



Debit Cards Cash In On Rewards Riches

By MICHAEL SASSO, The Tampa Tribune

Published: February 15, 2008

TAMPA - This summer, Jeff Bridges and his wife and daughter will fly to Poland - first class, no less - for a European vacation by paying for one ticket and cashing in 160,000 airline rewards points for the other two.

Bridges considers himself a "credit card-holic" who racks up as many reward points on his Barclays MasterCard as possible. He almost never uses cash, and uses his debit card sparingly. He makes sure he pays off the credit balance every month so he doesn't owe interest, said Bridges, an operations executive for Melitta Inc., the Clearwater-based coffee company.

"I wouldn't use my debit card unless they gave me something in return," said Bridges, who racks up thousands of rewards points flying to Melitta's plants.

Bridges and other credit cardaholics soon may use their debit cards more often.

Some banks and credit unions locally and nationwide are starting to offer rewards programs for debit cards, which traditionally have been the domain of credit cards. Locally, the Tribune talked to three institutions that have started it: Suncoast Schools Federal Credit Union, which launched it about a year ago; Bank of Tampa, which started last month; and Wachovia, which launched in July.

The endgame for financial institutions: to get people to use plastic as much as possible, whether credit or debit, and eschew cash. Credit and debit transactions both generate fees that are paid to banks and credit unions.

Debit card rewards could be a win for consumers who want to rack up more rewards points than ever. But retailers may grow to hate it, because they ultimately pay the credit and debit card fees that enrich financial institutions. Retailers warn that they will have to pass along those costs to consumers through higher prices.

"To the extent they're adding points to it, they're making a bad system worse," said Mallory Duncan, general counsel and senior vice president of the National Retail Federation, an industry trade group.

The use of credit and debit cards has grown exponentially, as have card processing fees. According to retail federation estimates, Visa and MasterCard collected \$42 billion last year in "interchange fees," which make up the largest portion of the fees. That's up from \$36 billion in

2006, and it has more than doubled since 2001, when Visa and MasterCard collected \$16.6 billion. The majority of that money went to the banks and credit unions that partner with Visa or MasterCard.

Financial institutions especially want customers to sign for a credit or debit transaction, rather than entering a personal identification number. That's because banks can earn double the fees from signature transactions than they can for PIN-based transactions, said Robert Hackney, president of Card Services for Credit Unions, a service firm for credit unions.

On the average debit card purchase, which is \$38, the interchange fees run 50 to 55 cents when a customer signs the receipt. On that same \$38 purchase, the interchange fees are about 25 cents when the customer punches in a PIN, Hackney said.

"If you are a debit card issuer, you want your cardholders to sign for the transaction," he said.

To encourage people to sign, banks and credit unions have created the huge and growing use of rewards programs. In most cases, customers only earn points when they sign for transactions, Hackney said. So far, offering points for debit transactions is fairly uncommon, but it's picking up steam nationwide, Hackney said.

Last month, the Bank of Tampa enrolled its debit card in Visa's rewards program, Visa Extras, to encourage people to use a Bank of Tampa debit card, said Chris Sinton, the bank's marketing director.

Suncoast Schools Federal Credit Union of Tampa, one of the nation's biggest credit unions, enrolled in a debit rewards program called ScoreCard in April, said Tom Dorety, the credit union president.

Some banks and credit unions are launching debit rewards programs to drive people to use their cards, but it may be a defensive move for others, Hackney said.

Credit card giant Capital One is getting into the debit card business, testing a new "de-coupled" debit card in an unnamed location. This de-coupled card would allow customers to debit their own bank accounts - even if the customer doesn't have a checking account with Capital One.

Credit unions and banks are cautiously watching Capital One, Hackney said, because it aggressively markets its rewards program. Many rewards programs offer airline miles for a single airline, but Capital One's program offers miles for several airlines.

The fear is that customers will sign up for Capital One's new de-coupled debit card and stop using their bank or credit union cards. That would give Capital One all the interchange fees, and cut other financial institutions out of the picture. It also would partly sever the relationship between a bank or credit union and its customers, Hackney said. Because of the threat, Hackney is advising his credit union clients to launch their own debit rewards programs.

Banks and credit unions say Capital One is trying to capture all the fees for itself, but Capital One spokeswoman Pam Girardo said it's a customer service move.

"We believe it's a good thing to offer consumers choices when it comes to earning rewards on

their purchases," she said.

None of this is good news for retailers.

"Obviously we'd rather see customers use cash, because we're not having to pay the credit card companies," said Ron Sacino, chief executive of St. Petersburg-based Sacino's Formalwear.

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