MasterCard Advisors

CREATING A DEBIT CARD PAYMENT HABIT

BY MARTIN BUNN AND BEN COLVIN

Encouraging consumer adoption and increased use of debit cards has been a goal for all card issuers to either drive revenue or achieve cost savings of alternative payment methods. Yet getting consumers to develop a debit card payment habit can be a challenging process since it often involves overcoming certain strongly-held perceptions that using cash provides greater control, security and ease. As a result of analyzing a mature western European debit market, MasterCard Advisors has identified a five-step framework for how consumers migrate from the exclusive use of cash for point-of-sale (POS) transactions to adopting debit cards as their primary payment tool. This framework and many of the insights about attitudinal differences between the steps can be applied to other mature markets and even those that are emerging—particularly our finding that category breadth is the most important driver of debit usage.

63% A RECENT STUDY OF CONSUMERS WHO MADE POINT-OF-SALE TRANSACTIONS WITH THEIR DEBIT CARD IN 5-10 CATEGORIES SHOWED THEY USED THEIR CARD FOR 63 PERCENT OF THEIR TOTAL PURCHASES.

EXECUTIVE SUMMARY

Although it has been the prevailing belief that a debit card payment habit is acquired only through the sheer volume of point-of-sale (POS) transactions consumers complete, an in-depth study conducted by MasterCard Advisors has shown otherwise. Our rigorous research has revealed that the breadth of categories in which consumers are comfortable using their debit card is actually a far more significant driver of habitual card activity. The study also identified a five-step framework of how consumers migrate from the sole use of cash for POS transactions to adopting debit cards as their primary payment tool. Once consumers reach the fourth and fifth steps, debit does not totally eliminate the need for cash—in fact, ATM withdrawals and cash transactions increase in number—but cash does become considerably less prominent in the payments mix as reflected by a decline in the percentage of transactions.

Among some of the other key findings of our study are the following:

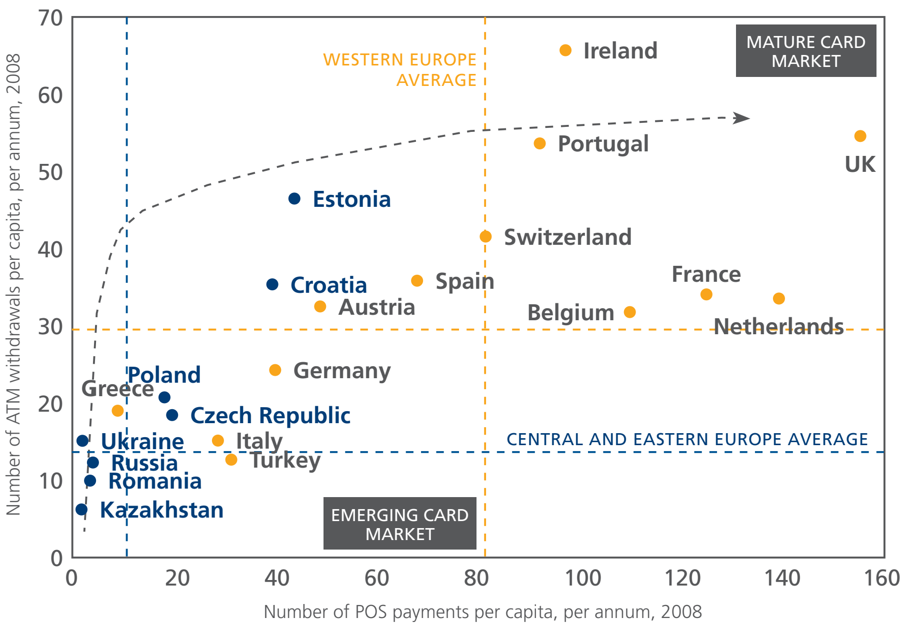
- Merchant trust and individual approaches to money management are key drivers of consumer confidence to use debit, but those issues have different meanings at each step.
- Similarly, fear of fraud and loss are overarching influences that affect debit usage in varying ways at each step, with many customers being largely unaware of existing card security features.
- Internet use and "not having a choice" are major factors contributing to initial debit use.

This five-step framework and the attitudinal differences between the steps have major implications for how issuers think about their payment optimization strategies. In particular, there are a number of action themes that banks should consider exploring to drive behaviour change. These include disrupting the current view of consumers' money management system and addressing their varying control and money management needs. Likewise, banks should look at aligning customer treatments with category preferences across the steps.

EVOLUTION OF THE FIVE-STEP MODEL

Consumer use of debit cards across Europe today is almost as varied as the range of merchants where such cards are accepted. In emerging markets, debit cards are primarily used for the withdrawal of cash from ATMs (see Figure 1). Meanwhile, in more mature debit payment markets, consumers have increasingly embraced debit cards for use in POS transactions as a substitute for cash.

FIGURE 1: DEBIT CARD USAGE IN EUROPE



Source: Retail Bank Research, 2010; MCA Analysis.

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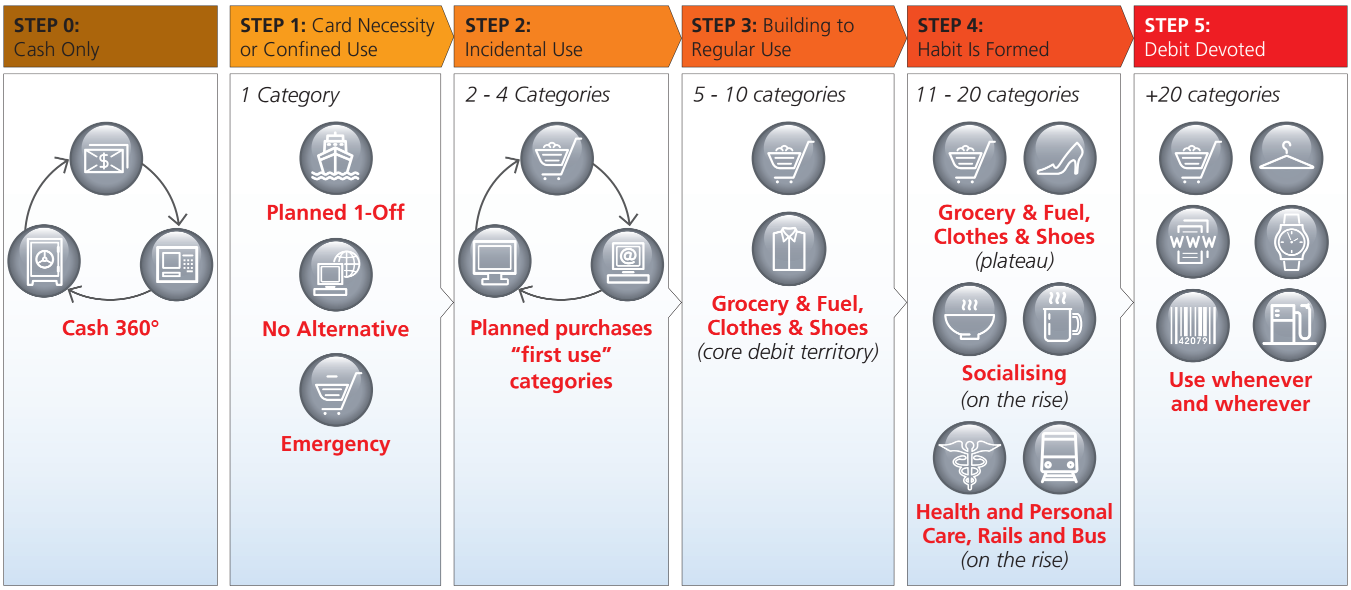
Seeking to discover and quantify what prompts consumers to migrate from using cash for day-to-day purchases to using debit cards as their preferred means for such transactions, MasterCard Advisors recently undertook an exhaustive examination of the topic. The study, which involved a mature western European debit market, included a 24-month longitudinal analysis of current account and debit card transactions and consumer research that provided insights into the drivers of debit adoption. The consumer insights provided deeper understanding of the transaction analysis and were complemented with market-level data to understand external factors that could impact debit adoption.

From this study, we concluded that the evolution of consumers' debit card payment behaviour among consumers occurs according to a clearly defined five-step framework, beginning typically with very limited debit usage and then progressing steadily from incidental to regular use based on a wide variety of factors. Additionally, our analysis enabled us to paint a strong profile of consumers at each step, including their approaches to money management, behaviour patterns and demographic characteristics.

FIGURE 2: THE 5-STEP MODEL



Ultimately, two fundamental points became clear, the first of which is that the breadth of merchant categories in which consumers are inclined to use their cards represents the most important engagement driver for habitual card activity—not the quantity of POS transactions they make, which is typically the most common key performance indicator of consumer adoption. Furthermore, the necessity of using a debit card—such as for an online purchase or because no other option is available—is even more critical a trigger for first-time usage than an emergency or a planned one-off acquisition.

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INDIVIDUAL STEP DEFINITIONS AND PORTRAITS

As category breadth emerged as the major factor in debit adoption, it became the logical basis for delineating the different steps within our model. The following are brief definitions of the steps, including some of the attitudes and characteristics of consumers at each level:

Step 0: Cash Only

Have a strong emotional connection to cash. Have routinely made withdrawals from ATMs for years and see no reason to change.

Step 1: Debit Necessity or Confined Use *(1 category)*

Still tied very strongly to cash, but have overcome the first-time-usage barrier, whether out of necessity, an emergency or a planned one-off acquisition.

Step 2: Incidental Use *(2-4 categories)*

Prefer cash for its immediacy and tangibility, yet have subconsciously expanded debit usage to include purchases with trusted retailers in multiple "first-use" categories.

Step 3: Building to Regular Use *(5-10 categories)*

Cash remains a part of everyday life, but are increasingly choosing debit for use in such core categories as grocery, fuel and clothing.

Step 4: Habit Is Formed *(11-20 categories)*

Confident debit users whose card usage is tempered by a need for reassurance in unfamiliar surroundings and visible evidence of merchant acceptance.

Step 5: Debit Devoted *(20+ categories)*

Want to use their card whenever and wherever possible. Typically carry very little cash, if any, and may become frustrated when merchants don't accept debit.

While analyzing the information that led to these distinctions, we further used the data to develop more extensive portraits of consumers at each step. These portraits go beyond their general attitude about debit use to address their feelings about money management and their openness to change. In addition, they show the consumers' average number of debit transactions per month, the combined value of those transactions, and the categories in which they are most likely to use their card.

Example of a Detailed Portrait

A good illustration is the portrait of those consumers who have moved up from Step 2 to Step 3, which is where debit usage grows most dramatically. At this level, consumers are starting to see debit's worth as a money management tool, and are averaging nine transactions a month. Still, they compartmentalise their payment preferences by merchant—for instance, opting to use cash for fast-food restaurants, transport and other low-value payments, and as a means of control under certain circumstances, such as a night on the town.

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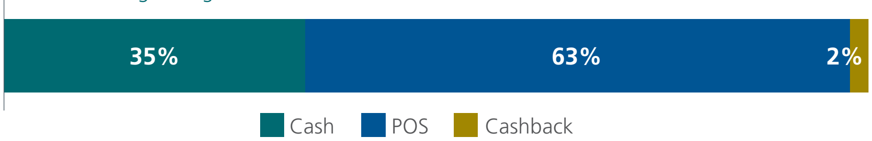
FIGURE 3: PORTRAIT OF A STEP 3 CONSUMER

STEP 3: Building to Regular Use



GENERAL ATTITUDE	"I'M STARTING TO USE MY CARD MORE."
Debit Use	"I looked like a student using my debit card (for small purchases). I didn't have time to go to the ATM."
Money Management	"I use the card for sensible and necessary things, such as food and clothes." "The card is temptation to spend, spend, spend."
Openness to Change	"I always use cash at McDonald's—don't know why."

KEY FINDINGS

Beyond enabling us to create these detailed portraits, our research produced a wealth of valuable insights about consumers' use of cash and debit during the migratory process, as well as the factors contributing to their payment attitudes. Some of the key findings are as follows:

- The increasing use of debit at POS does not eliminate the need for cash. In fact, as consumers progress through the five steps, the number of their cash transactions nearly doubles, as can be seen by Figure 4 below. However, at the same time, cash does play a less prominent role in the payments mix between debit and cash, with the percentage of cash transactions declining by more than two-thirds (Figure 5).

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FIGURE 4: AVERAGE CASH TRANSACTIONS PER ACTIVE CUSTOMER (PER MONTH IN LAST 3 MONTHS)

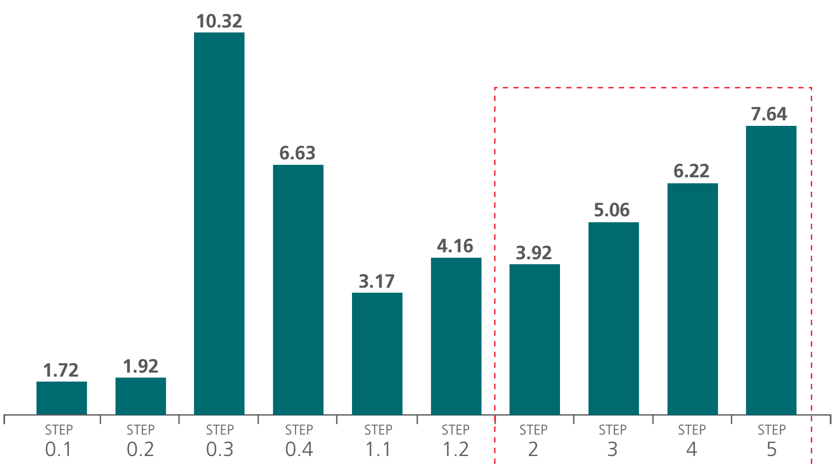
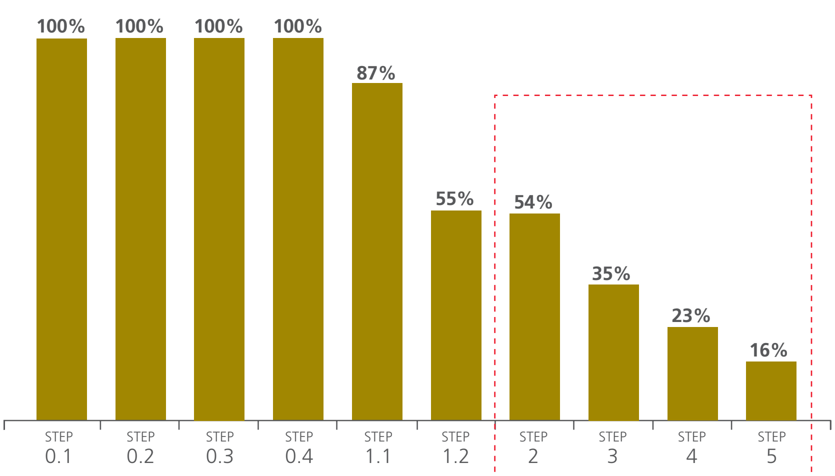


FIGURE 5: PERCENTAGE OF CASH TRANSACTIONS PER STEP



Source: MasterCard Advisors Analysis and Proprietary Research 2011.

In the detailed study, Step 0 was determined to have four sub-steps that reflect different behaviors—both in withdrawal frequency and amount—among consumers who use cash only. Similarly, Step 1 was revealed to have two sub-steps; consumers in both used debit in only one merchant category, but those in one sub-step made an average of less than one transaction per month while those in the other made a higher number of transactions in a single category.

- Even at the upper steps, though consumers are confident with their debit use, they remain unwilling to use their cards overseas, often because they believe any problems resulting from international use will be difficult to sort out. Other reasons for this reticence include a preference for compartmentalising holiday funds.
- The prevalence of different industries at each step reflects consumers' varying definitions of merchant trust and approaches to money management. At lower steps, debit usage is most common in core categories, such as grocery, fuel and for big ticket purchases (Figure 6), while only at the upper steps is debit used for socialising, health and personal care, and other discretionary spending areas (Figure 7).

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FIGURE 6: DEVOTION INDEX - BIG TICKET INDUSTRIES

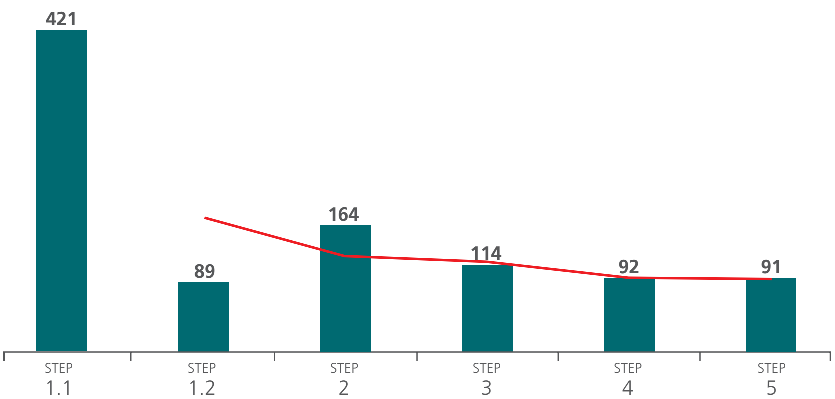
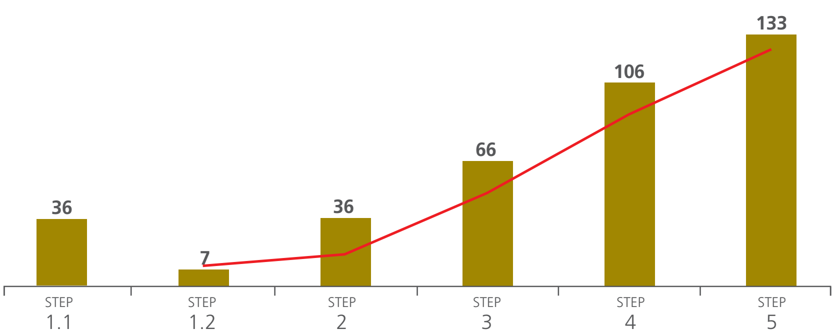


FIGURE 7: DEVOTION INDEX - SOCIALISING AND HEALTH/PERSONAL CARE



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- The predominance of certain categories at lower steps—specifically, information, finance and insurance, and big ticket industries—substantiates that Internet purchases and "not having a choice" are often reasons consumers initially use debit cards.
- Control of spend and robust money management are key needs across all steps, but have different meanings based largely on how emotionally tied to cash consumers are. At lower steps, cash is the means of control, along with ATMs, because consumers value its immediacy and tangibility, while at the upper steps, those needs are replaced by the recognition of debit's ability to easily track spending.
- Particularly at lower steps, consumers perceive cash as faster than debit and providing them greater access because of its universal acceptance. These perceptions are often reinforced by negative attitudes toward debit on the part of some merchants, who keep their terminals hidden from sight or apply surcharges on low-level card payments.
- Fear of fraud and loss are also major factors influencing the usage of debit cards. Even those consumers at upper steps appear unfamiliar with debit's security advantages.
- When observed over an 18-month period, a proportion of consumers in all steps show some natural propensity to change. Still, it is wrong to assume that a gradual migration upward will naturally occur. A continuous programme of activities is needed not just to overcome inertia among some consumers and encourage upward movement, but also to stem the tendency of some volatile groups to go backwards.

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IMPLICATIONS AND NEXT STEPS

As a continuation of this analysis, MasterCard Advisors is now undertaking a deeper study that will involve two more debit payments markets—one emerging and the other extremely mature—in order to be able to compare and contrast our findings. Although we expect some of the results may be slightly different, the business implications of our research to date include many points that are important for debit card issuers to note, such as the following:

- ATMs remain an integral part of consumers' lives at all steps, so they should be seen as a prime means of communicating messages that target behavioural change.
- Strategically reviewing ATM location deployment can be critical to helping offset ATM disloyalty among consumers at the upper steps.
- Perceptions around acceptance must be addressed at all steps.
- International use of debit cards at upper steps represents a strong incremental revenue opportunity.
- Category spend insights and customer rationale provide clear direction for optimising marketing spend.

In order to drive the desired customer behaviour, we recommend banks identify a series of action themes for each step and then consider different tactics for executing those themes. Among the primary themes should be those that accomplish the following:

- Align customer treatments with category preferences across the steps.
- Disrupt the current view of consumers' money management system and address varying control and money management needs.
- Raise awareness about the convenience of debit, as well as the security features and benefits of card usage.
- Leverage other strong influencers, such as a customer's family members, e.g. partner, younger family members.
- Create a stronger banking relationship as part of driving debit engagement.

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