

Banks May Lose Debit Card Fees if Wal-Mart Suit Wins for PINs

New York, July 1 (Bloomberg) - Faced with signing a receipt or punching in a code to use her debit card for \$100 of dog food and other items at a New Jersey Wal-Mart, Heidi Mueller tapped her numbers into the checkout counter's plastic pad.

``It doesn't make any difference to me because it all comes from the same place -- my bank account," said Mueller, a 47-year-old steelworker.

It matters to Wal-Mart Stores Inc., which pays banks as much as 15 times more for a \$100 purchase when a customer signs her name to authorize a debit-card transaction, in part because of higher processing costs. To save money, the biggest retailer is leading 4 million merchants in a lawsuit to keep MasterCard International Inc. and Visa USA Inc. from forcing stores that take their credit cards to accept signature-based debit cards.

A victory for Wal-Mart may cut the fees that Citigroup Inc., Bank of America Corp. and other U.S. banks get from debit cards, the fastest-growing alternative to cash and checks. Banks brought in about \$4 billion last year on fees from signature-approved purchases, according to Nilson Report, an Oxnard, California, newsletter that compiles card data.

Visa and MasterCard process the signature transactions, while regional automated teller machine networks such as Star Systems Inc. and NYCE Corp. process those requiring a personal identification number. The average cost to a bank that issues debit cards is 32 cents for a signature purchase and 8 cents for a PIN purchase, according to a 1999 cost study conducted by Star.

The bank-owned card associations said lowering fees on the signature transactions to the same as PIN purchases would make offering those debit cards unprofitable for the banks.

``The card issuer simply is not going to issue the card" if Visa fees are cut to match those of a PIN transaction, said Paul Allen, general counsel for Visa. ``Something has to give."

Citigroup now takes in \$1.48 if a shopper signs for a \$100 debit card purchase that is processed through MasterCard and 22 cents if the shopper enters a PIN for a transaction that goes through Star, according to estimates by First Annapolis Consulting Inc. of Linthicum, Maryland.

Last year, issuers collected \$3.93 billion on \$263.7 billion in signature-approved purchases, according to Nilson, and about \$520 million on \$122.5 billion in PIN debit transactions.

The retailers' suit, which also includes Sears, Roebuck & Co. and Circuit City Stores as plaintiffs, had its class-action status upheld last month by the U.S. Supreme Court. The plaintiffs say they would be entitled to damages of as much as \$48 billion if they win.

Visa started offering debit cards in the 1970s, though it didn't begin promoting them on television and in newspapers until two decades later. With a 78 percent market share and 117 million U.S. debit-card holders, Visa is accepted by 4.9 million U.S. locations, more than the five times as many as Star, the largest ATM network with 127 million cardholders.

Visa and MasterCard said debit cards wouldn't have caught on without them. Only a quarter of U.S. merchants are equipped with the fraud-proof "PIN pads" needed to route transactions through the regional networks, according to Nilson.

That number is likely to jump if MasterCard and Visa lose to the retailers, said Ron Congemi, president of Star, which is owned by Concord EFS Inc. of Memphis, Tennessee. It has 6,200 banks as members.

Banks will "have to seriously consider the attributes of the PIN-based product," including better security, he said. If the retailers win, banks may have to replace their Visa debit cards -- which have the same logo and signature strip as their credit cards -- with a differentiating symbol or brand to avoid confusing consumers, Visa's Allen said.

While they prepare for a trial scheduled to begin April 28, card associations and banks are trying to entice consumers to sign for purchases. In May and June, Visa gave customers the chance to win \$100 a day for a year each time they signed. Fifth Third Bancorp, a Cincinnati-based bank, is charging customers in Chicago and Michigan 50 cents to

use a PIN pad. Ninety-four percent of transactions are now done with the free signature option.

“We have come to the conclusion that we do lose money on PIN-based transactions,” said Jeff Trachtman, Fifth Third's vice president of bank card products. Customers “are comfortable with Visa and MasterCard.”

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