



THE IMPACT OF CHECK CARD
ACQUISITION

VISA
NOVEMBER 1996

P-0054

VISA PAYMENT
SYSTEMS PANEL STUDY

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BACKGROUND AND OBJECTIVES

Debit cards have been offered to American consumers for many years. Ownership and use of this payment method have remained relatively limited, however, until recently. The growing strength of debit cards has raised many issues, including the impact of debit on other payment methods, especially bankcards. This report discusses the changes in the use of other payment methods-cash, check, bankcards-when a consumer acquires a Visa Check Card, the dominant offline product in the American market. The impact on co-branded and non-co-branded bankcards are evaluated separately. It also analyzes the effect on bankcard revolving balances when a check card is acquired.

Specifically, this report:

- Analyzes the changes in total, cash, check, and plastic spending when a consumer obtains a check card
- Measures spending levels over time on the check card and bankcards
- Discusses the impact on bankcard revolving balances when a check card is acquired

In order to effectively evaluate the impact of check cards on other payment methods, the current research utilized a longitudinal quasi-experimental design with matched control group. A quasi-experimental design permits a detailed analysis of the effects of check card acquisition by comparing spending and revolving patterns of check card acquirers with control group cardholders who are similar with respect to important demographic and spending characteristics, but who do not acquire a check card over the course of the evaluation. Comparing the spending and revolving patterns of check card acquirers with a matched control group enables us to evaluate and/or eliminate potential alternative explanations for the observed trends (i.e., sampling bias or seasonality effects) that could not be eliminated otherwise.

Spending and revolving are monitored at three points in time:

- "Pre" - the quarter *prior* to the acquisition of the check card
- "Acquisition" - the quarter in which the new card was obtained by the consumer
- "Post" - the quarter *after* the acquisition of the new bankcard

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The check card acquirer group consisted of 67 cardholders who reported acquiring a check card during second quarter of a three quarter evaluation period and did not own any check cards in the prior quarter and did not obtain any other payment cards. The control group is comprised of 1999 cardholders who reported no check card ownership during the entire three quarter evaluation period and who obtained no general purpose cards (Visa, MasterCard, American Express, Discover) over the course of evaluation. To maximize comparability to the check card acquirer group, the control group was matched on gender, education, income, general purpose card spending, and number of cards owned. The control group was not matched on total spending or general purpose card revolving balances.

Because of the small sample size of the check card acquirer group, the information presented in this report should be interpreted as directional rather than conclusive. This report will be updated when the sample size of check card acquirers is larger.

The information presented in this report is from the Visa Payment Systems Panel Study. The Visa Payment Systems Panel Study was developed by Visa, with the input of various Members, to understand the consumer payments marketplace and the reasonably available market for different payment products and services. The study monitors consumer usage of all payment methods in a wide variety of merchant categories. A detailed description of the methodology is contained in Appendix A.

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OPPORTUNITY SUMMARY

While the information presented in this report is preliminary, check cards appeared to be successful in taking volume from checks. Spending on checks dropped when a consumer obtained a check card. The acquisition of a check card did not affect spending on cash.

Spending on bankcards was not influenced by the acquisition of a check card. In fact, average monthly spending on bankcards rose slightly among check card acquirers during the evaluation period. Revolving balances on bankcards were also unaffected by the acquisition of a check card. Balances on bankcards owned by check card acquirers grew by \$543 from pre to post-acquisition periods.

While check cards seemed to take volume from checks, average monthly spending on newly acquired check cards was still much lower than on checks, suggesting that the potential to take additional volume from checks may be high. Check cards may also have the capacity to cannibalize spending on cash, a change in consumer behavior which did not appear in this analysis.

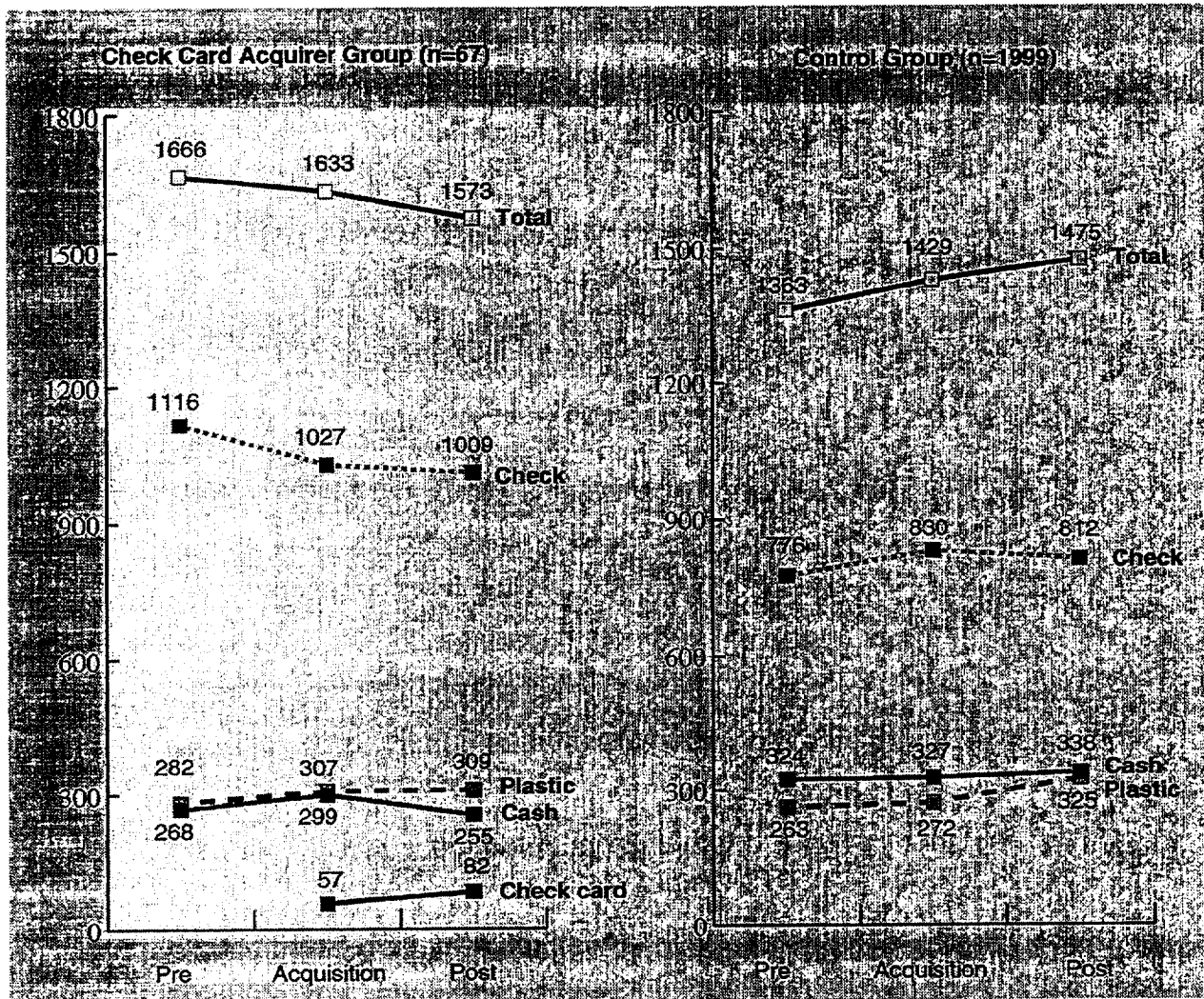
It is interesting to contrast consumer behavior when acquiring a check card to their behavior when obtaining a new bankcard (please see the Panel Study report, *Impact of Bankcard Acquisition*). The acquisition of a new bankcard generally resulted in incremental spending with no cannibalization of check or cash. While a new bankcard did expand overall bankcard spending, it also cannibalized spending on other bankcards already owned. Check cards appeared to produce the opposite effect, that is, cannibalization of check with no cannibalization of bankcards. Check cards, therefore, may represent a valuable tool for Issuers to increase the overall market for plastic payment methods, with minimal impact on other cards already owned.

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CHANGES IN SPENDING BY PAYMENT METHOD

Total spending and spending on cash were unaffected by the acquisition of a check card. However, spending on checks decreased moderately by \$107 per month, an amount slightly higher than the increase in spending on the new check card.

Changes in Payment Method Spending



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Average total monthly spending by consumers who acquired a check card was essentially unchanged from pre to post-acquisition periods. Total spending was \$1666 per month in the quarter before getting the check card, \$1633 during the quarter in which the check card was obtained, and \$1573 in quarter following acquisition. In contrast, cardholders in the control group experienced a slight increase in average monthly spending of \$112. Total spending by the control group rose from \$1363 in the pre-acquisition period to \$1475 in the post-acquisition period.

Average monthly spending on checks appeared to decline slightly among check card acquirers. The average amount spent on checks decreased from \$1116 in the pre-acquisition period to \$1027 during the acquisition period and \$1009 in the post-acquisition period. Thus, average monthly spending on checks declined by \$107 among check card acquirers. Cardholders in the control group, on the other hand, experienced a slight increase of \$36 in their spending on checks. Average monthly expenditures on checks rose from \$776 in the pre-acquisition period to \$830 during the acquisition period and \$812 in the post-acquisition period.

Spending using plastic payment methods (credit, charge, proprietary store and gas, debit) did not change significantly among the check card acquirer group. Average monthly spending using plastic methods was \$282 in the pre-acquisition period and \$309 in the post-acquisition period. Corresponding to their increase in total spending, plastic spending rose slightly among the control group from \$263 in the pre-acquisition period to \$325 in the post-acquisition period.

Spending on cash did not change during this time among either the check card acquirer group or the control group. Average monthly spending on cash by the acquirer group was \$268 prior to check card acquisition, \$299 during acquisition, and \$255 in the quarter after acquisition. Similarly, average monthly spending on cash by the control group was \$324, \$327, and \$338 in the pre, acquisition and post periods.

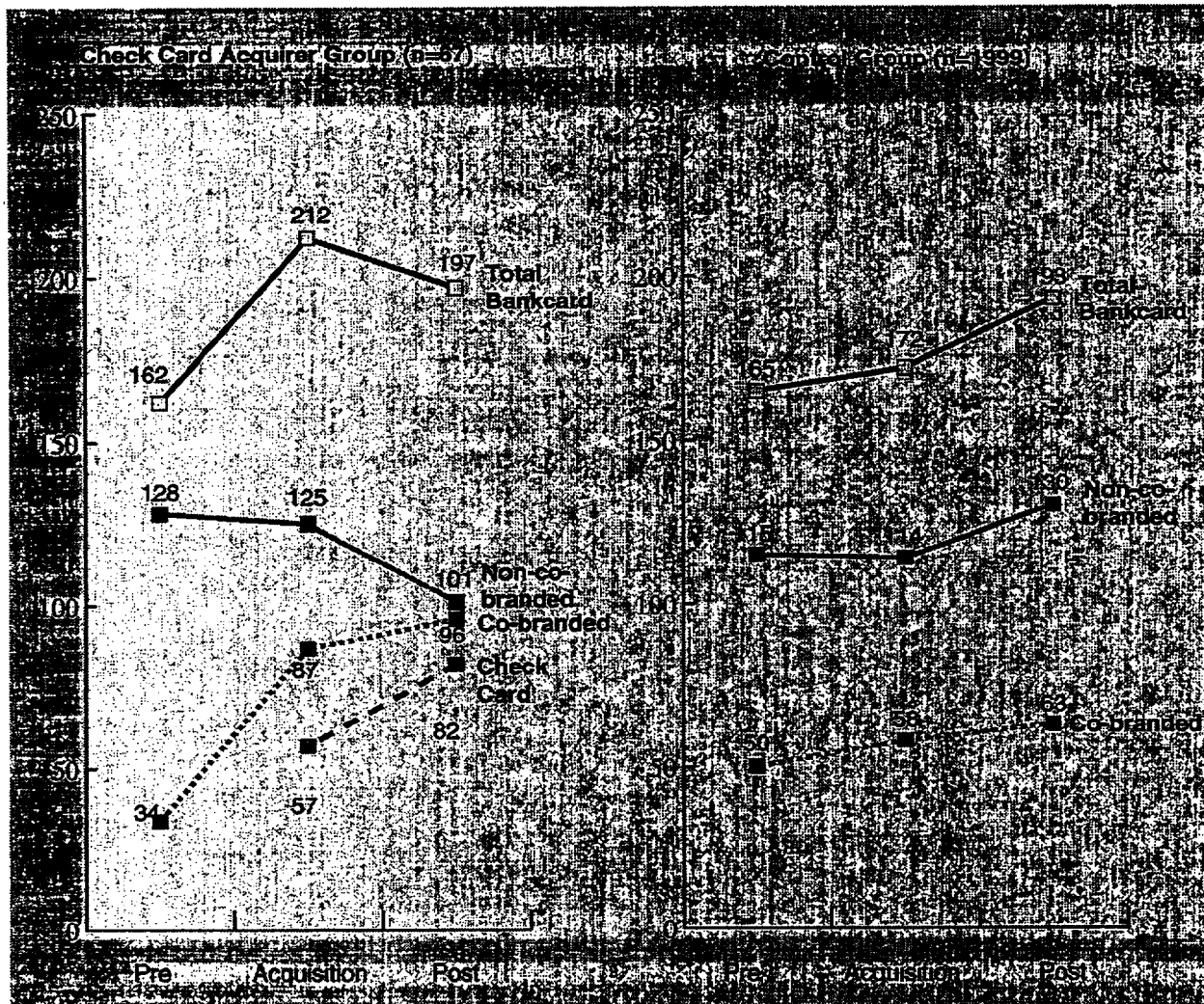
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CHANGES IN BANKCARD SPENDING

The acquisition of a check card seems to have minimal or no impact on bankcard spending. Both the check card acquirer group and the control group increased their spending on bankcards slightly from pre to post-acquisition periods. However, spending on non-co-branded cards dropped while spending on co-branded cards grew among the check card acquirer group.

Changes in Bankcard Spending



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The chart on the previous page shows average monthly spending by card type. Data for the check card acquirer group is presented on the left and for the control group on the right. Bankcards are classified as co-branded and non-co-branded. Calculation of monthly spending amounts have not been restricted to active accounts or cardholders of a particular card type. Thus, monthly spending for a particular type of bankcard may seem low because it includes "zero values" for inactive cards and consumers who may not own that type of bankcard.

Pre and post bankcard spending levels among the check card acquirer group and the control group were almost identical, suggesting that the acquisition of the check card had little or no effect on bankcard spending. Bankcard spending increased slightly by \$35 per month from pre to post-acquisition periods among the check card acquirer group. In the quarter before check card acquisition, their average monthly spending on bankcards was \$162. Bankcard spending by check card acquirers then rose to \$212 during the acquisition period and \$197 in the post-acquisition period.

Similarly, among the control group, total bankcard spending was \$165 per month in the pre-acquisition period, \$172 in the acquisition period and \$193 in the post-acquisition period.

Interestingly, the check card acquirer group appeared to switch some of their bankcard spending from non-co-branded to co-branded bankcards even more than the control group during the evaluation period. Average monthly spending on co-branded cards grew by \$62 from pre to post-acquisition periods, while spending on non-co-branded cards dropped slightly by \$27.

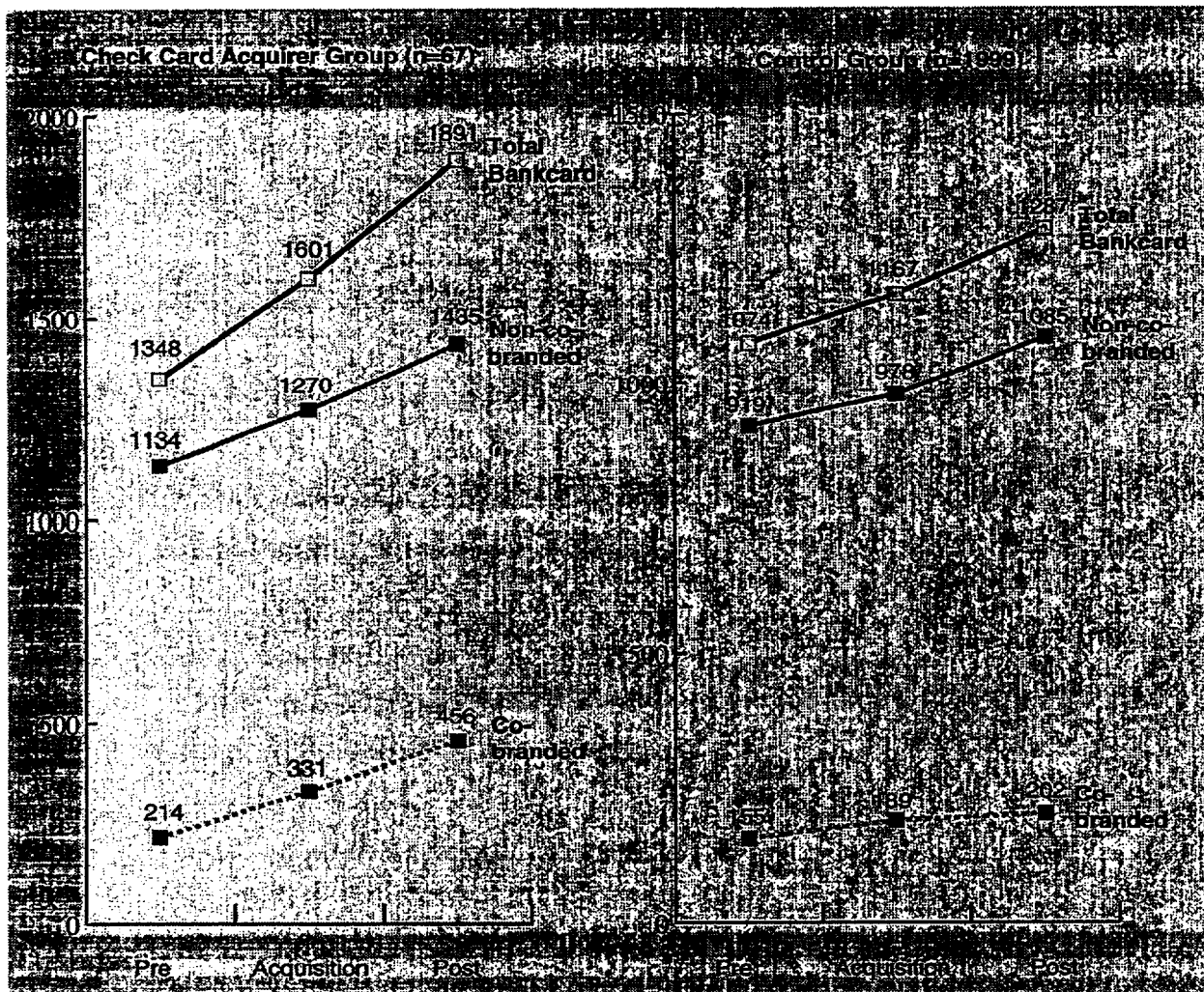
The control group maintained or increased spending on both their non-co-branded and co-branded bankcards during this time period. Average monthly spending on non-co-branded cards was \$115 in the pre-acquisition period and \$130 in the post-acquisition period. Average monthly spending on co-branded cards was \$50 and \$63, respectively, in the pre and post-acquisition periods.

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CHANGES IN BANKCARD REVOLVING

The acquisition of a check card does not appear to affect revolving on bankcards. Revolving balances grew during the evaluation period among both the check card acquirer group and the control group.

Changes in Bankcard Revolving Balances



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The chart on the previous page shows average revolving balances (amount owed after last monthly payment) by card type. Data for the check card acquirer group is presented on the left and for the control group on the right. Bankcards are classified as co-branded and non-co-branded. Calculation of revolving balances have not been restricted to active accounts or cardholders of a particular card type. Thus, revolving balances for a particular type of bankcard may seem low because it includes "zero values" for inactive cards, transactors, and consumers who may not own that type of bankcard.

Average revolving balances on bankcards owned by check card acquirers grew by \$543 from pre to post-acquisition periods. Among cardholders getting check cards, balances were \$1348 in the period before getting the check card, \$1601 in the period they acquired the check card and \$1891 in the period following acquisition. Balances increased on both non-co-branded and co-branded cards owned by check card acquirers.

Similarly, average revolving balances on bankcards owned by the control group rose by \$213 during the evaluation period. Balances on non-co-branded cards owned by the control group grew more rapidly than balances on their co-branded cards.

APPENDIX A: METHODOLOGY

Piloted in 1990, the Visa Payment Systems Panel Study was developed to monitor consumer usage of all payment methods across a wide variety of merchant categories. The study objectives and methodology were developed in conjunction with input from various Visa Members.

From NFO's nationally representative panel of 400,000 households, three panels of individuals were recruited to participate in the Visa Payment Systems Panel. To participate, panelists are required to have a household income of \$10,000 or more and must own some sort of plastic payment device (credit card, ATM card, store card, gasoline card, etc.). Each panelist participates in the study by tracking monthly expenditures in a diary for one month in each quarter. Three staggered panels cover every month of the year.

Panelists receive a monthly diary and are instructed to record their purchases and payments during the month (with the exception of tax payments, mortgage and other loan payments, payments against credit/charge card balances and investment products, and cash or travelers cheques acquisitions). In the case of credit card purchases, they record all purchases. When checks and cash are used, only purchases and payments of \$5 or higher are recorded. For each transaction, the date, merchant category, amount and payment device are recorded. (When a card is used, the panelist also records specific detail of brand, product, and Issuer). The panelist also records if a transaction was personal or business-related.

Accompanying the monthly diary is a separate questionnaire on which participants record any activity over the past three months involving the opening and/or closing of credit/charge card accounts and outstanding balance information for their Bankcards.

The panel is designed to deliver ending samples of approximately 1,600 individuals each month, or 4,800 each quarter, demographically and geographically balanced to be representative of the U.S. population with a household income of \$10,000 or more and owning at least one piece of plastic.

Some caveats are in order. First, panelists are asked to record only those purchases/payments they make personally. (This study does not report on household expenditures).

Second, the study excludes mortgage payments and, therefore, under-represents housing expenditures. Further, while panelists record apartment/house rentals, these payments are not included here for purposes of consistency.

Third, the study under-reports those merchant categories where many payments using cash or checks are under \$5. Examples are fast food restaurants and convenience stores.

Fourth, cash withdrawals are not recorded by panelists and, therefore, market share data for cards do not include cash advances.

Finally, while the panelist records whether each purchase/payment is for business or personal reasons, business expenditures where the panelist does not make the payment personally (e.g. supplies, equipment, travel and entertainment (T&E) expenditures via "ghost" corporate accounts) are not included in the study.

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