

Do Millennials Really Care About Credit Card Rewards?

21 November 2016 By: Michael Moeser

Credit card rewards have evolved into a virtual arms race with many card issuers offering over-the-top rewards to attract and retain the best customers who often have a plethora of competitive options — particularly older and more wealthy consumers (e.g., the baby boomers born between 1946 and 1966). However, card issuers struggle to sell their cards to Millennials (age 18 to 34) as this group traditionally prefers debit and prepaid cards, eschewing the accumulation of any debt. As a result, the industry is at a virtual crossroad, with the question being: Does it continue the rewards arms race to attract and retain a limited set of older rewards junkies, or does it figure out how and when to sell credit cards to Millennials (also known as Gen Y) using rewards as its primary lure? Well, it turns out that as Gen Y moves to adopt credit cards, they gravitate toward travel and multiple-use point rewards programs to fit their lifestyles. Two card network brands, in particular, benefit from their travel relationships.

This report examines the Gen Y credit card opportunity, focusing on how issuers can identify those in search of credit and how to incentivize them with rewards in order to adopt and use credit cards.

For this report, Gen Y is divided into two age cohorts: Gen Y.1 (age 18 to 24) and Gen Y.2 (age 25 to 34). Because the terms “Millennials” and “Gen Y” are used interchangeably, we will refer to them as Gen Y due to the ability to split them into two age cohorts. Gen X is defined as consumers born between 1962 and 1982, and baby boomers are consumers born between 1946 and 1966.

Key questions discussed in this report:

- Do Gen Y consumers acquire credit cards, and if so, when?
- What are consumer payment preferences by age group?
- What role do rewards play in consumers’ preference for credit cards?
- What are the reasons behind consumers choosing debit or cash?
- What are the most common rewards program types by age group?
- What types of rewards, if any, exist on the credit cards held by Gen Y?
- How often do consumers redeem rewards? Do baby boomers redeem rewards at a greater rate than Gen Y?
- How confident are Gen Y consumers in the belief that they can earn rewards on a credit card?
- Can financial institutions look to cross-product ownership, such as mortgages and private-label store cards, to identify potential credit cards users?
- What value do digital bankers place on rewards compared with nondigital bankers?

Companies Mentioned: Affirm, American Airlines, American Express, Capital One, Chase, Citi, Delta, Discover, Mastercard, Marriott, PayPal, Visa

The consumer data in this report were primarily collected from the following:

- A random-sample survey of 3,200 respondents conducted online in October 2016. The overall margin of error is +1.74 at the 95% confidence level. The margin of error is larger for subsets.

Data on the card industry and rewards programs were derived from interviews with industry leaders. Supplementary data were provided by secondary sources such as The Nilson Report and public websites.

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