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# DEBIT OPTIMIZATION IMPROVES REVENUE AND RETAINS MEMBERS

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A Research Brief by:

**CSCU**

CARD SERVICES FOR CREDIT UNIONS

# Debit Optimization Improves Revenue and Retains Members

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Debit optimization is the process of converting members who use checks, cash, and ACH for making payments to using debit cards instead. This practice helps credit unions generate revenue from what used to be non-revenue transactions, significantly reduce operational costs, and improve member retention—three benefits that have a big impact on credit union performance.

Nilson reports that 39 percent of the nearly \$7.7 trillion in purchases made in the U.S. in 2010 were made with checks or cash. These two payment methods do not generate revenue for credit unions and in fact increase expenses because they are higher-cost transactions (\$0.14 for checks and \$0.05 for ATM cash withdrawals according to a 2011 McKinsey & Company cost study). About half the checks were written to pay bills and half the cash spent on retail purchases—two spending behaviors that are prime targets for conversion to debit.



**Bill Lehman**  
VP of Portfolio  
Consulting Services

“As more members migrate to debit cards, credit union efficiency goes up, transaction costs go down, and more interchange income is generated,” says Bill Lehman, vice president of portfolio consulting services for CSCU.

It is also safer for members (and the credit union) if members use debit.

“PIN transactions definitely cut down on fraud,” comments Michelle Evans, senior consultant to CSCU.

A debit card can also be an excellent budgeting tool. It’s easier for most people to stay within budget if they pay with a debit card and see transactions and balances immediately, rather than using a credit card and having the charges appear a month later.

A “softer” benefit of debit usage is that it keeps the card and credit union “top of mind” for the member. Debit cards help the total relationship between members and their credit unions because they often lead to a deeper awareness that results in easier cross-selling of services and reward programs.

“What better daily bonding/branding experience than having members use their credit union debit cards every day?” asks Barney Moore, senior consultant to CSCU. “It provides a constant reminder of the value of the relationship they have with their credit unions.”

## Key Debit Trends

Many banks are facing billion-dollar losses in interchange income. The cap on debit-card transaction fees imposed by the Dodd-Frank Act is forcing banks to recover this income by eliminating rewards programs and free checking and adding a host of new fees—which have their customers annoyed and ready to bolt.

This situation has created the perfect opportunity for credit unions to push hard to market their debit-reward programs, not only to attract new members from banks but also migrate current cash/check users over to debit.



**Barney Moore**  
**Senior Portfolio**  
**Consultant**

“In the near term,” says Moore, “almost all credit unions will have a significant competitive advantage over non-exempt issuers (\$10 billion in assets or greater) due to the higher interchange and the ability to offer robust rewards programs for debit card usage. Credit unions will be able to offer more benefits with debit cards than non-exempt issuers can, due to better debit economics. It is a tremendous window of opportunity.”

Surveys show that debit is the preferred transactional tool of the millennial generation. “The debit card is critical for attracting younger members and keeping them long enough to turn them into loyal members,” says Lehman. “Debit is the perfect tool for targeting this younger, tech-savvy audience.”

The number of debit transactions continues to exceed credit transactions. Further, because of the recent economic downturn, more consumers are using debit in an effort to keep debt low and rely instead on existing funds. Debit is also increasingly being used for small payments such as quick service restaurants (QSRs) and recurring payments.

Consumer interest in rewards programs is at an all-time high and rewards definitely drive increased usage. Considering how debit usage is good for the bottom line, and the current competitive advantage credit unions have over banks, now is the perfect time to find innovative ways to increase debit usage, while at the same time enhance the value of the overall member relationship.

## Create a Debit Optimization Plan

The first step is educating membership about the benefits of the debit card. Regularly inform members that debit can be used for:

- Everyday purchases
- Getting cash back at the retailer instead of going to the ATM
- Paying monthly, recurring bills

- Paying bills instead of using checks or cash
- Small payments and QSRs
- Online purchasing
- Health care co-pays and self pay components



**Michelle Evans**  
Senior Portfolio  
Consultant

“Basically a debit card can do anything a credit card can do and more—for example, cash back in the grocery store line with a debit card is a huge convenience,” says Evans.

“This is the ideal opportunity to educate members about how easy it is to get cash at the point of sale, instead of going to an ATM and being charged an ATM transaction fee,” adds Lehman.

Move out on all fronts and educate all member segments with consistent messaging that targets each segment. Keep in mind that the segments most willing to use debit are cash/ATM users, check writers, and individuals who want to avoid using credit cards. These groups have the highest debit penetration and the least reluctance to use debit. Other key debit-optimization strategies are:

- **Deliver comprehensive member education campaign/materials** through all sales and marketing channels—this should include collateral such as tent cards, MSR buttons, checking statement inserts, website, etc. (i.e., create a pervasive theme).
- **Promote all forms of debit payment**—signature, PIN, recurring payments like utilities, cell phone, membership dues, etc. The bill-pay possibilities with debit are especially attractive because bills tend to be higher revenue transactions, and represent steady, monthly income to the credit union.
- **Emphasize the ease of getting cash at the point of sale.** Phase out ATM-only cards if possible and promote the debit card as the ATM card replacement.
- **Issue debit cards with every new checking account.** When new debit cards are issued, explain their benefits and how to use them. Older customers tend to be the most resistant—“if they don’t understand it, they won’t use it,” says Moore.
- **Create rewards for using debit.** For example, give members who sign up for automatic bill pay double points. “Structure a program that rewards a combination of behaviors such as “x” number of debit transactions, “y” number of bill pay transactions, and “z” number of direct deposits,” says Moore. “The key is encouraging transactions that create revenue and or reduce costs for the credit union and/or encourage utilization of technological efficiency investments already made by the credit union.”

- **Quantify debit optimization benefits.** Find out how your credit union could benefit by leveraging the optimization model at the CSCU website ([www.cscu.net](http://www.cscu.net)). As an example, if a credit union processes a total of 400,000 check, ACH, and ATM transactions every year, migrating 25 percent of these transactions to debit provides a total annual benefit of \$76,100.
- **Utilize portfolio analytics tools** to optimize your portfolio and drive cardholder behaviors that increase your interchange revenue and bottom line. For more information on portfolio analytic tools, check out the CSCU website ([www.cscu.net](http://www.cscu.net))

“Creating and running sensitivity models utilizing the key performance drivers of penetration, activation, and usage can illustrate how small changes in these metrics can lead to dramatically improved debit revenue. This sort of analysis leads to the development of targeted marketing strategies and tactics aimed at increasing specific drivers of growth and profitability, ultimately giving you the foundation for success,” concluded Moore.

