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CU Must Refocus As Debit Usage Accelerates

By Ray Birch, *Correspondent*

MILWAUKEE—Get ready for more debit demand—and competition.

That's the outlook of credit union CEOs, major CU card issuers, and industry analysts who see the recession accelerating consumers' and financials' shift to debit.

Many factors, they say, are behind the trend: The economy has forced consumers to deleverage debt. New overdraft rules make debit transaction revenue more attractive. There is less available credit due to cutbacks in credit lines and cards, and higher rates are driving down credit card usage.

CUs must make debit a focus, stressed Mike Kelly, general manager of the ACCEL/Exchange Network at Fiserv, who believes credit unions are finally "getting religion" in the payments space. "You have to get your issuance practices in order. You have to focus on share draft penetration. If you have 10,000 checking accounts you need 9,000 debit cards, with the great majority of them active," said Kelly.

Focus Rewards To Drive Debit Usage

Credit unions can drive debit usage by focusing rewards programs more on low-ticket items, rather than vacations or travel. "It's everyday rewards," Kelly insisted. "With all that is going on with the economy, consumers would rather use their rewards points more often. To redeem points for golf clubs takes too long, while \$20 for iTunes is much more attractive."

Financials' focus on debit will likely increase with projected losses in overdraft revenue from Reg. E,



and will make protecting every revenue stream critical, offered Kelly. He urged credit unions to become more aggressive with payment options such as Internet PIN debit to protect against threats from PayPal, which can lead to "death by 1,000 cuts. Our biggest enemy here is inertia. We have to move off the mark because the threat is real. If you are not in the game, and you do not have your payment fundamentals in order, you are going to be like that small book store and become irrelevant, and from a payments perspective goes out of business."

Statistics support that debit is muscling its way in on credit, growing at a much faster pace, according to Bill Hardekopf. The CEO of Birmingham, Ala.-based LowCards.com shared that credit card usage has dropped substantially over the past three years, from 87% of consumers surveyed in 2007 to 56% in 2009. Meanwhile, debit usage has increased significantly. According to Hardekopf, last year MasterCard's debit card usage increased 10.5% in the United States while Visa reported a 17% increase. MasterCard also reported its credit card usage dropped 13%.

Consumers are being forced to change their behavior, insisted Hardekopf. "Many have had their credit cards canceled or their lines decreased and they can't use credit like they used to."

Debit is also benefitting from a rapid rise in the average credit card rate, Hardekopf pointed out. "Last week the average credit card APR was 13.55% for financials across the board. Six months ago the average was 12.56%,

and 11.60% one year ago. It's too expensive for consumers to use credit. The rising rates are a red flag."

Another credit card deterrent—and a significant one according to Hardekopf—is the CARD Act requirement to show on monthly statements how long it will take to pay off a balance at minimum payment. "That will be a shocking and staggering bit of information for consumers and will limit the use of credit."

Mark Fenner, SVP at TNB Card Services in Dallas, confirmed that debit will continue to overtake credit. "While credit card usage slowed during the recession, debit card usage increased. Payment cards have become indispensable to consumer transactions today and will only continue to strengthen in the future."

In Harrisburg, Penn., Greg Smith, CEO of Pennsylvania State Employees CU, is keenly aware of the importance of getting debit cards in the hands of more

members and is "passionate" about protecting the interchange revenue. "Our check card interchange growth was far and away stronger than credit card interchange growth," he said.

The \$3.6-billion PSECU's check card interchange was \$877,177 for March of 2010, up 23.4% over the same month last year. Credit card interchange for the same period was \$704,804, a 15.3% increase.

Debit's race to outpace credit is also apparent at the \$2.5-billion DFCU Financial in Dearborn, Mich. CEO Mark Shobe told Credit Union Journal that over the past three years the credit union's number of credit cards has increased 17%, while debit cards have increased 42%. "Today our number of debit cards is nearly five times that of credit cards. Debit is our fastest growing area and it appears to be building at the expense of credit."