The Influence of Behavioural Factors on Payment Method Choice: A survey of UK adults’ attitudes and intentions

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Short abstract

In the face of changing consumer payment trends, the use of cash as a payment method is declining in many countries, including the UK. Against this backdrop, in order to understand what might influence the projected rate of decline, we seek to provide better understanding of the behavioural factors that influence individuals’ attitudes towards and intentions to use cash relative to other forms of payment. Using data from a bespoke online survey among 2,810 UK adults, we find compelling evidence of the importance of behavioural factors, including mental budgeting, loss attitude, propensity for habitual behaviour and financial literacy, in shaping intentions to favour cash vs non-cash means of payment, above and beyond the influence of socio-demographic background. Furthermore, while payment intention habits might form, evidence of shifts in response to exogenous shocks, relating to economic circumstance and to security breaches, demonstrate that such habits are not immune to change.

Extended abstract

Context

In the face of changing consumer payment trends, the use of cash as a payment method is declining in many countries, including the UK. In the 10 years to 2016, UK cash transactions fell by 35% and are predicted to fall by a further 40% to 2026.1 The Access to Cash review2 suggests that cash use could fall to 1 in 10 payments in 15 years, from a figure of 6 in 10 payments 10 years ago.

Research agenda

Against this backdrop, in order to understand what might influence the projected rate of decline, we seek to provide better understanding of the behavioural factors that influence individuals’ attitudes towards and intentions to use cash relative to other forms of payment. We design and implement a survey-based questionnaire to examine UK adults’ attitudes towards and intentions

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1 Cash use in the UK, Cash Services, 2017
2 Access to Cash Review, interim report, December 2018
to use cash relative to other forms of payment. Controlling for socio-demographic factors, we investigate the influence of a number of behavioural factors and potential exogenous shocks on attitudes towards and intentions to use cash. In particular, we examine how an individual’s use of mental accounting/budgeting, perceptions of the fungibility of money, the extent of their loss aversion and their general propensity to habitual behaviour, in the form of routine and automaticity, influence their attitudes towards and intentions to use cash.

To gauge the extent to which payment attitudes and intentions might shift, we examine, via the use of scenarios, the extent to which exogenous shocks, in the context of security breach and financial crisis, influence intentions to use cash both in absolute terms and conditional on baseline levels of propensity to use cash.

Data
We conducted a bespoke online survey among 2,810 UK adults’. We employed a stratified sampling approach with interlocked quotas with respect to age, gender and income. In total, there were 84 sub-groups across the three demographic variables. To ensure adequate representation of all sub-groups for statistical inference we set a minimum response target of 20. The survey was conducted in April 2019. The respondents’ average age is 47.6 years, ranging from 18 to 90 years; 45% are male and 55% are female.

Results
Respondents with higher loss aversion, who might be expected to feel a higher pain of paying in cash, tend to have higher intentions to pay electronically. Further, the significance of loss aversion increases monotonically as transaction size increases. Individuals who score high in the mental budgeting scale also tend to think that paying electronically is a good idea. However, payment intention is not related to mental budgeting. While respondents who treat money as fungible intend to make more electronic payments than respondents who treat money as non-fungible, this effect disappears when controlling for other factors.

With respect to habitual payment behaviours, we show that a higher intention to pay electronically is more the result of a cognitive and deliberative process than automaticity or habit. However, conditioning on transaction size, participants intend to make more cash payments at low values as a matter of routine, but more electronic payments at low values as a reflection of unconscious action.
More financially literate individuals intend to make a greater proportion of electronic payments than participants who score low on the financial literacy scale. Financial literacy increases monotonically with transaction size supporting a stronger influence on payment intention for higher value payments.

The more positive are individuals’ perceptions of a particular payment method, the more likely their intentions to use it, and paying electronically is associated with more positive emotions than paying cash. Interestingly, the influence of emotions on payment intention diminishes as transaction size increases, supporting a reduced role of affective feelings in the presence of higher economic consequences associated with the transaction.

**Conclusion**

We find compelling evidence of the importance of behavioural factors, including mental budgeting, loss attitude, propensity for habitual behaviour and financial literacy, in shaping intentions to favour cash vs non-cash means of payment, above and beyond the influence of socio-demographic background. While payment intention habits might form, evidence of shifts in response to exogenous shocks, relating to economic circumstance and to security breaches, demonstrate that such habits are not immune to change. There is strong evidence of a shift in how the behavioural factors explain intentions to pay as transaction sizes increase. In particular, as transaction values increase, affective feelings towards a particular payment method matter less, while financial acumen plays a growing role. Our findings might meaningfully be used to inform future forecasting of the intention to use cash, with such intentions shown elsewhere to be primary determinants of payment behaviours.