McKinsey & Company

US Credit Card Issuer Performance, 1Q 2023

May 2023

Executive summary: A period of cautious optimism for US cards

This quarter saw continued pressure on ROA from rising charge-offs, higher expenses and slowing spend growth. However, strong outstandings growth is fueling revenue

- **Industry ROA continues its downward trajectory since Q3 2022, reaching 4.6% this quarter, though it is still higher than the 10-year average ROA of 4.3%**
  - **Consumer card spending slowed across most categories owing to macroeconomic uncertainty and Q1 seasonality.**
    - Spend grew by 10.2% YoY in 1Q 2023 to $930.9B, compared to an average of 12.8% in prior two quarters
    - Consumer spending momentum is at its weakest level since May 2020[1] reflecting ongoing uncertainty in the economic environment
    - Spend growth slowed across categories. In April, card spend per household declined 1.2% YoY. Services spending growth continues to decelerate, particularly in Airlines, Lodging, and Restaurants. Also, higher-income spending growth on discretionary items has fallen below lower- and middle-income households.[2] According to the NY Fed's HH spending growth survey, this trend could persist among the highest-earning cohort.
    - E-commerce sales growth is outpacing in-store sales growth. In 1Q 2023, YoY e-commerce sales growth continued to increase from 8.4% in Jan to 13% in March while YoY in-store sales growth decreased from 8.9% in Jan to 2.8% in March.
  - **Charge-offs and delinquencies increased. Issuers continue to build up reserves but at a slower rate than the pandemic**
    - Top issuers built combined $2.2B in reserves in 1Q 2023, leading to a total of $7.9B in new reserves across top issuers in the last 4 quarters. However, reserve builds are still well below pandemic levels
  - **At the same time, marketing and acquisition costs increased as issuers continue to add new customers**. Non-interest expense of issuers we track increased by 17.9% YoY, reflecting some continued optimism in the credit environment
- **However, card outstandings continue to breach all-time-highs**
  - YoY, outstandings grew by 18.3% to $944.2B in Q1 2023 with revolve balances increasing across issuers. It is now up 8.3% vs. pre-pandemic (e.g., 4Q 2019).
  - This is the sixth consecutive quarter of YoY outstandings growth, with the growth rate increasing each subsequent quarter

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Additional insights from McKinsey's Consumer Financial Life Survey:

- Share of consumers using each type of financing (i.e., POS lending, credit card) has not changed much since 2019
- Credit cardholders that use POS lending tend to have much more tenuous financial situations

1. Visa Spending Momentum Index
2. Bank of America Consumer Checkpoint

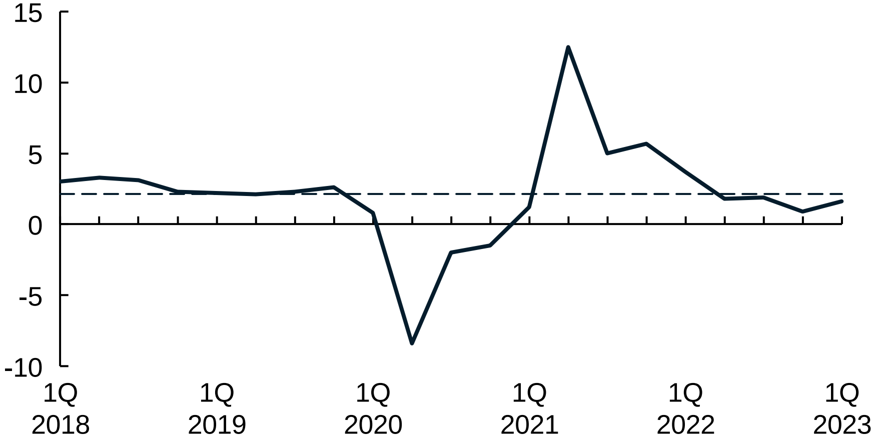
QoQ, GDP growth rate increased, and unemployment rate decreased

Quarterly Figures[1]

- - - 10-year average

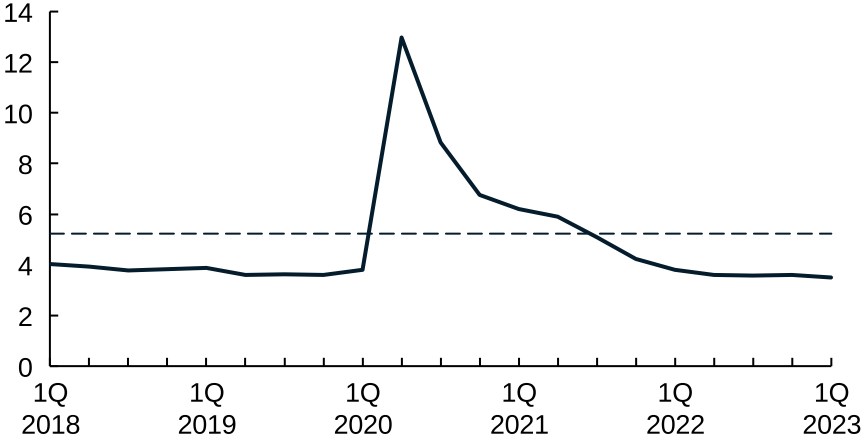
US Real GDP growth rate

%



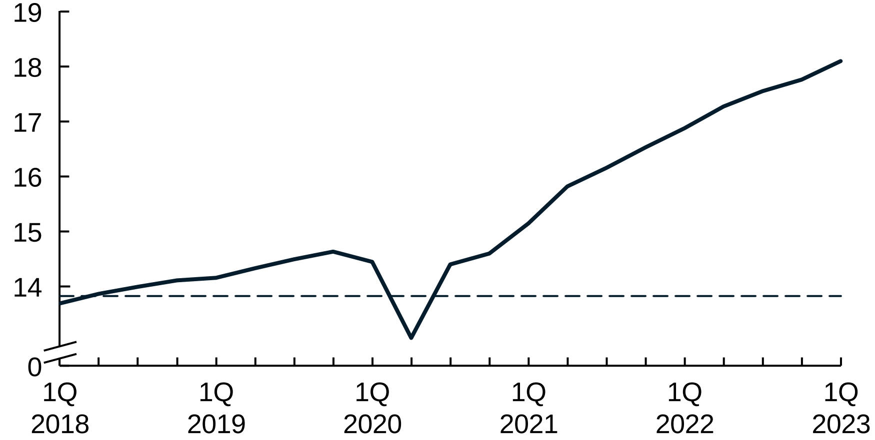
US unemploy-ment rate

%



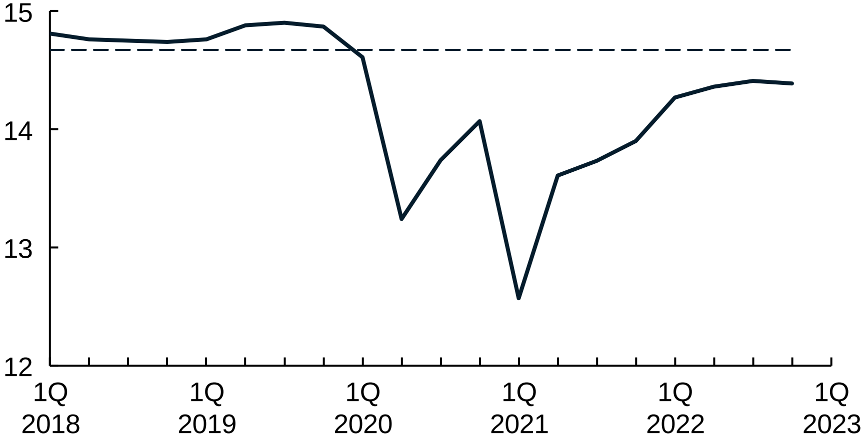
Personal consumption expenditure (PCE)

$T



Financial obligations ratio (FOR)[2]

%



1. 1Q 2023 data has not been released yet for FOR
2. Household debt payments and financial obligations as a percentage of disposable personal income

Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Federal Reserve

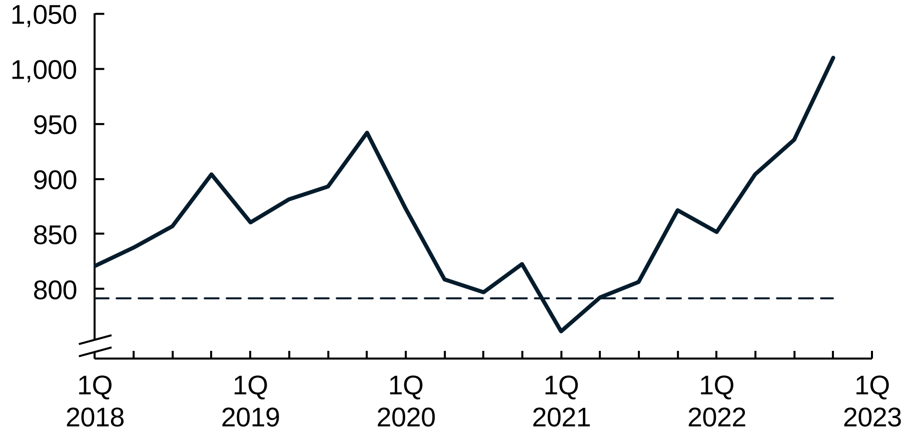
Industry data from Federal Reserve: Charge-off and delinquency rates continue to deteriorate after hitting historic low levels

Quarterly Figures at the industry level[1]

--- 10-year average

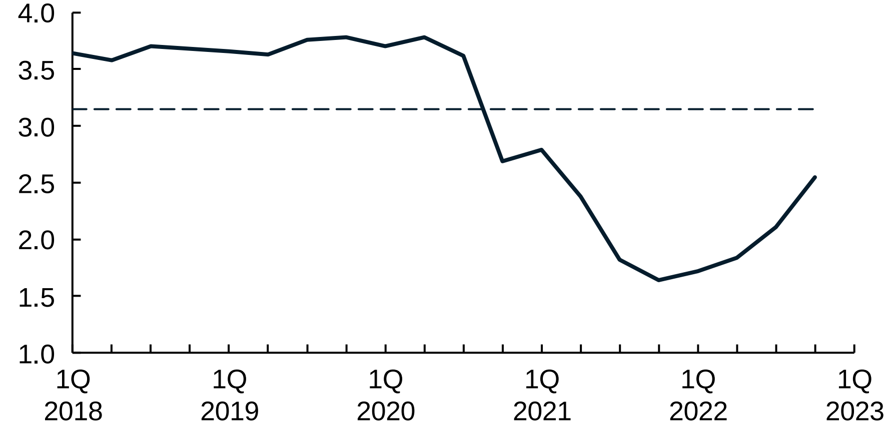
Consumer credit card outstandings

$B



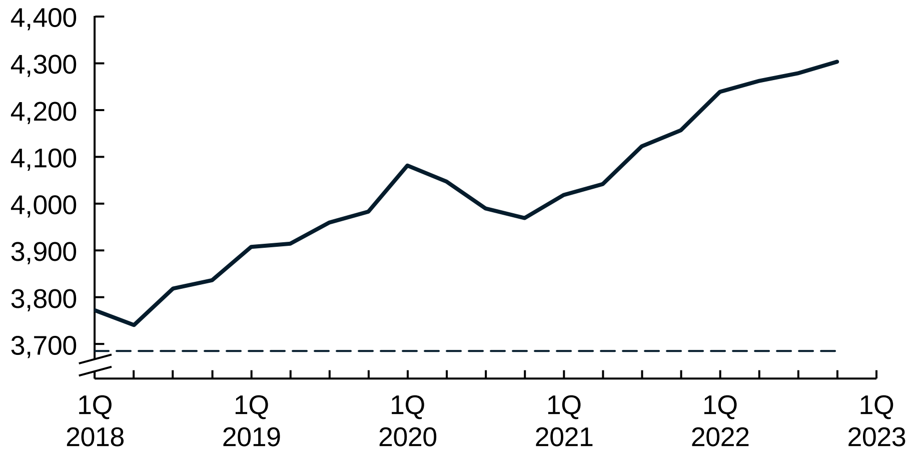
Consumer credit card charge-off rate

%



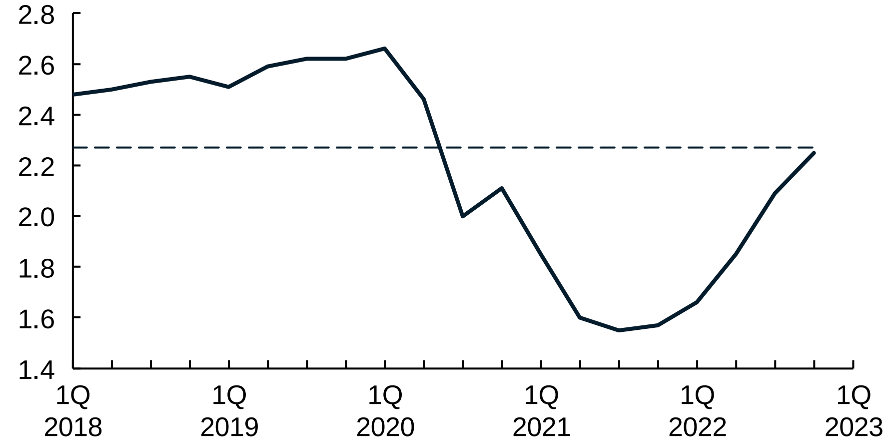
Unused consumer credit card lines

$B



Consumer credit card delinquency rate

%



1. 1Q 2023 data have not been released yet

Source: FDIC, Federal Reserve

Largest US credit card issuers[1] performance dashboard[2] – 1Q 2023

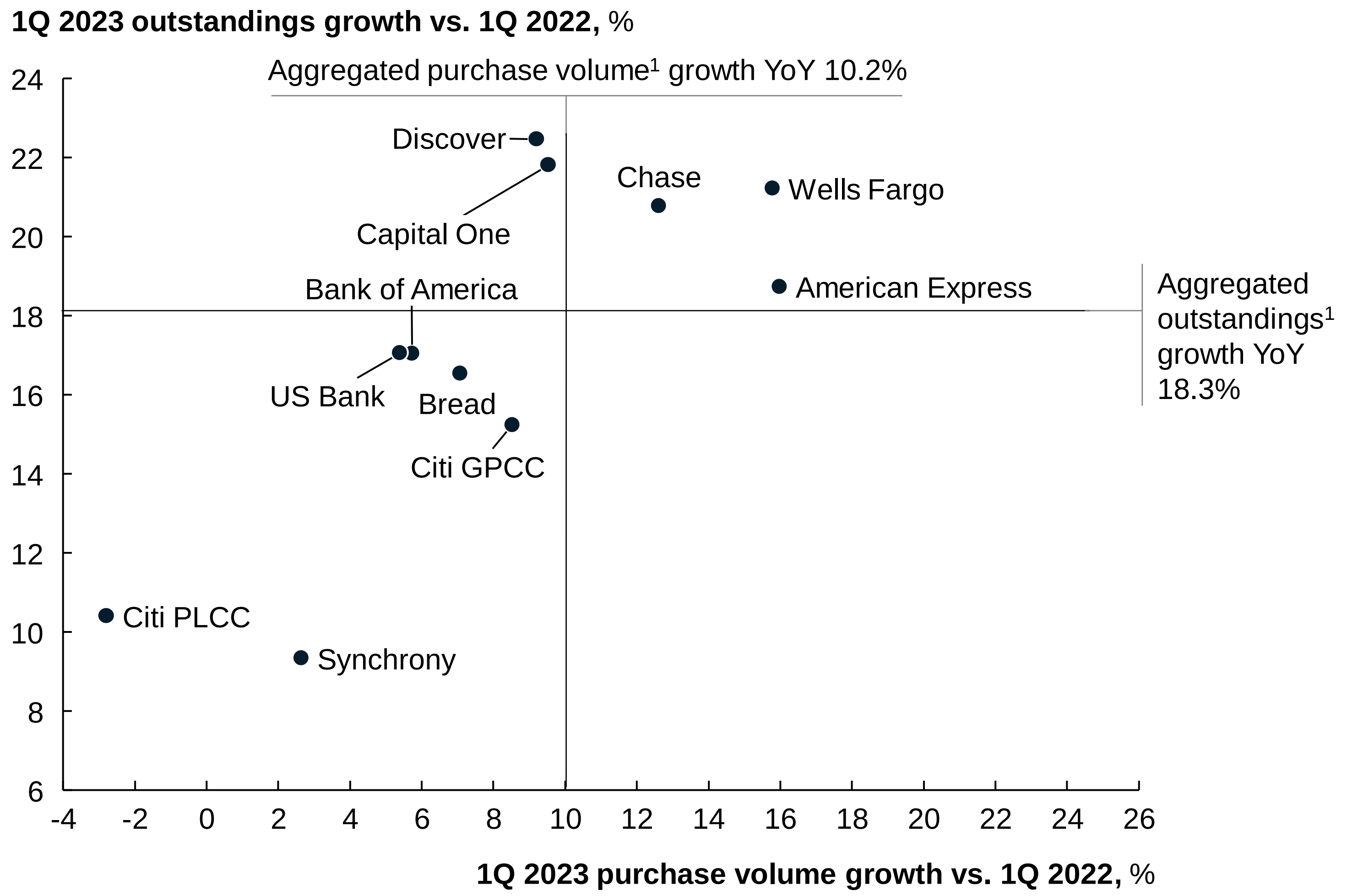
Better than average | Worse than average

	Outstandings $ Billions	Change vs. 1Q 2022, %	Purchase vol. $ Billions	Change vs. 1Q 2022, %	Charge-off rate, %	Change vs. 1Q 2022, bps	30 day delinq., %	Change vs. 1Q 2022, bps	Pretax ROA[3] %	Change vs. 1Q 2022, bps
American Express	84.9	18.7%	142.3	16.0%	1.5%	77	1.1%	32	6.6%	(61)
Bank of America	91.8	17.0%	85.5	5.7%	2.2%	68	1.8%	55	2.6%[4]	58
Barclaycard	28.3	32.9%	N/A	N/A	3.1%	90	2.2%	67	3.1%	355
Bread Financial	19.4	16.5%	7.3	7.1%	7.0%	220	5.7%	160	N/A	N/A
Capital One	128.6	21.8%	138.3	9.5%	4.0%	192	3.7%	134	4.8%	(181)
Chase	180.5	20.8%	266.2	12.6%	2.1%	70	1.7%	59	N/A	N/A
Citi GPCC/PLCC	96.8 / 48.8	15.2%/ 10.4%	115.9 / 20.8	8.5% / (2.8)%	2.2% / 4.1%	72 / 177	1.5% / 3.4%	58 / 100	N/A	N/A
Discover	89.5	22.5%	50.6	9.2%	3.1%	126	2.8%	99	4.8%[4]	50
Navy FCU	26.0	18.2%	N/A	N/A	4.9%	188	3.0%	84	N/A	N/A
Synchrony	85.9	9.3%	41.6	2.6%	4.5%	176	3.8%	103	5.0%	(109)
US Bank	25.6	17.1%	32.2	5.4%	2.8%	70	2.1%	48	N/A	N/A
Wells Fargo	38.2	21.2%	30.1	15.8%	3.1%	118	2.3%	68	N/A	N/A
Weighted avg / sum	944.2	18.3%	930.9	10.2%	3.0%	116	2.5%	78	4.6%	(39)

1. Ranked by outstandings
2. All issuers except Amex include both consumer and small business credit cards. Amex metrics do not include small business credit cards. Amex's outstandings is sum and its charge-off rate & 30+ days delinquency rate are weighted average of its credit and charge cards; Bread Financial, Capital One and Synchrony metrics include PLCC; Citi's metrics are listed in the format GPCC / PLCC; Remaining issuers include GPCC only.
3. ROA is calculated using actual loan losses instead of provision for loan losses
4. McKinsey estimate

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

Growth in outstandings and purchase volume vary across issuers



At an aggregated level, both outstandings and purchase volume had double digit YoY growth in 1Q 2023. However, purchase volume growth is decelerating while outstandings growth is accelerating:

Aggregated growth	1Q23 vs. 1Q22	1Q22 vs. 1Q21
Outstandings	18.3%	9.0%
Purchase volume	10.2%	27.1%

Wells Fargo, Chase, and American Express performed better than the industry average in both outstandings and purchase volume growth.

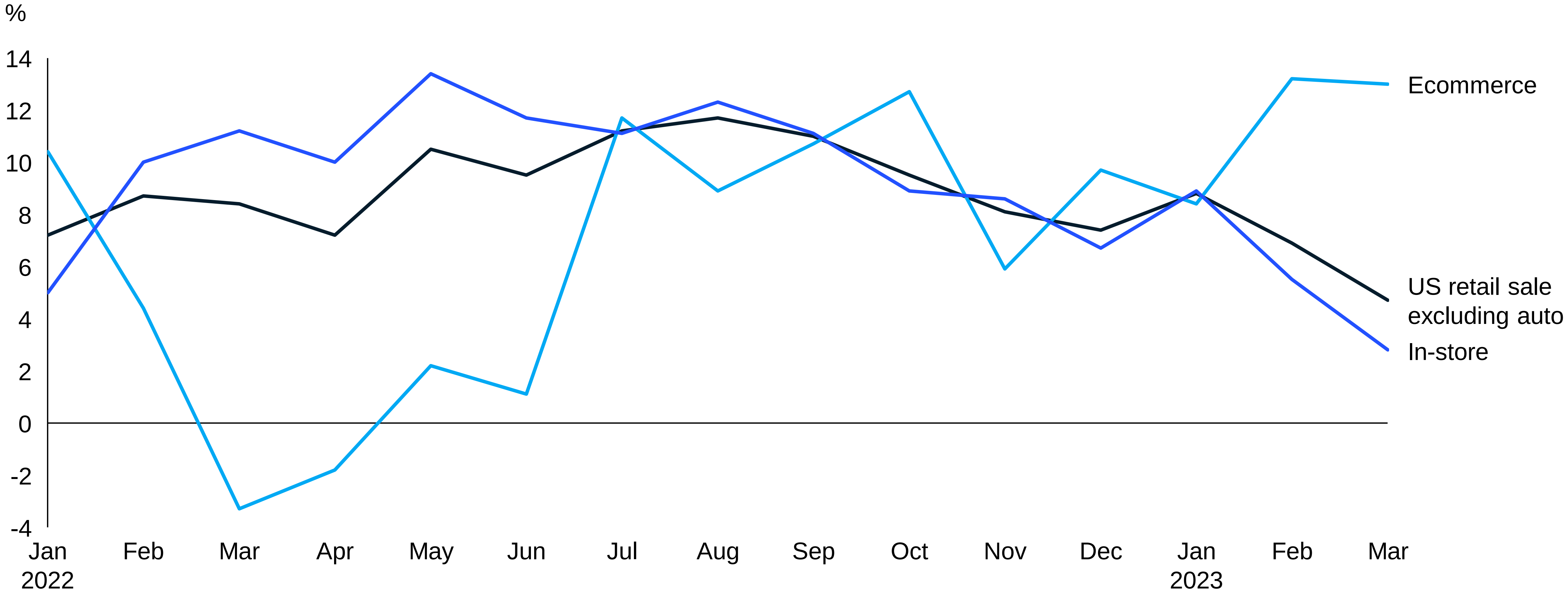
PLCC heavy Synchrony and Citi PLCC had the lowest outstandings and purchase volume growth respectively

1. Aggregated sum of the issuers tracked

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

US retail sale growth has been shrinking since Aug 2022 with more consumers preferring online over in-store purchase

US sales, YoY growth

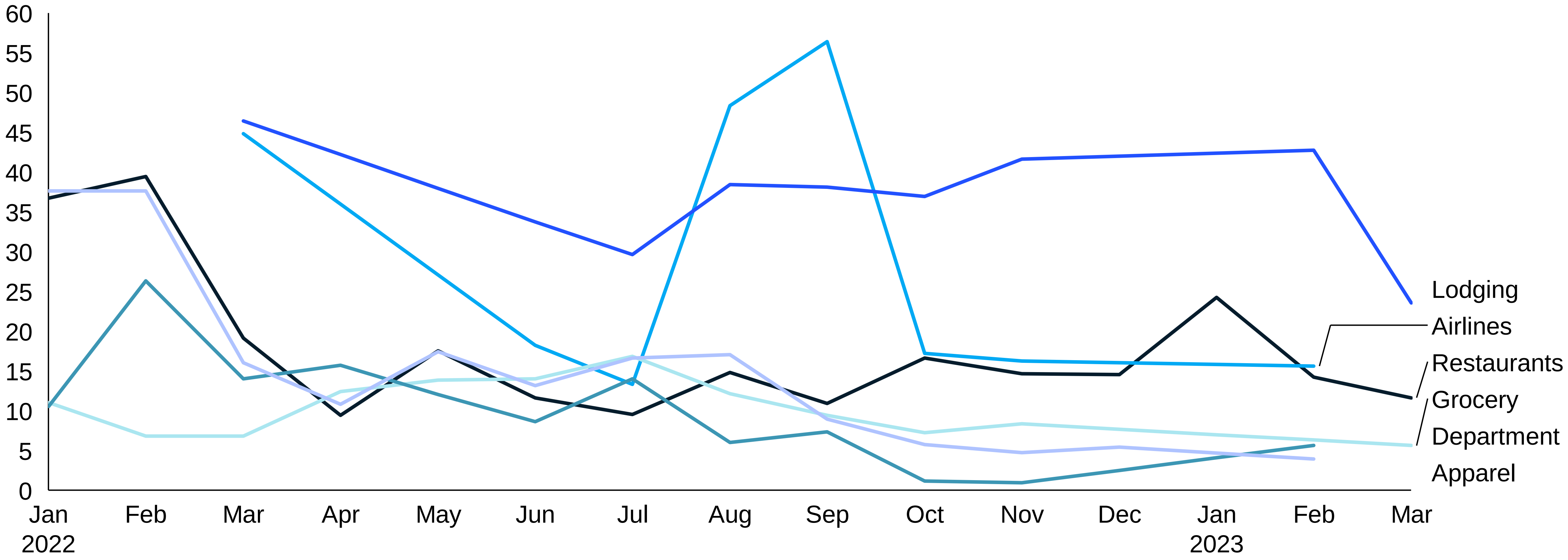


Source: Mastercard SpendingPulse

YoY sales growth has been declining for most categories since Oct 2022

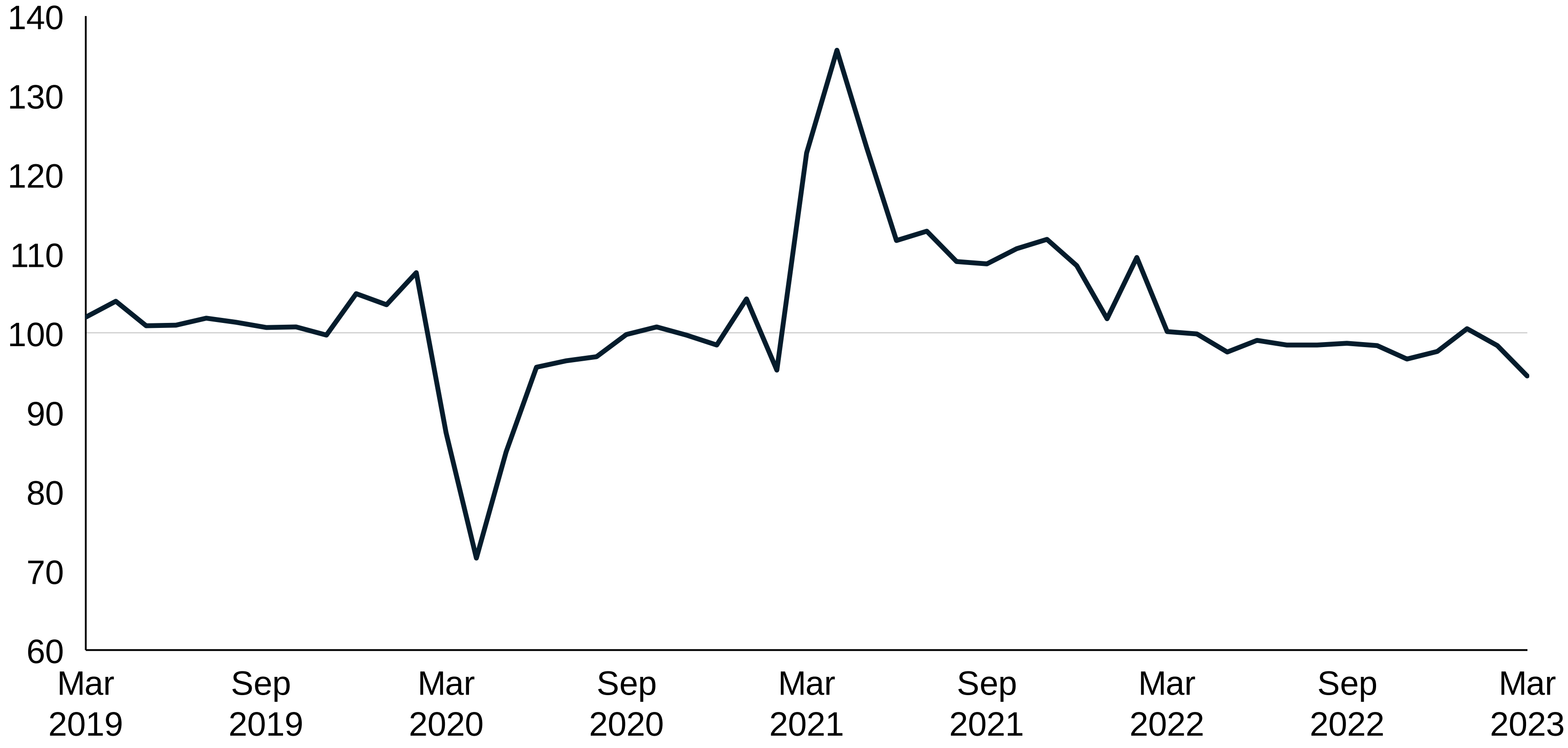
US sales by category, YoY growth

%



According to Visa SMI, consumer spending momentum is at the weakest level since May 2020

Visa Spending Momentum Index, US



The Visa Spending Momentum Index (SMI) is calibrated to be representative of all consumer spending regardless of form factor used for payment.

When the SMI rises above 100, spending momentum is strengthening and when it falls below 100, spending momentum is weakening as fewer consumers are spending more, relative to the previous year.

In 2023, SMI moved from 100.5 in Jan to 98.4 in Feb and then to 94.6 in Mar. 94.6 is the lowest SMI since May 2020.

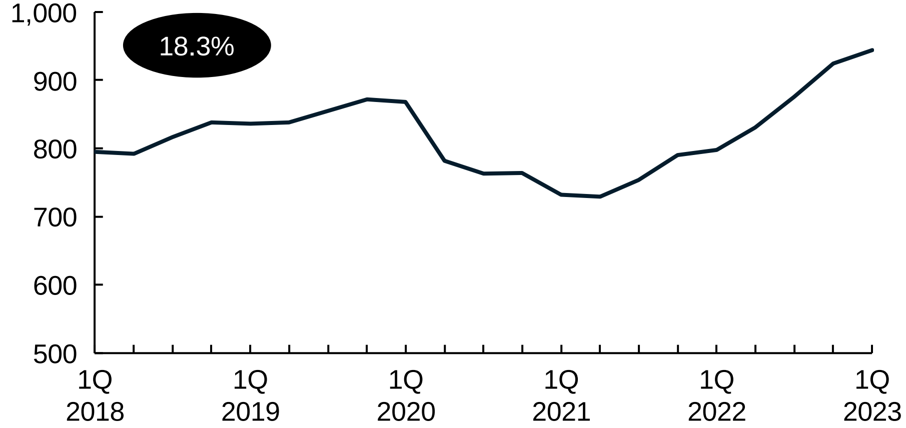
Source: Visa Spending Momentum Index

Outstandings and purchase volume are still growing but charge-off and delinquency rates are deteriorating

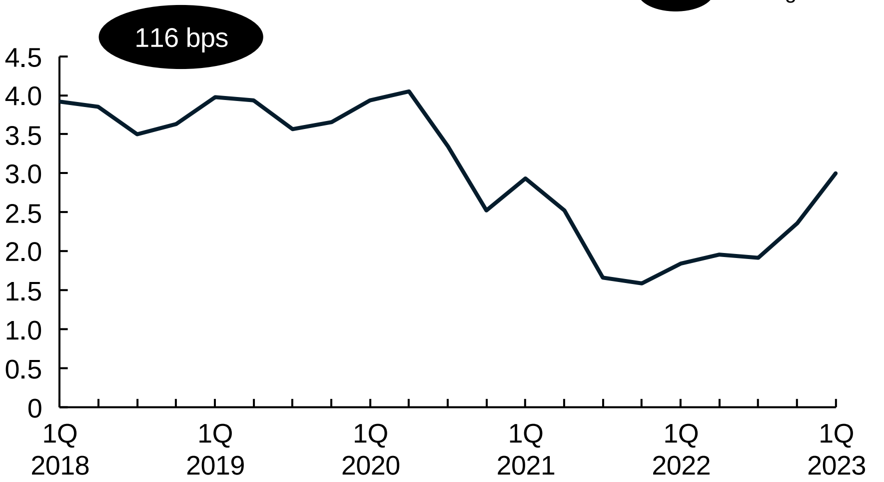
Quarterly Figures

YoY growth[2]

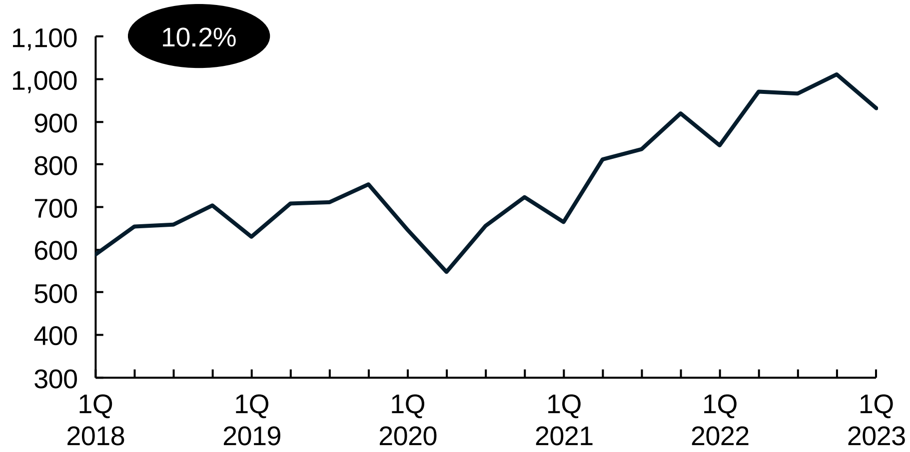
Out-standings[1], $B



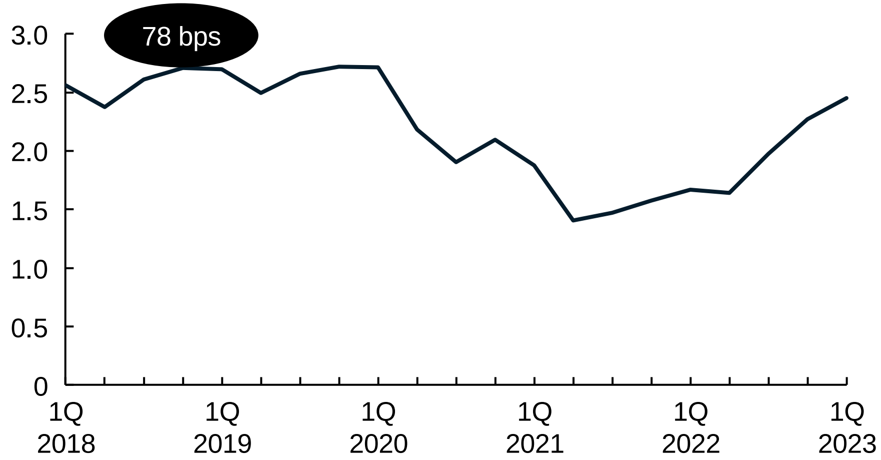
Charge-off rate[1], %



Purchase volume[1], $B



30+ days delinquency rate[1], %

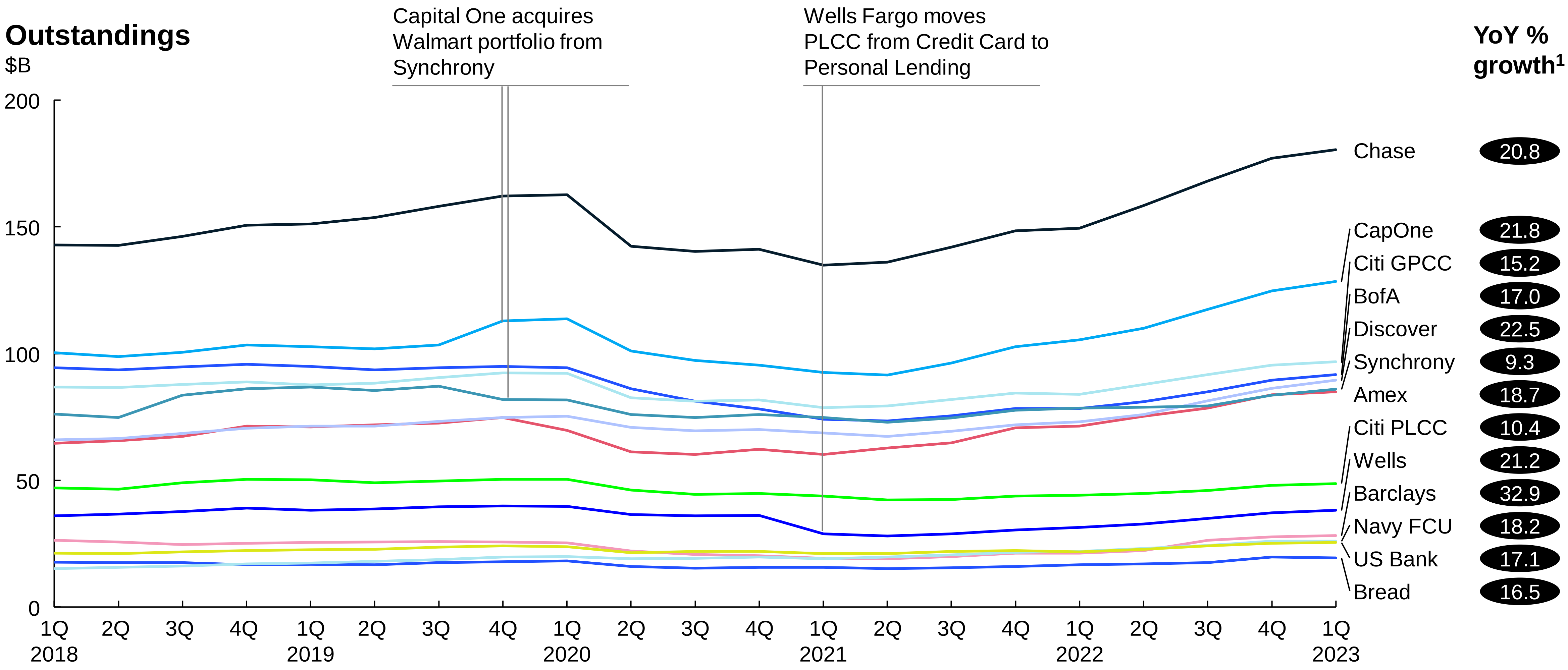


1. Outstandings & purchase volume are sum and charge-off & delinquency rates are weighted avg of respective operating metrics of issuers tracked
2. 1Q23 vs. 1Q22

Source: McKinsey Credit Card Issuer Performance Model (1Q 2023)

Outstandings increased for all issuers YoY

Quarterly Figures

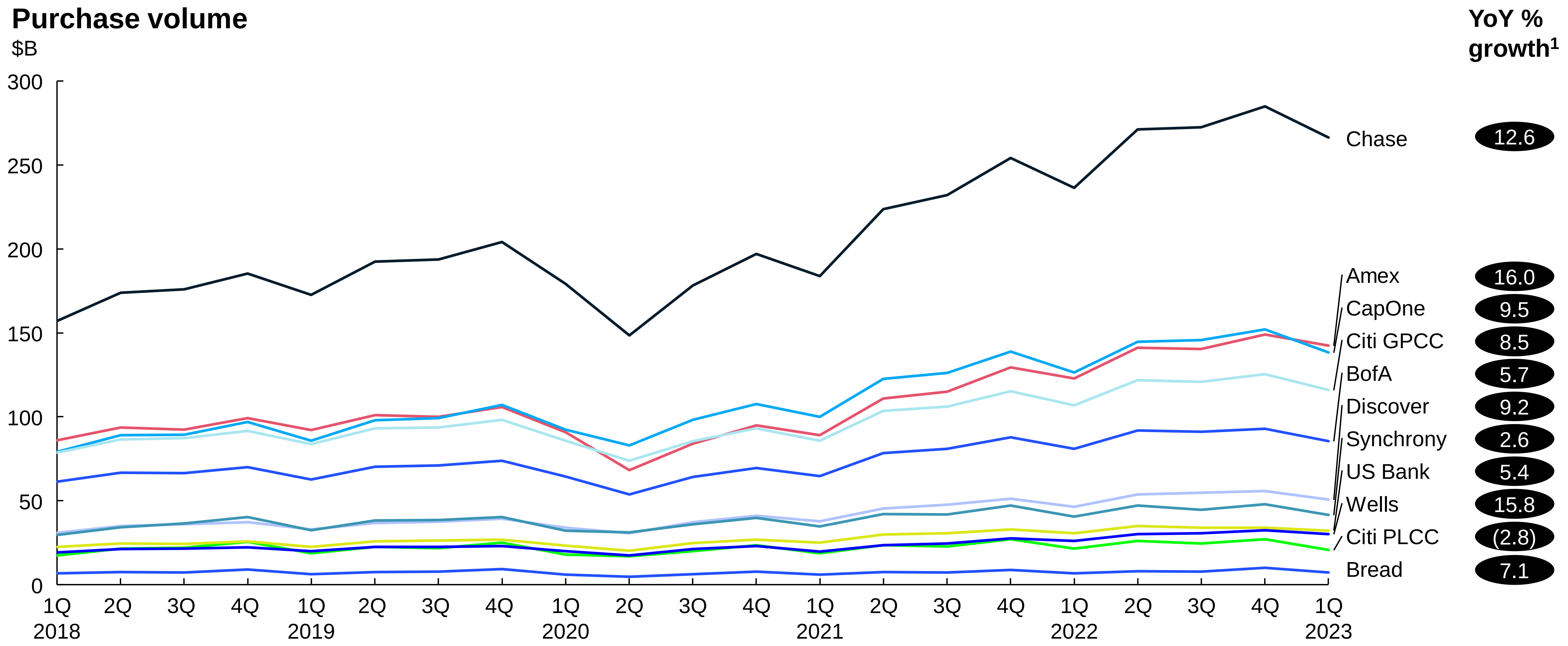


1. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

Purchase volume increased for all issuers YoY except for Citi PLCC

Quarterly Figures

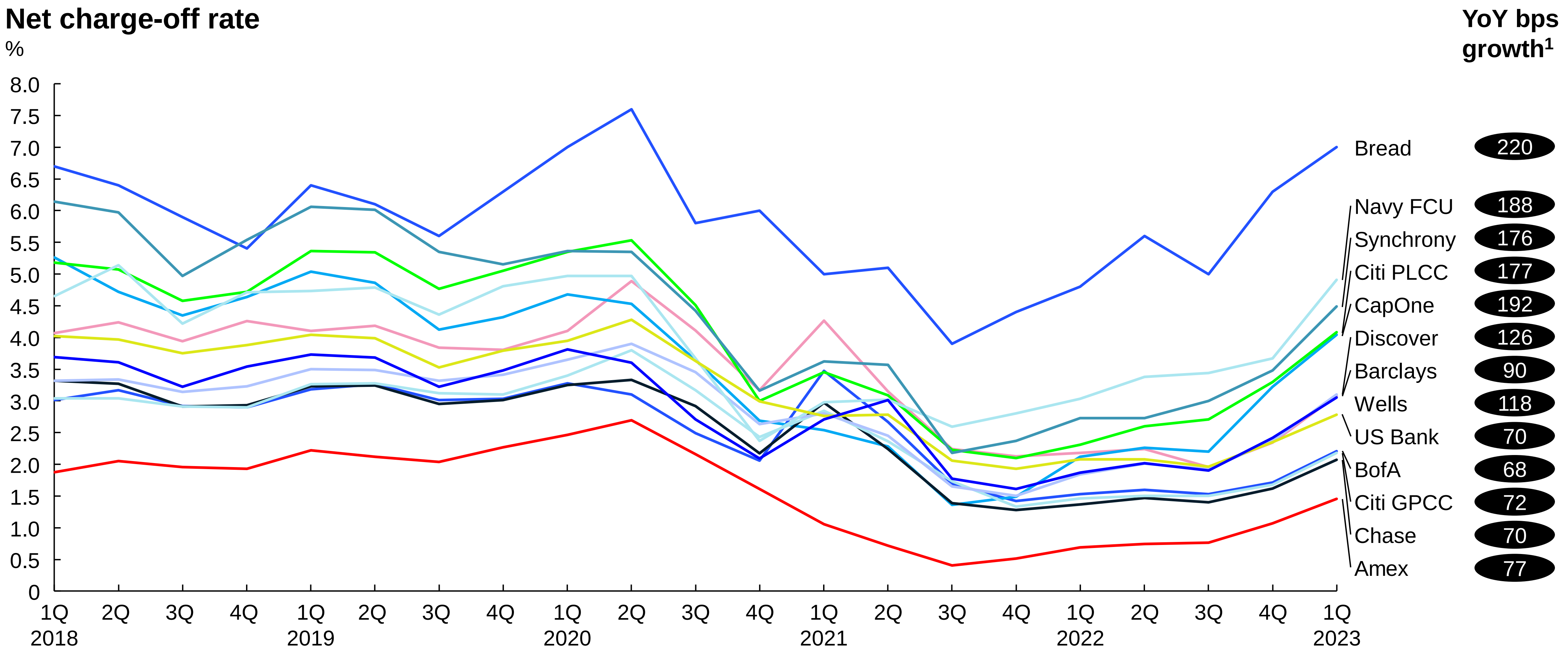


1. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

Net charge-off rate deteriorated YoY for all issuers

Quarterly Figures



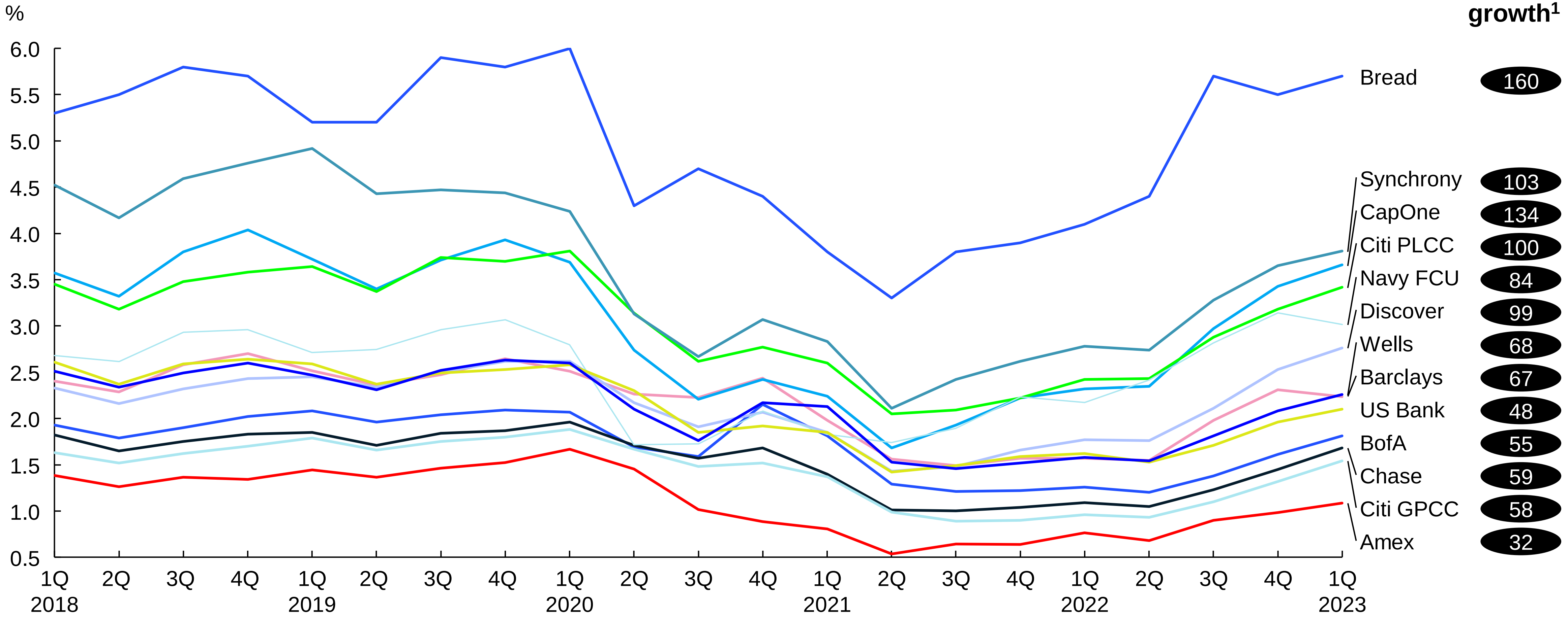
1. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

Worsening delinquency rates across could indicate a further deterioration in charge-off rates across issuers

Quarterly Figures

30+ days delinquency rate



1. 1Q23 vs. 1Q22

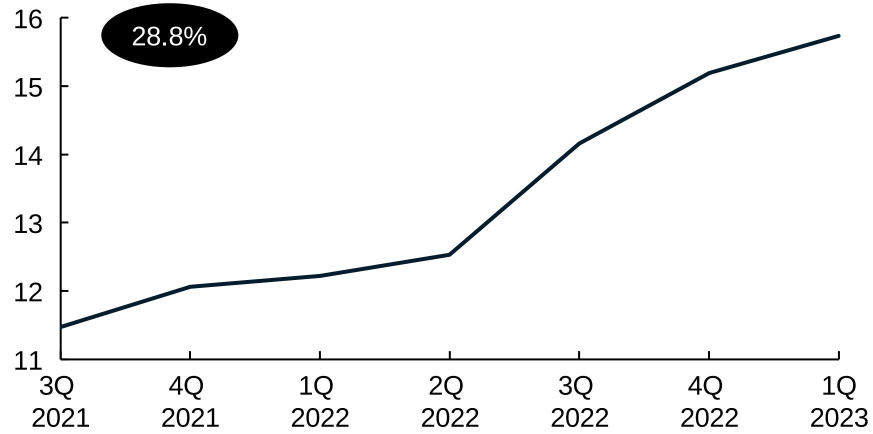
Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

While revenue components grew YoY, ROA decreased due to rising charge-offs and non-interest expense

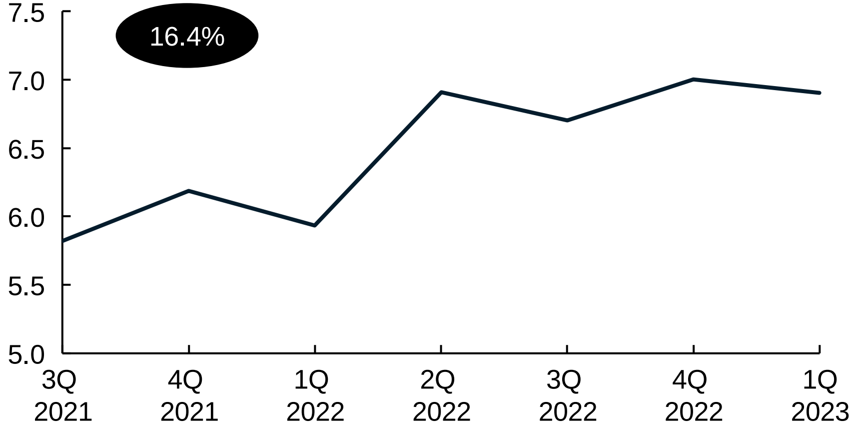
Quarterly Figures

YoY growth[2]

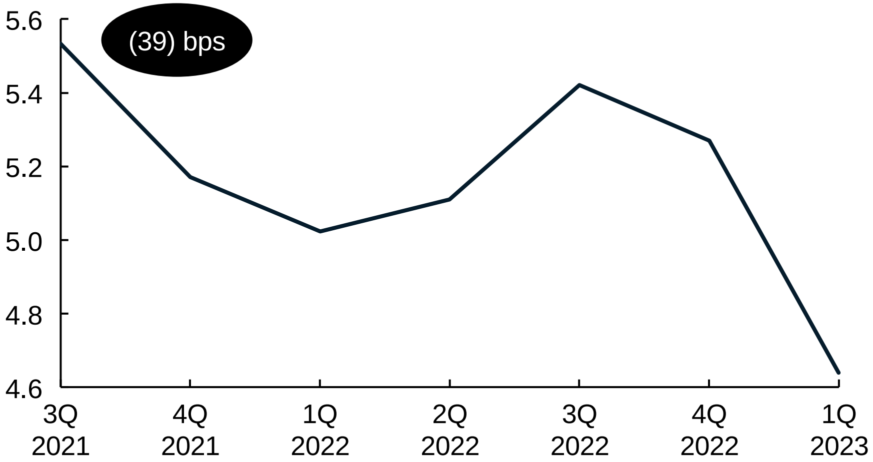
Net interest income[1], $B



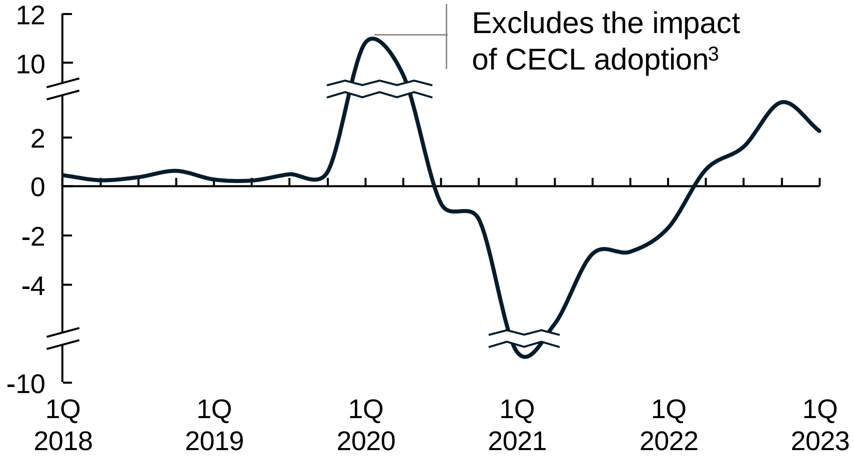
Non-interest income[1], $B



ROA[1], %



Credit reserve builds/ (releases)[1], $B



1. ROA is weighted average and rest are sum of respective operating metrics; net interest income, non-interest income, and ROA include American Express, Bank of America, BarclaycardUS, Capital One, Discover and Synchrony as rest do not explicitly breakout US credit card issuing P&L; credit reserve builds/(releases) include American Express, Bank of America, Capital One, Chase, Citi, and Discover
2. 1Q23 vs. 1Q22
3. Current expected credit losses (CECL) is the new methodology for estimating allowances for credit losses issued by the Financial Account Standards Board (FASB) that issuers were required to adopt in 1Q 2020

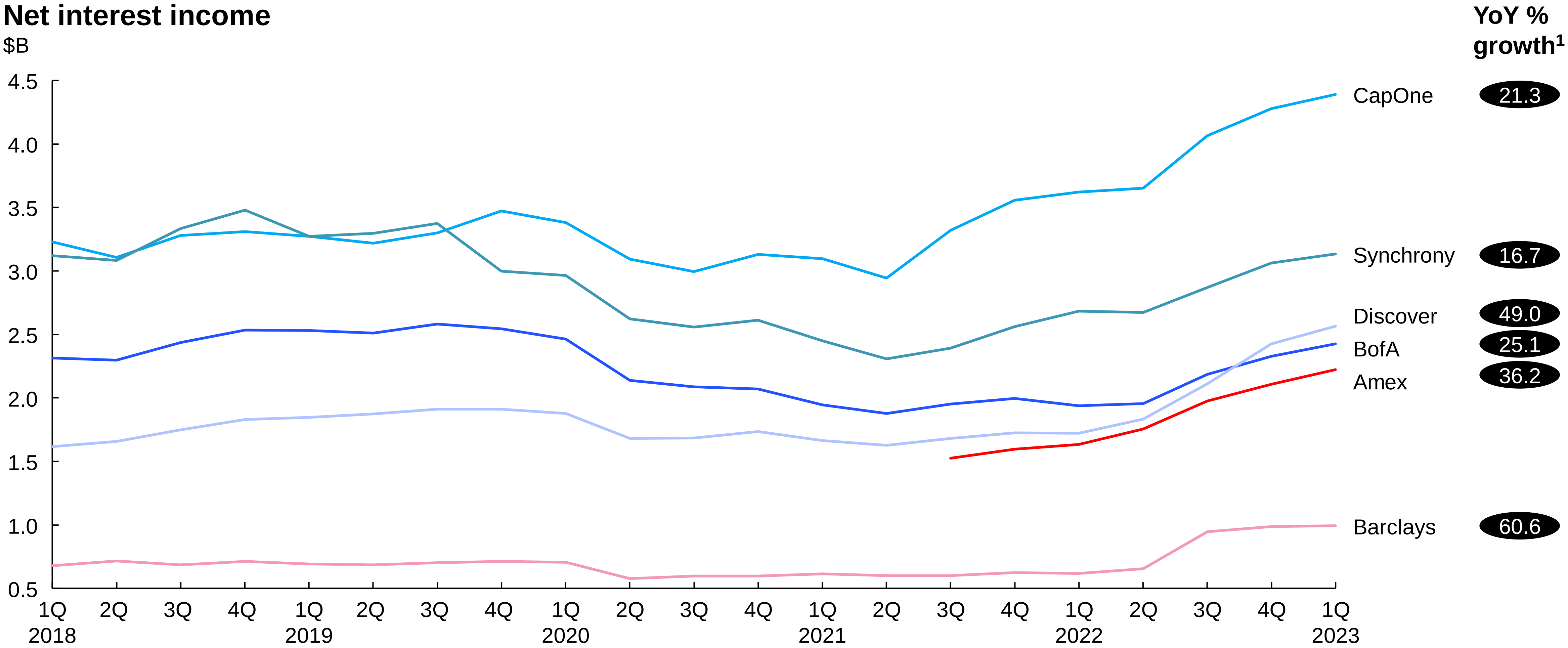
Source: McKinsey Credit Card Issuer Performance Model (1Q 2023)

Net-interest income improved for all issuers

Quarterly Figures

Net interest income

$B

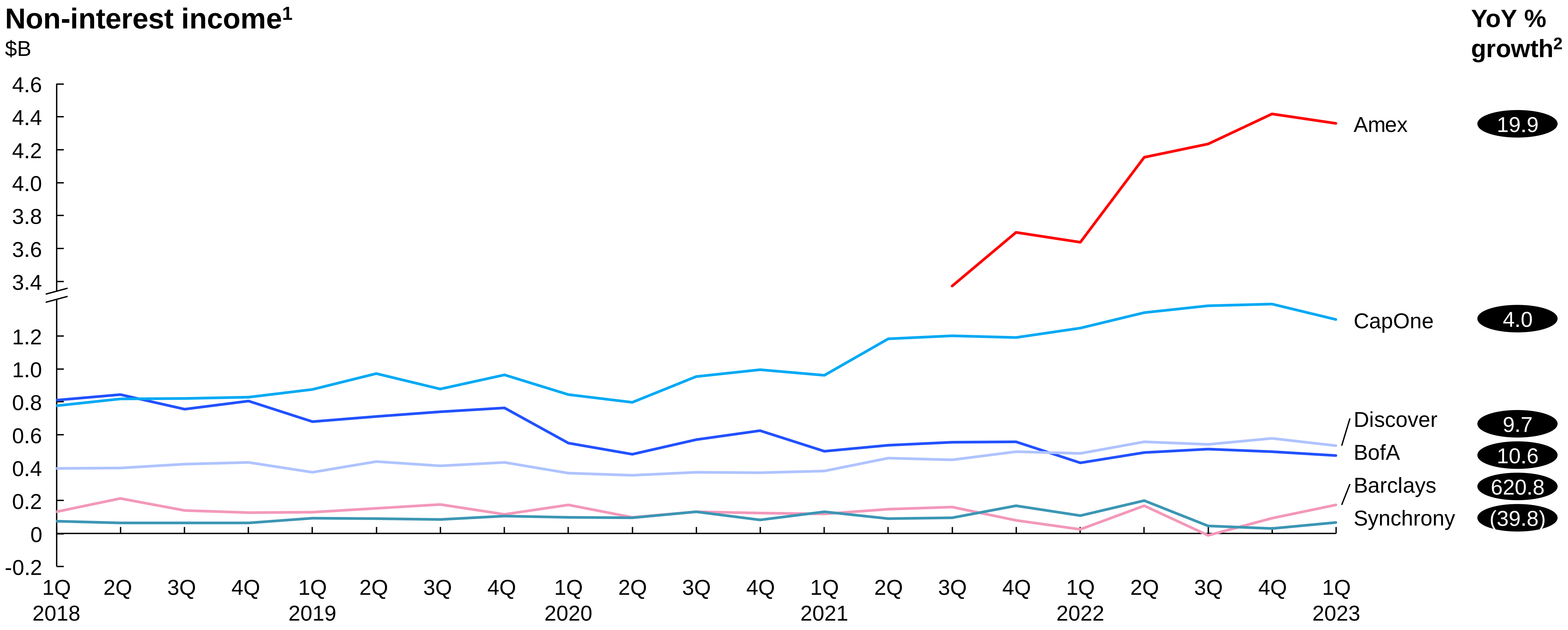


1. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

YoY non-interest income grew for all issuers except for Synchrony

Quarterly Figures



1. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

YoY ROA growth was mixed across issuers

Quarterly Figures

Pretax ROA[1]

%

1. ROA is calculated using actual loan losses instead of provision for loan losses
2. 1Q23 vs. 1Q22

Source: Company reports, McKinsey Credit Card Issuer Performance Model (1Q 2023)

Key topics issuers mentioned during earnings calls

	Metric	Description
1	**Purchase volume**	• Most issuers are seeing spend growth softening, but they think it is still healthy
2	**Outstandings**	• Historic outstandings growth combined with favorable net interest yield is leading to high net interest income • Decrease in payment rates is helping outstandings growth
3	**Charge-off and delinquency rates**	• While charge-offs and delinquencies are both rising, they are still below pre-pandemic level • Credit normalization is something issuers expected, and they are prepared for it (e.g., with reserve builds)
4	**Customer acquisitions**	• Issuers continued to report high customer acquisitions • Some issuers highlighted their targeted acquisition strategy (e.g., Amex targeting high spenders)
5	**Marketing expense**	• Issuers are relying on marketing to drive growth

Direct quotes from the earnings calls (1/2)

American Express	"This quarter, we acquired 3.4M new cards demonstrating the demand we're seeing, especially for our premium fee-based products." "Net yield on our Card Member loans increased 50 bps sequentially, reaching pre-pandemic levels this quarter as our customers increased their revolving balances. We have been able to increase our net yield while maintaining net write-off rates below pre-pandemic levels, expanding our net credit margin." "Pre-pandemic, [millennials] represented about 20% of our billings. Now they represent 30%. Last quarter, they grew at 30%. This quarter, they grew at 28%. The other thing that I'll point out is that this whole concept of getting more Millennials really started with our focus on generational relevance and making sure that our products and services were attractive across an entire cohort." "We are acquiring higher spending card members. The teams have done a phenomenal job of really sort of getting through the clutter and getting not only more card members, but getting card members that spend, getting card members that are paying fees and getting card members that will be with us for a long time."
Bank of America	"We've seen debit and credit card spending at about 6% YoY growth pace, a little slower but still healthy. But remember, card spending represents less than a quarter of how consumers pay for things out of their accounts at Bank of America." "The credit card [loan] growth reflects increased marketing. It reflects enhanced offers and higher levels of card account opening. "The credit card NCO rate was 2.21% in this first quarter, and that compares to 3.03% in the fourth quarter of '19 pre-pandemic."
Barclays	"In our US card business, our GAP partnership is performing well, and we also grew card balances organically across our other partner portfolios while credit continue to normalize in line with our expectations." "Delinquency rates have picked up a little as we continue to see normalization of credit behaviors. However, they remain below pre-pandemic level." "US card balances grew 30% to $28.5B, including $3.3B from the acquisition of the GAP book plus organic growth."
Bread	"This month, we received industry recognition for our Bread Cashback card launch being named Best credit card payment solution by the Fintech Breakthrough Awards." "Our percentage of 660+ cardholders remains materially above pre-pandemic levels given the strategic decisions we have made to diversify our product mix with co-brand and proprietary card representing a larger portion of our portfolio."
Chase	"Card outstandings were up 21%, driven by strong new account growth and revolve normalization." "We continue to expect the 2023 Card net charge-off rate to be approximately 2.6% [2.1% in 1Q 23]"

Source: Company earnings calls

Direct quotes from the earnings calls (2/2)

Capital One	“Strong YoY growth in every top line metrics continued in our Domestic Card Business. Revenue margin declined 58 bps YoY and remained strong at 17.7%. Revenue margin continues to benefit from growth in the high-margin segments.” “The allowance balance increased by $867M. Our build in the quarter was primarily driven by 3 factors: The first factor is the impact of underlying growth in the quarter. The second factor is the impact of removing the relatively lower loss content from the first quarter of 2023 and replacing it with higher forecasted loss content for the first quarter of 2024. And finally, the third factor was the impact of acquiring the BJ’s portfolio in the quarter.”
Citi	“Our cards businesses gained momentum as all drivers continued to normalize to pre-COVID levels and beyond. Branded Cards and Retail Services saw revenues up 18% and 24%.” “We built credit reserves this quarter on the back of growth in revolving balances in cards and poorer macro-outlook.” “We continue to see payment rates decline.”
Discover	“Receivable growth was driven by card, which increase 22% YoY, reflecting stable sales growth, modest new account growth and payment rate moderation. Sales increased 9% in the period slightly higher than the 8% growth we experienced in the prior quarter and down from the 16% growth we experienced in 2022.” “New card account growth decelerated, reflecting the tightening of underwriting standards over the past several months but grew by 3% from the prior year.” “The card payment rate decreased 80 bps in the quarter and is currently slightly over 200 bps.”
Synchrony	“Dual and co-branded cards accounted for 41% of total purchase volume and increased 22% on a core basis, reflecting continued strong response to several new value propositions” [We] recently announced product launch and the addition of renewal of more than 15 partners. In particular, we launched the Synchrony Outdoors card, which was in direct response to customers and partner demand in our powersports business.”
US Bank	“The credit quality remains strong but is starting to normalize as expected.”
Wells Fargo	“Consumer spending remained strong with growth in both debit and credit card spend, but spending began to soften late in the quarter.” “We announced a multiyear agreement with Choice Hotels to launch a new co-branded credit card this month.” “Credit card revenue increased 3% YoY due to higher loan balances driven by higher POS volume.” “We continue to see some slight moderation in payment rates in the first quarter, but they were still well above pre-pandemic levels.”

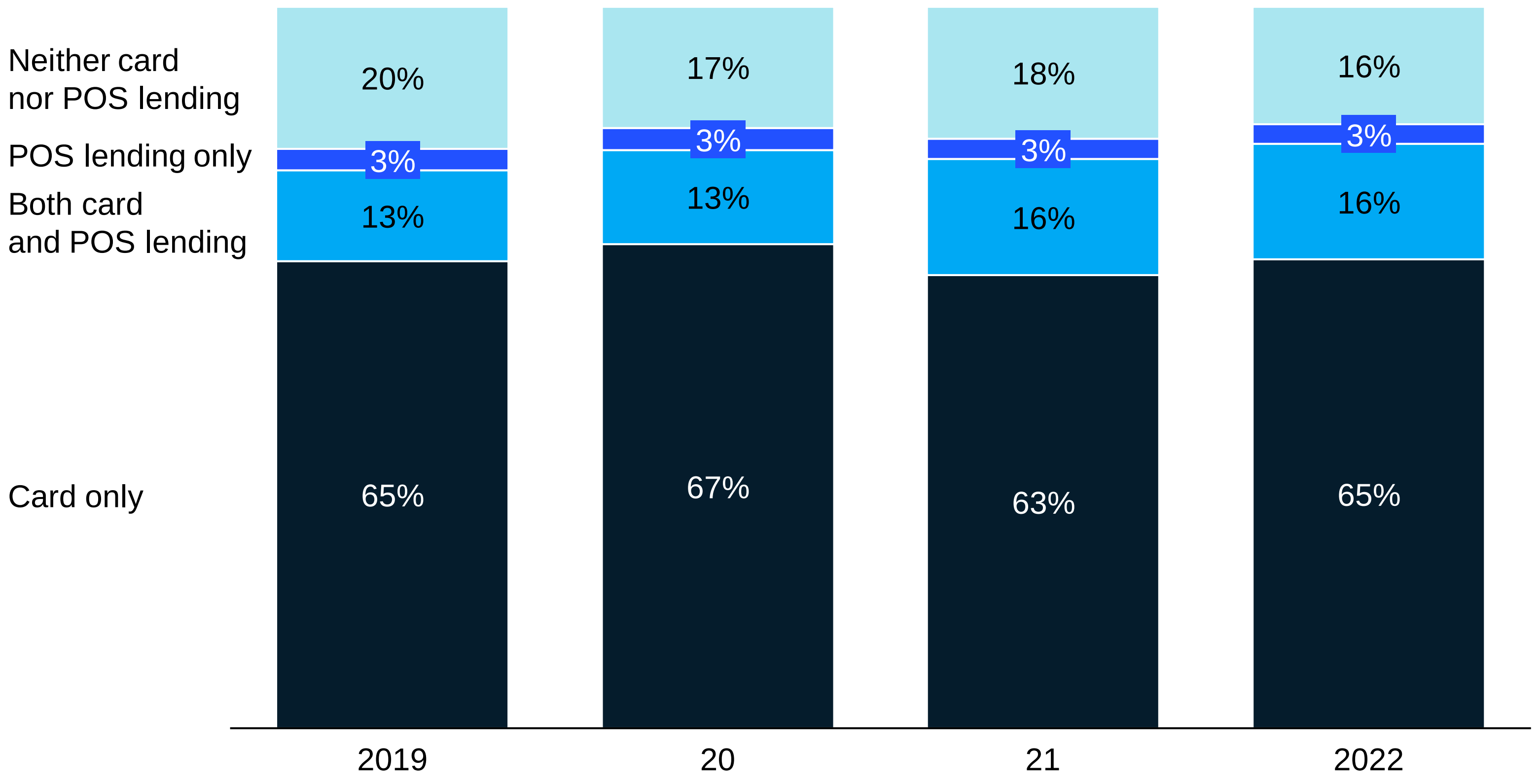
Source: Company earnings calls

Insights from McKinsey – consumer segmentation by financing methods

Since 2019, the percent of consumers using each type of financing has changed very marginally

Overview of consumers by financing methods used

Percent of households that are each archetype



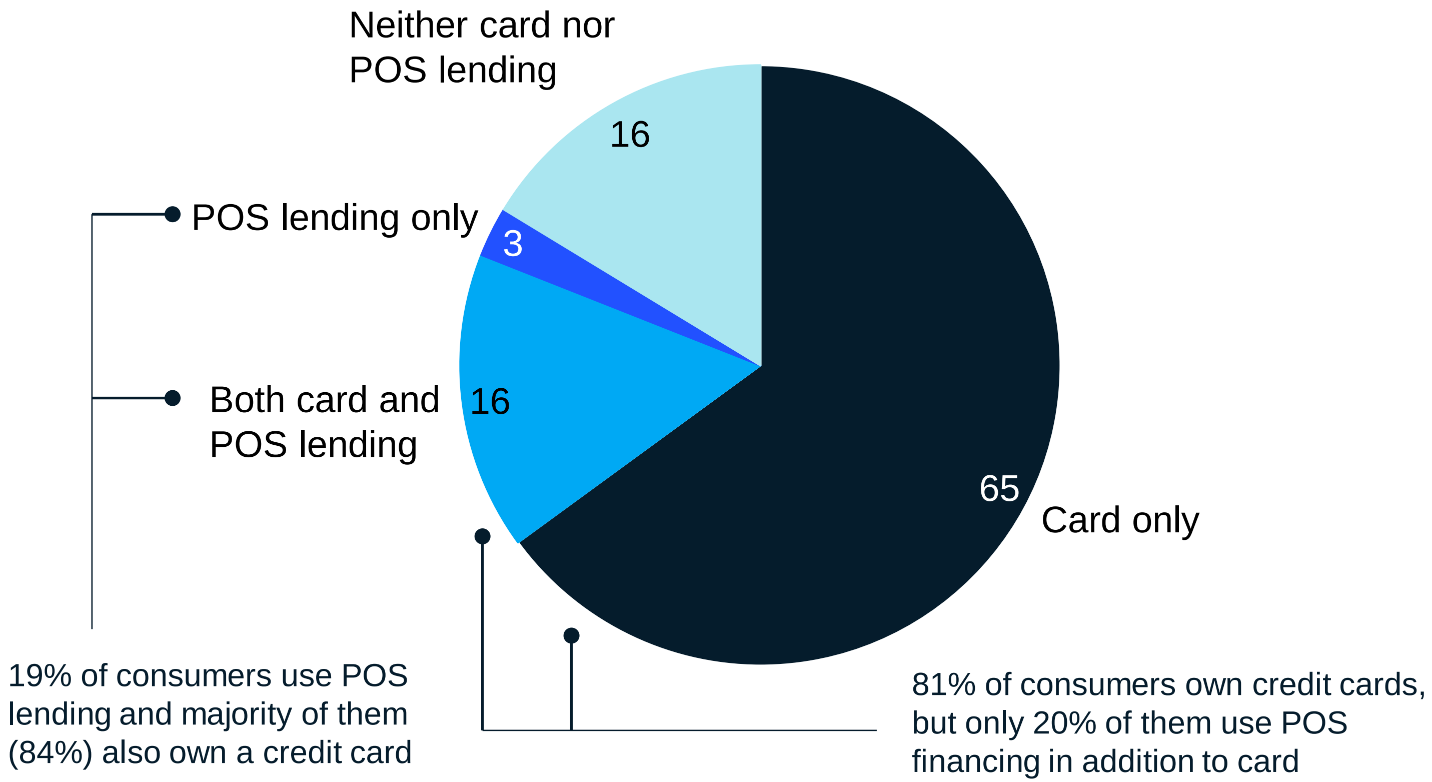
Source: McKinsey Consumer Financial Life Survey

Unless there is a systemic change to the business model of POS lending, it is hard to picture a scenario in which it threatens card significantly more than today

Most POS lending users also own a credit card, but most credit cardholders do not use POS lending[1]

Overview of consumers by financing methods used, 2022

Percent of households that are each archetype



1. POS lending includes BNPL/pay-in-four/six models such as Klarna and installment lending models such as Synchrony CareCredit

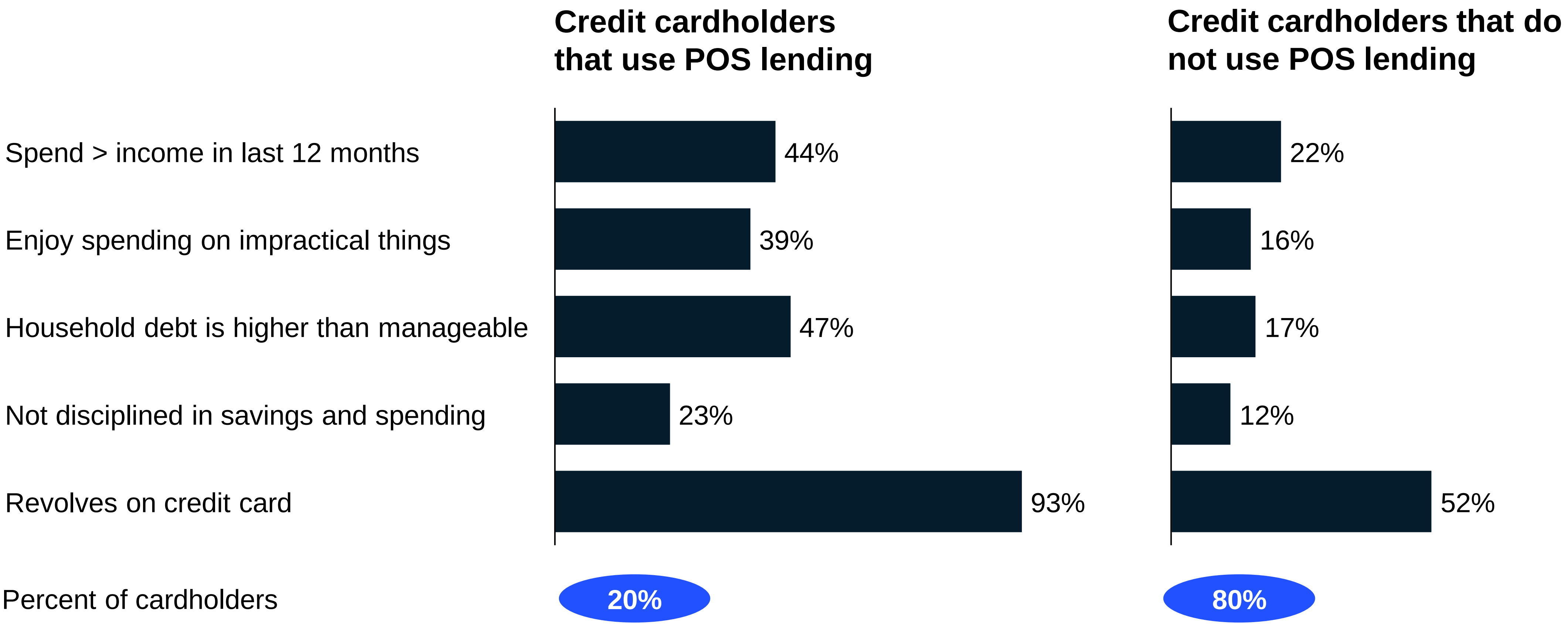
Source: McKinsey Consumer Financial Life Survey

Credit cardholders that use POS lending tend to have much more tenuous financial situations

Some of this is due to lack of discipline on savings/spending and spending on impractical things

Profile of credit cardholders by POS lending usage

Percent of each segment answering yes to each question



Source: McKinsey Consumer Financial Life Survey

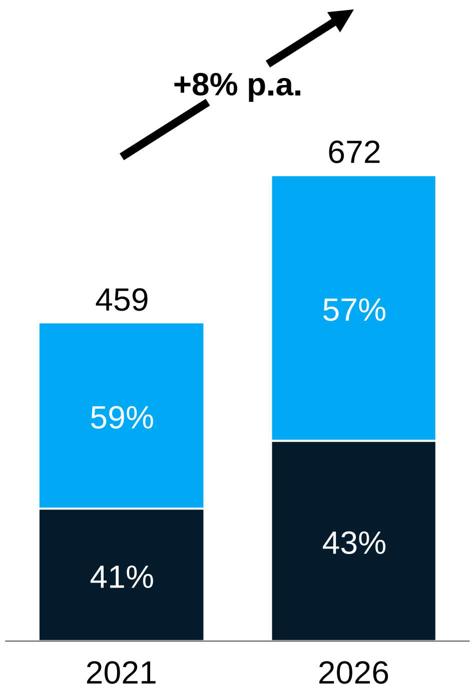
Appendix

The US has $459B in domestic payments revenues and is likely to grow at ~8% annually through 2026

Updated February 2023 | Scenario 2B

NII | Fees

Payments Revenues
USD Bn



Growth by segment
USD Bn

	2021 revenues	CAGR '16-'21	2026 revenues	CAGR '21-'26
US Payment Industry	**459**	**4.3%**	**672**	**7.9%**
Cons. Credit Card Issuing[1]	175	4.1%	265	8.7%
Cons. DDA	82	1.3%	112	6.3%
Bus/gov DDA[2]	82	4.7%	118	7.4%
Bus/gov Credit Card Issuing[3]	43	6.1%	70	10.0%
Merchant Services	33	8.2%	51	9.1%
Money Services[4]	28	7.9%	36	5.2%
POS Lending[5]	11	6.5%	16	8.4%
Other[6]	5	-0.9%	5	-0.7%

1. Consumer credit card includes general purpose credit cards with Visa/MC/Amex/Discover logos (including co-branded cards) and private label credit cards; figure is gross of rewards
2. Bus/gov DDA includes cash management and small business checking accounts
3. Bus/gov credit card includes corporate card (T&E card, p-card, virtual card) and small business revolve card; figure is gross of rewards and rebates
4. Money Services include prepaid cards, electronic money transfer (EMT), and money order
5. POS lending includes digital and in-store purchase financing
6. Other includes armored transport, check verification/guarantee, travelers' checks, and third-party ATM

Source: McKinsey US Payments Map, Q4 2022 release

Consumer credit card is likely to be the largest contributors to revenue growth

Updated February 2023   Scenario 2B

	2021 U.S. Payments Revenues, 100%=USD 459 Bn		Net new revenues 2026 vs. 2021, 100%=USD 213Bn — Transaction fees, USD	Penalty fees, USD	Account fees, USD	Net Interest Income, USD
Consumer Credit Card	175	90	44.6	-0.1	8.3	37.5
Consumer DDA/Debit	82	30	9.1	-4.1	-0.4	25.0
Business/Gov DDA	82	35	3.4	-0.3	2.5	29.9
Commercial Card	43	26	20.5	0.1	0.3	5.6
Merchant Services	33	18	17.8		0.2	
POS Lending	11	5	7.8			-2.5
Money Services[1]	28	8	4.4		1.0	2.5
Other[2]	5	0	-0.3		0.1	

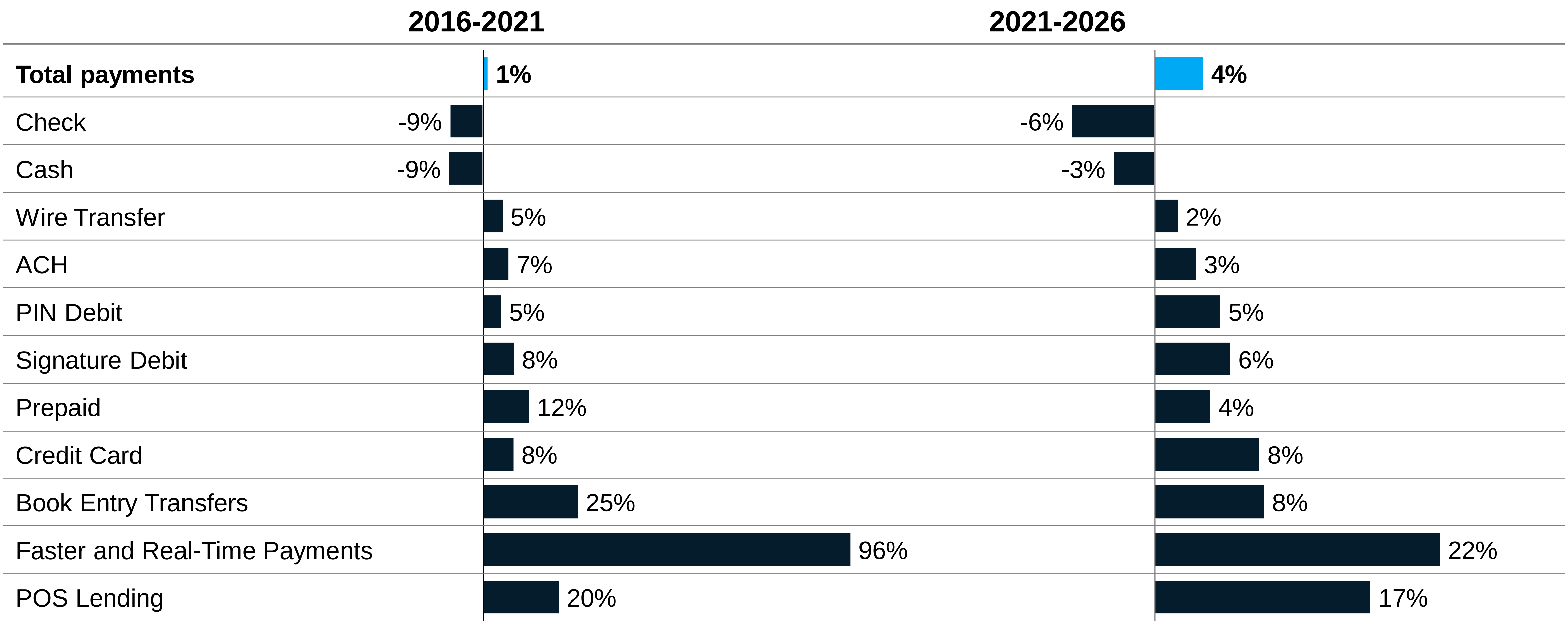
1. Money Services includes prepaid cards, EMT, non-bank check cashing, and money order
2. Other includes armored transport, check verification/guarantee, traveler's checks, ISO ATMs, and phone/other bill charges

Source: McKinsey US Payments Map, Q4 2022 release

Transactions are likely to grow at an accelerated pace of ~4%; digital transactions will gain higher share of wallet

Updated February 2023 Scenario 2B

US Payments transaction growth, CAGR



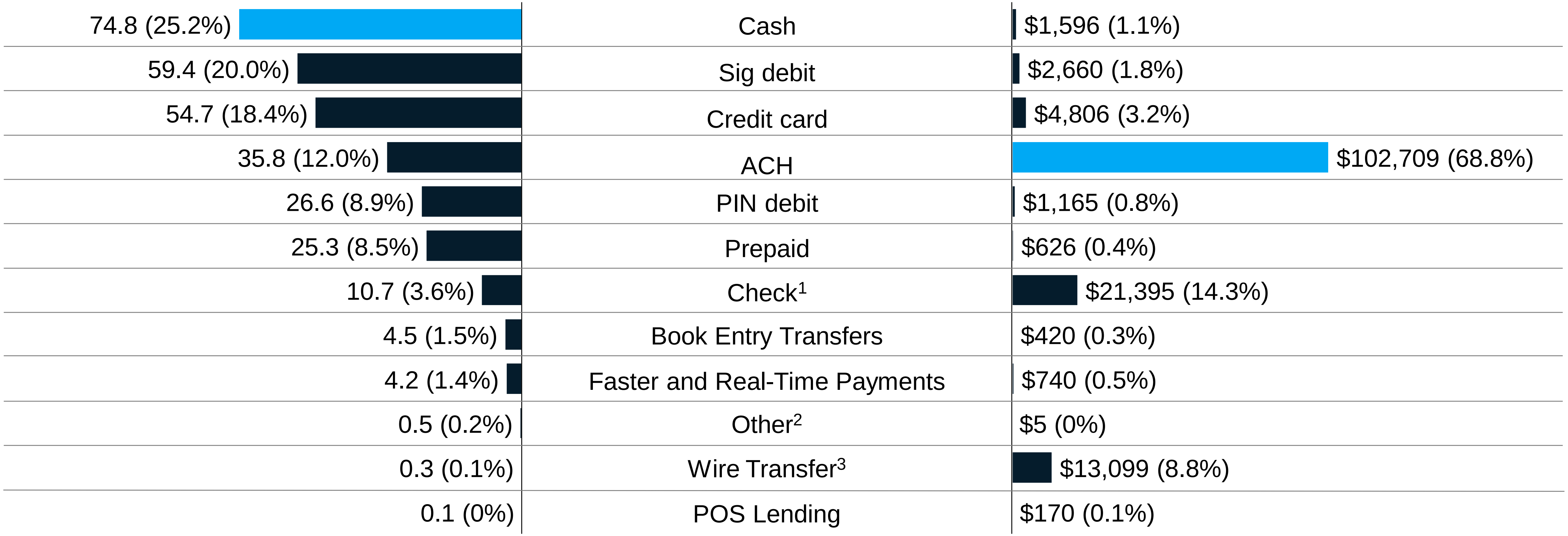
Source: McKinsey US Payments Map, Q4 2022 release

Cash remains the most frequently used payment instrument; most 2021 payments flows were via ACH

Updated February 2023 | Scenario 2B

2021 US transactions, 297 Bn

2021 US dollar flows, USD 149,392 Bn



1. Reflects checks paid, not checks written. Checks converted to ACH are counted in ACH. This convention is used throughout
2. Includes cell phone/other bill charges
3. Excludes the vast majority of wire transfer dollars in an effort to approximate customer payments activity rather than FI settlement.

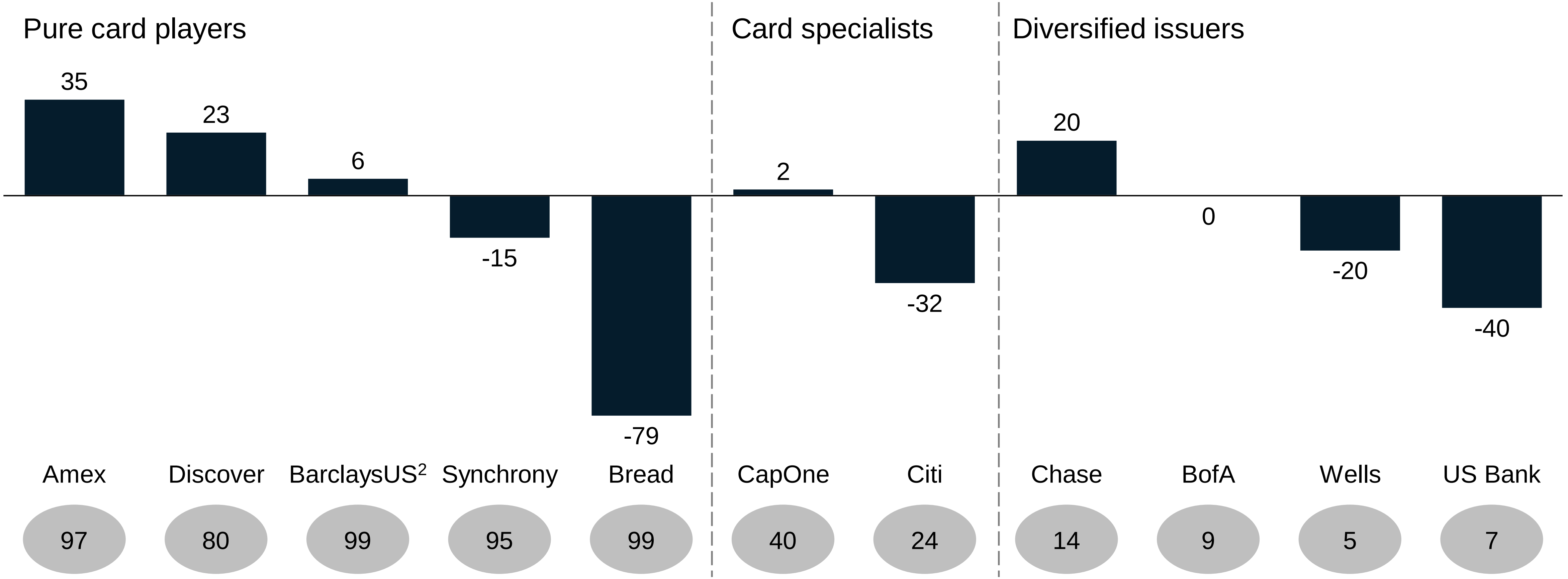
Source: McKinsey US Payments Map, Q4 2022 release

Share price change at company level

Change in share price as of 05/01/2023 when indexed to 10/1/2019 price

%

% credit card loans to total loans[1]



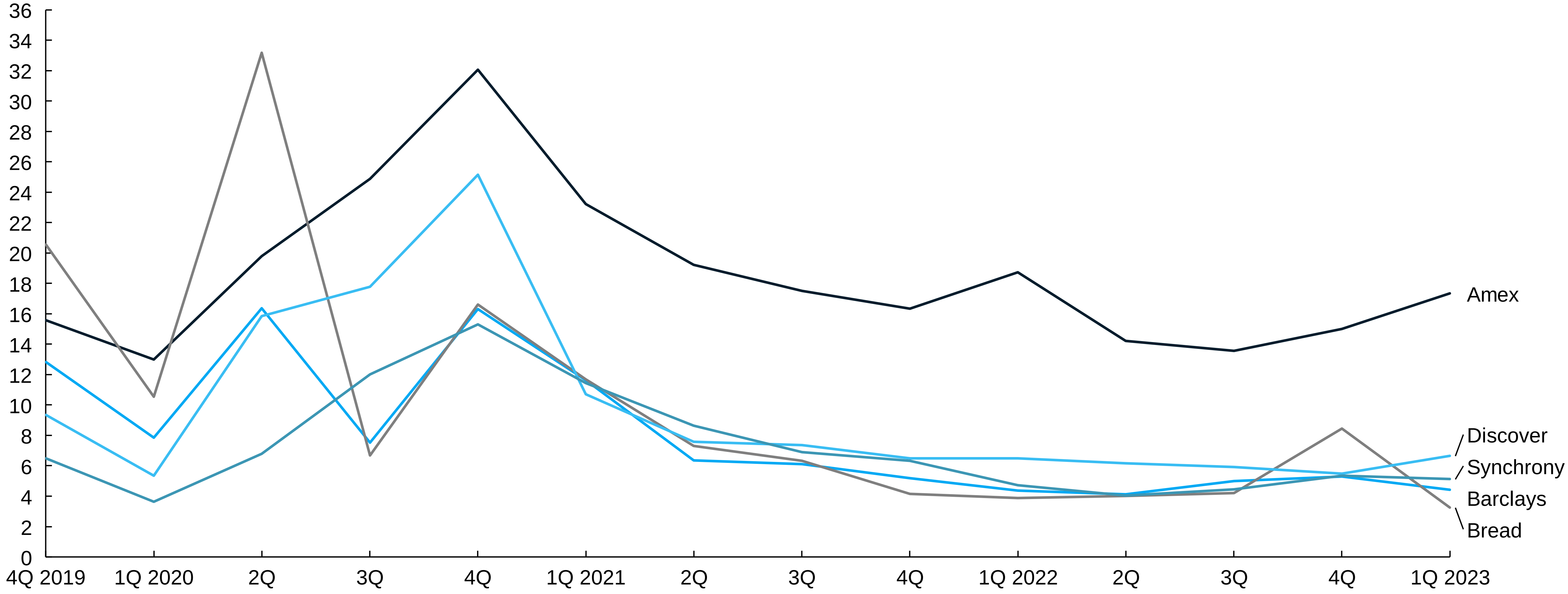
1. As of 1Q 2023; includes both consumer and commercial loans
2. Change in share price is for Barclays PLC and % credit card loans to total loans is for BarclaysUS

Source: S&P Capital IQ

P/E ratio at company level (pure card players)

P/E ratio[1]

%



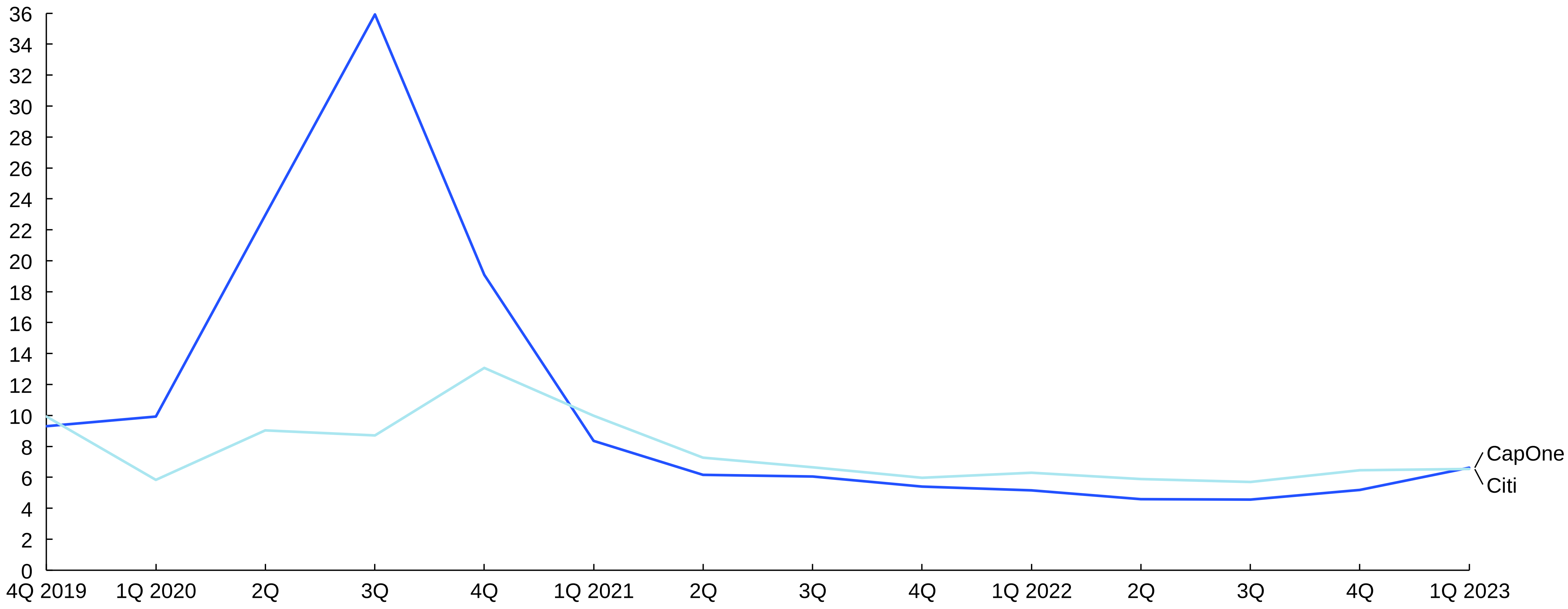
1. Price as a multiple of last 12 months earnings per share

Source: S&P Capital IQ

P/E ratio at company level (card specialists)

P/E ratio[1]

%



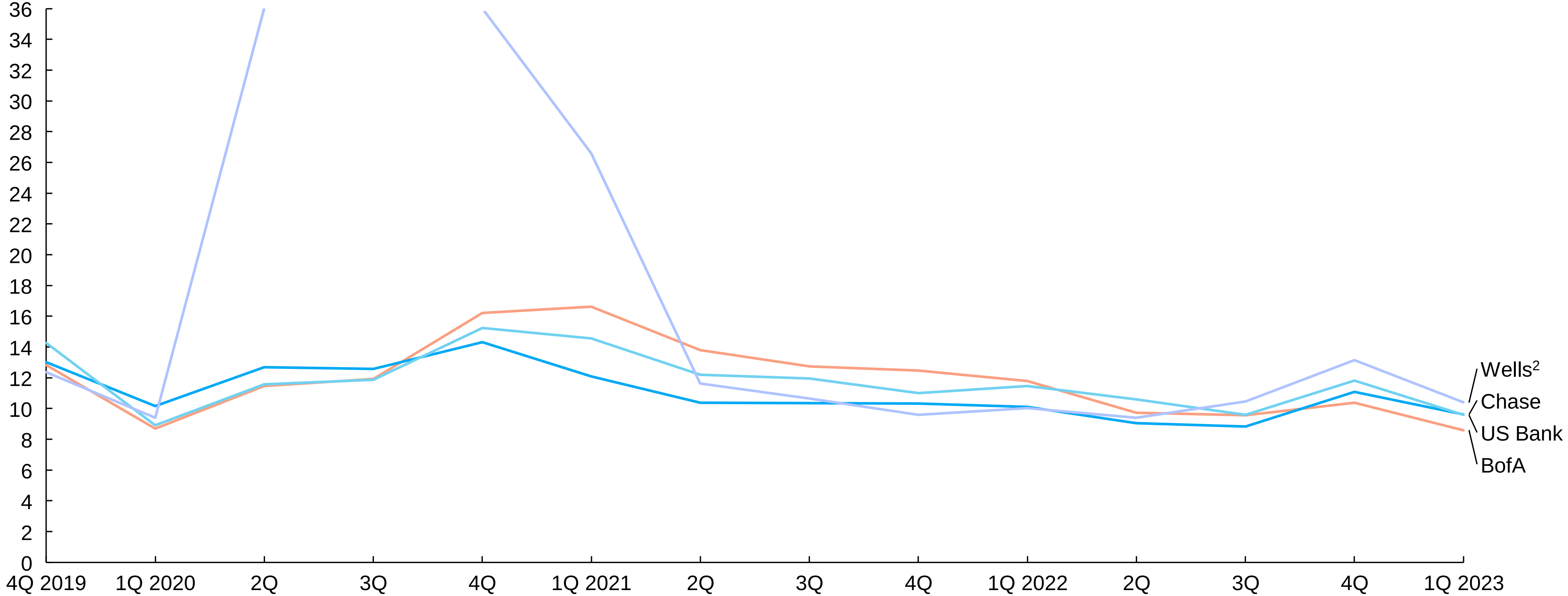
1. Price as a multiple of last 12 months earnings per share

Source: S&P Capital IQ

P/E ratio at company level (diversified issuers)

P/E ratio[1]

%



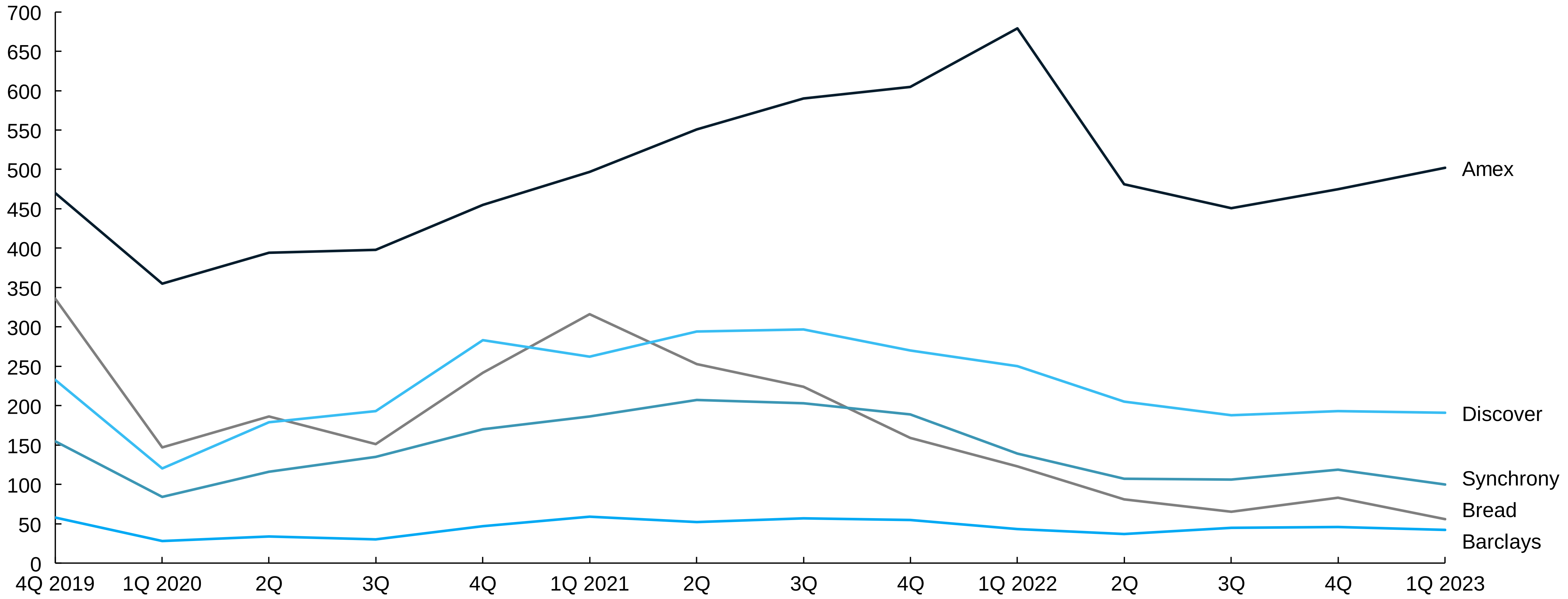
1. Price as a multiple of last 12 months earnings per share
2. Wells Fargo's P/E ratios for 2Q 2020, 3Q 2020, and 4Q 2020 were 42.02%, 61.79%, and 68.56% respectively (not visible in the chart). High P/E ratios were due to low EPS during these quarters

Source: S&P Capital IQ

P/B ratio at company level (pure card players)

P/B ratio[1]

%



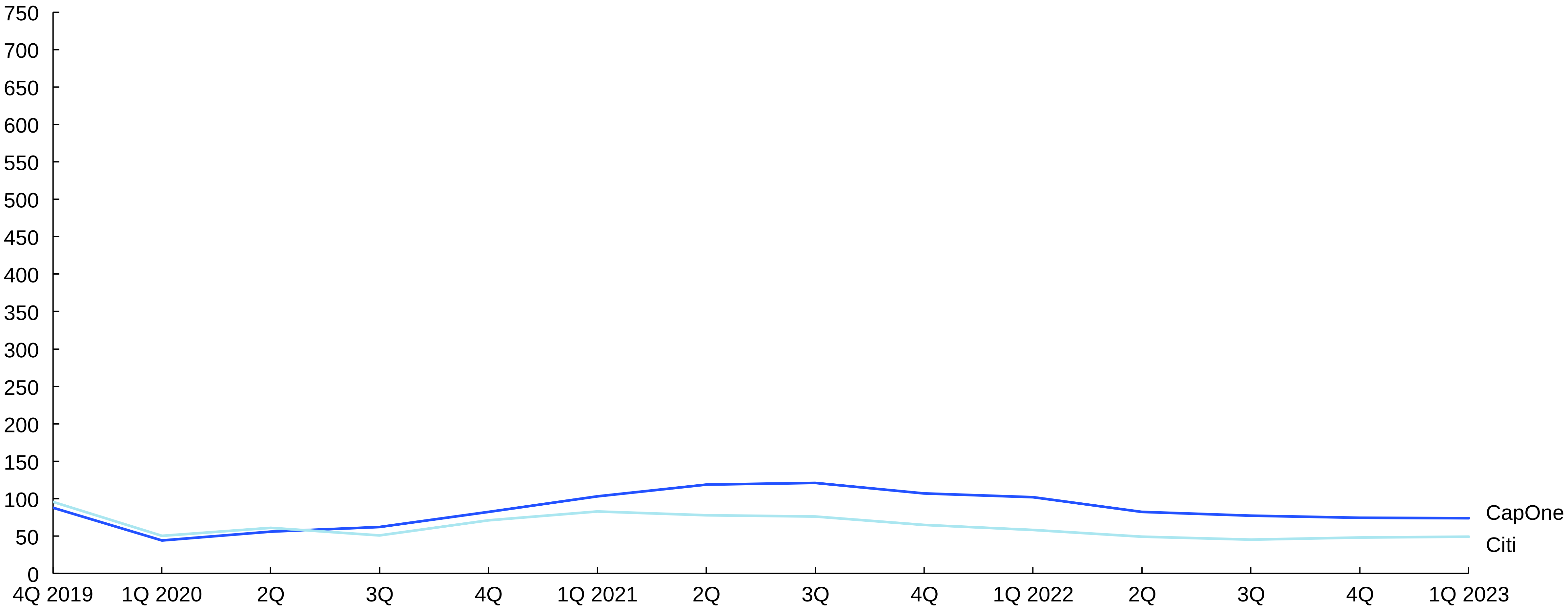
1. Price as a multiple of book value per share. Book value is calculated using financial period end common equity and common shares outstanding values

Source: S&P Capital IQ

P/B ratio at company level (card specialists)

P/B ratio[1]

%

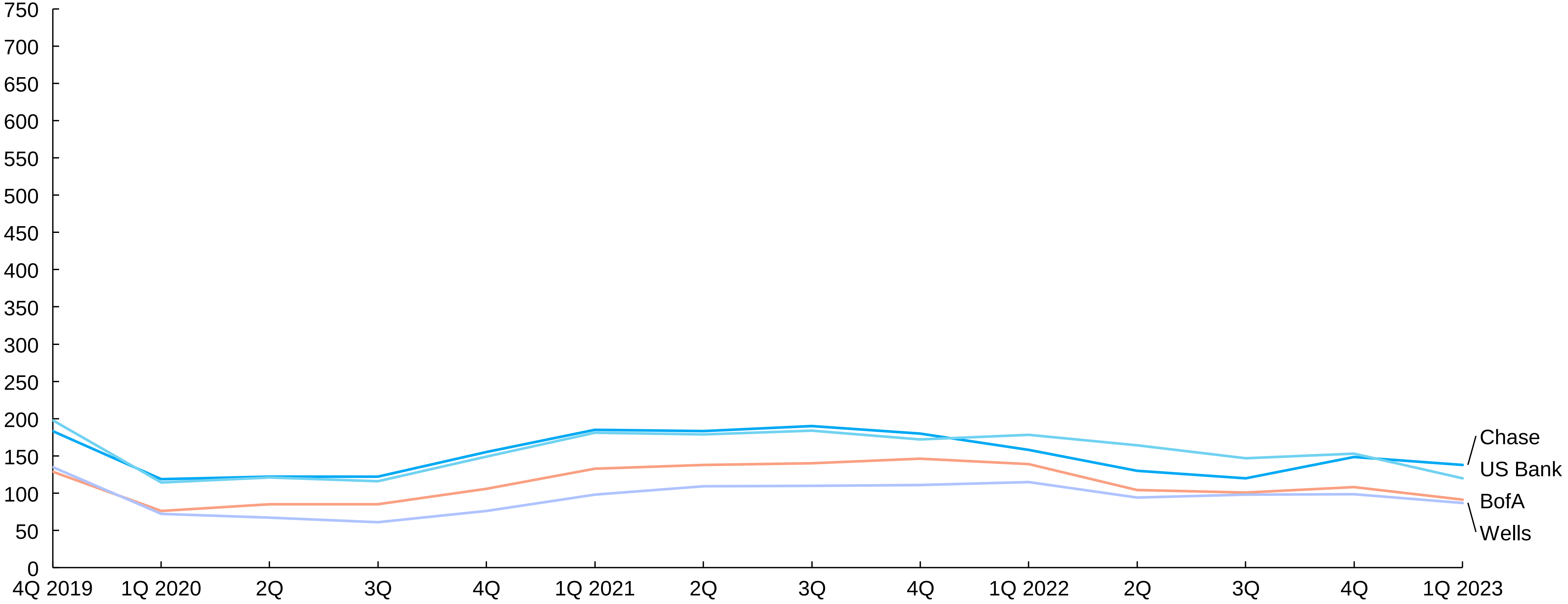


1. Price as a multiple of book value per share. Book value is calculated using financial period end common equity and common shares outstanding values

Source: S&P Capital IQ

P/B ratio at company level (diversified issuers)

P/B ratio[1]
%



1. Price as a multiple of book value per share. Book value is calculated using financial period end common equity and common shares outstanding values

Source: S&P Capital IQ