

Tapping into Debt: The Effect of Contactless Payment Methods on Spending, Debt and Cash Usage.

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Abstract

Contactless methods have become increasingly popular globally, but little is known about they affect personal finance: We draw on a dataset of over 300 million transactions, of 260.000 individual customers to evaluate the effects of contactless payment methods on spending, debt occurrence and cash usage. Using an event study design, we find that overall contactless usage increases the number of transactions, the amount of money spent per month and decreases cash usage. Splitting the sample into a contactless card roll-out and those were not, we find that those in the roll-out group also suffered an increased cost in overdraft fees, and an increased likelihood of obtaining an overdraft fee. This research adds to the literature by showing the effect of different distribution schemes on personal finance management.

Zoom: <https://us04web.zoom.us/j/7965081049?pwd=YXV3ZnBDcVhRZDNxQj92MIBLZFN3Zz09> (ID: 796 508 1049, Passcode: 570256)

Introduction

- Contactless was introduced in the last century, but has only recently been popularized.
- Global uptake has been large, but little is known about the payment method. Research on other payment methods predicts :

1. increased spending
2. worsened spending recall
3. decreased product attachment
4. reduced impulse control
5. more frequent spending and
6. and debt accumulation

- We want to see if this holds true for contactless as well.

Method

Transactiondata from 260.000 UK citizens, between 2012-2020.

Three Fixed Effects Regressions

(time and individual fixed effects):

1. All consumers (n= 37.628)
2. Roll-out scheme consumers (n= 10.951)
3. Random allocation consumers (n= 26.677)

Results

	Number of Transactions	Spending (in 1000s)	Spending on Overdraft	Proportion of Overdrafts	Number of Cash Transactions	Value of Cash Spending
Contactless Usage	5.069*** (0.236)	0.203*** (0.010)	0.024 (0.053)	0.003 (0.002)	0.109*** (0.027)	13.419*** (3.213)
Income (in 1000s)	4.369*** (0.039)	0.499*** (0.002)	0.074*** (0.005)	0.004*** (0.000)	0.156*** (0.003)	18.281*** (0.458)
R ²	0.699	0.709	0.547	0.559	0.557	0.220
Adj. R ²	0.686	0.696	0.527	0.540	0.538	0.185
Log Likelihood	-4145122.274	-1522938.424	-2671500.434	-179789.012	-2217118.007	-6742729.634

*** p < 0.001; ** p < 0.01; * p < 0.05

	Number of Transactions	Spending (in 1000s)	Spending on Overdraft	Proportion of Overdrafts	Number of Cash Transactions	Value of Cash Spending
Contactless Usage	6.436*** (0.242)	0.059*** (0.007)	0.213*** (0.025)	0.029*** (0.003)	-1.198*** (0.033)	-35.881*** (1.440)
Income (in 1000s)	4.630*** (0.060)	0.556*** (0.003)	0.045*** (0.005)	0.004*** (0.000)	0.126*** (0.004)	9.479*** (0.296)
R ²	0.669	0.761	0.468	0.504	0.495	0.400
Adj. R ²	0.659	0.754	0.451	0.489	0.480	0.381
Log Likelihood	-1701013.475	-584644.168	-932336.817	-107853.905	-929895.782	-2437814.990

*** p < 0.001; ** p < 0.01; * p < 0.05

	Number of Transactions	Spending (in 1000s)	Spending on Overdraft	Proportion of Overdrafts	Number of Cash Transactions	Value of Cash Spending
Contactless Usage	7.176*** (0.283)	0.228*** (0.011)	0.034 (0.060)	0.002 (0.003)	0.121*** (0.032)	13.772*** (3.769)
Income (in 1000s)	4.338*** (0.051)	0.463*** (0.003)	0.098*** (0.007)	0.005*** (0.000)	0.170*** (0.004)	24.256*** (0.742)
R ²	0.702	0.671	0.556	0.567	0.570	0.197
Adj. R ²	0.686	0.654	0.532	0.544	0.547	0.154
Log Likelihood	-2452833.167	-934011.855	-1669814.987	-86279.093	-1302923.059	-4101624.857

*** p < 0.001; ** p < 0.01; * p < 0.05

Discussion

- Those who were part of a rollout scheme:
 1. spend significantly more
 2. had a significantly higher cost and likelihood of having an overdraft and
 3. Significantly decreased their cash usage.
- Those who were not part of the roll-out scheme “only” had increased spending, and actually increased their cash usage (budgeting tool).
- There are **clear policy implications** for newer payment methods.
- Contactless, just like previous payment methods, **promotes** (at least) **increased spending and can promote decreased cash usage and increased use of debt (overdraft).**

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