

Survey of Consumer Payment Choice: Overview and Development

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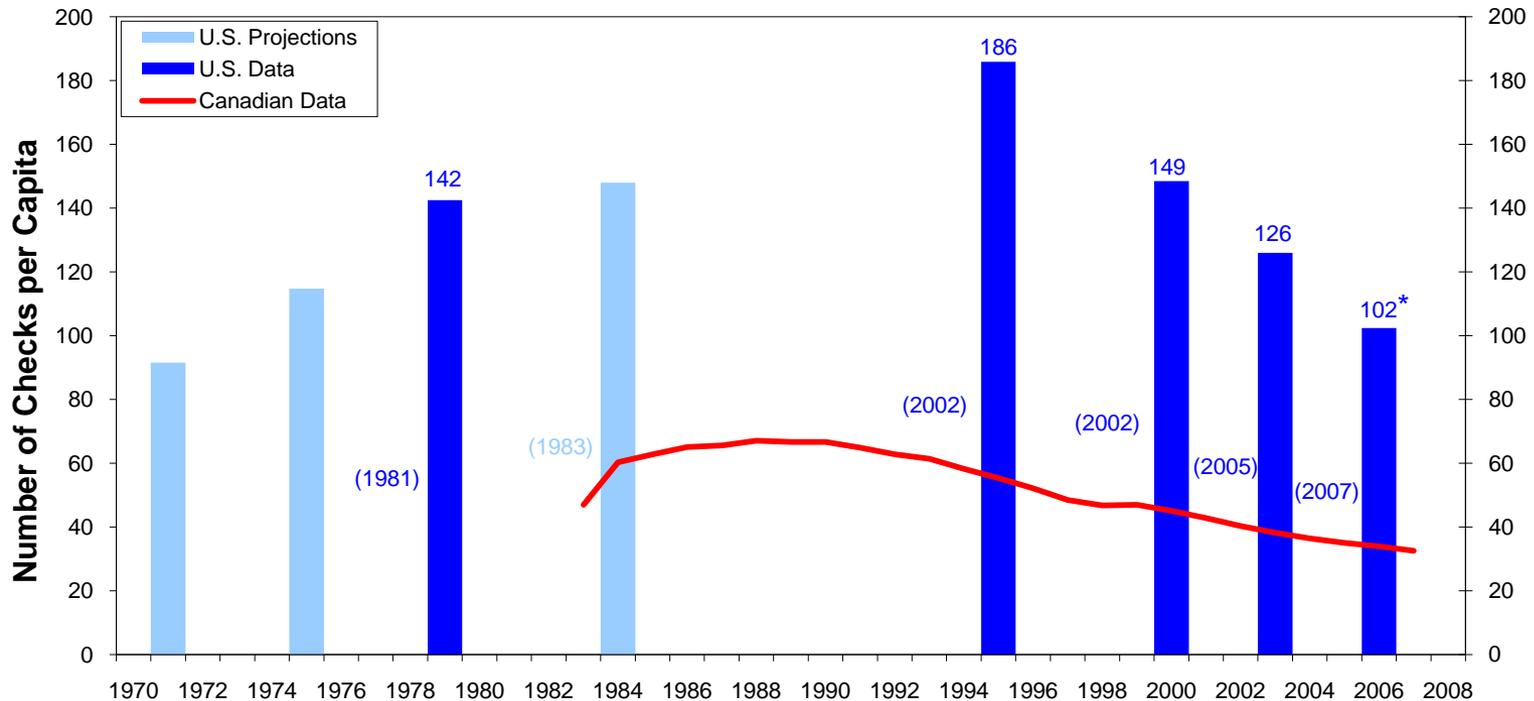


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Presentation overview

- Empirical motivation
- Objectives and strategy
- SCPC program
- Preliminary 2008 cash results
- Future global payment survey?

Checks – public data



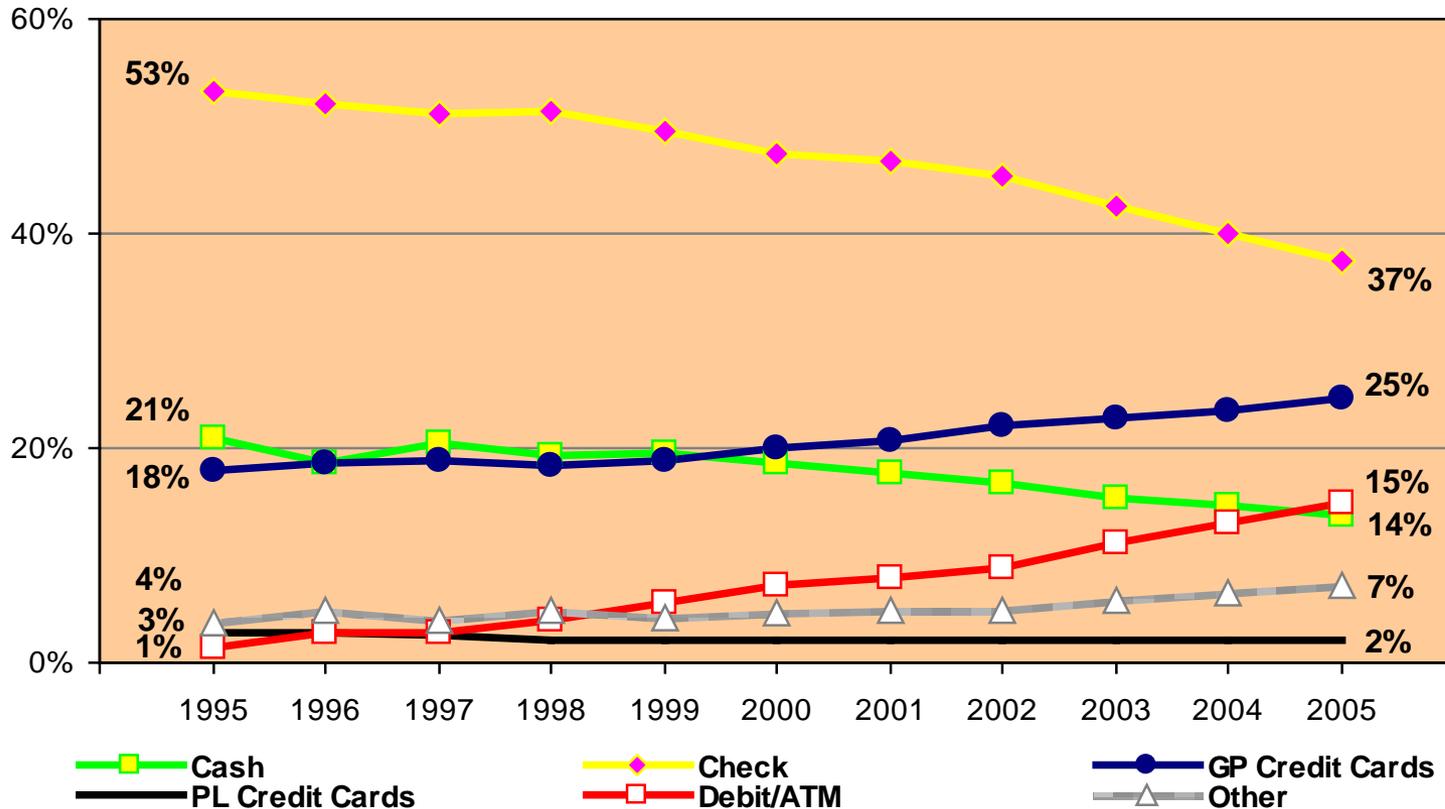
SOURCES: U.S. data: Federal Reserve Bank of Atlanta (1981, 1983); Federal Reserve System (2002, 2004); Gerdes and Walton (2002); Gerdes, Liu, Parke, and Walton (2005); Gerdes (2008); Benton, Blair, Crowe, and Schuh (2007).

Canadian data: Automated Clearing Settlement System (ACSS) Clearing Exchange Report (2008).

*The 2006 U.S. number excludes paper checks written and converted to ACH, which were included in earlier years.

Checks – private data

Payment method share of dollar value (all merchant categories)



SOURCE: Visa USA Research Services. (2006) "Visa Payment Panel Study." Page 9.
<http://www.bos.frb.org/economic/eprg/conferences/payments2006/papers/hampton.pdf>.

Need for public data

- Private data limitations
 - Often statistically weak or can't tell
 - Proprietary or prohibitively expensive
- Public data advantages
 - Relatively unbiased, public good
 - Lots of technical & research expertise (CB's)

Primary SCPC objectives

- Aggregate time series data
 - U.S. payment market trends/conditions (macro)
- Individual longitudinal data
 - Consumer/household payment choice (micro)

SCPC priorities

- Breadth over depth (measurement)
 - All payment methods
- Representation over convenience (sample)
 - All U.S. consumers
- Dynamics over statics (panel)
 - All respondents, all time periods

SCPC development, 2003-2008

	2003	2004	2006	2008
Sponsor	Fed	Fed	AARP and Fed	Boston Fed and RAND
Sample	Employees of the Federal Reserve Bank of	Employees of the Federal Reserve System	consumers	U.S. consumers
Observations	520	4,597	1,500	1,010
Method	Paper and online	Paper and online	Telephone interview	Boston Fed and RAND
Outline of Questions in Order of Appearance in the Survey	<p>Financial responsibility [1] Check writing behavior [8]</p> <p>Use I [1] Reasons for no use [8] Change in use [1] Reasons for switching [5] Payment locations [5]</p> <p>Payment characteristics [4]</p> <p>Use II Check conversion [3] Payments by amount [2] Types of bill payments [2]</p> <p>Demographics [4]</p>	<p>Financial responsibility [1] Check writing behavior [7]</p> <p>Adoption [1]</p> <p>Use I [1] Reasons for no use [8] Change in use [1] Reasons for switching [5] Payment locations [5]</p> <p>Payment characteristics [5]</p> <p>Use II Check conversion [11] Payments by amount [2] Types of bill payments [2]</p> <p>Demographics [5]</p>	<p>Financial responsibility [1]</p> <p>Adoption [2] Check writing behavior [1] Reasons for no adoption [4]</p> <p>Employment, paycheck, & internet questions [16]</p> <p>Use I [2] Reasons for no use [6] Change in use [1] Bill payment choices [1]</p> <p>Payment characteristics [7]</p> <p>Use II Check conversion [15] Payment decisions by amount [3]</p> <p>Demographics [10]</p>	<p>Financial responsibility [1]</p> <p>Payment characteristics [12] Adoption [28]</p> <p>Use [21] Change in use Check conversion Types of bill payments</p> <p>History [18]</p> <p>Demographics [18]</p> <p>My Household Questionnaire [24]</p>

NOTES: Number in brackets [] is the number of questions appearing in the section.

2008 SCPC: Section 1

1. **Preliminaries** – start with short and easy questions to help respondent get started
 - Simple extensions to a few socio-economic questions in separate household questionnaire
 - Household financial responsibility of respondent (all, most, shared, some, none)

2008 SCPC: Section 2

2. **Payment characteristics** – self assessments of the key determinants of payment choice; asked before payments-related questions for “clean” responses
 - a) Characteristics (8)
 - o By payment instrument (6)
 - b) Characteristic rankings
 - c) Payment instrument rankings

2008 SCPC: Section 3

3. **Payment instrument adoption** – direct questions about ownership

- a) Do you have/how many...?
 - Banks accounts (2); bank technologies (4)
 - Payment instruments: paper (4); cards (4); and electronics (4)
- b) If not, have you ever had...?
 - Same as (a)
- c) When did you first get...?
 - Same as (a)
- d) Nondurable instruments (cash, SVC)
 - How often, how much, where?

2008 SCPC: Section 4

4. **Payment instrument use** – number of payments made in a category with each payment instrument

a) **Periods**

- “Typical” day/month/year (respondent choice)
- Change last (1 or 3) years, total payments only
- Expected change (1 or 3) years, total payments only

b) **Categories**

- Bills (3); retail, including online (3); other (1)

c) **Payment instruments**

- Category-specific lists (based on adoption answers)

2008 SCPC: Section 5

5. **Payment history** – miscellaneous aspects of consumer payment behavior that are useful for econometric modeling
 - a) **Period**
 - Past 12 months (predetermined)
 - b) **Example topics**
 - Budgeting, bill paying, CC practices, FICO, identity theft, technology, check conversion, taxes, etc.
 - c) **Trying to identify types of consumers using “behavioral economics” ideas**
 - d) **Potential IV’s for payment characteristics**

2008 SCPC: Section 6

6. **Demographics** – rich array of socio-economic variables that help classify and explain consumer payment behavior
 - a) Boston Fed additions (about a dozen)
 - b) Separate RAND household questionnaire collected independently and regularly (dozens)

2008 SCPC: Implementation

- RAND American Life Panel (ALP)
 - Panelists drawn from Michigan Survey of Consumers participants
 - Ages 18+ (since 2006)
 - Longitudinal panel of consumers possible
 - Participants remain in ALP indefinitely
 - Paid to take all surveys but on a voluntary basis
 - Not designed as a true panel but can match consumers
 - 2008 SCPC has 1,010 respondents (cost based)
 - Internet/TV survey (technology provided)
 - Mean response time 34 minutes (25 in tests)

SCPC production schedule

- 2008
 - 2008 aggregate data, survey (spring/summer)
 - 2009 survey revision (summer/fall)
 - 2009 survey implementation (fall)
 - 2008 data by demographics (fall/winter)
- 2009
 - 2009 aggregate data, survey (winter/spring)
 - 2009 data by demographics (spring)
 - 2008-2009 micro data (spring)
- 2010 and beyond – TBD

Cash holdings and withdrawals

Average cash holdings and withdrawals

Current Cash Holdings			Typical Cash Withdrawals		
Total (\$)	On Person (\$)	Other (\$)	Monthly Amount (\$)	Typical Amount (\$)	Monthly Frequency (#)
283	69	180	511	122	5.1

SOURCE: 2008 Survey of Consumer Payment Choice; preliminary and unofficial statistics, subject to revision.

Cash withdrawals

Withdrawal LOCATIONS where consumers get cash most often

	ATM	Bank Teller	Check Cashing Store	Retail or Grocery Store	Employer	Family	Other
First Choice	59	22	1	11	5	1	0
Second Choice	14	50	2	25	2	4	1
Third Choice	8	51	2	22	6	9	1

Withdrawal METHODS consumers use to get cash most often

	ATM or Debit card	Account withdrawal	Cashing personal check	Cashing paycheck	Cash back from a debit card	Paid by employer in cash	Unknown Methods
First Choice	59	11	6	11	9	2	1
Second Choice	14	37	13	7	22	1	5
Third Choice	8	25	24	12	18	1	10

SOURCE: 2008 Survey of Consumer Payment Choice; preliminary and unofficial statistics, subject to revision.

Cash use (volume)

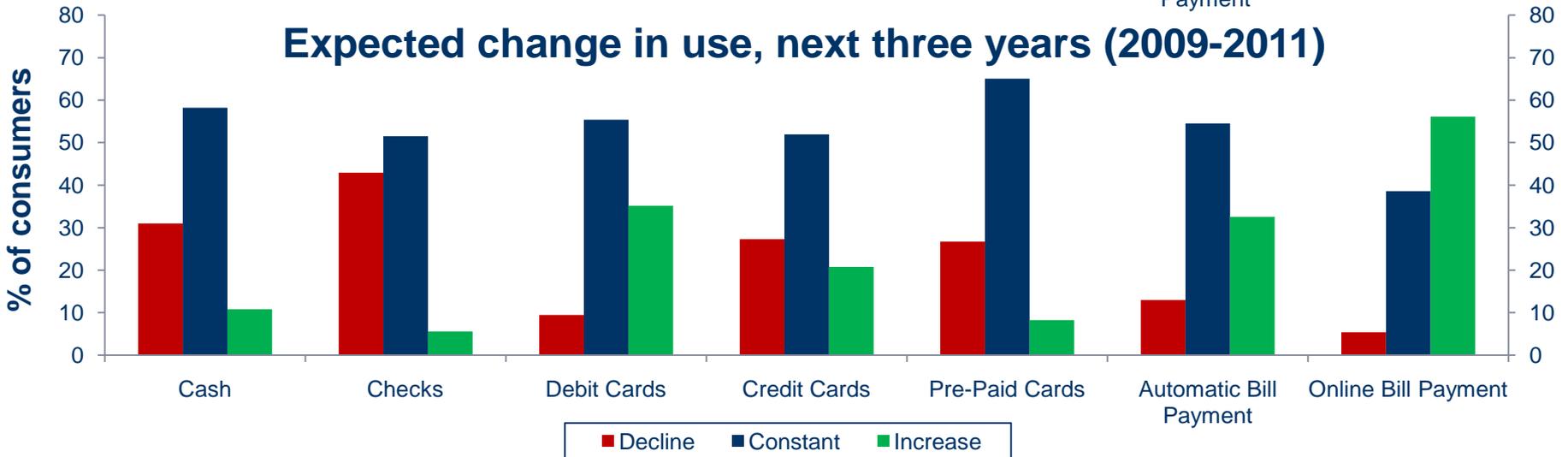
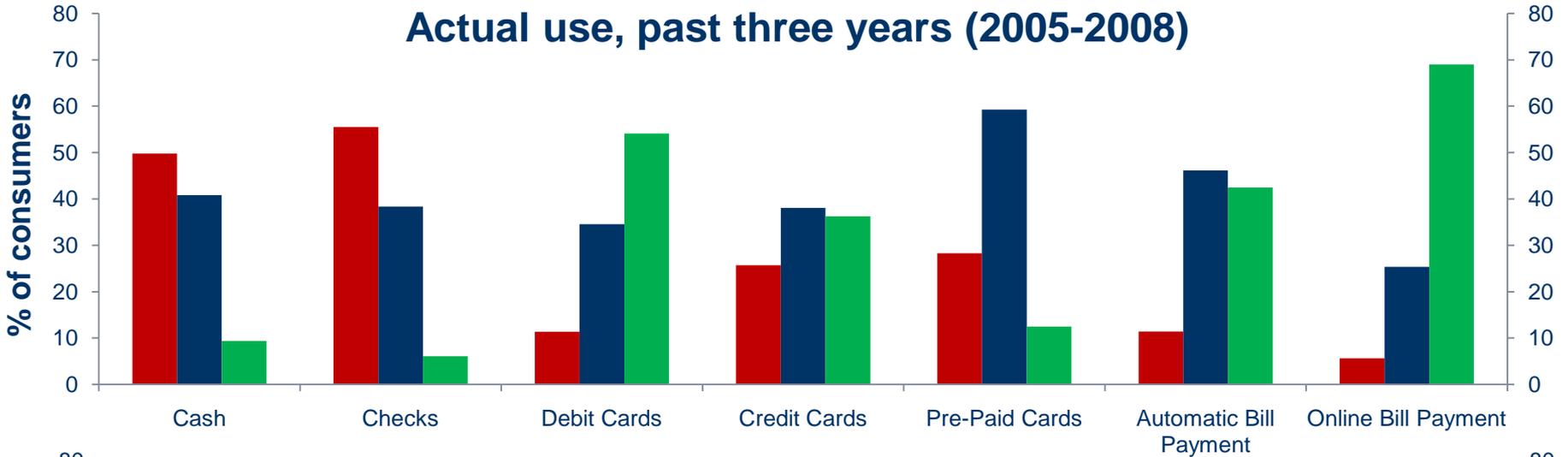
Percentage of payments made with cash

	Bill payments by mail or in person	Essential retail payments*	Other retail payments*	Other non-retail payments*	All other payments	Total
Share of cash payments in category	12	32	26	29	0	20
Category share of total payments	10	37	14	13	25	100

SOURCE: 2008 Survey of Consumer Payment Choice; preliminary and unofficial statistics, subject to revision.

Payment category	Examples
Essential retail payments	Groceries, prescription drugs, food from restaurants and payments for gas (petrol)
Other retail payments	General merchandise, electronics, household goods, hardware, office supplies and others
Other non-retail payments	Tolls, medical, entertainment, charitable donations, person to person payments among other payments
All other payments	Any payments made online, bill payments, payments made by travelers checks or money orders

Change in payment use



SOURCE: 2008 Survey of Consumer Payment Choice; preliminary and unofficial statistics, subject to revision.

Decline in check use

Changes in share of check payments by U.S. consumers, 2003–2006

	Estimated change in check share	Percent of actual change in check share
Actual change (from .310 in 2003 to .226 in 2006)	-0.084	100
Simulated increase in number of payment instruments (0.25 per consumer)	-0.028	33
Simulated decrease in relative convenience of checks (30 percent)	-0.021	25
Simulated increase in relative cost of checks (30 percent)	-0.012	14

SOURCE: Scott Schuh and Joanna Stavins (2009), "Why are (Some) Consumers (Finally) Writing Fewer Checks? The Role of Payment Characteristics," Federal Reserve Bank of Boston Working Paper 09-1: <http://www.bos.frb.org/economic/wp/wp2009/wp0901.pdf>

NOTE: Simulation results are independent, and changes in check shares are not additive.

Global survey questions

- Is it necessary? (What will it produce?)
- Is it feasible?
 - Cross country payment differences
- What would be the objectives?
- What would be the strategies?
- Who would be the “driving force(s)”?
 - Central banks, private sector, or both?
- How/where/when will it develop?
- How much will it cost and who will pay?

Lessons learned to heed

- Good surveys are harder than you think
- Everything takes longer than you think
- “Too many cooks in the kitchen” problem
 - Someone has to be “The Decider”
- Are consumer surveys effective? Accurate?
 - Transactions data are much more reliable
 - Unique approaches need for paper transactions
- Consumer rights/privacy is the 800lb gorilla
- Surveys are never perfect or “done”