What If Interchange Falls? Whither Rewards.. and Profit?

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Two threats you probably know about.

1) Competition

2) The economy
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“How Do You Make Money Doing This? The Answer Is Volume”
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There are (3) Major Sources of Risk to the Co-Brand Model, and All of Them Are About Interchange – Greater Chance of Reducing Interchange vs Increasing

• Litigation (eg Ohio v. American Express)

• Competition from New Technologies (eg Bitcoin)

• Government Regulation
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Donald Trump’s Election Forestalled Regulation – For Now

“The Trump Visa card is the best deal ever for Visa customers," said Donald Trump. "Saying 'no' to this card could get you fired!" March 31, 2004
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"The new Trump Rewards Visa card continues Bank One's strategy of partnering with America's best-known brands," said Jamie Dimon, then-Chairman and CEO of Bank One (JP Morgan Chase)

March 31, 2004
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**Regulation of Interchange the Australia Experience**

In 2002 Reserve Bank of Australia introduced new credit card processing rules – starting in 2003 (1) interchange fees on four party card networks (i.e. Visa and MasterCard) were capped and (2) merchants were allowed to pass these fees on to consumers. **Goal was to get consumers to use cards less by reducing rewards incentives.**
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Interchange Fell 50% -- and Rewards Fell by 1/3

Value of credit card rewards as a proportion of amount spent (Australia)

Source: Chan et al., BRA Bulletin, March 2012
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Rewards Cards Annual Fees Grew

*Source: RBA*

Increase in Annual Card Fees (Australia)
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Issuers Capped Awards Earned By Consumers -- instead of creating incentives to use the rewards card more to achieve specific additional benefits, Australian credit card issuers now incentivize rewards card holders to switch cards when they reach the cap.
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Consumers Moved to Debit

Source: RBA

Credit card volume
Debit Card volume

4th Co-Brand Americas, 21st – 23rd May 2018
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Consumers Moved to American Express

Value of Transactions (%) 12 month moving average: 4-Party (blue, left); 3-Party (orange, right)

Source: RBA
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Interchange isn't going down to almost zero (as it did with debit).

Run up in prices charged for co-brand deals is a relatively recent phenomenon while co-brand deals themselves are now ~ 32 years old.