

Optimizing Your Credit Card Rewards Program



These strategies can help smaller financial institutions rival the major players to optimize consumer benefits while overcoming common profit-draining obstacles.

When done right, there is a tremendous opportunity for community banks and credit unions to attract new cardmembers and cement loyalty with a rich and diverse credit card rewards program.

A well-designed rewards program can become a dual-force tool: It creates a strong connection and engagement with cardholders, while also providing a resilient shield against the uncertainties of a fluctuating financial market.

However, credit card rewards products will only positively influence cardholder behavior if the value makes it worthwhile. The program will only be sustainable if the financial institution can balance the complex financial and emotional dimensions required to build, invest in, and adapt to trends that drive a profitable rewards product.

By considering the cardholder's and issuer's perspective, financial institutions can better position themselves to adeptly navigate the ever-changing rewards market.

The Cardholder's Perspective

Driven by emotional engagement, rewards programs present a powerful opportunity to influence both revolving and non-revolving transactors. These programs can spark positive emotions that encourage card use, fostering deeper connections between cardholders and the issuing financial institution. Expectations for rewards have become ubiquitous across the credit score spectrum and consumer and business cardholders as issuers fight for loyalty.

Decision Process

When deciding on a rewards program, potential cardholders often have a simple question in mind: “Will the rewards product meet my needs?” Fortunately for the consumer, researching and comparing rewards products is easy with readily available online information to choose the best product for them. The influence of friends and family can be quite persuasive. More than 70% of consumers considered a credit card recommendation highly influential.¹

An upfront acquisition offer can bring immediate satisfaction. Consumers want programs with perks like bonus points at sign up or if they spend a certain amount in the first few months of using a new card. In fact, 35% of American consumers apply for a new credit card at least once a year to take advantage of sign-up bonuses.²

Trust is also a critical component to the decision making process. Data shows that for consumers choosing a general-purpose credit card, trust in the issuing institution (16%) was the second rated reason behind rewards (18%).³

Additionally, personalization can play a large part in how new credit card offerings are viewed. The ability to make a card unique increases emotional connection to the program. This can be as simple as customizing the card's appearance, but for reward offerings, 4 in 10 consumers want a card tailored to their unique needs and preferences.⁴



¹ (11/6/24) “Consumers’ Financial Health and Spending Priorities Guide Credit Card Choices” <https://www.cupartnership.com/resource-library/financial-health-report.html>

² (6/20/24) “Credit Card Rewards Survey” <https://wallethub.com/blog/credit-cards-rewards-survey/63067>

³ (5/30/24) “The Role of Strategic Partnerships in Consumer Credit Cards” <https://www.cupartnership.com/resource-library/credit-card-report.html>

⁴ (12/12/23) “Leveraging Item-Level Receipt Data: How Card-Linked Offers Drive Customer Loyalty.” PYMNTS-Banyan. <https://www.pymnts.com/study/leveraging-item-level-receipt-data-loyalty-rewards-program/>

Preferred Rewards

In one recent survey, cash back on any purchase was the most desired reward type of all age cohorts, including 54% of Baby Boomers, 55% of Gen X, 46% of millennials, and 34% of Gen Z, cementing cash as the indisputable king of preferred rewards.⁵ However, travel is also high on cardholders' wish lists. Whether for local travel (64%) or long-distance trips (60%), most intend to take advantage of card-linked offers on their next adventure.⁶

Gift cards appeal to a wide range of cardholders, depending on the types of cards offered. However, there are some critical differences between age groups. Younger spenders are intrigued by crypto rewards and the option to use reward points to make charitable donations. Meanwhile, merchandise redemption — although waning in popularity for most — holds a lingering appeal for older generations.

While lifestyle and goals may sway consumer reward preferences, the ability to choose is favored by most. Roughly 55% of consumers said the flexibility to redeem whatever they choose is important.⁷



Easy to Earn, Simple to Redeem

Like rewards, user experience expectations vary by generation, including how financial institutions issue credit cards and manage reward redemption.

Cardholders want an immediate line-of-sight between their spend and the reward earned, like the option to see mobile alerts on points accumulated from transactions. Elan Credit Card recently launched a new app that fulfills that need by offering the ability to see points year-to-date, by statement, and by transaction.⁸

Consumers like the ability to use their rewards quickly and immediately, whether through auto-redeemed cash-back into the account of their choice, hassle-free travel miles, or other redemption options. On average, 72% of credit card rewards are redeemed within 90 days.⁹

⁵ (5/2/24) "Simple Credit Rewards Work for Older Generations, but Not Gen Z" <https://www.pymnts.com/news/loyalty-and-rewards-news/2024/simple-credit-rewards-work-for-older-generations-but-not-gen-z/>

⁶ (12/12/23) "Leveraging Item-Level Receipt Data: How Card-Linked Offers Drive Customer Loyalty." PYMNTS-Banyan. <https://www.pymnts.com/study/leveraging-item-level-receipt-data-loyalty-rewards-program/>

⁷ (10/5/23) "Research Reveals Loyalty Programs Need an Overhaul" <https://www.paymentsjournal.com/research-reveals-loyalty-programs-need-an-overhaul/>

⁸ (10/2/24) "A New Mobile Experience" <https://www.cupartnership.com/resource-library/mobile-app.html>

⁹ (5/2/24) "Simple Credit Rewards Work for Older Generations, but Not Gen Z" <https://www.pymnts.com/news/loyalty-and-rewards-news/2024/simple-credit-rewards-work-for-older-generations-but-not-gen-z/>

The Issuer's Perspective

It's not enough to know what cardholders want from a credit card reward program for it to succeed. Financial institutions face a tough task: Make a rewards program appealing enough to attract new cardholders while ensuring profitability. Considering the costs and complex deals involved with reward vendors, compliance efforts, and potential cash reserve, community banks and credit unions may find this challenging.

Drivers to offer rewards programs include:



The chance to attract new cardmembers and deepen relationships.



The hope to establish revolving accounts for new and existing cardmembers.



The potential to drive different spending behaviors.



The goal of increasing revenues through account growth and associated fees.

It's critical to carefully develop rewards programs with an eye to administrative costs versus potential revenue, and to consider the risks involved when increasing credit card exposure.

A rewards program will only live up to its potential if scalable. Will the institution's existing cardmember base support a rewards program? Is there sufficient projected growth to make such a program viable? Are there diversified product offerings to help fund high-transaction users? The key is to have a balanced suite that appears to revolvers and high-transactors and encourages top-of-wallet spend.

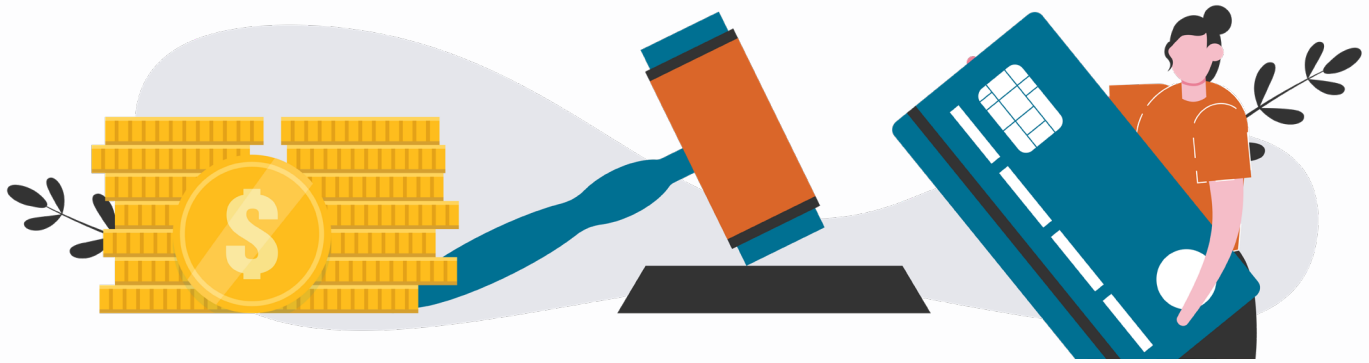
Today's rewards programs are expected to be easy to use, accessible, and available on all devices. To optimize engagement, rewards should be fully transparent, and the process of spending and receiving rewards should be highly interactive. Redemption needs to be just as easy, with the option to pay with points and/or auto-transfer earned cash to an account of the cardholder's choice.



The cost of running a credit card program continues to rise across all aspects of the products balance sheet. Offering competitive products and rewards, while earning a profit, has become more difficult, especially during uncertain economic conditions, pending legislation, and further capital requirements for loan assets like credit card.

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Legal and Regulatory Considerations

Beyond cardholder tastes, legislative efforts proposed and enacted are poised to significantly impact credit card reward issuers and their ability to profit.

The Credit Card Competition Act, introduced by Sen. Dick Durbin (D-IL) in June 2023, would require larger U.S. banks to include at least one payment network that isn't Visa or Mastercard. Detractors of the bill claim this will result in the death of rewards programs, increase cybersecurity and privacy risks.

New York General Business Law § 520, effective in the state on Dec. 10, 2023, mandates a grace period allowing consumers three months to use up their credit card rewards points before a credit card rewards program can be modified, canceled, or terminated. Other jurisdictions may consider similar provisions in the near future.¹⁰

Other Costs and Challenges

Meanwhile, funding costs are also going up. The key interest rate is currently at 4.75%. Matching duration is critical for managing risk, and funds transfer pricing is being utilized as a strategy to address rising interest rates.

Yield rates pose a challenge of their own, as well. The NCUA 18% interest rate cap is a significant problem, as any account at Prime + 9.50% or higher is now at the rate cap. This is a large portion of reward cards, severely hampering the ability of issuers to provide reward value and remain profitable.

¹⁰ 11/30/23) "New York Protects Consumers from Expiration or Cancellation of Loyalty Points" Olshan Law. <https://www.olshanlaw.com/Advertising-Law-Blog/new-york-protects-consumers-from-expiration-or-cancellation-of-loyalty-points>

Tough Competition

Reward values continue to escalate. While a 1% cash-back option was once the norm, 2%+ is now more frequent, with even higher returns for specific campaigns, categories, or promotions. National issuer competition is stiff, and these larger institutions can easily reach cardmembers of community banks and credit unions in an attempt to gain top-of-wallet status with enticing offers.

Complex reward earning structures can make competing more complicated, and consumer expectation mismatches can lead to cardholder disappointment.

For example, if there are hurdles in place that delay rewards gratification or tiers that are difficult for the average cardholder to achieve, this can lead to disillusionment and the cardholder's desire to switch to a competitor. In fact, a recent report from PYMNTS Intelligence and Elan shows that 43% of consumers identify rewards as a top motive for seeking a new credit card, with 30% of financial stable consumers ranking it the most important reason.¹¹



Lack of vendor transparency may well compound the problem; if redeeming rewards takes multiple steps or a long period of time, consumers will become frustrated and perceive value in their rewards card. The time lapse between point redemption and reward reception should be as short as possible.

Cumbersome and expensive administration can also be a significant obstacle to implementing a rewards program. Third-party vendor expenses must be accounted for, and financial institutions must plan for rewards redemption costs.

Ongoing Viability of a Rewards Program

A competitive card will accrue at a rate of at least 70 bps. Still, many financial institutions calculate neither their accrual rate nor the cost, if all unclaimed rewards were redeemed on any given day. Issuers must cover the cost of redemption, and with the pool of available rewards points totaling \$100 billion in value, that's a lot of unrecognized risk.¹²

Finally, the direct operational cost of a rewards product is higher on a per-balance basis than any other loan product. Most of these costs are attributed to cardholder acquisition and administrative expenses, whether in-house or through a third-party vendor.

Financial institutions would be wise to conduct a cost-benefit analysis before any plans for a rewards product are finalized. By surveying existing cardmembers, you can see which have spending habits that would support the ideal consumer, with the knowledge that high-transaction, revolving balances earn the most interest. In addition, examine marketing costs and cost per acquisition. Rewards cards only make sense if they bring in revenue.

Also, consider what happens if the decision is made to wind down a rewards program or change an existing program's parameters. Will the rewards vendor be flexible and supportive for an easy transition, or will the process drag on, bringing cost to the issuer and frustration to loyal cardmembers?

¹¹ (11/6/24) "Consumers' Financial Health and Spending Priorities Guide Credit Card Choices" <https://www.cupartnership.com/resource-library/financial-health-report.html>

¹² (12/1/23) "Capitalizing on the 'Pay with Points' Credit Card Rewards Trend." The Financial Brand. <https://thefinancialbrand.com/news/payments-trends/credit-card-trends/credit-card-rewards-trend-capitalize-on-pay-with-points-popularity-152687/>

Benefits of an Elan Partnership

It takes a skillful balance to run a successful credit card rewards program appealing enough to draw loyal cardholders while maintaining profitability and compliance. Working with an experienced partner can be the key to achieving it.

Backed by over 50 years in the credit card business, Elan provides full-service branding, card services, rewards administration, funding, and support. Cardholders can enjoy high-value rewards, extended introductory rates, and competitive APRs through our suite of consumer and business reward cards, which offer competitive cash-back options, gift cards, travel redemption, and merchandise to ensure satisfaction for all demographics.

By providing a top-of-wallet product, Elan makes it easier for community banks and credit unions to fortify existing relationships and build loyalty. Elan mitigates risk, minimizes administrative staff work, and ensures financial institutions and their cardholders enjoy the full benefits of a robust, competitive rewards program.



About Elan Credit Card

Elan partners with financial institutions through our turnkey credit card issuing program, mortgage solutions, and all-in-one merchant processing platform, talech®. Our dedication to our partners, growth philosophy, and investment in technology has made us a leader in the industry since 1968. Our approach offers expertise while removing costs, reducing risks, and improving the cardholder experience. Learn more about our innovative solutions for consumer and business accounts of all sizes at www.elanfinancialservices.com/credit-card.

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