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INCREASE REVENUE & MEMBER SATISFACTION

Credit unions that accept debit or credit payments on loan balances capitalize on purchasing trends and maximize call center value.
| BY CHRIS MARK, PROPAY, INC.

Call centers are strategic assets for member-driven credit unions, and a positive call center experience is paramount to maintaining member loyalty and satisfaction. It is important to maximize the value of the call center without imposing additional risk to the organization. Members want account payment options, and giving them the ability to pay loan balances with any major credit or debit card capitalizes on current payment trends. According to the 2010 Visa Payment Panel Study:

“When it comes to payment preferences, American borrowers have decidedly resolved the ‘paper or plastic’ question. A clear migration away from cash and checks to card and other electronic payment forms has been observed in the nearly two decades that Visa has been conducting its Payment Panel Study.”

The use of “plastic” has continued to trend upward. More than 91% of respondents to the Visa Payment Panel Study use cards in any given month. Check use, meanwhile, has declined to 69%. According to the study, consumers are becoming more homogenous in their payment preferences. Those who use cards prefer to do so for all purchases. Debit card users appear particularly loyal; 36% of respondents prefer to use their debit cards “all the time.” The two factors that preclude wider use of debit cards is non acceptance and insufficient funds.

For credit unions concerned about the risk of accepting credit or debit cards for loan balance payments, it is important to understand the typical credit and debit card user. According to the Visa Payment Panel Study, credit card users fall into two broad categories known as “transactors” and “revolvers.” Transactors account for roughly one-third of credit card users. They use their cards for the convenience and pay off the balance at the end of the month. Revolvers maintain a balance on their cards. As with debit card usage, Visa survey respondents cited lack of merchant acceptance as a primary reason transactors did not use their cards even more frequently.

Debit users tend to be female, younger, married with children, and employed. The typical debit card user is a 38-year old woman, while the typical credit card power user is an older male with a higher income. The Millennial generation, those born after 1980, is an important demographic for credit unions to capture. These consumers have demonstrated an overwhelming preference to use cards rather than checks.

Visa’s Payment Panel Study also shows consumers are increasingly turning to

AUTHOR BIOGRAPHY

Chris Mark is the executive vice president of data security and compliance at ProPay, Inc., a market leader in credit card processing and electronic payment services. ProPay offers complete end-to-end payment security solutions leveraging robust encryption and tokenization. Learn more about ProPay’s LenderPay services at www.propay.com or email lenderpay@propay.com.

BEST PRACTICE: Plastic, Please

Allowing members to make loan payments using their credit or debit card via the call center provides a ripe opportunity to increase revenue and member satisfaction. To maximize return and minimize risk, consider these issues:

COST

Evaluate solutions that enable card payments without posing additional costs. A convenience fee is an easy way to accomplish this.

TRANSACTION TYPE

Evaluate solutions that allow borrowers to make payments without the cost and interest burden of a cash advance transaction. This is beneficial for both the credit union and the borrower.

RISK

Evaluate solutions that allow members to make payments by card without increasing risk and regulatory burden to the credit union.

cards to make recurring payments — such as magazine or other subscriptions, cell phone plans, insurance premiums, and loans — they have traditionally paid by check or ACH. According to Michael Marx, senior business leader at Visa, of the \$1 trillion annually expended in recurring payments, less than \$125 billion is paid using cards. However, Visa's panelists have shown a growing proclivity to use their cards for such payments. In 2000, only 17% of panelists used cards for recurring payments; that group more than doubled to 40% by 2008.

Challenges to Card Payments

Accepting credit and debit card payments through a call center may introduce some challenges. According to *SC Magazine*, recent studies show call center volume and personnel pose a risk of member identity theft. Additionally, institutions that accept credit and debit cards for loan payments expose themselves to the additional regulatory burden of the Payment Card Industry Data Security Standard (PCI DSS). These challenges can seem overwhelming. Credit unions want to address member demand, yet they also must weigh costs and compliance obligations. When evaluating whether to offer a pay-by-card option for current accounts, consider the following: 1) transaction costs to the borrower and lender, 2) cash advance fees, and 3) payment security.

TRANSACTION COSTS

As with any retail, e-commerce, or other card payment, merchants (in this case the credit union) must pay a transaction fee to accept the card. This includes the interchange fee charged by the card brand networks as well as fees added by the acquirer or issuer. These fees

vary depending upon several factors such as transaction type, transaction amount, and merchant type. The credit union needs to decide whether it prefers to accept the transaction fee as a component of the transaction or have the member cover the cost. Under the card brand rules, lenders (i.e., the credit union) can add convenience fees to the transaction and pass on the costs to the member. This allows the credit union to accept a loan payment via credit or debit card without incurring additional costs.

CASH ADVANCE FEES

Historically, lenders that accept payments via credit card have processed the transactions as cash advances. This creates two challenges. First, the lender does not have the option of passing on the transaction fee through a convenience fee. Second, cash advance interest rates are typically much higher than purchases made with a

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credit card. This discourages borrowers from making loan payments with their cards. Companies should evaluate solutions that can process the transaction as a payment or purchase rather than as a cash advance. This minimizes the costs to both the lender and borrower and increases the likelihood of a borrower making such a payment.

SECURITY

Lenders that accept loan payments via credit or debit card should consider transaction data security and the impact of regulatory compliance mandates. If a credit union builds an in-house solution that accepts payment cards, it is obligated to comply with all 12 of the Payment Card Industry Data Security Standard requirements and is subject to validation requirements in the same way a merchant is required to validate compliance. Furthermore, bringing additional data into the credit union's environment increases the risk of data compromises, subsequently increasing the need for additional security measures. Finally, by accepting cards in-house, credit unions are increasing their responsibility to comply with the 46 state breach notification and data protection laws currently enforced in the United States.

Options for Card Payments

Because of the many and varied challenges to accepting loan payments via credit or debit cards, credit unions should consider an outsourced solution. If a credit union is using a third party to handle the transaction data and the data does not traverse the credit union's systems, then the financial institution is only required to ensure the third party is PCI DSS compliant and any physical copies of transactions are protected. Additionally, the regulatory burden of complying with the data breach notification laws is reduced significantly. 📌

In 2008, 40% of Visa survey panelists used cards for recurring payments.

