Card-account acquisition: A consumer view

Recent years have seen a transformation in credit-card customer acquisition. This report explores how consumers are interacting with the new expanse of marketing and acquisition channels and examines where opportunities and threats to issuers may lie.

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Card accounts and digital applications: A consumer view

INTRODUCTION

Over the last decade the credit card industry has shifted how it acquires new customers and encourages them to use its products in both physical and digital channels. Among the most important of them has been the introduction and widespread implementation of digital applications, especially from third-party websites, a change that has truly transformed how consumers acquire credit cards.

In the past, consumers often responded to direct mail credit card offers by mailing back an application in a return reply envelope or visiting their local bank branch to apply in person, in addition to a small but growing online application channel. Credit card issuers then began to include and heavily promote an online direct response channel so consumers could immediately apply for a card. In doing so, banks removed a key response obstacle of having to mail in an application — and conditioned consumers to search for new credit cards online.

Other trends are at play. In the case of specialized credit cards such as secured cards, which require the consumer to place a deposit with the issuer in return for a line of credit and are typically sold to consumers with weak or thin credit histories, banks have been forcing these prospects to go online to apply. The Consumer Financial Protection Bureau (CFPB) has noted that several large bank issuers report that they no longer allow consumers to apply for secured card products in branches. Instead, these consumers are directed to the issuer's website or call center to apply.[1]

1 This and subsequent references to CFPB data are sourced from https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2017.pdf

At the same time, consumers have flocked to independent third-party financial websites such as Credit Karma, Nerd Wallet, CompareCards.com and Credit Sesame. The Consumer Financial Protection Bureau (CFPB) calls these third-party credit card comparison websites "TPCs" and has tracked their explosive growth. The CFPB estimates that 20% of all credit card applications came from TPCs in 2016, up from 17.3% in 2015 and just 8% in 2014.

This adds up to a new market reality, one in which the digital channel is the predominant avenue for new credit card applications. While credit card direct mailings continue to be sent out by the major card issuers, the response channel is overwhelmingly digital. Indeed, the CFPB cites industry reports that over 70% of consumers who responded to direct mail credit card offers did so by going to the issuer's website to apply.

A SourceMedia Research survey of 1,005 U.S. adults ages 21- 59 who used digital methods to acquire a new credit card in the last 12 months provides further insight into the market dynamics of digital credit card acquisitions. (Adults in the ages 18-20 and consumers 60 and older were not surveyed since both represent very limited market segments with inherent biases when it comes to acquiring a card.[2])

The largest pool of consumers in the survey were 30-39 years old adults, representing 32% of respondents, followed by adults 40-49 years old at 26% (see Figure 1).

Figure 1: More than half of respondents are in the key 30-49 card acquiring demographic

- 21-29 Years old **24%**
- 30-39 Years old **32%**
- 40-49 Years old **26%**
- 50-59 Years old **18%**

Source: SourceMedia Research 2019 Digital Card Acquisition Survey

[2] According to the CARD Act of 2009, financial institutions are not allowed to underwrite a credit card for someone of ages 18-20 years unless they have a guarantor such as parent or are able to demonstrate an ability-to-pay (ATP) the monthly charges. Since adults ages 18-20 tend to have lower incomes, their ATP qualification scores tend to be very low. Therefore, the cards being sought by an 18-20 year old consumer would be biased to being an additional card on an existing account (e.g., a parent's account) or weak-credit starter cards (e.g. secured), neither of which are reflective of the general market. Consumers aged 60 and older were also excluded partly since they are not typically seeking credit, but mainly due to their strong credit scores. According to the financial website ValuePenguin, the average FICO score in the U.S. is 695, which is considered a prime credit score. However, when examining FICO scores by age, 62% of consumers 60-69 and 78% of consumers 70 years and older have super prime credit scores (over 720 FICO) compared to just 39% of 40-49 year old adults and 31% of 30-39 year old adults. In other words, consumers 60 and over tend to have excellent credit that is not representative of the market. (for more, see https://www.valuepenguin.com/average-credit-score)

ABOUT THIS REPORT

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This report examines the current and evolving state of the digital credit card acquisition channel. It explores key adoption drivers as to why consumers are increasingly using digital methods to apply for cards and their likelihood to use a digital application for their next card. It also examines the interplay between annual fees, preponderance of rewards and whether or not digital applicants are conducting balance transfers and moving the new card into a primary wallet position.

In addition to an online survey conducted with 1,005 U.S. adults aged 21-59, website research and industry interviews were also conducted for background material purposes. All survey respondents were additionally qualified as having acquired a new credit card in the last 12 months using a digital application method. The survey was conducted in August and September, 2019.

This report's primary narrative was written by Michael Moeser. *American Banker* is the leading resource for commercial banking professionals and *PaymentsSource* is the leading information resource for payments professionals. *American Banker* and *PaymentsSource* are SourceMedia brands and support a full line of professional content as well as research, data and conferences.

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NOTE

KEY FINDINGS

- Among respondents, the primary digital channel for new card acquisition was the online channel. PC and laptop access represented 55% of acquisitions overall. Smartphones accessing the online channel represented 34% of all digital acquisitions and made up 38% of acquisitions in the 21-29 segment.

- Most consumers (87%) were very satisfied or somewhat satisfied with using a digital application when applying for a credit card. Despite the burden of data entry placed on applicants, including those who used a smartphone to apply, only 7% reported that they were somewhat dissatisfied or very dissatisfied.

- The biggest application satisfaction drivers were ease of use in the digital application (56%), expectation of a faster response (41%) and being easier to compare cards online (34%).

- Most (86%) consumers stated that they would very likely or likely complete a digital application for their next credit card.

- The top two lead generation sources were the bank/issuer website at 27%, closely followed by a direct mail offer at 26%.

- Banks need to recognize that third-party websites (TPCs) and marketing affiliates are a growing and important source of digital applications. In this survey, TPC websites were the third most common path to applications at 18%.

- Approximately 73% of survey respondents acquired a new card with rewards in the last 12 months, of which cash back was the predominant reward program — 56% of all rewards cards had cash back or a statement credit feature.

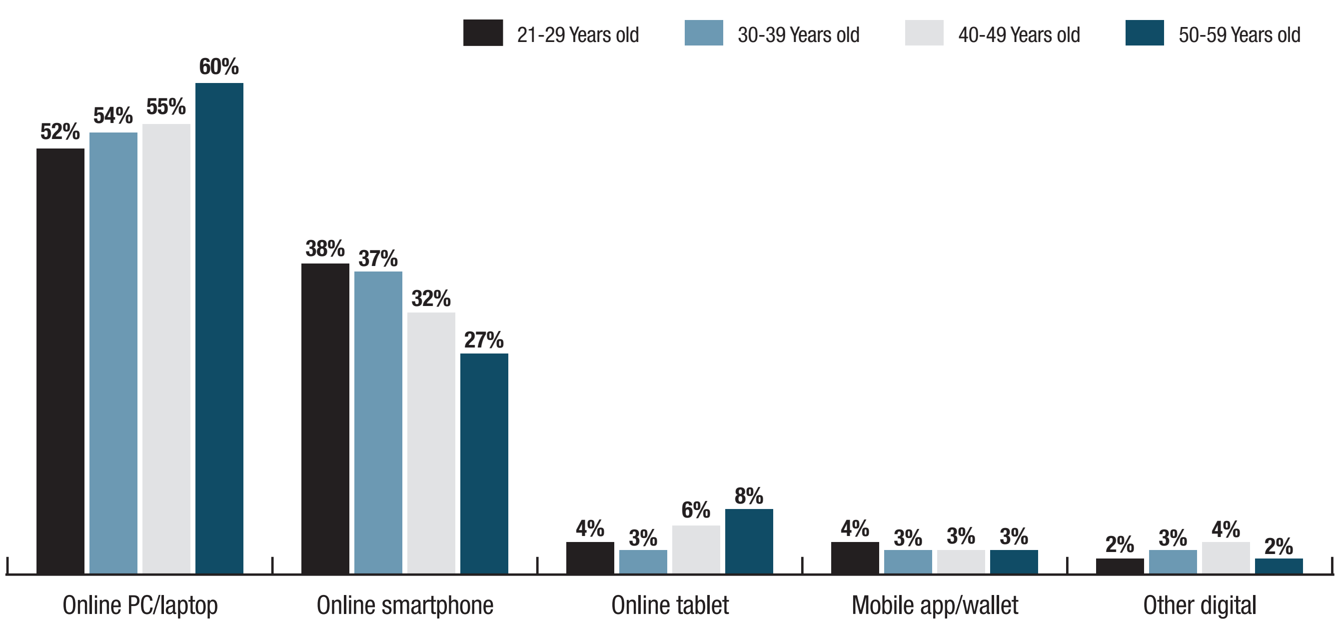
ADDRESSING THE MOBILE OPPORTUNITY

The primary digital avenue for new card acquisition was the online channel accessed by PCs/laptops, smartphones and tablets representing 94% of all digital acquisitions in the survey. PC and laptop access represented 55% of acquisitions overall and 60% of acquisitions by consumers 50-59 years of age. Smartphones accessing the online channel represented 34% of all digital acquisition yet made up 38% of acquisitions in the 21-29 demographic (see Figure 2). Mobile app and wallet acquisitions represented only a minor segment with the largest adoption among 21-29 years old adults at 4% of digital acquisitions.

The mobile channel, in concert with smartphones, represents both a major opportunity for existing credit card issuers as well as a potential threat of disintermediation. Over half (55%) of digital acquisitions were done online using a PC or laptop in the survey, ostensibly since it's easier to input a significant amount of data for an application using a full-sized keyboard versus smartphone.

Despite the keyboard's advantages on a laptop, younger adults ages 21-29 had a statistically significant (at a 95% confidence level) higher level of smartphone usage at 38% compared to adults ages 50-59 at 27%. There is a major opportunity for card issuers, especially among younger adults,

Figure 2: PCs are still the primary access point



Source: SourceMedia Research 2019 Card Acquisition Survey

to reduce the amount of data entry needed on a smartphone application, making it easier to use. For example, issuers could leverage auto-fill technology when someone has enabled it in a web browser.

Conversely, the potential for disintermediation does exist, particularly given the rise of TPC websites and their mobile apps, which act as lead generation channels. Since the CFPB reports that 20% of all credit card applications in 2016 came from TPC websites where consumers can comparison shop credit cards, these third-party organizations are developing an increasingly strong bond with consumers. For disintermediation to occur, all that is required is for a TPC website to have an auto-fill feature enabled on its mobile app or within its website and steer its customers to issuers that will permit the auto-fill technologies to be used.

In addition, TPC websites such as Credit Karma inherently appeal to younger consumers and those rebuilding or repairing their credit, as they typically offer free credit monitoring services and mobile apps that help consumers with personal financial management (PFM). This strong connection, coupled with the ability to steer a consumer to a preferred card issuer using an auto-fill feature, could strain a bank's card portfolio growth if it is reliant on new customer acquisitions — as most are.

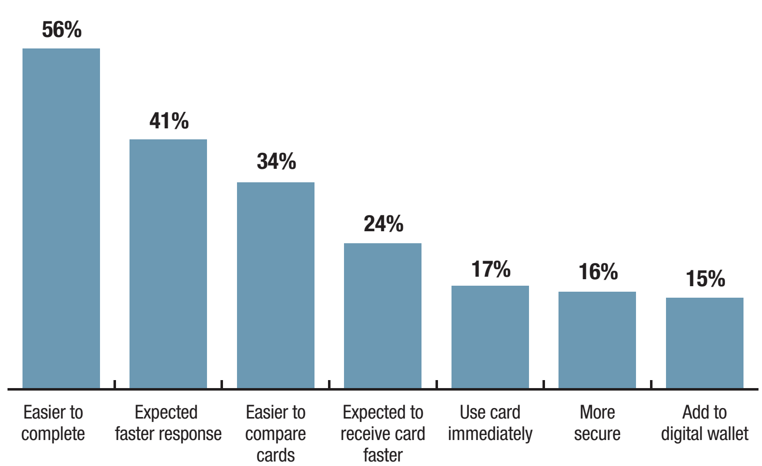
CONSUMERS LIKE DIGITAL APPLICATIONS

Most consumers (87%) were very satisfied or somewhat satisfied with using a digital application when applying for a credit card, according to the survey (see Figure 3). In fact, since over half (55%) were very satisfied with the digital application experience, it could be inferred that issuers are meeting consumer expectations when it comes to digitally applying for a credit card. Despite the burden of data entry placed on applicants, including those who used a smartphone to apply, only 7% reported that they were somewhat dissatisfied or very dissatisfied with their digital application experience.

One significant driver behind such high digital application satisfaction rates is that many consumers (56%) found the digital application easier to complete (see Figure 4). The ease of application was highest among the 21-29 age segment, at 59%, and lowest among the 50-59 age segment, at 51%. Although this is not a statistically significant difference, it does point in the direction that younger consumers may be more comfortable with and have greater trust in the digital application process. While only 14% of consumers stated that they completed a digital application because they were less likely to make mistakes, there was a statistically significant difference between the ages of 21-29, which reported a 17% rate of choosing digital for the fewer mistakes made, and only 10% by the 50-59 age group.

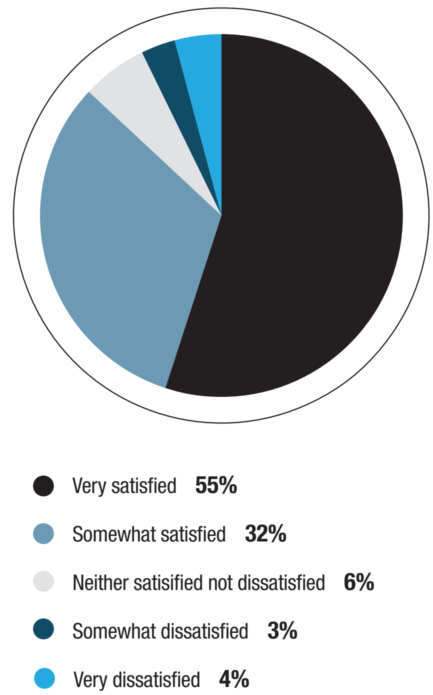
Four-in-ten (41%) expected a faster response from the issuing bank by completing a digital application and one third (34%) found it easier to

Figure 4: Consumers find digital applications easier to complete



Source: SourceMedia Research 2019 Card Acquisition Survey

Figure 3: Most consumers find satisfaction in using digital applications



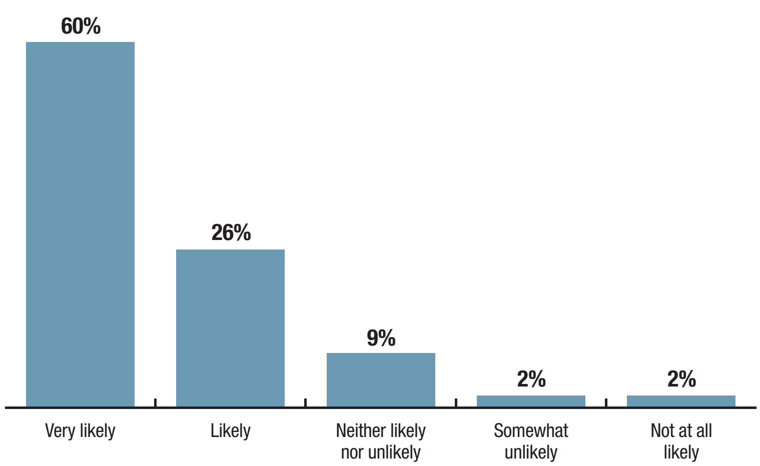
Source: SourceMedia Research 2019 Card Acquisition Survey

compare credit cards. Given the growth of TPC websites in generating credit card applications — from 8% in 2014 to 20% in 2016, according to the CFPB — it should be expected that card comparison will grow as a driver for choosing the digital application process.

A small yet important segment of consumers went through the digital application process so they could immediately use the card (17%) or add it to a digital wallet immediately (15%). These represent potential opportunities as card issuers attempt to encourage the use of mobile wallets and online purchases. For the 21-29 age segment, 21% reported that they chose to use a digital application so that they could add the card immediately to a mobile wallet. Only 14% of respondents ages 40-49, and just 9% of ages 50-59, stated that immediately adding a card to a mobile wallet was a driver of the digital application choice. Both are statistically significant differences to the 21-29 segment.

Given the high satisfaction levels and the drivers such as ease of completion and faster response from the bank, it should come as no surprise that most consumers stated that they would likely fill out a digital application for their next credit card. About 60% stated that they were very likely and 26% said that they were likely to apply digitally for their next credit card (see Figure 5).

Figure 5: Consumers are likely to apply digitally for their next card



Source: SourceMedia Research 2019 Card Acquisition Survey

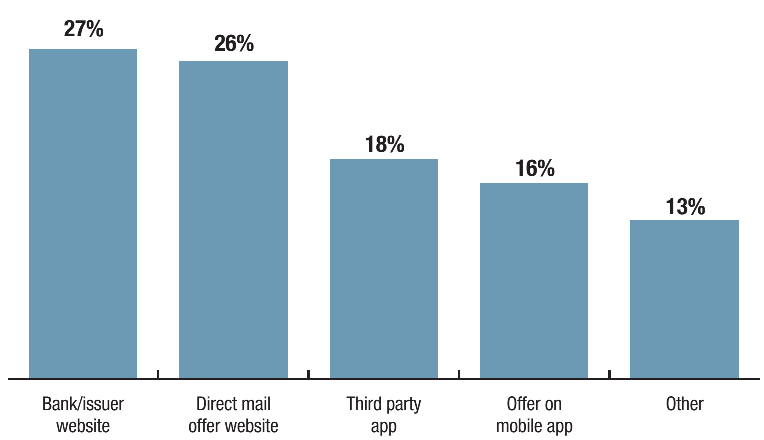
NOT ALL SOURCES OF DIGITAL APPLICATIONS ARE DIGITAL

Respondents reported that the top two lead generation sources that encouraged them to apply were almost tied for first place, with the bank/issuer website taking the lead position at 27%, closely followed by a direct mail offer at 26% (see Figure 6). The third most common method was applying through a TPC (third-party) website at 18%.

The fact that direct mail was such a big driver of digital applications should come as no surprise, as the CFPB reported a majority (over 70%) of responses to direct mail offers are made by consumers going to a specific direct mail offer website. Using a direct mail offer to apply can also speed up the approval process for pre-approved mailings, since the issuer already has much of the customer's information and only needs verification that the data is correct to conduct a final credit review.

There are several important takeaways from the answers to the question of lead generation for digital applications. First, there is no one dominant stimulus in driving digital applications, therefore making it important for a

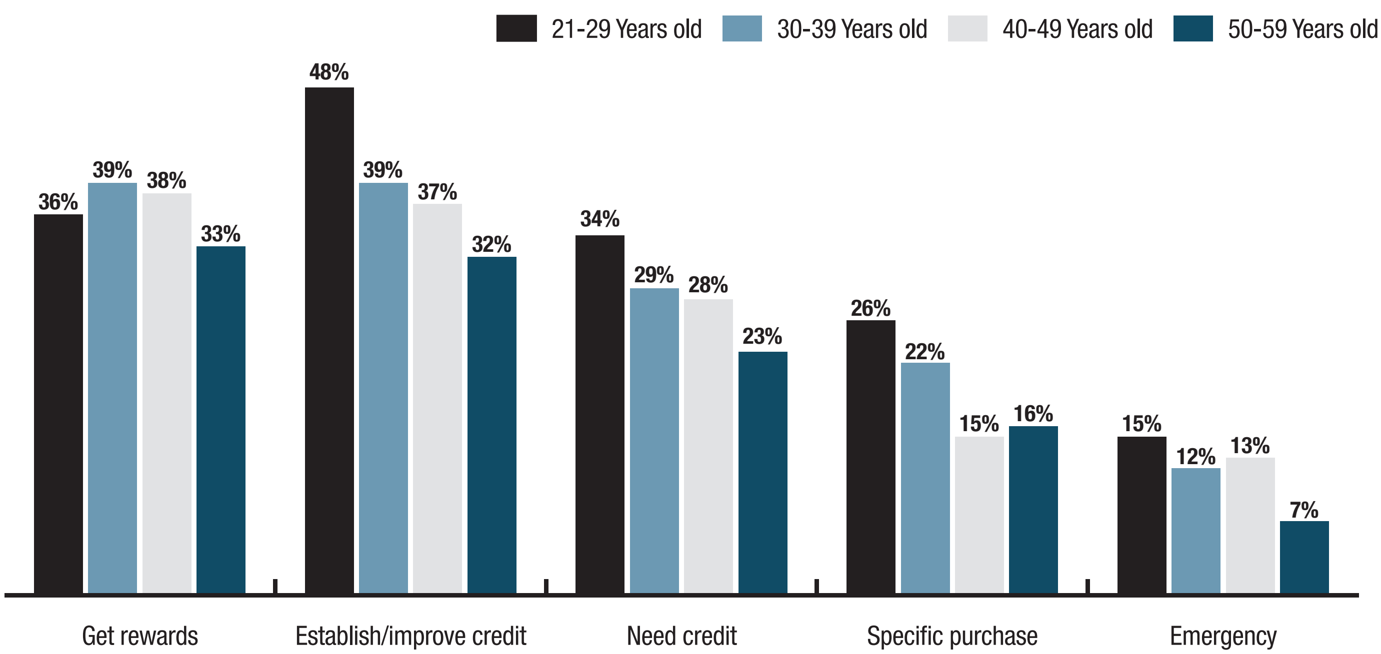
Figure 6: Direct mail is still effective - it just drives a digital response



Source: SourceMedia Research 2019 Card Acquisition Survey

bank or card issuer to have a multi-channel marketing effort. Second, despite the decline in consumers using paper mail to pay bills and service their accounts, direct mail card acquisitions efforts are still effective. They only need to have a digital response website to help consumers cross the digital divide. Third, banks need to prominently feature credit card offers on their websites and mobile apps, since both prospects and existing bank customers will do the digital research and apply if they can find them. Finally, do not overlook the value of partnering with TPC websites and marketing affiliates to generate digital leads. Consumers like to shop for credit cards online because it is easier to do comparisons, and TPCs can enable that research.

Figure 7: Rewards are a powerful motivator to get a new card, regardless of applicant age



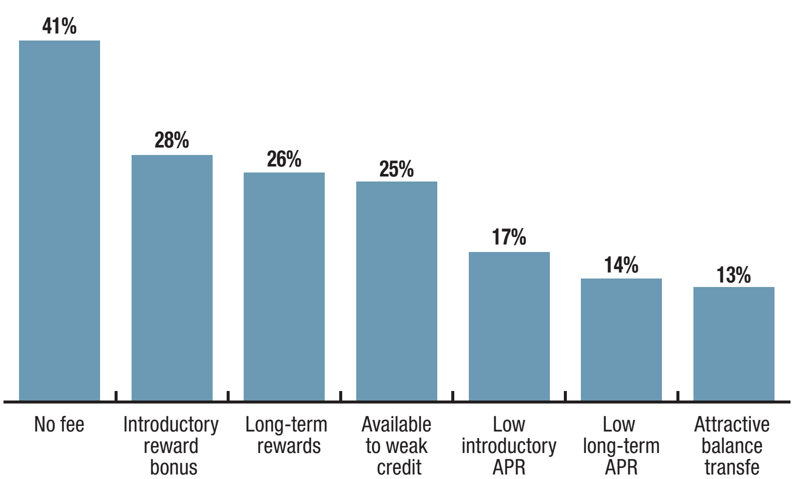
Source: SourceMedia Research 2019 Card Acquisition Survey

BALANCING THE NEED FOR CREDIT AND THE DESIRE FOR REWARDS

The ongoing credit card rewards arms race being waged by banks and major issuers is clearly having an effect on consumers — they universally want rewards and are being motivated by them to digitally apply for a credit card. Only the youngest respondents, ages 21-29, identified the need to establish or improve credit (48%) as a stronger motivator for applying for a credit card (see Figure 7). Among all other age groups, the demand for rewards was first or tied for first place as a motivator to apply for credit.

While the need to establish credit was an important motivator to apply, when it came to making a final card selection, applicants' top considerations went to cards that had no annual fee (41%), had a great introductory rewards bonus (28%), had a great long-term rewards program (26%), or offered availability to those with weak credit histories (see Figure 8). So while establishing credit may have been an important motivator to apply for a card, finding one with no fee and good rewards were potentially more important factors in choosing the specific card for which to apply.

Figure 8: Fees and rewards played major roles in attracting applicants



Source: SourceMedia Research 2019 Card Acquisition Survey

Consumers still love private label cards, despite the high level of attractiveness in general purpose credit cards that can be used at almost any merchant — 22% of new credit cards recently issued to survey respondents were private label, which can only be used at the merchant that issued the card (see Figure 9). It should be noted that most private label cards are actually issued by banks such as Capital One, Citi Retail, Comenity Bank, etc., and not the merchants themselves; however they are largely restricted for use at the merchant whose name is on the card such as Home Depot, Bass Pro Shops and Williams-Sonoma.

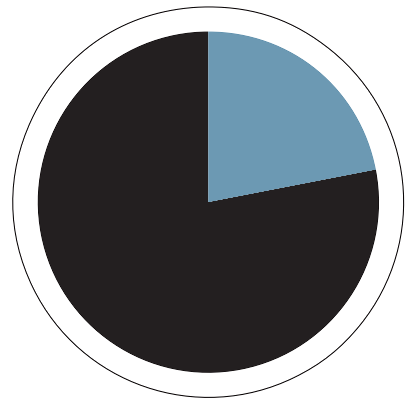
While the share of private label cards acquired may appear to be high in the study, their usage tends to be low. The Federal Reserve Payments Study found that 37.7 billion general purpose credit card transactions were conducted in 2017, versus 3.1 billion private label credit card transactions. The study did find that the average transaction sizes were similar, with general purpose cards having an average of $88 per transaction and private label cards having an average of $89.[3]

Private label cards can make sense to consumers with weak or thin credit histories, as merchants and their banking partners are willing to shoulder the greater risk of issuing cards to lower credit score consumers in return for higher interest rates (APRs) and limiting the ability to spend the credit line at only the merchant's stores. One factor that adds to private label credit card applications is the ability to apply for a card when shopping on a merchant's website, thereby facilitating a purchase.

Among the general purpose credit cards received by survey respondents, Visa was the dominant network brand, garnering over half (54%) of all new cards issued, followed by Mastercard at one-third of respondents (33%).

American Express, which obtained only 7% of new cards according to the respondents, operates on a different business model which tends to constrain its ability to compete for new customers. Amex issues most of its own credit cards, unlike Visa and Mastercard who use banks to issue their cards. In addition to credit cards, Amex also offers charge cards, which require the consumer to pay off the balance at the end of the month. Among survey respondents, 94% received credit cards that can carry a monthly balance and just 6% received a charge card that needs its balance paid off each month.

Figure 9: Share of applications by card type



General purpose card **78%**
Private label card **22%**

Source: SourceMedia Research 2019 Card Acquisition Survey

[3] https://www.federalreserve.gov/paymentsystems/2018-December-The-Federal-Reserve-Payments-Study.htm

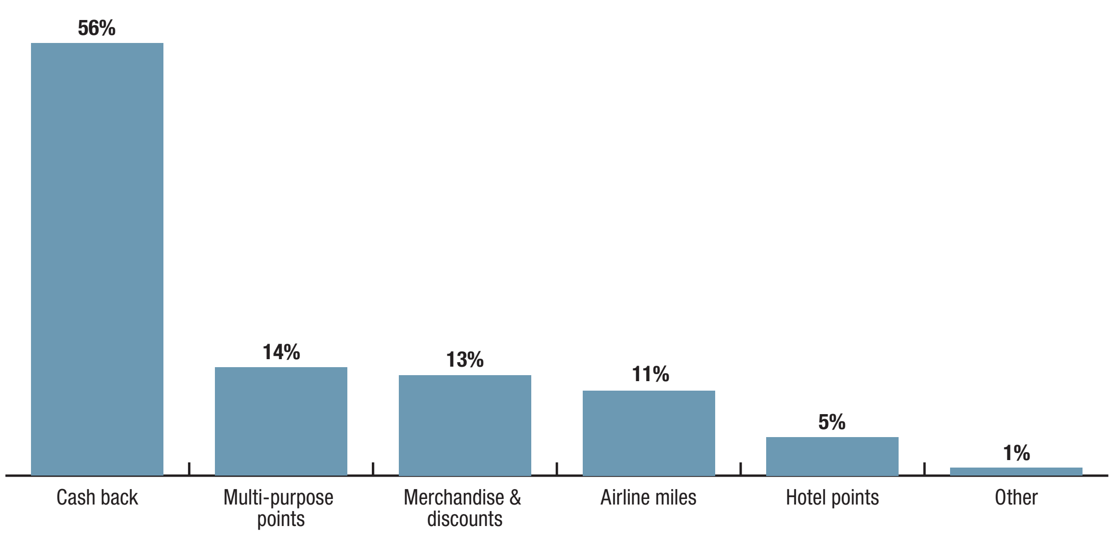
THE FEE/REWARD TRADEOFF (AND OPPORTUNITY) FOR ISSUERS

Approximately 73% of survey respondents acquired a new card with rewards in the last 12 months, of which cash back was the predominant reward program — 56% of all rewards cards had cash back or a statement credit feature (see Figure 10). The attractiveness of cash back rests with its inherent simplicity of earning a percentage of each transaction. While some cash back programs may have special categories that earn extra cash back — such as 3% on Apple purchases made with an Apple Card — or have special merchant deals, they are generally very easy to understand.

In contrast, travel cards that use airline miles and hotel points can be much more difficult to decipher, and are often burdened with blackout dates on when they can be redeemed.

Multi-purpose points came in second place at 14% of new reward cards, reflecting the dominance of cash back. Multi-purpose points allow cardholders to use points on a variety of rewards including airline travel, hotel, car rental, cash back, restaurant gift cards, and experiences. Some features of multi-

Figure 10: Cash back is the top consumer choice for rewards



Source: SourceMedia Research 2019 Card Acquisition Survey

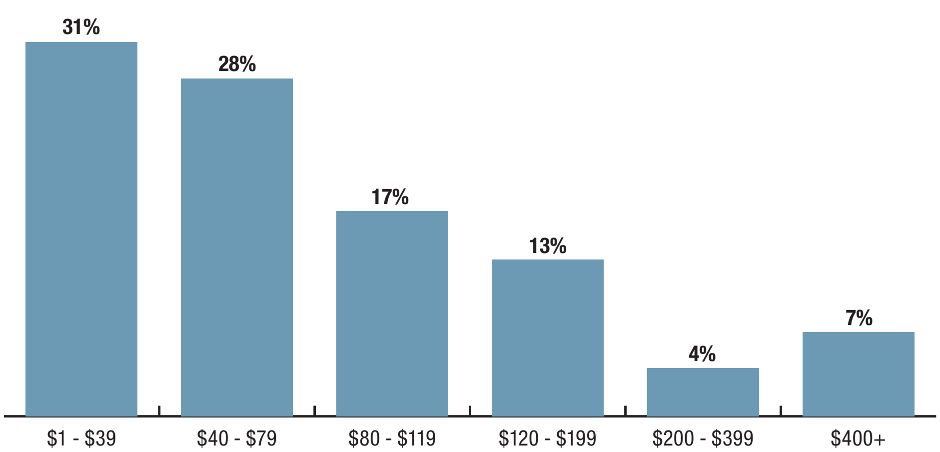
purpose point programs are a travel feature that is not associated with a single airline or hotel and generally does not have blackout dates or similar restrictions. Examples of multi-purpose point programs include Bank of America's Travel Rewards Card and Capital One's Venture Card.

There is a growing trend of consumers willing to pay annual fees for credit cards, particularly ones that have rewards — a clear reversal of a decades-old trend. When credit cards were introduced in the 1950s, almost every cardholder paid an annual fee just for the privilege of having a credit card. Then in 1990 AT&T introduced the Universal Card which carried no annual fee, amassing 10 million customers in its first two years of operations and singularly turning the industry on its head. What followed over the next two decades was that annual fees were eliminated on most cards except airline co-branded cards, premium cards such as American Express Gold and Platinum, and subprime credit cards.

In today's rewards arms race many issuers are finding it difficult to offer extremely lucrative reward programs without charging customers an annual fee. About 41% of survey respondents acquired a new card in the last 12 months that has an annual fee. Among those who pay an annual fee, 76% pay $119 or less (see Figure 11). Almost one-third (31%) pay $39 or less annually to their card issuer. About 11% pay $200 or more in annual fees for what tend to be regarded as ultra-premium cards. Recently American Express announced at its Q2 2019 earnings call that 70% of the cardholders it added that quarter received premium fee-charging cards.[4]

[4] https://www.paymentssource.com/articles/amex-says-70-of-its-new-credit-card-customers-pay-annual-fees

Figure 11: Distribution of annual fees among respondents with fee-charging cards



Source: SourceMedia Research 2019 Card Acquisition Survey

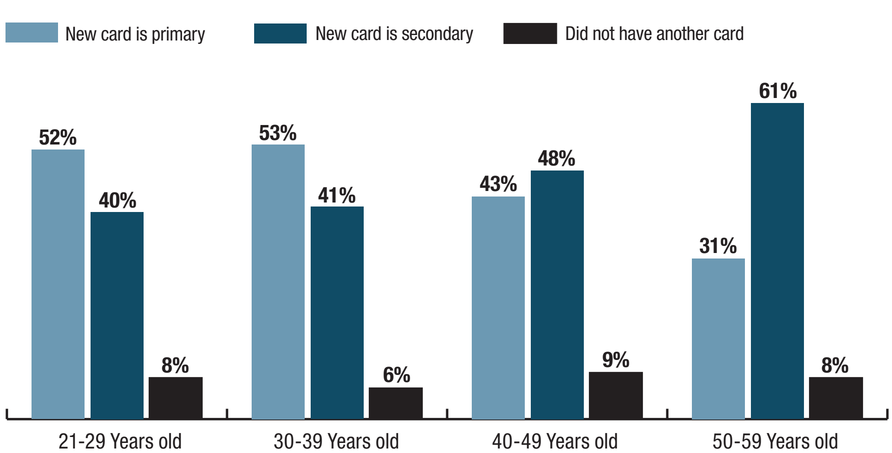
NEW CARD ACCOUNTS ARE VERY ACTIVE

Whenever a new credit card is added to a customer's wallet, there is always the concern that the incumbent primary card will be pushed down to a secondary status — and among younger consumers, that is clearly the case. Just over half (52%) of consumers ages 21-29 reported that their new card has become their primary card, an almost similar case with the 30-39 segment that positioned the new card at a 53% rate as the primary card (see Figure 12). Only with older consumers did the new card move into a secondary position, with ages 50-59 placing it in second at a 61% rate.

One contributing factor to younger consumers' placing the new card in a primary position in the wallet was that they were also more likely to pay annual fees. Approximately 43% of consumers ages 21-29 paid an annual fee for their new credit card compared to just 27% of consumers ages 50-59 (a statistically significant difference).

Getting new cardholders to actively use their cards and make cross-sale purchases with their new issuers is key to a financial institution's success and the results show that new cardholders sourced from digital channels are very active. Overall, 23% of digitally acquired credit cardholders conducted a balance transfer to their new card within the first 90 days of ownership (see Figure 13). Additionally, 19% opened other new accounts with their new issuer, such as checking, savings and brokerage accounts. There were significant levels of balance transfer activity in the ages 21-49 and strong new

Figure 12: Getting top of wallet status for new cards is easier with young adults



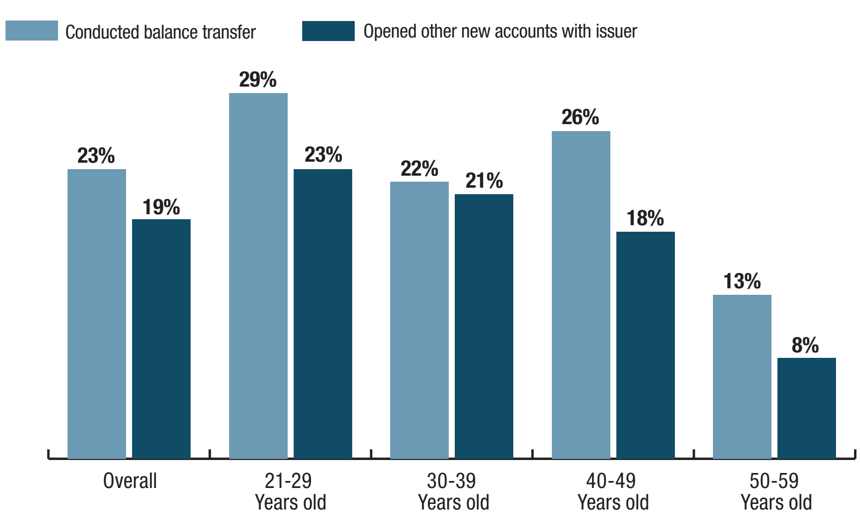
Source: SourceMedia Research 2019 Card Acquisition Survey

account opening rates in ages 21-39. Only in the 50-59 age segment were there significantly lower levels of balance transfer and new account openings. It is most likely that ages 50-59 already have long standing financial relationships, so the need to open new checking or brokerage accounts is lessened.

One key factor in understanding the level of engagement a cardholder has with his or her credit card, after usage of course, is whether or not they have redeemed any earned rewards. In the case of the 1,005 digitally acquired new cardholders, half have redeemed a reward on their card (see Figure 14). This redemption rate is very important as it re-emphasizes the reason why a cardholder acquired the card and formalizes the benefits relationship of keeping the card. In other words, active rewards redemption can lead to lower rates of card attrition because cardholders are actively experiencing the reward benefits.

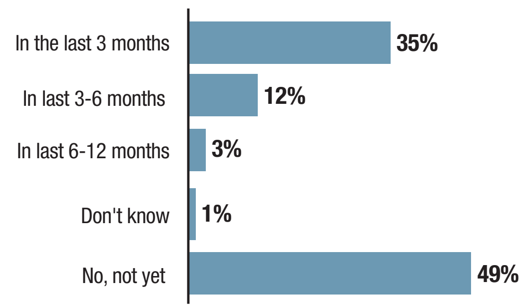
While half (49%) have not yet redeemed any rewards, this should not be cause for alarm, as 75% of the respondents have owned their new card for six months or less. Further, it is common to have some cardholders wait one or two years to redeem a reward if they are planning to use it for a major expenditure such as an airline ticket or hotel stay.

Figure 13: Younger consumers are more active with their new issuer



Source: SourceMedia Research 2019 Card Acquisition Survey N=1,005

Figure 14: New cardholders are actively redeeming rewards



Source: SourceMedia Research 2019 Card Acquisition Survey

CONCLUSION – THE PATH FORWARD IN DIGITAL ACQUISITION

Banks and credit unions need to consider a multi-faceted approach to credit card marketing that includes the use of third-party TPC websites, marketing affiliates and even direct mail to drive digital acquisitions. There is no single silver bullet or winning solution, so placing a majority of resources in one effort is unwise, as consumers use multiple sources that lead them to a digital application.

The top two sources of digital applications were the bank/issuer website (27% of all newly approved applicants) and a direct mail offer (26%). It is critical for banks and credit unions to actively promote credit cards on the landing page of their websites and build out their card comparison functionality to help existing bank customers and prospects learn more about their credit card offerings.

For banks and credit unions that do not use direct mail for card acquisitions because they believe it doesn't work or it's too expensive, they need to reconsider and drive the mail recipients to a direct response website. For all institutions, the messaging in a direct mail piece needs to emphasize that a digital response leads to faster decisioning and quicker mailing of the card, including the possibility to add it to a mobile wallet.

The importance of third-party TPC websites need to be recognized and capitalized upon. Since TPCs have grown to a 20% share of all new credit card originations, up from 8% two years ago, they are clearly finding favor among consumers due to their ability to comparison shop. However, these websites do not always have the consumers' best interests in mind as they are paid to promote certain cards (despite paid promotion disclosures). Issuers will pay for the top position on the first page of search results, knowing that few consumers will investigate a second page of results or even go beyond looking at the first few cards. It behooves banks and credit unions to actively sponsor their cards on several TPC websites to gain maximum exposure.

Being mobile-first is an important orientation for attracting younger consumers to a card portfolio. Adults ages 21-29 had a statistically significant higher level of usage of mobile internet card application than older 51-59 adults. These younger adults also had the highest level of card application through a mobile app than any other age group. Investing in mobile will be key to attracting future generations of cardholders.

The ability to immediately use a card or add it to a digital wallet were only minor drivers leading to a digital application overall, yet they were bigger drivers (statistically significant) for respondents 21-29 compared to respondents aged 40-59. This means younger consumers want to use the card or add it immediately to a mobile wallet and that banks and credit unions need to put this into their marketing messages to appeal to younger consumers.

While many consumers report high satisfaction rates with existing digital applications, the usage rate of smartphones to complete online applications is lower than the usage of PCs and laptops. This could be due to the amount of data needed to be entered, lending itself to usage of a full-sized keyboard. An issuer could gain an advantage in using auto-fill technologies and other methods to reduce the amount of data that needs to be entered when a smartphone is used.

Private label credit card originations don't just happen in the store, they are also a big part of the digital card acquisition landscape. While many consumers are often bombarded with a marketing pitch to acquire a new private label card when making an in-store purchase at a shopping mall retailer, this SourceMedia survey revealed that 22% of new credit cards digitally acquired were for private label retailers, e.g., Macy's and Home Depot. In other words, digital card acquisitions needs to be an important tool in a bank's private label marketing portfolio. It should be noted that TPC websites also feature private label cards such as gasoline cards.

Since roughly three-quarters (73%) of respondents acquired a card with rewards in the last 12 months, it would be fair to say that having rewards on a card is considered "table stakes" with the sole exception possibly being secured and low credit line starter cards. Given the ability to compare cards online, it would put an issuer at a severe disadvantage if a card was offered without a reward program.

Recognize that many new cardholders, especially younger ones, will be interested in opening new relationships with an issuer and that they need to be rewarded appropriately. Leveraging digital account opening channels for cross-selling checking accounts or mortgages should be an important element of any digital credit acquisition strategy and this can be done at time of credit card application. If a consumer is in the digital channel applying for a credit card, use the opportunity to cross-sell other products with a sufficient reward to incent action.