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CARDS

Debit Cards Getting Bigger Following in Small Business

■ BY DAVID BREITKOPF

Small businesses, which have lagged consumers in debit card use, are starting to warm to the payment method.

This is welcome news for banks, which benefit because of the increased transaction volume, because businesses tend to spend more per transaction than consumers, and because business cards have higher interchange rates.

In a survey report released last week, Synergistics Research Corp. said 35% of small-business owners told it in August and September that they were using debit cards, compared with 20% in its 2004 survey. The Atlanta company surveyed 600 businesses with sales of \$50,000 to \$5 million.

William H. McCracken, Synergistics' chief executive, said "skeptics" in the card industry have always argued "that what happened on the consumer side was a consumer phenomenon and you can't expect that to occur on the small-business side. This study indicates something quite different from that — finally."

He said there were several factors behind the increase, including a better job by banks of promoting debit to small-business customers and growing vendor and supplier acceptance of payment cards.

Past surveys had indicated low use of debit and low interest in the payment format among businesses that do not use

debit, Mr. McCracken said, but this is also changing.

In 2004, about 10% of nonusers expressed interest in obtaining a small-business debit card. That jumped to 27% in 2006. Small business owners "are now saying, 'Yes, I'm a prospect for this card,'" Mr. McCracken said. "That's a very strong number."

Raghav Lal, the senior vice president of small-business products for Visa U.S.A., said by e-mail that this market is a huge opportunity for banks hoping to convert corporate customers from paper to electronic payments.

He estimated that small businesses spent \$4.9 trillion last year, excluding pay-

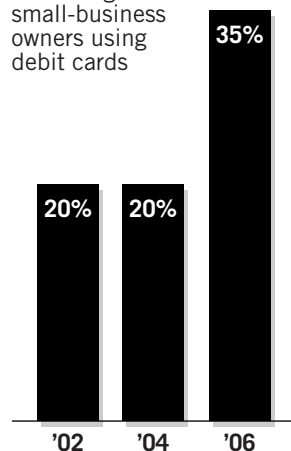
roll, but that less than 5% of those purchases were made with cards.

Businesses and consumers have long taken advantage of float when paying with checks, Mr. Lal said. But paper checks are being processed faster now, often because they are converted to electronic images, which is "motivating small-business owners to use their debit cards more often, gaining all of debit's advantages over paper payments in the process," he said.

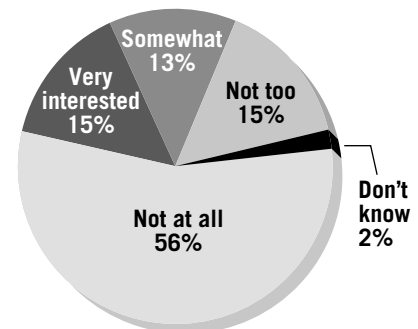
Robert Sims, the director of product management for Chittenden Corp., a bank holding company in Burlington, Vt., said small-business owners are willing to use debit cards at work because they use them at home.

Plastic Appeal

Percentage of small-business owners using debit cards



Responses to 2006 survey question: **Would you be interested in obtaining a small-business debit card?***



*Numbers do not equal 100% due to rounding
Source: Synergistics Research Corp.

“It’s a natural progression,” he said. Someone who is comfortable with consumer debit and owns a small business “will also be comfortable with it from a business standpoint,” he said.

Mr. Sims said his company has made an effort to promote debit cards to its small-business customers. A small-business checking account it started offering two years ago included debit card, payroll, and merchant processing services. Last year the \$6 billion-asset Chittenden did a mailing encouraging its customers to use debit cards, and by yearend the number of debit cards issued to its small-business customers was up 31.3% over 2005.

Mr. Sims said that the average transaction for Chittenden business customers is \$91, against \$40 for consumers, and that the spending from its growing small-business debit customers is boosting overall interchange revenue.

Mr. Sims said interchange rates for his companies consumer cards are 148 basis points, compared to 214 basis points for business cards.

Bruno Perreault, MasterCard Inc.’s senior vice president of small business, that the average debit transaction for the Purchase, N.Y., company’s business customers is nearly twice as large as for its consumer purchases.

He said that many large U.S. banks began to actively “market a business debit product,” last year. Debit cards are both an excellent expense management tool for businesses and “a revenue-generation tool for the bank,” he said.

Cindy Ullrich, the senior vice president for the business banking product management group at Bank of Montreal’s Harris BankCorp Inc. in Chicago, said security concerns may explain business customers’ changing attitudes about

debit. By shifting from cash to plastic, she said, businesses can “reduce the petty cash that they have on hand” for various expenses, which is always susceptible to theft.

And debit cards are more convenient than checks, Ms. Ullrich said. “You don’t have to show an ID when you use debit. At the end of the day, it saves them time.”

Despite increased interest in debit from business customers, suppliers’ reluctance to accept debit cards continues to hinder its growth, Mr. Sims said. “There are some large-dollar-ticket items that, by their very nature, suppliers are going to be reticent to allow customers to purchase with a debit card, because of the interchange rate,” he said.

“A \$1,500 purchase on a debit card is going to cost my supplier \$30, whereas if I had written them a check it’s going to cost them pennies,” Mr. Sims said. ■