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U.S. Payment Behavior Likely to Shift Again Soon, says Auriemma Consulting Group

September 20, 2011 (New York, NY): Now that the implications of the Durbin Amendment are sinking in, banks are responding cautiously to the new economics of debit cards. With interchange revenue streams cut in half, most banks will feel the need to begin charging some kind of fee and dropping rewards on debit cards. According to The Debit Report, a syndicated publication of Auriemma Consulting Group (ACG), banks' caution is warranted: new pricing will put a significant amount of spending "in play".

Less than 10% of debit card holders in the June 2011 survey currently pay a fee for their debit/checking, although another 22% have a minimum balance requirement. In the past year, Bank of America and Wells Fargo have stated that they are testing the introduction of various fee structures in certain markets; others, like Citi, have gone on record saying they have no current plans to institute such fees. The Debit Report survey illustrated how participants are vehement and consistent in their dislike of any fees, with most preferring to eliminate reward programs instead.

"Banks are all watching each other because there is a first-mover disadvantage in this case," says Ed Lawrence, Director of the Debit Marketing Roundtable at ACG. "The first-movers to institute debit/checking fees in a given market will experience the most scrutiny and possible attrition, along with negative press; as others follow, customers will have fewer places to move to." He expects most consumers will grumble but pay to keep a debit card, but there will be a group of older consumers who will be content going back to an ATM-only card.

Over one-third of respondents report that their debit card has rewards for usage, and they spend \$551 per month on them, compared to \$370 for non-reward cardholders. "Correlation is not causation and higher-spending customers are more likely to acquire a rewards card. Nonetheless, it raises the question of where that incremental spend will go if debit rewards are eliminated," says Dr. Patricia Sahn, Managing Director at ACG.

Most consumers with debit rewards cards also have credit cards with rewards, Sahn notes. "For these people it makes logical sense to switch their spending to the rewards credit card and pay the full balance every month. However, there is a segment that doesn't trust their own self-control, and they will tend to stick with debit cards because they're perceived as safe."

About Auriemma Consulting Group

Auriemma Consulting Group (ACG) is a full-service management consulting firm serving the payments and lending industries since 1984. The Debit Report is ACG's syndicated market research study of debit cardholders, conducted quarterly in the U.S. With offices in New York and London, ACG consultants are experienced practitioners, drawn from the credit, debit, and prepaid cards, private label, auto finance, mortgage, and retail banking industries that we serve. For more information, contact Dr. Patricia A. Sahm at 212-323-7000 or patricia.sahm@acg.net.