

Protect Your Debit Card Revenue

There is new competition in the debit card arena targeting your members—the new “decoupled” MasterCard from Capital One. This new card threatens credit unions’ relationships and revenue. This new card can be linked to any checking account and used for purchases and ATM withdrawals, just like credit union debit cards. Right now, the card is only available to select Capital One credit card users, but will be widely available in 2008.

“This is a huge issue for credit unions, especially when you consider the growth in debit card usage that has been occurring in recent years,” said Robert Hackney, CSCU President. Based on recent research, debit card income is \$40-\$50 a year per DDA account, and based on usage trends, that can be expected to grow 50%-100% in the next three to five years. “It’s also a great opportunity for credit unions to educate their members on the benefits of having debit and credit cards with their credit union. These benefits typically include lower APRs and fees,” said Hackney.

What’s the potential appeal of this new card?

Better rewards. Unlike many debit cards today, which come with little or no rewards at all, the new Capital One MasterCard Debit Card will offer rewards nearly as generous as credit cards. Capital One credit cardholders will also be able to pool their rewards. Those who don’t have a Capital One credit card will be able to choose from a number of co-branded debit cards issued in partnership with various retailers (not yet announced) and earn bonus points at the retailer. Capital One promises there will be no fees associated with it, unless the user’s financial institution imposes its own fees. In addition, this new card will come with MasterCard’s zero liability protection.

Why is this card bad news for credit unions?

The bad news for credit unions, and banks alike, is that Capital One will be enjoying your interchange revenue while you absorb ACH fees. In addition, when members contact you with issues, you will have to send them to Capital One. This creates an opportunity for Capital One to create a relationship with your members and steer them towards their traditional credit cards.

Credit unions need to react quickly.

CSCU believes that the best way for credit unions to protect their accounts and revenue is for credit unions to begin offering rewards for debit transactions, such that their members will not be enticed by Capital One’s debit card.

According to a 2007 report, only 37% of financial institutions report having a rewards program tied to their debit program.

However, the average total dollars spent on a rewards debit card is \$712 in comparison to only \$562 for non-reward debit cards. In addition, the number of debit cardholders actually using their card in the past month was 14% higher for rewards debit cards when compared to non-reward cards.

CSCU also recommends that credit unions should begin considering offering incentives to members with each new product they participate in, relationship rewards, as a way to maintain or boost member loyalty.

For more information or to discuss card growth strategies, please contact CSCU’s Portfolio Pro, Bill Lehman, 888.930.CSCU or blehman@cscu.net.