

CREDIT AND DEBIT CARDS

Fidelity Switches to Visa for Credit Card Branding

By **TARA SIEGEL BERNARD** JAN. 4, 2016

Fidelity, one of the few credit card issuers that reward cardholders with a lucrative 2 percent in cash back on every dollar they spend, is making changes to its program.

But even as other credit card issuers have cut back rewards, Fidelity's cardholders need not fear: The generous rewards system will remain intact. Instead, Fidelity is ending a 12-year partnership with American Express, and will offer Visa-branded cards through U.S. Bank.

The company said it believed that the new Fidelity Rewards Visa Signature card would be attractive to a wider group of people, including the coveted millennial generation, generally viewed as people born from about 1980 through the '90s. Visa cards are more broadly accepted by merchants than American Express cards, which was one of the big drivers behind the change.

"We think usage of the card will go up, which will help build customer relationships," said Ram Subramaniam, president of Fidelity's retail brokerage business. "It's a key value add-on to what we bring to the customer."

Few credit card issuers manage to sustain generous rewards programs because it is hard to make them profitable; their costs are not always covered by the fees merchants pay. Fidelity's current rewards program has paid out more than \$1 billion in rewards since 2003, when it was first introduced. Fidelity has acknowledged that in the past it paid for some of the rewards. But executives

declined to say whether this new partnership would improve the card's profitability.

Visa was accepted at 9.5 million locations at the end of 2014, according to The Nilson Report, a newsletter that tracks the credit card industry. That compares with the 6.9 million merchants that accept American Express. Fidelity Investment Rewards American Express has about 550,000 cardholders, representing about 2 percent of Fidelity's 24 million customers. They will be issued new Fidelity Rewards Visa Signature cards by July. Until then, consumers can continue using the American Express cards. U.S. Bank will acquire the existing \$1.7 billion portfolio of outstanding balances.

In addition to returning 2 percent on all purchases, the new card does not charge an annual fee. The new card will continue the policy of not putting caps on rewards or limits on spending. The Fidelity Visa card also does not require cardholders to spend in certain categories, like restaurants or gas.

But there is a small catch: Rewards must be deposited into an eligible Fidelity account, including the firm's traditional brokerage account, the Fidelity Cash Management Account, or retirement accounts such as individual retirement accounts.

Rewards can also be directed into one of the four 529 college savings plans managed by Fidelity using the new card.

Cardholders can also opt to redeem their points for other rewards, like statement credits, merchandise, gift cards or travel, but the exchange rate means this is not as lucrative as getting cash back.

The cards will be equipped with chip technology, deemed to make them more secure than cards with magnetic stripes that are swiped, and they will be compatible with several digital wallets, including Apple Pay, Samsung Pay and Android Pay.

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