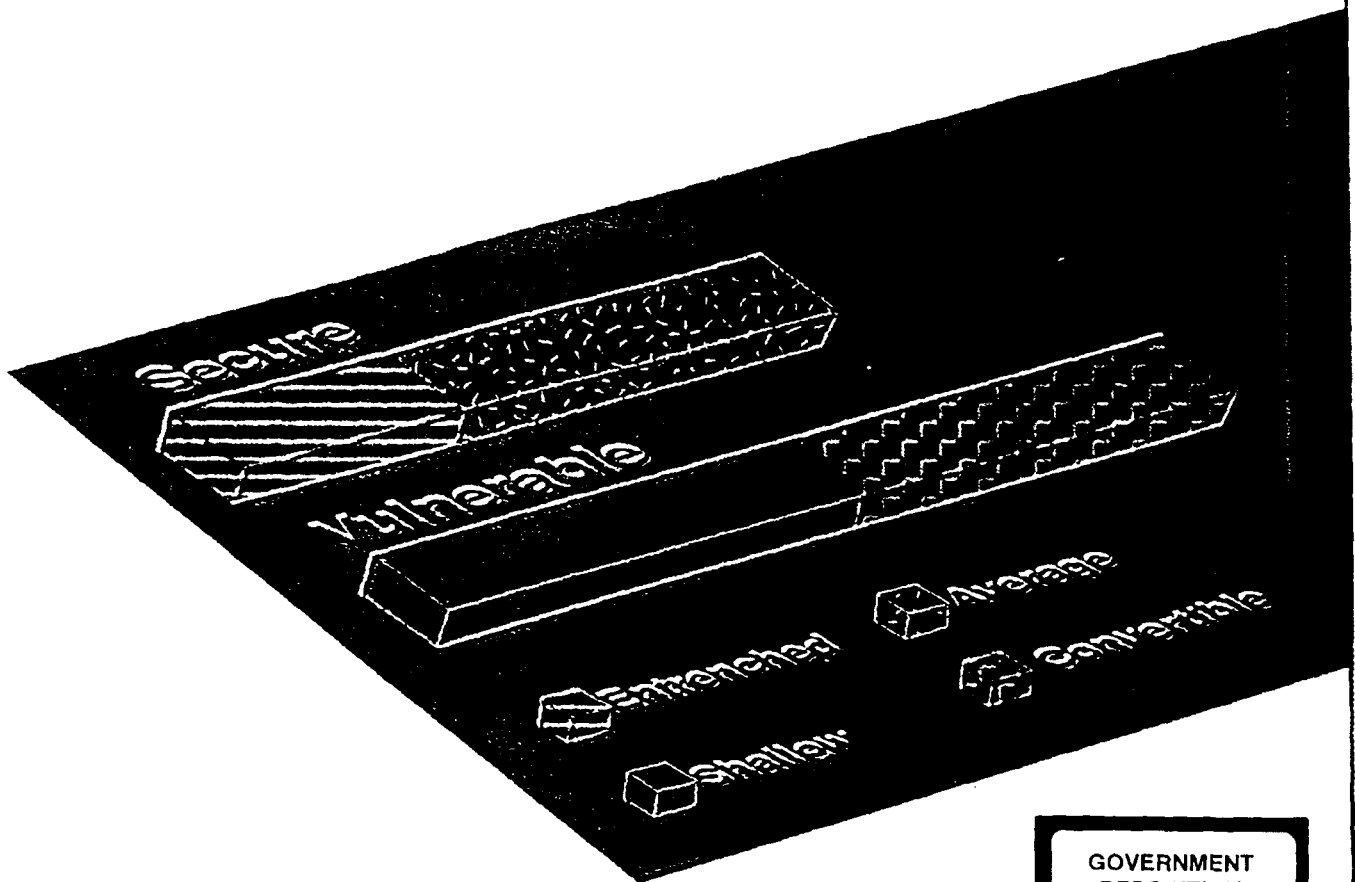


VISA

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CREDIT CARD COMMITMENT RESEARCH

A Visa Member Report



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Visa U.S.A. Inc. 1998

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Executive Summary

Today, consumers can choose from among many different types of credit cards, such as rewards cards, no-fee cards, and low introductory rate cards. Obtaining a credit card involves little expense, low risk, and minimal effort; as a result, more consumers are acquiring more cards, using more cards, and retaining more inactive cards. In this market environment, it is vital to have a good understanding of how customer commitment to credit cards can affect Issuer profitability.

This report describes the findings of a Visa consumer research project conducted in the summer of 1997 to study credit card commitment, meaning the extent to which the consumer feels a loyalty to holding a card and the propensity to use it, and how this impacts Visa Members.

A mail survey was conducted with consumers who hold one or more general purpose cards. The survey questionnaire focused on all general purpose cards held in wallet. For each card held a detailed battery of questions addressed card features, card usage, card attitudes, and factors which impacted acquisition and usage.

The data provided by the respondents was analyzed using Market Facts' Conversion Model™. The Conversion Model™ classifies credit cards into four separate groups based on a cardholder's commitment to using that card:

- **"Entrenched"** refers to cards that consumers are the most committed and loyal to. Consumers who own these cards are unlikely to change to other cards in the foreseeable future.
- **"Average"** refers to cards in the second most-committed-to category. Consumers are satisfied with these cards and unlikely to change their use of these cards.
- **"Shallow"** refers to cards that consumers are less committed to. Though not ready to switch to another card, these consumers may be considering other alternatives.
- **"Convertible"** refers to cards that consumers are the least committed to. Consumers who own these cards are likely to alter their use of these cards at any time.

Cards classified as "entrenched" or "average" are **"secure"** and are likely to be retained by consumers. Cards classified as "shallow" or "convertible" are **"vulnerable"** and are likely to be at risk for attrition.

R RESEARCH
METHODODOLOGY

Satisfaction Versus Commitment

- Satisfaction does not guarantee commitment.
- One-third of credit cards rated highly satisfactory by card holders were deemed at risk for diminished or cessation of use, illustrating a significant difference between “customer satisfaction” and “customer commitment.”

Credit Card Commitment

- Overall, 37 percent of cards were “secure,” 63 percent were “vulnerable,” and one-third were “convertible” or at risk for attrition. This strongly suggests that commitment to credit cards is not high.
- Compared to other products and services, consumers expressed greater commitment to financial institutions, for example, than to credit cards (probably because of the difficulty and inconvenience of switching financial institutions). Credit card commitment levels were found to be average compared to other product categories in which the Conversion Model™ has been applied.
- For general purpose cards, the two most significant commitment drivers were the perception of excellent customer service and the perception of unique card features and benefits. Other factors affecting commitment levels included existing relationships or accounts with the Issuer, low ongoing APR, and joint versus individual account.

Revolving Versus Transacting Cards

- Survey participants were less committed to “revolving” cards—cards on which they carry balances, compared to “transacting” cards—cards on which they do not carry balances.
- Transacting cards are more likely held by older consumers, who show more inertia in changing usage patterns and who are holders of co-brand or rewards cards.
- For revolving cards, commitment was driven by a number of factors including perceptions of excellent customer service, unique card features and benefits, and other relationships or accounts with the Issuer. Other commitment drivers included card brand, low ongoing APR, and length of card ownership.
- For transacting cards, the perception of excellent customer service was the dominant commitment driver. Some commitment influence was driven by perception of unique benefits and features offered by the card.

Co-branded Versus Non-co-branded Cards

- Commitment to co-branded cards was no greater than commitment to general purpose cards, although among co-branded card owners co-branded cards had higher levels of commitment than non-co-branded cards.
- Among co-branded card owners, card commitment was largely driven by two factors, the perception of excellent customer service and other relationships or accounts with the Issuer (which the consumer often believes is the co-brand partner).
- For non-co-branded cards owned by co-branded cardholders, the primary commitment driver was whether the account was a joint account.

A cardholder who is more committed to a particular card is more likely to keep that card and use it. Thus, greater commitment contributes to a more profitable cardholder base while decreasing the Issuer's portfolio replacement costs.

For all credit card types, the top three drivers of credit card commitment—the perception of excellent customer service, the perception of unique card features and benefits, and other relationships or accounts—are factors that Issuers can directly influence and customize to accommodate their individual portfolios.

KEY RESEARCH FINDINGS

C ONCLUSIONS

For More Information

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Introduction

Dramatic changes have taken place in the credit card marketplace in recent years. The variety of product offerings has increased dramatically; consumers can now choose from many different types of cards, including rewards cards, no-fee cards, and low-introductory-rate cards. Even more important, obtaining and using a credit card involves little cost, risk, or effort and, as a result, consumers are acquiring and using more cards and retaining more inactive cards.

THE IMPORTANCE OF CUSTOMER COMMITMENT

In this market, Issuers need a good understanding of why cardholders are committed to certain credit cards since research shows that customer commitment is directly related to payment card program profitability. A consumer who is more committed to a particular card is more likely to keep that card and use it—contributing to a more profitable customer base because portfolio replacement costs are reduced.

What is customer commitment? To begin with, it is not the same as customer satisfaction. Customers might say, for example, that they are satisfied with a given product or service if their basic needs are being met. But those same customers might not be committed to keeping that product or service if an option perceived as better comes along.

Commitment involves two components. First, commitment involves a psychological bond with a product or service, which is also known as loyalty. Second, commitment includes a behavioral response (i.e., product usage). Commitment means the customer has an emotional attachment to the product or service and the customer uses the product or service.

Research Objectives and Methodology

What does commitment to a credit card mean? Visa conducted research in the summer of 1997 to answer this question. This report presents key findings from that study.

In the summer of 1997, Visa conducted a market research study to determine how consumer commitment affects usage of credit cards, and what drives commitment. A mail survey was conducted among 925 general purpose cardholders in the 21-64 age group with household incomes of \$20,000 or more. Half of the respondents were male and the other half female.

The Market Facts' Conversion Model™, which has been used and validated in a number of industries for a number of products and services, was used for this research. Using the Conversion Model™, consumers' credit cards were classified into four commitment groups based on the consumer's answers to a series of questions about each credit card they own and use. These questions included an overall favorability rating, reasons to continue using a card, actual card usage, openness to new offers, and involvement in credit card acquisition and usage decisions.

MARKET FACTS'
CONVERSION
MODEL™

The four commitment groups in the Conversion Model™ are:

- **"Entrenched"** refers to cards that consumers are the most committed and loyal to. Consumers who own these cards are unlikely to change to other cards in the foreseeable future.
- **"Average"** refers to cards in the second most-committed-to category. Consumers are satisfied with these cards and unlikely to change in the near future.
- **"Shallow"** refers to cards that consumers are less committed to. Though not ready to switch to another card, these consumers may be considering other alternatives.
- **"Convertible"** refers to cards that consumers are the least committed to. Consumers who own these cards are likely to alter their use of these cards at any time.

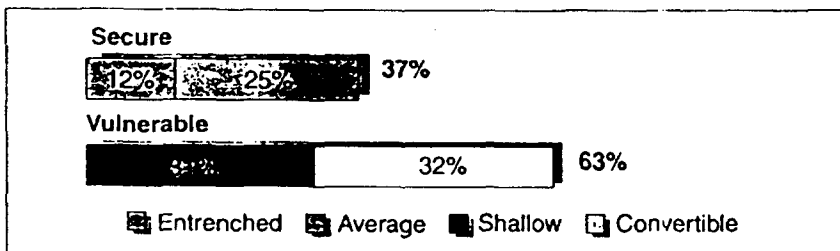
Cards in the "entrenched" and "average" commitment groups are **"secure"** and are more likely to be retained by consumers. "Shallow" and "convertible" cards are **"vulnerable"** and are likely to be at risk for attrition.

Research Findings

This research sheds important light on the relationship between customer satisfaction and commitment. Consumers were first asked how satisfied they were with each credit card they owned. Interestingly, one-third of the cardholders who said they were highly satisfied with their credit cards were classified in the Conversion Model™ as “vulnerable” or at risk for attrition—clearly illustrating that satisfaction does not guarantee commitment.

In terms of credit card commitment levels among survey participants, 37 percent of the cards were “secure,” while 63 percent were “vulnerable” with one-third “convertible” or at risk for attrition—illustrating that commitment to credit cards is not high. In terms of commitment to other products and services, consumers express a much higher level of commitment to banks, for example, than to credit cards (probably because of the difficulty and inconvenience of switching financial institutions). Credit card commitment levels are about average for other products and services analyzed with the Conversion Model™.

Commitment to Credit Cards



To identify the factors that drive credit card commitment, this research explored various factors that might be related to commitment, such as:

- Was commitment influenced by whether the card was carrying a balance (“revolving”) or not carrying a balance (“transacting”)?
- Was commitment influenced by the cardholder’s household income or gender?
- Did the wallet dynamics of the cardholder influence commitment? Was the card first in the wallet? How many other cards were in the wallet? Was the card active (i.e., was there an open-to-buy balance not recently being used)?

Next, the research examined features more specific to the Issuer:

- Was commitment influenced by customer service perceptions?
- If the cardholder had other relationships or other accounts with the institution, did this influence commitment?
- Was commitment influenced by cardholder perceptions of unique credit card features and benefits or length of card ownership?

CREDIT CARD
SATISFACTION
VERSUS
COMMITMENT

CONSUMERS'
COMMITMENT TO
CREDIT CARDS

CREDIT CARD
COMMITMENT
DRIVERS

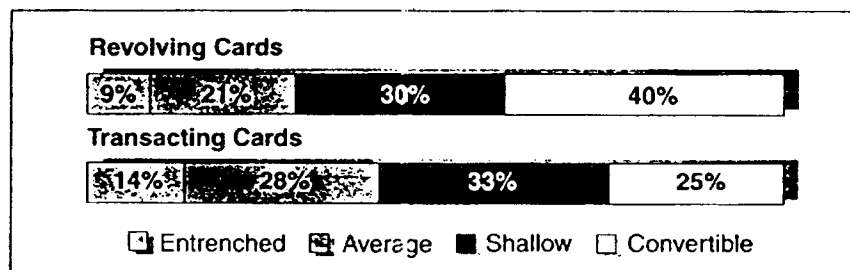
CREDIT CARD COMMITMENT DRIVERS

Finally, the research explored whether commitment was driven by card features such as low-ongoing APR, annual fee, credit limit, gold/platinum cards versus standard cards, joint versus individual accounts, and co-branded versus non-co-branded cards.

Revolving Cards Versus Transacting Cards

Survey participants were less committed to credit cards on which they carry balances—“revolving” cards. Forty percent of revolving cards were in the “convertible” category or at risk for attrition, compared to only 25 percent for “transacting” cards—cards on which participants do not carry balances.

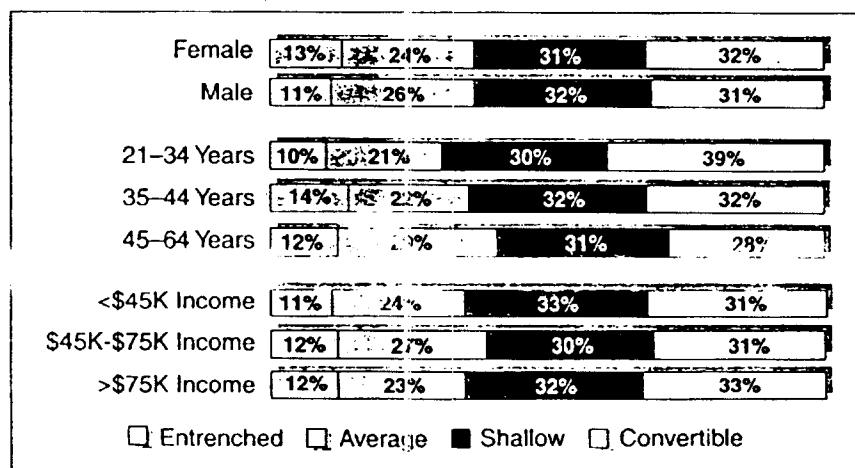
Commitment to Credit Cards - Revolving/Transacting Cards



Demographics of Committed Cardholders

Cardholder demographics were not correlated to commitment, with one exception—younger cardholders were less committed than older cardholders. Thirty-nine percent of cardholders aged 21 to 34 were “convertible” or at risk of attrition, compared to 32 percent of cardholders aged 35 to 44 and 28 percent of cardholders aged 45 to 64.

Commitment to Credit Cards — Demographics



Card Ownership and Usage

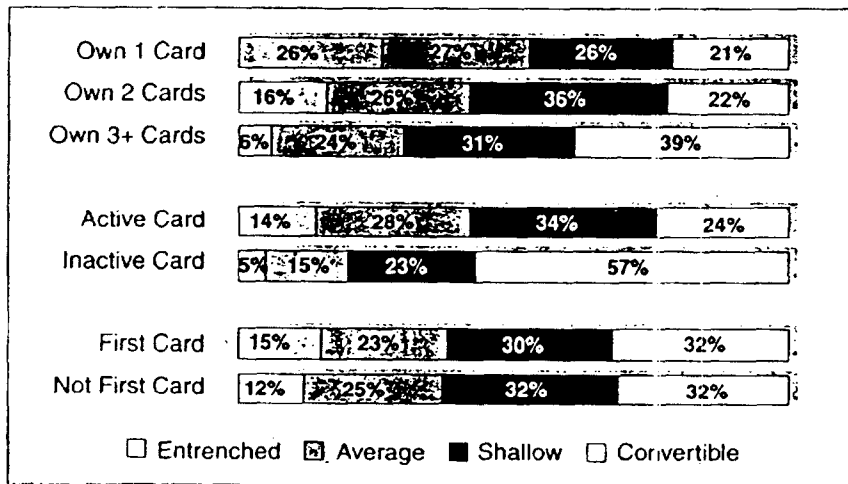
CREDIT CARD COMMITMENT DRIVERS

As might be expected, cardholders who owned more credit cards were less committed to their cards. Only 6 percent of cardholders owning three or more cards were securely “entrenched,” compared to 16 percent of cardholders owning two cards and 26 percent of cardholders owning one card.

Consumers were also less committed to inactive cards compared to active cards, with 57 percent of inactive cards in the “convertible” category compared to only 24 percent of active cards.

Consumer commitment was not influenced by whether the card was first in the wallet, and commitment was no stronger toward the first card obtained than toward any other card in the wallet. This seemingly counter-intuitive finding is explained in the difference between loyalty and commitment. Consumers are loyal to their first card in that they retain it. However, retention does not necessarily imply commitment to usage of the card.

Commitment to Credit Cards — Card Ownership/Usage

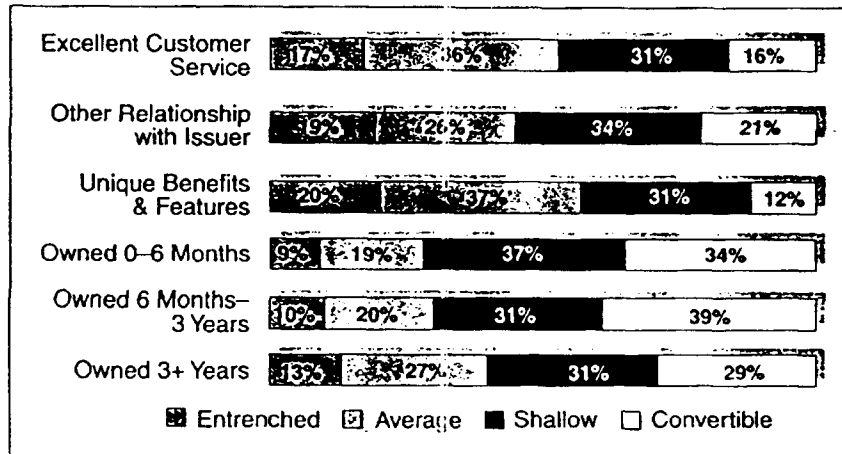


CREDIT CARD
COMMITMENT
DRIVERS

Issuer-Specific Commitment Drivers

Surveyed consumers were more committed to credit cards when they perceived customer service as excellent, when they had other relationships or accounts with the issuer, and when they perceived that the card offered unique features and benefits. They were also more committed to cards they had owned for three or more years.

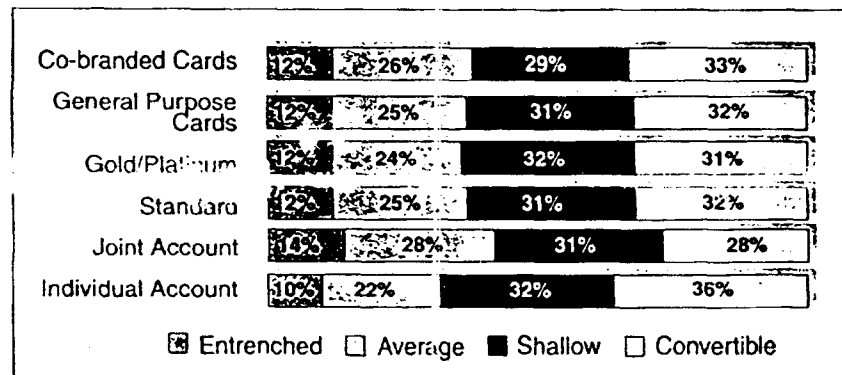
Commitment to Credit Cards — Issuer Specifics



Relationship Between Commitment Levels and Card Characteristics

In terms of credit card features, commitment to co-branded cards was no different from commitment to general purpose cards, and commitment to gold and platinum cards was no different from commitment to standard cards. In addition, commitment levels were higher for joint accounts than individual accounts. Of individual accounts, 36 percent were “convertible,” compared to 28 percent of joint accounts.

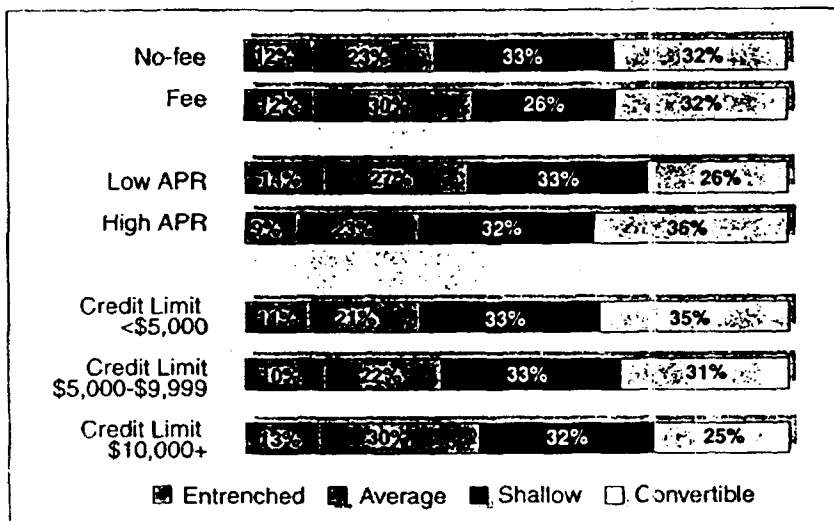
Commitment to Credit Cards — Card Features



Commitment to cards with annual fees was slightly higher than to cards with no annual fee, suggesting that fee cards offer a certain value that consumers are willing to pay for, or that no-fee cards may offer no particular value that leads to commitment. Commitment levels were higher for cards with lower ongoing APRs versus higher ongoing APRs. And, commitment was higher for cards with credit limits of \$10,000 and more.

**CREDIT CARD
COMMITMENT
DRIVERS**

Commitment to Credit Cards — Card Features



Degree to which Various Factors Drive Commitment

To gain a better understanding of the degree to which various factors drive cardholder commitment, the research explored data that issuers currently maintain about cardholders and accounts—including card brand; co-branding sponsor; platinum, gold, or standard card; revolving behavior; joint or individual account; other relationship or account with card-issuing institution; length of time the cardholder has owned the card; annual fee; introductory APR and ongoing APR; balance transfer option; and credit limit. The research also examined cardholders' perceptions of customer service and card features and benefits.

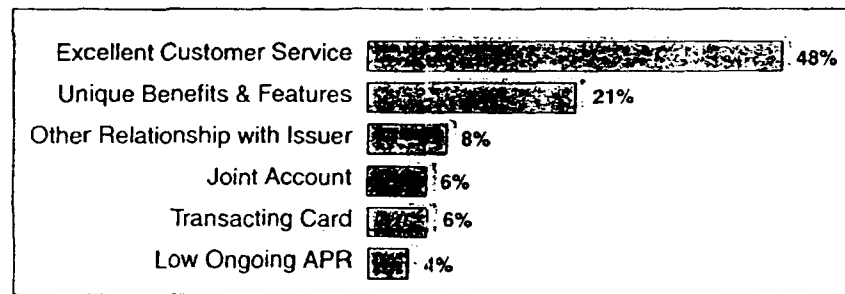
The next step was to analyze these different factors to determine the relative importance of each in driving or explaining credit card commitment. Interestingly, the research found the perception of excellent customer service to be, by far, the primary commitment driver, followed by the perception of unique features and benefits. These two commitment drivers explained 69 percent of the differences in commitment scores.

CREDIT CARD
COMMITMENT
DRIVERS

Additional factors that played a lesser role in driving cardholder commitment included other relationships with the Issuer, whether the account was a joint account, whether the card was used for transacting, and whether the card offered a low ongoing APR. Taken together with customer service and perception of unique features and benefits, these factors explained 93 percent of the differences in commitment scores.

What is significant about these findings is that the top three drivers of credit card commitment—excellent customer service, unique features and benefits, and other relationships or accounts—are factors that Issuers can directly influence and customize for their individual portfolios.

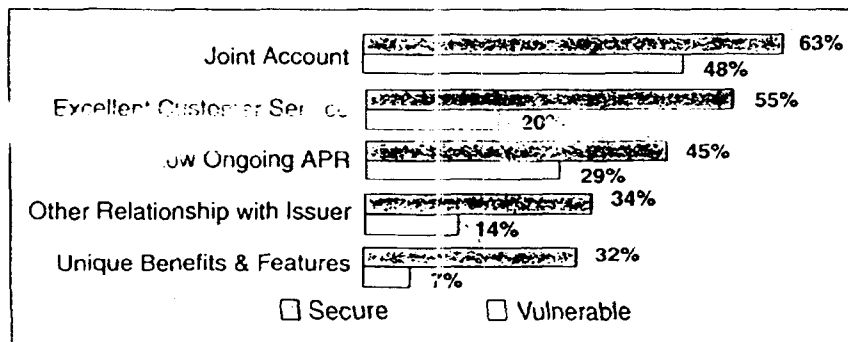
Commitment Drivers—General Purpose Cards



Card Characteristics and Commitment

The following chart shows the differences between cardholders that were “secure” (i.e., had the highest levels of commitment—“entrenched” or “average”) and cardholders that were “vulnerable” (i.e., had the lowest levels of commitment—“shallow” or “convertible”). Secure cardholders were more likely to perceive that their cards offered excellent customer service and unique features and benefits. They were also more likely to have other relationships or accounts with the Issuer, to have joint accounts, and to have cards with low ongoing APRs.

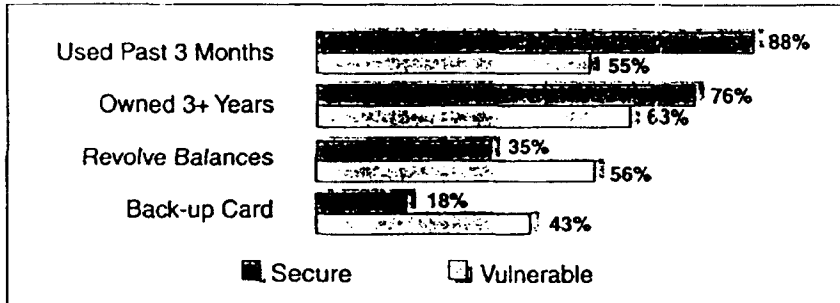
Card Characteristics—General Purpose Cards



Compared to vulnerable cardholders, secure cardholders were also more likely to have used their cards in the past three months and to have owned their cards for three or more years. Secure cardholders were less likely than vulnerable cardholders to have a revolving balance and to use their card primarily as a back-up card.

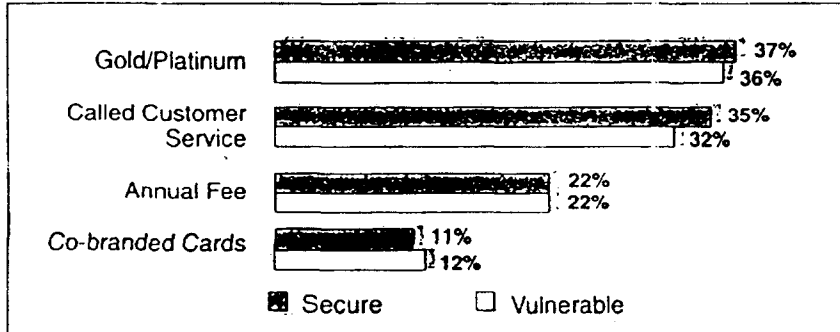
**CREDIT CARD
COMMITMENT
DRIVERS**

Card Characteristics—General Purpose Cards



Interestingly, no difference was noted between secure and vulnerable cards in terms of whether a card is co-branded or has an annual fee, whether the cardholder actually called customer service with a card-related question during the last year, and whether the card was a gold or platinum card.

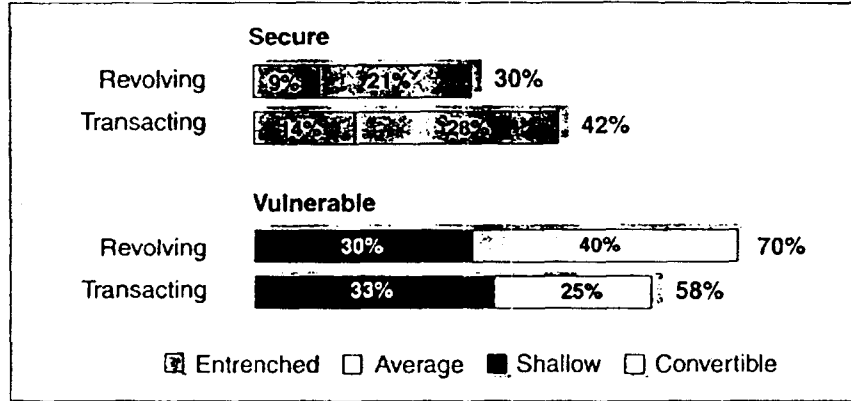
Card Characteristics—General Purpose Cards



COMMITMENT TO REVOLVING AND TRANSACTING CARDS

As mentioned earlier, survey participants were less committed to cards on which they revolved—70 percent of revolving cards were vulnerable (“shallow” or “convertible”) compared to 58 percent of transacting cards.

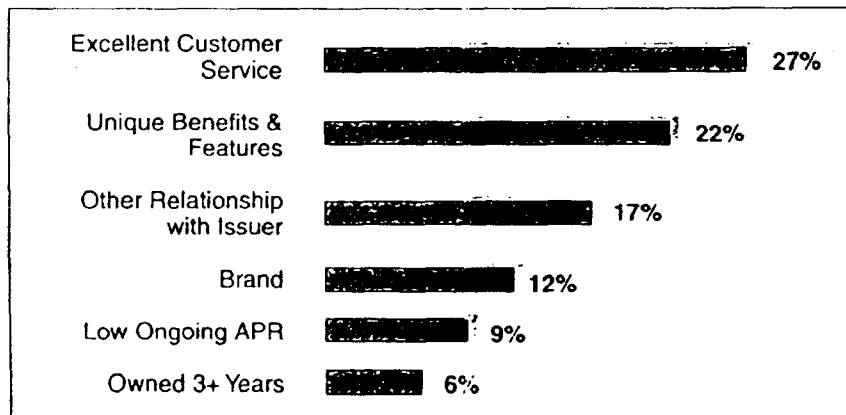
Commitment to Credit Cards—Revolving Versus Transacting Cards



Commitment Drivers of Revolving Versus Transacting Cards

Further analysis found that for revolving cards, customer perceptions of excellent customer service and unique card features and benefits were key drivers of commitment—explaining nearly half of the differences in commitment levels. Other relationships or accounts with the Issuer, card brand, low ongoing APR, and whether the card was owned for three years or more were also important commitment drivers for revolving cards.

Drivers of Commitment—Revolving Cards

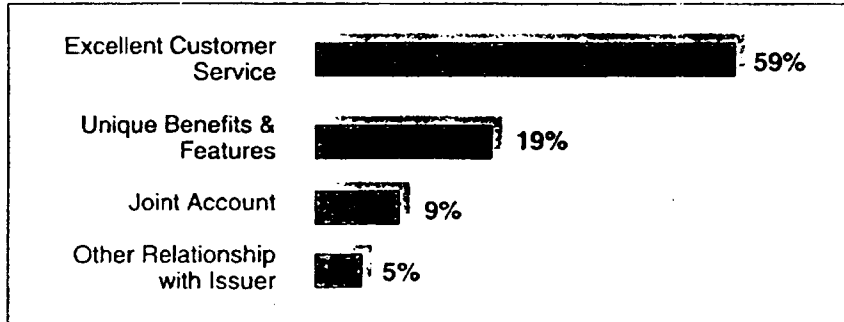


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For transacting cards, cardholders' perception of excellent customer service was the dominant driver of commitment, explaining 59 percent of the commitment level differences. Lesser commitment drivers for transacting cards included the perception of unique card features and benefits, whether the account was a joint account, and whether the customer had other relationships or accounts with the card-issuing institution.

COMMITMENT TO REVOLVING AND TRANSACTIONING CARDS

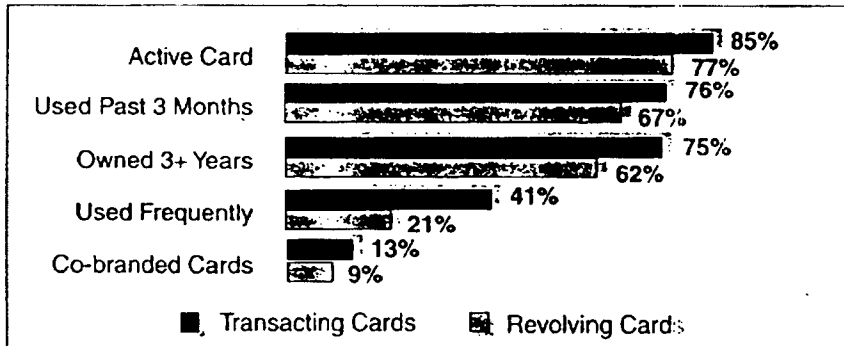
Drivers of Commitment—Transacting Cards



Characteristics of Revolving Versus Transacting Cards

Interestingly, compared to transacting cards, revolving cards were less likely to be active, used in the past three months, owned three or more years, be used frequently, and be co-branded.

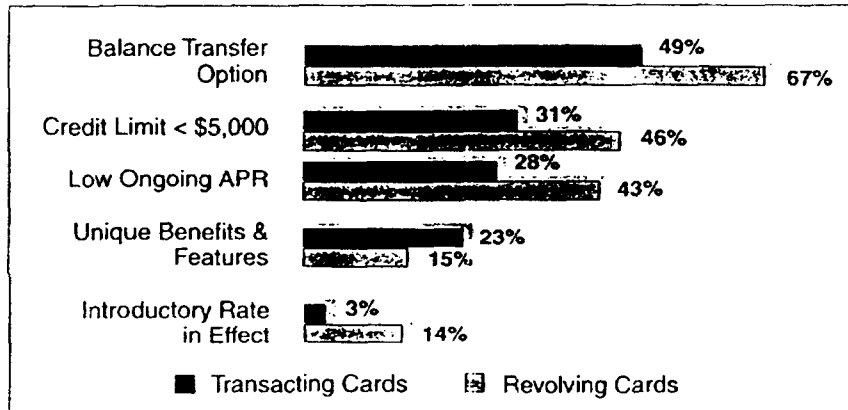
Card Characteristics—Revolving Versus Transacting Cards



COMMITMENT TO
REVOLVING AND
TRANSACTING
CARDS

In addition, revolving cards were less likely to be perceived as offering unique features and benefits compared to transacting cards. On the other hand, they were more likely to have a balance transfer option, have a credit limit of less than \$5,000, offer a low ongoing APR, and have an introductory rate in effect.

Card Characteristics—Revolving Versus Transacting Cards



There are demographic differences between cardholders who revolve on their cards and those who transact. Revolvers are more likely to be female, be younger, and have lower incomes; they are less likely to be college-educated and more likely to be employed and married with children. Revolvers and transactors own about the same number of cards—an average of 3.2 and 3.3, respectively.

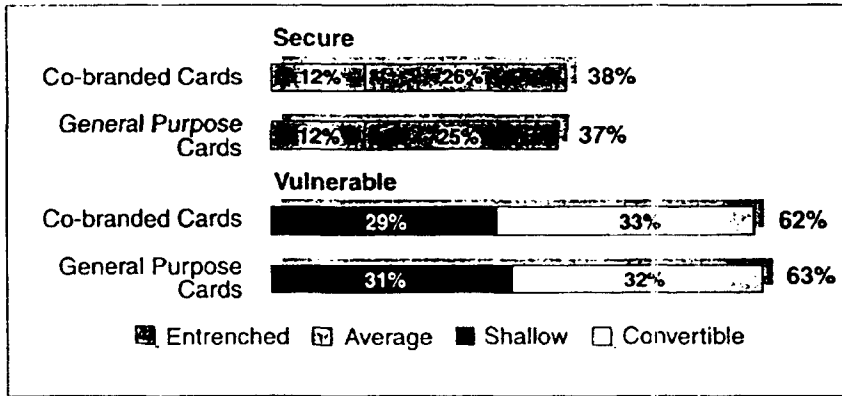
Card Owner Characteristics — Revolvers Versus Transactors

	Revolvers	Transactors
Female	53%	47%
Male	47%	53%
Average Age	42.7 yrs	44.9 yrs
Average Income	\$57.4K	\$65.3K
College Graduate or More	36%	48%
Employed	86%	81%
Married	84%	76%
Have Children	37%	26%
Average # Cards Owned	3.2	3.3

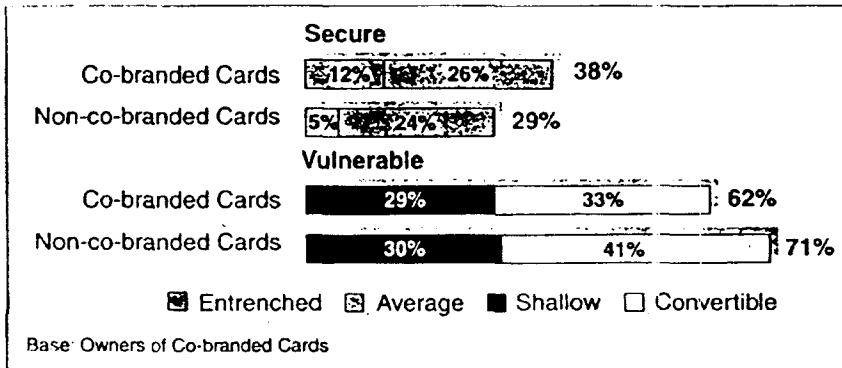
While commitment to co-branded cards is no greater than commitment to general purpose cards, co-branded cards have greater commitment than non-co-branded cards in co-branded card owners' wallets. Thirty-eight percent of co-branded cards were secure ("entrenched" or "average") compared to only 29 percent for non-co-branded cards.

COMMITMENT TO CO-BRANDED CARDS

Commitment to Credit Cards—Co-branded and General Purpose Cards



Commitment to Credit Cards—Co-branded and Non-co-branded Cards

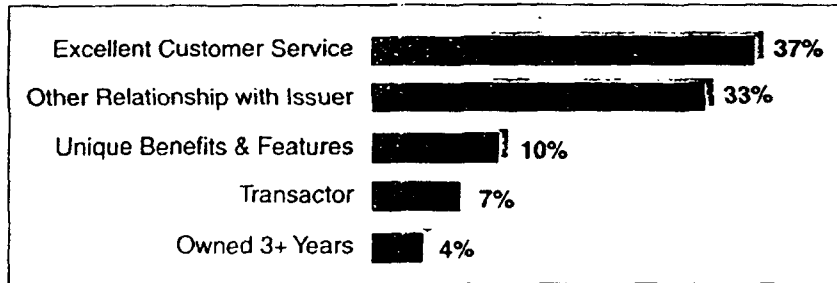


COMMITMENT
TO CO-BRANDED
CARDS

Commitment Drivers for Co-branded Cards

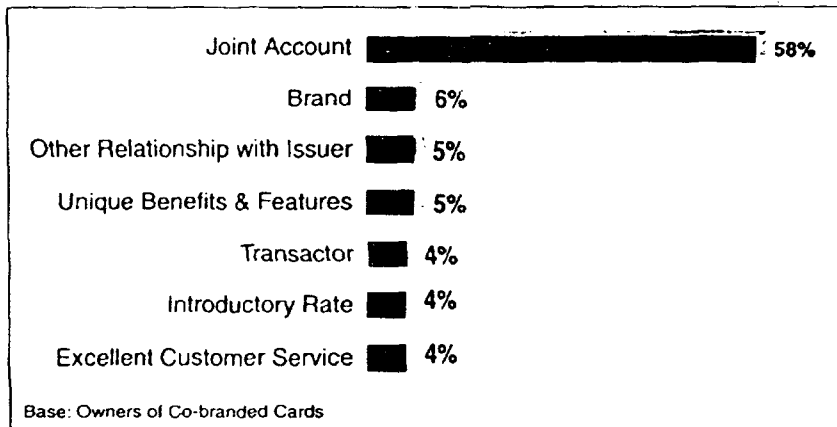
Among co-branded card owners, the perception of excellent customer service and the existence of other relationships or accounts with the Issuer were the two most significant commitment drivers—representing 70 percent of the differences in commitment scores for co-branded cards. Lesser drivers for co-branded cards included the perception of unique card features and benefits, whether the card was a transacting card, and the length of card ownership (three or more years).

Commitment Drivers for Co-branded Cards



Commitment drivers for non-co-branded cards owned by co-branded card owners were different from those for co-branded cards. For non-co-branded cards, the primary commitment driver was whether the account was a joint account, which represented 58 percent of the differences in commitment levels. Other factors included the card brand, the existence of other relationships or accounts with the Issuer, whether the card was perceived to have unique benefits and features, whether the card was primarily used as a transacting card, whether the card had an introductory interest rate, and whether the card was perceived to have excellent customer service.

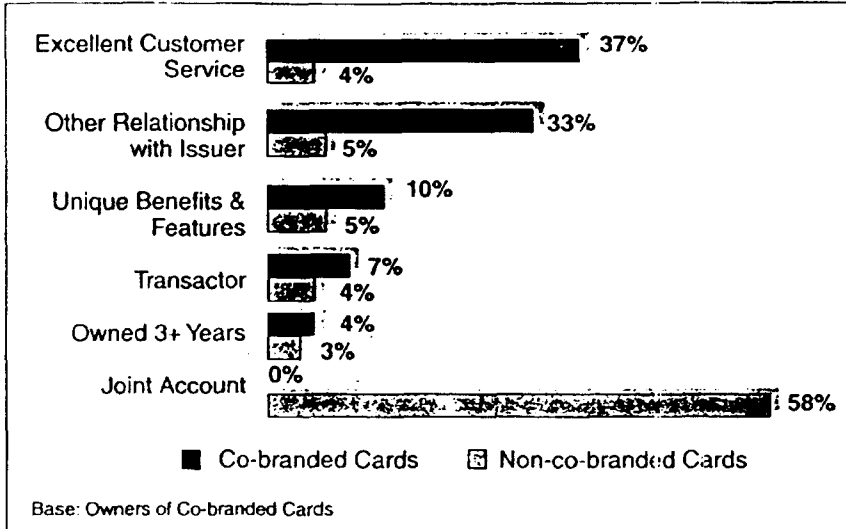
*Commitment Drivers for Non-co-branded Cards—
Co-branded Card Owners*



Among co-branded card owners, commitment drivers varied dramatically, depending on whether the card in the wallet was a co-branded card or a non-co-branded card.

COMMITMENT
TO CO-BRANDED
CARDS

Commitment Drivers—Co-branded Card Owners

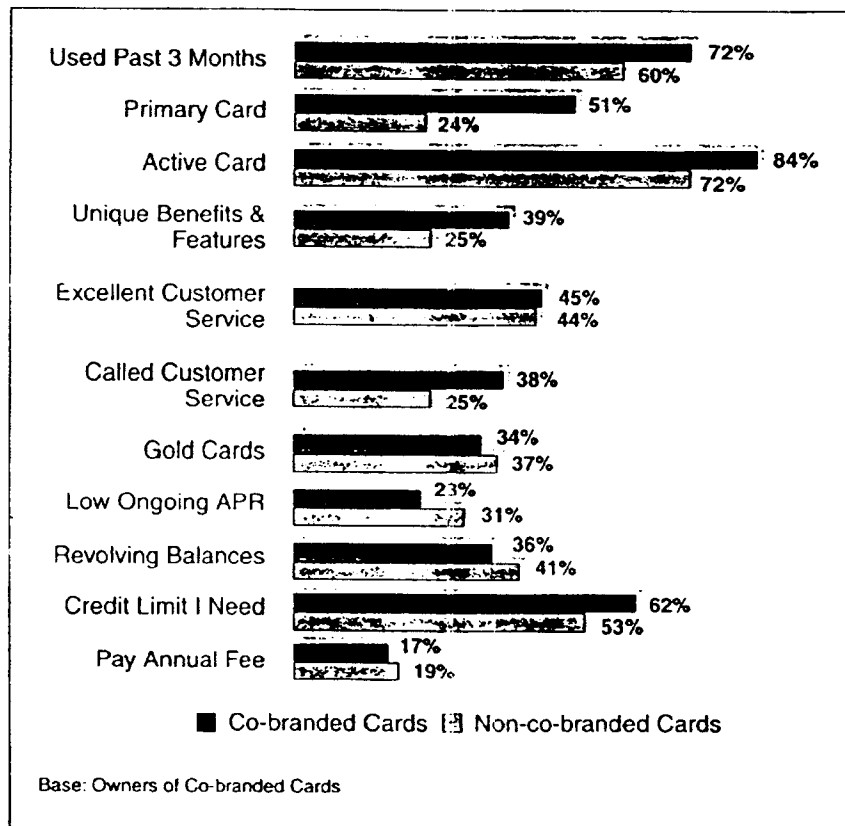


COMMITMENT
TO CO-BRANDED
CARDS

Characteristics of Co-branded Card Owners

It is interesting to note that, among co-branded card owners, a co-branded card was more likely to have been used in the past three months, be the cardholder's primary card, be active, and be perceived as offering unique features and benefits, and be perceived as offering the credit limit needed by the consumer. In addition, co-branded cards were not rated more frequently as having excellent customer service compared to non-co-branded cards, although more co-branded card owners claimed to have called customer service about their co-branded cards during the past year. Co-branded cards were less likely than non-co-branded cards to offer low ongoing APRs and have revolving balances. Co-branded card owners were equally likely to be paying a fee for both types of cards.

Card Characteristics—Co-branded Card Owners



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