“Consumers’ Use of Debit Cards: Patterns, Preferences, & Price Response”
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Discussion by Robert M. Hunt*

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*: The views expressed here are not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.
Contributions

• This is a very good cross sectional data set
  – Michigan Survey of Consumers (including sentiment)
  – Clearly representative in general
  – Authors document validity in terms of payment questions

• Debit use is influenced by liquidity & expectations
  – Exploits the questions on consumer sentiments
  – Consumers use credit more if financial condition has worsened
  – Consumers use debit more if they expect conditions to worsen

• Consumers respond to explicit pricing of payments
  – The response appears quite large
  – Stimulates use of Signature debit over PIN debit
  – But I suggest a few caveats
# Dynamics of ATM & Debit Usage

<table>
<thead>
<tr>
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<tbody>
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<td>By age</td>
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<td>By Income</td>
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<td>25</td>
<td>43</td>
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</tbody>
</table>

Source: Mester (2006), using the Survey of Consumer Finances
ATM, Credit and Debit Transaction Volume
(billions per year)

ATM, ATM*, Credit, Debit

Shares of Electronic Transactions*

Source: 2005 EFT Data Book

*: Excludes ACH & Paypal
PIN Debit vs. Signature Debit Transaction Volume
(billions per year)

Price Responses

• Author’s argue a 2% change in total cost of purchase reduces debit use by 12%
  – May underestimate effects given that fees are not observed at POS
  – Consumers don’t switch banks much, so they are stuck with fees

• Killing the goose?
  – Authors suggest Pin debit fees are an attempt to promote Signature
  – And they find PIN fees increase Signature use
  – But PIN debit falls by more than Signature debit rises

• For banks, the question is whether profits rise or fall
  – Even with lower volume, margins may be higher
  – Banks suffer little if net decline in Debit goes to Credit cards
Interpretation

• Only 14% of consumers report paying PIN fees
  – This fee doesn’t seem a particularly popular strategy for banks
  – Especially relative to ATM surcharges & foreign fees
  – This would be consistent with a high price elasticity…

• Similarly, when allowed to, merchants rarely surcharge

• Relatively few consumers switch banks
  – And yet only 14% observe PIN fees
  – Does this suggest a credible threat to switch?

• There are other (implicit) prices to consider
  – Interest & other benefits associated with DDA & savings accounts
  – Cardholder incentives (air miles, cash back)
  – Implies the price difference is larger than 2%
  – So the “implicit” elasticity is smaller
Some Caveats

• Should we worry about selection?
  – Are customers who face Pin fees for their accounts different?
  – Suppose they care less for debit, so the fees are less relevant?
  – Suppose that banks are engaged in price discrimination?

• This is easy to test
  – Look for differences between those who observe fees or not
  – Compare observables like age, education, income, etc.
  – Compare the payment attributes they mention
  – Also, look for differences between Signature & Pin users

• Explore interactions
  – Does elasticity depend on gender, age, education, or income?
  – Does it depend on the payment attributes consumers mention?
  – Does it depend on perceived financial conditions or credit costs?
  – Does it depend on the type of transaction? (outside the data set)
## Use of Debit by Retail Segment (1999)

<table>
<thead>
<tr>
<th>Percent of Stores with PIN Pads</th>
<th>Percentage of Store Sales Paid via</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Check</td>
</tr>
<tr>
<td>All Stores</td>
<td>50</td>
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<tr>
<td>Discount</td>
<td>43</td>
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<tr>
<td>Drug</td>
<td>73</td>
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<tr>
<td>Supermarket</td>
<td>100</td>
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<tr>
<td>Department Store</td>
<td>20</td>
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<tr>
<td>Home Center</td>
<td>7</td>
</tr>
<tr>
<td>Apparel</td>
<td>38</td>
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</tbody>
</table>

Source: “Survey of Retail Payment Systems,” *Chain Store Age* (December 1999)
Effect of PIN Fees on Use vs. Frequency of Use

• Why isn’t the coefficient on fees significant for frequency?
  – Perhaps the fee is not a marginal cost?

• Incidence of monthly/annual fees for debit cards is 17%

• If a consumer pays such a fee they might use debit more
  – If transaction fees are lower than otherwise (my bank)
  – Fixed fees can induce single-homing (using fewer pmnt options)

• Regressions should control for fee structure
  – Perhaps by exploiting geographic variation in bank pricing
Final Thoughts

• Authors can exploit the Michigan Survey even further
  – Other questions might identify the desire to use/conserve liquidity
  – Cost & availability of credit, both today and in the future
  – Conditions for purchasing durables or homes, including prices

• Be explicit about statistically significant differences
  – For example, within columns of Table 2
  – Or across rows in Table 5

• Present measures of goodness of fit for the regressions
  – How much of the cross-sectional variation is explained?
  – It appears to vary quite a bit depending on the LHS variable