

## EATING OUT AND EATING DEBITS

by [Steve Brown](#)

Everyone likes to eat out at a restaurant now and then. After all, a good meal can fill your belly, add joy to your life, the environment can be fun and when done properly - even your dining companions will have fun. That is why we were sad to see the research results from NPD Group, who watches the restaurant industry closely. They now project the weak economy, job concerns and other factors mean restaurants will see flat traffic for the next 2Ys. The silver lining - the average diner will spend 2% more when they do right now when they dine out. We will watch for this when we next eat out by asking waiters and waitresses how they see things from their vantage point. While anecdotal, it might keep the meal interesting and fun. Speaking of interesting goings on, let's switch over to the banking industry and take a look at the 2012 PULSE Debit Issuer Study conducted by Oliver Wyman (participants issue 87mm debit cards and operate 47k ATMs). As we do, we try to glean information that might be useful for community bank management teams. Right off the top we know regulation in the debit world has been significant and certainly impacted issuers (particularly given the cap on interchange rates). New rules went into effect in late 2011, limiting fees and reducing revenue. Supporting that expectations, the study found the average interchange rate for regulated issuers fell by 55% for signature transactions and 28% for PIN transactions. As a result, issuers were more interested in moving consumers away from expensive signature debit and toward less costly PIN transactions. Also, since revenue is now driven by the number of transactions, rather than dollar amount spent, larger bank issuers are trying to increase smaller ticket activity in a variety of ways. Most interestingly for community banks not subject to these regulations (below \$10B), the study found revenue for this group only declined 3% and the gross margin per debit transaction was twice as high as larger banks. That is good news for now, but the likelihood community banks will be able to hold this ground is sure to shift over time. Get prepared, as larger banks are already adapting their marketing and customer acquisition plans. Businesses too felt some of the impact. Here, the study found an 87% drop in business signature transactions, due to low or no profitability for issuers. As revenue has declined, issuers have adapted by also eliminating debit rewards programs. The study found about 50% of all issuers discontinued rewards programs and 18% said they would do so this year. The rest indicated they did not have a rewards program and would not introduce one given the regulatory changes. Despite the regulatory headwinds, debit cards remain a favored product for consumers. In fact, 76% of consumers now have debit cards and the average active consumer debit cardholder spent \$8,326 on their card in 2011, up from \$7,781 in 2010. A key approach issuers are using right now is to position the debit card as an easy, simple alternative to using cash. Small ticket transactions are being emphasized in marketing and sales literature to increase revenues. As a result, the study found the average debit charge is now \$38 and the median is \$19 (30% of transactions now less than \$10). As you whip out your debit card to pay for your next cup of coffee, donut or other small ticket item, expect to see others around you doing the same. As the study shows, this is one area where significant changes have already begun to move through the system and change how we use our financial tools. In the meantime, as we wait to see how it all ends up, we are content to have a good restaurant meal with friends or family.

### BANK NEWS

#### M&A

Morgan Stanley has reached an agreement with Citigroup to take full control of the Smith Barney retail brokerage joint venture. The two agreed to value the brokerage operation at \$13.5B.

### **Purchase**

Mid-America Bank (\$64mm, KS) will buy a branch from Patriots Bank (\$93mm, KS) for an undisclosed sum.

### **Small Business**

The SBA has launched a new tool (called SizeUp) for small business owners to allow them to do location- based market research and data analysis.

### **Eurozone Ruling**

Germany's constitutional court ruled in favor of the Eurozone's permanent rescue fund (European Stability Mechanism), but left room for the parliament to veto future increases in its size. The move is seen as an endorsement of Merkel's policies and has added support to the markets.

### **Jail & Fines**

The ex-CEO of Peregrine Financial, Russell Wasendorf Sr., faces up to 50Ys in jail under terms of a plea agreement awaiting a judge's ruling. Wasendorf plead guilty to mail fraud, making false statements to regulators and embezzling customer funds. He was indicted on 31 counts of lying to regulators, which carries prison time, a \$7.75mm fine and 93Ys of supervised release following imprisonment.

### **Payday Lending**

CFPB head Cordray said his agency should regulate paycheck advance (payday) loans and that while he recognizes the need for emergency credit, it is important such products help consumers rather than harm them.

### **Jail Time**

Former COO Joseph Braas was sentenced to 15Ys in prison for fraud related to loans he falsified and made up to balance the books of Equipment Finance, PA.

### **QR Codes**

NACHA is proposing guidelines related to using QR codes for bill payments, as interest in the technology application grows. Experts say these codes could be used to allow customers to view statements, make payments, to set up online banking payees and others.

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