

The benefits issuers enjoyed by offering generous card rewards are fading

Article

The trend: Pandemic-era credit card perks could take a toll on issuers as headwinds buffet the economy this year, per the Wall Street Journal.

How we got here: As consumers shifted toward debit at the onset of the pandemic, many issuers revamped their rewards to encourage credit card spending.

This included pivoting rewards from travel toward everyday spending categories like groceries. Many also introduced rewards that catered to pandemic-era consumer trends, like at-home fitness programs and streaming services.

Why it matters: Now, issuers are spending more than ever on card benefits, even as consumer spending growth wobbles.

- Six of the largest card issuers in the US **spent a combined \$68 billion for rewards** and other related expenses in 2022, increasing about 4% from 2019, per the Journal.
- Rewards expenses among large banks accounted for about **4.5% of card purchase volume in 2021**, up from 3.5% in 2015, [per](#) Federal Reserve data.

But even as issuers toss money at rewards, consumers are pumping the breaks on credit card spending: **US credit card transaction volume will increase just 2% year over year (YoY) in 2023**—slowing from last year's 9.9% jump and a 21.5% surge in 2021, [per](#) Insider Intelligence forecasts.

There are also signs that some consumers are feeling financially strained, compounding issuer risks: **Discover, Bank of America, JPMorgan**, and other banks reported a slight [increase in delinquencies](#) in January relative to last year (though delinquencies generally remain below pre-pandemic levels).

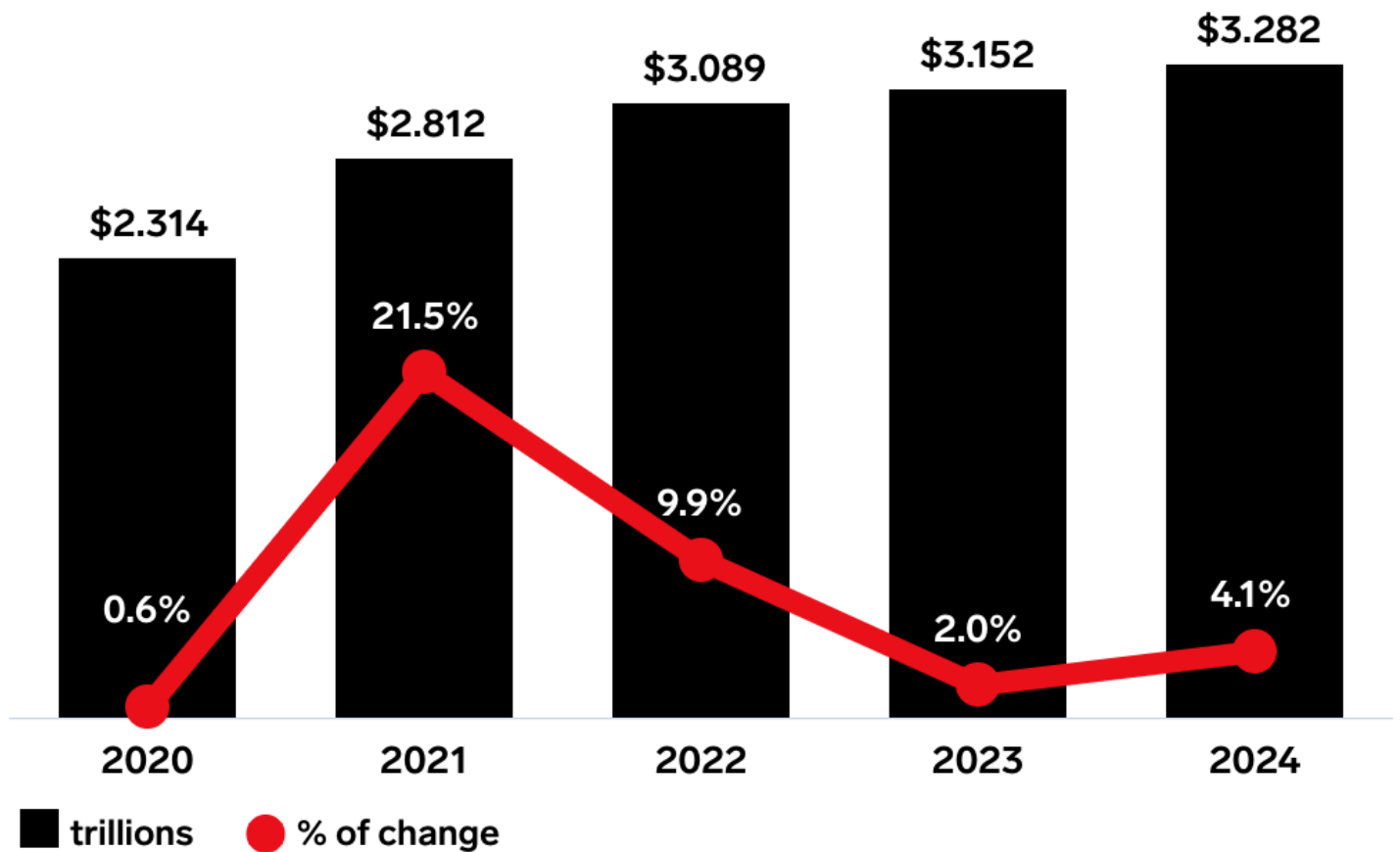
The big takeaway: Rising rewards costs and laggard loan growth could squeeze issuers' margins. That may encourage more issuers to [devalue their card benefits](#). But issuers will need to tread lightly when devaluing rewards to avoid pushing away high spenders.

- **American Express**, for example, benefits from a virtuous cycle in which the bank's premium spenders attract big-name promotional partners, which in turn attracts more customers and spending.
- But Amex recently removed one of its biggest travel perks: It began [charging Platinum cardholders \\$50](#) for each guest they bring to Centurion airport lounges instead of letting cardholders bring two guests for free.

These sorts of changes might be needed to help preserve issuers' bottom lines and avoid a profit squeeze later on.

Total Credit Card Transaction Value

US, 2020-2024



Note: includes point-of-sale (POS) transactions made in-store and over the internet using credit cards; includes food services and drinking places sales; includes sales tax; excludes travel and event tickets, payments (such as bill pay, taxes, or money transfers), mail orders, gambling, and other vice goods sales; includes desktop/laptop, mobile and tablet purchases

Source: eMarketer, August 2022

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