

# Banking Rewards:

Perceptions and Awareness Among  
Credit Union Decision-Makers



# BANKING REWARDS: PERCEPTIONS AND AWARENESS AMONG CREDIT UNION DECISION-MAKERS

Banking rewards programs, especially debit rewards, are on the rise again, thanks largely to consumer demands. Repeated surveys from major research firms have found rewards for basic banking activities as the highest ranking consumer desire.

But the case for rewards isn't as much of a slam dunk among banking executives as it is for the cardholders that use their services. For example, while the need to invest in mobile platforms is near unanimous (and rightly so), allocating resources to a premium rewards program is not. This despite the facts that more consumers desire banking rewards than mobile banking,<sup>1</sup> and rewards can drive revenue and loyalty. The "Banking Rewards: Perceptions and Awareness Study" sought to understand why.

## AMONG THE KEY FINDINGS:

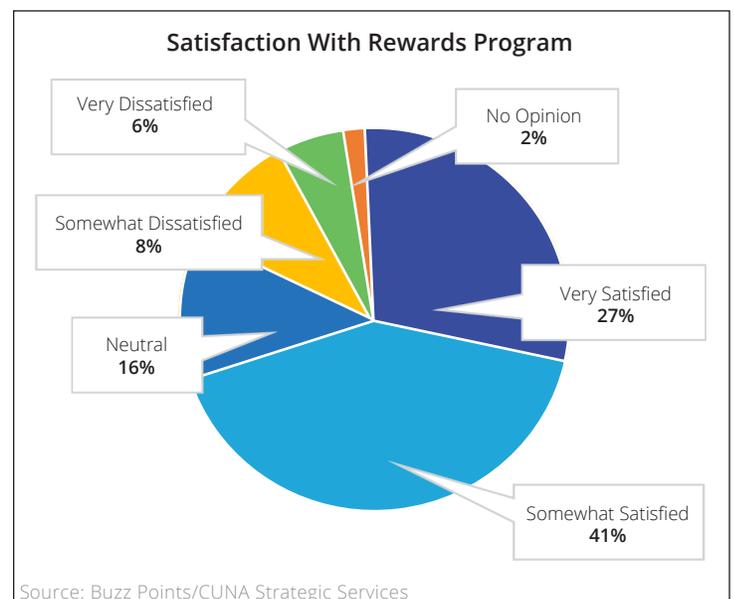
- Credit unions that currently offer debit rewards are largely satisfied with their program
- There are tremendous missed opportunities, even among the credit unions already offering rewards programs
- The primary concerns among those not offering rewards suggest a lack of understanding of program benefits and features

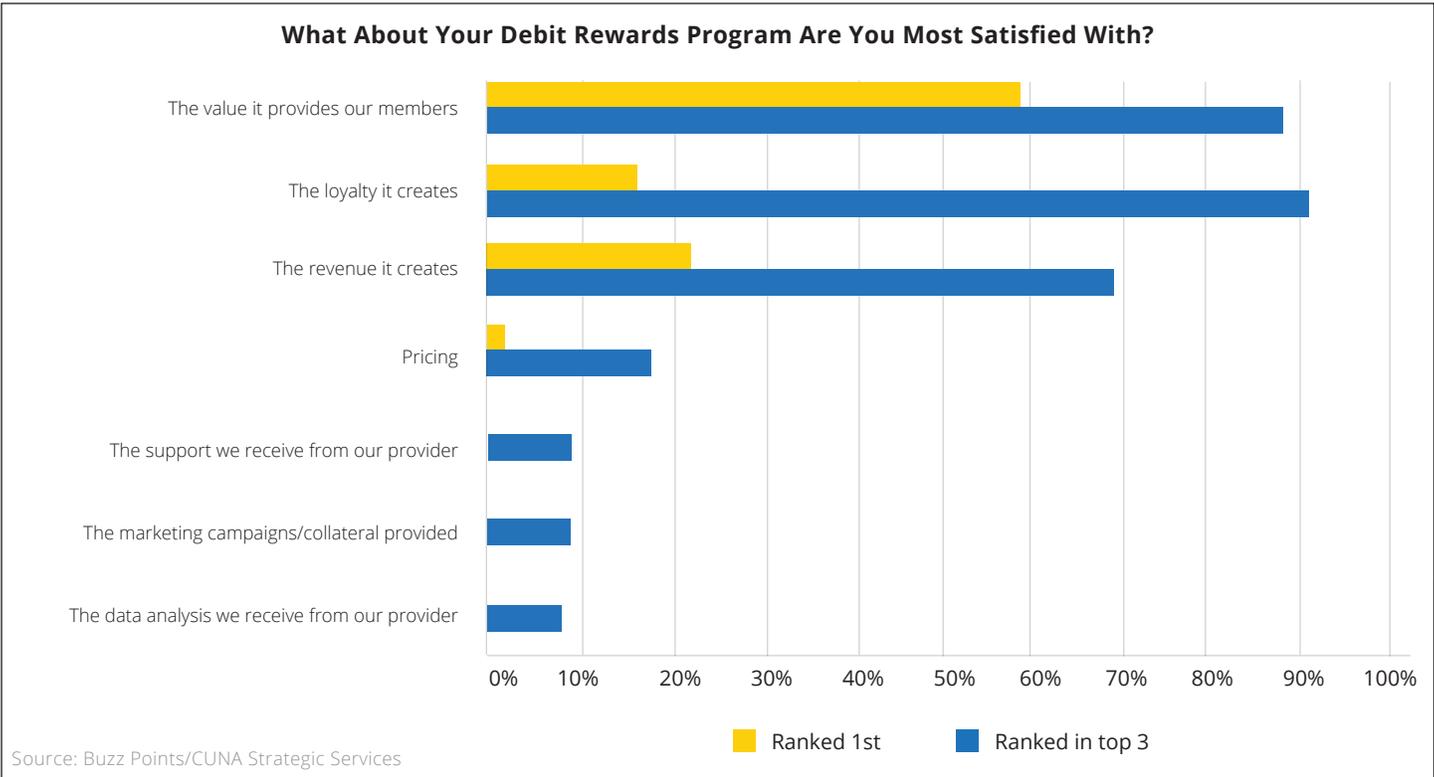
## CREDIT UNIONS LARGELY SATISFIED WITH THEIR REWARDS PROGRAM

Among credit unions with a current debit rewards programs, 2/3 are satisfied with their program. And only 14% are unsatisfied. This high-level glimpse indicates credit unions get the value they desire for offering the rewards program. Yet deeper inspection indicates there is room for credit unions to gain more value.

Among issuers satisfied with their rewards program, there is little variance on what is pleasing them. It's no surprise that revenue and loyalty are top reasons, but somewhat surprising is the altruistic winner of the field: the value it provides members.

"The loyalty it creates" (91%) and "value for our members" (88%) were nearly tied for credit unions ranking it in their top three reasons for satisfaction (with "generating revenue" in the ballpark at 70%). But adding value to members rises to the top by gaining 59% of first-place votes, with revenue a surprisingly distant second at 22%.



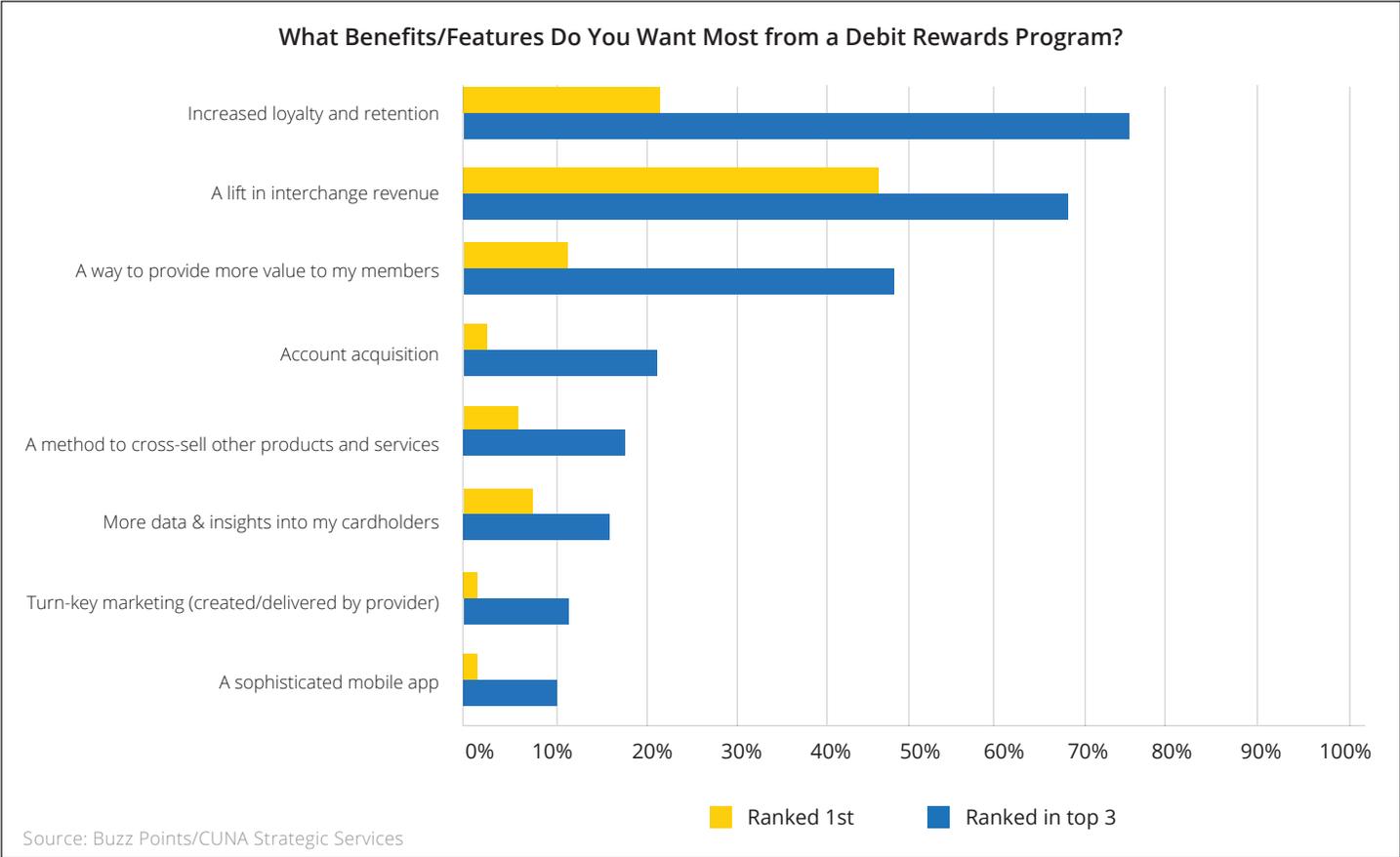


Support, marketing, and data insight scored remarkably low. Suggesting that some rewards providers are underperforming in the delivery of these services, as they should be a major benefit that a credit union gains from their rewards provider.

Pricing, though faring better, still gave a poor showing at 16% (with zero first place votes). If more providers gave the apparently missing added values of exceptional support, marketing, and data analytics, it stands to reason the satisfaction with costs would increase as well.

**Key takeaway:** marketing programs, in-depth data analytics, and cardholder support are key components that credit unions should seek from their rewards provider. Since they are proven to drive greater success, it should be part of the ROI for credit unions.

It seems rewards programs are largely delivering on expectations. This is evident in examining what credit unions not offering debit rewards, but considering it, are hoping to gain from launching a program. Largely their desires align with what existing issuers are most satisfied with. Revenue, loyalty, and value for members are again far ahead of other factors. Though revenue is noticeably higher as the top priority (47%) compared to highest satisfaction factor of existing issuers (22%). Reasons range from overestimating the degree of easily attributable interchange lift as well as underestimating the increase in retention and member satisfaction.



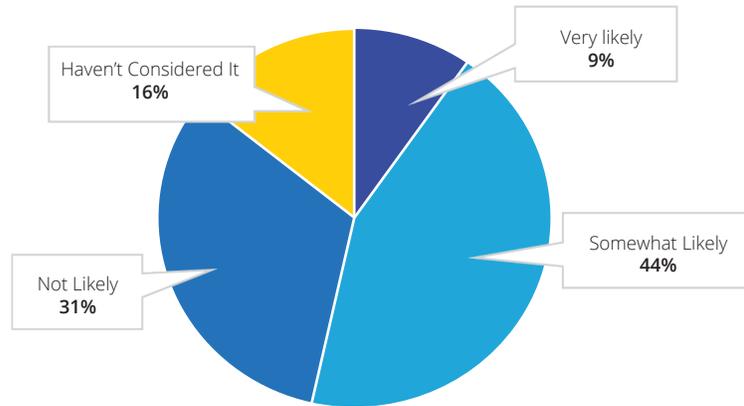
Also of note, while trailing far behind the highest factors (revenue, loyalty, and value to member), benefits like cross selling (16%), data insights (15%), and marketing (11%) at least make an appearance in the top 3 desires of credit unions considering adding rewards. The higher marks here, compared to existing issuers, strengthen the theories that some rewards providers simply aren't delivering on these features, as well as credit unions not recognizing the value they should be gaining from their providers in these areas.

**MANY CONCERNS SURROUNDING REWARDS ARE MISSED OPPORTUNITIES**

Credit unions without a current debit rewards program were asked how likely they were to add one in the next 12 months. More than half are likely to add a rewards program. This aligns with consumer expectations and continues the growing trend. However, it indicates that credit unions will need to implement more sophisticated, valuable, and user-friendly rewards to keep pace with competitors. This is true for every product type: as it becomes more prevalent and mainstream, the bar on quality and value rises along with it.

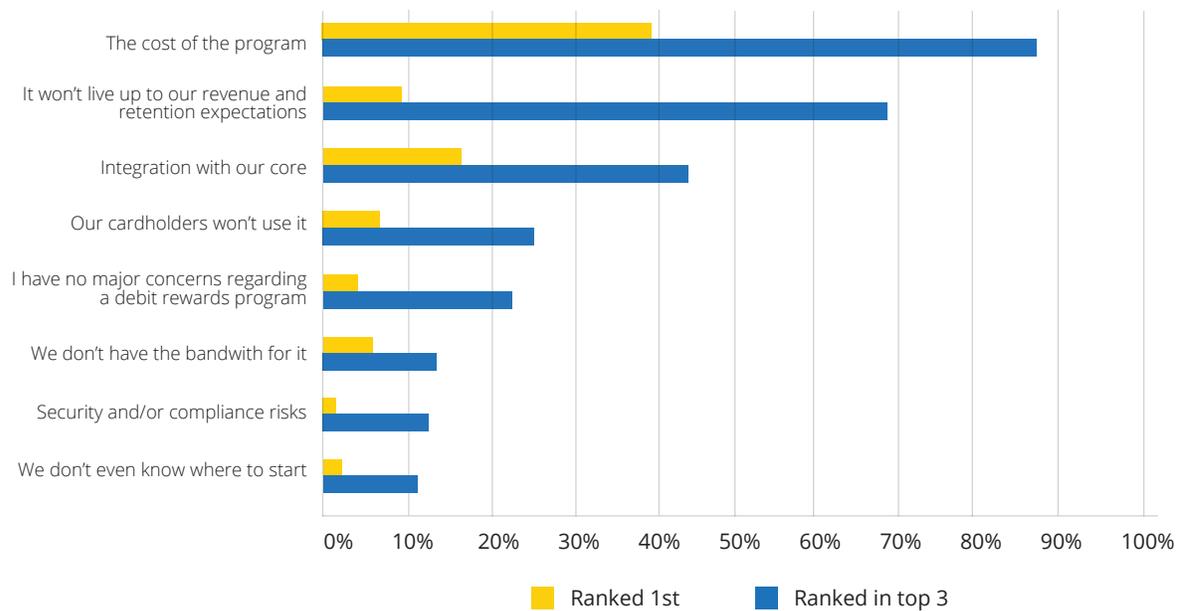
Among credit unions that considered debit rewards but decided not to pursue a program, expense was the most frequently cited reason. In fact 88% ranked the costs in their top three concerns, with nearly half (45%) making it their #1 concern.

### How Likely Are You to Add a Debit Rewards Program in Next 12 Months?



Source: Buzz Points/CUNA Strategic Services

### What Are Your Biggest Concerns Regarding a Debit Rewards Program?



Source: Buzz Points/CUNA Strategic Services

An interesting follow-up question (though not part of survey) would have been to ask these respondents if they had examined rewards providers that hold the reward liability. These so-called “second generation” rewards programs learned to solve a pain point from their predecessors by removing the point liability from the financial institution’s balance sheet. This shift has been largely well received by institutions utilizing such an arrangement, but the awareness may not be pervasive through the industry.

Another significant concern is integration with the core processor, which was a factor for nearly half of credit union executives (46%), with 19% ranking it as their #1 concern. This suggests that rewards providers need to do a better job communicating the implementation process. Many rewards providers do not need to integrate directly with a financial institution’s core. These providers are able to operate with secure, daily reports from the core – a much more simple process than actual integration. Thus, credit unions should vet providers to get an understanding of how they retrieve and utilize data. When no direct integration is required, concerns should be alleviated quickly.

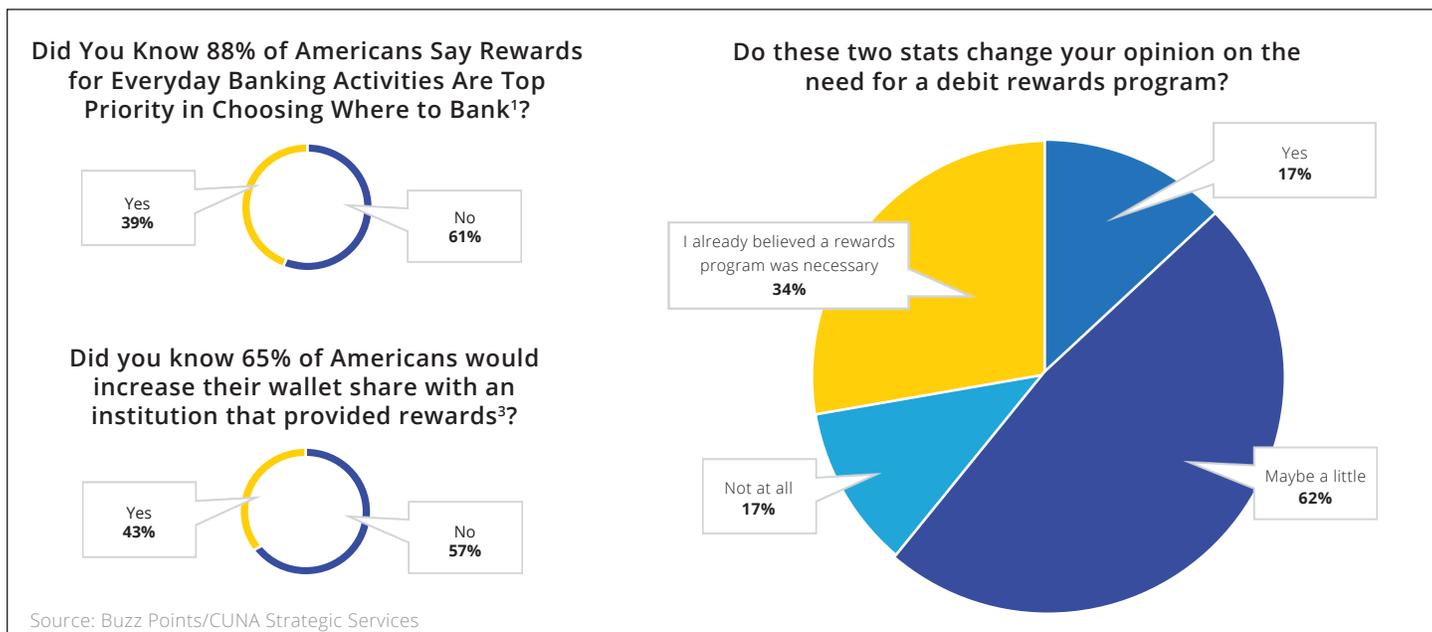
Other concerns receiving notable frequency are lack of adoption from cardholders and not living up to revenue and retention expectations. Interestingly this points to a common thread throughout the survey results: underutilization of critical value-adds from rewards programs. Ongoing engagement (via marketing campaigns) with end-users is critical to successful loyalty programs, though we saw above it is not how credit unions are measuring success with (or even seeking from) their providers. The survey clearly indicates this should be a higher priority for a credit union’s decision process in implementing a rewards program.

## BETTER UNDERSTANDING OF CONSUMER DESIRES LIFTS PRIORITY OF DEBIT REWARDS

It’s safe to say implementing a debit rewards program is not the first thing most banking executives think about as they enter the office. But mounting research suggests it should be a higher priority for decision-makers.

An Accenture 2015 study confirmed that 4 out of 5 consumers now view their banking relationship as a commodity for making payments.<sup>2</sup> Accenture’s study also found over half (54%) of consumers are interested in their financial institution proactively locating discounts on purchases for them.<sup>2</sup> This was the highest ranking feature — even ahead of proactively recommending financial products. Bad news at first glance, but also a compass to find value-add products and services to win greater loyalty. A perfect example is a rewards program that utilizes transaction history to present special discounts tailored to an individual cardholder’s preferences.

Better understanding of these consumer desires could lead to re-prioritization of new product initiatives for many credit union leaders. The Rewards Perceptions and Awareness Survey confirmed this concept by presenting two consumer facts to these leaders, and subsequently asking if they affected their previous belief on the level of need for a debit rewards program.



About 60% of survey respondents were unaware of both facts that banking rewards are the highest ranking factor for consumers choosing where to bank, and that most Americans will increase wallet share when given rewards. Upon presentation of these stats, only 17% of banking executives retained their belief that debit rewards are unnecessary.

## CONCLUSION: DEBIT REWARDS GOING FORWARD

The Banking Rewards: Perception and Awareness Survey uncovered a number of consistencies as well as misconceptions regarding debit rewards programs. In short, there are two camps among credit union decision-makers. Those that see great value in rewards programs is the larger of the two camps, though those unexcited by rewards programs are still a significant number.

There is a range of factors why some credit union leaders aren't motivated to add a rewards program. This survey discovered most of them are misconceptions (e.g., difficult core integration, expense, lack of value). Plus, the survey found many executives are largely unaware of how important such rewards have become to consumers as they choose their primary financial institution. Unsurprisingly, when these factors are illuminated, it tends to change opinions on the need for debit rewards to increase retention and loyalty.

It's possible the initial fallout from the Durbin Amendment, which affected the profitability of debit rewards as they were structured at that time, has lingered for this group. However, rewards programs evolved to overcome the challenges Durbin presented. And the eventual interchange cap exemption for institutions under \$10B curbed the potential negative impact significantly.

This is reinforced when examining the survey results among credit unions offering debit rewards. These credit unions are overwhelmingly satisfied with their programs compared to the small number that are unsatisfied. Revenue is a primary factor in the satisfaction of their rewards program, though the value it provides members (which in turn creates loyalty) is the top reason for satisfaction.

One consistency between both camps are the missed opportunities surrounding data analytics and deep marketing support. Those uninterested in rewards programs aren't considering these as benefits of such programs. But even credit unions satisfied with their programs aren't gaining adequate benefits in these areas.

While not all programs are created equal, the transactional nature of rewards programs lends itself to a mountain of data with revenue implications. Credit unions should vet rewards providers on what actionable insights they can deliver with this data; even requesting an example. Likewise, as a part of a member's day-to-day activity, a rewards program should have a team delivering ongoing engagement with the cardholders. Few credit unions have the internal bandwidth to spare these resources, so the level and cadence of consistent marketing a rewards provider delivers should also be a top priority for credit union decision-makers.

## ABOUT THIS SURVEY

Unless otherwise cited, all data is from "Banking Rewards: Perception and Awareness Survey," Buzz Points/CUNA Strategic Services, December 2015.

The "Banking Rewards: Perceptions and Awareness Survey" was delivered through CUNA Strategic Services to decision-makers at credit unions with at least \$150M in assets. It was further narrowed to those working in disciplines of leadership & management, business development, finance & economics, marketing, and operations.

For a full copy of the survey results, including responses regarding differentiation between providers (which was not covered in this white paper), please email [rewards@buzzpoints.com](mailto:rewards@buzzpoints.com).

<sup>1</sup> "Understanding Financial Consumers in the Digital Era," CGI, 2014

<sup>2</sup> "2015 North America Consumer Digital Banking Survey," Accenture, 2015

<sup>3</sup> "EY Global Consumer Banking Survey," EY, 2014