

## Market Share Gains Ahead for Bank-Issued Gift Cards?

By 2007, bank-issued gift cards will account for \$31 billion in sales, or more than half of total gift card sales, according to a report from TowerGroup. In 2003, sales of bank-issued gift cards totaled \$3 billion, far behind the \$42 billion for retail gift cards.

The reason for the surge has to do with the very nature of the cards, the Tower report said. Unlike retail-based gift cards, which are intended primarily to increase customer loyalty, bank-issued gift cards are financial instruments, and thus potentially have a much broader scope.

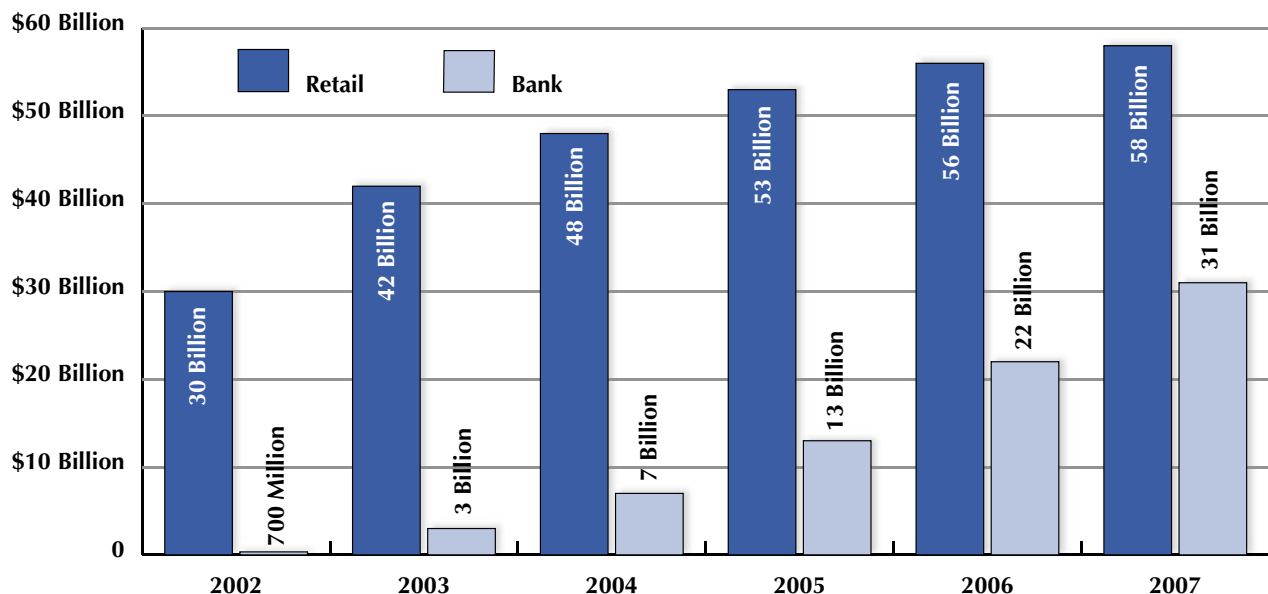
Bank-issued gift cards are accepted by more

than 30 million merchants around the world, as well as online, thanks to the pull of the card brand names, such as Visa and MasterCard. Retail cards can only be used at specific locations.

Bank cards can also be personalized to include the name of the cardholder, something that is not possible for the vast majority of retail cardholders.

While retail gift cards still control the majority of the market, their growth rate is slowing. As the Tower report said, "it is ubiquitous bank-issued gift cards, with their added benefits and protections, that will take off and eventually overtake their retail cousins." ✕

### Gift card sales volumes, by issuer type



Note: 2002 and 2003 numbers are actual and 2004 through 2007 are projected.

Source: TowerGroup

## Online Debit Growth Seen Accelerating

PIN-based, online debit cards will make up 45.1 percent of all point-of sale transactions by 2007, according to a report from Financial Insights, a research and consulting firm in Framingham, Mass. Over that time period, online debit should see an annual growth rate of more than 35 percent.

At the same time, Financial Insights expects the growth of signature-based, offline debit to slow over the next two years and cease by 2007.

The move toward online debit was spurred

by last year's settlement of the Wal-Mart lawsuit against Visa and MasterCard. Merchants suddenly found themselves with more influence, and began to actively move to the less expensive alternative of online debit. Some stores refused offline debit transactions.

Online debit can be expected to continue growing, thanks to several factors, Financial Insights reported. First, online debit is likely to remain less expensive than offline debit, leading to increased merchant acceptance. Customers have also proven to be strong proponents of online debit. A survey from Edgar, Dunn & Company discovered that consumers significantly prefer PIN-based transactions to signature-based ones. ✕

## Debit Card Redesigns Are Under Way

Since Jan. 1, every new Visa debit card issued has been required to include the word "debit" somewhere on the card. This design feature was mandated as part of the settlement that Visa and MasterCard reached with Wal-Mart last year, according to Visa.

By July 1, 2005, 80 percent of outstanding Visa debit cards will have to incorporate the new design feature, according to Visa, and by Jan. 1, 2007,

100 percent of cards will have to be ready. The design change is intended to help customers and retailers clearly distinguish between a credit card and a debit card. ✕

## Charging Big Macs and Cab Fares Getting Easier

McDonald's fast food restaurants and New York City and Chicago cabs have mapped out plans to expand their acceptance of card payments.

By the end of 2004, McDonald's expects to double the number of its restaurants that accept credit and debit card payments. Thanks to agreements it has reached with five payment brands, 6,000 of its restaurants will accept credit and debit card payment by the end of the year.

More than 3,000 of McDonald's 13,000 U.S. locations currently accept credit and debit cards, but all have been negotiating individually with card networks. The corporate-level agreement, reached with American Express, Visa, MasterCard, Discover and Star, will make it easier for stores to accept card payments.

Several other fast food restaurants provide credit and debit payment options. Wendy's International, for example, accepts payment cards at 70 percent of its locations in the United States. In 2003,

### ACB Taps Drozdowski For Expanded Role

ACB has announced the promotion of Rob Drozdowski to vice president for payments and technology policy. In his new role, Drozdowski will spearhead ACB's increased involvement in cutting edge legislative and regulatory initiatives. Drozdowski, who joined ACB in 2000, was previously a senior regulatory specialist.

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consumers made \$6.5 billion in Visa payments at fast food locations, a 105 percent increase since 2002.

Cards are also making inroads in several cities through taxicabs. By Nov. 1, 2005, all New York City taxicabs will be required to accept debit and

credit card payments. New York currently has 12,187 cabs. In Chicago, all taxicabs are also supposed to be equipped with readers for credit card payment by June 2004. The original deadline had been in 2002, but the project ran into some technological difficulties. ✕

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## Perspective

# From Paper To Electronic: Communicating the Benefits to Consumers

By Cathleen M. Conforti

Every month, tens of millions of online bill payments are processed – and the number is growing. It's clear that the advantages of online bill payment are resonating with today's busy consumers.

Consider these numbers:

- TowerGroup, said 24 percent of American households—more than 26 million—are now using online bill payment.
- This year, consumers will pay 1.2 billion bills online—everything from cable TV to mortgages—up from 283 million in 1997.
- Once again, MasterCard Remote Payment and Presentment Service® experienced double-digit growth year over year from 2002 to 2003 compared to the same period a year earlier.

Such findings paint a convincing picture for banks and other online bill payment service providers that now is the time to offer online bill payment services to their customers. The numbers also suggest that a significant proportion of consumers still need to better understand the benefits of technology to pay their bills. Every day, millions of Americans are logging on to their banks' Web sites to transfer funds between accounts, but when it comes time to pay bills, 70 percent of people who bank online return to their checkbooks, according to a study by The Polling Company.

MasterCard research has indicated that in order to influence consumers' bill paying preferences, financial institutions need to grow the same trusted relationship they currently have with their checkbook. As consumers become more familiar

with the safety and reliability of electronic transactions, the number of bills paid online will continue to grow exponentially.

Once they understand the benefits of paying their bills through their financial institution's Web site, customers are more interested in online bill payment. Some ideas to increase customer adoption include communications vehicles such as online tutorials or in-branch presentations. As an industry, banks also need to look at expanding capabilities and functionalities to provide a more robust service for their customers.

Successful implementation of online bill payment requires providers to offer a clear incentive for customers to try something new—with clear demonstration of significant benefit—over their current method of bill paying. Attention to the entire customer relationship is critical.

Key areas of focus include:

### Keep it Simple

To achieve widespread customer acceptance, providers must convey clear and comprehensive information about online bill payment. Customers must first understand how the process works. Address the curiosity of how their money will be handled, how bills will be settled and give them peace of mind that their payments are guaranteed. Once that foundation is established, providers must reinforce the benefits of online bill payment versus conventional payment options. Providers must also establish trust in a service's security and reliability before customers will consider going to the Web to pay their bills.

People who do not bank online cite security as

the primary reason. Financial institutions have an already established trusted relationship with their customers. However, visit the online banking section of many financial institutions' Web sites and you will understand why security remains a concern. Security is addressed in terms that the vast majority of Americans don't understand, such as 128-bit encryption and Secure Socket Layers. The security of online bill payment in particular has to be addressed in plain English, with the protections offered by the institution—and the responsibilities of the account holder—clearly spelled out.

### **Know Your Customers**

Evaluating customer demographics and preferences can be challenging, but it should not be overlooked. For instance, providers should ask customers about their preferences for receiving and paying bills online. If you understand their needs, you'll be able to provide a multitude of financial services in addition to a robust online bill payment service. For example, when a customer takes out a car loan, it provides a perfect opportunity to "show and tell" them that their payments can be made online through the bank's Web site. And that is the secret to staying connected to your customer by offering end-to-end financial management solutions.

### **Implement an Integrated Communications Program**

Consistent communications is the key. Providers should consider a variety of methods—including incentives and using high-profile promotional campaigns—to accelerate activation of online bill payment services and ensure that customers will keep using them. MasterCard's research has revealed that consistent efforts to reach the customer—by way of the bank Web site, direct mail, and targeted e-mail marketing—offered the most effective consumer awareness. Let's not overlook the importance of superior technology and

world-class customer service, two key ingredients to leaving a lasting impression on happy customers.

### **Stay Ahead of the Technology Curve**

Online bill payment providers need access to best-in-class technologies that enhance their ability to execute a flawless online experience. A new generation of consumers is coming up that is who are technologically savvy and has greater expectations for online solutions. To meet the expectations of this new customer, the technology and functionality of online bill payment must evolve. This will mean working toward enhancements such as real-time processing, instant enrollment, and aggregation of accounts.

### **Customer Service**

Customers facing unfamiliar territory must be supported every step of the way, or providers risk losing them. The availability of effective customer assistance from well-trained employees—on the phone or over the Internet—is critical to customers who are not used to managing their finances online. Be prepared to receive a high volume of questions—some more simple to address than others—especially during the launch of an online bill payment program.

### **Delivering the Goods**

The growth potential of online bill payment will be realized only if providers carefully address all facets of the customer relationship. Those that do will gain a significant advantage. Let's not overlook the fact that active users lead to increased customer retention. According to Gartner research, bill payment customers consider the online banking tool so important in managing their finances that they are 50 percent less likely to leave the bank. ✕

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TransAct is published four times per year as a free service to members.  
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Send order requests to: Customer Service, ACB,  
900 19th St., N.W., Ste. 400, Washington, DC 20006 or send a fax  
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