

point of view



Co-Branded Credit Cards Driving Customer Loyalty and Growth in Travel

Co-branded credit cards hold immense potential by combining the convenience of credit cards with travel exclusive benefits. The airline industry was amongst the first to start offering co-branded credit cards, with hotels soon following suit. As travel preferences evolve and technology continues to advance, co-branded travel cards are poised to offer an enhanced experience and convenience to travellers.

A top roadblock for travel service providers today is homogeneity of loyalty programs. The looming recession is driving judicious spending. The inability to identify a good travel partner to gain loyalty leads to poor customer engagement.

The future traveler demands to be understood and needs **easy modes of interactions and transactions**. In essence, they are looking for bespoke and immersive customer experiences. Hence, enterprises will need to look at creating **wholesome loyalty programs** to attract travelers, improve stickiness, and accelerate growth.

In this direction, the rewards offered by **co-branded credit cards can be redeemed for travel perks, benefits, and discounts**. Just like normal credit cards, their co-branded counterparts offer the loyalty aspect as well, with respective cardholders receiving exclusive rewards and offers specific to the merchant (airline, retailer etc.).



01 What are co-branded cards?



Co-branded credit cards are issued with a mutual partnership between a merchant and a credit card issuer and network. They are backed by a major network and/or a major card issuer, and consumers can use them anywhere to **access special perks like earning loyalty points for redemption**. Ultimately, better the quality of the perks offered, higher is the stickiness, leading to better customer loyalty.

A few popular co-branded cards in the travel space include **Southwest Rapid Rewards, Marriott Bonvoy Boundless, and American Express' Delta Skymiles and Hilton Honours etc.**

02 What's in it for travel service providers?

In 2020, at the start of the pandemic, air travel plummeted across the globe and came to a grinding halt. That's when in the US, the Federal Government reached an agreement with major US carriers over the terms of **USD 50 billion** bailout as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Airlines were deemed an essential service during the period to carry frontline workers and to avoid firing their workforce.

Bailouts were offered to airlines and just like with a loan, a collateral was needed as security.

Airlines then put their customer loyalty programs as debt collaterals. It was during this process that they started to disclose the real value of their loyalty

Till this point, airlines had disclosed very few financial details on their loyalty programs. It then turned out the primary source of their revenue came from **selling loyalty points (miles) to banks**. Banks then used these miles to reward the customers using the corresponding co-branded credit card.

Here are the loyalty program valuations of the top US airlines

	2019 Program Valuation ¹ (Billion USD)	2019 Market Cap ² (Billion USD)	Program's % of Market Cap
Delta Airlines	\$21.6	\$37.6	57%
United Airlines	\$19.5	\$22.1	88%
American Airlines	\$12.5	\$12.3	102%
Southwest Airlines	\$10.6	\$28.0	38%

1. [news.bloomberglaw.com/coronavirus/u-s-treasury-sees-airline-loyalty-assets-as-possible-collateral](https://www.bloomberglaw.com/coronavirus/u-s-treasury-sees-airline-loyalty-assets-as-possible-collateral)

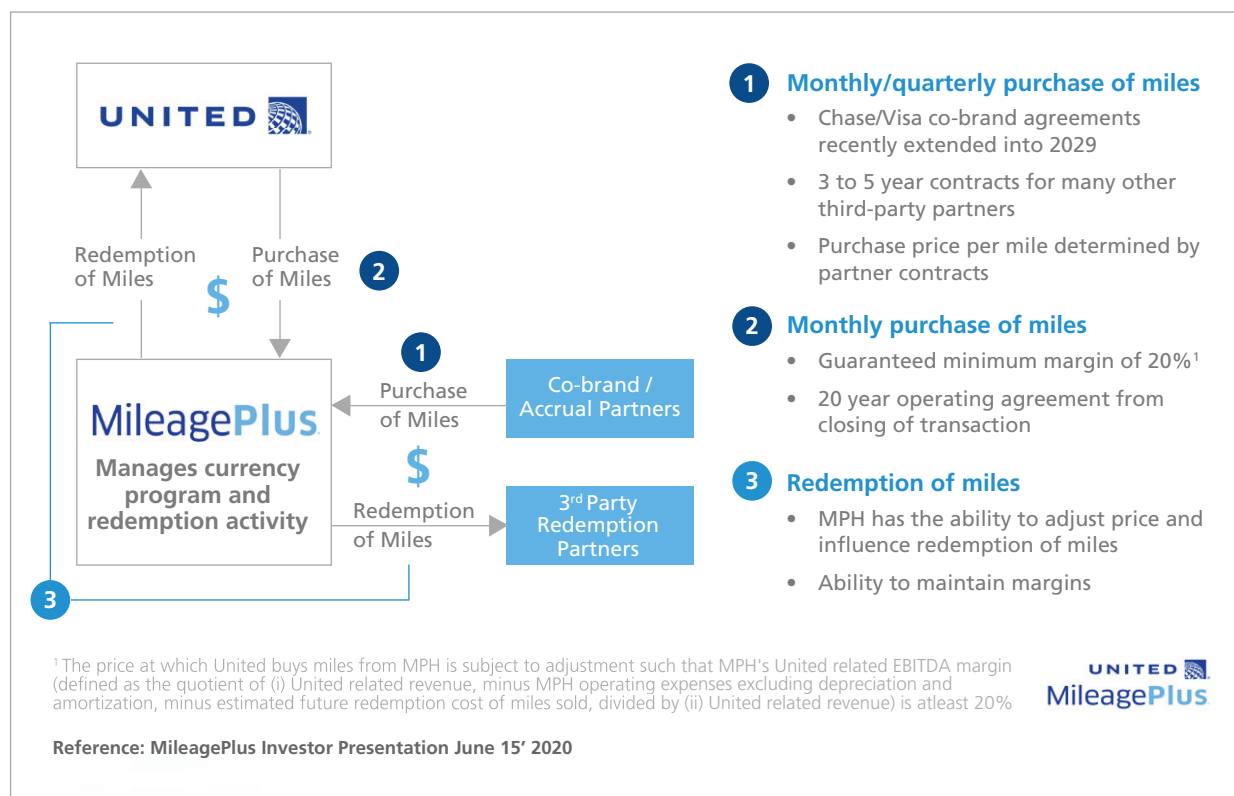
2. [companiesmarketcap.com](https://www.companiesmarketcap.com)

So, in 2019, which was the record year in terms of revenue for most airlines, the loyalty program valuation was around **40~50%** of the company's market value. And in the case of American Airlines, for instance, their loyalty program is even more valuable than the core airline business.

There are two sources of revenue for airline mileage programs. These include the airline itself, and two, third parties. United Airlines, in a presentation, has provided the below flowchart illustrating how their MileagePlus program creates revenue. A crucial part of the process is the 'purchase of miles' to co-branded partners (as per the filings in 2019, cash flow from sales of miles was **USD 5.3 billion** on the revenue of **USD 45.8 billion**).



MileagePlus overview - pricing and cash flow mechanics



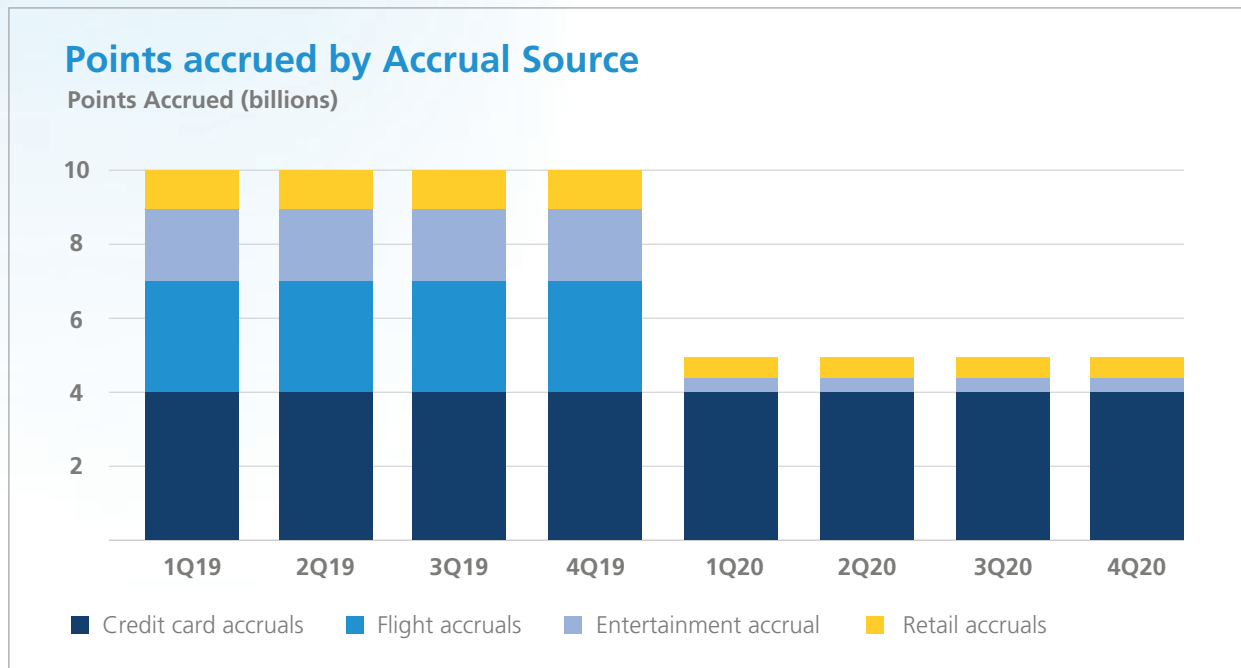
A similar model is seen with other airlines - In financial year 2021, Delta Airlines sold **USD 4 billion** worth of airline miles to banks, which was **14%** of their operational revenue.

This is not just a airlines story; similar patterns can be seen in the hotel industry as well. Around the same time in 2020, Marriott raised **USD 920 million** from Amex & Chase under their co-brand credit card agreements, and Hilton raised **USD 1 billion** in the presale of 'Hilton Honors' points. Again, in 2020 and 2021, Marriott said that approximately **50%** of the global room nights were booked by their loyalty program members. And, in first three months of 2022, the loyalty program had **164 million** members, up **26%** from 2019's statistic. The program grew another **5%** in only half a year's time, to **173 million** members by September 2022.

03 What's in it for banks?

As per the research done by Jack Reardon at OliverWyman - as a percentage of all points accrued in a period, Credit Card Accruals jumped up from **40%** before the pandemic to **80%** during the pandemic.

OliverWyman – Two surprising impacts of the pandemic on loyalty breakage



The strategic partnership between banks and travel service providers creates a compelling value proposition. Some of the benefits have been listed, as below.

Growth in customer base:

Co-branded credit cards can help banks to not just retain but grow their customer base with clients who are already loyal to the partner (Airline/Hotel etc.) company. The affiliation with a reputable brand can act as a catalyst in enticing customers to choose the co-branded credit cards over other options.

McKinsey's US Digital Payments Survey indicates that **39% of BNPL (Buy Now Pay Later)** users making a purchase would otherwise have paid with a credit card. BNPL providers could take away some of the revolvers, who are issuers' most profitable consumer segment. In another survey by McKinsey, **62%** of users expressed the belief that BNPL could replace their credit card - although only about a quarter said they would want it to do so. So, banks are at risk of losing younger consumers who prefer financing to be embedded in the shopping experience.



Increased profitability:

Credit card issuers are facing threats from newer form of payments like BNPL. US credit card issuers could, by 2025, lose up to **15%** of incremental profits to newer forms of borrowing, based on our simulation of the potential impact of BNPL. For instance, in Australia, credit-card accounts have declined by about **6%** per year, while BNPL accounts have grown by more than **40%** since 2017. Co-branded credit cards typically have higher interchange fees (swipe fees), helping issuers earn more than regular credit cards. Keep in mind that the amount of the interchange fee varies depending on card type and the merchant category. One of the reasons for higher interchange fees is, via these cobranded cards, the issuer gives access to a loyal set of customers to the merchant.

Additionally, co-branded credit cards also provide banks with **increased brand visibility and awareness**. These partnerships allow banks to reach a broader set of audiences, including partner's customers, who may not have considered a bank's offering previously.



04 What's in it for consumers?

While banks and travel companies benefit from this relationship, consumers of co-branded credit cards also stand to gain. Besides the conveniences of loyalty rewards and discounted offers that can be availed at the airline or hotel chain, co-branded credit cards open up a **plethora of spending opportunities in travel, retail, ecommerce, commute, grocery, F&B, and other areas**. Some of the additional benefits of these co-branded cards are:

Travel exclusive benefits:

Co-branded credit cards provide cardholders with exclusive travel benefits. These benefits may include **priority boarding, free checked bags, access to airport lounges, complimentary hotel nights, or discounts on car rentals**. For example, Citi® / AAdvantage® Platinum Select® World Elite Mastercard® provides first checked bag free on domestic American Airlines itineraries for the cardholder and up to four companions on the same reservation, and preferred boarding on American Airlines flights.

Travel insurance and protections:

Many co-branded credit cards offer travel insurance and protection as part of their benefits. These **insurance coverages can include trip cancellation/interruption insurance, baggage loss/delay insurance etc.** For example, Delta SkyMiles® Gold American Express Card covers car rental loss or protection and baggage delay or damage, and includes a global hotline for assistance.

Global acceptance and currency conversion:

Co-branded credit cards are widely accepted around the world, making them convenient for international travellers. They often have features that enable currency conversion at competitive rates and **low or no foreign transaction fees**, allowing consumers to make purchases in local currencies without incurring excessive fees. For example, UnitedSM Explorer Card - Purchases made outside the US with the Explorer Card are not subject to foreign transaction fees.

05 LTIMindtree's loyalty offerings in the travel industry

At LTIMindtree, we have a slew of loyalty-based solutions for the travel domain, which help our clients provide differentiated customer experiences and propel growth. For instance, **Swap, is a blockchain-based loyalty exchange platform built to enable travel companies and consumers to reap maximum benefits of loyalty rewards programs.** The platform allows merchants to negotiate exchange rates for points stored on a ledger, with visibility to only the members who are part of the agreement, apart from offering instant gratification for customers. Similarly, **LTIMindtree's Digital Health Passport for Travel is an integrated solution** that helps educate airlines' customers about everything needed to make their travel seamless, hassle-free, and safe. Additionally, the **'Genie on the Go' solution makes your consumers use their loyalty points more meaningfully and pay seamlessly for their purchases.**

To know more about how our comprehensive and bespoke solutions can take you to the future faster, please [contact us](#).

06 Conclusion

Given rising challenges like increasing competition, evolving travel patterns and preferences, rising inflation, and financial incentives perhaps nearing a breaking point, issuers need to look at differentiating their offerings to win over **merchant business in the co-branding domain.** It is also estimated that, in the future, credit card issuers, especially in the US, could lose their incremental profits to newer forms of borrowing like **Buy Now Pay Later (BNPL).**

However, this relationship between credit cards companies and travel service providers will continue to grow in the coming years and mutually benefit both travel service providers and banks. Additionally, the global payment sector is expected to grow well above historical trends, fuelled by higher interest rates. As loyalty programs for travel service providers are vital for their overall business and profitability and co-branded cards are key for an attractive loyalty program, it is believed that airlines are now dependent on their mileage programs for survival – quite evident, given the numbers disclosed by them in the recent past.



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Digitizing Travel for the future, faster. Together.

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About LTIMindtree

LTIMindtree is a global technology consulting and digital solutions company that enables enterprises across industries to reimagine business models, accelerate innovation, and maximize growth by harnessing digital technologies. As a digital transformation partner to more than 700 clients, LTIMindtree brings extensive domain and technology expertise to help drive superior competitive differentiation, customer experiences, and business outcomes in a converging world. Powered by 82,000+ talented and entrepreneurial professionals across more than 30 countries, LTIMindtree — a Larsen & Toubro Group company — combines the industry-acclaimed strengths of erstwhile Larsen and Toubro Infotech and Mindtree in solving the most complex business challenges and delivering transformation at scale. For more information, please visit <https://www.ltimindtree.com/>