Is Cash (Back) Still King?

Kobie POV on Reward Optionality

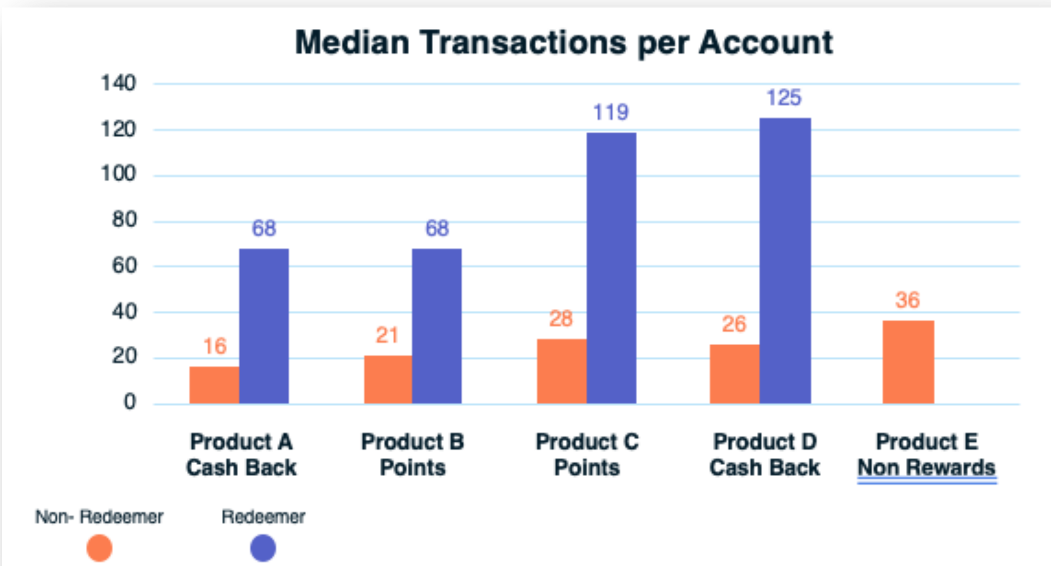
Kobie

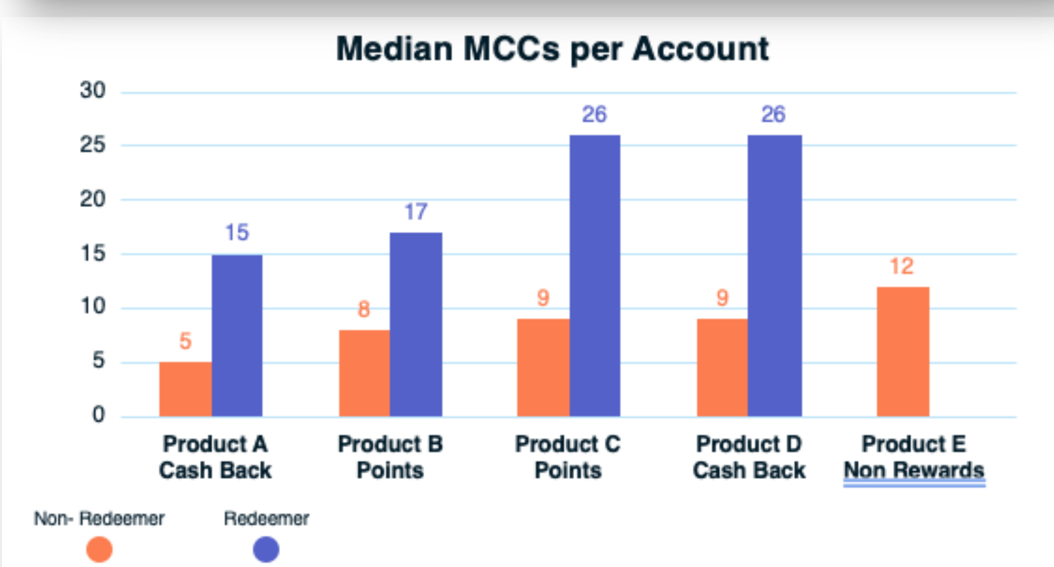
Kobie knows there is a direct correlation between redemption and cards moving to the top of cardholders' wallets.

When Kobie performs its Breadth of Spend analysis, two aspects we look at are how many different MCCs cardholders are spending in and how many total transactions cardholders make with their card. Both measurements are indicators of the card being top of wallet or not.

It's clear from the Kobie data below, cardholders who make a redemption are using their card in more places and are using it more often than non-redeemers – signifying the importance of redemption.

- Redeemers have 3—5x more transactions than non-redeemers
- Redeemers spend across 2 – 3x more MCCs than non-redeemers
- Non-redeemers within a rewards program have fewer transactions and spend across fewer MCCs than cardholders with a non-rewards card, signaling that when cardholders don't redeem, that card moves further away from top of wallet.





But are all redemption types equal?

The answer is no – especially when talking cash back.

And Kobie has the data to show why.

While cardholders want cash back, it's clear informed issuers know reward optionality is king – not cash back.

Nowadays, it seems like every time you see a credit card advertisement, it talks about how much cash back it can provide its members. Credit card issuers use cash back in acquisition because they know consumers say they want it and will redeem for it. In fact, according to a TSYS study, **80%** of respondents redeem their rewards for cash back while the next two most popular options are gift cards and merchandise at **47%** and **38%**, respectively.

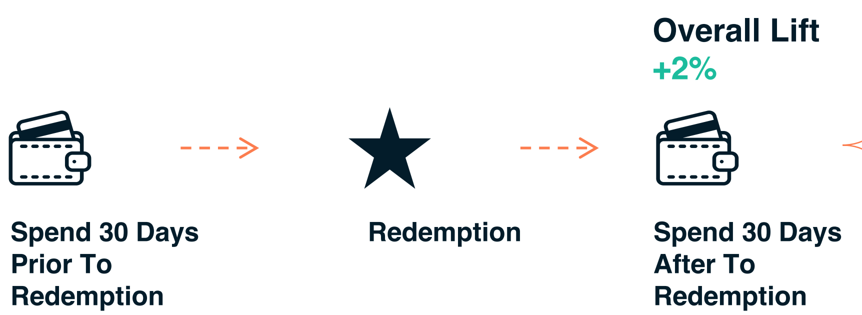
However, Kobie has noticed that while credit card programs are promoting cash back, they do in fact know cash back isn't king. While programs may focus their acquisition strategies on cash back, their retention strategies feature a more diversified rewards mix, aimed at keeping customers engaged. These programs know that when customers say they want cash, what they really want is choice. While this may seem counterintuitive – customers can use cash to get anything they want – the reality is that your customers see cash as just one option in a program. And informed issuers know this fact.

For instance, out of the nearly 3 dozen card programs that Kobie monitors, only **18%** of the programs that position themselves as "cash back" strictly limit their redemption options to either a statement credit, ACH transfer, or a mailed check. That means the other **82%** of programs positioned as "cash back" programs actually offer quite a bit more than just cash. On the flip side, **93%** of the programs that don't position themselves as "cash back" offer cash back as one of several redemption options, usually included with travel, gift cards, and merchandise.

Kobie's data shows cash back redeemers spend less and are more likely to leave a program within 3 years.

Most credit card programs offer cash back as a redemption. This offering however makes it even even easier for customers to change programs because of a lucrative acquisition offer or high-earn multipliers in rotating categories that match their spending habits better. Cash back puts your cardholders in a transactional mindset. To the, cash is cash, so why not earn it quicker somewhere else? When we dig deeper into the redemption data of members, Kobie has also found that **56%** of members who redeem for cash back as the majority of their redemptions, leave a program in less than three years. However, **68%** of members who mix-up their redemptions, stay in a program longer than three years.

While cardholder demand for cash back is extremely high, cash back redeemers can be fickle because cash back is extremely transactional and doesn't provide strong behavioral and emotional drivers needed to keep customers engaged. Kobie data shows members who redeem for cash back are **3 percentage points** more likely to churn and have between **5 - 22 percentage points** lower post-redemption spend than other category redeemers.



Redemption Type	30-Day Post Incremental Spend
Pay My Mortgage	+17%
Travel	+5%
Merchandise	+3%
Gift Cards	+2%
Donate	FLAT
Cash Back Statement Credit	-1%
Cash Back Account Deposit	-5%

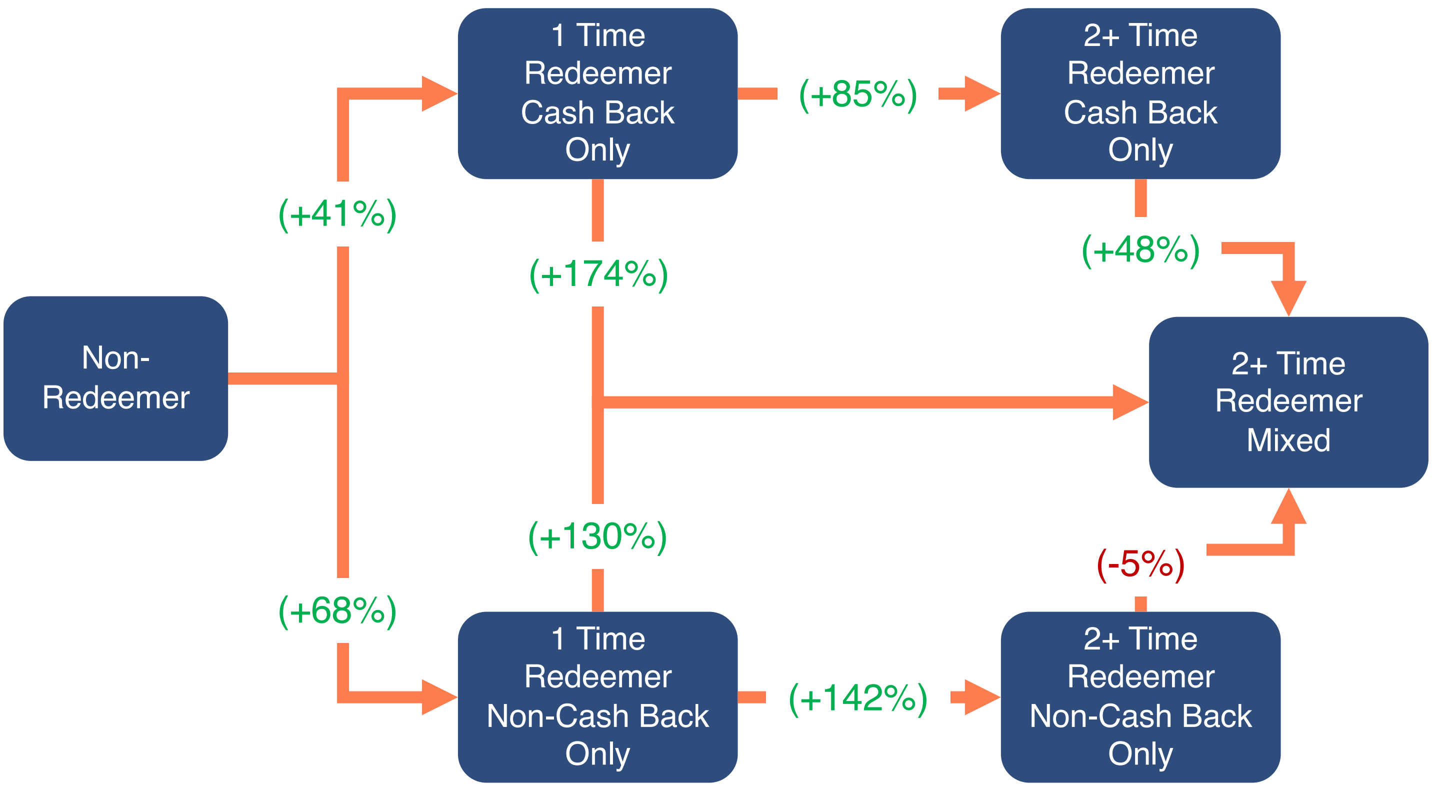
Additionally, analyzing annual spend by redemption type validates cash back redeemers to be the less valuable.

Kobie looks at the average spend per cardholder against whether the cardholder has ever made a redemption and then analyzes the findings by different frequency and redemption types.

Kobie does not believe this data is directly causal, however, the findings do show correlations which are worth exploring.

The data below represents over 4 million cardholders across multiple card programs. The percentage indicates the change in annual spend a cardholder experienced based off their redemption type (cash back vs noncash back vs mixed) and how many redemptions they've made.

2023 Annual Spend by Redemption Type and Frequency



Sending one email to cause a redemption will most-likely not cause cardholders to shift their spend behavior long-term.

However, crafting an overarching Redemption Journey that is woven through the entire communications plan, could help cardholders understand the value they receive by using their card more – which can move the card towards the top of their wallets.

On top of lower spend, cash back traditionally has a higher CPP and can drive program costs up.

Based on Kobie data, cash back can also carry a higher Cost Per Point (CPP) and when you pair that with a high volume of redemptions, cash back can be very expensive for a program. Given the fact Kobie only sees about **5%** of cash back redeemers organically move to a different redemption type, card programs need to develop strategies that make non-cash back redemptions more enticing.

Theory supports non-cash back rewards as well.

From a behavioral science perspective, there are many principles which support non-cash back rewards creating a stronger emotional loyalty bond than cash back, but the main ones are:

Separability and Evaluability
Evidence shows that when we receive cash rewards, we put those in the same "mental account" as regular cash, the same account we'd use to pay our electric bill or our mortgage. In contrast, points that can be redeemed for non-cash rewards go into an entirely different mental account – one where we allow ourselves to use that currency for more indulgent spending. Spending points in indulgent ways creates a more emotionally charged, "fun" experience and leaves a memory footprint that drives deeper emotional loyalty with the program and brand.

Frequency of Thought
Cash feels intangible; other reward types do not. In fact, research shows that when cardholders are working towards a specific, tangible reward, like a flight or a shopping spree with gift cards, they can see that reward more easily in their future and work even harder to achieve it. On the flip side, if they're simply redeeming a $100 cash reward, it's harder to visualize how it'll be used because it's just not as tangible.

Social Reinforcement
Which would you talk about more – the fantastic trip you just took enabled by your credit card rewards program or the $100 you get auto-deposited into your checking account? Chances are, it's the former because it's much easier to talk about non-cash rewards in socially acceptable ways. Sharing this also results in more emotional impact and that impact tends to stick around.

Cash back doesn't drive long-term loyalty, reward optionality does.

Here is how Kobie can shift behavior together and create long-lasting emotional loyalty with its cardholders:

Reward Optionality

Through **KALC Reward Marketplace** cardholders could have access to gift cards, travel, merchandise, pay at pump and more. This allows cardholders additional opportunities to find value with the program that's less about the transaction and more about the experience and the relationship they have with you.

Enhanced Communications

Encourage redemption for other categories throughout the whole Loyalty Lifecycle, starting with EMOB, to educate members about other redemption options and gamify the earning experience for non-cash back redemptions. A Loyalty Lifecycle that drives optimal redemption behaviors can be brought to life via **KALC Producer**.

Reduce Impact of Cash

Leveraging **KALC Experience Engine**, reduce the impact and appeal of cash by offering multiple cash back options with different CPPs and encourage other redemption types entirely with a more attractive CPP.

Thank you

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