

Insight Consultancy

Credit Cards –
Is Differentiation the Key to Profitability?

By James Cranfield



In everything but their shape and their core function, credit cards have changed more dramatically than any other financial service offering over the past four decades.

Technology and competitive forces have driven card issuers to change the product from a generic functional piece of plastic that was founded when Frank McNamara, a restaurant goer in the USA forgot his cash and started Diners Club all those years ago to a highly sophisticated globally accepted access device.

Today's credit card issuer's biggest challenge is in meeting the profitability expectations of its shareholders while at the same time developing new, exciting card products that will attract and encourage cardholders keep its card front of wallet and frequently used.

In more mature credit card markets loyalty and rewards programmes which were relatively affordable in the days of 1%+ interchange have now become an expensive hygiene factor expected by cardholders. More than ever, card issuers are facing downward pressure on profitability which is forcing a fundamental change in the way cards are constructed, positioned and marketed.

But where are the pressures coming from?

Bad debt is on the increase and being further fuelled by a projected global economic slowdown, which is also contributing to higher funding costs for card issuers.

The volume of cards in issue is declining – customers are consolidating their spending on to fewer cards in order to benefit from rewards and other incentives offered by issuers. Other cardholders are choosing to close their accounts when faced with an annual fee or inactivity charge as a result of the disparity in the market between those charging for Credit Cards and those still providing cards free of charge.

Competition is increasing, not only from the high street bank card issuers and the monolines, but from brand assurers, utilities companies and even online retailers who are all looking for a way to bring payments inhouse and disintermediate the credit card companies.



The opportunity to tap into new market segments and distribution networks through co-branding and partnerships is dwindling as co-branding reaches peak maturity in many markets.

Regulatory intervention is the next pressure point for issuers in markets where regulatory authorities are taking a very active interest in consumer banking and credit cards in particular. In the past few years, we have seen interchange fees more than halved in many countries, penalty fees and other charges under scrutiny as the regulators warn the industry to self regulate or face intervention.

Foreign exchange fee income for issuers in the SEPA marketplace is being wiped out for intra-SEPA



Shifting Sands

One of the paradigms in the UK marketplace at the moment focuses on the changing patterns between those offering cards for a fee and those choosing not to charge. The shift to a fee basis is most certainly growing, but not at a rate where competitive forces will create an level playing field for the market place, with the loss in revenue through attrition being supported by fee income.

Economic Factors

- Volume of Card Declining
- Average Spend Increasing
- Bad debt Increasing
- Competition Increasing
- Co-branding
- Market Consolidation
- Interchange revenue declining
- Penalty fees and charges declining

Market Factors

- Value of rewards and loyalty

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- Focus on customer retention
 - Drive reduction
 - Global / Economies scale
 - Brand loyalty and value



Annual Fee Pressure

In order to combat these forces, many card issuers are significantly improving the card benefits, with insurance provision being the core of any upgrade programme – often being used solely as a justification for the implementation of a fee. Long gone are the days were Premium Cards offered International Rescue as the core benefit – nowadays most cards in this segment offer fully comprehensive Medical Insurance benefits with many millions of cover along with a whole host of other travel and retail related benefits.

These benefits not only serve to secure market share, but also to drive customer behaviour through ensuring that the value placed on the card through the benefit provision not only brings the card to the front of wallet, but also secures its position in the wallet when cardholders consider rationalisation. It is clear that these benefits are succeeding in achieving this objective, and also driving spend.

How successful this strategy will be will depend on the number of card issuers who adopt the stratagem – but given the pressures on card profitability, it is more of a case of when as opposed to whether.

However, the ultimate dependency will hinge on the card issuer's ability to implement and manage their insurance schemes – from Product Development and Supplier Management through to the complexities of Underwriting Control and Analysis. The winners in this field will be the card issuers who can provide the best benefits, at the most controlled costs within a framework of an overall Insurance Programme which offers seamless integration between those products which are provided free of charge and those for which a fee (and hence revenue) is derived. Analysis clearly demonstrates that such a programme, when configured appropriately, results in an improvement across all key customer metrics.



About Insight

Founded in 1999, Insight is a boutique consultancy, which specialises in advising banks and payment organisations on strategic and tactical issues across all major payment products and services, covering:

- Consumer & Commercial Card Issuing & Acquiring
- Credit, Debit, Prepaid Card Solutions

Headquartered in the UK, with representative offices in Singapore and the US, we operate across the world, with particular focus on the UK & European market place. We also operate in Asia Pacific, Middle East and Africa, Latin America, the Caribbean and North America.

We are industry experts in traditional and emerging payment market segments and solutions.

Our skills and experience are diverse enough to undertake the largest projects, yet we are small enough to maintain the intimacy, attention to detail and personal service that our clients have come to expect as standard from us.

We are located in the UK but work with clients around the globe. If you would like to learn more about our consultancy services, please call or write to us at the following address:

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