

Cuts to rewards plans unlikely to hurt credit card use, study shows

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What would happen if credit card holders no longer received rewards? Not much - but it could cut consumer credit card debt, says a new study on the impact of rewards programs on credit and debit card use.

The paper, co-published by the University of Toronto's Rotman School of Management, found that removing rewards would result in only a small number of credit card customers switching to more debit card and cash transactions.

"A lot of customers use credit cards or debit cards to pay because they like it. So if you take away the rewards, it's not going to change their behaviour that much," says Andrew Ching, a Rotman professor who co-wrote the study with Fumiko Hayashi of the Federal Reserve Bank of Kansas City. "Potentially, it could be better for everybody."

The study used data on consumer payment preferences from the American Bankers Association and Dove Consulting. Researchers also found that rewards programs encouraged [consumers](#) to use credit cards even when they carried balances - suggesting eliminating rewards could help reduce consumer debt.

The findings are particularly relevant as more governments consider consumer protection legislation and rules prohibiting credit card companies from covering the costs of their [reward](#) programs through interchange fees charged to merchants each time a customer uses plastic to pay.

The paper's findings are backed up by what happened in Australia when that country's government ordered credit card companies to reduce their interchange fees in 2003. Australia's big three credit card companies have since dramatically reduced their rewards programs. Market share has been slightly reduced but [credit card](#) transactions have increased.

More information: The complete study is available at:
www.rotman.utoronto.ca/newthinking/creditcards.pdf

Source: University of Toronto ([news](#) : [web](#))

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