

# Debit Cards in the U.S., 4th Edition

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## Abstracts

The twin pillars of retail banking revenue—debit interchange and overdraft fees—are under assault. As an integral part of consumer checking accounts, debit card transactions drive interchange revenue and are linked to overdraft fee revenue. On the heels of new check overdraft protection rules, debit interchange has been capped, and electronic debit transactions must now be processed over at least two unaffiliated payment networks. These changes are reshaping the debit card competitive landscape and driving sweeping changes in consumer banking relations, checking account and fee structures, and debit payment network economics.

Packaged Facts' **Debit Cards in the U.S.** guides market participants through these changes and their significance to the marketplace: the evolving trends shaping the debit card landscape, marketplace winners and losers (debit card issuers, merchant acquirers, payment networks and card associations), and the impact these trends have on consumers and merchants.

While we expect debit to remain a checking account lynchpin, the bottom line is that the fee structures banks implement will determine not only the strength of debit transaction growth going forward, but also related growth in credit cards and prepaid cards—and could even spur a renaissance in cash and check. This report assesses the strategies financial institutions are employing to recoup debit and overdraft losses, including changes in fee structures, creative overdraft solutions, the fate of debit rewards and merchant-funded reward trends.

Through consumer survey analysis, this report also evaluates the role debit cards play in the use of other payment types, as well as how fee and account changes affect debit card use. This assessment includes trend analysis on lower-income consumers and Generation Y, two groups significantly impacted by the growth of debit and the consequences of regulation.

Additionally, the report's market size and forecast, estimates of current debit interchange revenue, and analysis of "then and now" debit interchange revenue, are all based on data released by the Federal Reserve just prior to June 2012. This same Federal Reserve data were used to create not only tables, but revenue estimates for small and large banks, as well as PIN/signature.

But the debit card is not merely a payment method but a lynchpin of a wider array of cross-sold banking services. As such, the analysis in this report frames debit card patterns within the wider universe of consumer payment, banking service use, consumer loan product use, and consumer investment.

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- Not much change in one year

- Tiered account structure rewards customers with deeper banking relationship

- Flexible account thresholds

- Senior checking option

- No debit rewards, but customers can still Keep the Change

- Incremental charges for anything out of the ordinary

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- ATM fee refunds—if you've got the money

- Extended overdraft packs wallop, but the grace period creates wider safety net

- Debit rewards alive and well

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- Exerting spending control

- Credit qualification issues less relevant

- Rewards on the way out—fast

High-frequency debit user preferences

Debit-only users more apt to cite creditworthiness

Debit card-credit card users least apt to use debit to control spending

Generation Y v. Swing Generation

HH Income differentiators

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MasterCard

MasterCard client wins help set the stage

Exclusivity death knell helps MasterCard pass 50% threshold

And exposure on Visa-branded cards

PIN share jumps

Going forward: acquirer licensing fee in the works

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Overdraft strategy and fallout

eBanking intended to drive down costs

Quantifying customer base profitability

Debit purchase volume leader

Durbin Amendment impact

\$1.7 billion annual debit interchange hit

But debit volume continues to grow, surpassing credit card volume by 30%

JP Morgan Chase

CARD Act takes a bite

But the card segment is humming

Merchant acquiring business is booming

Debit-driven trends, consequences & strategies

Debit does not exist in a vacuum

If you're not going to generate revenue for us, don't expect a free ride  
We believe this sets the stage for Chase Liquid prepaid  
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Not much change in one year

Tiered account structure rewards customers with deeper banking relationship

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