Insight Report: Debit Card Loyalty Programs

Description: Debit card issuers use loyalty and reward programs as tools for customer acquisition and retention, as the programs provide scope to deepen banking relationships and generate revenue. A number of challenges, including regulation, have limited issuers' ability to fund reward and loyalty programs through interchange revenue. Loyalty programs have become highly commoditized, leading to perceive falls in their values by consumers, and compelling debit card issuers to re-evaluate their strategies and adopt new loyalty solutions.

Changes in technology, regulation and consumer behavior influenced the evolution of debit card loyalty programs during the last decade. Loyalty programs are maturing in many countries, rewarding customers' overall banking relationships, rather than just debit card spending. Products such as overdrafts, direct debits, utility payments and savings accounts offer room for increased revenue generation for banks, compensating for lower interchange fees earned from debit card spending. Both issuers and card schemes are partnering with airlines, hotels, resorts and retailers to offer merchant-funded rewards. In addition, banks have increasingly focused resources on core banking, due to rising pressure on profits. Consequently, peripheral activities such as marketing and loyalty programs for debit cards are increasingly being outsourced.

Summary:

The report provides insights into the changing dynamics of debit card loyalty programs:

- It analyzes market opportunities and consumer preferences for debit cards.
- It explores emerging loyalty models for debit card customers.
- It discusses the impact of technology such as advent on of mobile payments on loyalty and cost.
- It captures the impact of changing regulatory dynamics.
- It explores key strategies deployed by debit card issuers.

Scope:

- This report covers top-level data of global debit card use and comparative market shares of debit and credit cards.
- It includes top-level review and forecast data (2010-2019) for debit card use in selected markets.
- It provides comparative analysis of key loyalty programs in selected markets.
- It covers recent and expected regulatory changes affecting debit card loyalty programs in key markets.
- It includes case studies to highlight industry best practice and market trends.

Reasons To Buy:

- Gain understanding of the changing landscape in the debit card market. Can debit card loyalty programs offer similar incentives to credit card loyalty programs
- Understand how market leaders are modifying loyalty programs in a highly challenging and competitive market
- Deep dive into market trends to understand if your organization requires a shift in its loyalty model.

Key Highlights:
- The expansion of banking services and improvements in card payment infrastructure have increased the scope for debit card use in emerging markets; lower interchange fees and general aversion to credit cards also support its use in both developed and emerging markets. The average ticket prices of debit transactions are also increasing, as consumers use debit cards for higher-value purchases, prompting issuers to revisit debit loyalty programs, despite lower interchange revenues per transaction.

- Regulatory pressure on interchange and merchant service fees on debit card transactions has increased across the world. The US, the European Union, Australia, India and China, among others, have capped interchange fees for debit card transactions. The Durbin Amendment which lowered interchange revenue on debit cards in the US prompted a number of large banks, including Bank of America, JPMorgan Chase and Wells Fargo, to retract their loyalty programs for debit card customers.

- The structure and dynamics of debit card loyalty programs are changing: banks finding themselves with squeezing interchange revenues are switching to merchant-funded loyalty and reward programs. There is also increased focus on lowering the programs’ costs through the use of mobile apps, online banking and social media.

- Banks are expanding the scope of their loyalty programs; during the review period, focus changed from transactions through debit cards, to the overall activity of a customer’s current account. For example, customers are being encouraged to use other fee-generating services such as overdrafts, utility payments and priority payments to generate revenue to offset income lost through lower interchange fees.

- Banks are also adjusting loyalty programs to adapt to the changing market environment. This includes the discontinuation of expensive product lines such as airline affinity programs on debit cards, restructuring the number of reward points that can be earned per transaction, and the points required to redeem rewards.

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