Online Credit Card Report
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Introducing the comScore Online Credit Card Report 2010 Edition

The comScore Online Credit Card Report (2010 Edition) provides an in-depth look at the online credit card industry, with a particular focus on consumer perception of the economic environment and the impact this has on card usage and shopping. The report also provides insight into rewards programs as an incentivizing tool to increase card usage and the importance of effective online servicing.

The study analyzes the online behavior of comScore’s passively-observed panel of 1 million U.S. consumers, as well as attitudinal insights from a comScore survey of nearly 2,000 U.S. Internet users conducted in December 2010.

In order to show yearly shifts in the credit card industry, the findings from the 2010 research are compared to historical data captured from a comparable study conducted in 2009. In addition, the economic overview at the onset of this report has been derived from findings previously published in the comScore State of the U.S. Online Retail Economy Report (Q4 2010).

Topics Covered in the 2010 Annual Summary

The comScore Online Credit Card Report (2010 Edition) will offer insights into the following:

- The impact of economic conditions on overall consumer spending and card usage
  - Changes in consumer sentiment about the economy
  - Trends in retail and e-commerce spending / propensity to increase spend in 2011
  - Preferred methods of payment by category (i.e. credit, debit, cash or check)

- Shopping behavior and acquisition
  - Comparison of card shopping among various consumer segments
  - Shopping and acquisition rates (prime vs. subprime)
  - Channels used to initiate the search for a new card
  - Most influential factors when selecting a card during the shopping process

- Card features and rewards programs valued by consumers
  - Importance of specific card features (i.e. low interest rates, rewards, etc.)
  - Rewards programs held and valued most by cardholders
  - Leading reasons for switching consideration (i.e. card features, service, etc.)

- Importance of e-servicing
  - Channel usage and frequency of engagement
  - Online servicing features that are most essential to cardholders
  - Utilization of online bill pay
  - Web site satisfaction
Improvement in Consumer Sentiment Aligns with Signs of Economic Growth

Improved Perception May Be Paving the Way for Increased Spending

This past year proved to be a challenging one for consumers with concerns over economic recovery driven by continuous record-level unemployment, a stagnant real estate market, and mixed opinions towards government policies and spending. As a result, for much of 2010, three out of five consumers rated the economy as being in poor condition. Heading into 2011, however, we have begun to see a marked improvement in consumer sentiment.

According to the comScore State of the U.S. Online Retail Economy Report, half of those surveyed in December 2010 believed the economy to be in poor condition, a 9-percentage point decline from the previous quarter. This improvement is most pronounced among those whose household income is between $50,000-99,000 where the percentage of respondents rating economic conditions poorly declined by 11-percentage points from September 2010 (Figure 1). Consequently, consumer outlook on the economy as a whole is the strongest it has been in more than two years.
While half of the population remains concerned about poor economic conditions, retail spending has been on the rise having seen positive year-over-year growth for the last five quarters. In the last quarter of 2010, e-commerce spending increased by 11 percent – a rate greater than the 8 percent growth seen by total retail sales (Figure 2).

The growth in e-commerce spending differed by income level, with the greatest year-over-year percentage increase coming from those with a household income of less than $50,000 (Figure 3). Those with an income between $50,000-99,000 accounted for more than 40 percent of total e-commerce spending, yet drove more modest year-over-year growth from the previous quarter. So despite the significant contribution of this segment to e-commerce sales, individuals in this bracket remain relatively cautious in terms of spending behavior.
State of the U.S. Online Retail Economy (Q4 2010)

Reductions in Spending Decline among Those with a Poor Perception of the Economy

Although one would expect spending to be on the rise primarily among those who believe the economy to be improving, it is worth noting that even among those who feel that economic conditions remain poor; reductions in spending have leveled off. This might imply that despite continued negative sentiment, many believe we have seen the worst.
While consumers on the whole began to cautiously increase their spending in 2010, it is important to note that there is still some trepidation around the possibility of rising prices, which may impact future growth. Roughly four out of five consumers with a household income of less than $100,000 expect their spending to be hindered by rising prices in the near future (Figure 5). This could influence not only how much consumers spend in the coming months but their method of payment as well.

### Impact of Rising Prices on Ability to Spend

**Do you expect inflation (i.e. rising prices) to affect your day-to-day spending in the near future?**  
(% Yes)

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Oct-09</th>
<th>Jan-10</th>
<th>Apr-10</th>
<th>Jul-10</th>
<th>Oct-10</th>
<th>Jan-11</th>
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<td>Under $50K</td>
<td>77%</td>
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<td>82%</td>
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<td>75%</td>
<td>80%</td>
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<tr>
<td>$100K or more</td>
<td>57%</td>
<td>68%</td>
<td>64%</td>
<td>69%</td>
<td>50%</td>
<td>59%</td>
</tr>
</tbody>
</table>

**State of the U.S. Online Retail Economy - Q4 2010**  
**Figure 5**

Despite Increased Optimism in 2010, Some Consumers Are Still Wary of Utilizing Credit

While indicators show consumers are starting to feel more positive about the economy; those with less optimism remain wary of card usage, and in many cases are turning to alternate payment methods. 65 percent of those who believe the economy to be in poor condition report having changed their method of payment due to economic concerns (down 4-percentage points from 2009). Similar to previous year’s results, among those who report having made such a change, we still see a large percentage moving towards either cash and/or debit cards. Most notably, there has been a significant increase in the proportion of these consumers moving towards cash payments in comparison to 2009 (Figure 6).
Figure 7 illustrates the breakdown of preferred payment methods for major expenditure categories. For many cardholders, travel, merchandise (i.e. apparel, electronics, etc.), gas/automotive, entertainment and business expenses are all predominantly paid for via credit in comparison to other payment methods. But among categories with more frequent purchase activity, such as groceries and drug store items, purchases tend to be distributed more evenly across both credit and debit cards. In addition, one in five consumers indicates that cash is their preferred method of payment for these types of smaller expenditures (Figure 7).

**Figure 6**

Changes In Spending Methods Resulting From Economic Concerns

(% Who Feel the Economy to be in ‘Poor’ Condition)

- I am more likely to use cash: 51% (2010) vs. 46% (2009)
- I am more likely to use a debit card: 39% (2010) vs. 38% (2009)
- I am more likely to use a credit card: 21% (2009) vs. 18% (2010)

*Significant increase from 2009 at a 90% confidence interval.

Base: Consumers who have at least one credit card, feel the economy is in poor condition and have changed their spending patterns.

How would you rate the economic conditions today?

Have you changed the way you pay for items due to economic concerns?

**Figure 7**

Preferred Method of Payment for Purchases

- Travel: Credit Card 63%, Debit Card 43%, Cash 34%, Check 15%
- Business Expenses: Credit Card 40%, Debit Card 12%, Cash 34%, Check 7%
- Groceries: Credit Card 30%, Debit Card 37%, Cash 36%, Check 4%
- Gas and Automotive: Credit Card 41%, Debit Card 30%, Cash 21%, Check 6%
- Drugstores: Credit Card 29%, Debit Card 32%, Cash 26%, Check 4%
- Merchandise: Credit Card 52%, Debit Card 26%, Cash 11%, Check 2%
- Entertainment: Credit Card 35%, Debit Card 27%, Cash 29%, Check 1%

Base: Consumers who have at least one credit card.

Which is your preferred payment type for the following types of purchases?

How would you rate the economic conditions today?

Base: Consumers who feel the economy is in ‘Poor’ condition.
Card Shopping May Become More Prevalent as Consumers Feel More Confident

Those in the Subprime Category Are Most Frequently Shopping for New Cards

As spending continues to increase, we expect to see a greater share of card shoppers seeking new credit cards. Overall, one in five cardholders reports having shopped for a new card in the past 12 months. This figure increases to 34 percent among those who have a positive view of the economy (Figure 8).

Shopped for a New Credit Card in the Past 12 Months

When looking at the prime versus subprime segments of cardholders, we see significant variance in card shopping behavior. Those in the subprime category, defined as higher-risk cardholders, shopped at significantly higher rates than those in the prime segment. Additionally, those who carry a balance on their primary card are nearly twice as likely to have shopped during the past year (Figure 9).
These shopping patterns align closely with actual card application rates. While dropping off slightly for the prime segment in Q4 2010, application rates have grown steadily for the subprime category over the past 12 months. By the end of the quarter, card applications for the subprime segment were nearly double those submitted from the prime category. At the end of 2010, applications were up 10 percent year-over-year for the subprime segment (Figure 10).

Total Consumer Card Applications by Risk Score

<table>
<thead>
<tr>
<th>Risk Cut</th>
<th>Q/Q</th>
<th>Y/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>-10%</td>
<td>-14%</td>
</tr>
<tr>
<td>Subprime</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

(In Millions)

Figure 10
More than a third of all card shoppers began their exploration by conducting an online search through a major search engine (i.e. Google, Bing, Yahoo! etc.) with another quarter going directly to a card issuer web site. Only one in ten report that they began seeking information from an affiliate’s site. These search trends remain consistent across both the prime and subprime segments.

Nearly three-quarters of those who began their search for a new card through a search engine, card issuer site, or as a result of receiving direct mail actually went on to submit an application. Only three in five who visited an affiliate site completed this process (Figure 11).

When examining the factors most important in the shopping and selection process for a new card, nearly two out of five cited a low interest rate as being most influential with an additional 25 percent indicating the lack of an annual fee was most important. Rewards programs ranked third in terms of significance when deciding on an issuer or credit card (Figure 12).

![Figure 11](image-url)
**Figure 12**

**Reward Programs May Help Increase Card Usage and Retention in 2011**

**Prime Cardholders Consider Rewards or Points to Be Very Important**

Low interest rates, the lack of annual fees and reward program offerings are not only critical to consumers shopping for new cards. These features are also given the most regard by existing cardholders, when asked about their current cards. Nearly seven out of ten cardholders ranked a low interest rate or the lack of an annual fee as being the most important feature to consider in card ownership. Low interest rates become even more imperative to those consumers who perceive they have poor credit.

While rewards programs rank third in importance overall, roughly one in five consumers who believe they have strong credit ranked rewards as the most important card feature. Rewards and points programs can be a lucrative strategy towards incentivizing this group to increase their use of credit. Continuing to attract and target specific segments with the most desired rewards or points programs may drive some consumers to opt for credit as opposed to debit or cash for some of the smaller-ticket items discussed earlier (Figure 13).
When looking at the importance of specific types of rewards, consumers continue to value cash back rewards more than any other incentive by a wide margin. Nearly 60 percent of all cardholders would like to see a cash back program associated with their card.

There are also see subtle differences in the importance given to rewards categories across various income levels. Those with household incomes less than $40,000 prefer gas rewards more than those in the higher income brackets. In contrast, those who bring in $75,000 or more are most likely to indicate that airline rewards are most impactful (Figure 14).
Rewards Programs Can Retain Existing Cardholders and Increase Acquisition

Perhaps even more important than serving as a way to increase cardholder spending, a satisfactory rewards or points program can help to retain existing customers and successfully attract new ones.

Nearly three-quarters of all cardholders report having rewards associated with their primary card. This number increases significantly when looking at those who believe they have excellent or good credit. Similar increases are seen from consumers who pay off their card each month, as compared to those who carry a balance (Figure 15).
When looking at the likelihood to switch to another card and the primary reasons behind such a decision, we see that those who are not receiving rewards or points are less likely to switch than those who do receive such a benefit. However, half of this group perceives their credit rating to be just fair or poor suggesting the option of switching may pose significant barriers. Among those within this group who would consider moving to a new card, the vast majority indicate they would do so in order to lower their interest rate (Figure 16).

**Figure 15**

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**Figure 16**

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On the other hand, those who are enrolled in a rewards program through their card are far more likely to contemplate taking their business elsewhere if provided with the right enticement (i.e. better rewards or card features.) While important, a lower interest rate appears to be less of a motivating factor for this particular segment. Therefore, it is important that the most desirable rewards are being offered to the appropriate target group in order to ensure cardholder loyalty (Figure 16).

Effective and Timely Online Servicing Continues to be Important to Cardholders

The Majority of Cardholders Have Utilized Issuer Web Sites to Access Accounts

Today’s cardholder has a wide variety of options from which to choose when contacting or being serviced by their issuer. Online servicing, in particular, has continued to grow with a little more than three-quarters of consumers indicating they have accessed their accounts online within the past 12 months.

![Share of Cardholders who have Logged on to an Account from their Issuer’s Web Site](image)

*Significant increase from 2009 at a 90% confidence interval.
Base: Consumers who have at least one credit card
Have you ever logged on with your user name and password to the issuer’s credit card web site?

Figure 17
In addition, nearly one in five cardholders who have a mobile phone with Internet access reported having viewed their accounts from their phone at least once either via a mobile browser or a downloaded mobile application in the past year (Figure 18). While mobile phones are not currently used as widely for completing financial transactions as other methods, this channel is growing in popularity.

![Channel Usage Among Mobile Phone Users](chart)

**Figure 18**

Cardholders are not only moving toward using online and mobile channels as a way to engage with their issuer but are also accessing their accounts with greater frequency. Compared to the previous year, there was a larger share of cardholders accessing issuer web sites at least once a week or more. Only a quarter report they have never logged on to these web sites, down 5 percentage points from the previous year (Figure 19).
Approximately three-quarters of those who access their accounts online feel the ability to view their statement and pay their credit card bill are the most important aspects of their issuer’s online servicing site. Automatic bill pay and balance transfers rank lower in importance, with only two in five citing these activities to be an essential aspect of the e-servicing experience.

We also see slight differences between those who primarily access an issuer’s site via their laptop or desktop vs. a mobile device, with mobile users placing greater emphasis on e-mail reminders and mobile alerts (Figure 20). However, as more consumers move from using mobile browsers to applications, we can expect the share of more complex mobile financial transactions to rise. The abundance of convenient and user-friendly mobile applications now allow for greater convenience and flexibility for consumers when engaging with issuers while they are “on the go.”
Cardholders who access issuer sites at least once a week or more rate every e-servicing feature as being more important than those who visit less frequently. Roughly half of those who access their accounts weekly feel that e-mail reminders, bill pay, the ability to eliminate paper statements, and balance transfers are very important (Figure 21).
The Majority of Cardholders Do Not Utilize Online Bill Pay for Recurring Payments

Slightly more than half of those who access their accounts at least once a week report utilizing online bill payment systems. However, we still see a large share of cardholders opting for other payment methods for recurring bills associated with items such as utilities and insurance.

Having declined slightly from 2009, approximately one-third of cardholders indicated that a check was their preferred payment method for paying regular bills. While writing checks as a primary method of payment has declined slightly year-over-year, debit use has increased (Figure 22).

Figure 22

When asking cardholders to identify why they preferred paying recurring bills directly with merchants, roughly half mentioned that they wanted to see their bill and needed assurance that the merchant received payment. Two in five, however, felt the merchant's site was more convenient, signaling a possible area of improvement for issuers in terms of providing cardholders with an easier process for making recurring payments (Figure 23).

Reasons for Using Merchant Site Instead of Issuer Site to Pay Bills

Base: Consumers who have at least one credit card who have not used bill pay
You mentioned that you pay your bills directly through your merchant’s web site. What is the reason for not paying through your issuer’s web site?
Cardholders Are Highly Satisfied with their Experiences on Issuer Sites

As more and more cardholders consider issuer web sites to be their leading method for engagement, effective e-servicing and online customer satisfaction has never been more important for issuers. Currently, seven out of ten current cardholders report being highly satisfied with their web site interactions. While we see lower satisfaction ratings for mobile use, the increase of more user-friendly apps in the market should allow for improved mobile ratings in the coming year.

Overall Satisfaction with Issuer Web Sites (Primary Card)

In conclusion, issuers who are able to effectively drive and convert prospective traffic to their site, while simultaneously offering a satisfactory online experience to existing cardholders, will have a clear competitive advantage in 2011.
Summary of Key Findings

The following provides an overview of the key insights from this year’s analysis:

- Consumer sentiment around economic conditions has begun to improve. Consumers’ outlook on the economy as a whole is the strongest it has been in more than two years.

- For the first time since late 2008, we see year-over-year growth in retail and e-commerce spending. These increases are most pronounced for those with a household income of less than $50,000.

- There have been no further reductions in household spending or cutbacks reported in comparison to last year for those who still feel the economy is in poor condition. This may be a possible indicator that this group believes the worst may be over, particularly as many households have made great strides in paying off their debt and may be comfortable beginning to spend once again.

- While spending has begun to trend upwards, many are still wary of using credit, opting instead to use debit and cash, particularly for smaller expenditures such as groceries and drug store purchases.

- As consumers begin to feel more confident, we expect a greater share of card shoppers to enter the market. One in five cardholders reported shopping for a new card in the past 12 months. This rate increases significantly among those who feel more assured that economic conditions have begun to improve.
  - The subprime segment, along with those who carry a balance on their cards, are the most apt to be seeking new cards. Application rates for the last year support this finding as well, with the subprime segment submitting nearly double the number of card applications than the prime segment towards the end of 2010.
  - Reported application submissions are considerably higher for card issuers’ sites than affiliate web sites.
  - Shoppers are currently influenced during the selection process by low interest rates, the lack of annual fees, and reward offerings.

- Low interest rates, the lack of annual fees, and rewards programs are also deemed the most important credit card features by existing card owners.

- While only approximately one in ten cardholders cited rewards to be the most important card feature, this figure increases to almost 20 percent for those who perceive they have strong credit. Offering the appropriate rewards and points programs to the right target audience can therefore become a lucrative strategy towards motivating this group to increase their use of credit.
Cash back programs continue to be the most preferred reward type across the board. However, gas and airline rewards tend to be preferred more by specific income segments.

Those who are not enrolled in a rewards program are less likely to switch than those who do receive such a benefit. However, half of those consumers not enrolled perceive they have poor credit, indicating the likely presence of significant barriers to switching. Those with rewards are far more likely to be lured away if provided with the right enticement (i.e. better reward offerings).

With three-quarters of all cardholders reporting they have accessed their accounts online, effective online servicing should be a critical component of any issuer’s business. In addition, nearly one in five mobile users with Internet access mentions that in the past 12 months they have accessed their account via a mobile device at least once.

Not only are a significant number of cardholders accessing their accounts online but they are also doing so with greater frequency than last year. Nearly 40 percent indicate they access their accounts online at least once a week or more.

Approximately three-quarters of those who access their accounts online feel the ability to view their statement and pay their credit card bill are the most important aspects of their issuer’s online servicing site. Automatic bill payment systems and balance transfers rank lower in importance with only two in five citing these activities to be an extremely essential aspect of the e-servicing experience.

Cardholders, who access issuer sites at least once a week or more, rate every e-servicing feature as being more important than those who visit less frequently.

Having declined slightly from 2009, nearly one-third of cardholders continued to indicate that a check was still their primary method for paying regular bills.

Two out of five cardholders felt the merchant’s site was more convenient to use to pay recurring bills, signaling a possible area of improvement for issuers in terms of providing cardholders with an easier process for making these types of payments.

Seven out of ten cardholders reported being highly satisfied with their experiences at their issuer’s site.