

What Kind of Consumers Search for Credit Cards
Research Executive Summary



The Ohio State University's
Consumer Finance Monthly Survey

Business Problem: Your credit card customers are switching from your card to a competing card. You want to better understand what causes customers to switch from one card to another?

Solution: Financial institutions needing timely national information on the number of credit card customers who recently switched can use data from the Ohio State University's Consumer Finance Monthly Survey to track these trends. If you want to better understand some factors in switching behavior, read the research details below.

Research Details: Why do individuals switch? One reason is obviously to save money on interest payments. *Previous* credit card research done on data from the 1980s showed that many credit card customers did *not* search for low rates. Customers during this time frame were loyal customers who did not move balances from company to company. Beginning in the early 1990s, credit card interest rates started to decline as many banks began offering introductory low "teaser" rates on balance transfers. These teaser rates encouraged switching.

This research creates a two-part theoretical model and tests the model empirically. The first part of the model determines the chance an individual is turned down for a credit card. The second part of the model determines the chance an individual shops for a new credit card.

Results show that even though high balance customers are more likely to be denied credit, this does not deter them from searching for lower interest rates. Specifically, for every \$190 extra in credit card balances individuals hold, they are willing to tolerate a one percentage point increase in the chance of being rejected. In simple terms, people with large balances are willing to try to switch to a lower interest rate credit card even if the chance of success is slim. This shows that among consumers who hold large credit card balances, the enticement of saving money on interest more that outweighs the discouragement of being rejected by a credit card company.

Information from the new Consumer Finance Monthly adds other detail.

Research Title: *Consumer Search Behavior in the Changing Credit Card Market*

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