DISCUSSION PAPER
PAYMENT CARDS CENTER

Trends and Preferences in Consumer Payments: Updates from the Visa Payment Panel Study

Susan Herbst-Murphy*
Federal Reserve Bank of Philadelphia

July 2015

Summary: *Michael Marx, senior director, Visa Research Insights, conducted a workshop in 2009 at the Payment Cards Center (PCC) as the economy was emerging from a recession. At that time, it appeared that the recession had affected consumer payment preferences, especially those related to cash and credit cards. To get an update on consumers' use of the various payment methods, the PCC invited Marx to facilitate another workshop in 2014. More recent findings from the Visa Payment Panel Study reveal declines in cash use — a return to the long-term trend — and increases in credit card use, perhaps signaling some return of confidence among consumers. Check use continued its unbroken long-term decline, and debit card growth has slowed. Private label cards have also registered a steady decline in their share of spending volume for a number of years. Their revolving credit utility, however, remains consequential in financing consumer purchases.*

Keywords: consumer payments, electronic payments, private label credit

JEL Classification: D1

*Payment Cards Center, Federal Reserve Bank of Philadelphia, Ten Independence Mall, Philadelphia, PA 19106. E-mail: susan.herbst-murphy@phil.frb.org. The views expressed here are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Nothing in the text should be construed as an endorsement of any organization or its products or services. This paper is available free of charge at http://www.philadelphiafed.org/PCC.

FEDERAL RESERVE BANK OF PHILADELPHIA
Ten Independence Mall, Philadelphia, PA 19106 • (215) 574-7220 • http://www.philadelphiafed.org/PCC

I. Introduction

In July 2009, just as the United States economy was emerging from a recession, the Payment Cards Center (PCC) hosted a workshop conducted by Michael Marx, senior director of Visa Research Insights. The workshop featured findings from the Visa Payment Panel Study through 2008. The study data from that period clearly showed a departure from some of the long-term trends in consumer payment preferences, particularly with regard to credit cards and cash. Dollar volume on credit cards registered a year-over-year decline for the first time in the panel's history. Cash, however, after years of decline, was being used with more frequency.[1] At that time, Marx speculated that these variations from the trend were recession related, as was the observed decline in overall spending levels in the panel data.

In 2014, after more than four years had elapsed since the recession officially ended,[2] the PCC again hosted a workshop during which Marx presented more recent findings from the panel study. This document will summarize information discussed at that event. It will also include relevant data from other sources that represent similar points in time. Unless otherwise indicated, data in this report will be those provided by Marx and sourced either from the panel study or other research conducted or acquired by Visa Research Insights.

The more noteworthy findings from the workshop included:

- Intelligence from various sources, including the U.S. Bureau of Labor Statistics reports of consumer expenditures, indicated rebounds in consumer spending by 2012 after earlier recession-related dips.[3]

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[1] A Payment Cards Center discussion paper based on the 2009 workshop is available at the PCC website at https://www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2010/D-2010-Visa-Payment-Panel-Study.pdf.

[2] The Business Cycle Dating Committee of the National Bureau of Economic Research determined that a period of recession occurred from December 2007 to June 2009 and observed that this 18-month recession exceeded the recessions of 1973–1975 and 1981–1982. These two periods, each lasting 16 months, had previously been the longest recessions of the post-World War II era. See http://www.nber.org/cycles/sept2010.html.

[3] Annual reports of U.S. consumer expenditures can be found at www.bls.gov/cex/csxreport.htm. Average consumer unit expenditures rose year over year in 2006, 2007, and 2008; declined in 2009 and 2010; and then rose again in both 2011 and 2012, when they reached a six-year high.

- After decreasing their credit card spending during the recession, consumers' credit card use has increased. The recent year-over-year growth rate of credit card dollar volume has been equal to or greater than the corresponding debit card growth rate, which is a departure from the long-term trend.
- Cash use share has again receded after its recession-related lift. Instead of losing spending share to debit cards, which had been the pattern for many years, recent losses in cash share are being captured by credit cards.
- Consumers' use of checks as a payment method declined before, during, and after the recession, with payment cards and the automated clearinghouse (ACH) capturing most of checks' share decline.
- Visa research again found a decline in dollar volume spending on private label cards, which is a continuation of a long-term trend. Dollars spent, however, may only tell part of the private label story.

II. About the Visa Payment Panel Study

In its third decade, the Visa Payment Panel Study tracks the changing use of payment methods by consumers and monitors the usage of all consumer payment methods in more than 100 merchant categories. Described by Marx as "one-of-a-kind" in its comprehensive examination of all purchase and payment options used by payment cardholders,[4] the study yields about 20,000 completed payment diaries each year. To avoid "diary fatigue," the study uses three revolving panels so no one has to track his or her spending every month. Participants in each of these three panels keep diaries on a "one month on, two months off" basis (e.g., one panel completes diaries in January, April, July, and October, while another completes diaries in February, May, August, and November). No one does more than four diaries a year.

[4] Panelists must have at least one payment card to participate in the study, but it does not have to be a Visa-branded card.

Panelists can participate as long as they wish, so long as their diaries are maintained in accordance with the standards and criteria established for research quality and integrity.

To be eligible to participate, panelists must be at least 18 years old and have the use of at least one piece of payment plastic. While ownership of a prepaid card is sufficient criteria to participate and there is no income screen (people with any income can be panelists), Marx acknowledged that the unbanked and underbanked are not proportionately represented in the panel study. Marx said the study represents about 85 percent of the U.S. population. Mortgage and other loan payments are excluded from the payments that panelists record in their diaries. Rent or tax payments are also excluded in their diaries. All diaries are completed in English.

Participants provide relevant demographic information to allow for the analysis of spending preferences and behavior by age, income, and gender. Until 2010, the diaries were kept on paper. Beginning that year, Visa introduced online data gathering to some of the panelists. For three years, the study was conducted with both paper and online instruments. In 2013, the study was fielded entirely online for the first time. Because of this change, Visa researchers vigorously scrutinized the data to determine if the migration from paper to electronic data collection had an effect on what was reported. Since this calibration was ongoing at the time of the 2014 workshop, Marx based his workshop presentation on 2012 study findings. Speaking to his preliminary observations on the change in methodology, Marx noted that some people preferred paper, while others preferred online. The difference appears to correlate with the individual's preferred personal financial management method — paper or electronic.

III. Consumer Payments in 2012

In 2012, for the first time since the onset of the most recent recession, the panel study showed an uptick in overall consumer-reported spending. While spending remained below its prerecession (2007) level, the 2012 uptick was significant in its reversal of a four-year pattern of spending declines, as Table 1 illustrates.[5] This table also shows the effects of the economy on consumers' decisions to limit their spending on credit cards during and immediately after the recession. Benchmarked to 2007 credit card dollar volume, spending rose very slightly in 2008, dropped sharply in 2009, rose slightly (but remained below 2007 levels) in 2010, then rebounded strongly in 2011 and 2012.[6]

Table 1: Effects of Recession on Consumer Use of Debit and Credit Cards
(Dollars of Spending Indexed to 2007, Not Adjusted for Inflation)

Average Monthly Spending	2007	2008	2009	2010	2011	2012
Diary-Reported Overall Spending	100	95	94	93	92	94
Credit Cards	100	101	95	97	104	109
Debit Cards	100	105	107	106	105	108

Over this same period, debit card spending consistently exceeded 2007 levels. However, at the end of the five-year period, credit card spending indexed higher than debit card spending when compared with their respective 2007 baselines. The fact that volumes in both had risen while overall spending remained below the 2007 baseline reflects share shift among all payment forms. Table 2 shows that general-purpose credit cards (such as American Express, Discover, MasterCard, and Visa), debit/ATM cards, and a grouping of payment types that the panel study analysis combines into an Other category each registered share increases of several percentage points or more. Almost all of this gain came at the expense of checks, which lost 13 points of share.

[5] Tables included in this document were created by the author from data presented at the workshop.

[6] Because of variation in definitions and data-gathering methodologies, different sources will vary in the amount of consumer spending they report. The Visa panel study, for example, includes spending conducted with one of the forms of payment included in the research (excluding certain payments noted in Section II). One example of a purchase not accounted for in the panel study would be those that are paid for indirectly through installment loan proceeds. Since these are often large-dollar purchases, Visa-reported consumer spending may be lower than that reported by other sources. Retail sales reported by the U.S. Census Bureau show a rising trend already in 2009, while consumer expenditures reported by the U.S. Bureau of Labor Statistics are directionally similar to the Visa-reported findings (see footnote 3).

Table 2: Change in Payment Method Share of Consumer Spending
Visa-Reported Data 2007–2012

	2007 Share of Overall Reported Spending	2012 Share of Overall Reported Spending
Checks	33%	20%
General-Purpose Credit Cards	25%	29%
Debit/ATM Cards	18%	21%
Cash	13%	12%
Other (Includes ACH and Prepaid Cards)	9%	17%
Private Label Cards	2%	1%

Cash and private label cards each lost one point of share over the five year period. But during that interval, the divergence from long-term trends noted in the introduction (declining credit card use, increased cash use) caused some industry observers to wonder whether those deviations might be indicators of permanent changes to the trajectory of certain payment methods. Some speculated that credit card use might continue to be restrained even after the economy recovered. Some predicted a switch by consumers from credit cards to debit cards, while others anticipated a comeback for cash.[7]

But the Visa panel study data reported by Marx during his 2009 PCC workshop suggested that the shifts observed during the recession were likely to be temporary consumer reactions to then-prevailing economic conditions. (See pages 2 and 3 of the workshop summary cited in footnote 1.) By 2012, consumer payment method choices had essentially reverted to longer-term trend patterns, seeming to

[7] For a sample of the commentary that considered secular shifts in payment preferences, see "Back to the Greenback? Consumers Turn on Cards," by Maria Aspan, *American Banker* (March 2010), www.americanbanker.com/bulletins/consumers-turn-on-cards-1015107-1.html; "Consumers May Be Permanently Lowering Debt Load, Analysis Shows," by James Ramone, Consolidated Credit, May 12, 2010, http://www.consolidatedcredit.org/financial-news/article/547/; and "Cardholders Prefer Debit as Credit-Card Use Falls," by Alexis Leondis, Bloomberg, September 8, 2010, http://www.bloomberg.com/news/print/2010-09-08/cardholders-prefer-debit-as-credit-card-use-falls-javelin-says.html; and an update at http://www.bloomberg.com/apps/news?pid=newsarchive&sid=afe9aWR0PKB0.

confirm the transitory nature of the earlier fluctuation. Similar findings were reported in other contemporaneous sources. The triennial Federal Reserve Payments Study found essentially flat growth in the number of general-purpose credit card payments between 2006 and 2009, but by 2012, growth had returned. Consumer general-purpose credit card transactions increased an average of more than 6 percent each year between 2009 and 2012.[8] Debit card transactions increased in both three-year intervals, although less dramatically between 2009 and 2012 than between 2006 and 2009. The number of checks paid declined 25 percent, and ACH payments increased 14 percent from 2009 to 2012, according to the Fed payments study. First Data SpendTrend, which measures dollar volume of same store sales, found a year-over-year increase of 5.4 percent in credit card sales in August 2012 and a 3.2 percent decline in check sales. High single-digit growth rates were reported for both signature and PIN debit sales.[9]

Over time, the long-term trend remained essentially intact, but the 2012 Visa panel study did register some idiosyncrasies. These will be discussed in the following sections as panel-reported data for each payment method are explored in greater depth.

A. General-Purpose Credit Cards

During periods of recession, households historically curtail their use of consumer credit, and this was evident in the credit card spending panelists reported during the last recession, as exhibited in Table 1. Spending on general-purpose credit cards has rebounded and has recently experienced growth rates similar to those for debit cards. For a number of years, including the past two recessions, debit card growth rates exceeded those for credit cards on a year-over-year basis. But between 2011 and 2012, the

[8] The 2013 Federal Reserve Payments Study, Recent and Long-Term Trends in the United States: 2000–2012, Detailed Report and Updated Data Release, the Federal Reserve System (July 2014). See https://www.frbservices.org/files/communications/pdf/general/2013_fed_res_paymt_study_detailed_rpt.pdf. The Fed's payments study includes consumer and commercial noncash payments.

[9] First Data is the leading processor of payment card transactions for U.S. merchants. Its SpendTrend analysis tracks same-store consumer spending by credit, signature debit, PIN debit, EBT, closed-loop prepaid cards, and checks at more than 4 million merchant locations that are part of its point-of-sale processing network. First Data's website states, "SpendTrend data has an approximate 94 percent correlation with the U.S. Department of Commerce Advance Monthly Sales for Retail and Food Services Report." See https://www.firstdata.com/downloads/marketing-merchant/FD-SpendTrend-Brochure.pdf.

growth rates for both payment forms were similar. More recently reported metrics from other sources provide further evidence of this finding from the Visa panel study. In August 2014, *The Nilson Report* published midyear growth statistics for U.S. general-purpose cards. According to that report, dollar volume spending on credit cards increased 5.4 percent between May 2013 and May 2014, and debit card growth for the same period was 5.7 percent.[10] First Data's SpendTrend reported July 2014 credit card volumes were 6.2 percent higher than same-store sales in July 2013. The growth rate for signature debit was 0.4 percent; for PIN debit, the increase was 3.9 percent.[11]

Marx stated that some of the growth for credit cards came from the declines in cash and checks. This is at variance with the trend of the past two decades. Over that time, declines in cash and check share shifted primarily to debit cards. Once again, the question remains whether these changes signal an enduring shift or whether they reflect temporary influences. As the earlier report on the Visa panel study explained, consumers defer certain large purchases (for which credit cards are often the preferred payment vehicle) during periods of economic downturn. So, the recent uptick in credit card use could have resulted from demand that was pent up during the last recession.

The panel study shows a continued preference for credit card use in those merchant categories that credit cards have traditionally dominated, such as airfare and other travel and entertainment (T&E) classifications. In the hotel category, 79 percent of spending is done with credit cards. At high-end restaurants, the share is 65 percent; at midpriced restaurants, it is 43 percent, with debit cards having the second-highest share at 28 percent. Credit and debit are also the first and second preferred payment methods at department stores, according to the panel study findings. In this category, credit cards account for one-third of the dollars spent, and debit cards account for a little less than one in four dollars.

Credit card shares grew even in merchant categories that debit dominates. From 2007 through 2012, credit card share increased 5 percentage points at gas stations and grocery stores and 2 percentage points at discount stores. Debit cards registered smaller share increases in each of these merchant

[10] U.S. General Purpose Cards – Midyear 2014, *The Nilson Report*, Issue 1046, pages 1 and 12 (August 2014).

[11] See https://www.firstdata.com/en_us/about-first-data/media/press-releases/08_12_14.html.

categories, while cash and check shares declined. In prior years, and for a number of years, losses in cash and check share have largely accrued to debit cards. But the larger share gains by credit cards during that five-year period suggest that they have recently displaced some cash and check use.

1. Optimization Activity and Share Shifts

Although credit card use has returned to prerecession patterns, the percentage of consumers who own a credit card declined over the five-year period. In 2007, the panel study found an 81 percent ownership rate for credit cards; this declined to 78 percent by 2012. However, the active user rate had increased 1 percentage point.[12] In the earlier paper summarizing the 2009 Visa panel study workshop, we noted an analysis by Moody's Investors Service, which reported that $480 billion in credit lines extended by the five largest credit card issuers was reduced, in large part, by closing dormant accounts. This portfolio-optimizing action on the part of issuers reduced the total numbers of accounts on file without diminishing the number of productive accounts.[13]

Over time, actions on the supply side and reactions on the consumer side have affected the use of payment methods in ways that have allowed both sides to improve efficiency and optimization. This section will explore some examples of these developments.

a. Line Extensions

Credit cards once provided the only way to conduct payments electronically at point of sale. Today, the same convenience can be accomplished with debit cards, prepaid cards, and certain ACH applications. As additional payment options have become available, consumers have opted for the ones best suited to their needs. The young adult market, for example, strongly shows how market segments will adopt payment forms that fit their needs once that method is among the choices available. Marx reported a steady decline in credit card ownership among college students since 2000, about the time

[12] A percentage point is the unit of measure for the arithmetic difference between two percentages.

[13] See page 3 of the document cited in footnote 1.

consumer use of debit cards began its rapid ascent.[14] Members of the millennial generation, who were coming of age around that time, were the first for whom debit cards were nearly universally available when they entered the financial services market, and they adopted debit as their preferred payment vehicle. Before that time, half of college-aged individuals held credit cards. After that time, credit card ownership within this group steadily declined to its 2012 level of 40 percent, according to Student Monitor, third-party research purchased and used by Visa as part of its ongoing research activities.

The addition of card options, including debit and prepaid,[15] helps achieve the product optimization that results in both a lower rate of total credit card ownership and a higher rate of active credit card users.

b. Rewards and Credit Lines

Marx reported that 90 percent of credit card volume is generated from cards falling in the "rewards card" category. This is a category that has expanded dramatically as rewards have become "table stakes" in soliciting, upgrading, and retaining the low-risk, high-volume convenience user segment of the credit card market. In 2007, the percentage of rewards cards in the Visa panel study was 56 percent. In 2012, that had increased to 72 percent, a 16 point increase. During that time, the share of credit card holders who owned reward cards increased 8 points, from 73 percent to 81 percent. Credit card dollar volume share represented by rewards cards also increased 8 points, from 82 to 90 percent.

Credit card rewards have likely drawn some spending away from noncard forms of payment, but they have also encouraged "single homing," the practice of concentrating spending on one payment device rather than spreading it across multiple payment forms. Single homing on rewards cards maximizes the accumulation of incentive points into one "bucket" allowing the cardholder to redeem for

[14] In 2000, debit cards accounted for 7 percent of consumer purchase transactions. In 2012, debit card share of consumer transactions was 32 percent. See *The Nilson Report*, Issues 869 (December 2006) and 1031 (December 2013).

[15] Because of prepaid cards' small share, the Visa panel study doesn't break out prepaid card ownership as a separate category. However, other sources, including a 2014 PCC paper, reveal high ownership of prepaid cards among young adults. See Herbst-Murphy and Weed, "Millennials with Money: A New Look at Who Uses GPR Prepaid Cards," Federal Reserve Bank of Philadelphia (September 2014).

higher-value benefits, and to do so more quickly. Single homing was also advanced by larger credit lines. Cardholder research of the mid- to late 1990s found that one of the reasons consumers were accumulating credit cards was because no single one provided a sufficient credit line to allow for concentrated use and a "cushion" (i.e., the amount of unused credit line still available to the cardholder). Even gold cards, the premier product of the time, often provided only $5,000 credit lines.

By the time consumer demand for higher credit lines presented itself, advances in risk management gave issuers the tools to extend larger credit lines to creditworthy individuals. Combined with rewards, higher credit lines enabled consumers to conduct a greater share of their spending on a single credit card.

c. Risk-Based Pricing

Meanwhile, optimization on revolving accounts continues to be rate-driven. While a rewards component matters for many convenience users (and even some revolvers), those who are using the credit utility of their cards are more likely to seek the lowest interest rate for which their credit profile qualifies. This self-selection by market segments into the products they determine to be most advantageous helps to explain the difference in revolving rates in different product groups. Marx reported that 60 percent of nonrewards cards have revolving balances. For airline cobrand cards, which offer rich rewards but generally charge a higher interest rate (and often an annual fee), only about 20 percent carry revolving balances. Those who carry balances tend to value the lower rates available on other cards over the incentives, such as free airline tickets, offered through rewards cards.

2. Amplifying "Silent" Attrition

Within the panoply of payment options available to consumers, multiple sources (including the Visa panel study and the Federal Reserve Payments Study) have identified a general migration from paper and toward electronic methods. Payment cards have benefited from this overarching change in consumer preferences. But as this section explains, even within the card category, there has been change and substitution as new products have become available and as older products have been tailored for various market segments. Even among credit card users, the old "plain vanilla" market has fragmented as customized products have been adopted. Consumers have generally shown perspicacity in their choice and use of the products that best align with their needs.

What often did not occur, as cardholders were acquiring cards more beneficial to their usage, was the closure of old ones. Since few cards now have annual fees or other costs that occur whether or not the card is used, there is little motivation for cardholders to contact their issuers to proactively close the account. The result was a practice, labeled by the industry as "silent attrition," whereby millions of accounts that were considered closed in the minds of the cardholders who no longer used them remained on the issuers' books. Because of the open-ended nature of revolving credit card loans, there is not a definite term after which the loan expires. For fear of offending customers and because mere disuse is not an adverse action, issuers were reluctant to close inactive accounts without cause. Inactive accounts accumulated in issuers' portfolios until economic and regulatory events of the past decade caused issuers to reduce credits lines. Some of this was accomplished by closing dormant accounts.

B. Private Label Credit Cards

This category, which has been in steady decline in recent decades, accounted for only 2 percent of panel-reported dollar volume in 2007 and only 1 percent in 2012. While private label cards may only generate a low single-digit share of spending, information from other sources reveals that they still account for a double-digit share of credit card receivables.[16] In 2012, combined store and oil/gasoline company proprietary card portfolios represented 12.7 percent of total credit card receivables, according to *The Nilson Report*. In dollar terms, this was more than $100 billion in loans outstanding.[17] There was 5.1 percent year-over-year growth in private label purchase volume from 2011 to 2012 and a 4.7 percent increase in receivables. This compares with a higher rate of purchase volume growth (8.4 percent) on general-purpose credit cards, while receivables in that category grew at only 0.1 percent.[18]

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[16] Loan receivables are an asset designation applicable to all debts, unsettled transactions or other monetary obligations owed to a company by its debtors or customers. Also known as "outstandings," receivables are the dollars owed (in these categories) to the company as reported on its balance sheet.

[17] U.S. Credit Cards Projected, *The Nilson Report*, Issue 1028 (October 2013)

[18] Store Cards in the U.S. 2012, *The Nilson Report*, Issue 1019 (June 2013)

These statistics suggest that, although private label cards account for a very low share of consumer *spending*, their revolving credit utility continues to be used by cardholders wishing to finance purchases. *The Nilson Report* (Issue 1028; see footnote 17) has projected a 46 percent increase in store card receivables from 2012 to 2017, while its projected increase for credit card receivables overall is less than 22 percent. This may reflect adjustments that the market made in response to two events: the 2007–2009 recession and the 2009 Credit CARD Act. Industry observers speculated that the combination of these two events might limit the availability of general-purpose credit cards to some individuals with higher-risk profiles and that private label cards might become substitute forms of revolving credit. While research continues to explore the degree to which this may have occurred, recent activity in the private label category arouses interest.

The Federal Reserve's study of noncash payments reported a compound annual growth rate (CAGR) of 17 percent in the number of private label credit card payments for the period from 2009 to 2012. This uptick reversed a steady downward trend observed in the previous three triennial studies that produced a negative CAGR (-4.8 percent) from 2003 to 2012. The study, which captures both business and consumer payments, also showed a shift in the percent of private label payments done by those two payer groups. In 2009, businesses made 46 percent of private label credit card payments, and consumers made 54 percent. In 2012, however, the ratio was 35:65; in that three-year period, consumer share of private label payments increased from just over half to nearly two-thirds of the category.[19]

Another indication of brisk recent activity in the private label space comes from a 2013 research report by Auriemma Consulting Group. While private label credit cards have existed for a century and predate the introduction of general-purpose credit cards by several decades, the Auriemma research found that 50 percent of its survey respondents had obtained their most frequently used private label credit card within the prior four years. The research reported a related finding: Over a two-year period from late 2011

[19] See "The 2013 Federal Reserve Payments Study, Recent and Long-Term Trends in the United States: 2000–2012, Detailed Report and Updated Data Release," Federal Reserve System (July 2014) and "The 2013 Federal Reserve Payments Study, Recent and Long-Term Payment Trends in the United States: 2003–2012, Summary Report and Initial Data Release," The Federal Reserve System (December 2013).

to late 2013, the average length of ownership of the most often used private label card declined by a full year. In 4Q2011, the average length of ownership was 8.2 years. Two years later, average tenure was 7.1 years.[20]

Information on new private label account generation around that same period was reported by Equifax. During the first five months of 2012, 13.8 million new retail card accounts were opened, a 10 percent increase over the same period in 2011. Equifax attributed the increase to “relaxed lending standards,” finding evidence in its data of a near 14 percent increase in lending to subprime borrowers between 2010 and May 2012.[21]

If there are factors influencing an upsurge of activity in the private label category, they do not seem to be affecting store cards and oil/gasoline cards equally, according to Visa panel study data. Marx reported that most of the decline in payment activity is attributable to gasoline company cards. Department store cards, he reported, have remained relevant as a payment method through promotional efforts and special offers, such as discounts on purchases paid for using the store’s proprietary card. While private label accounted for only 1 percent of panel-reported spending overall in 2012, in the department store merchant category, it held a 20 percent share, close to debit’s 23 percent share. (Credit cards accounted for the highest share [33 percent] of department store spending.) At gas stations, private label cards accounted for 4 percent of dollars spent, and the share was 3 percent at discount stores.

C. Cash

Cash use has receded postrecession but is now losing share to *credit cards*. As previously noted, this is a change to the long-term trend of *debit* cards taking share from cash.

Whether the change benefits credit cards or debit cards, Marx indicated that the transaction increment above which consumers opt for a noncash method has declined over the years. Ten years ago, consumers were more apt to give $25 as the dollar threshold to use a card rather than cash to pay for a

[20] “Private Label Credit Cards,” Cardbeat 19:11 (U.S. Edition), Auriemma Consulting Group (2013)

[21] David Heun, “Credit Card Accounts Grow as Consumers Shift Borrowing Habits,” *PaymentsSource*, August 29, 2012.

transaction. That has declined 40 percent in 10 years: The threshold is now about $15. As more merchants have adopted electronic POS, cards have become as convenient as cash for increasingly smaller transaction values. The result has been for consumers to use cards to pay for transactions that would have been paid in cash in a previous era.

The experience of quick-service restaurants (QSRs) is instructive here. The 2012 panel study data found that cash accounted for 45 percent of dollar volume in this merchant category, down from 55 percent in 2007 and 75 percent in 2000. In the years before QSRs accepted electronic payments, cash dominated this merchant category. In 2012, the combined debit and credit card share of QSR volume was 52 percent, greater than the cash share. (Debit accounted for 34 percent of QSR spending, and credit accounted for 18 percent.)

Marx noted the abundant studies, including the Federal Reserve Payment studies, that demonstrate people continue to use cash. The “cashless society” remains elusive; cash will continue to be a major fixture in the payment system. But as merchants have increasingly provided electronic payment options to their customers, consumers have demonstrated that they are willing to shift transactions in ever-lower amounts away from cash to more convenient and efficient electronic payment methods.

D. Debit Cards

The 2012 Visa panel study showed evidence of a slowdown in the rate of debit growth. This finding stimulated thoughtful discussion among workshop participants around possible factors contributing to this development. Marx indicated that restrictions on recovering certain fixed costs resulting from the Durbin amendment’s Regulation II have decreased issuers’ debit card marketing activities. This conclusion is in line with findings from a 2012 survey of debit card issuers that reported declining issuer enthusiasm for making marketing investments in the debit card business as a result of Durbin-related interchange restrictions.[22]

[22] Oliver Wyman, 2012 PULSE Debit Issuer Study, commissioned by PULSE (August 2012). This study also reported that interchange revenues for small business debit card programs declined by 85 percent because of Regulation II, resulting in negative margins to some issuers providing these services to small business clients.

Debit card rewards are an example. Marx observed that programs that rewarded cardholders for their debit card spending were sharply curtailed post-Durbin, and this may have bent the growth curve down slightly. With per-transaction revenues to issuers subject to Regulation II (those banks with $10 billion or more in assets) cut nearly in half, providing cash back or other incentives to cardholders to encourage increased use of electronic debit payments was no longer economically sustainable for these issuers.

A different regulation, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act) was proposed by one workshop attendee as another possible cause, noting that the act may have made checking accounts less available. While it is uncertain what provision of the act provoked the question, changes in checking account pricing, which may make checking accounts less affordable for some consumers, have been reported over the past several years. As with many developments in the recent past, it is difficult to precisely connect effects on consumers, whether positive or negative, to regulation (including the CARD Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act), changes in the economy or consumer attitudes, other market events, or some combination of these factors.[23] Nonetheless, the premise underlying the question is germane: Since the debit card is a supplemental product to the checking account, anything that might cause a slump in the checking account market would have a secondary impact on debit card metrics.

Another participant speculated that debit spending may be starting to reach finite barriers as the pool of checking account holders with debit cards reaches saturation. Also, debit cards are subject to the upper-bound limits of consumer funds on deposit in transaction accounts. Furthermore, after years of

[23] A report by the Congressional Research Service noted that free or low-cost checking had reportedly diminished and observed, “Market outcomes are often influenced by multiple simultaneous or overlapping events.” (See Darryl E. Getter, “Recent Trends in Consumer Retail Payment Services Delivered by Depository Institutions,” Congressional Research Service, January 16, 2014). For a sampling of articles on recent developments in consumer bank accounts, see Robin Sidel, “Banks Roll Out New Check, Card Fees,” *Wall Street Journal*, January 2, 2010; “Two New Checking Fee Surveys for Mid-2012,” *Bank Marketing News*, August 13, 2012; “Free Checking Remains Commonplace, But Not Quite as Common as in the Past,” *Digital Transactions*, August 27, 2013; and “Free Checks Go Way of Free Lunch,” *Wall Street Journal*, February 6, 2014.

migration from other payment forms (particularly checks and cash), a lot of household spending has already shifted to debit cards.

In addition, there was rapid expansion over this time period in the merchant network. As more merchants contracted to be able to accept cards, additional opportunities became available for consumers to use their payment cards. From the mid-1990s until the middle of the following decade, the number of card-accepting merchant locations in the U.S. doubled to more than 5 million and then nearly doubled again: In 2014, there were nearly 10 million U.S. merchant locations accepting one or more payment card brands. During a single year in the middle of the last decade, acquirers signed approximately 1.4 million merchants, of which more than 900,000 were new to card acceptance. Much of this expansion occurred in the "everyday spend" venues such as grocery stores and QSRs. Debit card use proliferated in these formerly check- and cash-centric locations.[24] As the acceptance network moves closer to saturation, there are fewer opportunities for spending growth to occur from this source.

Another possible explanation for declining debit card growth rates might be found in shifts in the debit card usage segments. Marx reported that the percentage of debit card owners falling into the "heavy user" group (19 or more transactions per month) declined from 29 percent to 23 percent from 2007 to 2012, while the "medium," "light," and "nonuser" segments of debit card owners all registered slight increases. These shifts could be an additional contributing factor, or they could be related to and result from the same factors described previously, which may be contributing to the slowing debit growth rate.

Nonetheless, the debit card payment method is still generating growth, albeit at a less robust rate than it enjoyed for the previous two decades. During that time, debit became the most frequently used form of consumer payment in the U.S., accounting for nearly one-third of consumer purchase transactions

[24] Sources for information contained in this section include "The Merchant Acquiring Side of the Payment Card Industry: Structure, Operations, and Challenges," a presentation by Charles Marc Abbey, First Annapolis Consulting, to the Payment Cards Center (January 2007); "Getting Closer to the Point of Sale," a presentation by Bev Wells, president of (then-named) Vital Processing (May 2005); *The Nilson Report*, Issue 1049, (September 2014); and "Visa 101: Overview of a Payments Company," Adam B. Frisch, UBS Securities LLC (June 15, 2005). Note that "locations" do not equal "merchants." For example, retail chains represent one merchant but many locations.

in 2012.[25] The 2007–2009 recession didn't seem to affect debit card spending as it did credit card spending, but postrecession, the long-term difference between the rates of growth rate for debit and credit has compressed.

Nevertheless, debit continues to dominate "everyday spend" categories. The 2012 Visa panel study found that debit accounted for 41 percent of spending at grocery stores, followed by credit cards in second position at 31 percent.[26] Debit led spending at discount stores with a 43 percent share, with credit again having the next highest share at 29 percent. At gas stations, debit's 37 percent share in 2012 was only slightly below credit cards' 40 percent share.

E. Checks

Check use continued its decline, especially among younger consumers. In 2007, 74 percent of Visa panelists were check users. By 2012, this had declined to 61 percent. Over that time, the share of payment dollar volume initiated with checks declined from 33 percent to 20 percent. Recalling information from the 1998 panel study, Marx said check share in that year had been 58 percent. The findings from the Visa panel study are consistent with findings from other sources, including the triennial Federal Reserve Payments Study, which reported a negative 9.2 percent compound annual growth rate in checks paid from 2009 to 2012.[27] The Fed study also shows that, while checks remain a significant payment method for business payments, consumer check use has significantly and steadily declined.

Because the checks that are written tend to be for larger amounts than the payments made with cash and cards, checks continue to command a third-place share of panel-reported total dollar spending, running nearly even in 2012 with debit's 21 percent share. However, check share is at or near the bottom in the merchant categories that Marx included in his presentation to the PCC: gas stations, grocery stores,

[25] U.S. Consumer Payment Systems, *The Nilson Report*, Issue 1031 (December 2013). This source reports on the purchases component of U.S. Personal Consumption Expenditure.

[26] In 1995, debit and credit cards accounted for 10 percent of grocery store volume. Very few grocers accepted payment cards before the 1990s. Checks were the dominant payment method in this category.

[27] The 2013 Federal Reserve Payments Study, Recent and Long-Term Payment Trends in the United States: 2003–2012, Detailed Report and Updated Data Release, July 2014. The Fed study tracks noncash payments of both consumers and businesses.

discount stores, department stores, hotels, high-end restaurants, midpriced restaurants, and QSRs. In the categories in which merchants allow electronic payments, consumers have largely abandoned check-writing. Checks continue to be used in categories in which consumer payment options are more restricted, such as rent, utilities, and similar recurring payments.

Marx said Visa has had limited success in penetrating these payee categories, although it continues its efforts to secure card acceptance among recurring payments merchants.[28] For these merchants, Marx acknowledged that the merchants' perception of the value proposition for card acceptance is not as strong as it is in retail categories. Utility companies, for example, can shut off services if payment isn't received. This provides leverage against nonpayment risk that isn't available in any number of other merchant categories in which, historically, acceptance of general-purpose credit cards was a way for the merchant to avoid extending credit and its related risk and collection costs.

One electronic payment method that has gained some traction in these payee categories is the ACH, which is included in the Other category in the Visa panel study analysis.

F. Other Payment Methods

The Visa panel study groups the following into an Other category of payments: ACH, traveler's checks, and food stamps/electronic benefits transfer. Overall, the Other category has increased its share of consumer dollars spent from 9 percent in 2007 to 17 percent in 2012, driven largely by growth in ACH payments. ACH accounts for 80 percent of the Other category. The growth in ACH observed in the panel study is, again, directionally consistent with findings of the Federal Reserve Payments Study.

As previously noted, ACH payments have been an electronic replacement for check payments to recurring billers. Many of these payments are set up as "auto-ACH," a method whereby the customer's deposit account is automatically debited by the biller as the payment is due. Many consumers have recurring payments such as mortgage, utilities, and insurance set up on auto-ACH. These payments

[28] To avoid duplication, the panel study diaries exclude monthly credit card payments, often made with checks, from the spending accounted for each month.

require no ongoing effort on the part of the payer after the auto-pay is initially established and ensure that payments are always on time.

While this convenience is valued by the many account holders who employ auto-ACH, Marx reported that research has consistently disclosed another consumer segment that is reluctant to give up control over payments by using auto-ACH. In addition to noting that consumers want to control the amount and timing of their payments, the research also reveals a reluctance among some consumers to make their funds on deposit available to debiting by a third party. Marx said this concern has been repeated in research going back to 1989. This research is one reason that Visa continues its efforts to convert merchants in these categories to card acceptance, particularly credit cards. The concerns these consumers register — debits to their checking accounts made in error, for example — also apply to automatic payments via debit card. They are somewhat less concerned about having recurring payments automatically debited to their credit cards. There is an increased level of comfort about fixing mistakes on a credit card as opposed to getting money back that is debited in error from their checking accounts.

A method of ACH payment that gives customers greater control is electronic bill payment using their banks' bill payment websites or directly at biller websites. Using these methods, customers can control the date and amount by directing a payment each month. The consumer retains more control but gives up the convenience of having these payments made automatically each month.

Among the remaining payment methods in the Other category, all provide specific value and utility to consumers, but none account for a significant number of payments, or share of payment dollars. Prepaid cards have captured a great deal of interest but remained less than 1 percent of consumer spending reported by 2012 Visa panelists. (This was up from 0.25 percent in 2009.) This may undercount U.S. prepaid card spending somewhat since the panel study does not fully capture the unbanked and underbanked, who are the targeted populations for many prepaid card programs. *The Nilson Report*'s annual accounting of U.S. consumer payment system statistics stated that prepaid cards had a 2.3 percent share of 2012 consumer payment dollars. The same source reported shares of 0.05 percent for traveler's checks, 0.82 percent for money orders, and 0.86 percent for electronic benefits transfer cards.[29]

IV. Other Learning from the Visa Panel Study

A. Payment Method User Segments

Marx reported that the user profiles for the various payment types have remained relatively unchanged since his 2009 presentation at the PCC.

College students/young adults, as previously noted, have avidly adopted debit cards and use them for 40 percent of their spending. Cash accounts for another 40 percent of spending by this group and the remaining 20 percent is done with other payment methods, including credit cards.

Although debit cards are popular with young adults, cards used by individuals in this group do not register the highest average usage metrics. The demographic profile associated with the highest average use is female, with children in the home. Men, specifically those with above-average incomes, are the profile credit card user.

Check use is down as a whole, but checks remain popular among older consumers. The generations that preceded the baby boomers comprise the primary check-using segment.

B. Online Spending

In recent years, Visa added questions related to Internet spending to the panel study diaries. Consumer e-commerce continues to grow but remains a modest share of overall consumer purchase activity. From 2007 to 2012, the percentage of Visa's panelists who made an online purchase increased from 32 percent to 41 percent. Over that same period, the percentage of total purchase expenditures made via the online channel increased from 7 percent to 9 percent, after dipping to 6 percent in 2009. The online channel accounted for 5 percent of the total number of purchase transactions in 2012, up from 3 percent in 2007. Credit cards are the most frequently used e-commerce payment method.

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[29] "U.S. Consumer Payment Systems," *The Nilson Report*, Issue 1031 (December 2013)

C. Potential Share Shifts

The trends suggest that more small-ticket transactions could convert from cash to card payments. If this occurs, Marx expects that debit cards would be the most likely vehicle to capture this incremental share.

As previously noted, various research undertakings led Visa to think there is a consumer segment that would have interest in having recurring bill payments automatically debited to their credit cards. Because this is such a large part of consumer payments — $1 trillion, Marx said — there is sufficient opportunity for payment cards to be an option to consumers, alongside ACH auto-pay and online bill payment methods.

V. Conclusions

The dip in credit card spending during the recession provided an opportunity for speculation in some quarters that consumers would permanently eschew credit cards for a more ascetic approach to consumerism. In one respect, the downturn in credit card use was unprecedented in Visa panel study history. It marked the first time in the study's 20-plus year history that there was a real-dollar decline in year-over-year spending. While *the rate of growth* had declined in other recessionary periods, the study had never previously observed an actual decline in credit card spending.

The postrecession experience, however, has been more consistent with historical patterns. After moderating their credit use during the recession, consumers began to use their credit cards again. In 2012, credit card spending was at a six-year high.

Debit card spending did not experience recession-related retrenchment, but its recent growth rates have dropped to single digits. The frenetic growth years for debit may be over, as some measure of the growth afforded from various developments has already been achieved. But debit has become a fixture in consumer payments, especially in everyday spend categories. It is also a payment method of choice for young adults who are likely to continue, for the foreseeable future, to prefer paying by debit to paying by check. Opportunities also remain for debit to capture smaller-ticket cash payments.

Consumers continue to migrate from paper payment methods, preferring instead to use electronic forms. Increases in ACH payments and declines in consumer check payments are part of this paper-to-electronic movement. There has been a recent variation within this overall trend, however: Credit cards, rather than debit cards, have captured more of the recent shift from checks and cash.

The experience of the last recession, as viewed through the data collected in the Visa panel study, provides the opportunity to observe the interaction of long-term trends with events occurring in the broader economy. The data showed the temporary effects of the recession: Growth curves were altered in the short run, but the long-term trends favoring electronic payments continued unabated.