Which payment method do Americans prefer?

An analysis of how many Americans prefer to use cash over cards.

finder.com

Introduction

It's said that cash is king. But even before COVID-19 threatened its very use, many Americans were turning to plastic — be it a credit or debit card.

Cash is cumbersome. It's old-fashioned. It's also dirty. Whereas cards are modern and — best of all — not covered in the bacteria of others. (Why use something that countless studies show are covered in the fecal bacteria of others?)

A major mark against cash is the Internet, where more Americans do their shopping, take care of their bills and get paid. Our entire financial existence is moving online and into a digital world. Cash is analog.

In fact, the use of cash in consumer transactions dropped from 30% in 2017 to just 26% of transactions in 2018, according to a Federal Reserve Bank of San Francisco's *2019 Diary of Consumer Payment Choice*. That trend continues today.

With consumer buying and payment habits shifting, Finder's data and insights expert studied the payments landscape in 2020.

In this paper, we detail preferred payment methods for American adults and how they vary depending on gender, age and location.

Plastic fantastic

The spread of COVID-19 is forcing many Americans to hunker down, in turn leading to a spike in online shopping. A recent Adobe Analytics report shows that online sales in June 2020 had jumped 76% from the same period last year.

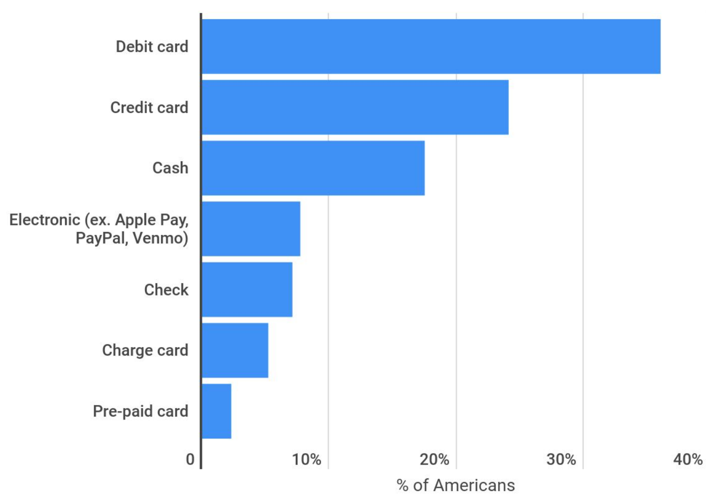
Surveying 2,001 US adults through Google Surveys from June 22, 2020, to June 26, 2020, Finder discovered that using a type of card is the preferred payment method for almost 70% of the population.

Specifically, 36.07% of American adults prefer to use a debit card, representing some 92 million American adults. A further 24.11% say they prefer a credit card, representing about 61.5 million adults. Add in less common charge cards (5.20% or 13.3 million Americans) and prepaid cards (2.29% or 5.9 million), and you have 67.67% of the population wanting to make a purchase on plastic. Unlike credit cards, charge cards have no preset credit limit, and statement balances typically are due in full each month. Most also come with an annual fee.

What about cash? Notes and coins are the preferred payment option for only 17.51% of adults.

While it means that cash is the preferred payment method for close to a fifth of the adult population (44.7 million), as a "preferred option" it's only about 10 percentage points higher than relative newcomer electronic payments (7.72% or 19.7 million) or equally outmoded checks (7.10% or 18.1 million).

Most preferred payment method in the U.S.



Source: Finder.com

While debit cards are the preferred payment method for both men and women, there is a 10 percentage point divide between the sexes, with women more than men by far preferring a debit card. Our findings show that 40.96% of women use a debit card as their favored method of payment versus 30.92% of men.

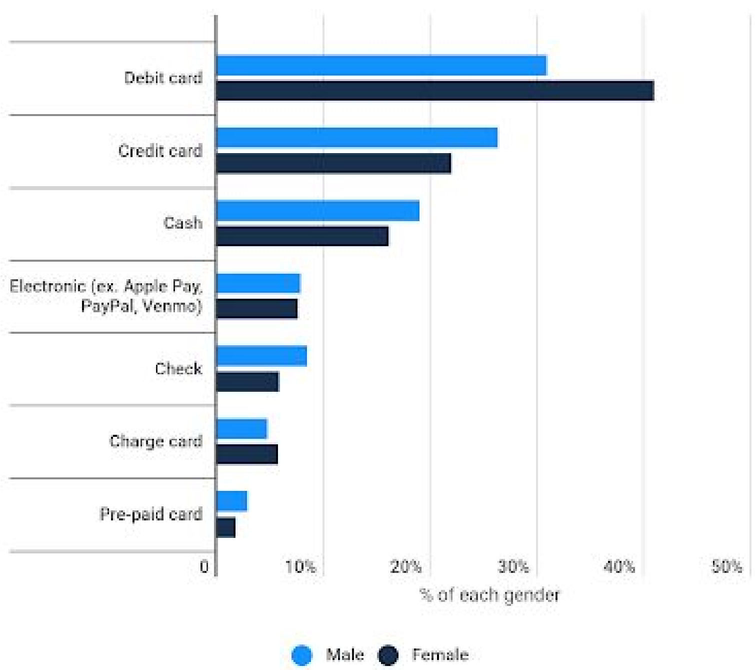
Women are also slightly more likely than men to prefer using a charge card, with 5.66% of women saying it's their go-to option, compared to 4.71% of men.

All other payments preferences skew toward men. Credit cards are the preferred option for 26.32% of men, versus 22.00% of women. Men are also more likely to use cash, with 18.97% choosing this payment option, whereas it's a choice for only 16.12% of women.

Men (8.39%) are about 2.5 percentage points more likely than women (5.88%) to prefer using checks and, in the case of prepaid cards, men (2.87%) are a little over 1 percentage point more likely than women (1.74%) to use this payment option.

The gap in payment habits of men and women is tightest when it comes to electronic payments, with men (7.82%) only slightly more likely than women (7.63%) to use emerging payment services like Apple Pay, PayPal and Venmo.

Most preferred payment method by gender



Source: Finder.com

Debit: The great unifer

Debit cards are by far the most popular payment choice for people of all ages, with between 31.58% and 39.18% of any given generation listing debit cards as their payment method of choice. Credit cards are also uniformly popular across age groups.

A stark difference in payment habits comes from how debt and credit options are used by people at either extreme of the age groups. While those ages 65 or older are most likely to prefer a credit card (25.66%), they're least likely to favor using a debit card (31.58%). And while 37.58% of those ages 18 to 24 are more likely to say they'd use a debit card, they're the group least likely to favor a credit card (18.18%).

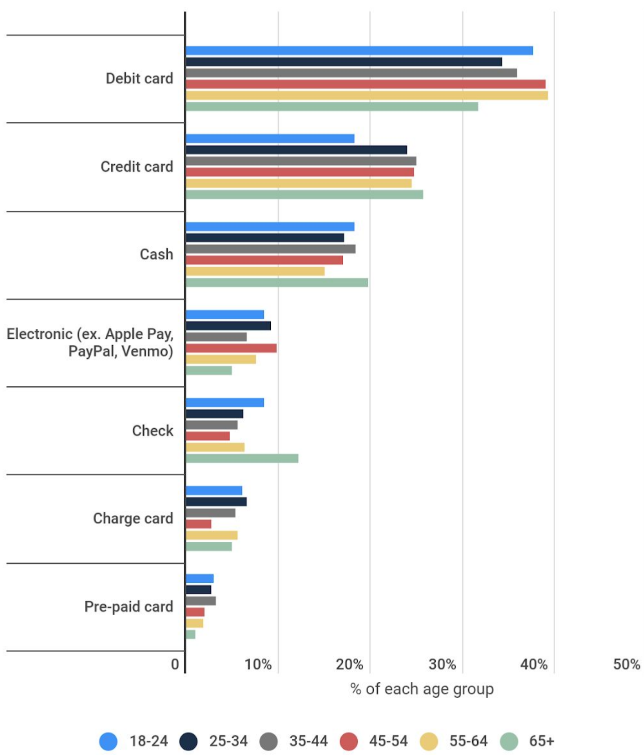
Reasons for this divergence are unclear, but one could speculate that knowledge of building credit and an established credit history among the older generation could be the reason. The inability to access credit due to a thin credit history could explain the other end.

And it's not just credit cards that reign supreme for older Americans: those ages 65 and older are most likely of the age groups to say they prefer using cash (19.74%) — and, you guessed it, checks (12.17%).

Over 65s are the only demographic that favors more than one payment option. Those ages 55 to 64 are most likely among the age groups to prefer using debit cards at 39.18%, and electronic payments at 9.83% are most popular among those ages 45 to 54. Charge cards are most preferable to those ages 25 to 44 at 6.52%, and prepaid cards are selected by 3.26% of those ages 35 to 44 as a top choice.

Those ages 18 to 24 don't appear to have any distinguishing payment preference among the age groups.

Most preferred payment method by age



Source: Finder.com

Credit is king of the Northeast

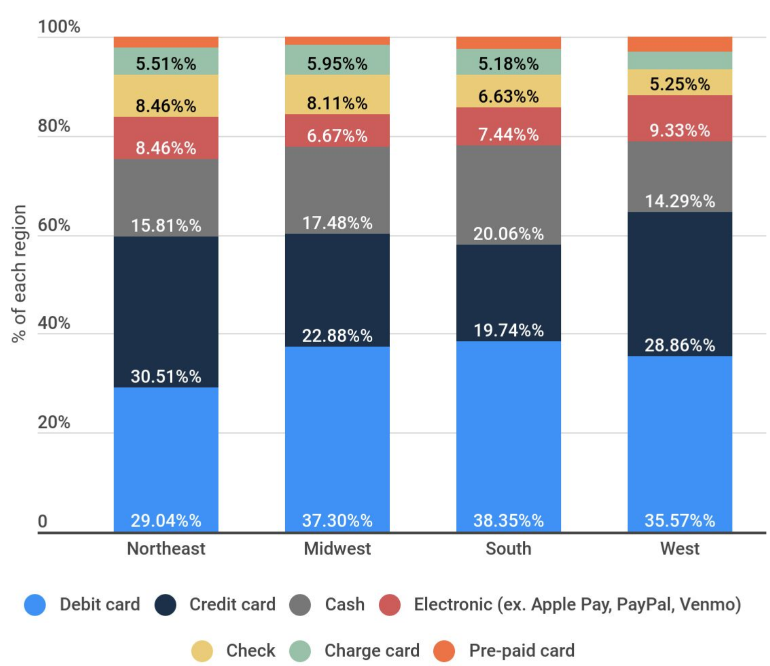
The use of a debit card is the No. 1 preferred payment method among consumers, no matter the age or gender. But where you live might influence your top payment choice.

A debit card is the top choice for payments in the West (35.57%), South (38.35%) and Midwest (37.30%), whereas credit cards (30.51%) narrowly beat out the use of a debit card (29.04%) in the Northeast as a preferred payment option.

Whether you prefer paying by credit card may also be tied to your geography, with roughly 30% of respondents from either coastline — West and Northeast — preferring to use credit, and closer to 20% of those from either the Midwest or South preferring that payment method.

Cash reigns as the preferred payment method for about 20% of people in the South, with those in the Midwest not too far behind at 17.48%. These regions are followed by the Northeast (15.81%), with the West (14.29%) not too far behind.

Most preferred payment method by region



Source: Finder.com

Challenges of a cashless society

The likelihood of a new financial reality is closer than it has ever been. The coronavirus pandemic has forced us to really contemplate a cashless society. There are some challenges though that come with a new world order of this magnitude. Roughly one quarter (25%) of US households are either underbanked or unbanked, according to the 2017 FDIC National Survey of Unbanked and Underbanked Households. So, if we were to switch to a cashless society tomorrow, roughly one-quarter of American households would be left in the lurch, especially the 6.5% of households that are completely unbanked.

Another possible issue with going cashless is security. In 2018, Americans lost an estimated $1.8 billion at the hands of fraudsters, with 14% of Americans who have at least one credit card reporting that they'd been on the wrong end of a fraudulent transaction, according to Finder research.

There have also been issues raised on how going cashless disproportionally affects the poor, elderly and the homeless. While credit cards are the cashless payment options we know, digital banks and electronic payments are those we are just becoming familiar with. A survey conducted by Finder.com in 2019 showed that 73% of Americans who do not bank digitally cite being happy with how they are currently banking.

Innovations in contactless payment

We have come a long way from Mobil's Speedpass in 97. The ability to make purchases without needing to put your card in a machine or handing it to another person has evolved. According to a 2018 study by AT Kearney, only 3% of cards in use in the USA were contactless. When we compare that to South Korea's 96% we are looking at a huge gap.

Outside of cards apps like Google Pay, Venmo, Cashapp, and Zelle are becoming more popular. While original recipe methods such as cash and even check are not dead, the long term benefits of offering contactless options might make these antiquated forms of payment endangered.

Industry outlook: Expert predictions

Dr Rainford M. Knight, Ph.D, Florida Institute of Finance:

"COVID-19 has certainly accelerated the adoption of electronic payment trends that were already surging. The pandemic has driven consumers to increase their use of digital payments and has caused those who did not use digital payments before to become users. Thus, a clear and growing movement from cash and checks exists, and this shift is driven by anxiety around contracting the virus from touching keypads.

"Going forward, the use of electronic payment systems will no doubt increase. However, electronic payment methods are not likely to become the norm. These payment methods will co-exist with traditional cash and check payments. Reasons for this include: 1. the belief by some consumers that electronic payment methods are not secure and 2. digital exclusion: According to a Federal Reserve report prior to the pandemic, 17% of US households (21.87 million) were financially or digitally excluded from using electronic payments. According to the survey, about 71% (12% of the 17%) did not have electronic access but had a bank account or prepaid cards. 3% of the 17% did not have Internet access and a bank account and 2% of the 17% did not have a bank account but had Internet access.

"There is no question that electronic payments will become and are becoming more a part of all our lives. However, not all of us will be active participants in the increasing trend to pay electronically."

Barbara Weltman, President of Big Ideas for Small Business:

"From a small business perspective, the more types of payment method accepted by a merchant or service provider, the wider the customer base can be. While data show debit and credit cards are the preferred payment method, not all consumers use them, prefer them, or even have them. For some, cash will continue to be a preferred payment method from choice or necessity. For example, paying cash prevents a person from spending more than he or she has available. Nonetheless, the use of electronic payment options will continue to grow with the increase in e-commerce. And generationally, emerging methods surely will be popular with younger consumers while traditional payment methods will stay favored by those used to them."

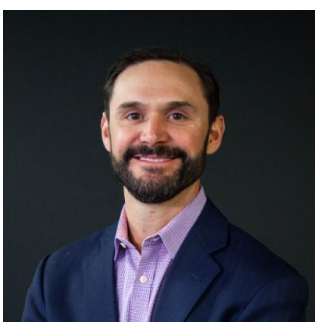
Richard Schmalensee, MIT Management Sloan School, Emeritus Professor, Economics:

“Electronic payments will eventually become the norm because they have greater and increasing convenience and lower cost. Sweden shows what is possible, albeit with a nudge from the government. The virus will hasten the transition away from dirty cash and toward electronic payments, particularly contactless. Because it is legal tender, cash will never completely cease to be used unless the government refuses to accept it. Cash offers greater privacy than most electronic payments, which is a big deal for illegal transactions, not such a big deal for most of us.”

Ryan Rosett, CEO at Credibly:

“While cash will never be obsolete, it's clear that Gen-Z and other young consumers tend to favor credit cards and electronic payments. Some businesses provide discounts for cash payments. Cash also helps consumers avoid identity theft, interest payments, and spending beyond their means.

“While touch-to-pay and electronic payments are incredibly convenient, so is cash, and it often comes with less risk to the consumer.”



David Lord, general manager of Credit.com:

"In general, I think cash will continue to decline as electronic payment use continues to increase. As people become more comfortable with the security of digital transactions and as technology progresses with affordable mobile, we might see the shift increase to the point where cash becomes almost or completely obsolete.

“Because the impact of COVID-19 has forced many behavioral changes, such as the focus on cleanliness, we might see a shift away from a cash-based society for health reasons. Do we move back to cash as the virus passes, or will credit card and digital transactions be the new norm? We will have to re-run this data in the near future to see."

Conclusion

With the world heading toward a digital future, cash has fallen behind debit and credit cards as the third most preferred payment option for consumers.

Digital payments services seemingly spring up weekly, leaving you to wonder what the future holds for currency — and whether it will soon be a relic of the past.

Methodology

Our payment method data is based on an online survey of 2,001 US adults over the age of 18 commissioned by Finder and conducted by Google Surveys from June 22, 2020, to June 26, 2020. Participants were users on websites in the Google Surveys Publisher Network and were unpaid.

We assume the participants in our survey represent the US population of 255.2 million Americans who are at least 18 years old according to the July 2019 US Census Bureau population estimate. This assumption is made at the 95% confidence level with a 2.19% margin of error.

Our survey asked respondents which payment method they prefer for the majority of their payments from seven selections:

- Credit card
- Debit card
- Cash
- Charge card
- Prepaid card
- Check
- Electronic (Example: Apple Pay, PayPal, Venmo)

Our geographical regions align with the US Census Bureau's [Census Regions and Divisions of the United States](#).

When determining the most preferred payment method in each state, we excluded from our analysis states with fewer than 25 respondents.

About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

Finder.com launched in the US in July 2015 and is privately owned and self-funded by two Australian entrepreneurs — Fred Schebesta and Frank Restuccia — who successfully grew finder.com.au to be Australia's most visited personal finance website.

For all media enquiries, or for additional comment, contact casey.kozieja@finder.com.

About the author

Richard Laycock is Finder's insights editor and spent years writing and editing articles about insurance for Finder. Richard studied Media at Macquarie University and The Missouri School of Journalism and has a Tier 1 Certification in General Advice for Life Insurance.

finder
.com