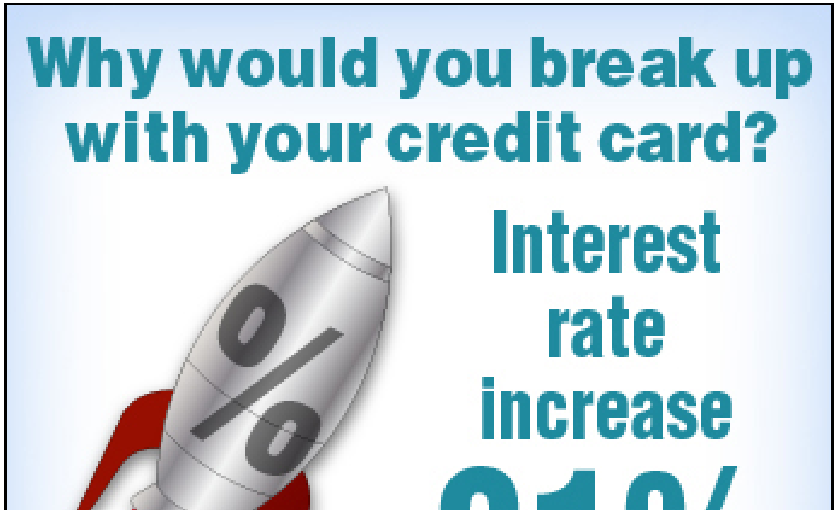
Poll: Interest rate the top reason for credit card breakups

By Daniel Workman

What final straw would motivate you to jump ship to another credit card company? According to a survey commissioned by CreditCards.ca, hiked interest rates followed by low-quality service are the top reasons for cardholder-initiated breakups.



Competitive promotions, reduced rewards and data security issues are less likely to end consumers' relationship with their credit cards, although the survey did uncover some interesting patterns specific to respondents' age, income and geographic location.

EKOS Research Associates polled more than 1,000 randomly selected adults across Canada via automated telephone calls between Jan. 28 and Feb. 4, 2015. Results were statistically weighted to reflect current census-based population data, and have a

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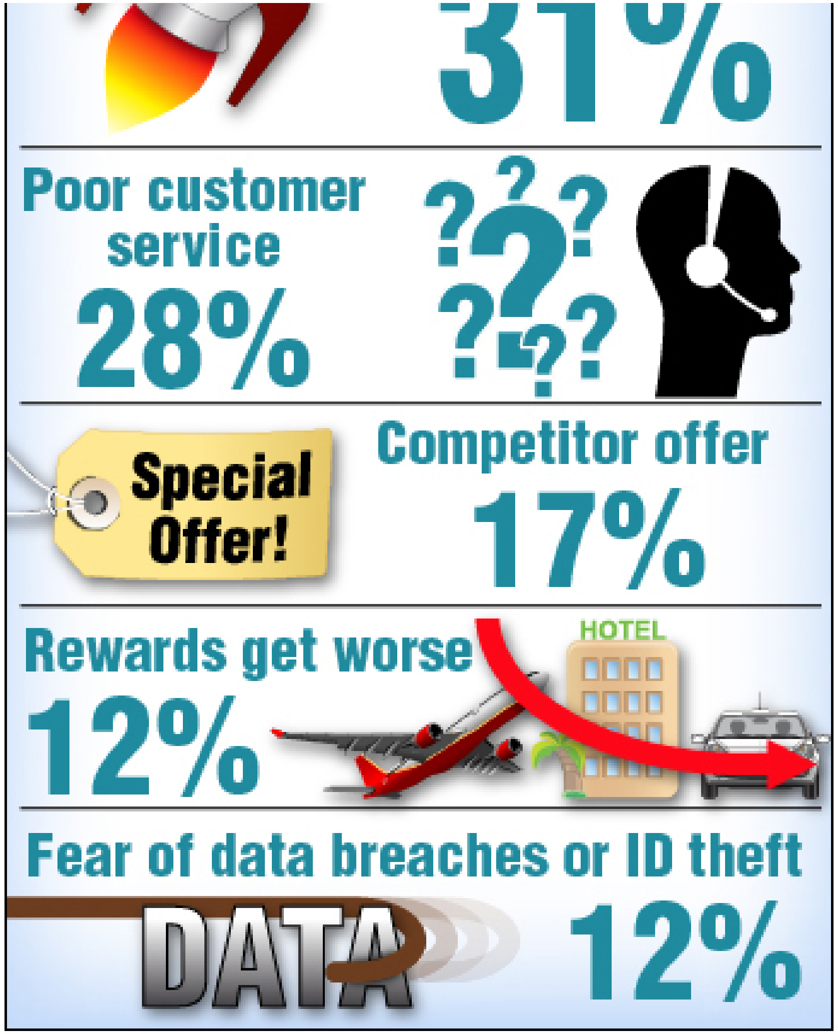
margin of error of plus or minus 2.76 percentage points 19 times out of 20.

After sifting through the results, here's what we found:

1. Heightened interest in interest
For almost a third of respondents, the No. 1 motivation for dropping a card issuer is a hike in the APR. Perhaps unsurprisingly, 37 per cent of mortgage-payers chose rate hikes as their primary exit reason, versus only 22 per cent of mortgage-free homeowners.



Source: EKOS Research Associates Inc., survey of 1,006 Canadians who own a major credit card. Canada.CreditCards.Com

Behind the numbers: The underlying issue driving respondents' opinions may well be consumer debt, given Canada's record household debt-to-income ratio of 162.6 per cent as of third quarter 2014. According to Mike Gomes, certified financial planner at Ironshield Financial Planning, Canadians realize that increased card rates have a negative impact on their ability to pay down debt, ultimately leading to higher payback costs, often over a longer period than originally planned.

Respondents' sensitivity to heftier card rates may also stem from the fact that 52 per cent of Canadian households had credit card debt in 2014.

Consumers with outstanding mortgages are particularly vulnerable to higher card rates if mortgage rates also rise. That one-two punch combination would seriously cut into already-stretched household budgets. Most at risk are mortgage debtors who are overleveraged.

"Even those who aren't should be well aware that a 1 per cent rate increase could mean a 30 to 50 per cent increase in interest costs on their 2 to 3 per cent interest rate mortgages," notes Jason Heath, certified financial planner at Objective Financial Partners.

2. Underserviced cardholders eye the exit
Poor customer service finished second in the survey, with 28 per cent of respondents voicing this choice as the primary reason for leaving their current credit card.

Seniors aged 65 and older are almost twice as likely as people aged 25 to 44 to end a card issuer relationship over service issues. Mortgage-free respondents also place a higher priority on service hassles than people still wrestling with mortgage payments.

Behind the numbers: Seniors carrying less debt than core working-age Canadians corresponds with traditional life cycle theory, explains Gomes. Younger people take on more debt in the early life stages and then spend the following years paying it off. In contrast, many seniors have no outstanding debt at all.

June 2014 CIBC research revealed that 56 per cent of Canadians aged 65 and older are debt-free, in contrast to the roughly 85 per cent of people aged 25 to 44 who owe money.

In other words, those with no or little debt care less about interest rates and more about how they are treated. Heath adds that the younger, working-age crowd may be busier and focused on bottom-line costs, such as credit card rates, rather than soft issues such as customer service.

3. Competitive offers fail to entice
Despite efforts by card issuers to lure creditworthy Canadians to new credit cards -- low APR balance transfer offers and free gift cards, to name a couple -- only 17 per cent of survey respondents said that a competitor's offer would entice them to replace their card. Quebecers attached the least importance to competitive offers.

Behind the numbers: Given that, on average, each Canadian adult owns just short of three credit cards, chances are they happy with at least one existing card, likely the one they use most. The perceived hassle to switch to another card, even one offering an attractive perk, may be a deterrent, says Gomes.

He also notes that many Canadians may be saturated with ever-present card offers found online, at stores and sporting events or in the mail. As a result, people may simply stop paying attention to the many offers available.

Finally, some consumers may be unsure if there is a negative impact to their credit score when they cancel an old card and apply for a new one, and others may be concerned about identity theft risks in the offer application process.

As for Quebecers, one reason they may be even more impervious to competitors' enticements is they appear to be more fixated on maintaining relatively low personal debt levels. In 2014, Quebec boasted the lowest average household debt -- $59,805, compared to a national average of $76,140.

4. Few worry about deteriorating rewards
Only 12 per cent of respondents said cutbacks in cardholder reward programs would make them consider replacing their card issuer. Those younger than 25 seem to care more about rewards than any other age group, but it still falls behind poor customer service and competitor offers in that group's overall concerns.

Behind the numbers: "My experience has been that people generally sign up for credit cards out of convenience and typically with their primary bank, as opposed to trolling the markets for the best rewards cards," Heath says.

David Hardisty, an assistant professor of marketing and behavioural science at the University of British Columbia, attributes the relative indifference about rewards to "loss aversion:" "Consumers are more sensitive to a 1 per cent fee than an equivalent 1 per cent reward, and care more about possible increases in fees than decreases in rewards," Hardisty explains.

5. Unperturbed by data security risks
Data security is another second-tier concern for most cardholders. Twelve per cent of respondents acknowledge fear of data breaches or identity theft as the leading justification for leaving their card company. Just 7 per cent of respondents earning at least $100,000 chose this option.

Behind the numbers: Most Canadians are confident that credit card companies can protect their personal data. Heath had his own credit card compromised in a data breach and says that, based on his experience, financial institutions deal with data security incidents quickly and without impact to the consumer.

American Express, MasterCard and Visa all cover cardholders with zero liability fraud protection. "Knowing they won't be held liable in the event there's fraudulent use of their credit card puts consumers at ease," Gomes says.

In addition, data breaches are common enough that consumers may not view one at their existing card issuer as indicating negligence or extraordinary risk, according to Hardisty. Rather, the data breach may be seen as an accident that could happen to any big company.

"The breached company may actually be seen as safer in the future, because consumers assume that the company will be motivated to shore up security and avoid a second breach," Hardisty says.

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Image by CreditCards.Com staff member Juan Rodriguez

Published: February 26, 2015

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