

Debit Industry Changes Markedly in 10 Years of Debit Issuer Study

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Typical Debit Card Is Used 21 Times per Month at POS, a 32 Percent Increase in Usage Over the Past Decade

The *2015 Debit Issuer Study*, commissioned by PULSE, one of the nation's leading debit/ATM networks, highlights the underlying trends that have contributed to the rise of debit during the 10 years since the study was introduced. The analysis of the past "Decade of Debit" finds the use of debit increasing significantly at the point of sale:

	2005	2014
Monthly POS Transactions per Active Debit Card	16.1	21.2
Annual Spend per Active Debit Card	\$7,807	\$9,291
Average Ticket Size	\$40	\$37
Monthly ATM withdrawals per Active Debit Card	3.4	2.0

"The past decade saw a major shift in consumer preference to paying with debit cards, which accelerated after the 2008-2009 recession," said Steve Sievert, Executive Vice President of Marketing and Communications for PULSE. "We believe there is still opportunity for debit growth, considering that consumer use of debit for smaller purchases is rising, and the average active debit card is used about five times per week."

Debit extends lead as Americans' preferred payment method

Ten years ago, debit cards had just overtaken credit cards as consumers' most commonly used payment method. Now, there are over 50 billion PIN, signature and prepaid debit transactions in the U.S. every year, according to the Federal Reserve – almost twice as many as credit, the next most commonly used non-cash payment method. The average active cardholder conducted 23.2 debit transactions (POS and ATM) per month last year, according to the study.

During this decade, the average debit cardholder increased usage of debit at the POS by 32 percent. In the same timeframe, card use for ATM withdrawals declined by 41 percent.

"Consumer use of debit has been nothing short of remarkable," said Tony Hayes, a partner at Oliver Wyman, who co-led the study. "Debit has steadily gained wallet share as consumers shift their spending to this payment type. The use of debit for small-ticket purchases is particularly noteworthy, where one-third of all debit transactions are for less than \$10 – purchases that historically would have been made with cash or not at all."

Debit economics

Ten years ago, financial institutions reported receiving a weighted average interchange of \$0.41 for each consumer debit transaction. The introduction of Regulation II, which went into effect in the fourth quarter of 2011, fundamentally changed debit economics.

The interchange rate cap in Regulation II limits per-transaction interchange to large issuers (\geq \$10 billion in assets), while issuers with less than \$10 billion in assets are exempt from this requirement. In 2014,

regulated financial institutions earned a weighted average of \$0.24 per debit transaction, and exempt financial institutions earned \$0.40, according to the study.

In addition to tracking debit interchange rates, the study also reports on debit revenue, beginning in 2008. In that year, debit issuers earned an average of \$81 in annual interchange income per active consumer debit card.

According to this year's study data, exempt issuers generated average annual debit interchange revenue of \$112 per card. Regulated issuers received average interchange income of \$59 per card, with transaction growth helping to offset a portion of the impact of lower per-transaction rates.

"Debit continues to show resilience as a preferred payment type by consumers," said Sievert. "The study reveals that debit remains a key source of non-interest income for both regulated and exempt financial institutions at current interchange rates and card usage levels."

Account acquisition, retention

For the first time, the study collected information on the rate at which financial institutions acquire new account holders as well as lose existing ones, since both influence the total debit card base. Approximately one in five U.S. account holders switches financial institutions each year.

In aggregate, the U.S. banking industry issues 165 million new debit cards per year. The mass reissuance for data breaches and cards for new customers are the two largest drivers of this demand.

About the study

The *2015 Debit Issuer Study* is the 10th installment in the series and was conducted by Oliver Wyman, an independent management consulting firm. The study provides an objective fact base on debit card issuer performance and financial institutions' outlook for the debit card business. Seventy financial institutions – including large banks, credit unions and community banks – participated in the study. Collectively, the participants issue approximately 147 million debit cards, representing approximately 47 percent of total U.S. debit transactions. The sample is representative of the U.S. debit market in terms of institution type, geography and debit network participation.

About PULSE

PULSE, a Discover Financial Services (NYSE: DFS) company, is one of the nation's leading debit/ATM networks. Financial institutions, merchants, processors and ATM deployers across the United States and around the world depend on PULSE's comprehensive suite of products and services and its commitment to providing exceptional client service, flexibility, security and superior economics. PULSE also is a resource for debit education, research and knowledge drawn from more than three decades of industry experience. For more information, visit pulsenetwork.com.

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