

# TransAct

Debit Cards | Credit Cards | ATMs | Payments



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## Debit Card Acceptance Counts with Consumers

More than half (51 percent) of all consumers would consider leaving a store and going elsewhere if their debit card was not accepted, according to a Harris Interactive study.

Nearly two-thirds of customers (63 percent) would react unfavorably to a store that stopped accepting debit cards. The study, sponsored by MasterCard International, involved 2,465 people, and underscored the growing popularity of the debit card.

More than three-quarters of respondents lauded the speed of a debit card transaction, especially its ability to save the consumer time. Over 80 percent noted that their debit cards are more convenient and safer than carrying cash.

Consumers indicated that it was important to be able to use their debit card in non-traditional locations, such as the Internet and phone-based retail. ✕

### Gift Cards Gaining Ground

Nearly 60 percent of all consumers received a gift card over the recent holiday season, according to a study by Deloitte & Touche.

Gift cards that were tied to a specific store were by far the most popular, with 81 percent of the surveyed consumers receiving at least one. Ten percent of the surveyed consumers received a card that could be used at a variety of establishments, such as an American Express or MasterCard gift card.

The survey, which involved 3,658 consumers, also determined that half of them had already fully or partially redeemed their gift card.

Gift cards are also growing increasingly valuable, according to a separate study from Paymentech, a payment transactions processor. Sixty percent of gift card customers are spending more than the face value of their cards.

### MasterCard Challenges Visa 'Settlement Fees' in Court

In a ruling in early December that could further unsettle the debit card market and increase tensions between MasterCard and Visa, U.S. District Court, Second Circuit Judge Barbara Jones found that Visa's debit card settlement service fee was unlawful. However, she did not issue an injunction against the fee, asserting that she lacks the jurisdiction.

Judge Jones said she would have the authority to order the rescission of Visa contracts signed by issuers facing significant fees if her ruling in an earlier Department of Justice antitrust lawsuit is upheld on appeal. One of the components of the antitrust case ruled against MasterCard and Visa programs designed to prohibit rivals from gaining access to the network of banks the two associations had created. A full appeal is expected before the Second Circuit Court of Appeals.

MasterCard filed the motion for an injunction in September, after Visa failed to act on a cease

and desist letter. MasterCard has argued that Visa is stifling competition and inhibiting its member's freedom of choice.

Following the Visa/MasterCard settlement of the WalMart lawsuit, Visa informed its top 100 debit card issuers that they would have to pay a settlement service fee proportionate to their share of Visa's total debit-card volume should they wish to end their Visa membership. ✕

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## Americans Reduced Average Credit Card Debt in 2003

Americans may be getting a handle on their credit card debt, according to a study from Myvesta.org. In 2003, debt dropped 29.4 percent, with the average American now having credit card debts of \$2,294 as compared to a debt of \$3,250 in 2002.

"Over the past year we have seen many people lower their credit card balances by cutting back on their credit card use or tapping the equity in their homes," said Steve Rhode, president and

## Buzzwords

**Offline Debit-** A transaction that takes place at terminal and is signature based. The account is debited two to three days after the transaction.

**Online Debit-** A transaction that takes place at an ATM or POS terminal that is PIN based. In this case, the account is immediately debited.

co-founder of Myvesta.org.

Other study findings determined that men carry more credit card debt than women, averaging \$2,877 compared to the average women's \$1,733. Americans between 35 and 44 averaged the highest amount of credit card debt, at \$3,846. Americans between 18 and 24 carried the least card debt, averaging \$1,208.

While credit card debt is declining, the study discovered that people already in serious debt are having a hard time becoming financially responsible. Myvesta clients saw their average credit card debt rise to \$77,036 in 2003, up from \$52,210 in 2002. Those facing large amounts of debt should seek professional help for their financial difficulties, Rhode said. ✕

## District Court Acts on FTC Credit Card Complaint

Acting on a complaint from the Federal Trade Commission, the U.S. District Court for the Southern District of Florida has issued a temporary restraining order against the owners of a national telemarketing operation.

The complaint alleged that the defendants violated the FTC Act and the Telemarketing Rule through customer misrepresentation. Customers were informed that they could receive major unsecured credit cards in exchange for advance fee payments. The complaint also stated that the defendants violated the Gramm-Leach-Bliley Act by utilizing false statements to obtain customer bank account information.

The three defendant companies are Sun Spectrum Communications Organization, Inc., North American Communications Organization, Inc. and WWCI2002, Inc. Consumers with poor credit were contacted by the above companies and informed that they could receive major credit card with \$2,500 limits in exchange for processing fees of \$197 to \$300.

Consumers were told that they had been contacted due to their poor credit, and the credit cards were offered as a means to restore good credit. They were then asked for bank account information as well personal information such as mother's maiden name. No credit cards were ever delivered. In certain cases, consumers received a book on repairing their credit as well as a list of bank's offering credit cards.

## *Perspective:*

# The Importance of Debit

*By Stan Paur*

A dramatic shift is occurring in how consumers pay for goods and services.

Dove Consulting, which studies payments, found that U.S. consumers used their debit cards more than 16 billion times to make a purchase. Debit card usage is increasing by more than 25 percent a year. Merchants are promoting the less expensive PIN debit, while financial institutions encourage cardholders to use debit cards with a signature. Taken together, these initiatives have elevated debit as a payment of choice for consumers.

Debit's emergence has been accompanied by litigation. PIN debit was introduced in the 1980s by regional shared EFT networks like STAR, PULSE and Iowa Transfer System. The credit card associations initially focused their attention and resources to their signature-based programs. The significantly higher interchange rates associated with the Visa Check and debit MasterCard products appealed to issuers. The average interchange, the amount paid to issuers by retailers on PIN debit transactions, is around 19 cents. Merchants pay on average about 38 cents for a signature debit transaction performed with a Visa Check or debit MasterCard.

Retailers viewed the disparity between signature- and PIN-debit interchange fees as unwarranted and unlawful. In 2003, merchants ended a six-year antitrust dispute (a.k.a. the Wal-Mart suit) by extracting agreements from Visa and MasterCard. The deal compelled those organizations to reduce fees on signature debit cards and eliminate the "Honor All Cards" rule.

The settlement profoundly affects financial services. Retailers won new rates that will pare income to financial institutions by up to \$100 billion over the next decade. Merchants now can influence financial institutions' payment products even down to the design of debit cards. The influence of the associations over debit payments has been marginalized. Significantly for the merchant community, retailers can be expected to oppose

and challenge any changes, however justifiable, in interchange fees paid for debit authorizations.

Never mind that PIN debit authorization fees were, unlike their signature debit counterparts, undervalued for years. In the aftermath of the Wal-Mart suit, convincing retailers that an increase in PIN debit fees is warranted will be a most daunting task.

Having been involved with payments and financial institutions for more than 20 years, I am struck by how many institutions have failed to fully appreciate the strategic significance of debit and electronic payments. Controversy surrounding debit resonated in 2003 when debit card issuers saw their signature debit card revenues suddenly slashed by 30 percent. For the first time, industry executives realized that the costly litigation would hit home.

A 2003 study of litigation and regulatory trends in the United States by the law firm of Fulbright and Jaworski concluded that additional and equally damaging outcomes may be in store for the card associations. Setbacks, particularly in high profile cases like the Department of Justice's suit claiming antitrust violations against Visa and MasterCard, could further weaken these organizations and erode banking's influence over debit and other electronic payments.

Debit, whether PIN- or signature-based, involves accessing the valuable information a financial institution has on its databases. The exact value of supplying that data is at the heart of the arguments and controversies over debit. Every financial institution, regardless of size, is affected. With billions of dollars in authorization fees at stake, it is critical that the financial industry and their trade associations fully appreciate the importance of debit for the financial community.

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*Stan Paur is president and chief executive officer of PULSE EFT Association based in Houston.*

**Editor's Note:** TransAct welcomes submissions for the Perspective column. For more information, please contact James Swann at 202-857-3198 or via e-mail at [jswann@acbankers.org](mailto:jswann@acbankers.org).

## Debit Replacing Credit as the Preferred Card, Study Says

Debit cards were the most preferred cards to make purchases with, according to research from Edgar, Dunn and Co., a strategy consulting firm.

More than 6,500 customers took part in the PaymentDynamics 2004 Preferred Card Study. Thirty-eight percent stated that they preferred using a debit card to make their purchases. Out of the remaining customers, 36 percent preferred a standard credit card, 33 percent preferred co-branded cards and 25 percent preferred loyalty cards.

Referring to the study results, F. Alan Schultheis, a director with Edgar Dunn, said that the debit card preference was driven by more than just ease of use and convenience. "The study shows debit card use is tied to consumers' increasing commitment to greater personal financial discipline," Schultheis said.

The study also revealed the turnover levels within the payment cards industry. More than half of all surveyed consumers reported carrying a debit or credit card that they didn't have a year ago. In addition, nearly 40 percent of consumers stated that they had canceled or reduced their use with an average of two payment cards.

Reward programs proved to be popular across all card categories. More than one-third of participants stated a preference for cards offering rewards, such as airline miles and hotel accommodations. Even if they are carrying a balance on their card, consumers are happy to be earning reward benefits.

Six out of 10 survey participants have chosen rewards-based cards for their preferred card, while 90 percent indicated that they would not reduce their usage or cancel their reward card. ✕

## Short Takes

*The Department of Justice has reached a proposed agreement with Concord EFS and First Data Corp., allowing the two companies to merge by the end of first quarter 2004. Both companies are engaged in electronic payment transaction services. As part of the agreement, First Data will divest itself of a 64 percent ownership of the NYCE Corporation, an electronic funds transfer network ... The Federal Reserve is planning to conduct two studies that will examine the level of check and electronic payments, respectively. Results are expected later in the year. The two studies will build on data collected in 2001 ... Debit cards are the fastest growing payment option, according to the Federal Reserve. Checkout-based PIN pads grew to 2.5 million in 2002, up from 40,000 in 1998. Signature-based debit still holds a lead over PIN-based debit ... As of Feb. 1, 2004, Wal-Mart stores stopped accepting signature-based MasterCard debit transactions. Signature-based transactions make up less than one percent of the store's revenues. Most customers will still be able to use their signature-based cards through PIN-based networks ... 56 million U.S. households are expected to be banking online by 2008, according to a study from Jupiter Research. Out of that number, 85 percent will pay their bills online. At present, 29.6 million households bank online, with 50 percent paying their bills online as well ... Visa has introduced Visa Extras, a payment cards reward program designed to help financial institutions deliver increased rewards to small business and consumer customers. Visa research has shown that almost 70 percent of small business customers would find more value in a payment card that allowed for rewards associated with everyday business purchases.*

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