



Demystifying the co-branded cards industry

October 2018

F **Foreword**

Dear Readers,

It is my pleasure to bring to you the latest edition of our Payments newsletter, where we take a look at key trends influencing the co-branded cards in the country. We talk about the benefits that it offers to stakeholders and our view on the future of these cards.

In addition to our views, based on our expertise across the Digital Payments landscape along with insights from our work with clients, we have captured key challenges and ways in which organizations can adapt to the changing trends.

I hope you will find this to be an insightful read.

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Payments Technology Updates

I Introduction

Payments has been at the forefront of technological advancements in the banking industry. The first credit card in India was launched in 1981 by a then leading public sector bank. By 1996, the concept of co-branded cards, where two parties typically an issuing bank and a corporate/merchant join hands to offer a product which encompasses the best of both worlds, was introduced in the country by leading foreign bank in association with a consumer durables brand. The marketing strategy was to bring out the “*smart way*” of buying consumer durables and earn points for every purchase done using the card.

Study of popular co-brand cards in India reveals **travel** as the prominent use case amongst various use cases followed by fuel, e-tail, retail shopping. These segments offer tangible benefits like complimentary tickets, shopping vouchers etc. which leads to **instant gratification** for the customers.

Traditionally, co-branding was popular in credit cards but with emergence of new use cases like transit, meal etc. issuers are tapping the opportunity with prepaid and debit cards too. With the introduction of Smart City Program by Government of India, Banks are partnering with municipality/metro/bus authority, there is a significant push to issue co-branded prepaid / debit cards which is enabling citizens to just walk through the public transport and use the same card for shopping or making payment at any store.

As per the guidelines, issuers need not take approval from RBI for selection of co-brand partner. However, they need to follow KYC, AML, Combating of Financing of Terrorism (CFT) norms.

Benefits for cardholders



Customised offers like welcome benefits, discounts, vouchers



Milestone benefits like complimentary movie, travel, stay



Additional benefits like insurance, air lounge access, golf access

Why Co-brand?

Issuers

1. Access to a focused customer base
2. Increased average spends per card
3. Improved customer stickiness

Partners

1. Contribution to top and bottom line with shared revenue
2. Better brand visibility
3. Enhances customer loyalty



Travel

Cashback, Voucher, Lounge access



Fuel

Value back, Surcharge waiver



E-tail

Perennial flat discounts, reward points



Shopping

Complimentary membership, accelerated rewards



Lifestyle

Invite to Premium events/ experiences



Hotels

Complimentary stay, discounts

Popular segments & their benefits

Why Co-brand: In detail

Issuer

- 1. Greater customer engagement:** The existing customers will be less likely to move to competitors as they know they can get better benefits and rewards if they make their purchases with the card at the partner.
- 2. Increased average spend:** The awareness of specific benefits of co-branded cards is high thereby leading to increase spends on the card.
- 3. Improved Activation:** It is noted that the co-branded cards have higher activation as compared to regular bank cards and lower dormancy rates.
- 4. Customer Growth:** The partner reach is an advantage that helps co-branded cards win new customers in addition to conversion of existing customers in the portfolio.

Partner

- 1. Brand Visibility:** Increased visibility as cardholders will be exposed to it every time they reach for their credit card. Not only does this ensure their loyalty, but it also strengthens it.
- 2. Increase in sales:** With specific co-brand card in wallet, the customer gives preference to the partner over other brands in the same category.
- 3. Enhances customer stickiness:** Co-branded card holders get benefit of spending on any merchant but still earn partner loyalty points which creates more stickiness and better experience.

Case Study: Co-branded credit card issued by leading private bank with a popular airline

The card combines the benefits of airline and dining, entertainment. Targeted at frequent flyer and customers who have high-end lifestyle.

Outcome for the Bank in 2 years:

- ✓ Activated 16% of the never used customer,
- ✓ 10% of dormant customers and
- ✓ 28% of inactive customers

Here is a snapshot of major revenue and cost relevant to co-branded partnerships particularly:

	Costs	
Revenue	Joining Fees/ Annual fees Issuer shares a portion with partner	Marketing expense Is generally shared between parties
Cost	Discount/voucher In most of the cases, it is borne by Issuer	Reward Redemption Is borne by Issuer, redemption is on higher side

Challenges

With benefits comes challenges of a partnership and co-branded partnership are no different. There have been few co-branded cards which could not attract many takers and on further study of such cards reveals the following challenges that an issuer and its partner face:

- 1 Misfit of co-brand partnership:** For many co-branded partnership it has been observed that customer perception towards the co-branded product does not match with the brand value or image of the bank, leading to lesser adoption and activation of the product.
- 2 Dependency on partner:** A successful Co-brand card program demands significant resources and attention. All stakeholders must therefore be comfortable making essential investments in order to get value from a co-branded card else risk turning it into an overall negative experience.
- 3 Brand reputation:** Since most of the co-branded partnerships are long term contracts, there is a reputational risk for either of the parties in case of loss of goodwill with the other partner.

K *Key trends shaping Co-branded cards*

We are likely to see issuers focus on providing unique value proposition & increase customer base for co-branded cards. They will ensure stickiness to their co-branded products by tweaking privileges/reward program to suit changing customer demand. Few key trends that are likely to emerge in near future are as follows:

1 **Looking at untapped segments for partnership:** Segments such as mass transit, smart cities, healthcare, hospitality and aggregators in space of transportation are likely to be captured by issuers as these segments are growing at a faster pace and are relatively untapped. These new segments will allow issuers to acquire new customers.

2 **Capturing a large and appropriate customer base:** Diversifying partner portfolio might be looked by few issuers to see larger acceptance of co-branded cards. Partnering with 2 to 3 partners in the same or related segments could be explored by issuers that will help to attract larger customer base.

3 **Digital acquisition through partners:** With merchants and customers both becoming more technology savvy, it is imperative for issuers and their partners to have a interactive platform for digital acquisition and also look at likelihood of incentivizing customers to sign-up for the card instantly. This is likely to reduce acquisition cost for the issuer.

4 **Enterprise focused co-branded cards:** Although there are few co-branded cards already launched for small and mid-sized enterprises (SMEs) and their employees by certain issuers there is likely to be more corporate co-branded cards that will focus on managing and reducing business expenses. Issuers are likely to partner with the most suitable partner that could be in the space of mobility, expense management solution.

Case Study: Card issued by a large bank with a Public transport operator

Comes with PTO's Transit & Debit Card chip. The card is targeted at customers who are looking for offers on gamut of lifestyle needs.

Outcome for the Bank in last 12 months:

- ✓ Transactions have increased 4 X times as compared to a normal Debit Card
- ✓ 10X increase in transaction amount
- ✓ Greater customer engagement

(With inputs from Mihir Gandhi, Ashish Punjabi, Neha Jaeel, Vishal More and Jaya Gupta)

*P*ayment Technology Updates

ICICI Bank ties-up with MakeMyTrip to launch a range of co-branded credit cards

ET

ICICI Bank announced its partnership with MakeMyTrip, the country's leading online travel company, to launch a range of co-branded credit cards tailor-made to suit the aspirations of the rapidly expanding segment of travel enthusiasts in the country.

[\(Read more\)](#)

Co-branded travel cards are less flexible but more rewarding: Here's why

Business Standard

When opting for a travel card, the choice is between co-branded cards and general cards. Rewards in co-branded cards can be redeemed only with a specific airline. But there are many exclusive perks.

[\(Read more\)](#)

Amazon Pay ICICI Bank Credit Card Launched, Offers 5 Percent Reward Points to Prime Members

NDTV

In a first-of-its-kind move in India, Amazon has partnered with ICICI Bank to provide its Prime customers a credit card that leverages shopping expenses into reward points.

[\(Read more\)](#)

SBI Card and Apollo Healthcare launch co-branded card offering access to healthcare services

ET

SBI Cards and Apollo Healthcare has launched a co-branded credit card which would enable customers avail various benefits such as discounted health-check-ups and complimentary consultations.

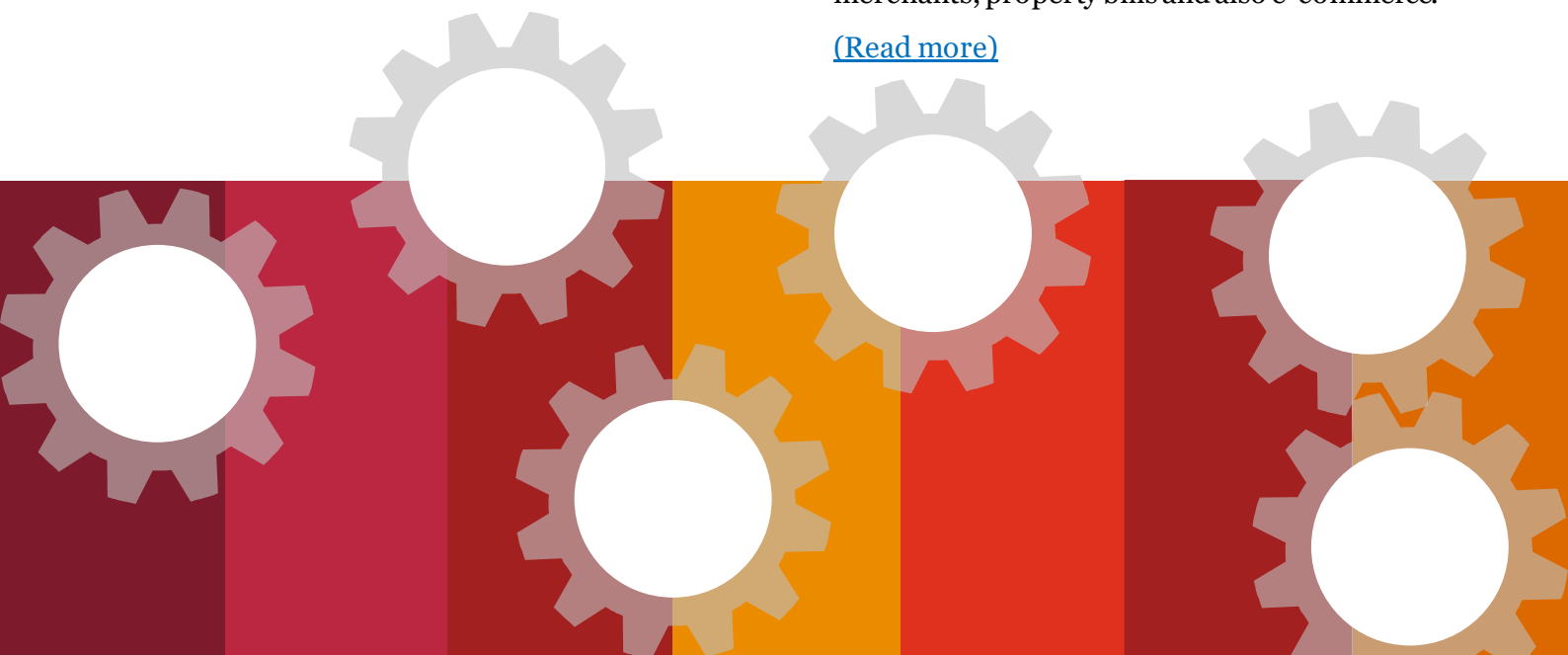
[\(Read more\)](#)

Axis Bank, Raipur Smart City launch payment platform

Money Control

Using a single card or the app, citizens will be able to pay for their bus travel, shopping at merchants, property bills and also e-commerce.

[\(Read more\)](#)



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