Bank Behind Gap, JC Penney Store Cards Looks Beyond Retail

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By **Jennifer Surane**
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- Synchrony weighing retail bank expansion, looking at fintech
- 'Surprising we haven't seen more retailers' close, CEO says

When Macy's Inc. reported results that missed analysts' estimates, Synchrony Financial investors felt the pain.

The largest issuer of private-label credit cards in the U.S. saw its shares drop to their lowest in about seven months on May 11, the day of Macy's disappointing first-quarter earnings.

There's just one problem: "Macy's announced and we went down, and we don't even have Macy's," Synchrony's Chief Executive Officer Margaret Keane said in an interview at Bloomberg headquarters in

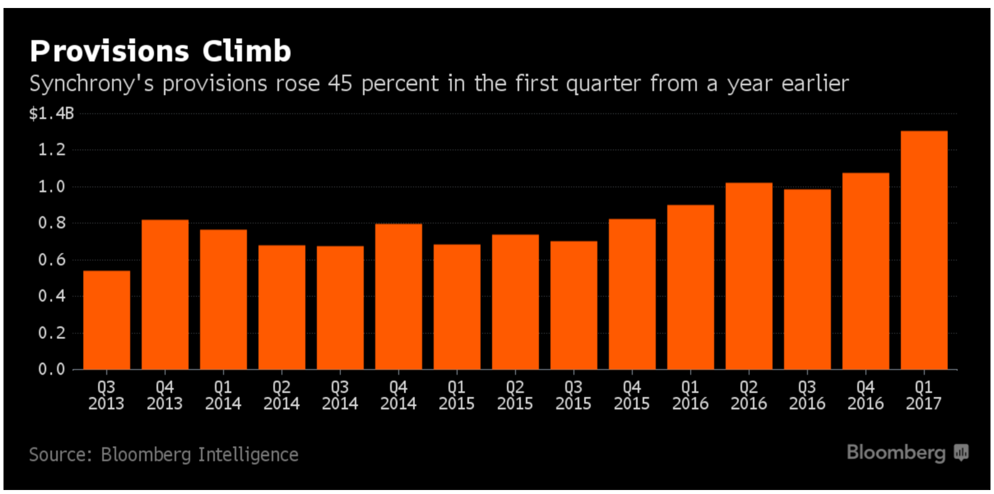
ret Keane Source: Synchrony Financial

New York. “We do have to think about more diversification.”

Replay

U.S. retailers have been shutting stores at a record pace <https://www.bloomberg.com/news/articles/2017-04-07/stores-are-closing-at-a-record-pace-as-amazon-chews-up-retailers> as shoppers opt to make more purchases online. In the past year, companies including American Apparel and Limited Stores have begun closing retail branches, while dressmaker BCBG Max Azria, discount shoe seller Payless Inc. and department store operator Gordmans Stores Inc. have filed for bankruptcy.

“It’s surprising we haven’t seen more retailers go out,” said Keane, 57. “If you look at the U.S., we’re over-retailed, we have too many retailers. What you’re seeing is a lot of the specialty retailers, the smaller retailers, go under.”



Amid the carnage <https://www.bloomberg.com/news/articles/2017-04-08/vornado-s-roth-sees-chance-to-feed-on-the-carnage-in-retail>, Stamford, Connecticut-based Synchrony has increased reserves to help cover loan losses. That’s crimped earnings and created pressure on the company’s stock, which has dropped 19 percent this year, the worst performance in the 66-company S&P 500 Financials Index. Among the Synchrony programs most at risk are its partnerships with Gap Inc., JC Penney Co. and Men’s Wearhouse Inc., according to Moody’s Investors Service.

Read more: Stores closing at a record pace as Amazon chews up retailers <https://www.bloomberg.com/news/articles/2017-04-07/stores-are-closing-at-a-record-pace-as-amazon-chews-up-retailers>

The closures haven’t stopped customers from using Synchrony’s products. Spending on the firm’s private-label cards increased 9.3 percent to $67.8 billion in 2016 from a year earlier, according to the Nilson Report, an industry publication. Retail sales climbed <https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf> just 2.7 percent during the same period, data compiled by the U.S. Department of Commerce show.

'Lower Priority'

The shift from brick-and-mortar shopping to e-commerce should cause write-offs to rise at private-label credit-card providers like Synchrony, according to Moody's analysts led by Jody Shenn. That's because when customers lose access to geographically convenient locations, their payment behavior typically worsens, they said.

"The accounts will provide less of an ongoing benefit to consumers who remain current, which in turn makes repaying this debt a lower priority relative to other obligations," the analysts wrote in the June 28 report.

Nearly 300 million private-label credit-card loans were outstanding at the end of the first quarter, according to data compiled by Equifax Inc. About 1.8 percent were 30-days past due, a harbinger of future write-offs, compared with 0.84 percent for general purpose credit cards, the firm found.

Surging e-commerce sales are affecting other parts of the payments industry as well. Merchant acquirer Vantiv Inc., which gets as much as 50 percent of its revenue from processing transactions for large national chains, agreed <https://www.bloomberg.com/news/articles/2017-07-05/vantiv-agrees-to-buy-u-k-payment-firm-worldpay-for-9-9-billion> Wednesday to buy London's Worldpay Group Plc for $9.9 billion to gain greater exposure to e-commerce retailers and small businesses.

For Synchrony, which was spun out of General Electric Co. in a 2014 initial public offering, the changing retail environment has been an opportunity to create new offerings for retail partners, Keane said. In March, the firm acquired software developer GPShopper to help smaller merchants they work with build customized mobile apps.

To further diversify offerings, the firm is weighing <https://www.bloomberg.com/news/articles/2014-10-22/cop-s-daughter-tuned-to-espn-on-road-to-becoming-bank-ceo> expanding its retail bank, which has about $50 billion in deposit, Keane said. The company also would consider acquiring one of the online lenders that have sprung up in recent years, mainly for its technology, she said.

"We have to protect the core, which is what we're in, but there are a couple areas we're exploring," Keane said. "We're spending some time over the summer to really dig into what else should we be thinking about."