

Generation Y's Clout Prompts States To Accept Debit Cards

Will Hernandez

Evolving consumer-payment preferences, especially among Generation Y, is one reason why some state-government agencies have begun accepting electronic payments for property taxes and motor vehicle and court fees.

Indeed, Generation Y, usually defined as adults born between 1978 and 1989, is having an impact on the payments industry, say payments-industry executives.

Studies have found that consumers who fall into the Gen Y category are using plastic, especially debit cards, more so than the average consumer.

Though its research for a Gen Y report is not complete, Pleasanton, Calif.-based Javelin Strategy & Research says 54% of the 2,339 respondents surveyed in September used a debit card to make a purchase in the week before taking the survey compared with 43% who did before taking a similar survey in 2007. Javelin defines Gen Y as individuals between of 18 and 24 years old.

When you look at younger folks, debit is a natural thing for them, says Javelin research analyst Mark Schwanhauser. There is still credit card use among Gen Y, but the debit card is natural and something they are very comfortable with.

Debit card use will continue to increase in a struggling economy as people try to keep better control of their cash flow and their spending, Schwanhauser says.

The West Virginia Association of Counties cites Gen Y's clout as a reason why it decided to accept credit and debit cards for payment for a variety of services.

They simply don't use paper checks, Patti Hamilton, the association's executive director, tells ATM&Debit News. The younger the constituents get, the more likely it is that credit and debit cards are their only method of payment.

The association is one of the latest government agencies to endorse the processing technology from Haines City, Fla.-based Point & Pay to accept credit and debit cards and electronic checks.

The group's county members accept Visa, MasterCard, American Express and Discover cards. American Express does not offer a debit card.

More and more residents are expecting county offices to accept credit cards [and debit cards], and we want to make sure we are giving them as many payment options as possible, Hamilton says.

Point & Pay, a subsidiary of Vesta Corp., a Portland, Ore.-based payments company, enables state government agencies to accept electronic payment through what the company calls a convenience fee approach,

according to Joshua Rush, Point & Pay director of marketing. A lot of [local] governments have on their books that they can't absorb the card fees that a merchant normally would pay when accepting credit cards, he says.

Rush says Visa and MasterCard has rolled out programs that enable government agencies to charge a convenience fee, in particular because many government agencies have passed legislation preventing them from absorbing such fees.

For example, if a West Virginia resident owes \$1,000 in property taxes, the county needs to collect exactly \$1,000. Traditionally, [local] governments haven't taken credit cards or they need to go the convenience-fee route where they are passing on that charge to the customer, Rush says. The convenience fee is a percentage of the total bill, Hamilton says.

Hamilton considered drafting legislation that would enable the counties to absorb the card fees but decided against that option after reviewing similar legislation from other states. It was just too complicated a process, she says.

Point & Pay is a third-party vendor that operates as an extension of a government agency's customer-support and payment-processing services.

The company processes the transactions and routes the funds back to the government agency in about three days, according to Rush. The company offers lump-sum funding, which enables a government agency to receive all payments from the card brands at once.

The convenience fee covers both processing fees and Point & Pay's revenue and associated costs, Rush says

This is something that is really top of the mind with government agencies, he says about electronic-payment acceptance, especially as they are looking for ways to cut costs and increase collection.

Hamilton says 10 West Virginia counties already were using Point & Pay in their sheriffs' tax-collection offices. They say they increased collections and decreased costs for chasing bad checks, she says. Hamilton could not say how much the departments have saved.

The counties also save money in other areas.

A resident can avoid a suspended driver's license, and possible arrest, if he can pay fines easily with a credit card if he does not have cash or a checkbook on him, Hamilton says. Putting people in jail costs money. There are really far-reaching benefits to something like this, she says.