Wildfire

The New Loyalty Economics

As interchange margins tighten and consumers use credit cards less, financial institutions are pivoting to a new economic model to fund loyalty. Explore how merchant-funded rewards are replacing traditional rewards funding tactics to deliver the value today's debt-conscious consumers demand.

The Pivot from Debit

Avoiding High Interest Debt

Credit card interest rates at 25% drive many consumers away from credit to avoid high-interest debt.[1]

Budgetary Control

Consumers use debit to ensure they spend only what they can genuinely afford. Debit offers immediate transaction visibility and tighter budget discipline.[2]

The Gen Z Factor

Over 60% of Generation Z prefers using debit or cash for control and predictability.[3]

The Issuer's Dilemma

Margin Pressure Leaves Little Room for Rewards

Lower Margins

Debit interchange fees are capped by regulations like the Durbin Amendment.

The Math Problem

Debit issuers receive only ~$0.23 - $0.46 / transaction in gross interchange revenue, vs. credit card issuers receiving up to 3% / transaction.[4]

Unsustainable Model

Without the high interchange margins of credit cards, banks cannot self-fund rich rewards programs. Internal funding creates a risk that the program will be scrapped when budgets tighten, damaging brand reputation.[5]

How can banks offer debit-forward consumers the best of what they got in the credit world?

The Demand

Consumers now expect personalized benefits and tangible value beyond just a card.[6]

The Opportunity

The high volume of debit transactions (30+ times a month) makes it a meaningful revenue stream if monetized correctly.[7]

The Goal

Many FIs are actively looking for ways to add incremental revenue and loyalty-driving rewards associated with credit cards, without creating new costs.

The Solution: Merchant-Funded Rewards

The New Economic Flywheel for Rewards

How It Works

Instead of banks subsidizing rewards, they collaborate with retailers who pay a commission when the bank refers a purchase.

The Mechanism

1. Banks integrate shopping tools (browser extensions or apps) that present rewards and deals from thousands of merchants (e.g., Capital One Shopping, Citi Shop, Chase Offers).
2. Merchants pay a commission on sales referred by bank customers.
3. This commission funds the customer cashback, while providing revenue to the bank.

A Win-Win

This turns rewards from a cost center into a revenue generator. Shopping rewards boost card usage and engagement while giving debit users the value they demand.[8]

With merchant-funded rewards, financial institutions can bridge the interchange gap and turn loyalty programs from internal cost centers into externally-funded revenue generators. This model provides the economics needed for extending valuable "credit card level" rewards to debit card users too.

Wildfire **WILDFIRE-CORP.COM**

Sources:

1. PaymentsNext
2. CardRates
3. CardRates
4. NerdWallet
5. Kard
6. Deloitte
7. Pulse
8. Keynova