

Pricing innovation for credit cards

The case for value-based pricing



Banks' current pricing strategies are internally focused, designed primarily to cover costs and account for risks. They don't fully reflect the way consumers perceive and receive value. Now, Deloitte's proprietary research makes the case for a value-based pricing strategy by revealing what actually drives consumers' choice of credit cards.

ANNUAL FEES GET ALL THE ATTENTION



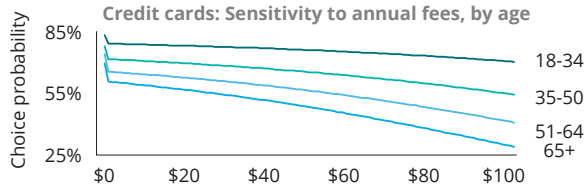
Consumers' probability of choosing a credit card **drops dramatically** as fees increase. Meanwhile, **fee waivers are surprisingly ineffective**.

69% of respondents rated a "low or no annual fee" as a "must have" in choosing a credit card.

JUST HOW SENSITIVE ARE CREDIT CARD CONSUMERS TO ANNUAL FEES?



Going from "free-to-fee"—increasing the fee from \$0 to \$1—causes a steep decline in consumer preference. Older credit card customers insist on minimal annual fees, while younger customers desire lower interest rates.



WHAT ELSE DO CUSTOMERS VALUE?

THEY ARE MORE SENSITIVE TO INCREASES THAN DECREASES IN RATES.

This **asymmetric consumer response** suggests an internal reference to a "fair rate," and rates above that threshold are viewed as unacceptable.



GIVE ME CASH (BACK)!



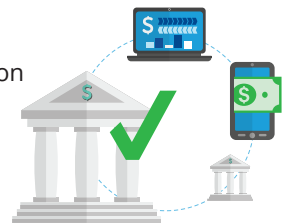
92% of respondents said cashback is a "must have" or "nice to have." compared to **78%** for discounts on purchases and **62%** for points/air miles.

Consumer preference plummets if rewards are eliminated.

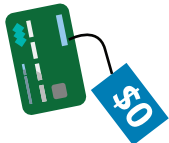
WELCOME ME! Introductory offers have become a basic expectation

BANK SIZE MATTERS (IF THEY'RE REALLY BIG)

Consumers **prefer credit cards from large national banks**, but were indifferent among regional banks, community banks, and online-only lenders.



WHAT SHOULD CARD ISSUERS DO?



Consider eliminating annual fees at low dollar values, such as up to \$25. Market share gains from the "zero price" effect can compensate lost fee revenues.



Raise consumer focus on fee waivers, potentially by reframing them as rebates, or eliminate them altogether.



Increase the perceived value of premium credit cards by raising the fee, yet make it easier for customers to meet any waiver requirements.



Reframe points-based rewards in dollar values to match the simplicity and transparency of cashback rewards.



Create incentives that encourage card holders to make the credit card the "preferred" payment option for online and mobile wallet spends.