

THE *BLUE* PAPER

◆ July 2009 ◆

As Credit Card Use Continues To Drop, Debit Card Use Rises

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The Current “Credit Concern” Makes This The Ideal Time To Market Your Debit Card

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Credit card volume has plunged by 9.7%. This is the sharpest drop in dollar terms since federal records began in 1968.

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— Zach Pandl,
economist,
Nomura Securities
International

As consumer borrowing plunged more than expected this year, lenders began to notice something very revealing: The decline was led by *a record drop in credit card use*.

Credit card volume plunged by 9.7% (which annualizes to a drop of \$7.8 million dollars). This is the sharpest drop in dollar terms since federal records began in 1968, according to the Associated Press (April 8, 2009).

It is also the steepest percentage fall since 1978.

“Consumers don’t want to borrow as much; they want to build up their savings,” says Zach Pandl, economist at Nomura Securities International. “People are adjusting to new spending habits.”

BUT DEBIT CARD USE IS UP

“Despite the economy, the numbers are in,” says Mark Fenner, Senior VP at TNB Card Services, “and transaction trends all point to steady increases in debit card usage.”

A recent Nilson Report shows that as early as the year before last (2007), debit cards already accounted for the majority of card purchase transactions — actually 56.2%. And within three years (by 2012), debit cards are projected to account for almost two-thirds of the card market (60.9%).

Consequently, as credit card use drops and debit card use increases, it appears to be the ideal time for Credit Unions to market their debit cards.

FACTORS DRIVING THE DEBIT CARD INCREASE

A variety of factors are spurring the debit card upsurge. Recent studies show that debit cards are the favored payment method for the prized demographic market — 18 to 34 year olds.

According to Fenner, there is a noticeable shift away from going to an ATM (and getting cash for small purchases) to using a debit card for things like “filling the gas tank or picking up the dry cleaning.”

And a study by the American Bankers Association and Dove Consulting documents that the debit card is now the preferred (and most used) method of payment in all stores.

A study by the Raddon Financial Group also found that shoppers were more inclined to use a debit card for purchases amounting to less than \$25.

FACTORS DRIVING THE CREDIT CARD DROP

Two major factors are spurring the credit card decline.

The biggest is the recent shift in Member thinking from spending to saving, caused, of course, by the recession.

But almost as important is the bad publicity gushing from almost all media sources about fees attached to credit cards. (See the *Blue Paper* for May, 2009, titled “A BIG FIRESTORM THAT COULD TAR AND FEATHER CUS ALONG WITH BANKS. ALERT: THE MEDIA KEEPS CHURNING OUT WARNINGS ABOUT ‘FEES, FEES, FEES.’” (You can request a copy from your local AIL representative or get a copy from the AIL Credit Union Center at CUCenter@AILife.com.)

The recently enacted legislation regulating credit cards has shown a bright spotlight on what Congress has called deceptive practices. Senator Chris Dodd (CT-D), chairman of the Senate Banking Committee, publicly stated that the reforms are an effort to stop what a *New York Times* editorial (April 6, 2009) called “tricks and traps that have ensnared and infuriated millions of bank customers. These bait and switch tactics are unfair and deceptive.”

Even more surprising is the Associated Press report (April 9, 2009) that the New York Attorney General has pressured Chase Bank into ending what was an “illegal” \$10 monthly fee on credit cards imposed last November.

All this negative publicity, combined with the fiscal pressures of the current financial crisis, is swinging the pendulum away from credit cards to debit cards in a very big way.

TWO BIG ADVANTAGES FOR CREDIT UNIONS

The bottom line, of course, is that this is the perfect time to begin a major marketing campaign for your debit card — for two reasons:

First of all, an increase in income from debit card use will be needed to offset any decrease in income from your credit card activity.

Second, as stated by the Texas Credit Union League in their Spring 2009 publication, “The more your Members use their debit cards, the more likely they are to consider your Credit Union to be their primary financial institution.”

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This is the perfect time to begin a major marketing campaign for your debit card.

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AN EASY “ADD-ON” TO A DEBIT CARD PROMOTION

Credit Unions are also finding that another lucrative market that can be promoted at this time is the *prepaid* debit card. Its popularity has skyrocketed in recent years.

There are as many advantages for the Member as there are for the Credit Union in the potential of this product.

(You can request a copy of the February 2009 AIL *Blue Paper* — “THE PREPAID DEBIT CARD: SEVEN MARKETING STRATEGIES” — from your local AIL representative. Or get a copy from the AIL Credit Union Center at CUCenter@AILife.com).

CONCLUSION

The current fiscal crisis is eating into credit card use and offering tremendous opportunities for debit card activity.

This, of course, makes it the ideal time for a major promotion by any Credit Union. ◆

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