

# Store-issued debit cards can help retailers, customers save

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By Kevin Turner

Shoppers whip out debit cards to buy everything from groceries to geraniums and have those amounts conveniently withdrawn from their bank accounts.

But few consider how much those purchases cost retailers in debit card fees or that avoiding those costs can snag them discounts if they pay with a different card.

With the average debit "interchange fee" about 1.3 percent for VISA and Mastercard purchases, it is little surprise that retailers are seeking alternatives.

Now, some shoppers can save substantial sums by using store-issued debit cards that circumvent the interchange fee and provide a discount every time they shop.

Target Corp. is the only large retail store in this area to offer such a card, but several petroleum vendors nationwide have them, including two with stores in the Jacksonville area.

The Target REDcard saves consumers 5 percent on purchases in the chain's stores. REDCard debit card users would get a \$10 discount on a cart full of items that ring up to \$200.

Waycross, Ga.-based Flash Foods Inc. offers a 5-cent-a-gallon discount just for using its GOBLUE payment card like any other debit card. That means customers using their debit card to pay for gasoline save 50 cents to \$1.50 or so every time they fill up, depending on the size of the tank in their vehicles. The cards also net customers 2 percent off most purchases in the chain's convenience stores.

## Gaining popularity

The Target and Flash Foods debit cards use the "Automated Clearing House" data network, or ACH, which withdraws transactions directly from the customer's account. It's the same secure system employers use to deposit checks electronically into employee accounts and millions regularly use to pay their bills through the Internet.

To get one of the debit cards, customers have to provide their checking account routing number and account number, as they appear on the bottom of a check. That doesn't give the vendors access to customer bank accounts or records. And because the cards can't be used without a PIN number, they're more secure than bank cards, said Flash Foods Advertising & Loyalty Manager Jeannie Amerson.

Flash Foods has 175 convenience stores, all but 15 of which are in Georgia. The others are in Callahan, Fernandina Beach, Hilliard, Jacksonville and Yulee. Since May, about 10,000 new customers have taken the chain up on the card offer and are getting the 5-cent-a-gallon discount every time they fuel up using

the GOBLUE card, Amerson said. According to Jacksonville Gas Prices, Flash Foods gas prices in stations around Jacksonville ranged from \$3.03 to \$3.07 a gallon for regular unleaded gasoline Wednesday - in line with the prices other area gasoline retailers charged.

The GOBLUE discount applies regardless of the brand of gasoline sold, whether Shell, Chevron or anything else. Because Flash Foods, not the petroleum company, pays interchange fees, an in-store ACH debit transaction is between the convenience store chain and the customer. The discount also has no bearing on petroleum company-branded charge cards.

Target has the advantage of having its own bank, National Target Bank, so the chain can issue its own credit and debit cards, offering customers a 5 percent discount for using either, Target spokeswoman Mollie Koenst said. Smaller companies have to rely on third-party providers for their debit card services, and Flash Foods has chosen National Payment Card Association of Coconut Creek.

NPC Executive Vice President Danny Portal said his company specializes in providing the debit cards to regional convenience store chains that sell gasoline. Portal said NPC has been around for five years, is currently the largest such company in the petroleum industry and that it expects to add five more convenience store chains nationwide in coming months. The company currently provides such cards to 22 chains nationwide, including Murphy Oil USA Inc., the gasoline retailer commonly found near Walmart stores. According to the chain's website, the "Check Card" nets users 3 cents a gallon in savings.

Idea lacks promotion

National Payment Card can even turn customer driver licenses into debit cards. Because some states - including Florida - issue licenses with a magnetic strip on the back, retailers can opt to have member customers give checking account information and associate that with the license in their computer system. That saves the cost of producing and mailing the plastic cards, and customers can swipe their driver's license right at the pump to buy gas. Currently the only vendors participating in the driver's license debit card system are in Texas, according to the NPC website.

Portal said his company charges vendors about 19 cents per debit transaction, depending on their sales volumes.

That model differs greatly from the current interchange fee system, which charges a percentage - sometimes in concert with a flat fee - for every transaction, depending on the type of transaction. A gasoline vendor, for example, might have to pay .75 percent of every gasoline transaction, plus a flat 17 cents per transaction, according to a VISA schedule of debit interchange fees.

But even considering the benefits to vendors and consumers, it's still been hard getting the word out about in-store debit cards, Portal said.

"This is a market that's very difficult to enter," Portal said. "It's been a monopoly in terms of payment. Being a small company is tough."

Portal said rising gasoline prices will steer more customers toward in-store debit for discounts, but Amerson said promoting the cards has been difficult because there are other cards in the marketplace - and some retailers offer debit card discounts on "prepaid" cards.

"It's a new concept, and people are very skeptical," Amerson said. "The biggest thing is people trusting and understanding it."

Gwenn Bezar, research director and co-founder of financial services advisory company Aite Group, said ACH-based debit cards have done well as a niche product - notably for gasoline retailers - but said he

didn't think the payment method would grow very far beyond that because it doesn't drive enough revenue.

There are negatives, too

For consumers who use the cards there is a downside in the fact that like writing a check or paying a bill through a website, there's no way to verify that a customer has the amount in their checking account. If they don't, the purchases will "bounce" and incur charges. Target's fees range from \$20 to \$40, depending on the state and the amount of the bounced transaction. National Payment Card charges \$20 to \$35 for transactions without sufficient funds.

And most recently, federal banking reform threatens to reel in bank debit card interchange fees, Bloomberg reported. Under proposed Federal Reserve rules, interchange fees would be cut by a whopping 84 percent. Those rules, if implemented, also could affect the National Payment Card business model: the proposed cap of 12 cents on interchange transactions is 7 cents per transaction less than NPC currently charges.

Bezard said the reform regulations could limit the future growth of ACH debit cards to some degree, but it might also enable vendors to further sweeten customer incentives for using the cards. That's because the ACH debit cards largely are exempt from the new regulations, he said.

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