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Federal Reserve Bank of Boston Survey Shows People Can Be Choosy About Their Payment Methods

Percentage of consumers who once had a credit card but no longer use one to make payments rose in 2009; use of debit and prepaid cards also declining

BOSTON – October 28, 2010 – Diamonds are forever, but not so credit cards. A sizable and growing minority of American consumers who once possessed a credit card no longer have one. Surveys completed over the past two years by the Federal Reserve Bank of Boston’s Consumer Payments Research Center indicate that the “discard rate,” the percentage of consumers who have abandoned – voluntarily or not – that method of paying for purchases, grew from 14 percent in 2008 to 16.5 percent in 2009.

The discard rate among consumers for prepaid payment cards was 27.5 percent in the 2008 survey, nearly twice as high as that for credit cards. Part of this higher rate is attributable to the frequent use of prepaid payment cards as gifts and prizes; a portion of those who are given prepaid cards are “passive adopters” of that payment instrument and do not tend to become regular users.

Checking accounts and debit cards, by contrast, have been discarded by approximately five percent of people who formerly used them. These figures were uncovered in the 2008 Survey of Consumer Payment Choice (SCPC), an exhaustive annual study by the Boston Fed that is available to the public for free. The survey data can be used for trend analysis as well as consumer-level research and policy analysis. The Consumer Payments Research Center will shortly release the full findings of its 2009 Survey of Consumer Payment Choice, which canvassed more than twice as many people as were interviewed for the 2008 study.

“Our preliminary estimates show increases in the 2009 discard rates for all types of cards – credit, debit and prepaid. All of the figures for the 2009 survey aren’t quite final yet, so the numbers may change slightly. Nevertheless, it appears that the slowing economy and consumer caution have played a part in discard rate increases. We will be especially interested to see how the discard rate holds or changes for 2010, because the full effect of the economic downturn of the last two years should then be evident. Also, we may see additional effects from what has transpired on the legal and regulatory front, with the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 that just recently went into effect,” said Scott Schuh, director and economist at the Consumer Payments Research Center (CPRC).

“The discard rate in the SCPC is one of the innovations we are most pleased with because it brings new information and perspective to the study of payments. We had not seen comparable data from any of the other surveys that measure consumer payment activity,” added Schuh. “Apparently, not all payment instruments fit every consumer. In the case of credit cards, some consumers may learn that credit cards are not as beneficial for them as advertised, so they get rid of the cards.”

Schuh went on to explain that the discard rates cited above represent the “floor” percentages for this aspect of consumer behavior. Respondents indicated that they did not, at the time of the survey, have the payment instrument in question, but that they had used it at a prior time. Consequently, consumers who had discarded one type of credit card but had then obtained another were not identified, and their discarding was not included in the statistics.

The Center’s 2010 survey is already underway. [Click here](#) for more information about the CPRC and its work.

SURVEY AND METHODOLOGY: The Survey of Consumer Payment Choice estimates consumers’ adoption and use of nine payment instruments. The 2008 survey, fourth in the series that began in 2003, was developed by the CPRC and administered online by the RAND Corporation as a module of the American Life Panel. The sample size was 1,010. Results are considered accurate within five percentage points, or may be considered to carry a 95 percent or better confidence level.

The Consumer Payments Research Center was established at the Federal Reserve Bank of Boston in 2004 to learn more about the demand side of the payments market, especially by studying the behavior of end users of payments, including individuals, households, firms, and government. A unit of the Bank’s research division, the Center conducts economic research and evaluates and develops public policies for the benefit of citizens, companies, and organizations that rely on America’s banking institutions and payments system.