How to Ride the Tailwinds and Navigate the Headwinds to Debit Growth

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Today's consumers have ever-increasing options when it comes to choosing a method of payment. From mobile wallets and person-to-person (P2P) apps to credit cards and cash, the options are endless. And while the space is crowded, credit unions' legacy debit card programs continued to experience success and growth in 2019. There are some tailwinds to ride and headwinds to navigate when looking to 2020 and beyond.

In 2019, debit experienced growth both in terms of transactions and sales volume, with PSCU comparable credit unions seeing purchase growth of 7.9% and transaction growth of 8%. Although these numbers are slightly down from 2018 growth rates of 9.2% and 10.4%, respectively, the "grow over" required in 2019 to build off of an outstanding 2018 is impressive and further evidence as to why credit unions should focus on their debit card programs' future growth and success.

Growth Factors

There are multiple growth factors across the industry coming together to create a "perfect storm" for debit. First, consumers are choosing to use debit more than they have in previous years. As reported in PSCU's 2019 Eye on Payments study, debit has taken the lead as consumers' preferred method of tender, increasing from 32% in 2018 to 48% in 2019. These findings were in line with PSCU data that showed usage per account rose from 23.7 transactions per card per month in 2018 to 24.6 in 2019 – adding almost 12 more transactions per year being conducted with a debit card.

Additionally, surcharging – when a merchant adds an additional fee to cover the interchange cost of a credit card transaction – is gaining momentum across the U.S. This is due in part to recent rule changes by Visa and Mastercard, a U.S. Supreme Court ruling in favor of surcharging and new services that make adding surcharges more feasible for merchants. As surcharging becomes more popular and frequent at the point of sale, credit card users may choose to pay with debit cards to avoid incurring additional purchasing costs.

Threats

On the other hand, there are still a number of threats for credit unions to navigate in order to continue experiencing growth for their debit programs. There is more competition than ever for checking, including cash incentive amounts for new accounts being at an all-time high and the continued entrance of challenger banks, as well as additional competition for transactions. While many of PSCU's Owners are seeing high growth for debit transactions in the P2P space (i.e., Venmo, Cash App, etc.), some of these digital apps have now added their own debit card to keep money in their app in order to try to capture the spend and/or interchange on their side.

A new threat is declining usage as a result of the impacts from COVID-19. Personal income is the lifeblood of debit and reductions due to unemployment, reduced hours and other changes will have a negative impact. Optimistically, debit has a high propensity for "everyday spend" – groceries, goods and services required on a daily basis for living needs – and usage will continue here. And as the industry and nation emerges from the crisis, confidence in debit is expected to provide a significant opportunity for growth.

Given these challenges, it is critical for credit unions to keep a pulse on and remain close to their members – engaging with them through their digital tools and in branches, surveying them regularly and leveraging the payments thought leadership and consumer insights that partners such as PSCU can offer. This will allow credit unions to remain nimble in evolving their payment strategies to drive satisfaction and growth.

While it will require dedicated resources to ensure programs are consistently optimized, improved and marketed to members, the efforts will be worthwhile as credit unions' debit card programs sail into growth and success this year and for years to come.

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