



The Impact of Credit Card Rewards on Consumer Borrowing (With reference to Patna district)

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Abstract : *Credit card reward programs are marketing programs that cultivate an ongoing relationship between a provider of goods or services and customers. Reward programs focus on the holy trioka in marketing; recency, frequency, and money—known in marketing circles as “RFM.” Rewards programs create incentives that help retailers capture and maintain customers and also help retailers share some of the intangible value of market share with regular customers.*

The substitution of cash by card (and other electronic) payments represent one of the main goals of both economic planners and financial industry participants since this transition may imply significant private and social benefits.

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From a card issuer perspective, the main strategic way to promote the use of cards has been through offering rewards programs. However, little is known on the effectiveness of these programs in promoting card usage relative to paper-based payment instruments. This article offers novel evidence on the impact of credit card rewards on the general preferences for the use of cards relative to cash.

To undertake this analysis, we performed several empirical tests using a unique survey of consumers' preferences for payment instruments in Patna. We isolated the effect of rewards from the usual set of demographic and behavioral variables employed in most previous studies. **As far as the demographic and behavioral characteristics are concerned, our results are mostly in line with the existing literature.** However, we show that rewards programs can also significantly affect the preferences for cards relative to cash payments. Our results may have important implications for both policymakers and card issuers. The former will have to have a closer look at the structure of incentives in the payment industry and the path of substitution of cash by card payments assigning proper weights to demographic, business and behavioral factors to accurately develop new policies to increase the rate of substitution of cash by cards which, in many countries, is being slower than expected. At the same time, the large expenses that card issuers undertake on incentive programs need to be confronted with the effectiveness of the different rewards programs on card usage (relative to cash) across merchant activities. Therefore, more research is needed on the evaluation of the effectiveness of rewards programs and on the proper way to stimulate card payments both from the public and the private side.

Keywords: Credit cards, reward programs, incentives.