

NEXT-GEN DEBIT

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or other mobile devices to shop
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WHAT'S INSIDE



When the 2021 holiday shopping season was recently in full swing, merchants in all industries had to be especially sure that they were supporting the shopping and payment experiences their customers are expecting — both in-store and online. Retailers cannot look to pre-pandemic seasons to predict where and how consumers will shop moving forward, however. Consumer spending **dropped** 14% year over year in 2020 during the period between Thanksgiving and Cyber Monday, suggesting that this year's festive shoppers may have been thriftier now than they were before the crisis began.

Consumers are leaning toward payment tools and devices that allow them to make the purchases they do budget for seamlessly and more cost-effectively. United States consumers' debit usage has been rising since the pandemic's onset, with one **report** finding that debit volumes increased 8% year over year in 2020. Debit is also making up a larger portion of online purchases, **accounting** for 20% of card-not-present (CNP) transactions last year.

Debit cards are also becoming more closely linked to payment tools that allow cost-conscious spenders to break larger purchases into smaller, more manageable amounts, such as buy now, pay later (BNPL) solutions. Multiple BNPL providers **launched** their own branded debit cards in the months preceding this year's holiday season, for example.

Younger consumers are especially likely to reach for their debit cards when it comes time to pay. One recent **report** found that 44% of Generation Z consumers plan to do their holiday spending with debit cards. This generation will also be making most of these purchases online.

Merchants hoping to engage holiday shoppers that seek seamless, budget-friendly deals will need to pay close attention to shifting consumer spending preferences, particularly in regard to debit usage. Understanding the debit's key role in the digital space, including how it is supporting payments in-store via mobile wallets or BNPL solutions, can also help retailers tailor their offerings to grow customer loyalty.

NEXT-GEN DEBIT DEVELOPMENTS AROUND THE WORLD

Optimistic consumers are planning to spend more than they did last year, but many remain concerned about their budgets and debt levels, according to a recent [survey](#). Hopes of a waning pandemic drove 26% of U.S. holiday shoppers to increase holiday spending this year, up 10 percentage points from 2020. Millennial and Generation Z consumers led the pack at 33% and 44%, respectively. While 50% of consumers said they were excited about the holiday season, 30% reported feeling stressed about going into debt or being unable to afford gifts. Credit cards were the preferred payment choice, with 40% of respondents saying they would use this method, followed by debit or prepaid cards at 29% and cash at 15%. As in-store shopping rebounds, many may be seeking options that can offer flexibility without high fees and interest rates.



BNPL may be on many more shoppers' radars this year for that reason. Installment payment plans that allow consumers to pay for their purchases over time are gaining steam this holiday season, and a recent [report](#) suggests their usage may be on track to double or even triple over the next year. BNPL usage jumped 29% year over year during Cyber Week, making up 4% of U.S. sales on Black Friday alone. BNPL options enable shoppers to pay for their purchases with interest-free installment plans, making them attractive alternatives to credit cards. Retailers may benefit, too, by partnering with BNPL firms that refer shoppers to merchants' websites.

Consumers plan to spend more money online this year for their holiday shopping, according to a recent global [survey](#), but online retailers must be mindful of the experiences they offer if they want to earn online shoppers' loyalty. Consumers' holiday shopping habits are changing, with 58% preferring mobile devices, up from 47% in 2020. Though more than two-thirds plan to return to brick-and-mortar shopping, an equal share said they are more likely to shop with brands that offer omnichannel experiences. Still, 24% of curbside pickup users reported problems with these options, so brands will need to fine-tune the customer experience so as to not lose omnichannel shoppers.

For more on these stories and other next-gen debit developments, check out the Tracker's News and Trends section (p. 10).

COMMERCE BANK ON THE FUTURE OF MOBILE AND CONTACTLESS DEBIT OPTIONS

Consumers are not the only entities watching the changing landscape of debit spending trends. While shoppers may be on the lookout for spending options that do not require physical cards or add to their debt levels, financial institutions (FIs) are scrambling to meet their demands and stay competitive in a growing sea of options. For this edition's Feature Story (p. 7), PYMNTS spoke with Angela Finn, senior vice president and group product manager of debit and prepaid card products at **Commerce Bank**, on the changing face of contactless spending and how this will affect the products that card issuers offer in the future.

DEEP DIVE: CONTACTLESS DEBIT CEMENTS ITSELF AS A PREFERRED SPENDING OPTION

The holiday shopping season is already a competitive time of year for retailers, and the pandemic has raised the stakes. One way in which retailers can stand out is by offering spending options that help consumers avoid debt and interest. Debit spending has grown during the pandemic and continues to grow, especially among younger consumers wanting more control over their personal finances. This edition's Deep Dive (p. 14) describes how debit spending is on track to make up 44% of holiday shopping purchases among some demographics. It also explains why BNPL and other installment payment options could triple over the next few years as consumers increase their demands for cost-effective payment options.



5 FIVE FAST FACTS



34%

Share of consumers who expect to use mainly debit cards for online shopping

28%

Portion of debit card users who have increased their debit use since the pandemic began

62%

Share of consumers who want digital-only banks to offer debit cards

57%

Portion of BNPL users who pay for their eCommerce purchases via debit

40%

Share of consumers who prefer to use debit cards when shopping at brick-and-mortar stores



FEATURE
STORY

Commerce Bank On The Changing Face Of Contactless Debit



The events of the past two years have shown that circumstances can change overnight, including the established ways in which consumers shop and pay for purchases. Credit cards, a long-standing top payment method, **lost** ground in 2020 as consumers sought alternatives that would allow them to make purchases without incurring hidden charges or getting into debt.

This rapid transformation has posed both challenges and opportunities for FIs that issue credit and debit card products. The recent holiday shopping season **saw** a resurgence of credit card use, but as both health and economic factors continue to evolve, debit payment methods — especially contactless options — remain poised to overtake credit cards as shoppers' go-to choice.

“Rarely do trends that produce clear efficiency and convenience gains reverse course,” explained Angela Finn, senior vice president and group product manager of debit and prepaid card products at Kansas City, Missouri-based **Commerce Bank**.

Still, Finn told PYMNTS in a recent interview that she is prepared for more changes to come.

“I think consumer spending behavior will be fluid for some time,” she said. “If the supply chain challenges and labor shortages persist, both merchants and consumers will continue to flex their solutions and behavior accordingly, and the impact of the COVID-19 variants on public health and safety will drive that to a large extent.”

A CHANGE IN THE AIR

Finn said that although many people limited their in-person shopping and travel in 2020 due to the pandemic, shoppers felt it was safer to venture out in 2021, and this explained why Commerce Bank saw an uptick in card-present spending this holiday season. At the same time, however, many consumers continued to rely on the eCommerce and mobile shopping habits they adopted during the pandemic, and some of the major spending trends noticed over the last two years, including the growth of online and contactless spending, do not seem to be reverting.

“It’s hard to say which trends will stick, but new payment acceptance options that deliver value to both merchants and cardholders, such as mobile app solutions and token/contactless acceptance, have the best shot at becoming permanent,” she said.

Finn also said that while the company’s credit and debit products both fared well during the 2021 holiday season, it is difficult to predict where consumer behavior will take the industry as the pandemic continues. Shoppers who experienced delivery delays or supply chain issues last year may have placed eCommerce orders earlier than usual to allow adequate time to receive their goods, she said. This could explain the more robust shopping season this year, and the rising cost of goods may also be factoring into consumers’ choice of payment method.

FORECASTING PAYMENT TRENDS

Finn anticipates that CNP growth will have the biggest impact on the company's debit card program in the coming years, and the trend will prompt FIs to reimagine the products they offer.

“From an issuer perspective, continued growth in CNP transactions will have broad implications for processing costs, customer service and fraud prevention models,” she said.

Finn explained that despite growing use of contactless payment technologies such as mobile wallets and CNP payments, a certain demographic still prefers cards and may be slow to adopt new technologies. FIs thus need to pay attention to consumer trends and adopt new technologies with an eye on the future while still catering to those who prefer more traditional payment methods.

“Having the physical card to complete a purchase at the point of sale is still very important to our customers and is a big reason why we were one of the first banks to issue contactless-capable debit cards,” she explained. “Our customers have rapidly adopted the tap-to-pay feature.”

Pivoting swiftly to adapt to a changing landscape is never easy, but one prediction seems certain: Thriving on change in the payments world could soon become banks' greatest asset.



NEWS & TRENDS



HOLIDAY SPENDING AND PAYMENT CHOICE

HOLIDAY SPENDING ON THE RISE AS IN-STORE SHOPPERS RETURN, BUT BUDGET CONCERNS REMAIN

A recent [survey](#) found that consumers planned to spend more this holiday season than they did last year, but many remain concerned about their budgets and debt levels. Driven by hopes of a waning pandemic as well as a desire to spoil loved ones they did not get to see last year, 26% of U.S. holiday shoppers said they would spend more this season than last year — up 10 percentage points from those who expected to spend more in 2020. Millennial and Gen Z consumers made up a large share of that increase, as 33% and 44% of these generations, respectively, said they intended to spend more this year.

Credit cards were the preferred payment choice among consumers, with 40% saying they would use this method for their holiday shopping, followed by debit or prepaid cards at 29% and cash at 15%. While 50% of consumers reported feeling excited about

the holiday season, 30% felt stressed about going into debt or being unable to afford gifts.

The survey also found that in-store shopping is rebounding to levels last seen in 2019, with 31% of shoppers saying they would look for gifts in stores, compared to 35% in 2019 and only 22% in 2020. Almost three-quarters of those planning to shop in stores this year said they would do so to avoid shipping delays.

ONLINE HOLIDAY SPENDING TO INCREASE, BUT CONSUMERS DEMAND BETTER EXPERIENCES

Consumers also planned to spend more money online during the 2021 holiday shopping season, according to a recent [global survey](#), but online retailers must deliver positive experiences if they want to keep shoppers' loyalty. The survey found that consumers' holiday shopping habits have changed a lot in just one year: Some 58% now prefer to use mobile devices such as smartphones or tablets to shop, up from 47% in 2020, and 43% planned to do their holiday shopping on a computer or laptop, down from 53% last year. Credit and debit cards were the preferred payment choices at



39% and 33%, respectively, but 14% indicated they would use mobile wallets, and just 11% preferred to use cash.

In a show of consumer confidence, 69% indicated they would return to physical storefronts — a sharp uptick from 46% in 2020. Still, many consumers now prefer to stay online, with 58% using services such as buy online, pickup in-store (BOPIS) and curbside pickup. Retailers would be smart to heed these preferences, as two-thirds of consumers said they were more likely to shop with brands that offer omnichannel options. There are still some bugs to work out, however, as 24% of curbside pickup users ran into problems such as parking issues.

BNPL BOOMS THIS HOLIDAY SEASON

Installment payment plans that allow consumers to pay for their purchases over time appeared to be gaining steam during the 2021 holiday season, and a recent [report](#) suggested that their usage may double or even triple over the next year. Led by companies such as Affirm, Afterpay and Klarna, BNPL options are becoming more popular, with 7% of shoppers expecting to make use of these methods for holiday purchases this year. That growth may seem small but has inspired companies such as PayPal and Square to reassess their businesses and, in some cases, launch their own BNPL services to compete.

The report found that BNPL usage jumped 29% year over year during Cyber Week — the week following Thanksgiving in the U.S. — making up 4% of U.S. sales on Black Friday alone. BNPL options enable shoppers to pay for their purchases with interest-free installment plans, usually in four monthly payments, making them attractive alternatives to credit cards. Many retailers have also entered partnerships with BNPL firms that refer shoppers to merchants' websites.



PAYMENT PREFERENCE TRENDS

CONTACTLESS GAINING ON CREDIT CARDS AS CONSUMERS' PREFERRED PAYMENT METHOD, SQUARE FINDS

A recent [report](#) from payments platform Square found that while credit cards remain consumers' preferred payment method, contactless options are a close second. According to the company's second annual The Future of Commerce Report, released in early December 2021, 36% of consumers surveyed said they prefer to pay using contactless options, while 42% prefer traditional credit card transactions and 9% prefer mobile wallets.

These preferences are motivating retailers to change the payment options they are offering their customers, as 77% of merchants surveyed offer contactless payments. Mobile wallets were the most prevalent offerings at 63%, followed by touchless card payments at 44% and QR codes at 25%. Nearly one-third of consumers told Square they want merchants to continue offering contactless payment options after the pandemic subsides.

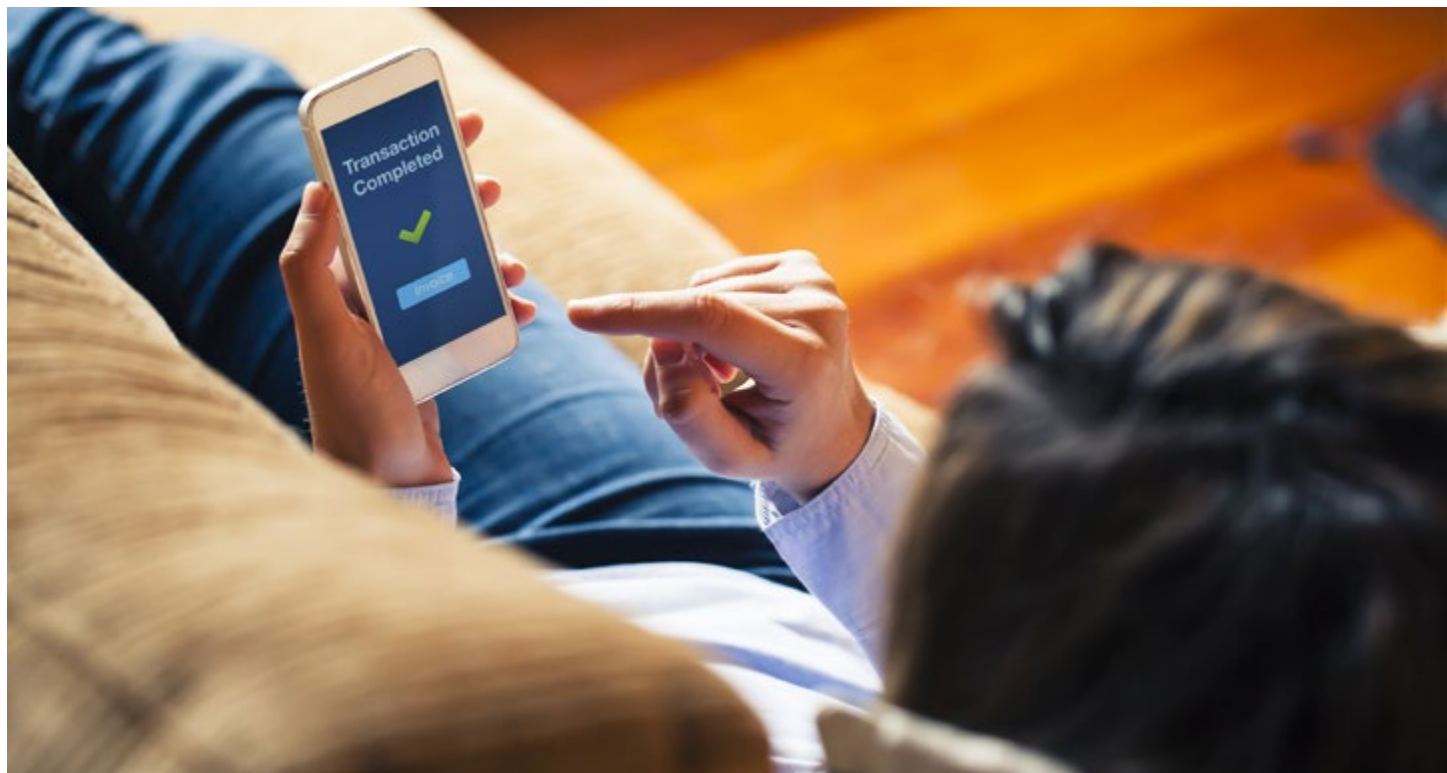
The report also found that consumers are currently making 37% of their monthly purchases online. Retailers have seen a major shift in revenue streams as a result of this activity, and they now receive 58% of their total sales through online channels.

APAC CONSUMERS PREFER MOBILE PAYMENTS, DEBIT OVER CREDIT

Nine out of 10 consumers in the Asia-Pacific (APAC) region have used mobile payment apps at least once in the last 12 months, according to a recent [report](#). More than half of these consumers have used digital payment methods at least once a week, and approximately 15% started using digital methods for the first time after the pandemic began. The report's findings reflect digital payments' growing usage in the APAC region. Of consumers who regularly leverage digital payment methods, 58% reported using mobile payment apps and 53% reported using mobile banking apps. Debit was also more popular than credit, with 36% of consumers

using debit cards and 33% using credit cards. Only 31% reported using internet banking via browser at least once a week. More than 80% of consumers in the report said convenience was the main benefit of digital payments, followed by ease of access at 46% and privacy at 39%.

The report also confirmed a mobile-first approach as consumers' dominant way of accessing digital payment methods, noting that the APAC region has one of the highest concentrations of mobile device usage in the world. Smartphone adoption in the region is expected to grow to more than 80% by 2025, with an estimated 63% of digital users currently making payments on Android smartphones and only 25% using laptops.



DEEP DIVE



WHAT 2021 PAYMENT TRENDS INDICATE FOR DEBIT HOLIDAY SPENDING

Consumers' holiday shopping behaviors have been thrown off course for the past two years, with the global health crisis's economic impacts prompting many consumers to prioritize saving over splurging. One [study](#) found that consumers spent an average of \$312 between Thanksgiving and Cyber Monday last year, representing a 14% drop compared to the same period in 2019. It also revealed that 80% of shoppers planned to spend either the same amount as they did in 2020 or even less in 2021, making an already competitive time of year even more so for enterprising retailers.

Consumers' desire to save money while still meeting their shopping needs could also be affecting the methods they use to pay for their goods. Many are exhibiting stronger preferences for payment tools that connect to debit cards, for example, seeking methods that are not attached to costly fees or debt. The following Deep Dive examines consumers' preferences for debit card spending when compared to other payment methods and explains what this data reveals about how today's consumers may have tapped debit for their 2021 holiday purchases.

EXAMINING DEBIT TRENDS AND HOLIDAY SPENDING

Debit spending has been steadily ticking upward during the pandemic. One August 2021 **report** found that it increased 8% year over year in 2020, with several card networks **stating** that debit growth overshoot that of credit during Q3 2021. Examining what consumers are now buying when they reach for their debit cards can also shed light on their projected debit spending trends this holiday season. Many have yet to shake off pandemic-driven economic worries, meaning this year's holiday shoppers are likely hunting for payment tools and methods that give them more control over their spending.

This behavior goes beyond simply searching for the best holiday deals. Recent data shows that payment methods such as BNPL were growing in popularity even before the start of the holiday season, with one **report** finding that 7% of this year's holiday shoppers planned to use BNPL tools for purchases this season. Experts believe that this spending could triple over the next few years. Many consumers link their BNPL accounts to debit cards rather than credit cards, which typically charge fees for these purchases. Top installment payment providers, such as Klarna and Affirm, even **announced** their own branded debit cards in the months leading up to the 2021 holiday season, indicating that the two payment methods are becoming closely entwined as consumer demand for cost-effective spending options increases.

Millennials and Generation Z consumers appear to be particularly fond of payment methods that allow them to better control their spending, and both demographic groups have indicated a much greater preference for debit over credit. One **report** found that millennial and Gen Z consumers have 14% fewer credit cards, on average, than consumers ages 35 and older, and 44% of Gen Z consumers specifically said debit cards were their preferred payment methods.





These preferences are also filtering into millennial and Gen Z consumers' holiday shopping behaviors. The bulk of their purchases are occurring online, as 63% of Gen Z consumers **planned** to purchase goods digitally during the holiday shopping season. Younger generations are also demonstrating their preferences for debit when interacting with digital retailers' websites or social media pages, with another **study** finding that 44% of Gen Z consumers intended to use debit cards to fund their holiday purchases.

Debit cards' longstanding dominance for purchases such as groceries or other household essentials also **shifted** online as public health and safety guidelines shut down brick-and-mortar stores during the pandemic's early months. Debit cards were responsible for 34% of CNP transactions in 2020 as online shopping became the norm for a wider portion of consumer purchases.

These factors strongly suggest that debit will retain its prominence in the online shopping space during and after the 2021 holidays, even though estimates for its usage differ. Recent PYMNTS **data** showed that 34% of consumers planned to use debit to pay for their holiday goods, while nearly 40% of respondents to a second **survey** and 55% in a third **study** said the same. While the exact scope of overall debit spending during the 2021 holiday season is unclear for now, the evidence suggests that the payment method will continue to experience heavy usage regardless.

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