Agpaytech's research

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Consumers and Payments Choice in the **USA**

Agpaytech

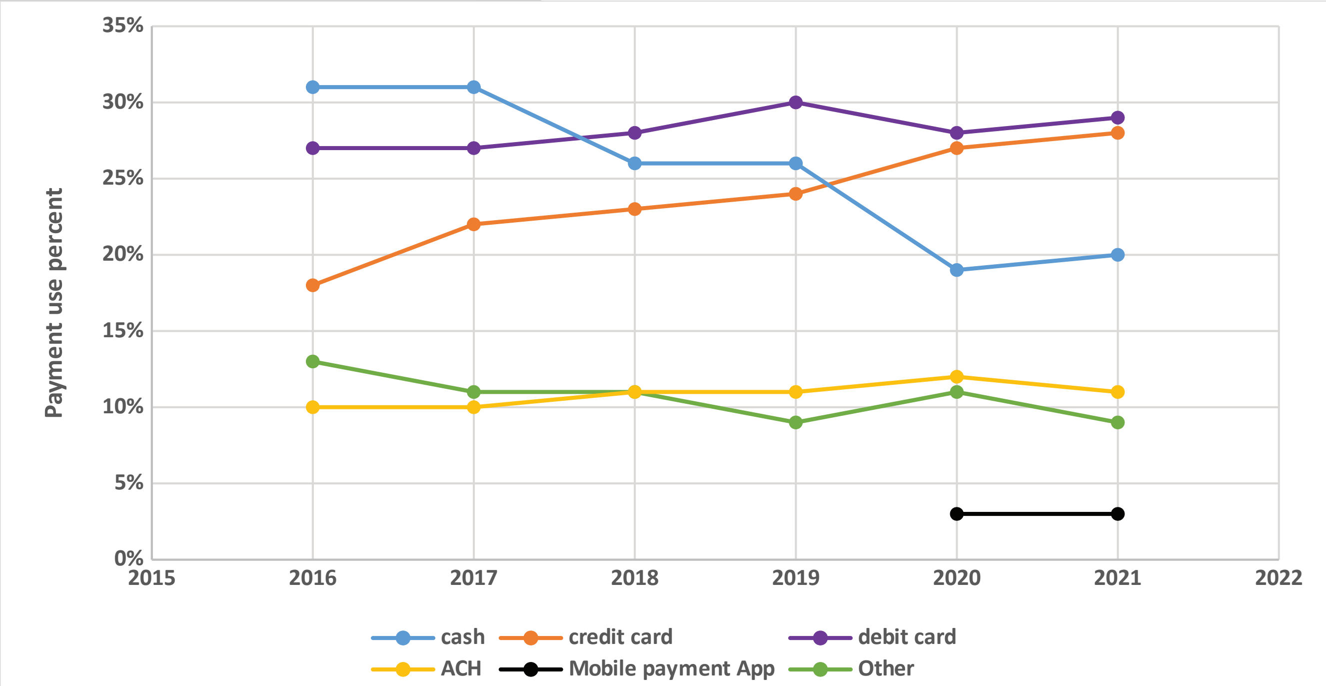
Introduction

In the US payment market, merchants or retailers present consumers with several payment options, including cash, credit card, debit card, prepaid card, mobile payment app, or check. While sometimes the consumer payment choice is restricted to the environment (online or physical shop), in each case there are many payment alternatives the consumer and the merchant could exchange transactions.

Consumer Payment Choice

Over time, consumer payment choices are changing. A survey conducted by the Federal Reserve, illustrated in Figure 1, indicates the payment choices made by consumers in recent years. It also reveals how consumer payment preferences may change over time or in different circumstances, as evidenced by the notable decrease in the use of cash during the COVID-19 pandemic.

Fig 1: Share of payments use (by number) over time



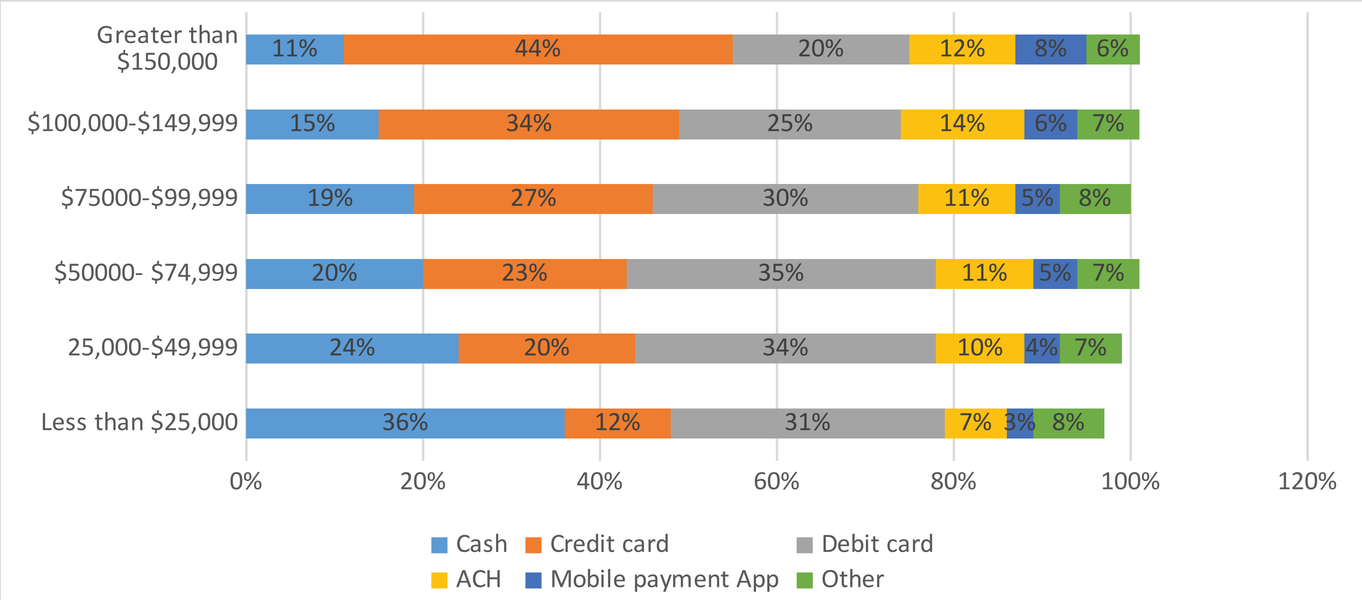
Source: Agpaytech [Data from Federal Reserve Bank of San Francisco]

Figure 1 illustrates the constant decline of cash for payment by consumers in the US, whereas debit card keeps increasing since 2016, and remains the most used payment choice by consumers as of 2021. Besides, the use of credit cards is growing at a faster pace and is very close to a debit card as a means of payment. In 2020, consumers largely find alternatives for cash as settlement, decreasing cash usage from 26% in 2019 to 19% in 2020. However, the intrinsic value and use of cash in the US is higher and 2021 saw a slight increase in the use of cash as consumers' choice of payment. Though COVID-19 contributed to the use of mobile payment Apps, its usage was relatively insignificant

Does Household Income Affect the Choice of Payment Instrument?

The payment choices available to consumers must be understood within the broader context of financial inclusion Although most U.S. households maintain bank accounts, estimates suggest that 7 million (5.4 percent of total U.S. households) are unbanked, and an additional 24.2 million or 18.7 percent of U.S. households have bank accounts but still rely on alternative forms of financial services, such as check cashing and money orders (FDIC Survey, 2017). And certain consumers may be less willing, or less able, to participate in newer forms of payments. Some evidence suggests that lower-income consumers, for example, are several times more likely to make payments in cash than consumers with higher incomes, even during the pandemic, as shown in Figure 2. (US Dept. of Treasury Report, 2022).

Figure 2: Share of payment instrument by household income



Source: Federal Reserve Bank of San Francisco

Figure 2 depicts the household income levels and the share of payment instruments they prefer. The survey outcome by the Federal Reserve Bank of San Francisco indicates that as household income increases, they tend to use less cash as a payment instrument, and use more credit cards. Except for cash and credit card that has an inverse relationship concerning household incomes, debit card, ACH, mobile payment application, and others show an unstable pattern of use by the household as their income levels grow. This shows how the consumers' income is changing the payment instrument in the USA.

How consumers' make payment choice

Consumers can use each of these payment options to pay for the goods and services they need, payment options may differ in important respects. Some of the factors that could affect consumer payment choice are illustrated in figure 3. Although these factors are not far from existing payment challenges worldwide, the individual consumer decides on the payment instrument posing less challenging, otherwise considers a favorite, and accessibility.

Figure 2: Share of payment instrument by household income

Consumer payment choice factors	Payment laws, regulations and rules
	Speed & cost of transactions
	Delay and fees
	International payment flexibility
	Payment choice available

Source: Federal Reserve Bank of San Francisco

Implication

This report hinted that consumers' payment choice is not static over time in the US. Card usage remains higher as the intrinsic value of money is preferred by households with less income levels. The decision to use cash, especially for the lower household income group could be attributed to the cost or fees on transactions.

While rules and regulations governing payment are purposefully meant to protect all stakeholders (payment market, fintech, consumers, merchants, government, etc.), the issue of transactional delays and cost is yet to be eliminated in most payment and money markets. This serves as an opportunity for Fintechs, bigtechs, policy-makers, and central banks to advise mechanisms to lower the cost of electronic transactions, provide incentives to households with fewer income levels and find out ways to bring all unbanked households to the financial market sector.