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Fee based rewards cards will become the norm as consumers seek more value from their credit cards, says Auriemma Consulting Group

[LONDON] – Consumers are actively seeking richer rewards credit cards, according to new research from Auriemma Consulting Group (ACG). The most recent issue of the UK edition of Cardbeat®, a survey of UK consumers credit card usage habits and opinions, indicated that consumers are increasingly likely to carry a rewards credit card. This study was published in April 2010.

Key findings from the study indicated that:

- British credit card users were 19% more likely to hold a rewards credit card in 2009 than they were 2008 (57% vs. 48%).
- Cash-back cards and those that offer petrol discounts have the highest perceived value amongst consumers but have very low penetration. 45% of survey respondents felt that cash-back cards had high value, though only 8% of respondents reported that they hold a cash-back card.
- Points-based rewards cards are growing in importance and now account for 33% of the market. While they have mass market appeal they also have high perceived value; 33% of survey respondents assigned a high value to points-based rewards cards.
- An astonishing 22% of rewards card holders claim never to have redeemed their credit card rewards

At the same time consumers are using and choosing rewards more carefully, credit card companies are still faced with unprecedented income challenges, which coupled with the recent regulatory guidance from the Department for Business, Innovation & Skills (BIS) has left the UK credit card industry seeking out new and innovative ways to increase profitability. According to Megan Bramlette, managing associate at ACG, “it is likely that credit card companies will begin charging for benefits and services that consumers have historically received for free, particularly rewards schemes.”

Leading retailers are at the forefront of innovative rewards propositions by introducing the concept of fee-based rewards cards through enhanced versions of existing propositions without annual fees. For example, the Premium Club from Marks & Spencer features a £10 monthly fee, and appears to have been well-received by members who derive high value and usage from the enhanced product and are willing to pay the high fee. The Premium Club offers existing M&S cardholders accelerated rewards earning capabilities, complimentary travel insurance and free coffee vouchers for the in-store café. ACG believes that the Premium Club from M&S is a best-in-class example of a card issuer developing an innovative and compelling offer while maintaining income streams. Other issuers should use this

product as an example of how to effectively develop credit card products to meet consumers' changing payments needs.

ACG expects these types of high-value, high-fee credit cards to become increasingly prevalent, and anticipates that by the end of 2011, all major credit card issuers will have at least one fee-based credit card to offer to their customers. Bramlette says, "As fee-based rewards cards become more prevalent in the market, the onus will be on issuers to develop products that offer consumers significant value. The consumers who continue to use credit cards will come to expect high-value products, and failing to offer such a product will result in a rapidly decreasing market share."

About Auriemma Consulting Group

Since 1984, ACG has offered comprehensive management consulting, consumer research, industry roundtable and benchmarking services to the financial services industry. ACG clients include credit card issuers, commercial banks, auto and mortgage lenders, merchants, networks, and industry vendors. With offices in New York and London, ACG offers actionable solutions to help clients make important business decisions to maximise their efficiencies and revenues.

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