# Comments on: Why do Banks Reward their Customers to Use their Credit Cards?

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Disclaimer: The views expressed are those of the author/discussant. No responsibility for them should be attributed to the Bank of Canada.

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## Summary

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- Do consumers spend more when given rewards?
- Do consumers increase their debt because they receive rewards?
- Do consumers partially or fully offset their spending by reducing the use of other credit cards?

**Methodology:**

- Reduced-form analysis using account-level data on credit card usage
- Data covers introduction of cash-back rewards program and APR reductions
- Examine changes in spending, debt accumulation and total balances by consumer type

## Summary (continued)

**Results:**

- Overall, cash-back rewards lead to increased card usage in the form of spending, but no effect on debt and total credit card balances

- Spending effects largest for those who were not using their credit card

- Some evidence of an increase in debt for those that were not carrying debt before the cash-back program

- APR reductions have important effects on spending

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**Conclusions:**

- Credit card rewards are an effective tool for stealing customers
- Only a small incentive is needed to change consumer behaviour

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- Understanding the sample

  - Data clarification and interpretation of the results

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- Economic significance

  - Can we assess the importance of the results?

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    - Are rewards resulting in undesirable/risky behaviour by some consumer types?

## Policy Implications

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- What type of consumer is most influenced by rewards?

  - Are rewards resulting in undesirable/risky behaviour by some consumer types?

- Understanding the effects of reward programs can help in the assessment of current credit card regulations and future changes

**① Inactive users**

- Were not using a credit card in the month leading up to cash-back program
- Evidence of an increase in spending associated with cash-back program
- Issue: may be active and owe debt on other cards (even with the same financial institution)

# Three Types of Consumers and No "Risky" Behaviour

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**2** **Convenience users**
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**3** **Revolvers**
- Were carrying credit card debt prior to the introduction of the cash-back program
- Evidence of an increase in spending

- More information (if possible) or discussion on enrollment in cash-back program would be helpful

  - Was enrollment voluntary? If so, to how many people did it offer the cash-back rewards?

  - Based on income and age, control and treatment appear similar — what about net worth (self-selection)?

  - APR reduction group has higher debt and total balances — are they included in cash-back regressions?

  - At what time of year was the cash-back program implemented (seasonal effects)?

## Data Clarifications and Interpretation of Results (continued)

- Cannot observe strategic decisions made by financial institutions

  - Do other financial institutions offer reward programs to counter those of other banks (to keep existing customers and/or attract new users)? Are offers time dependent?

  - Are rewards bundled with or offset by other programs?

  - Are those that enrolled in the cash-back program likely to enroll in other reward programs at other financial institutions?

  - Effects of cash-back rewards programs on overall credit card spending may be much larger

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- How is the total balance data converted into monthly data?

    - "We extrapolate to create monthly changes [in outstanding balances]"

    - What are the implications and can this affect the interpretation of the results?

    - Evidence of a decrease ($232) in total balances over 9 months for inactive users (associated with an increase ($97) in spending over the same period) — why?

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- Is program profitable for the financial institution or part of a long-term program to attract customers?

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## Future Work: Exploitation of APR Data

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- Additional issues:

  - How to explain APR reduction leading to an increase in spending ($257), a decrease debt ($225) and no change in total balances (over 9 months, Table 13)?

  - All APR reductions offered to those who took part in cash-back rewards — why?

- Paper provides valuable insight into how consumers react to credit card rewards

  - Interesting policy implications relating to the value of rewards to financial institutions and the behaviour of different consumer types

- Clarify details on how credit bureau data was converted into monthly data

- APR reduction analysis/discussion could be expanded to examine some related and important issues

- Interesting work!