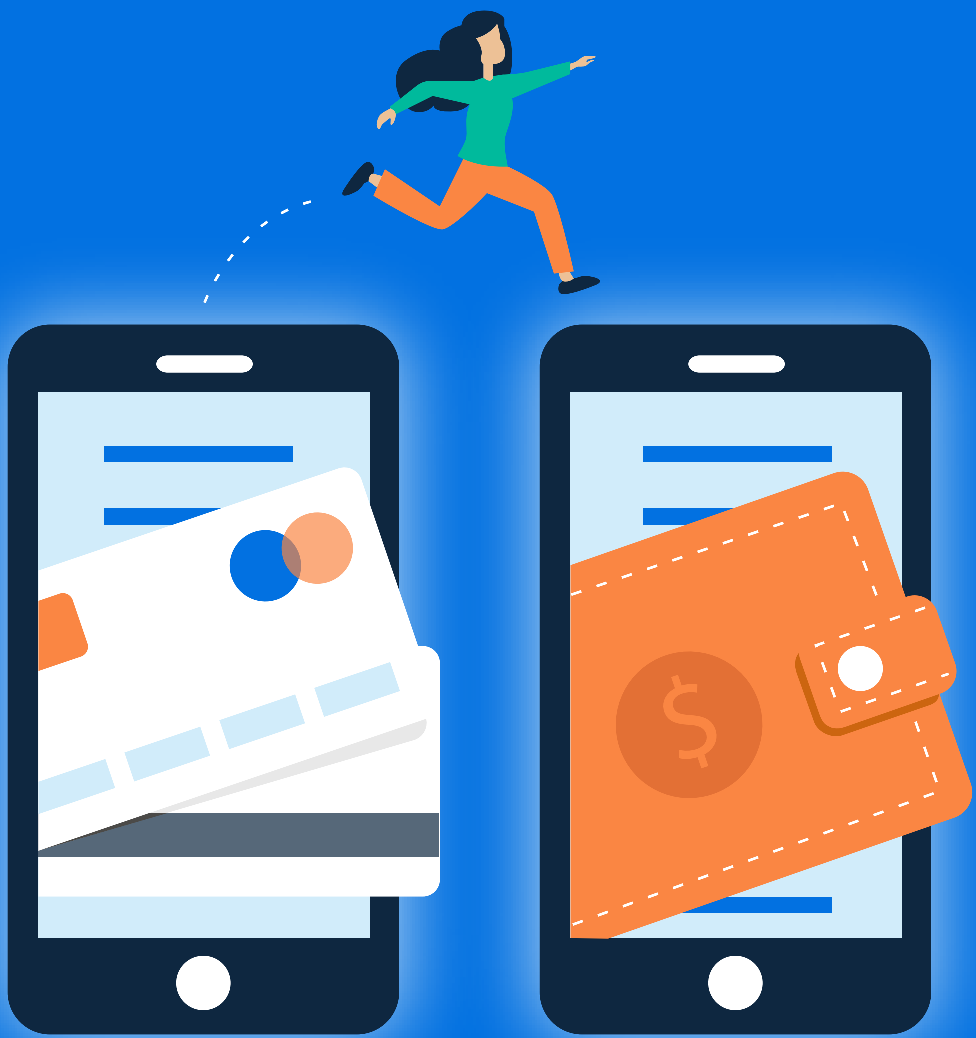
The Future of Credit Cards



A Finder report

March 2022

finder

Contents

Key statistics

62%
of Australians have a credit card

6.5 months
The time it takes the average credit card holder to pay off their debt

1 in 4
credit card holders couldn't manage their finances without a credit card

1 in 10
Australians have been rejected for a credit card

36%
of credit card holders have switched cards in the past 5 years

37%
of credit card holders chose their card for the rewards points

1 in 4
Australians plan to take out a credit card in the next 12 months

1 in 3
Australians use a digital wallet

55%
of gen Z Australians have used BNPL in the past 6 months

Introduction

Australia's credit landscape is changing and is becoming more competitive than ever. The pandemic has accelerated many of the trends already underway in the industry, including declining credit card balances, more people using digital wallets, and the shift to online shopping. Australians have become better at saving money and paying off their debts through the pandemic, but with the recent return of international travel, an uptick in demand is likely looming.

Beyond the pandemic, there are many challenges and opportunities for the industry to tackle. Our increasingly digital life and the emergence of buy now pay later (BNPL) products have radically changed the credit environment. Younger consumers are demanding low-cost, highly digitised, on-demand access to credit, and personalised product offerings and rewards. Our research finds Australians of all age groups are accessing credit at similar rates, but with different product needs. Leveraging consumer data and looking to innovative products, offers and rewards programs will be critical in remaining relevant to the next generation of borrowers.

This report explores the impact of COVID-19 on the credit card environment, how consumer demands are evolving and the trends shaping the future of lending.

COVID-19 has affected the credit card landscape

What will be the impact of the end of the pandemic and the return of international travel on consumer trends?

Consumers are borrowing smarter

Despite the economic rollercoaster of 2021 and ever-changing lockdowns across Australia, macroeconomic data suggests that household balance sheets have actually improved over the past 12 months. Increased saving and reduced spending through the pandemic, alongside fiscal and monetary measures that have mitigated impacts on Australians' finances, have contributed to improved financial positions.

At an aggregate level, household net worth has increased by 20.2% over the 12 months to September 2021, and Finder's Consumer Sentiment Tracker has found levels of extreme financial stress actually declined through 2020.[1,2]

While this data hides the financial struggles faced by many low-income families, the financial burden of credit card debt is in decline.

According to the RBA, the average balance accruing interest fell 31% between March 2020 and October 2021 to $1,353, its lowest level on record. Less than half of credit card balances (48%) are accruing interest, a figure that has dropped 27 percentage points from 75% just 10 years ago.[3]

Average balance accruing interest per credit card

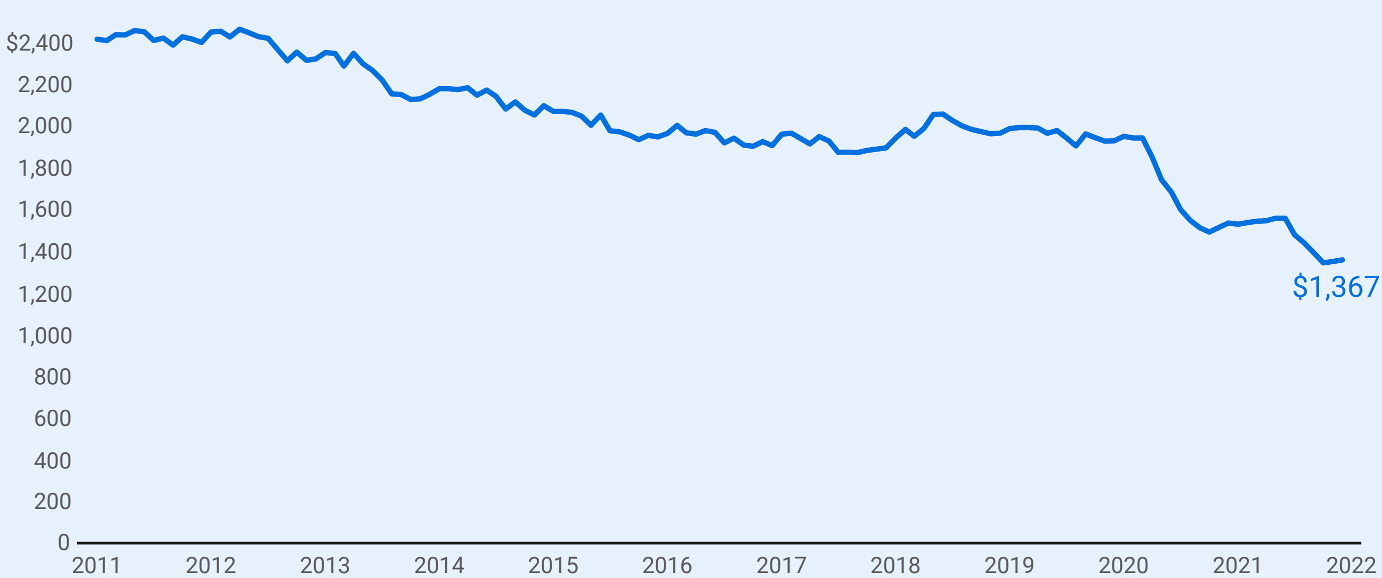


Chart: Finder • Source: RBA

People are starting to spend again

Data from Finder's Consumer Sentiment Tracker shows the average amount Australians are saving each month has increased notably through the pandemic, from a low of $604 in January 2020 to a peak of $953 in February 2021.[4] While monthly savings saw a spike in July and August as lockdowns re-emerged in Sydney and Melbourne, there has been a downward trend. In February, monthly savings hit a historical low of $461, indicating consumers are feeling more confident about the economy and their spending.

Average savings per month

Source: Finder Consumer Sentiment Tracker, May 2019 - October 2021

Retail data tells a similar story. While retail revenue figures have been far more volatile since the onset of COVID-19, once the economic fear in the initial months of the pandemic died down, retail spending has broken records. Of the last 12 months of data, 9 have seen total sales revenues above $30 billion, a figure that had never been reached before March 2020. In November, the average consumer spent $1,578, which is $261 more compared to the same period in 2019.[5]

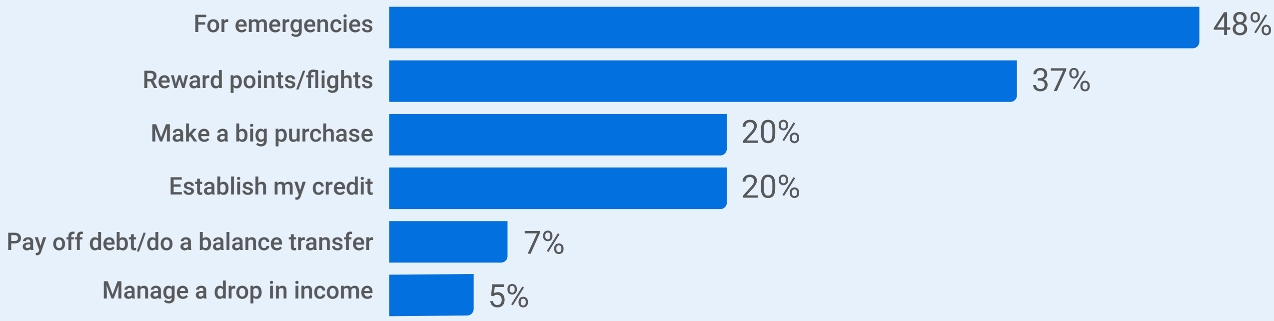
However, Finder's data suggests consumers will remain cautious with their spending for a while yet. A survey in September 2021 found 37% of consumers planned to spend less money at Christmas in 2021 compared to previous years, and only 13% planned to spend more.[6] Until current COVID-19 outbreaks ease and economic certainty is regained, it is difficult to predict exactly how consumers will behave at an aggregate level.

The return of travel is here

According to Finder data, more than one-third (37%) of credit card holders chose their current card because of the rewards points available.[7] Because Australians had been unable to travel overseas for nearly 2 years, demand for frequent flyer credit cards has been seriously impacted; Google trends data shows web searches for “frequent flyer” more than halved between 2019 and 2020.[8]

However, with the gradual return of international travel and the likely increase in frequent flyer card offers over the next year, we can expect the demand for credit cards to increase. Finder’s web traffic data shows interest in frequent flyer credit cards picked up by 10% through 2021, with announcements from airlines and governments driving spikes in traffic.[9]

What are the top reasons you got your most recent credit card?

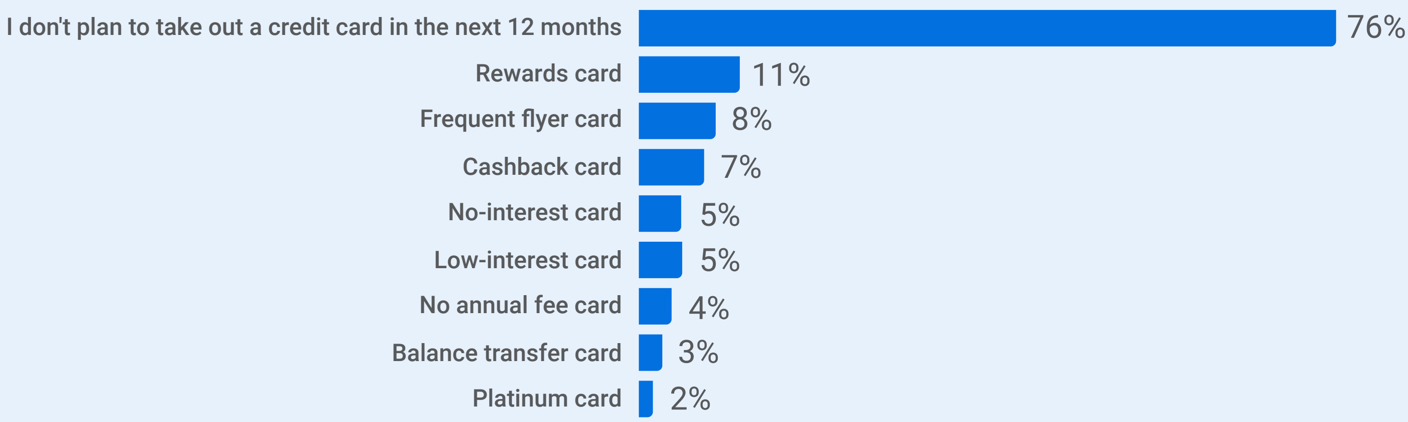


Asked only to credit card holders. Respondents were able to tick all that apply.

Source: Finder Consumer Sentiment Tracker, September 2021

In fact, data shows rewards and frequent flyer cards are currently the most sought after cards on the market. A Finder survey in October 2021 found 24% of Australians planned to take out a credit card in the next 12 months, with 11% seeking out a rewards card and 8% planning to take out a frequent flyer card. Interestingly, gen Z are the most likely to be searching for a rewards card (18%) or a frequent flyer card (14%), followed by millennials (17% and 13% respectively).[10]

Which of the following credit cards do you plan to take out in the next 12 months?



Source: Finder Consumer Sentiment Tracker, October 2021

Online shopping and the age of personalisation

One of the largest impacts of COVID-19 has been the accelerated shift to digital platforms. There has been a marked increase in online shopping since the beginning of the pandemic, a direct result of stay-at-home measures and fear of contracting the virus in-store. In January 2020, online shopping accounted for 6.3% of total retail sales.

As of September 2021, this figure had more than doubled, with online sales making up 15.3% of retail revenue.[11] While this number has since declined, online shopping sales remain considerably higher than pre-pandemic.

Online retail spending ($AUD million) and online retail spending as a percentage of total retail spending (%)

In a digital-first world, personalisation has become everything for brands. From clothing to food delivery to travel, tailored offerings are available in just about any industry and aspect of brand interaction, from marketing and communications to pricing to product offerings. According to a survey of business executives by the Harvard Business Review, respondents said tailored product offerings and recommendations delivered the highest competitive advantage of any form of personalisation, with 57% agreeing this is a competitive advantage for a brand.[12]

In today's day and age, in lieu of preset rewards and offerings, consumers want the ability to choose their own features.

When it comes to credit cards, consumer needs are no different. A Deloitte survey of credit card users in the US found an overwhelming 69% of consumers would find a credit card with personalised offers appealing. In particular, it found gen Z consumers were most interested in customisable rewards such as clothing and apparel (41%) and music streaming (21%).[13]

Flexibility in choosing product features is critical in retaining the loyalty of younger generations, and rewards offerings need to be responsive to the demands of today's consumers.

The concept of personalisation also lends itself to the unique use of data. Customer data can help lenders understand the multiple facets of a customer's financial circumstances, assess borrowers on an ongoing basis, and provide new offerings or adjust their credit limit as needed. Along the same vein, partnerships between retailers and credit card providers give consumers the opportunity for rewards in the form of exclusive offers tailored to their own spending habits.

The payments landscape is quickly evolving

The declining use of cash has been accelerated by the pandemic. This trend is in no way new; ATM withdrawals hit their peak in 2008 and have since been declining.[14] The number of cash withdrawals plunged dramatically as COVID-19 struck, due in part to stay-at-home restrictions limiting where consumers could spend their money, and concerns with the hygiene of physical cash.

Number of ATM cash withdrawals by debit card (1994-2021)

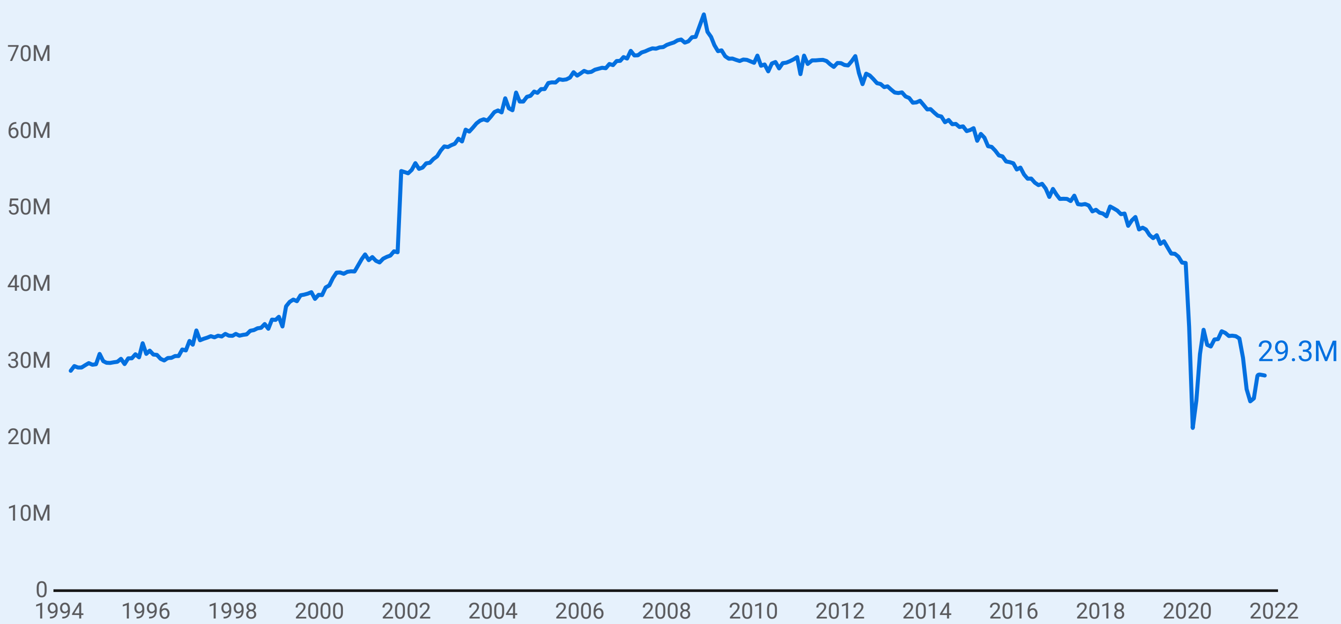
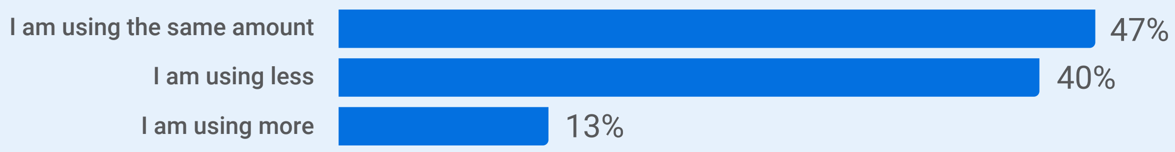


Chart: Finder • Source: RBA

A Finder survey in July 2021 found 40% of Australians were using less cash than they were 12 months prior. On average, consumers use cash to pay for just 24% of transactions.[15] More than one-third (34%) expect cash to be obsolete within 10 years.[16]

At the same time, digital wallets are becoming more prevalent, while other forms of payment are emerging. Finder's data shows 34% of Australians have a debit or credit card connected to their phone or smartwatch, and for gen Z this figure rises to 59%.[17] Biometric authentication, such as through facial or fingerprint recognition, is expected to grow more than sixfold between 2020 and 2025 to generate $3 trillion in transactions.[18]

Are you using more, less, or the same amount of cash as you were 12 months ago?



Source: Finder Consumer Sentiment Tracker, July 2021

What this means for credit cards

Cash is being used less frequently and flexible payment options are becoming more relevant. Finder's digital wallet comparison page has seen its average daily web traffic increase 34% from 2019 to 2021. With consumers increasingly opting to pay via mobile phone, credit cards need to evolve to keep up with – and stay ahead of – consumer trends.[19] Credit card providers need to provide an incentive for consumers not only to use their credit card on their phone, but to set it up as their default payment method.

Some providers are already offering unique solutions in this space. Mastercard's MoneyMe Freestyle Virtual Credit Card is an entirely virtual credit card that consumers can access through Apple Pay or Google Pay. Bendigo Bank now allows its users to set up their virtual credit card immediately after being approved while they wait for their plastic card in the mail. Bankwest Breeze also has a number of virtual balance transfer cards on offer. Tapping into the desire for instant approval adds a layer of competitive advantage in an industry where application and approval processes have traditionally taken time.

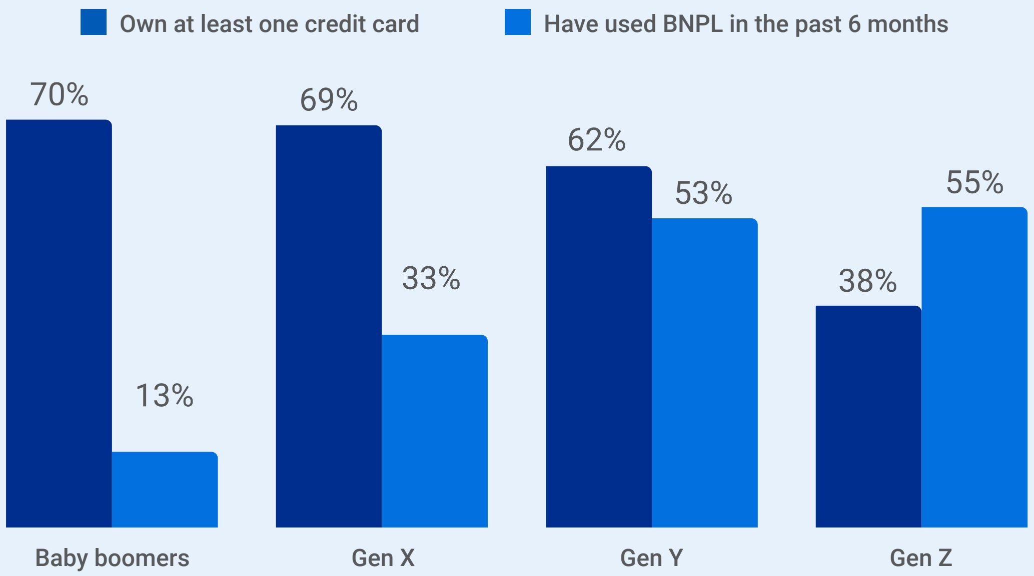
Consumers are craving new kinds of credit

There is a generational divide in credit

As with property and politics, there is a clear generational divide in the credit landscape. Finder's data shows older Australians are more likely to hold a credit card than their younger counterparts. More than two-thirds (70%) of baby boomers have at least one credit card. This is compared to less than half (38%) of gen Z.[20]

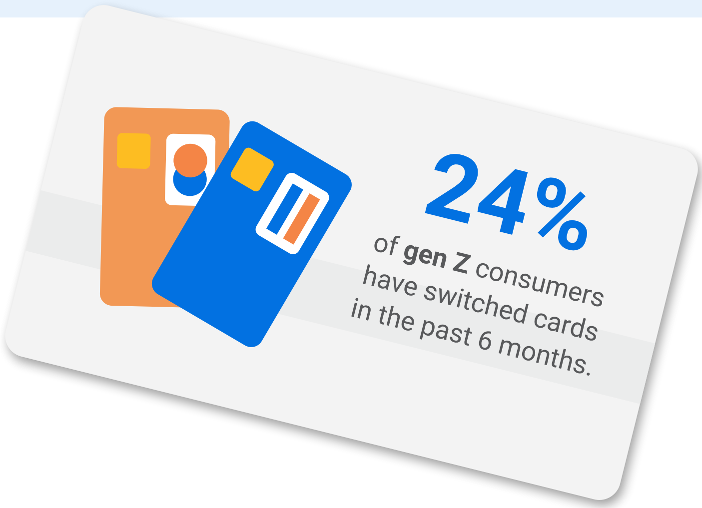
The emergence of BNPL platforms has created a seismic shift in the industry. Finder's research has found 37% of Australians have used BNPL within the past 6 months, with the average person using BNPL 2.1 times in that period. While a majority of gen Z (55%) have used BNPL services in the past 6 months, this declines to 33% of gen X and just 13% of baby boomers.[21]

Credit card and BNPL use by generation

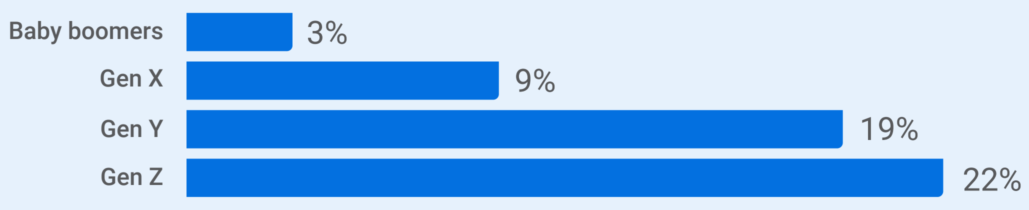


Source: Finder Consumer Sentiment Tracker May 2019 - December 2021; Credit cards, BNPL

Finder's research has also found younger consumers are less loyal to their credit card providers than older users. Among credit card holders, 24% of gen Z consumers have switched cards in the past 6 months, followed by 17% of millennials. In comparison, just 3% of baby boomers have switched in the past 6 months.[22] Whereas older Australians grew up in a world that valued loyalty to one's job or one's bank, the digital age has augmented competition in just about every industry. Consumers are accustomed to choice and are not afraid of switching to a better deal.



Percentage of credit card holders who have switched cards in the past 6 months

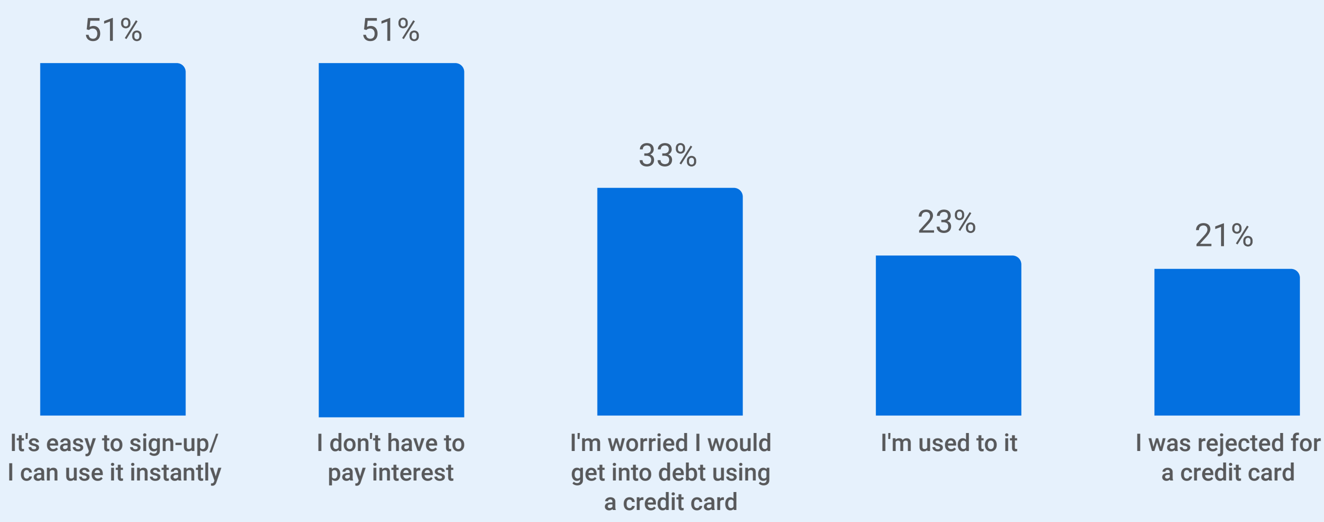


Source: Finder Consumer Sentiment Tracker, May 2019 - September 2021

BNPL owes its success to the fear of credit cards

Some experts have attributed younger generations' reluctance to take on traditional forms of debt like credit cards to a heightened fear of debt among young people. Finder's data shows only 18% of gen Z consumers would prefer to use a credit card when making purchases above $100, while 39% prefer to use a debit card and 34% would choose BNPL. Of those who would choose BNPL, 51% said it was for the lack of interest and 33% said they feared getting into debt with a credit card.[23] While BNPL debt is a real possibility, it is clear that the messaging, marketing and sheer novelty of this new product make it more appealing than credit cards to some.

Why do you prefer to use BNPL over a credit card?



Asked only to those who had previously indicated they prefer to use BNPL over a credit card for purchases over $100.
Source: Finder Consumer Sentiment Tracker, April 2021

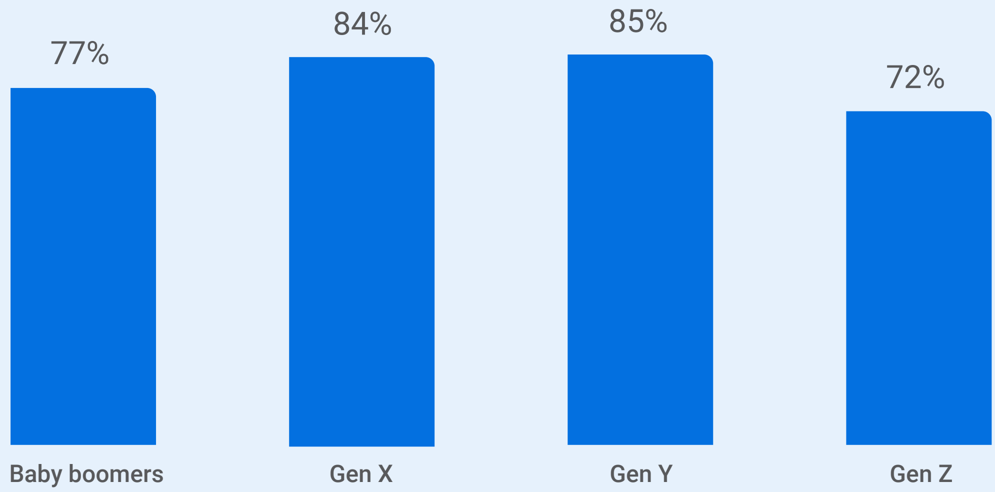
At the same time, the increasingly digitised world we live in has driven the desire for instant gratification. Social media, advanced supply chains and evolving payment methods have taught us that we can have whatever we want whenever we want it, and that includes deciding when and how we pay for things. Combined, these factors have created the perfect environment for alternative forms of credit like BNPL to thrive.

Borrowing isn't going anywhere

This is not to say younger Australians are necessarily moving away from credit. When credit cards, BNPL, personal loans and car loans are accounted for, the distribution of debt is much more evenly split between generations. Nearly three-quarters of gen Z (72%) access credit of some form, compared to 77% of baby boomers. Millennials (85%) are the most likely generation to borrow money.[24] It should be noted that home loans and student loans are excluded from these figures; if included, nearly all Australian adults would have debt of some kind.

In the next section of this report, we discuss some of the ways traditional credit card providers are shaking up their product offerings to adapt to changing market needs.

Percentage of population who are currently using or have recently used credit*



** Credit includes credit cards, personal loans, car loans and buy now pay later (BNPL).*
Home loans and student loans are not included.
Source: Finder Consumer Sentiment Tracker, April 2021 - September 2021

A new era of credit cards

Consumer behaviours and needs are changing, and the genesis of digital finance and open banking is well underway. The industry is evolving at a historic pace. What are the key product trends shaping the future of the credit card environment?

No-interest cards

There is no doubt the rise of BNPL has increased competition within the credit card industry. In order to compete with low- and no-interest alternatives to traditional credit cards, banks have evolved to service the demands of a new generation of borrowers.

Since 2020, some banks have introduced BNPL alternatives, with NAB's StraightUp Card and CommBank's NeoCard and StepPay standing as almost direct comparisons to BNPL. Some credit cards, like the American Express Cashback Card, have shifted from annual fees to monthly fees, and some lenders have even partnered with BNPL providers to allow users to link their rewards cards to services like Afterpay. At the same time, some BNPL companies like Afterpay have also begun to offer cards, albeit with a different structure to traditional credit cards.

The rise of alternative credit has also led to escalating competition among banking and finance management apps. BNPL and other fintech competitors have appealing and intuitive user interfaces and typically break down users' spending patterns. In addition to managing payments, the more advanced apps are also integrated with shopping carts; in February 2021, Afterpay reported 17% of its users initiated one or more transactions from within their app.[25] Moving forward, fostering a seamless digital experience – and one that covers the entire purchase journey – will become increasingly vital to gaining and retaining customers, particularly younger digital natives.

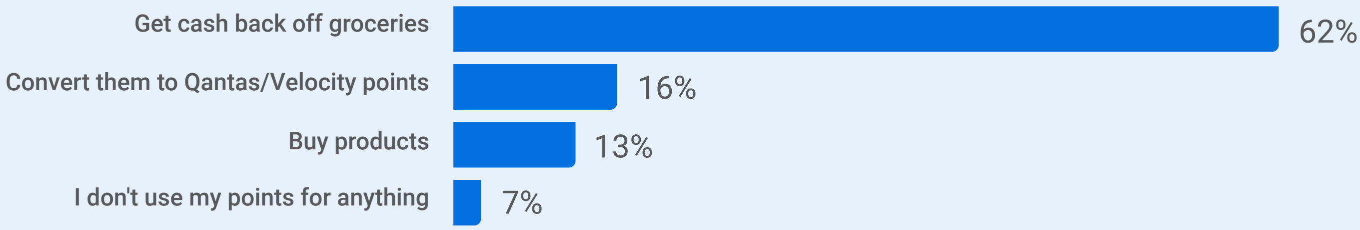
Cashback is back

Cashback credit cards have not traditionally been common in Australia, but they have recently had a revival. In particular, the American Express Cashback Credit Card has drawn attention to the benefits of cashback.

While their popularity in Australia is minimal, especially compared to the US where cashback offers tend to be more lucrative, there certainly has been a gradual increase in interest from consumers. Between 2017 and 2020, Google trends data show average weekly search volume for the term "cashback" increased by 19%, and in October, a Finder survey found 7% of Australians plan to get a cashback credit card within the next 12 months.[26,27]

We have also witnessed growing consumer education around collecting and using points through programs like Flybuys in Australia. In the absence of international travel, consumers have become more aware and proactive in seeking cashback rewards from points programs. A Finder survey in May 2021 found 81% of consumers collect supermarket points, of which 62% use their points to get cashback off their groceries. A further 16% convert their points to Qantas or Virgin Velocity points.[28] There is an opportunity to take advantage of consumer demand for cashback, particularly if providers are able to differentiate themselves with offerings that appeal to the modern consumer.

What do you usually do with your supermarket points?



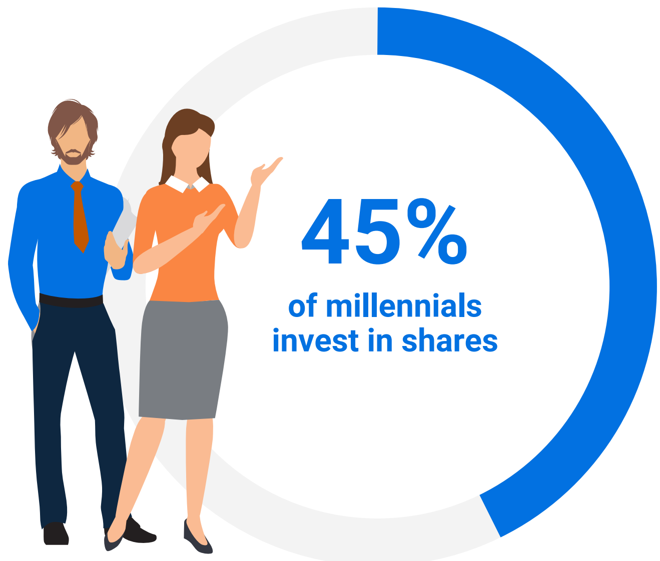
Asked only to those who had previously indicated they are signed up to a supermarket points program.
Source: Finder Consumer Sentiment Tracker, May 2021

Investment cards

More than one-third of Australians (37%) are investing in shares, with millennials (45%) the most likely to be doing so.[29] Whereas traditionally investors would have needed to sell their shares in order to access funds, some cards are making it possible for investors to spend their investment earnings directly from their accounts just as they would with the money in their bank account. For instance, Rush Gold lets users liquify their gold assets to spend their earnings.

Similarly, cryptocurrency debit and credit cards allow consumers to spend their crypto investment earnings, either through a prepaid card or one linked directly to the user's wallet. While still in its infancy in Australia, the concept of paying for goods with cryptocurrency has potential for immense growth in the medium term. Already in Australia there are more than 10,000 businesses accepting Bitcoin as payment, and online platforms like Living Room of Satoshi enable consumers to pay their bills in Bitcoin.[30]

Card providers can also tap into consumers' desires to invest through rewards programs. Through a modified cashback model, investment rewards cards allow consumers to earn rewards on their spending in the form of cash into an investment account. For instance, Mastercard's Gemini credit card brings together a traditional payment processor with a cryptocurrency exchange to give consumers the opportunity to invest their rewards.



Insights from Finder's experts

Amy Bradney-George
Credit cards editor

"Younger generations have very different expectations of borrowing to their parents. Credit card providers need to adapt their offerings to the demands of these digital natives before they make up the majority of the working population and have a higher degree of influence."

With so many innovations happening in the credit cards environment, it is a very exciting place to be right now. The overhaul that BNPL has brought to the industry brings enormous opportunity for providers to take stock of changing consumer desires and adapt their offerings.

Personalised rewards, interest-free repayments and cashback cards have all seen growing interest from consumers recently, and the evolution of payments is driving a movement away from plastic cards and towards virtual ones.

While younger consumers have typically shied away from credit cards, they are just as interested in borrowing as any other demographic. Could the new era of credit cards see a revitalised demand for credit cards among young people?

Taylor Blackburn
Head of Media Relations

"Rewards points are one of the biggest drivers of credit card demand, and the return of travel means more points, lounge passes, travel insurance – and most importantly, free flights – for shoppers."

Australians have become better at paying off their credit cards over the past few years, which is great news for their finances. With international travel back on the cards and consumer spending slowly returning to pre-pandemic levels, an uptick in credit card usage is looming. We are seeing card companies ramp up deals on rewards points while removing or lowering annual fees. Travel perks and overseas spending are going to make credit cards a much more attractive choice than they have been lately where BNPL products have taken huge chunks of market share, especially among younger Aussies.

At the same time, credit card providers need to keep in mind that the landscape is rapidly changing. In a digital-first world, consumers' behaviours and expectations of customer experience are increasingly being shaped by online platforms, apps and social media, and the pandemic only fast-tracked this shift. How can lenders retain the loyalty and attention span of their customers in an increasingly competitive credit environment and give them more of the good and less of the bad?

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Methodology

Finder’s Consumer Sentiment Tracker is a nationally representative survey of more than 30,000 Australians. The survey has been running on a monthly basis since May 2019. The survey is owned by Finder and operated by Qualtrics, an SAP company

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