

FROM ACQUISITION TO ACTIVATION

REVISITING CREDIT CARD ISSUER STRATEGIES IN HONG KONG

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QUINLAN
& ASSOCIATES

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EXECUTIVE SUMMARY

- Credit cards dominate the Hong Kong retail payments landscape, accounting for 51% of total retail GMV. They also generate a significant portion of revenue for local banks while delivering numerous ancillary benefits to retail banking franchises, including daily customer engagement. However, Hong Kong's credit card industry is currently facing three overriding structural challenges:
 1. **Oversaturation:** From 2008-23, the total number of credit cards in circulation in Hong Kong increased by 39% to 19.5 million. The growth rate of credit card circulation over this period surpassed all other developed APAC markets. Hong Kong also leads the region in terms of credit card penetration per capita, with an average of 3.1 credit cards per adult. In short, the market is inundated with credit cards.
 2. **Underutilisation:** Although local credit card spending has increased from 2017 to 2023, the annualised growth rate in local spending per card (i.e. 2.2%) has barely exceeded Hong Kong's inflation rate (i.e. 1.9%) over the same period. Overall spending per credit card also lags all other developed APAC markets, except for South Korea, suggesting that local credit cards are being underutilised.
 3. **High Churn:** Between 2019-23, ~900,000 credit cards were issued annually in Hong Kong. However, over the same period, an average of ~770,000 cards were terminated each year. This exceptionally high churn rate (i.e. ~85%) sends a clear signal that there is considerable wastage in the local credit card industry.
- The above challenges have a notable impact on issuer returns. For banks' credit card businesses, direct expense ratios (fee and commission income only) range between ~40-70%, 6-7x higher than their other business units. Credit card acquisition costs range from HKD 700-2,100, with issuers needing an average of 16 months to breakeven on every new card signup.
- From a strategic perspective, most local credit card issuers place considerable emphasis on acquiring new credit card users, utilising a mix of cashbacks & rebates, rewards, and benefits & privileges. Credit card deals are overlooked for acquisition-related promotions, despite their outsized impact on spending behaviour. The fact is, the number of credit cards that credit card issuers offer (i.e. acquisition) has little-to-no correlation with customer spending (i.e. activation). The same correlation for merchant deals, however, remains high. This points to the fact that card activation, not new card acquisition, is key to driving customer spending (and hence credit card issuers' credit card revenues).
- We believe many local credit card issuers are not taking full advantage of merchant deals to boost card spending, a function of various hurdles across the spending funnel, including low deal awareness, a lack of proximity of deals to the Point of Sale ("POS"), and a range of deal-specific usage frictions. We see ample opportunity for local issuers to tailor their credit card strategies to drive customer spending and, in turn, their own credit card revenues. However, to achieve this, a rethink of current approaches to merchant deals is needed, including improving customer awareness, establishing more targeted partnerships, and enhancing the customer experience when using deals.

SECTION 1

MARKET OVERVIEW

ROLE OF CREDIT CARDS (1/2) – FOR MERCHANTS

Key Takeaways

Credit cards have long dominated the Hong Kong retail spending landscape, representing the largest retail payment method on both a nominal and relative basis each year from 2017-23E.

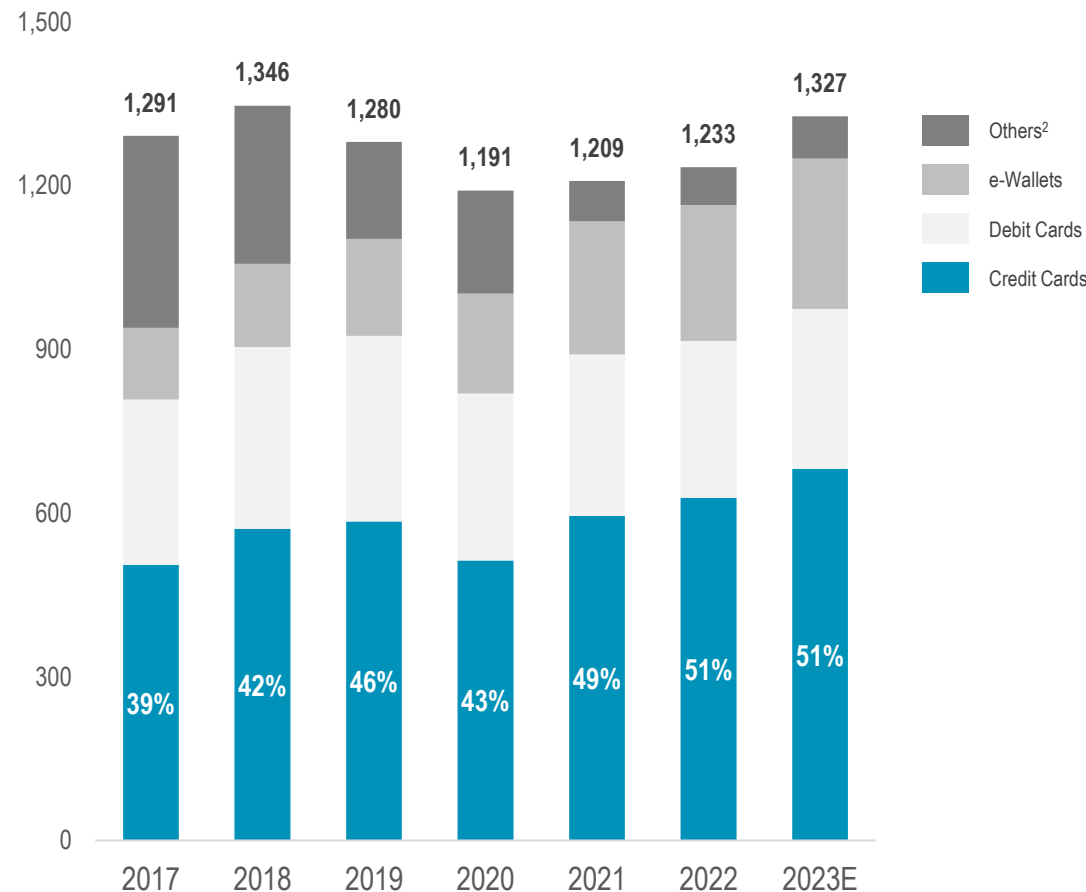
In fact, the dominance of credit cards has continued to rise over this period, accounting for 51% of retail GMV in 2023E, up sharply from 39% in 2017.

This dominance has been established for both online and offline channels, with credit cards representing 55% of POS payments and 41% of e-commerce payments (by transaction value) in 2023E.

Credit cards dominate the Hong Kong retail spending landscape, driving the lion's share of POS and e-commerce retail GMV for local merchants

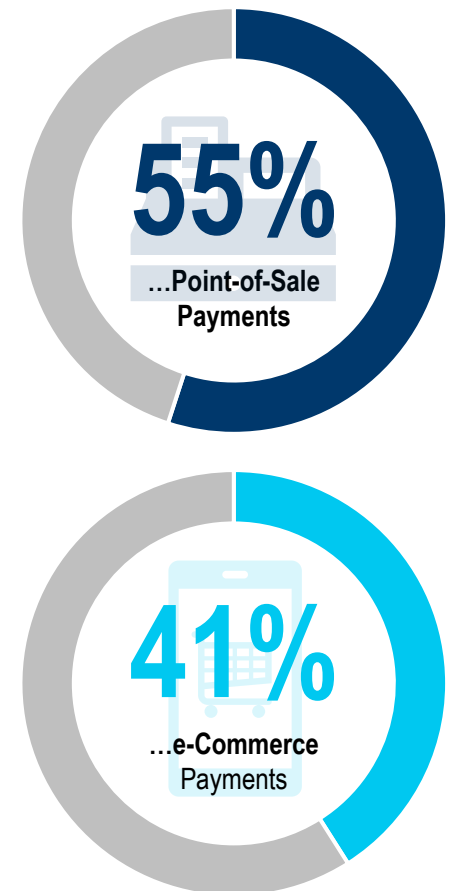
Credit Card Percentage Share of HK Retail¹ Transaction Value

Billion HKD, 2017-23E



Credit Card Share of Transaction Value

%, 2023E



¹Does not include tourism, ²Others include payment methods such as cash, FPS, bank transfers, etc.
Source: Hong Kong Monetary Authority, Census and Statistics Department, krip, Quinlan & Associates analysis

ROLE OF CREDIT CARDS (2/2) – FOR BANKS

Key Takeaways

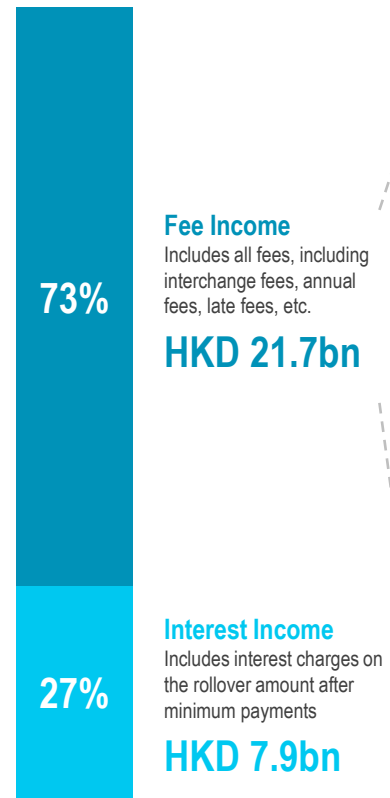
Credit cards contribute a considerable portion of local banks' fee-based (e.g. interchange, annual, and late fees) and interest (e.g. interest on rollover balances) income, representing a nearly HKD 30 billion revenue pool in 2023.

In fact, credit cards accounted for an average of 19% of fee-based income for the top 9 Hong Kong banks in H1 2023.

In addition to driving a large part of the banks' revenues, credit cards serve as an important customer acquisition tool. With lower acquisition costs vs. many other banking products (e.g. loans) and relatively low application barriers vs. setting up bank accounts, credit cards facilitate regular interactions between consumers and their banking provider that build higher levels of trust, which is critical in facilitating more engagement with a banks' fee-based products and loans.

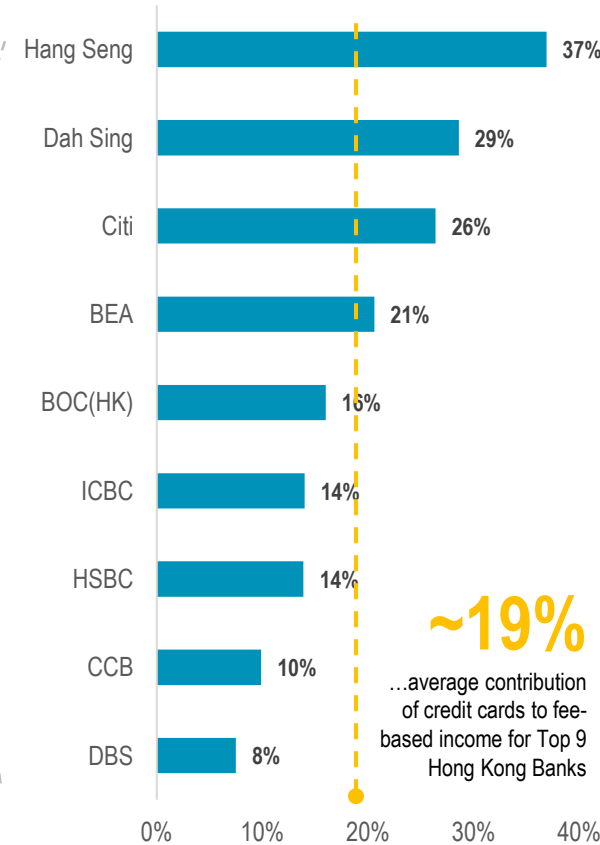
Given their widespread use by consumers, credit cards also make up a sizeable portion of local banks' revenues and bring distinct benefits to retail banking franchises

Credit Card Income
%, 2023E, Hong Kong



■ Credit Card Fee and Commission Income
■ Credit Card Interest Income

Credit Card Fee and Commission Income
% of Top 9 Banks* Fee Income, H1 2023, Hong Kong



Role of Credit Cards in Retail Banking
Hong Kong



LOWER ACQUISITION COSTS

Compared to other products, credit cards have much lower acquisition costs, making them an attractive, first point of contact



EASE OF ONBOARDING

The onboarding process for credit cards takes less time than opening a bank account, acting as a channel to rapidly acquire new customers



HIGHER TRUST INDUCED

Credit card usage builds customer trust in the bank, driving more interest in other fee-based products and loans



DAY-TO-DAY ENGAGEMENT

Due to their frequent usage, credit cards drive higher customer engagement and provide an avenue for regular communication

*Credit cards are an **essential part** of a retail bank's customer journey design; from driving initial contact to ensuring continued engagement with the bank*

SECTION 2

INDUSTRY PAIN POINTS



PAIN POINTS (1/5) – OVERVIEW

Key Takeaways

Notwithstanding the importance of credit cards in driving retail GMV and bank revenues, we believe Hong Kong's credit card market remains plagued by three key structural challenges:

1. Oversaturation

With 19.5 million cards in circulation and an average of 3.1 credit cards per adult, Hong Kong's credit card market remains oversaturated relative to other developed APAC markets

2. Underutilisation

Growth in average local spending per credit card has barely outpaced inflation from 2017 to 2023, with total transaction value per card lagging most other developed APAC markets

3. High Churn Rate

Due to a raft of welcome promotions and a focus on issuing new cards, Hong Kong's credit card market faces high card termination rates, contributing to considerable wastage

Despite their importance in driving local retail spending activity and bank revenues, there are three key structural challenges facing the credit card industry in Hong Kong

Key Challenges for Hong Kong Credit Cards

Overview



Oversaturated

Hong Kong's credit card market is overcrowded, with too many products from each issuer

- From 2008-23E, the total number of credit cards in circulation in Hong Kong grew by 39% from 14 million to 19.5 million, surpassing all other APAC developed markets
- With an average of 3.1 credit cards per adult population, Hong Kong also leads the APAC region in terms of credit card penetration per capita



Underutilised

Credit cards in Hong Kong are underutilised compared to other APAC markets

- While local credit card spending has increased over the past years, the rate of growth in terms of local spending per card has barely outpaced inflation (i.e. real growth in spending per card has flatlined)
- When looking across the region, overall transaction value per credit card in Hong Kong also lags other APAC developed markets (except for South Korea)



High Churn

Credit cards face exceptionally high turnover / churn rates, creating considerable wastage

- From 2019-23, Hong Kong credit cards have been issued at a rate of ~900k cards per annum
- However, over the same period, an average of ~770k cards were terminated annually, resulting in an exceptionally high credit card churn rate of ~85%

PAIN POINTS (2/5) – OVERSATURATED

Key Takeaways

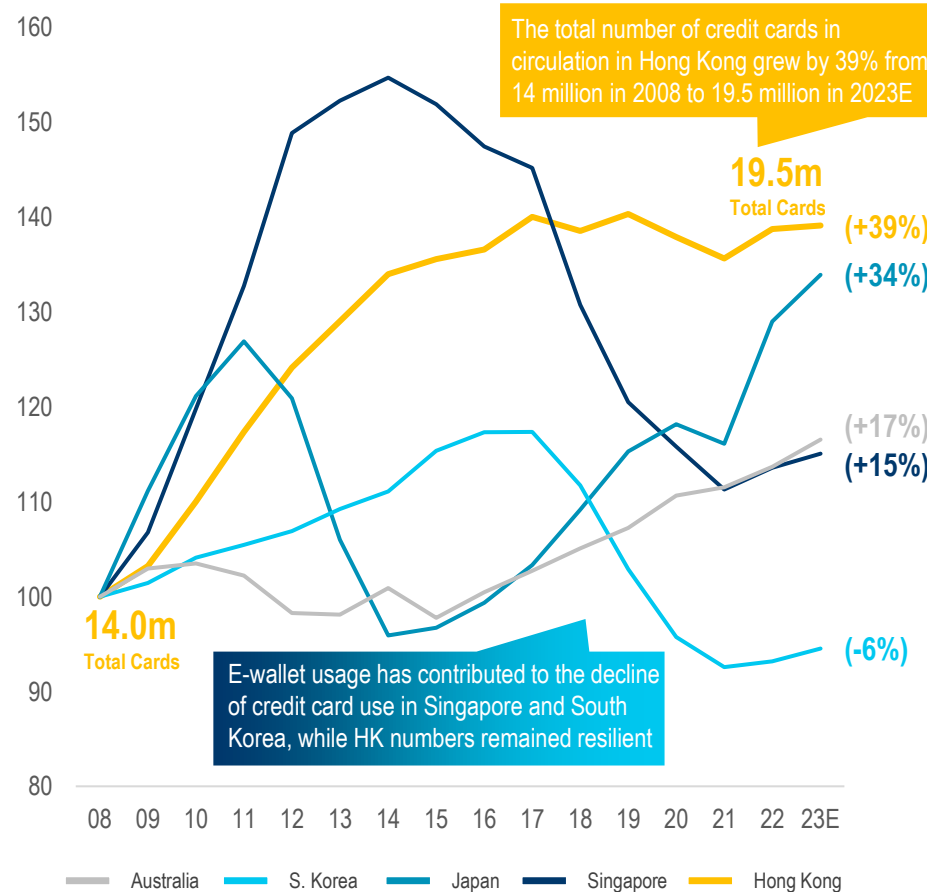
The total number of credit cards in circulation in Hong Kong grew by 39% from 14 million in 2008 to 19.5 million in 2023E, outstripping credit card growth rates in all other developed markets over the same period.

As of 2023E, Hong Kong maintains the highest number of credit cards per adult in the region (i.e. 3.1 cards per adult), 1.5x the average of other developed APAC markets.

Since 2008, growth in the supply of credit cards in Hong Kong has outstripped other APAC developed markets, with Hong Kong maintaining the highest number of cards per adult

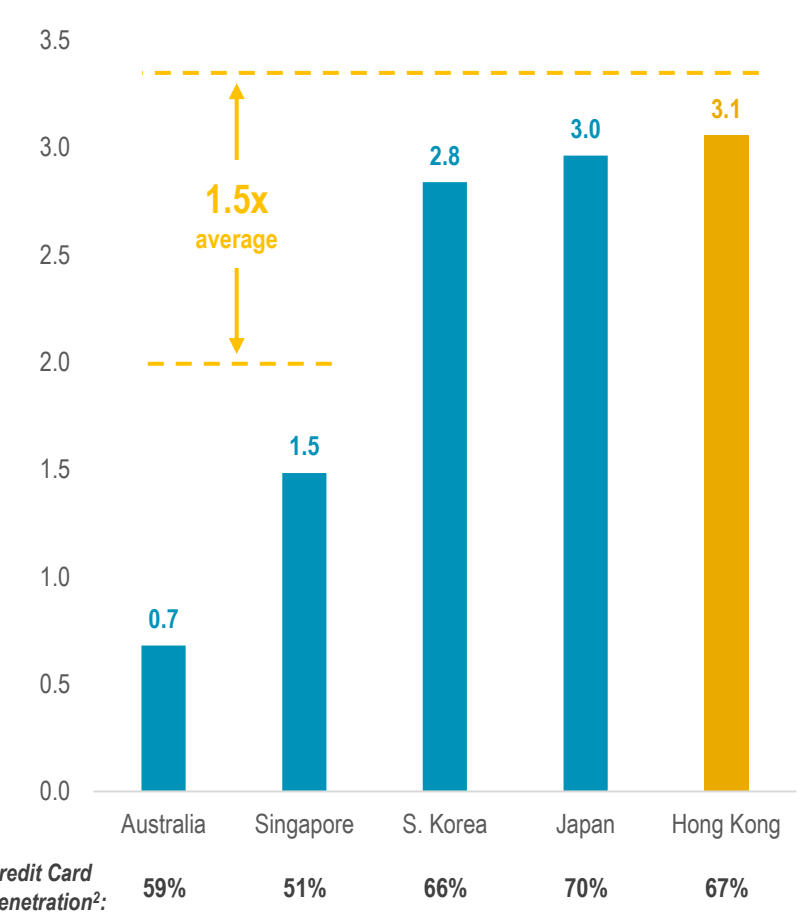
Credit Cards in Circulation (2008 Value = 100)

Indexed, 2008-23E, Developed APAC Markets



Credit Cards Per Adult Population

2023E, Developed Asia Pacific Markets¹



¹Markets selected based on credit card penetration; ²Percentage of the population that holds a credit card

Source: Reserve Bank of Australia, Monetary Authority of Singapore, Bank of Korea, The Japan Credit Consumer Association, Hong Kong Monetary Authority, Worldometer, credit card issuers' websites, Quinlan & Associates analysis

PAIN POINTS (3/5) – UNDERUTILISED

Key Takeaways

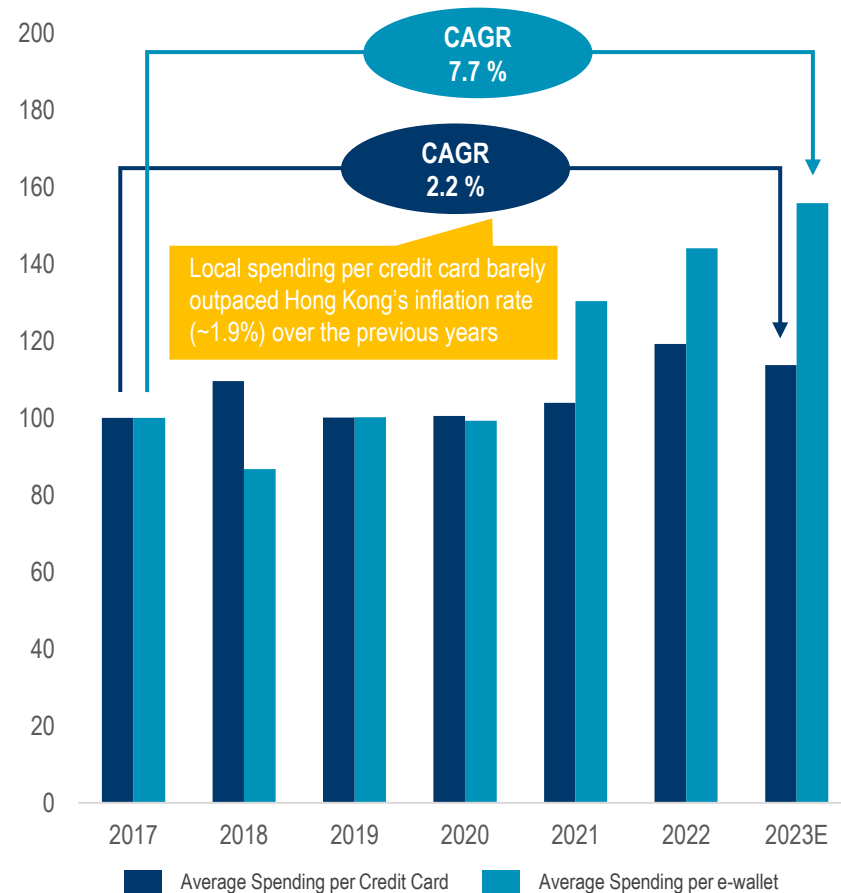
Over the past years, growth in average local spending per credit card in Hong Kong has been somewhat underwhelming, increasing by a CAGR of just 2.2% from 2017-23E (vs. a local inflation rate of ~1.9% over the same period).

Overall monthly transaction value per credit card in Hong Kong remains the second lowest among developed APAC markets at USD 498. Moreover, growth in monthly transaction value per card from 2014-23E (i.e. 57%) also lags all other developed APAC markets, except for South Korea.

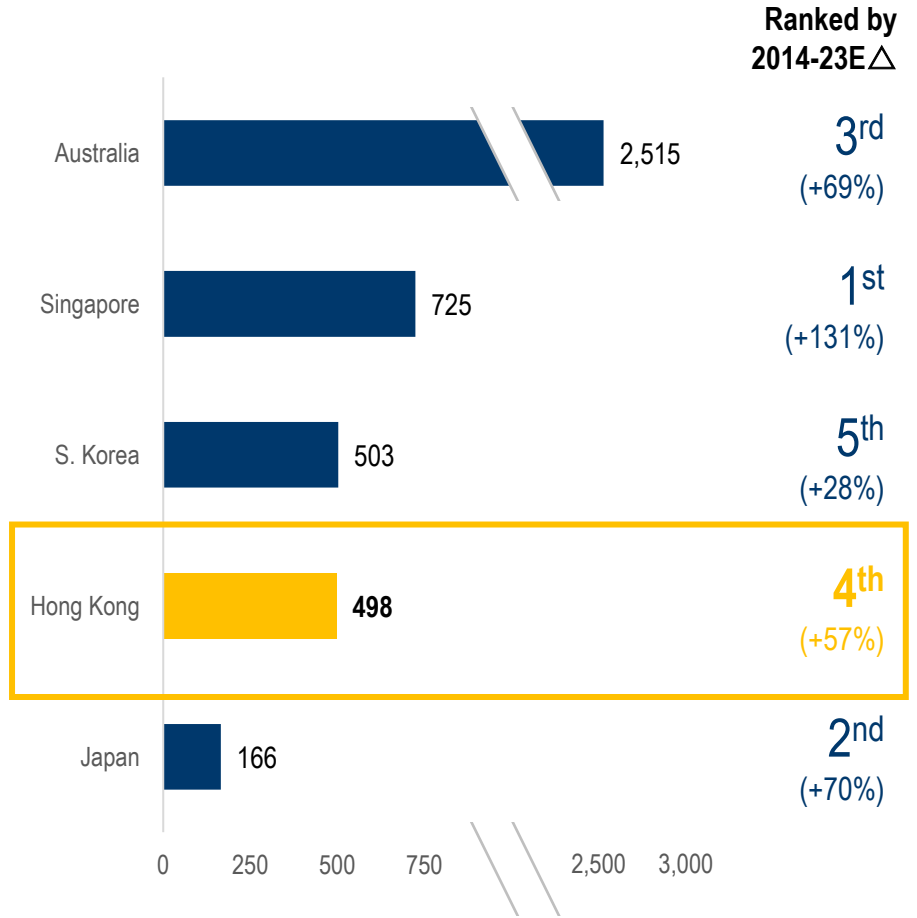
Taken together, on a per-card basis, data indicates that local credit card issuers have yet to activate more meaningful spending activity among local Hong Kong consumers.

Growth in average local spending per credit card has been muted over the past years, while overall monthly transaction value per card lags most other APAC markets

Local Monthly Spending (2017 Value = 100)
Credit Cards vs. e-wallets, Indexed, 2017-23E, Hong Kong



Overall Monthly Transaction Value * per Credit Card
USD, Average Monthly, 2023E, Asia Pacific



*Includes local spending, overseas spending and cashbacks

Source: Reserve Bank of Australia, Monetary Authority of Singapore, Bank of Korea, The Japan Credit Consumer Association, Hong Kong Monetary Authority, Census and Statistics Department, Quinlan & Associates analysis

PAIN POINTS (4/5) – HIGH CHURN

Key Takeaways

From 2019-23, Hong Kong credit cards have been issued at an average rate of ~900k cards annually.

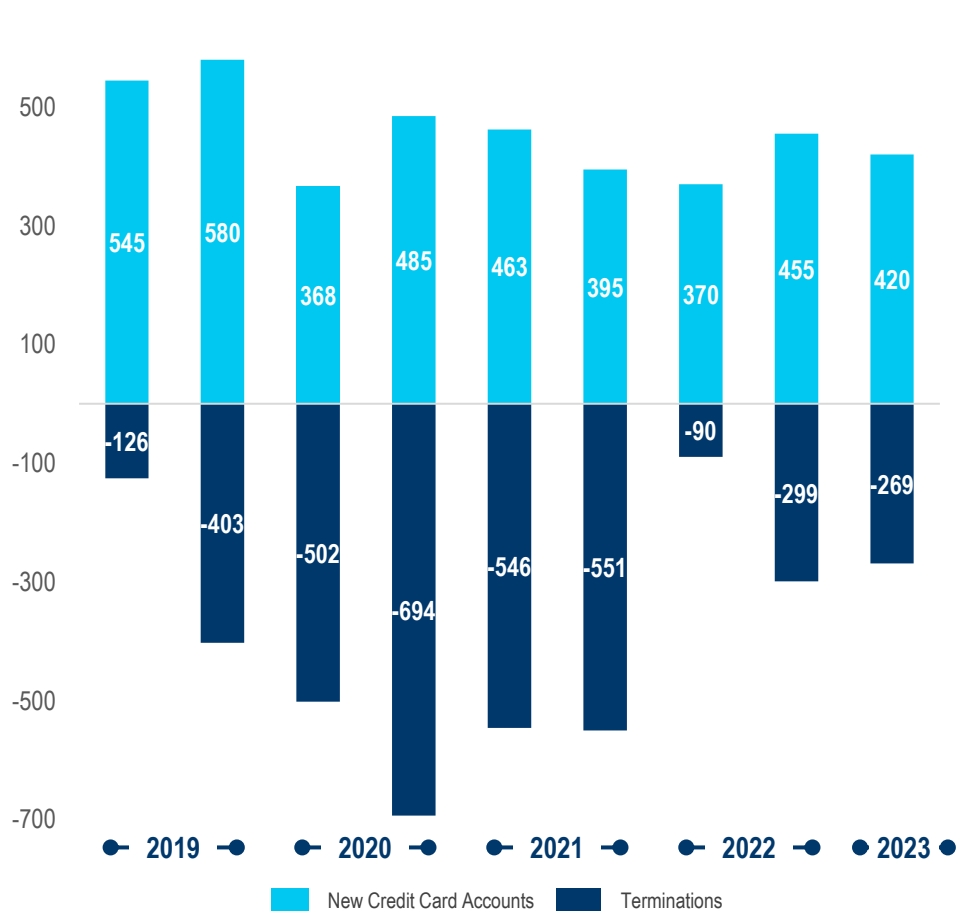
However, over the same period, an average of ~770k cards p.a. were terminated, resulting in an exceptionally high credit card churn rate of ~85%.

The high rate of credit card termination in Hong Kong reflects the oversaturated nature of the market. The merits of cancelling existing credit cards and signing up to new ones are also exacerbated by a heavy focus by issuers on offering attractive welcome promotions for new card products.

Since 2019, ~900k new credit cards have been issued annually in Hong Kong, but this has been offset by ~770k annual terminations (i.e. ~85% of new issuance volume)

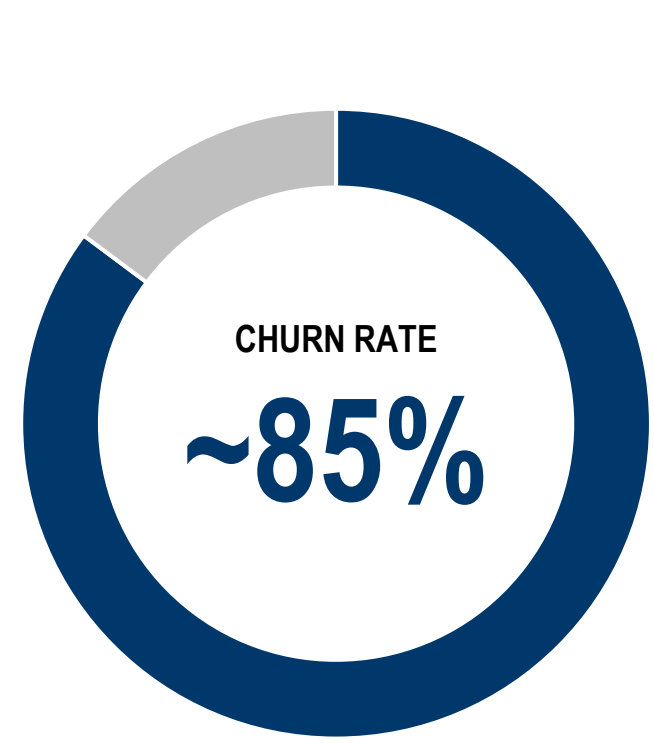
New Credit Card Accounts vs. Credit Card Terminations

000's, H1 2019 - H1 2023, Hong Kong



Credit Card Churn Rate

%, H1 2019 – H1 2023, Hong Kong



PAIN POINTS (5/5) – RESULTING IMPACT

Key Takeaways

The oversaturation of credit cards in Hong Kong, coupled with their underutilisation and high churn rates, has a notable impact on local issuer returns.

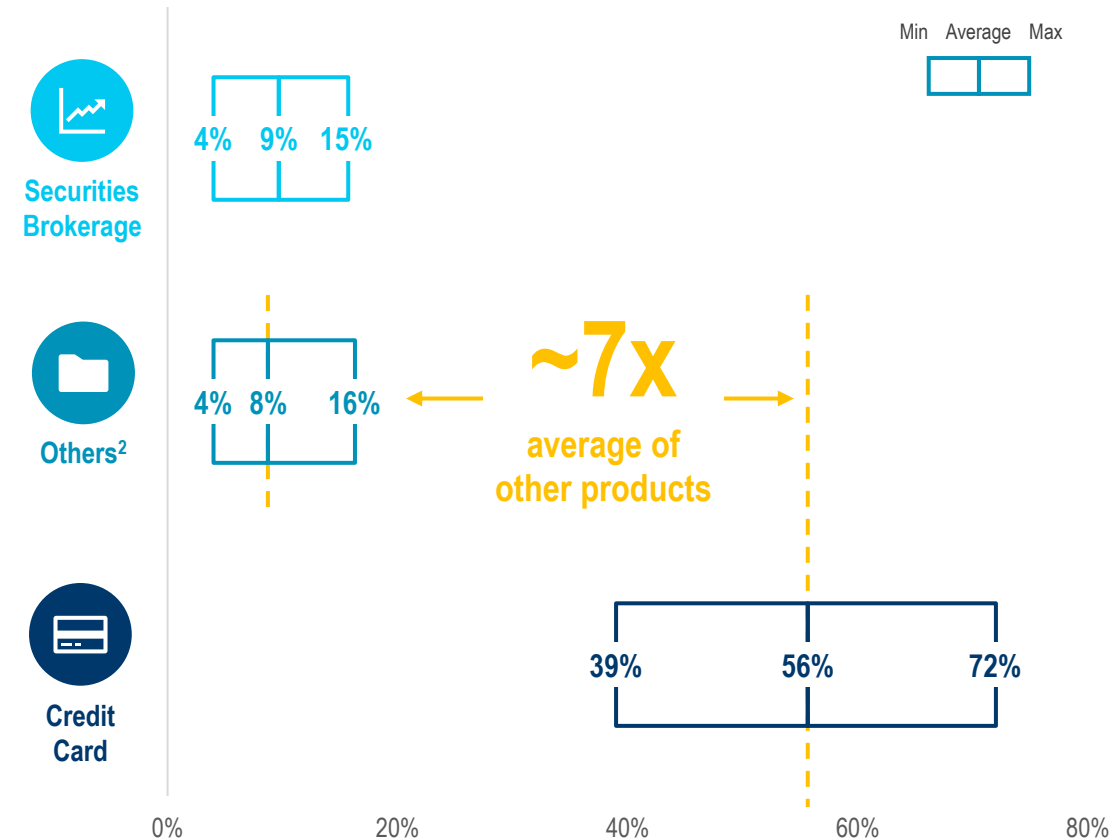
In fact, for banks' credit card businesses, direct expense ratios (fee and commission income only) range between ~40-70%, 6-7x higher than their other business units.

Intense competition among banks for new customers has also led to inflated customer acquisition costs, ranging from ~HKD 700-2,100, with a payback period of ~16 months.

These structural challenges are being reflected in inflated direct expense ratios and payback periods for many local credit card issuers

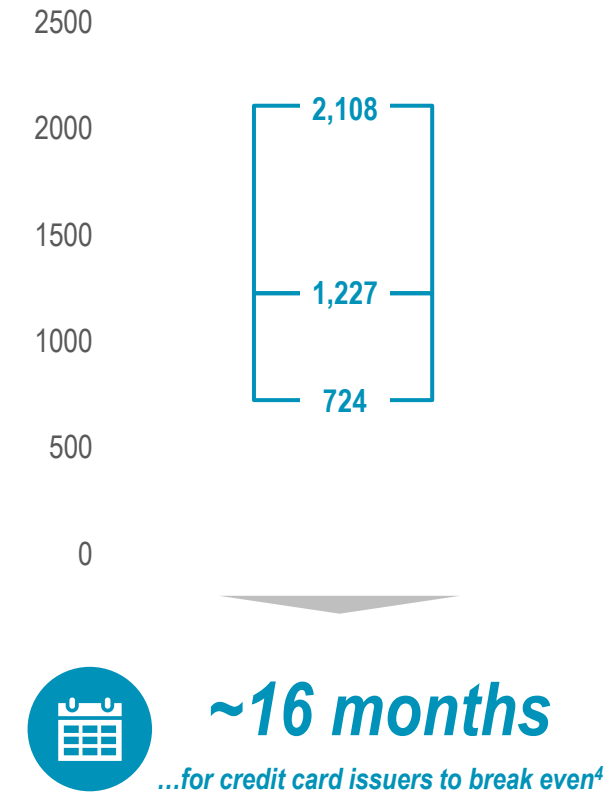
Direct Expense Ratio (Fee and Commission Income)

Credit Card Issuers¹, 2023E, Hong Kong



Credit Card Issuers' CAC³

HKD, 2023E, Hong Kong



¹Only includes HK credit card issuers that report their credit card fee-based expenses, ²Others includes loans, trust and custody services, payment services, insurance, funds distribution, bill commissions, safe deposit box, funds management, etc. ³Customer Acquisition Cost; estimated customer acquisition costs for a single card based on analysis of promotion rewards of major credit card issuers and their marketing campaigns, ⁴Taking into consideration initial CAC and ongoing direct expenses
Source: Credit card issuers' annual reports, Quinlan & Associates analysis

SECTION 3

SOLVING FOR ACTIVATION



KEY BENEFITS OFFERED BY CREDIT CARDS

Key Takeaways

There are four core benefits that credit card issuers offer to consumers to encourage credit card adoption and usage:

1. Benefits & Privileges

Gifts and access to certain memberships / benefits complimentary to card ownership.

2. Reward Programmes

Spending-related programmes that give points redeemable for items / other loyalty programs.

3. Cashbacks & Rebates

Direct rebate of a percentage of the spending ticket size, either through points or cash.









4. Credit Card Deals

Discounts / benefits at partnering merchants, contingent on ticket size and card use.

To drive customer adoption and promote the usage of credit cards, credit card issuers primarily offer four types of user benefits, each with different value propositions

Credit Card Spending Benefits

Hong Kong

SPENDING BENEFITS	DESCRIPTION	EXAMPLES	EXAMPLE CASES
 BENEFITS & PRIVILEGES	Gifts and complimentary / discounted access to memberships	<ul style="list-style-type: none"> Free lounge access Club memberships 	 <p><i>American Express's Platinum Card offers unlimited access to airport lounges</i></p>
 REWARD PROGRAMMES	Spending-related points redeemable for items / other loyalty programs	<ul style="list-style-type: none"> Airline miles Hotel loyalty points 	 <p><i>HSBC's Everymile Card offers transfers to partners at as low as HKD 2 per mile</i></p>
 CASHBACKS & REBATES	Direct cashbacks to consumers as a percentage of spending	<ul style="list-style-type: none"> Cashback on spending Point rewards 	 <p><i>Citibank's Citi Cash Back offers 2% cash rebates on overseas spending & others</i></p>
 CREDIT CARD DEALS	Discount deals at partner merchants, contingent on spending with the card	<ul style="list-style-type: none"> Direct discounts Complimentary gifts 	 <p><i>BOCHK's Cheers Card offers buy one get one free at Mandarin Oriental's Somm</i></p>

CURRENT FOCUS – NEW USER ACQUISITION (1/2)

Key Takeaways

To attract new and existing customers to sign up for new card products, many credit card issuers provide a range of additional sign-up incentives, focused primarily on cashbacks & rebates, reward programmes, and benefits & privileges.

Credit card issuers do not typically offer additional welcome rewards focused on merchant deals, indicating the heavily acquisition-focused nature of credit card issuers' current credit card strategies.

Most credit card issuers adopt cashbacks & rebates, rewards, and benefits & privileges to attract new customers; however, deals are overlooked for acquisition-related promotions

Sign-up Rewards from Major Credit Card Issuers

Current and prior examples, Hong Kong

Gap Offered Not Offered

		MAJOR CREDIT CARD ISSUERS										Examples
		HSBC	滙豐銀行 HANG SENG BANK	中國銀行(香港) BANK OF CHINA	citi	BEA 東亞銀行	ICBC 工銀亞洲	大新銀行 DAR SING BANK	DBS	中國建設銀行(香港) China Construction Bank (HK)		
	CASHBACKS & REBATES Bonus Cashback	✓	✓	✓	✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> HKD 1,000 cash rebate for new credit card holders of HSBC EveryMile Credit Card 	
	REWARD PROGRAMMES Bonus Points / Miles	✓	✓	✓	✓	✓	✗	✓	✓	✗	<ul style="list-style-type: none"> Up to 60,000 Asia Miles for new cardholders of Standard Chartered's Asia Miles Card 	
	Physical Gifts	✗	✗	✓	✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> Marshall speaker worth HKD 1,499 for BOC Cheers sign-up via MoneyHero 	
	Cash Vouchers	✗	✓	✓	✓	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> HKD 1,000 Wellcome Supermarket Voucher for BEA i-Titanium Card 	
	Fee / Requirement Waivers	✓	✓	✓	✓	✓	✓	✓	✓	✗	<ul style="list-style-type: none"> First-year annual fee waiver for DBS Black World Mastercard 	
	Interest-free / discounted Payment Plans	✓	✗	✓	✗	✗	✗	✓	✓	✗	<ul style="list-style-type: none"> First two months as Interest-free Payment Holiday for HSBC EveryMile Credit Card 	
	CREDIT CARD DEALS Bonus Discounts	✗	✗	✗	✗	✗	✗	✗	✗	✗	<ul style="list-style-type: none"> N/A 	

CURRENT FOCUS – NEW USER ACQUISITION (2/2)

Key Takeaways


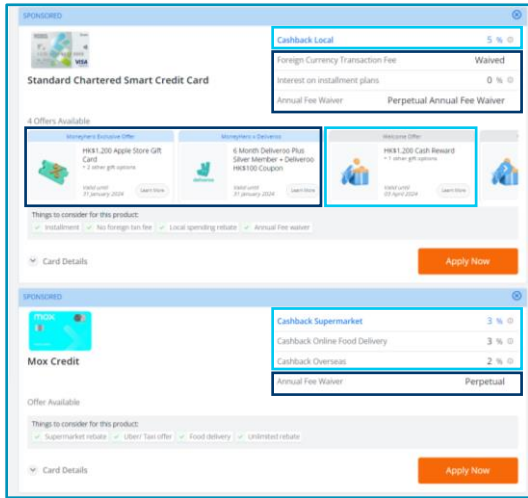
In addition to their own efforts, credit card issuers utilise comparison websites, such as MoneyHero, MoneySmart, and HongKongCard, to promote their card benefits.



While these affiliate channels are highly effective at communicating new card features, the exclusive focus on acquisition means that there is a complete lack of credit card deal mentions.



Credit card issuers also utilise comparison sites to convey their cards' value propositions; while they serve as potent acquisition channels, no focus is given to merchant deals

Major Third-party Comparison Sites for Credit Cards Hong Kong

Cashbacks & Rebates
 Reward Programmes
 Benefits & Privileges

Emphasis on third-party comparison sites is on...



CASHBACKS & REBATES



REWARD PROGRAMMES



BENEFITS & PRIVILEGES



CREDIT CARD DEALS

IMPORTANCE OF DEALS FOR ACTIVATION (1/2)

Key Takeaways

Most of the features promoted by local credit card issuers are centred around driving customer acquisition vs. card activation.













Benefits & Privileges are highly effective in driving card acquisition but have little impact on promoting card spending. Reward Programmes and Cashbacks & Rebates, on the other hand, can help activate some spending, but they fall short of encouraging customers to change their spending patterns, especially if the reward / cashback conditions are not merchant-specific.

Credit card deals, on the other hand, have a strong ability to influence consumer transaction behaviour, delivering an outsized impact on card spending. And it is card spending that remains critical in driving revenues for credit card issuers (both fee-based and interest income).

We believe many credit card issuers are missing a large opportunity to capitalise on credit card deals, which have an outsized impact on card activation vs. other benefits offered

Credit Card Spending Benefits and Impact

Hong Kong

SPENDING BENEFITS	PROMOTIONAL EFFORTS BY CREDIT CARD ISSUERS*	IMPACT ON CARD SPENDING	DESCRIPTION
 BENEFITS & PRIVILEGES			Benefits such as free lounge access have a minimal impact on merchant spending due to the lack of a link between the two
 REWARD PROGRAMMES			Loyalty programs offer more flexibility in terms of rewards but show less tangible value in terms of encouraging spending
 CASHBACKS & REBATES			Cashbacks and rebates reduce the cost of purchase and in turn, can help promote more spending per transaction
 CREDIT CARD DEALS			Credit card deals are highly effective in driving customer spending at their preferred merchants

*Based on credit card issuers' sign-up rewards, native social media post content, and third-party comparison site mentions
Source: Major credit card issuers' websites and social media, third-party comparison sites, Quinlan & Associates analysis

IMPORTANCE OF DEALS FOR ACTIVATION (2/2)

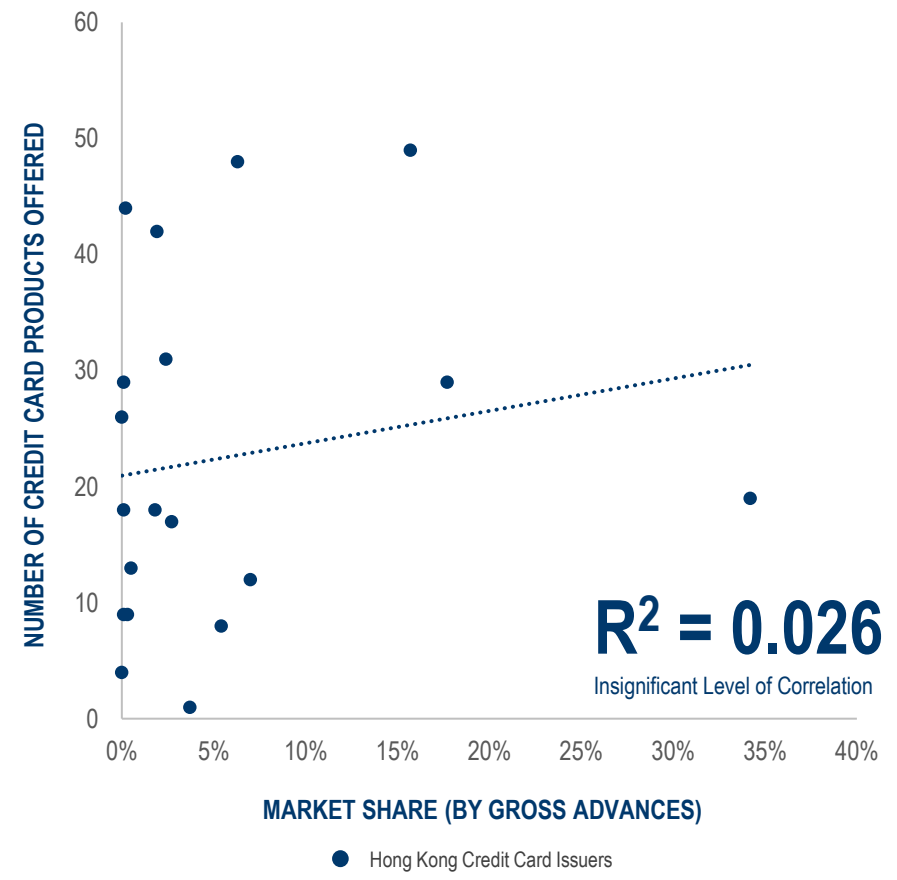
Key Takeaways

The correlation between the number of credit card products offered by issuers and their market share (by gross advances) remains insignificant, indicating that ongoing efforts by local issuers to continually launch new cards has had little-to-no impact on their market share.

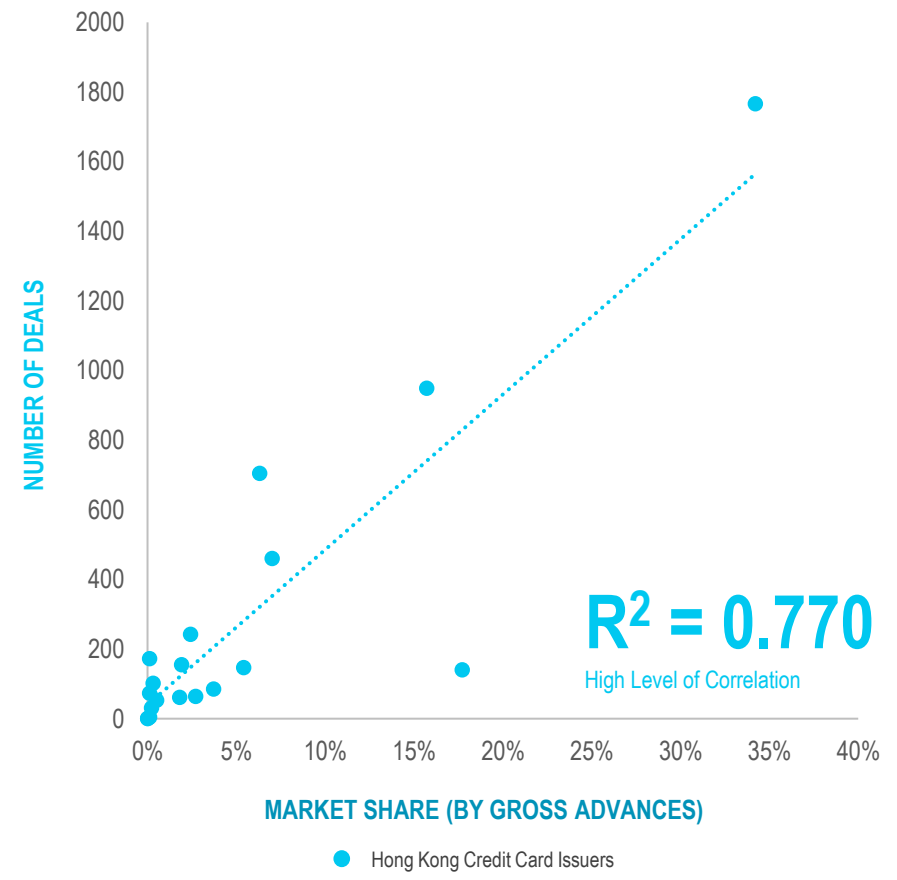
However, there is a high degree of correlation between the number of deals offered by credit card issuers and their market share (by gross advances).

Data clearly indicates that a strategy focused on driving credit card deals (vs. continually launching new credit cards) has a high correlation with issuer market share

Correlation between Market Share¹ and Credit Card Products Offered %, 2023



Correlation between Market Share and Number of Deals %, 2023



¹In terms of gross advances, excluding American Express and Prime Credit due to lack of disclosure
Source: Credit card issuers' annual reports, krip, Quinlan & Associates analysis

POTENTIAL UPLIFT IN ISSUER REVENUES

Key Takeaways

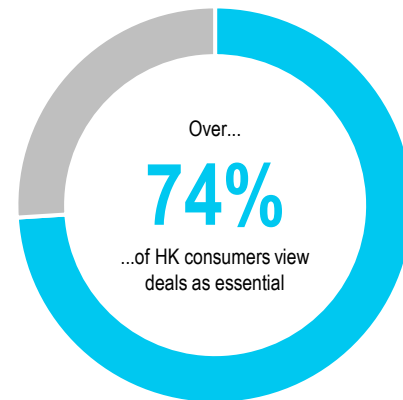
74% of Hong Kong consumers view credit card deals as essential, seeing them as the second most important factor when choosing a credit card.

We estimate that Hong Kong credit card issuers can unlock an additional HKD 66 billion in retail spending by fully utilising credit card deals with their current card users.

This increase in spending translates to an additional HKD 2.9 billion in revenues for credit card issuers (~HKD 2,102 million in fee-based income and ~HKD 769 million in interest income).

We estimate credit card issuers have the potential to unlock up to HKD 2.9 billion p.a. in incremental credit card revenues from improving activation on their current merchant deals

Consumers' View of Credit Cards Deals
%, 2023

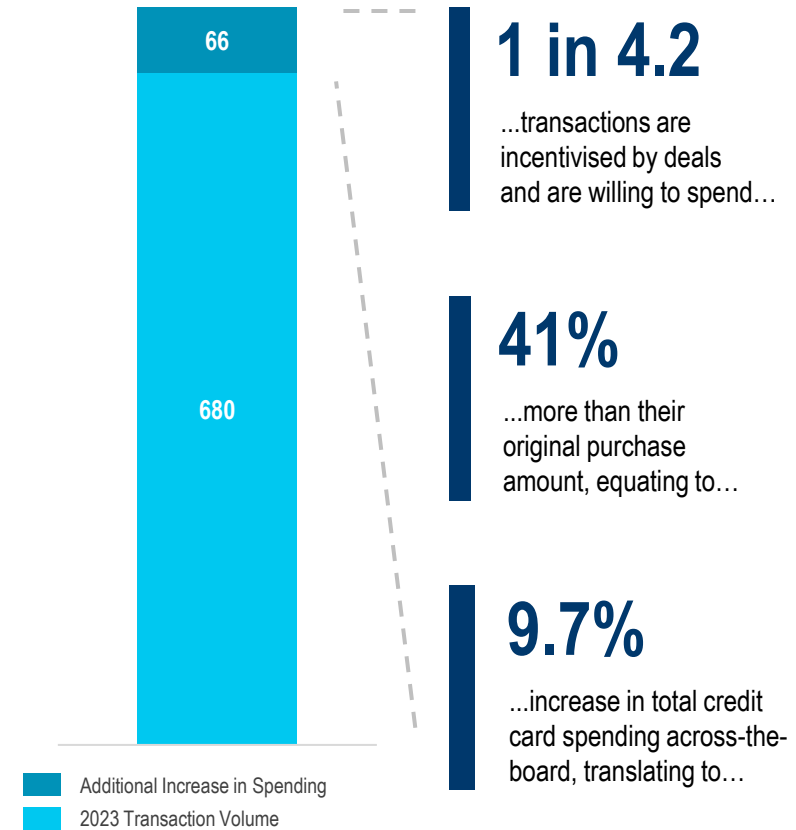


For Hong Kong consumers, credit card deals are the...

2nd

...most important¹ factor when choosing a credit card

Effect of Deals on Credit Card Spending
HKD Bn, 2023E, Hong Kong



HKD 2.9bn

..in incremental annual credit card revenues

¹36% of consumers chose credit card deals, compared with 44% for cashback, 10% for mileage and 9.5% for points
Source: Hong Kong Monetary Authority, krip survey, Quinlan & Associates estimates

SECTION 4

KEY CHALLENGES



KEY CHALLENGES (1/5) – OVERVIEW

Key Takeaways

To drive the activation of customer spending potential using merchant deals, credit card issuers need to tackle several frictions across the spending funnel:

1. Awareness

Lack of general deal awareness, including an absence of deal prioritisation and effective communication by credit card issuers, means many merchant deals are hard to find.

2. Consideration

Lack of proximity between communication channels and the Points of Sale (“POS”) impacts the activation of consumer spending.

3. Usage

Obstacles within deal usage, including the lack of clarity around the actual use of deals (e.g., complicated T&Cs), reduce their value-add to credit card users, with many merchant deals being completely overlooked.

Many local credit card issuers are not taking full advantage of merchant deals to boost credit card spending (and revenues), a function of frictions across the spending funnel

Credit Card Deal Usage Funnel & Major Challenges Hong Kong



AWARENESS

Credit card users have limited knowledge of available deals due to a lack of deal prioritisation and effective communication from credit card issuers

- Although more than 6,200 merchant deals are currently on offer in the market, less than 40% of consumers are aware of their credit card deals in general, with only 5% of deals on offer remaining known
- Contributing to this lack of awareness, credit card issuers do not actively promote their deals. And when they do, digital engagement channels are failing to deliver



CONSIDERATION

The lack of proximity between communication channels and consumer Points of Sale (POS) fails to spur spending activity

- Many credit card issuers focus on conveying their merchant deals to their customers via channels that are not proximate to the POS, which creates challenges around activating consumer spending
- Tent cards placed at partner merchants’ store locations are the channel closest to the POS. However, they are often overlooked by customers due to merchants’ neglect



USAGE

Usage restrictions and unclear terms and conditions prevent credit card issuers from fully capitalising on the benefits offered by deals

- Many frictions associated with the usage of deals stem from the limitations that are attached to them, limiting value-add for customers and discouraging repeat use
- Complicated terms and conditions attached to merchant deals are a frequent source of confusion and frustration for customers, leading them to misinterpret or even overlook deals entirely

KEY CHALLENGES (2/5) – LOW DEAL AWARENESS

Key Takeaways

As of the end of 2023, over 6,200 deals from more than 2,500 merchants were being offered by local credit card issuers in Hong Kong.

Despite their prevalence, most of these deals go unnoticed. In fact, less than 40% of customers are aware of deals on their current card, with only 5% of deals being known.

Most credit card issuers' websites offer a relatively clunky UX. While most provide a list of their deals with some form of categorisation, the absence of search capabilities prevents users from easily finding deal information for specific merchants of interest, hampering activation.

Personalised recommendations of deals based on the cards a user has, or their spending behaviour, are almost non-existent, significantly weighing on activation.

Although local credit card issuers offer thousands of deals, consumer awareness remains poor, partially caused by the lacklustre presentation of deals on issuers' digital channels

Customer's Awareness Credit Card Deals

2023, Hong Kong



BUT...



Website Presentation of Deals

Major Credit Card Issuers, Hong Kong

	Listing List out all the deals on one page	Categorisation Categorise based on the nature of deals	Search Search the deals by keywords	Personalisation Recommendation of relevant deals
HSBC	✓	✓	✗	-
恒生銀行 HANG SENG BANK	✓	✓	✗	✗
中國銀行(香港) BANK OF CHINA (HONG KONG)	✓	✓	✗	✗
citibank	✓	✓	✓	✗
BEA 東亞銀行	✓	✓	✗	✗
ICBC 工銀亞洲	✓	✗	✗	✗
大新銀行 DAH SING BANK	✓	✓	✗	✗
DBS	✓	✓	✓	✗
中國建設銀行(香港) China Construction Bank (Hong Kong)	✓	✓	✗	✗

✓ Available
 - Partially Available
 ✗ Not Available
 Gap

Long lists easily confuse users on deal details
Clear organisation facilitates higher deal awareness
Lack of a search function impacts the discovery of deals
Awareness is hindered by the absence of personalisation

*HSBC offers the search function on its Reward+ App
 Source: Credit card issuers' websites and apps, krip Survey, Quinlan & Associates analysis

KEY CHALLENGES (3/5) – LOW DEAL AWARENESS

Key Takeaways

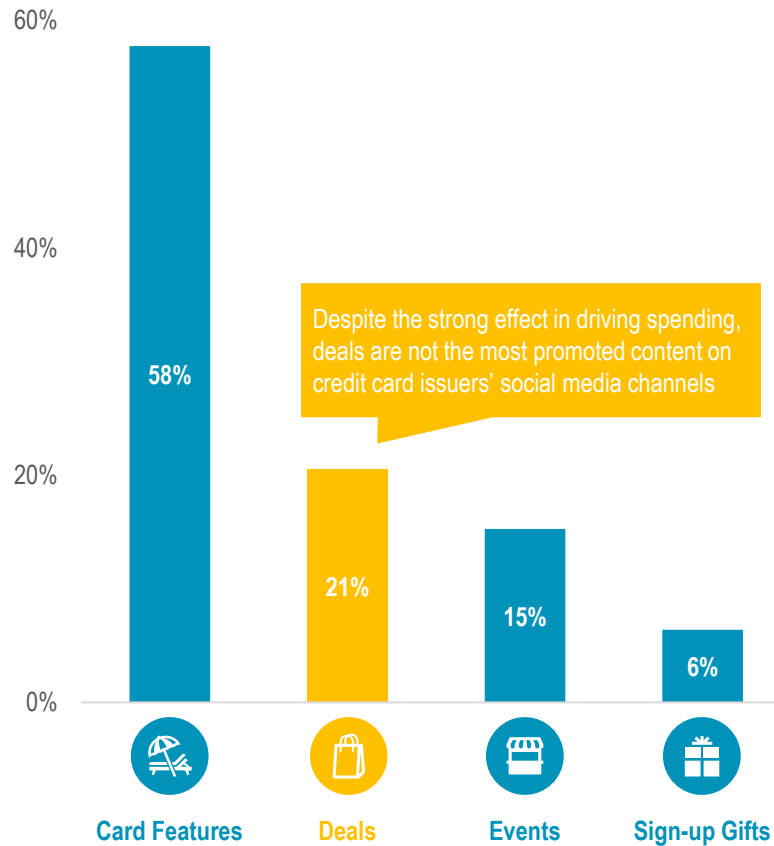
Credit card issuers put deals in somewhat of a backseat in terms of their social media content focus, with many choosing to prioritise the promotion of card features (especially to drive new card acquisition).

Credit card issuers' social media engagement rates for credit card-focused content also lag industry averages by a considerable margin, suggesting significant scope to deliver more targeted marketing content.

Credit card issuers prioritise the promotion of card features on their social media channels, with social media engagement rates trailing industry averages by a considerable margin

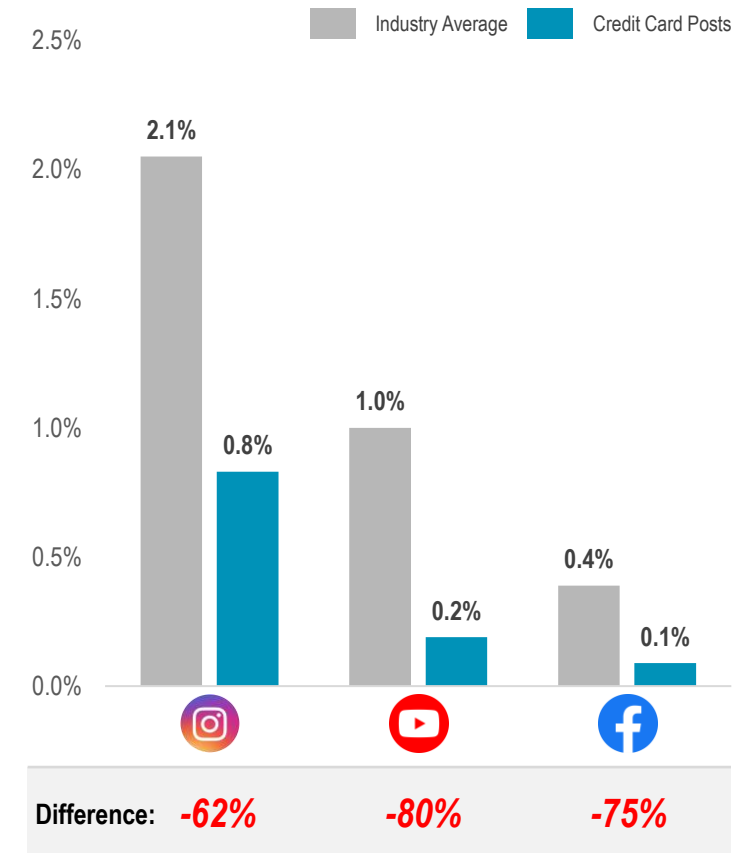
Major Credit Card Issuers' Social Media Content Focus¹

Hong Kong



Social Media Average Engagement Rate²

Major Credit Card Issuers, Hong Kong



¹Based on recent 20 Instagram posts on credit cards from major credit card issuers. ²Engagement rate = number of likes / number of followers
Source: Credit card issuers social media accounts, Hootsuite, Social Status, Quinlan & Associates analysis

KEY CHALLENGES (4/5) – DEAL CONSIDERATION

Key Takeaways

Most credit card issuers convey merchant deal information to their customers via a mix of channels. However, many of these channels are not proximate to the POS, such as billboards / posters, direct messaging, and issuer apps.

We see considerable scope for credit card issuers to further explore offering their deals through smarter tie-ups with third-party consumer applications and partner merchants, bringing them much closer to the POS and, hence, the activation of spending behaviour.

Credit card issuers convey credit card deals to customers via a mix of channels, many of which are far from the point of sale and hence fail to effectively trigger spending activity

Other Channels for Deals Promotion

Hong Kong

Low High

	CURRENT FOCUS			OPTIMISATION OPPORTUNITIES	
	GENERAL AD PLACEMENTS	DIRECT MESSAGING	ISSUER'S APP	AGGREGATED RETAIL PLATFORMS	PARTNER MERCHANT
Examples	<ul style="list-style-type: none"> • Billboards • Posters 	<ul style="list-style-type: none"> • Email • SMS 	<ul style="list-style-type: none"> • Credit Card Mobile App • Mobile Banking App 	<ul style="list-style-type: none"> • OpenRice • Klook 	<ul style="list-style-type: none"> • Supermarkets • Restaurants
Proximity to POS	<p>Ad placements primarily target areas of high foot traffic, rather than prioritising distance to POS</p>	<p>Most outreach emails and SMS messages are sent at times independent of user spending</p>	<p>Users have little, if any, interaction with credit card issuers' apps when spending</p>	<p>Deals are embedded within the purchase journey to drive spending behaviour</p>	<p>Information at the POS drives deal usage as the value-add is instantaneous</p>
Effectiveness at Driving Spending	<p>General ads work mainly on mindshare and have less impact on driving direct spending</p>	<p>Customers may reject / ignore messages, making it difficult to trigger immediate spending</p>	<p>Issuer apps are not involved in consumers' actual shopping experiences</p>	<p>Third-party app promotion placement can be highly proximate to spending</p>	<p>Communicating through partners brings engagement to the final point of purchase</p>

Despite being the closest channel to the POS, tent cards placed at partner merchants' locations are often ignored by customers due to the merchants' lack of attention to their placement and visibility

KEY CHALLENGES (5/5) – USAGE FRICTION

Key Takeaways

A variety of limitations are attached to many credit card deals offered by credit card issuers. While not a problem in and of itself, the presentation of these limitations can create challenges for users in understanding the value-add of deals.

Many credit card issuers present the terms and conditions of merchant deals in a manner that can be difficult to notice, especially when compared to the advertised discount.

This may lead customers to inadvertently overlook certain deal limitations and become frustrated at the point of sale (i.e. when they realise that they are unable to use the deal).

Poor presentation of a plethora of merchant deal limitations reduces credit card users' perception of the deal value and decreases the probability of repeat usage

Example Deal's Terms & Conditions

Hong Kong

八月花
Jasmine

- 20% off of designated set dinner menu for 4 persons (original price HKD1,110)





Remark: ^

Offer is only applicable for dine-in consumption (not applicable to personal / business parties of 30 persons or more and takeaways) • 10% service charge (based on the special price), tea charge and pre-meal snack charge apply • Only one set menu can be used per table each time • Advanced reservation is required, customers are required to inform using the designaed credit card upon booking and customers are required to present the Hang Seng credit card for purchasing • Offer cannot be used in conjunction with other Promotion offers, discounted items, fixed-priced items, vouchers, coupons, VIP card, VIP point program and membership offer • Offer is not applicable to fixed-price dishes, special set menus, banquets, wedding banquets, conferences, halls and private rooms • Offer is not applicable on 1, 15 to 27 January, 14 February, 1, 6 to 7 and 13 to 14 May, 10 to 11 and 17 to 18 June, 1 July, 23 to 24 and 29 to 30 September, 1 October, 9 to 10, 16 to 17, 21 to 25 and 31 December 2023 • Please contact the merchant for details.

Time
 Non-%
 Gateway
 Space


Deal Limitations

2023 End, Hong Kong


Type	Example	% of Deals
 Time	<ul style="list-style-type: none"> Date limitations Hours limitations 	<ul style="list-style-type: none"> Usage on weekdays No public holidays <p>33%</p>
 Non-%	<ul style="list-style-type: none"> Non-percentage-driven deals 	<ul style="list-style-type: none"> Free gifts for spending Buy one get one <p>31%</p>
 Gateway	<ul style="list-style-type: none"> Quota restrictions Upfront preparation 	<ul style="list-style-type: none"> Only 1,000 quotas Discount code input <p>22%</p>
 Space	<ul style="list-style-type: none"> Offline / online usage Consumption method 	<ul style="list-style-type: none"> Only specific stores Only pick-up order <p>17%</p>

Potential Usage Frictions


Example Deal

 **BEFORE USAGE**

Difficulty in Understanding
Customers and merchants may neglect – or be reluctant to finish reading – detailed terms and conditions attached to the deal

 **DURING USAGE**

Frustration at Point of Sale
Customers may be frustrated if they are unable to use the deal due to their or the merchants' misunderstanding of the terms and conditions

 **AFTER USAGE**

Loss in Repeated Usage
Customers who face excessive friction or dissatisfaction with past deals will be hesitant to attempt repeated usage



SECTION 5

THE WAY FORWARD

QUINLAN
& ASSOCIATES

POINTS FOR CONSIDERATION

Key Takeaways





Our team can assist credit card issuers in developing tailored credit card activation strategies that align with each issuer's specific needs and resources, including:

1. Identify Relevant Deals
2. Select Target Merchants
3. Choose Merchant Partnership Model(s)
4. Personalise Deals for Customers
5. Position Deals in the Consumption Cycle
6. Minimise Usage Frictions

We can assist credit card issuers to develop customised strategies that can enhance card activation (i.e. consumer spending) to drive revenues

Key Steps

Tailored Strategy Formulation

APPROACH	DESCRIPTION	EXAMPLES
STEP 1	 IDENTIFY RELEVANT DEALS Determine the preferred categories of deals that resonate with customers to drive credit card usage, benchmarked against key competitors	<ul style="list-style-type: none"> • Electronics • Restaurants • Supermarkets
STEP 2	 SELECT TARGET MERCHANTS Identify customer-preferred merchants as target merchant partners for co-development of deals	<ul style="list-style-type: none"> • MX • Wellcome • Fortress
STEP 3	 CHOOSE MERCHANT PARTNERSHIP MODEL(S) Select an appropriate merchant partnership model for each segment, considering the balance between cost effectiveness and scalability	<ul style="list-style-type: none"> • Internal merchant operations team • External sales agent • Third-party merchant acquirers
STEP 4	 PERSONALISE DEALS FOR CUSTOMERS Customise the visibility of deals for each customer based on their preferences and consumption behaviours, enhancing their awareness of relevant deals	<ul style="list-style-type: none"> • Search function • Push of deals based on cards held • Push of deals based on consumption record
STEP 5	 POSITION DEALS IN THE CONSUMPTION CYCLE Position deals at the optimal stage of the customers' consumption cycle to maximise their effectiveness	<ul style="list-style-type: none"> • Placement on deal aggregation sites • Placement at partner merchants' POS • Embedding into aggregated retail platforms
STEP 6	 MINIMISE USAGE FRICTIONS Streamline deals usage experience, ensuring customers have a clear understanding of terms and conditions, fostering repeat usage	<ul style="list-style-type: none"> • Simplify complex terms • Visualise key terms • Remove unnecessary terms

QUINLAN & ASSOCIATES

STRATEGY WITH A DIFFERENCE

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