample changes.
Payments behavior is sticky

Account ownership: bank & nonbank

Most bills paid on due date or early

Credit card bills less likely to be late

<table>
<thead>
<tr>
<th></th>
<th>Bills paid early</th>
<th>Bills paid on due date</th>
<th>Bills paid late</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares of other bills</td>
<td>55.1</td>
<td>31.9</td>
<td>13.1</td>
</tr>
<tr>
<td>Shares of credit card bills</td>
<td>76.5</td>
<td>19.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Payment choice & due date

Bill paid late

- Preferred PI used: 58.4%
- Nonpreferred PI used: 41.6%

Paid on due date

- Preferred PI used: 53.9%
- Nonpreferred PI used: 46.1%

Bill paid early

- Preferred PI used: 48.7%
- Nonpreferred PI used: 51.3%

P2P use (#): 60% cash

P2P use ($ value): 58% checks

$ value matters for P2P choice

The Consumer Role

- Technology changes quickly; people may not
  - Assessments & preferences are sticky

- 3 aspects influence choice
  - Consumer characteristics
  - Payment instrument characteristics
  - Transaction characteristics
Using the data

• Reports, data tables, raw data for download
  • https://www.bostonfed.org/payment-studies-and-strategies.aspx

Thank you!

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