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Tapping into Debt: The Effect of Contactless Payment Methods on Overdraft Fee Occurrence

Authors : Merle Van Den Akker, Neil Stewart, Andrea Isoni

Abstract : Contactless methods of payment referred to as tap&go, have become increasingly popular globally. However, little is known about the consequences of this payment method on spending, spending habits, personal finance management, and debt accumulation. The literature on other payment methods such as credit cards suggests that, through increased ease and reduced friction, the pain of paying in these methods is reduced, leading to higher and more frequent spending, resulting in higher debt accumulation. Within this research, we use a dataset of 300 million transactions of 165.000 individuals to see whether the onset of using contactless methods of payment increases the occurrence of overdraft fees. Using the R package MatchIt, we find, when matching people on initial overdraft occurrence and salary, that people who do start using contactless incur a significantly higher number of overdraft fees, as compared to those who do not start using contactless in the same year. Having accounted for income, opting-in, and time-of-year effects, these results show that contactless methods of payment fall within the scope of earlier theories on credit cards, such as the pain of paying, meaning that this payment method leads to increasing difficulties managing personal finance.

Keywords : contactless, debt accumulation, overdraft fees, payment methods, spending
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