Piran Consulting Limited
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For immediate release

25% of UK co-branded credit card programmes forecast to close in the next two Years

- Reductions to interchange[1] set to lead withdrawal of funding for co-brand rewards programmes
- Fewer credit card issuers willing to invest in co-branding

A quarter of co-branded credit card programmes are at risk of closure according to industry research.

Piran Consulting revealed the findings following proprietary analysis into the future of co-branding in the UK.

The research suggests that due to a number of regulatory changes, and the lower relative value of credit cards to Banks, 1 in 4 of all current programmes are at risk of closure in the next 18-24 months.

Banks have traditionally co-invested and funded rewards programmes. In addition they have paid commission to the partners based on the number of cards issued and a percentage of what a customer has spent. The Piran research indicates that Banks can't, or won't, be able to support the same levels of investment going forward.

The implications are most serious for co-brand partners such as retailers and airlines, whose programmes have traditionally been sold to their 'best customers' and used to support retail or merchant sales efforts. The average ticket values and lifetime values of these customers have been incentivised by ever richer rewards programmes, with this looking likely to be reduced with a negative impact on retail sales.

[1] An interchange fee is a fee paid by a merchant's acquiring bank to a cardholder's issuing bank as part of an electronic payment card transaction. It is often used to fund rewards programmes.

Piran Consulting analysis forecasts the following five trends in co-branding:

Forecast	Implication
Closure of the bottom performing 25% of card programmes.	With less value in the pot, sub scale or poorly performing programmes will close. This will impact merchants' best customers and damage retail turnover.
Radical re-engineering of the value proposition.	Programmes that remain will need to be re-engineered. Either there will be lower value of rewards to customers or partners will need to inject more value.
The rise in importance of POS finance or 'storecard' like products.	Other products less reliant on interchange will become important, including new 'storecard' type products perhaps delivered via a mobile device.
A major retailer starts to 'pay' an issuer to support a co-brand programme.	The value of these programmes for major retailers is critical to sales performance. To ensure continuity, some major retailers may pay a Bank to manage a credit card programme (like they already do for POS finance). This is a reverse of the current model.
Programmes that have relied on high spend, rather than high lend, are most at risk.	Programmes where customers are likely to pay off their card each month, like Airlines or Hotels, are most at risk of change. High lend segments like retailers may remain an area of competition for Banks.

Matt Simester, Piran Partners Director of Cards and Payments said:

"The 'co-brand' ecosystem is becoming increasingly complex. The perfect storm of regulatory intervention, changing consumer behaviours and different banking strategy mean that co-brand card market is likely to undergo a fundamental review from both the partner and bank perspectives.

"It is more important than even before to maintain and strengthen the link between a co-brand card and its ability to drive more merchant sales. A recognition that the direct income from these programmes will be less in the future, and to proactively plan on that basis should be the first step for any merchant.'

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For further information please contact Miles Cheetham on 07966 505661.

About Piran Partners

Our mission is to provide clear, practical and straightforward advice to clients in the converging payments, mobile and retail sectors. We approach consultancy engagements from a wholly commercial perspective, implementing solutions that solve problems, create deeper customer relationships and drive results through commercial value.