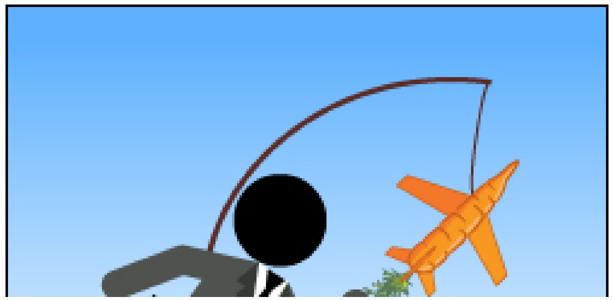
Are issuers clamping down on churning?

By Carmen Chai

Many credit cards come with great sign-up bonuses - tens of thousands of rewards points, a free tablet, $100 or more in cash back. With extravagant incentives like these, it's no wonder that credit card churning has caught on in Canada.

Churning is when someone gets a new credit card account solely for the sign-up bonus, then closes the card before the next annual fee kicks in. If a new promotion is unveiled, a churner will sign up for the card again, or sign up for a card from another issuer offering goodies. Consumers are catching on to the trend, but so are issuers, who are working hard to make sure new cardholders stick around longer than a year.



Tips and tricks on how churn successfully are available on websites such as RedFlagDeals, Reddit, and personal finance and travel blogs.

John Ulzheimer, personal finance expert, author and blogger, suggests churning is on credit card companies' radars. "Churning is something that concerns [creditors] because they're handing out large sign up

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bonuses, or giving up a large chunk of rewards points in exchange for signing up," he says. "The card issuer has a lot more skin in the game than the cardholder. If the card user just takes the miles and uses them and closes account and never does anything with card, the card issuer loses."

But issuers are taking measures to prevent such a turnaround. It's a balancing act for them -- they need rules that cut down on churning without scaring off potential new customers.

There are three common ways issuers are cutting back on the churn rate:

1. They're discouraging re-applicants: If you open a card, claim the rewards and then close the account, you may not get a new sign-up bonus. Creditors have caught onto this tactic and are closing the loop, Ulzheimer says. This way, consumers have only one opportunity to capitalize on promotions.

2. They're adding stipulations: Instead of handing out immediate rewards, credit card companies are adding requirements to the deal. If you want the sign-up bonus, you have to activate the card, then spend a certain amount of money or make a handful of transactions before the deal is available to you.

"They're making you actually start to use the card versus giving you the awards and hoping you'll use it," Ulzheimer explains.

3. They're adding long-term perks: Many credit cards that come with annual fees waive the fee the first year. However, if you're signing up during a promotion, this may not be the case. Now, many issuers waive the fee in the second year -- after you've put the card to use. This stops churners from opening the card, reaping the benefits and then closing their card by year's end.

The churning trend is relatively new, though, as creditors aggressively fight to acquire new customers, Ulzheimer says.

And at least one issuer, American Express, isn't fazed.

"With more and more credit cards available on the market, and the high volume of advertising, it's not surprising that Canadians are trying out different cards," Amanda Betti, spokeswoman for American Express Canada, said in an emailed statement. "We believe that it's important to spend some time thinking about the different cards available and the benefits attached to them."

Amex says that even with its lavish promotions with one-year free trials, it's happy with its retention rates. "We welcome the opportunity for Canadians to try out our products and see which one works best for their lifestyle and needs ... we are comfortable with this kind of trial as we're confident in our products," Betti said.

Churning requires time and effort

The habit of churning cards is also a pain for the cardholder, according to Mike Gomes, a certified financial planner with Toronto-based Ironshield.

You must pay attention to the fine print, make sure you meet the conditions and stay on top of your bills. It's time-consuming, so be sure you have the time and resources to devote to churning if you want to try it.

"If you're not disciplined, you'll be paying high interest rates and racking up debt for the sake of getting some bonus. That's not a good strategy," Gomes says.

You're also gambling with your financial fate. If you fall behind on your payments or can't keep up with debt, it could hurt your chances of securing a good deal for future credit or loans. And that debt might end up costing more than whatever miles or points you scored in the first place, Gomes says.

Finally, be prepared for your credit score to take a hit, either from applying for so many cards in quick succession or from closing a card and lowering your credit utilization ratio.

Overall, the experts advise against churning. Instead, they suggest choosing two credit cards with rewards that suit your needs and sticking with them.

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