



Charting a new course
for the credit card industry

Can the credit card industry institutionalize innovation?

In just two short years, the fortunes of the credit card industry have changed dramatically. Record levels of defaults transformed the sector from one of the most profitable areas of lending to one of the least (see Figure 1 on page 2). Federal regulations related to credit business practices and the cost of borrowing have limited issuers' ability to raise interest rates and fees.

The proposed Draft Code of Conduct for the Credit and Debit Card Industry in Canada (the "Voluntary Code of Conduct") suggests more regulation is in the works for debit cards – a move that could affect many of the same players.

In this vastly altered landscape, credit card companies must now adhere to much more stringent requirements for transparency. To meet spiraling consumer and merchant demands, they must enhance their financial disclosures and introduce new payment products. As if these developments were not enough, the industry must also determine how to compete effectively against non-traditional players in its bid to retain profitability.

In response to these market forces, issuers are considering a number of options – from exiting the business altogether to redefining their business and operating models. Some companies have set up project management offices to execute a number of quick

changes to products, pricing and lines of credit. Others are taking a longer-term approach, revising business, governance and operating models to reflect the needs of a new marketplace.

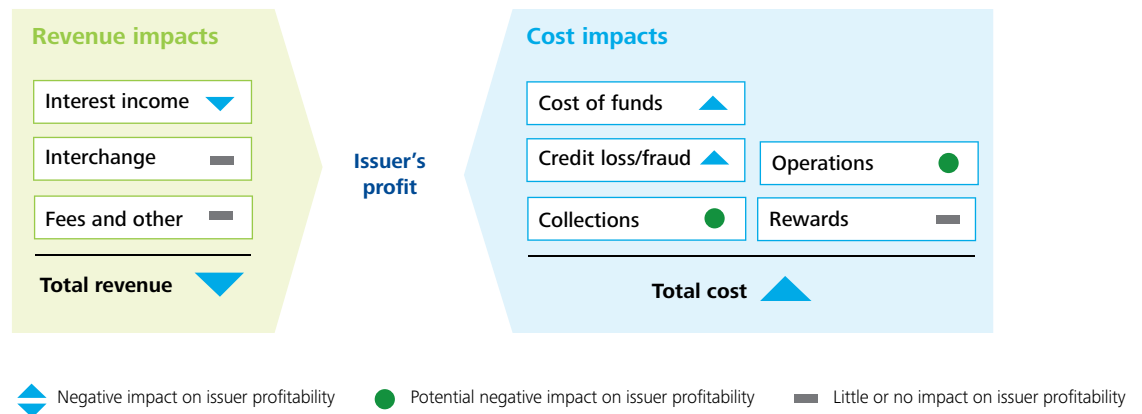
At the same time, regulators now expect the industry to deliver simpler, more transparent products. However, increasingly complex market conditions may suggest a different approach: one that would see the industry embrace greater innovation. The key challenge is to use the current crisis as an opportunity to innovate – not just through the introduction of new products, but also through the creation of the next generation of card services and operations. To be effective, this type of innovation must include access to markets, channels and different models of customer and merchant relationships. It also must encompass new approaches to operations and risk management.

Ongoing market uncertainties also mean that issuers should plan for alternative scenarios. While recent economic data point to recovery, no one knows when consumer spending will recover. While government regulation looks likely to increase, no one knows how severe and effective it will be. And while wholesale markets are showing signs of stability, no one knows when securitization will rebound. We do know that the use and cost of securitization by credit card issuers is bound to change as a result of forthcoming accounting and regulatory changes, as issuers/securitizers will be forced to move securitized loans onto their balance sheets, and add to loan provisions and (where applicable) regulatory capital, accordingly.

In light of these new market realities, the landscape for card services will almost certainly be very different in the future – and only those organizations capable of anticipating and adapting to the changes will emerge as winners.

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Figure 1: Revenue and cost impacts of credit card crises on issuers



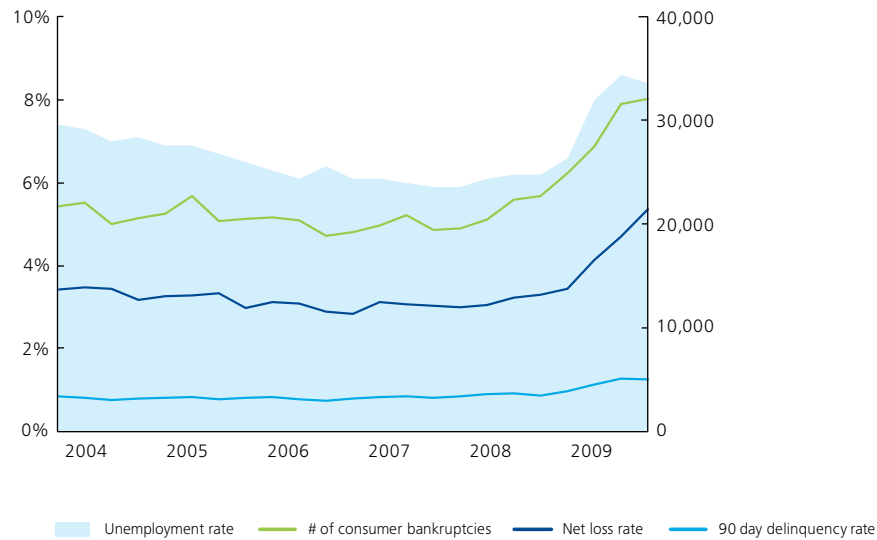
Tracking the challenges

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A perfect storm

The credit card industry is caught in a perfect storm. Record net loss rates driven by rising consumer bankruptcies are occurring at a time of increased government regulation (see Figure 2).

Figure 2: Unemployment, delinquencies, net loss ratio and bankruptcy at Canadian commercial banks



Notes

- **Delinquency rate:** the delinquency amount (90 days & up) for period ending divided by the total outstandings balance for the period ending.
- **Net loss rate:** the total gross write off amount less recoveries for the period ending divided by the total outstandings balance for the period ending (annualized).

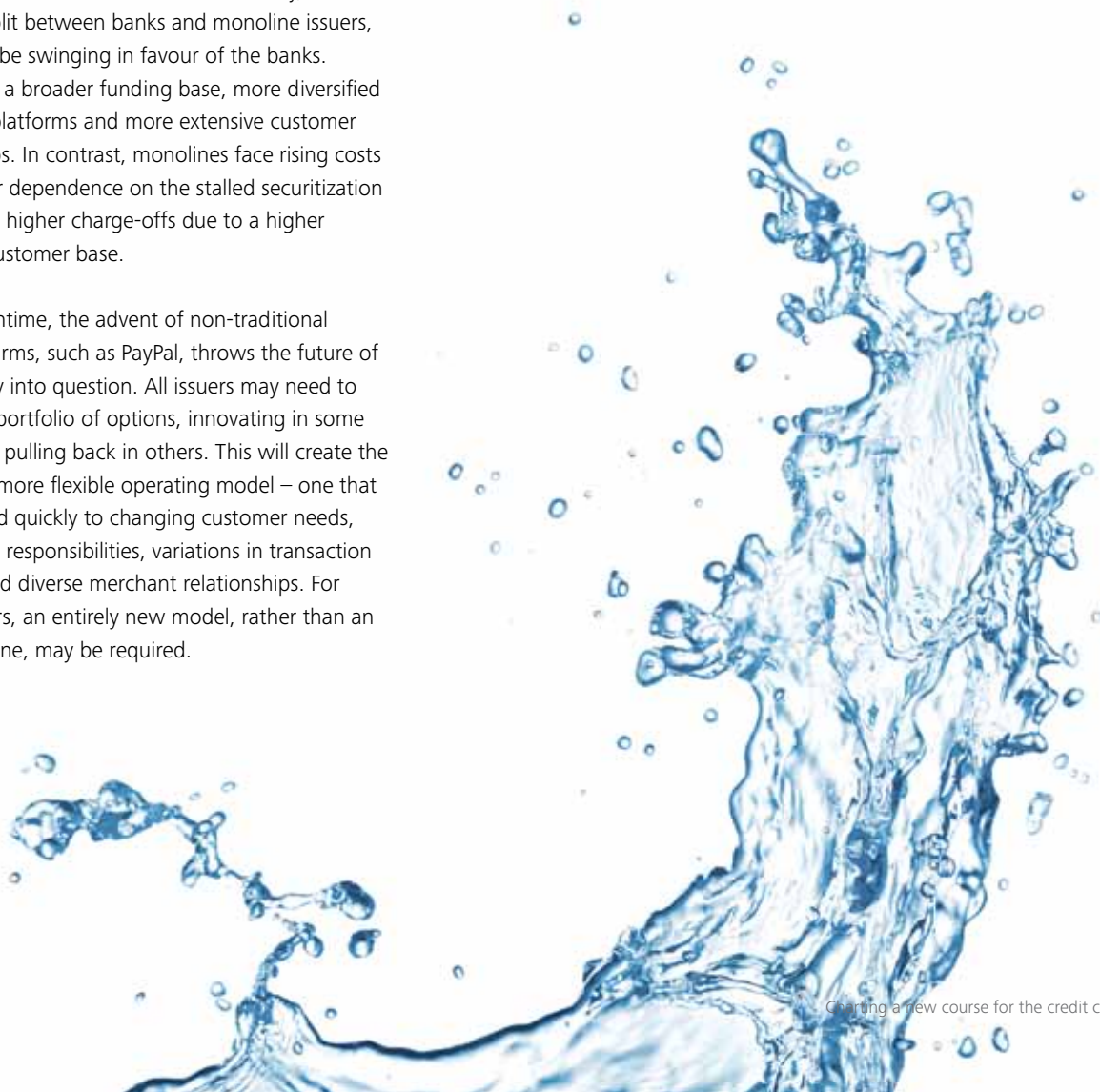
Source: Statistics Canada, Canadian Bankers Association, Bloomberg

Consequently, the industry is at a turning point. After several months of declining credit card limits, we may see limits rise in the coming months and stabilize prior to the enforcement of new credit card regulations. As these factors collide, a fundamental rethinking of business, funding and operating models is required. Like debit cards, credit cards will need to become a tool in the overall customer relationship, rather than a product marketed as a single service.¹

The debate about the future of the industry, which is currently split between banks and monoline issuers, appears to be swinging in favour of the banks. Banks have a broader funding base, more diversified operating platforms and more extensive customer relationships. In contrast, monolines face rising costs due to their dependence on the stalled securitization market and higher charge-offs due to a higher revolving customer base.

In the meantime, the advent of non-traditional payments firms, such as PayPal, throws the future of the industry into question. All issuers may need to consider a portfolio of options, innovating in some areas while pulling back in others. This will create the need for a more flexible operating model – one that can respond quickly to changing customer needs, compliance responsibilities, variations in transaction volumes and diverse merchant relationships. For some issuers, an entirely new model, rather than an amended one, may be required.

While no one-size-fits-all approach exists, one thing is clear: issuer strategies need to change. A successful strategy is no longer about maintaining a high level of originations, but instead about picking the right portfolio of customers likely to deliver the highest return. This requires a more targeted approach to business development and an increased emphasis on customer retention. Issuers need to improve the customer experience and focus on maintaining and retaining profitable customers.



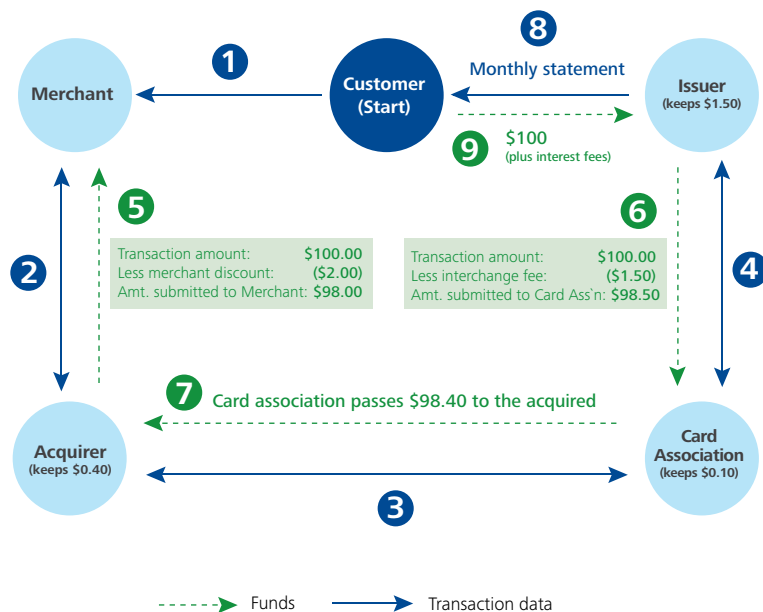
Concerns over interchange fees

Interchange fees represent another pressure facing the credit card industry. They have skyrocketed over recent years to become the second-largest cost after payroll at some major retailers, such as Wal-Mart.² Merchants are clamouring for major change.

Interchange fees are the payments a merchant's acquirer makes to a card user's issuing bank for each card transaction. These fees comprise a large proportion of the fees that merchants pay to their acquirers for processing credit card transactions. In recent years, increases in interchange fee rates, together with growth in the volume of card transactions, have led to a dramatic rise in both the total value of interchange fee payments and merchant costs for accepting credit card transactions.³

Merchants are concerned about interchange fees for several reasons. Cost is, of course, one issue, but some retailers claim that credit card companies use penalties to prevent them from directing consumers toward alternative discount payment options, such as cash, debit and online fund transfers.⁴ The Retail Council of Canada (RCC) and the Canadian Federation of Independent Businesses (CFIB) have taken up this call. They are hoping regulators and legislators will make changes to the use and cost of interchange fees, particularly during the recession.⁵

Figure 3: The structure of interchange fees



Card networks and their supporters are fighting back. They contend that cards provide substantial value to both consumers and merchants and that interchange fees are essential for the proper operation of the card networks. They say a common interchange fee standardizes the terms of exchange between the merchant's bank and the cardholder's bank and plays an economically important role in influencing the incentives of merchants to accept cards and consumers to hold and use them.⁶

The current structure of interchange fees is outlined in Figure 3. The example provides an estimate of the fees involved in a \$100 sale. Retailers pay between 1.75% and 2% on interchange and acquiring fees.

Admittedly, controversy around interchange fees is not new. Merchant associations claim they paid \$4.5 billion in interchange fees in 2008, which represents about 2% of sales. Some smaller businesses claim the percentage is closer to 3%.⁷ In January 2007, Microsoft chairman Bill Gates cited high interchange fees as a significant reason Microsoft believes it can be competitive in online micropayments.

In response to these claims, regulators are increasing their focus on interchange fees. In Canada, both the House of Commons and Senate have discussed the regulation of credit and debit. Under the Voluntary Code of Conduct, the following additional regulations are under consideration:

- Disclosing the exact fees and amounts assessed to retailers so they can offer appropriate discounts to consumers paying by alternative methods
- Giving merchants the ability to negotiate the level of interchange fees
- Giving merchants the ability to offer discounts based on consumer payment type

Given these possible scenarios, issuers should consider proactively partnering with retailers to look for additional ways to add value to their relationships.

This is an example of a partnership that is popular in the United States and takes advantage of the fact that approximately 30% of consumers choose credit cards based on rewards, many of which are funded by merchants. In the United States, some issuers market the rewards electronically, and automate redemption.

An all-electronic approach can drive greater repeat usage more than traditional in-statement marketing.⁸ By partnering with merchants, issuers can both increase merchant activity and make their cards more attractive to existing and potential customers.



Increased regulatory scrutiny

In Canada, new developments in industry regulation will mean an increase in scrutiny and will likely put downward pressure on industry profitability and speed up the changing landscape.

Specifically, the Canadian Minister of Finance introduced a series of Credit Business Practices Regulations, the majority of which took effect on January 1, 2010.⁹ The regulations will mandate:

- a minimum 21-day interest-free grace period on all new credit card purchases when a customer pays the outstanding balance in full
- lower interest costs by mandating allocations of payments in favour of the consumer
- express consent for credit limit increases
- limits on debt collection practices and
- prohibitions on over-the-limit fees solely arising from holds placed by merchants¹⁰

The federal government also amended the existing Cost of Borrowing Regulations. These amended regulations will require that issuers provide consumers with clear information in a summary box that details interest rates, fees and the time it would take to fully repay the balance if only the minimum payment is made every month. The regulations also mandate advance notification of interest rate increases.¹¹

The new Voluntary Code of Conduct, which favours merchants, will open the door for the many new payment products starting to proliferate. The code provides merchants with the right to accept debit payment types, in effect making them the gatekeepers for global scheme debit acceptance in Canada. Merchants can determine the network over which transactions will be processed for co-branded cards and offer discounts from their list prices for different payment products. The code will also enhance pricing transparency for merchants, enforce notification prior to price changes and permit merchants to opt-out of long-term contracts within 90 days of a price change.

The regulations contain provisions that limit a lender's ability to manage risk, price fees, allocate payments and prudently conduct business. These limits will necessitate changes in the credit card business going forward.

The code limits issuer ability to innovate their way to profitability by limiting them from setting brand priority for co-branded cards and prohibiting issuing debit-credit cards. As well, issuers may not voluntarily upgrade customers to premium cards: these cards can only be issued to consumers who specifically request them. Notably, the Voluntary Code of Conduct does not seek to regulate interchange fees or pricing on debit or credit cards.¹²

Whatever the longer-term outcome of regulatory reform, the near-term consequences of the Credit Business Practices and Cost of Borrowing Regulations will necessitate changes in the credit card business. They will significantly reduce an issuer's ability to raise interest rates and fees as freely as before and limit a lender's ability to manage risk, price fees, allocate payment and prudently conduct business.

Here's an alternative view: the regulations could be in the best interests of the industry because, by conferring a seal of approval on safer financial products, they may increase consumer demand.¹³

In the meantime, however, the overall direction of financial reform and consumer protection is likely to be toward simpler, "vanilla" products that are easier for consumers to understand. This may pose both a challenge and opportunity for issuers looking to craft innovative product solutions to improve their margins.



Response strategies

A shifting payment landscape

As losses mount, interchange fees rise and regulatory scrutiny increases, credit card companies must develop strategies to remain relevant into the future. This is complicated by the fact that today’s credit card offerings exist in a much more cluttered landscape than the 1970s.

In the past, a credit card’s unique value proposition (pay later, convenience, security) allowed it to be managed as a discreet line of business. As a result, issuing institutions took a highly lend-centric view of their card offerings, with an earnings model based on charging interest for outstanding balances.

The first major shift to the payments landscape began in the 1990s as Canadian consumers embraced point-of-sale debit transactions using the cooperative Interac network. While initial growth was mainly at the expense of cheques and cash, debit soon came to be seen as a parallel payment method to credit cards. This introduced a competing payments paradigm (pay now, convenience, security) to the marketplace.

A second major shift was the evolution of rewards programs. This opened a major new revenue source for issuing institutions via increased annual fees and the favourable economics of the rewards programs themselves. These programs, along with increased interchange, helped issuing institutions move from the traditional lend-centric view of card services to one in which consumer spend was the critical factor.

Figure 4: Consumer payments options, 1970s vs 2010s

Axis	1970s	2010s
Channels	POS Branch	POS Branch Web Telebanking Mobile
Form factors	Cash Mag-stripe credit card Paper cheque Wire transfer	Cash Chip credit/debit cards Paper cheque Wire transfer Fob Contactless Biometrics Electronic token
Funding types	Deposit account	Pay before (pre-paid/eWallets) Pay now (chequing accounts) Pay later (credit, line of credit)

This evolving focus on spend coincided with an increase in the diversity of payment types, which is the third major shift. Gift cards and pre-paid cards introduced the pay-ahead payment concept, as opposed to pay later, while debit cards popularized the electronic pay-now model. Funding sources also increased, from demand deposit accounts to innovations such as pre-paid accounts (gift cards, pre-paid credit cards) and even mobile phone accounts.

The latest shift to the payment landscape is in payment form factors, which have also evolved. Cards have moved from mag-stripe to chip and more recently to contactless. Electronic payment forms, such as online banking and mobile phones, have begun to replace traditional card-based payments. Meanwhile, the success of PayPal and Google Checkout demonstrate that a card or card number may not be required at all. As these trends continue to take hold, the physical presence of the cards themselves will become less critical.

Opportunities for developing new concepts for credit cards

The consequence of all these shifts is that credit products can no longer be managed in isolation as a stand-alone product. They must now be viewed as a key element in an evolving and increasingly blurry payments landscape.

The concept of a credit card and the form it might take are likely to change significantly over time, assuming both a physical and virtual dimension. Issuers should consider, seeing credit cards as part of a general eCommerce solution. They might want to provide consumers with the ability to research products online or through social networking sites and offer discounts for targeted merchants and a



range of settlement options. Another option is to offer multipurpose payment solutions, with both pre-paid and credit features or even a web-based concept. As both a physical and a web-based service, consumers could make online purchases using the online version of their credit card without having to reveal their account numbers on the Internet.

In some parts of Europe and Japan, even mobile phones are being used as payment devices. A prepaid amount is stored on a chip within the phone and payment is made in the same way as a contactless payment card that relies on near-field communication technology.

Finally, cards could also provide deposit services. Issuers might wish to consider allowing customers the opportunity to prepay their credit cards and/or receive interest or more favourable credit terms. Like Manulife's One account, issuers might consider offering deposit services, where the balance could support existing borrowings, justifying a higher credit limit based on the demonstration of the borrower's liquidity. Banks generally experience a lower level of losses from borrowers who also maintain a deposit relationship with the bank. Combining credit cards with other banking relationships may not only reduce charge-off rates; it may make credit cards more relevant to a new generation of thriftier consumers, as well as contribute to additional funding flexibility.

There are significant opportunities for developing credit cards in addition to rewards, personalization and pricing structures. While proceeding with in-flight initiatives such as chip and PIN, issuers should consider a clear product development path to prevent disruption and address some of the current industry challenges.



The new paradigm of risk management

Twenty years ago, the credit card industry was primarily in the short-term lending business. Issuers determined that the biggest profits didn't come from people who repaid their balances regularly, but from customers who maintained a constant level of debt.

As a result, consumer loans became a perpetual earning asset, which created a substantial revenue stream from interest. This primary source of revenue was more prevalent in the United States than in Canada due to differences in lending and card usage.

The growth of a business model that relies to a large extent on continual borrowing creates significant risk management issues during difficult economic times. While this is less of a problem in Canada, issuers may nevertheless want to provide incentives, such as lower interest rates, for borrowers to repay balances. This could enhance customer experience, broaden card acceptability and potentially reduce risk as well. It would also bring issuers more in line with regulatory guidance¹⁴.

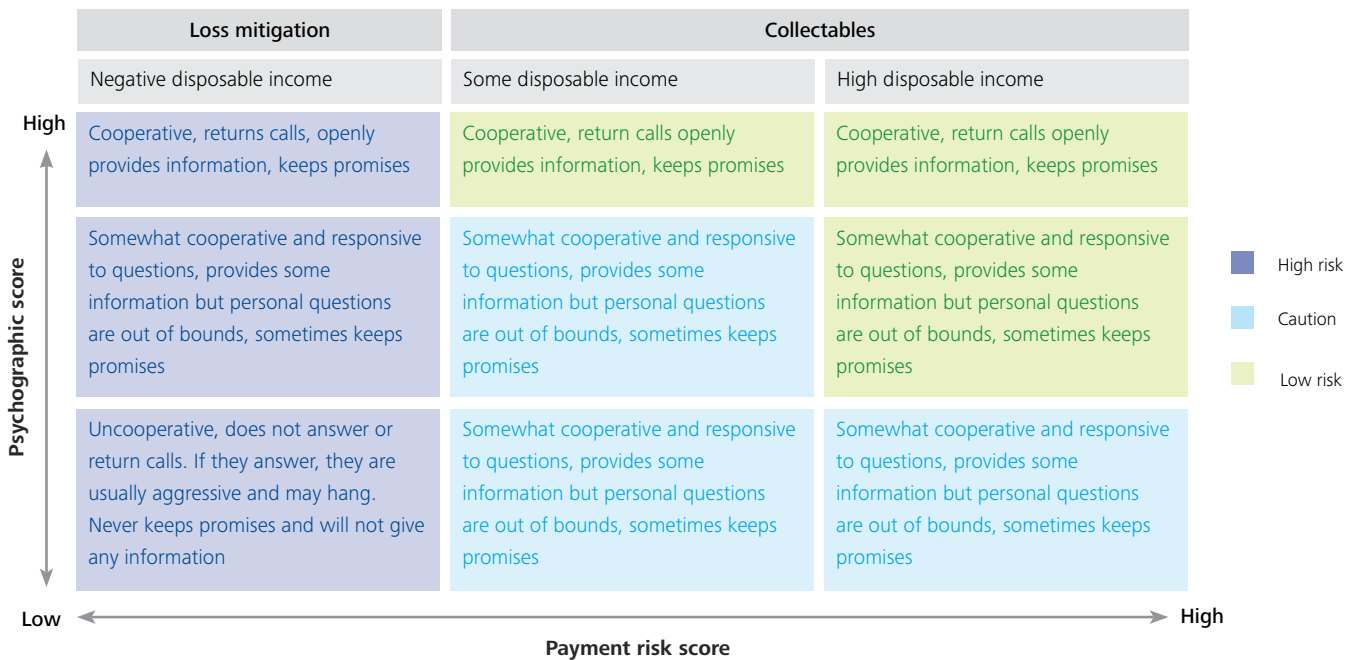
A renewed focus on default management is now a critical success factor for the industry (see Figure 5). It may also provide a more effective mechanism for compliance management. With the continued weakness of securitization markets and the impending changes in accounting rules related to securitization vehicles, issuers are likely to remain more cautious than before.

To more accurately gauge customer willingness and ability to repay, issuers should become more interested in better understanding their customers. A 2002 study of how Canadian Tire customers were using the company's credit cards found that 2,220 of 100,000 cardholders who used their credit cards in bars had missed four payments in 12 months. By contrast, only 530 of the cardholders who used their credit cards at the dentist had missed four payments in 12 months.¹⁵

Issuers can develop a psychographic score for each customer by detailing their behaviour, profile and characteristics. By segmenting customers into different loss-probability and prospect-for-collectability categories, it becomes easier to develop collection strategies based on where customers appear on the matrix.

To enhance their risk management, and comply with recent government regulations and other applicable legislation, issuers will need to create and emphasize efficient and effective performance standards and routine processes.

Figure 5: A default management model for issuers



The innovation imperative

Given the significant challenges and future uncertainties facing the credit card industry, issuers must consider several strategic options to stay in business. Some may choose to exit the card business completely, if only temporarily. Others may decide to remain, but to retrench by eliminating lines, reducing expenses and lowering their risk profile. A third approach could be to launch short-term marketing, product and operational initiatives.

However, these approaches may not be sufficient given the degree of change the industry is experiencing. Issuers may need to fundamentally rethink their business, funding and operating models if they are to respond to new economic conditions and capitalize on new opportunities. When planning ahead, it is critically important to distinguish between short-term pressures and longer-term shifts that will transform the structure of the industry, particularly through the advent of new technology.

Innovation is traditionally considered a primarily product driven activity, but the opportunities for innovation are much broader and potentially more significant. They include areas such as risk management, channel management, operations and customer and merchant experience.

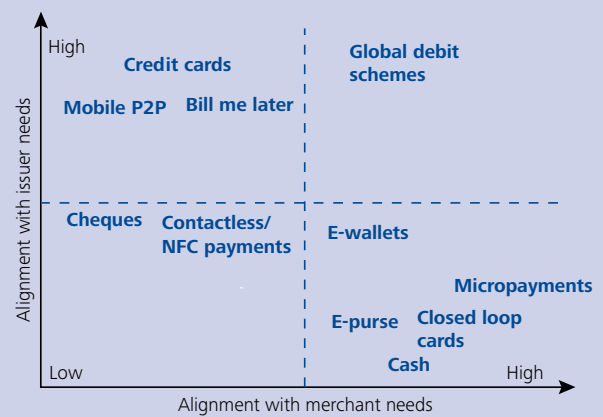


Customer experience, in particular, varies significantly between issuers. To protect their margins, issuers will need to focus more on retaining and building relationships with their profitable customers. They will also need to consider a range of options – innovating in some areas while pulling back in others. This will require a flexible operating model that can respond quickly to changing customer needs, transaction volumes, merchant requirements and compliance responsibilities. To this end, issuers should consider deploying new technology to improve efficiency and increase flexibility. For example, the use of rules-based engines may provide issuers with an easier method to adapt to changing regulations, while the increased use of analytics may help segment customers on the basis of risk and spending habits.

Innovation alignment

In the face of increased competition from substitutes and non-traditional players, issuers may want to look to merchants as the necessary anchors for business growth. Innovative solutions that effectively address merchants' needs must also respond to consumer needs and they require a valid business case. Issuers must develop tailored value propositions for key merchants, including flexible pricing that reduces merchant payment costs and associated risk.

Figure 6: Alignment of payments methods with issuer/ merchant needs



Issuer's needs	Merchant's needs	Consumer's needs
<ul style="list-style-type: none"> • Revenue generation • Increase customer retention/stickiness • Low maintenance/cost of operation • Minimize fraud 	<ul style="list-style-type: none"> • Reduce cost of accepting payments • Increase revenue and customer loyalty • Decrease transition processing time/complexity • Minimize risk 	<ul style="list-style-type: none"> • Universal acceptance of cards • Card has built in security features that inhibit fraud • Rewards programs • Convenience of use

Source: Deloitte Research

Creative and unique innovations are a must

Even though the focus of industry regulation is to encourage a return to more basic offerings, issuers must innovate to weather the current market turbulence. Innovation can be conducted in any of the following areas without significantly increasing product complexity. Additionally, issuers can go a long way to easing concerns about product transparency by having simpler and more comprehensive communications with customers.¹⁶

Innovation can and should include access, markets, flexibility, cost/scale/control, insight and relationship:

- **Access.** These are innovations that allow consumers the broadest possible access to payment options from a single-payment solution, and that respond to consumer demand for security. An example might include the development of a multi-purpose payment solution for any type of transaction. Services like PayPal and mobile payments capitalize on the concerns some issuers have of providing their credit card details on the Internet, but they may also contribute to fragmentation of the payment space. The market may be ready for a universal payment solution that offers mobility, access and multiple-payment options that take both a physical and virtual form.
- **Markets.** Innovation in the area of markets means coming up with new ways to serve large geographical or socio-geographical payment segments. Examples might include the use of prepaid cards to distribute rewards or benefits to particular classes of consumers or the deployment of online payment services to Generation Y or Generation X customers through personal digital assistants or social networking sites. Market innovation could also include strategies for encouraging consumers to use existing or new payment products instead of cash or cheques to pay for items such as rent, daycare or nannies. And it could also mean using tools to encourage consolidation of payment with an institution and on a particular card.
- **Flexibility.** Innovations that enable issuers to take advantage of the blurring lines of the shifting landscape are innovations in flexibility. They could allow rapid adjustments of payment options, for example. They could also give issuers the ability to tap into macroeconomic shifts, such as the growth in savings or value-based arrangements with merchants, to increase business or target a particular customer segment.

E-money: Innovations in payment technology

E-money is a supplement to cash and money-on-account and can be created by a bank or a company. By transferring value from chip or hard disk to chip or hard disk, e-money is transformed from a means to settle accounts into a prepaid bearer instrument with real purchasing power.

The concept of e-money has been around since the 1990s. It was considered a fringe activity for years, but is now beginning to gain ground in a number of countries (see Figure 7). Singapore, for example, racks up approximately 1.7 billion e-money transactions per year, and each citizen holds 2.69 cards with e-money functions.¹⁷

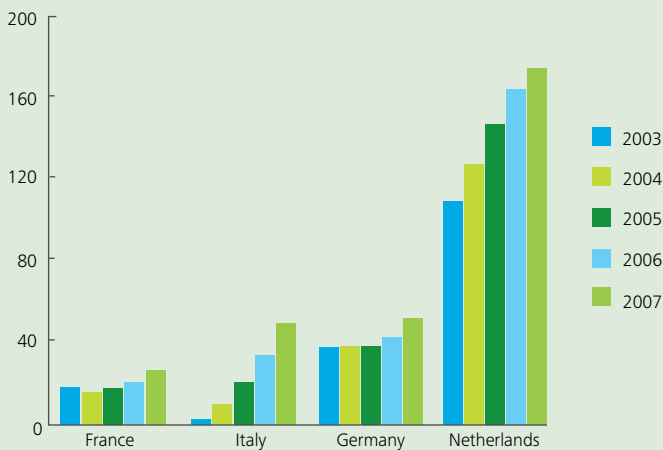
E-money can be used for all kinds of payments. Consumers can either use smart cards that store purchasing power paid for in advance, or they can transmit electronically stored units of value via networks like the Internet or cell phone networks. E-money is particularly well-suited to paying small amounts, such as in convenience stores or at automatic vending machines. While credit or debit cards could also be used,

they are often too costly for small payments, or require network connectivity in remote locations. Another key growth area for e-money is the Internet. Information and services that are now free may begin to charge a fee once people can simply and anonymously pay small amounts.

The use of e-money is bound to gain ground as consumers discover the convenience, and as special discounts for e-money users are introduced. In Germany, for example, “E-GeldKarte” users can get a 10% discount in some parking garages in Frankfurt. The Dutch e-money product, Chipknip, has seen substantial growth in the last few years and is a great example of a successful micropayment product. Dutch banks have issued smart cards that can be loaded with value via Chipknip loading stations, located next to ATMs. Chipknip can be used for payments at parking lots, vending machines and shops and has an average transaction amount of €2.74.¹⁸

Pay@Once is a new system launched by Siemens Information and Communication Mobile (ICM) and Stuttgart-based Brokat. The two companies joined forces to develop a system that debits amounts ranging from thousands of euros to just a few cents. Here’s how it works: a payment service provider – a cell phone operator, bank or other financial services company, for example – creates a special account for the user, who can administer and replenish it at any time using the Internet or a cell phone. Users can make online purchases via cell phone, play lotto or even transfer a sum of money to another cell phone. In each case, the transaction is set in motion by the simple push of a button. For reasons of convenience, small amounts can be transferred without a security check, whereas larger sums – the threshold is stipulated by the user – require a PIN code.¹⁹

Figure 7: The growth of e-money (millions of transactions)



- **Cost/Scale/Control.** These are innovations that create cost advantages using scale, technology or other unique features. Examples might include the use of predictive analytics to improve risk management or customer segmentation, the use of a rules engine to reduce the cost of implementing new regulations or the sharing of processing technology to reduce costs and gain access to new technology. Innovations in this area may generate the highest returns since they are not immediately visible in the marketplace and are more difficult for competitors to replicate. In addition, the implementation of chip-based credit cards that require PIN authentication will help minimize fraud and control fraud management costs.
- **Insight.** Insight innovations deepen an understanding of customer needs or behaviour. One example could be the ability to assess the willingness as well as the capacity of customers to repay debt or to increase card usage, based on opportunities with favoured merchants.
- **Relationship.** Innovations in relationship cover a wide range of unique strategies that establish lasting customer intimacy, trust and loyalty. They include enhancing the customer experience through loyalty programs, bundling credit cards with other banking products, ability to manage finances and access to merchant discounts.



A more flexible and agile approach to operations

The need for innovation challenges all issuers to adopt a more flexible approach across a number of areas:

- **Technology platforms.** Issuers should consider deploying new technology to improve efficiency and increase flexibility. For issuers with strong technology platforms and flexible operating models, there is an opportunity to compete more in service delivery and customer experience by offering processing capabilities to other providers or by seeking alliances in processing.
- **Leveraging merchant relationships.** Bank issuers in particular could consider leveraging their relationships with merchants to expand their retail networks. Alternatively, they could redefine their relationships with merchants in the context of a broader banking relationship. Packaging interchange fees with other service fees may allow bank issuers to earn an increased share of customer wallet, while allowing merchants to negotiate reduced interchange fees.
- **Legislative pressure on fees and rates.** Issuers are right to be concerned about legislative pressures that may force them to revamp business and operating models, perhaps radically. By addressing regulatory concerns about product and pricing transparency and providing customers with clear and comprehensive communications, issuers may be able to reduce a potentially rising tide of regulatory attention.
- **Exploiting opportunities in recession.** Changing patterns of consumer behaviour can create opportunities – as well as pressures. By targeting special programs with discount retailers, issuers may be able to improve merchant relations and drive increased card usage. Another opportunity is to take advantage of advertising sales on more discretionary items. Additionally, issuers can mitigate a lower level of economic activity by diversifying revenue streams through innovation and new product opportunities. Treating quality customers exceptionally well will help generate loyalty and may enhance cross-selling and other business opportunities.

Embracing opportunity

As issuers face unprecedented market challenges, they may be tempted to adopt a defensive and conservative stance. However, the more successful companies in this industry are likely to be those that can convert the current challenges into opportunities through targeted innovation, and by cutting back in those areas which are no longer profitable or expose them to undue risk.

It is critical to distinguish between current market challenges and longer-term shifts within the industry. The former may be a passing phase, while the latter are truly transformational. The growth of Internet commerce and online retailing are examples of transformational innovations to which the industry must adapt.

The role of government may also be transformational. The severity of government regulation may vary with the business cycle, but the longer-term trend toward increased regulation is unmistakable both globally and in Canada. Issuers may wish to consider a more aggressive approach to championing customer concerns, having clearer and more comprehensive communications and educating customers on responsible debt management to allay regulator and legislator concerns.

This is not a time for marginal adjustments. For many issuers, a paradigm shift may be required. Some issuers may reinvent credit card services within a broader range of payment or other financial services through a more diversified approach. Others may adopt a single-product approach, but excel in customer segmentation, risk management and operations.

Although the current challenges may seem forbidding, they represent important opportunities. Reconnecting with customers and merchants provides issuers with the chance to move from adversarial relationships to win-win partnerships. Innovating across a number of key areas may create opportunities for enhanced performance without increasing product complexity.

Although the business outlook is difficult to predict with any certainty, many expect a slow recovery. What is becoming clear, however, is that the credit card marketplace will be significantly altered. Credit card issuers must respond to these new realities by introducing fundamental, innovative changes across their organizations.



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