THE CHANGING LANDSCAPE OF CREDIT

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6:15 AM EDT April 29th, 2015

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Post the economic recession, credit cards have seen a resurgence across the industry. Cash and check usage is expected to decline by 40 percent in the next 5 years, says a recent Fed study. PYMNTS sat down with **Vikas Bansal, Vice President and Credit Product Leader, Fiserv** to gain his insight into which market forces are driving the use of credit, why SME credit card usage is also expected to surge, and how Fiserv will play a role in shaping future credit card trends.

Credit card spending, which fell earlier in 2014, seems to have resurged in the industry. In your opinion, what are the market forces driving the use of credit?

VB: As you said, the credit card industry has indeed come back with a bang. In fact, the industry is growing at its fastest pace ever, and there are multiple forces that are driving this growth.

The first is the continued shift in spend from cash and check to cards as consumers and small businesses become more comfortable in using the cards, even for small ticket purchases. If you look at the latest projections from The Nilson ReportFed, in the next 5 years, cash and check usage will decline by a whopping rate of 40 percent. Credit card usage will grow by 65 percent. These are astounding numbers.

Second, the recent economic recovery has led consumers to increase their spending. A significant part of their discretionary spend goes to credit cards. Financial institutions are also willing to extend more credit than they did during the recession, as evidenced by a 4 percent increase in card balances in 2014.

Lastly, credit cards are now used more frequently as a payment instrument as opposed to a lending

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instrument. Per our recent consumer research through Raddon Financial Group, almost 40 percent of everyday spend is captured on credit cards. So all of these trends are driving this growth that we're seeing in the marketplace today.

According to the National Federation of Independent Businesses, 79 percent of small business owners use credit cards as a source of financing. But as access to credit has become more difficult, many are forced to use personal credit for business purposes. Will this trend continue, and why aren't there more business credit card offerings in the market?

VB: Small business owners are increasingly looking to unsecured credit rather than traditional loans as a faster and more convenient funding mechanism. Credit cards provide free cash flow for almost 45 days, and in addition, they leverage cash back or reward points, which are helpful to offset future business expenses.

But as you mentioned, many businesses still use personal credit cards. I believe this was due to credit tightening during the recession and also the limited business card availability in the market today. The credit tightening was more severe for small business owners and as a result, those owners were forced to use their personal cards.

Secondly, when we look at financial institutions outside of the Top 5 issuers, historically, they haven't focused on the small business segment. But now, this trend is changing rapidly. In the new world, FIs are more eager to lend and have started to build the right products. If you look at recent studies, they all suggest that small business relationships are more profitable overall, and for FIs, offering a product like credit cards adds to their profitability. Beside interest income, business credit cards deliver superior interchange and fee income which is largely due to attractive features on these cards.

Small business cards are different; they require a different underwriting approach to assess creditworthiness, and also require unique features for the account holder – spending limit controls and more detailed statements. I expect this trend to change and we'll see more business cards in the market. It's a win-win for FIs and small businesses.

Both consumers' and businesses' credit cards are highly regulated. What challenges as well as opportunities does regulation present to financial institutions looking to improve revenue streams and customer engagement?

VB: The credit card industry is regulated – there's the Card Act, Reg Z, Reg E, PCI, and there are many more – and regulations can be overwhelming. On the one side they are definitely consumer-friendly, but on the FI side, they create operational and financial challenges. There are restrictions on how interest rates and fees can be assessed and how credit limits can be changed.

The cost of overall compliance has risen significantly – per recent surveys, costs have increased by almost 87 percent. However, credit cards in particular are profitable – the reason for that is because they get interchange and fees. There is definitely a revenue opportunity in customer engagement, but it has to be done in the right way. For example, FIs must offer the right product and promotional mix based on customer segment behaviors. Upscale consumers want an attractive rewards card, and on the contrary, balance rollers want an attractive APR card.

Let's talk specifically about Fiserv. Given the intense competition that exists right now in the industry, how is Fiserv helping financial institutions better compete in the marketplace and grow their portfolios?

VB: The credit card growth has caught the attention of institutions of all sizes. Large FIs have rolled out feature-rich cards, and the competition is more intense than ever. We at Fiserv are well positioned to enable our clients to deliver the offerings that meet the needs of their customers. One of the key differentiators with Fiserv is that we have a superior credit-processing platform that is integrated with our core processing platforms and digital assets. When you combine all of those, you can deliver a consistent and real-time experience across all channels.

An example of that is when a credit card holder deposits a payment at a branch, and it is reflected in real-time on their account which increases their open-to-buy immediately. They don't have to wait until the next day to go shopping – they can do so right away.

We also have the ability to provide a 360-view of the customer – when we combine the card data with payments data and core banking data, we can create powerful insights to enable our clients to drive higher acquisitions and loyalty on their cards. Our credit platform is a very good alternative to the resellers– we own and control our own software. Fiserv can create unique solutions for our clients, since each client has their own unique needs.

One of our distinctive features is our ability to do card-level processing. This is very powerful. It allows you to create separate card numbers for each card on an account. We believe that it's not possible to deliver individualized experiences and enhance customer engagement without this. So when you put it all together, we provide a highly competitive offering that enables best-in-class performance for our financial institutions.

What trends are shaping the future of credit cards, and what role does Fiserv play in shaping it?

VB: Many trends are shaping the future – we all are watching the proliferation of digital wallets and new ways to pay, and everyone is concerned with security. Another important trend is that more and more consumers will rely on their primary financial institution to meet all of their financial needs, and they want to buy all of their financial products from that institution. So, issuing credit cards with integrated value propositions will enable FIs to meet their customer needs when and how they need them. Lastly, the proliferation of credit cards with rewards.

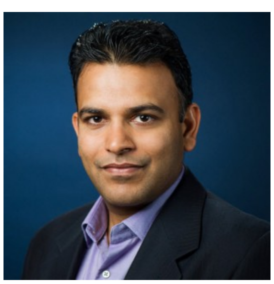
Fiserv is really at the forefront of all of these trends. I'll give you a few examples. We were one of the first to launch tokenization and Apple Pay for our clients, and at the same time we're continuing to watch other emerging technologies to enable new ways to pay. We know that clients and customers are expecting this. Also, our recent CardValet product puts customers in control and engages them in a unique way to prevent rising fraud. CardValet is an app that will allow a cardholder to turn their card on or off, set alerts, and set controls on where, when, and how their card is used.

Given that we own our core banking and card platforms – and have significant online, digital and mobile assets – we are uniquely positioned to meet the needs of consumers who want to buy all their products from one FI.

I also mentioned the proliferation of rewards. When you look at the market today, 90 percent of all credit card acquisitions involve rewards, but that wasn't always the case looking back 5 or 10 years. Our UChoose Rewards offering is very strong and can deliver a unique value proposition to the customer.

Fiserv is at the forefront of these trends and is shaping the future of payments and the credit card industry.

To listen to the full podcast, click here (http://www.pymnts.com/wp-content/uploads/2015/04/Fiserv-Podcast.mp3).



Vikas Bansal
Vice President and Credit Product Leader, Fiserv

Vikas Bansal is Vice President of Product Management for Card Services at Fiserv. His responsibilities include driving credit card portfolio growth and expanding the Fiserv credit card solution suite.

An industry veteran of credit and payments, Vikas was previously the head of Visa Card Benefits Solutions where he managed card solutions for credit, debit and commercial product lines. Vikas also held positions with American Express and KPMG.

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Regarding the proliferation of rewards cards, you can also use the reward calculator at CreditCardTuneUp. com to find cards that will pay you more in reward value for your expenses.

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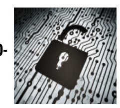

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