

THE *BLUE PAPER*

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New Research Shows That Your Members Are Looking For Credit And Debit Card Rewards

It's Time To Change
Your Marketing For This New
Financial Crisis "Mindset"

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For the first time in history, more consumers are participating in rewards programs tied to their credit or debit cards than in airline rewards programs.

Today an estimated 75% to 80% of all credit cards are tied to a rewards program.

The recent financial crisis has led to many changes in the way Credit Unions do business. But recent research has unveiled yet another unexpected discovery in Member attitudes: an *increased interest* in rewards, “goodies,” and even monetary freebies.

As we look forward to 2010, Credit Unions realize that next year will not be “business as usual” — but the results from this new research came as a surprise to many.

It probably should have been expected. Thousands are out of work, with no immediate prospects for a job; many have seen their overextended credit use result in a major tightening of their budgets; and the collapse of many financial funds has literally eliminated a variety of sources of income.

This has resulted in a new mindset among our Members — a mindset that is looking for rewards, bargains, and actually, any small monetary benefits.

REWARDS TIED TO CREDIT AND DEBIT CARDS

Rewards programs are indicative of this change. For the first time ever, the balance has shifted between those using *airline rewards programs* and those using *credit or debit card rewards programs*.

For the first time in history, more consumers are participating in rewards programs tied to their credit or debit cards than in airline rewards programs.

According to the most recent data of the research company COLLOQUY, there are currently 277 million U.S. residents using airline rewards programs and a staggering 422 million using rewards programs tied to debit or credit cards. This translates into a 77% increase in *financial* card reward usage in the last year.

According to Kelly Hlavinka, a partner at COLLOQUY, “Just a few years ago, the industry regularly talked about how 50% of all credit cards had rewards programs tied in. Today estimates range from 75% to 80%. In 2006, about 10% to 15% of debit cards had rewards. But the latest industry analyses put the numbers somewhere between 25% and 50%.” That estimate is sure to surprise most CEOs since it means that up to half of all *debit* cards are now tied to rewards programs.

THE NEW MINDSET

Even those Americans who have not been greatly affected by the current financial crisis seem to be changing their mindset and their habits.

With so much attention by the media on current fiscal concerns, all Americans have become more conscious of their budgetary and spending requirements.

The new mindset is to “watch your pennies,” and that has resulted in a keener interest in value, rewards, and savings for most Americans.

Let’s examine how some Credit Unions have responded.

REWARDS CHECKING

Many Credit Unions nationwide are finding that offering *rewards checking* has made a significant difference in gaining new accounts as well as a difference in building new business from present Members.

Members using rewards checking at Northern FCU in Watertown, New York generated well over 20 debit transactions per month, versus only seven a month for its regular free checking accounts. Only six months into the program, the Credit Union’s 4,000 rewards checking accounts were already generating more debit transactions than their 10,000 free checking accounts.

CEO Ritch Van Duzer of Clearstar Financial Credit Union in Reno, Nevada is another who feels that rewards checking has resulted in a significant increase in interchange income at his CU. “We’re averaging \$7.50 in debit card revenue off each rewards checking account compared to our standard free checking, which averages \$3.50 in interchange per month,” he stated. The CU has been on the program a little over one year.

THE MOST CRITICAL DEBIT CARD FACTOR: USAGE

The three critical goals for debit cards are “penetration, activation, and usage,” according to Caroline Lane, SVP for CO-OP Financial Services. But, she stressed, “the big daddy is usage.” Increasing the average usage per Member by just three uses per month would make a major difference for the Credit Union.

That’s where a rewards program comes into play. The key element is to offer an incentive for Members to take your card out of their wallets whenever making a purchase.

CREDIT CARDS: CREDIT UNIONS VS. BANKS

And this seems to be the ideal time for Credit Unions to expand both their credit and debit card programs. According to Callahan & Associates, the total annual increase in credit card lines (June 2009) was 7.4% for banks and 6.8% for Credit Unions. A year later, in June 2010 — even though all credit card activity was down — there was a gigantic shift. Credit Unions had an *increase of 4.5%*, while banks saw a *decrease of 18.5%*.

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*— Caroline Lane,
SVP for CO-OP
Financial Services.*

Within the last year, credit card penetration for Credit Unions saw an increase of 4.5% but banks saw a decrease of 18.5%.

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Recent research has unveiled an unexpected discovery in Member attitudes.

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According to that same report, Credit Union lines increased by \$4.6 billion over the previous year, but FDIC-insured institutions cut lines by \$880 billion. It's obviously time to promote your credit cards. And rewards programs are one way to do that.

CONCLUSION

Recent research has unveiled an unexpected discovery in Member attitudes: an increased interest in rewards, “goodies,” and even monetary freebies.

So it appears to be time to do two things:

- 1 – Examine your services to see if a possible rewards program (for your credit card, debit card, checking, etc.) would be feasible at this time.
- 2 – Promote any and all elements of your Credit Union services that provide financial benefits of any kind.

The recent financial crisis has led to many changes in the way your Members think. They now have a brand new mindset. Consequently, this crisis also dictates changes in the ways your Credit Union has to do business. ◆

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