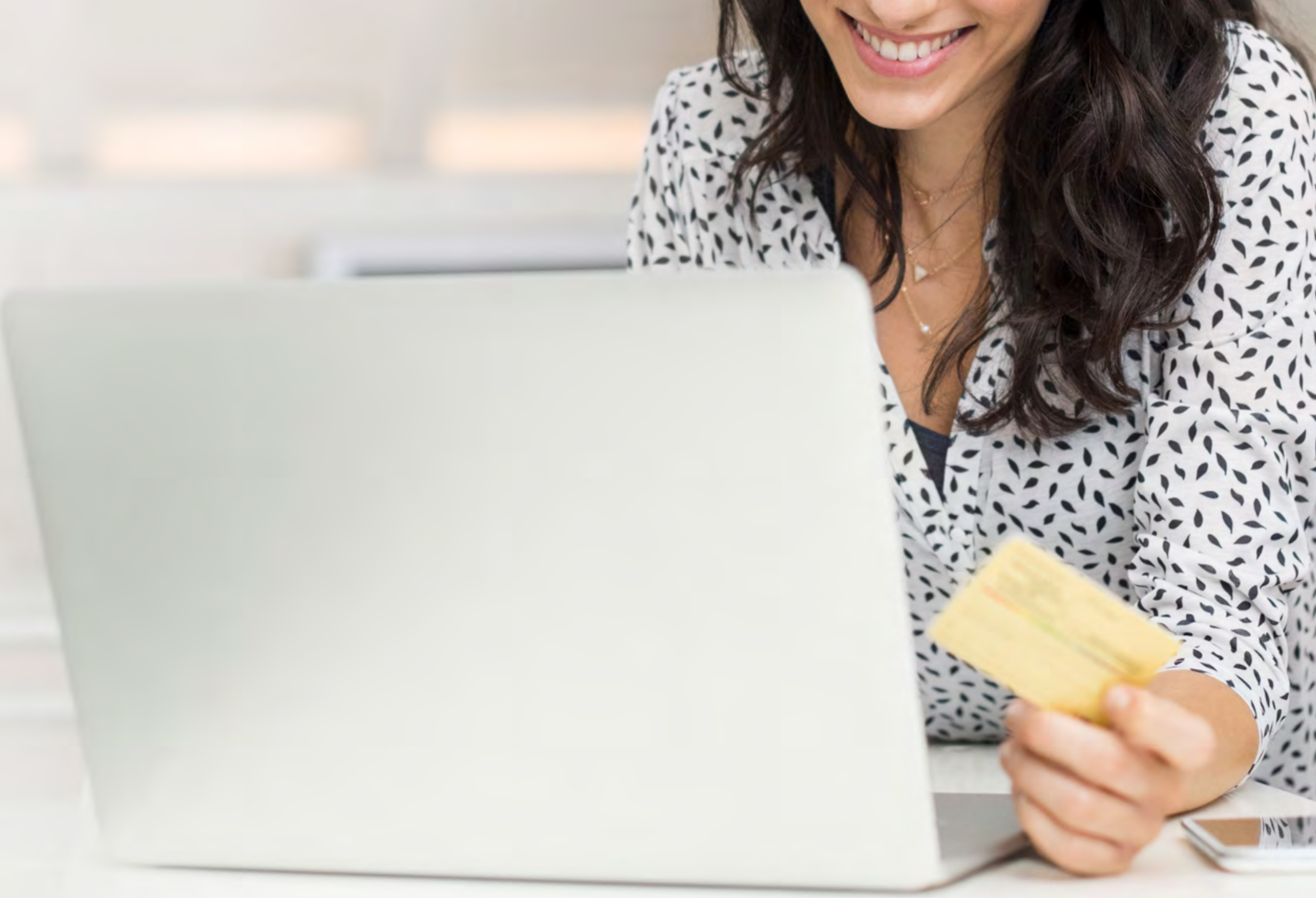
Visa Consulting & Analytics

Optimising your debit card business

Three steps to maximize value from your portfolio



How to get the most from your debit portfolio

Debit cards sit at the heart of a customer's relationship with their bank, giving financial institutions the opportunity to embed themselves into their customers' spending lives and cross-sell further products, while at the same time giving account holders benefits such as:

- Having a safe and convenient product that meets their needs
- Provides flexibility to pay in store, online (ecommerce and mcommerce) or over the phone
- All the benefits of a credit card, without the risk of getting into debt
- The added perk of being able to make ATM cash withdrawals

Debit cards sit at the center of cross-selling opportunities, from short-and long-term lending to temporary savings and retirement plans that can last decades

Engagement/profitability

Borrowing			Transacting	Saving		
Shortage of funds?			**Income** Current Account	Excess of funds?		
Long Term	**Medium Term**	**Short Term**	**Debit card**	**Short Term**	**Medium Term**	**Long Term**
Mortgage	Personal loan	Overdraft Credit Card	Electronic transfer Direct debit Online bill payment Mobile payments	Savings	Bonds	Investments Pensions
e.g. Buying a house	e.g. Buying a car	e.g. Clothes		e.g. Holiday	e.g. School fees	e.g. Retirement

Changes in regulations and the impact of COVID-19 has pressured financial institutions to optimise their debit offers, reduce losses and increase profits. Furthermore, the current macro-economic climate in the Eurozone which includes rapidly rising inflation (8.6% in July) and a deterioration in credit standards is resulting in consumer being more frugal with their money and resorting to cash and debit card payments.

Looking beyond the traditional view of debit profitability and optimisation

When reviewing the profitability of debit portfolios, financial institutions need to look beyond the typical assessment which usually considers direct revenue streams generated by the card itself such as fee income.

The view of profitability needs to be widened to include the benefits that come from 'main bank' revenue and costs. Looking to these indirect costs and revenues which are influenced by debit allows financial institutions to see how debit cards can be used as a lever for the performance and profitability of the wider bank and customer relationship.

Looking beyond traditional debit portfolio profitability

Shortage of Funds?

- **Direct Revenues**
  - Fee-based Income Growth
    - Interchange Revenue
    - Increased Fee Income*
- **"Main Bank" Revenue**
  - Increased Customer Engagement
    - Increased Account Balances
    - Increased Cross-holding of Products
- **Costs**
  - Cost Avoidance
    - Reduced Channel Costs

The same is true when assessing how to optimise a debit portfolio. The traditional approach is to look at the debit lifecycle as a flow from acquisition to activation to usage and finally to retention. Increased value can be realised from debit portfolios through proactive portfolio management across each stage of the debit lifecycle.

The debit lifecycle

1 Acquisition

Ensure all customers have a debit card that can be used for purchasing and withdrawing cash

1. Agree on your prime target group – often new customers
2. Align target segment needs with product benefits
3. Implement best practices at account opening

2 Activation

Getting customers to use their debit cards quickly

1. Assess existing activation rates
2. Understand barriers to activation
3. Establish an Early Month on Book (EMOB) process
4. Ensure resources are in place to deliver EMOB – communications materials, staff training

3 Usage

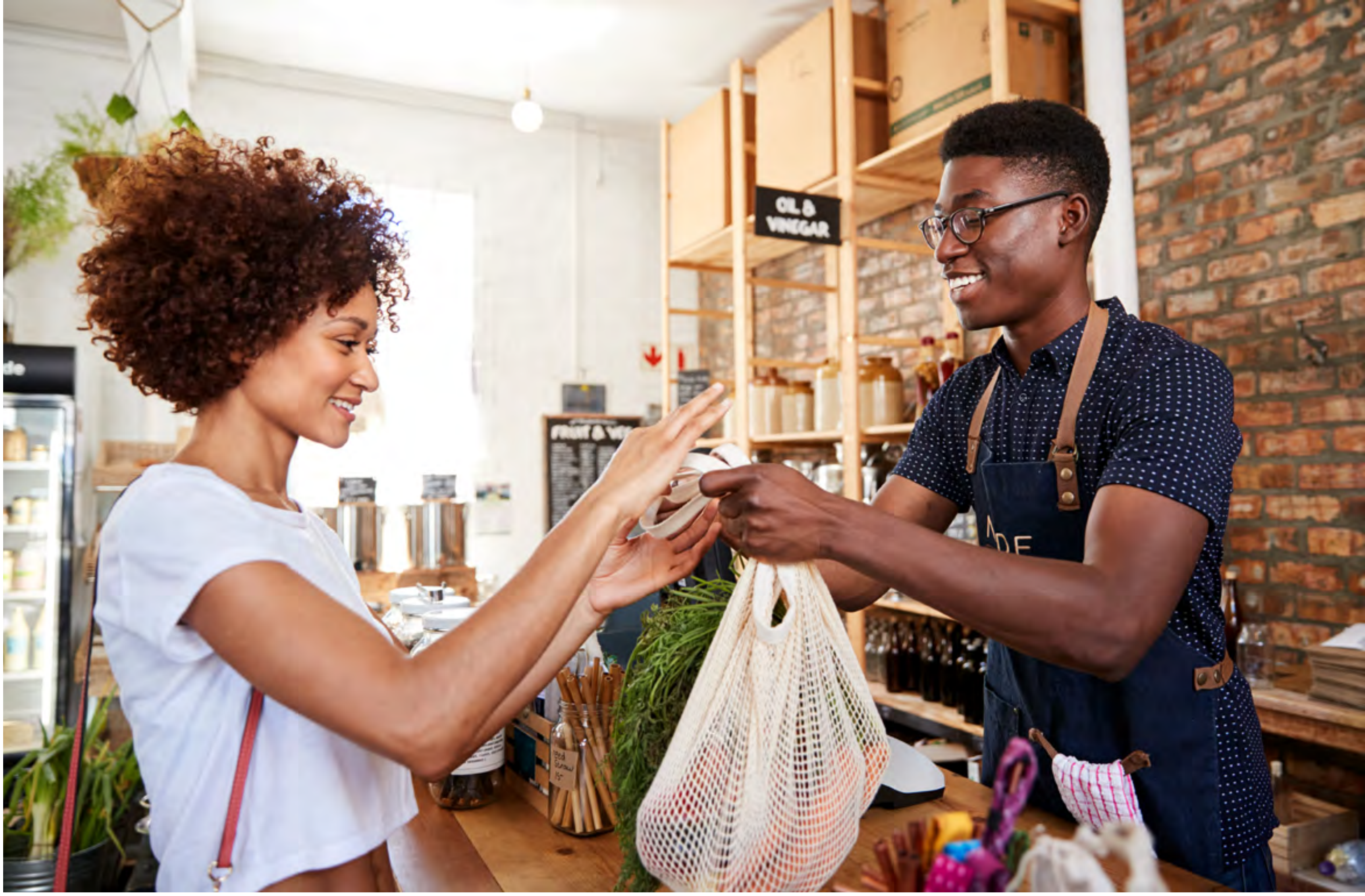
Embedding habitual use of debit in all merchant sectors and channels

1. Analyze data to understand where your customers use debit
2. Segment your customers
3. Develop target segment treatment strategies
4. Implement, track and refine your plan

4 Reactivation

Ensuring the customer relationship is strong through continued use of debit cards

1. Segment your base – focus on high profit customers
2. Develop target segment treatment strategies
3. Implement, track and refine your plan



What is the best way to optimise debit portfolios?

VCA has developed a three-step approach that financial institutions should follow if they are looking to optimise their portfolio.

Step 1

Drive debit portfolio performance by using data driven initiatives to increase activation, accelerate usage, and optimise authorization rates.

The idea here is to drive your debit portfolio performance by optimising your existing portfolio.

The following initiatives can be quick wins that can be implemented for incremental and lasting increases in payment volumes:

Increase activation – focus on early customer engagement and dormancy reactivation

Early customer engagement means having an EMOB plan in place for the first 90 days after a customer becomes a debit cardholder. This is designed to ensure they not only activate their debit card but become an avid user of it. If customers don't remain regular users, have a plan to ensure they become one.

Financial institutions should optimise their EMOB approach by using data to understand their cardholders behaviors and preferences. For example, they should review top of wallet performance with the probability of activation and deploy initiatives that will increase activation levels in the first 90 days on book.

Second, they should review dormancy and apply analytics to identify not only when but why dormancy has occurred and assess previous spend to determine tactics for reactivation.

EMOB Approach 1: Traditional

Receipt of a new debit card

- The card carrier should contain engaging content, key safety and control messages and a merchant/activation offer relevant to segment
- Outbound call center should contact client to confirm card receipt

Card Activation

- Multiple channels of card unblocking should be offered: online, ATM, in branch, phone, etc.
- Inbound call center should be trained to educate cardholders on benefits and to incentivise card purchases

Cardholder does NOT activate at Point-of-Sale (POS)

Day 5-10 after card receipt

- Reinforce activation through SMS and email communications

Day 15-30 after card receipt

- Emphasize the call to activate through an additional outreach e.g. SMS

Cardholder does not activate after 30 days

- Reinforce activation through reiteration of card benefits and new places to use the card
- Include a relevant merchant discount offer
- Outbound call center to contact potential high value customers

Cardholder does not activate after 60-90 days

- Offer an incentive linked to activation
- Conduct a test and learn to determine the optimal reward value

Cardholder does not activate after 90 days

- Reinforce card benefits
- Target higher revenue active transaction account customers and use low cost channels (i.e. SMS, email)

Cardholder activates at POS

Day 30 after cardholder activates at POS

If no activity for 30 days post first use:

- Send reminder message to cardholder to drive repeat usage
- If profitable customer – call to enquire reason for inactivity
- Attempt to reactivate early at POS

Day 60 after first card use

If no activity for 30 days post first use:

- If cardholder has used the card – thank you SMS for usage
- If cardholder has still not reused card at POS offer incentive to use
- Incentive to drive consistency of usage – use your card for three months and get a reward

EMOB Approach 2: Enhanced – Taking EMOB further and using it to guide your decisions

Is the account new?

A card is most likely to be activated if the account is less than 90 days old. It's worth communicating the benefits of debit again, to prompt activation

Is the account dormant?

If there has been no activity, including cash withdrawals in the last six months, the response rate to any communication you send is likely to be low so you will need to consider offering incentives to encourage reengagement

Start

- **Marketable population***
- **Unblocked debit card**
- **No POS spend in last 30 days**

Is there capacity for debit POS spend?

Criteria**
Average daily/balance > X
OR
End of month balance > X
OR
1+ check, ACH or ATM transaction per month

Rationale
Spend requires funds or would need to replace current non-card spend

Yes → Is the account new?
No → Do not target

Is the account new?

Criteria**
Account is less than 90 days old

Rationale
Customers are most responsive within 90 days of account opening

Yes → Communicate
No → Is the card dormant?

Communicate

Education reinforcement and rewards to use card at point-of-sale

Is the card dormant?

Criteria**
If there has been no activity (including ATM) in the last six months

Rationale
Long term inactive cards have low response rates so you will need to consider offering incentives to encourage reengagement

Yes → Do not target
No → Program target

Offer

Rewards to use card at point-of-sale

Evaluation criteria | Program target | Do not target

* Accounts remaining after standard exclusions which may include accounts status, risk profile, etc.

** Criteria are for illustration purposes only, actual criteria should be based on financial institutions experience and portfolio characteristics

Accelerate usage – drive existing customer spend through segmentation, cash displacement, digital engagement, cross border usage and merchant category expansion

Accelerating usage requires financial institutions to prompt cardholder spending across different channels and merchants, multiple times. The more a debit product is used the higher its payment volumes and the greater the probability is of embedding debit behavior.

To increase debit spending and accelerate usage, financial institutions need to understand cardholders' habits. A segmentation provides a foundation to drive usage and reactivation forward, by helping define campaigns that vary according to different customer segments. For instance:

Occasional users

Focus on driving good spend behavior by encouraging card use in "early adoption" merchants such as supermarkets, restaurants, gas stations. Mid purchase value where card is convenient. Rewards and merchant incentives work well here in cementing behavior.

Light users

Promote the use of services such as contactless and tokenization to increase usage to lower purchase values among everyday merchants, such as fast food, coffee shops, etc. Look to diversify into card not present transactions such as ecommerce, focusing on "how to use" and security benefits.

Frequent users

Promote the benefits of using debit for bills, recurring and international spend.

Heavy users

Incentivise these customers to move to paying for everything by debit card e.g. papers/magazines, confectionary, etc. Focus on replicating their domestic behavior when abroad through promotions related to paying by debit card when traveling.

Transactional segmentation allows financial institutions to develop targeted campaigns

Different groups of customers respond best to different approaches, but they can all be encouraged to diversify the way they use debit, where they use it and the frequency with which they use it.

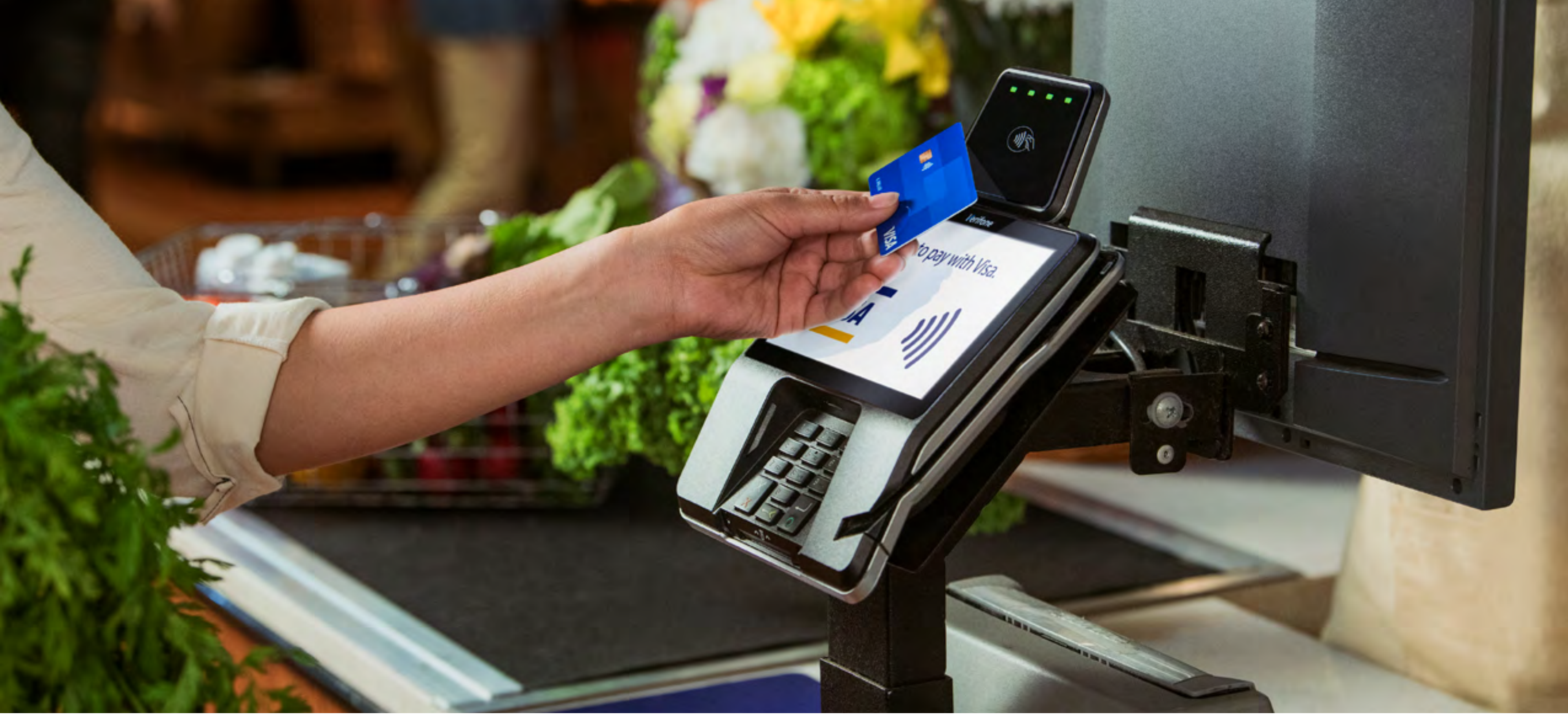
Heavy users
20+ transactions
per month

Frequent users
11-20 transactions
per month

Light users
3-10 transactions
per month

Occasional users
1-2 transactions
per month

Inactive



Reactivation -Study past spend behaviors to help identify the most 'reactivation worthy' cardholders

By creating dormancy segments based on the number of months a cardholder has gone without making a transaction, cardholders can be split into the following:

- **Dormant for three months or less** – Short term dormancy and the easiest to reactivate.
- **Dormant for three to six months** – Medium term dormancy, harder to reactivate as they are falling out of the habit of using their debit card.
- **Dormant for over six months** – Long term dormancy should be treated as attrited, essentially meaning that any reactivation efforts need to be looked at as re-acquisition and an opportunity to re-engage.

Authorization optimisation – minimize declines

Once financial institutions have managed to get their customers engaged with debit, they need to keep them in the habit of using their debit card. This means removing any barriers to usage and ensuring that cardholders aren't experiencing unnecessary declines.

Authorization declines are bad for business – a recent post decline behavior study conducted by Visa revealed that cardholders who experienced a decline displayed a:

13.7% gap in activation rate
7.3% gap in average spend per month
11.7% gap in transactions growth rate

Financial institutions should run a full assessment that determines the top reasons for declines. This enables financial institutions to capture lost revenue and build customer confidence while ensuring that the associated risk remains low.

Step 2

Retain loyal customers by creating feature-rich programs that matter to today's customer.

In today's world, there is increased competition from both new entrants and incumbents. Financial institutions must give their customers a reason to put their card top of wallet, and many are choosing to compete with new digital features. Financial institution leaders should consider the following initiatives to reinvigorate their debit card program and keep up with the competition:

Re-invest in moments that matter

Customers are constantly evaluating products and brands. Every interaction is an opportunity to influence customers - positively or negatively. We believe it is important for financial institutions to identify critical moments across the customer journey and ensure they have features available for their customers when it matters most. Financial Institutions can maximize their return on investment by focusing on a few key meaningful moments that will help create and retain loyal customers.

Evaluate differentiating features

Many new players are adding digital features and benefits that go beyond the traditional debit card capabilities. Determining the right card features for your business is all about understanding what resonates with customers and aligns with your brand. Running a full assessment of card features, including competitive offerings and customer preferences, can help you determine which potential features may have the most impact on engagement and loyalty.

When assessing card value and loyalty propositions we look at:

Onboarding

- Card activation
- Onboarding checklists
- Alert setup
- Account verification

Management

- Transaction details
- Card controls (e.g. On/Off)
- Virtual cards
- Person-to-person (P2P) payments
- Budgeting and savings tools

Customer Support

- Chat bots
- Call scheduling
- Replacement cards
- Lost/stolen cards

Step 3

Diversify revenues by looking at cross-sell opportunities and finding new revenue streams.

Expanding your view of debit profitability means embracing diversification initiatives which can bring medium and long term increases in payment volume.

Acquisition – make the most of cross-selling opportunities

Debit products provide financial institutions with the opportunity to cross sell both debit supplementary cards, credit cards and bundled issuance (providing both a debit and credit product together). By focusing on cross selling, financial institutions can not only increase customer stickiness but also mitigate the risk of attrition by being the one to provide the credit product that your customers might have been looking to acquire.

Having the right acquisition strategy can directly impact how well financial institutions do later in the debit lifecycle (activation, usage, and reactivation). To get acquisition right, financial institutions need to target the right customers, position their product correctly and sell it effectively. This means formulating a tailored plan for three customer groups:

New customers - all new transaction accounts should be accompanied by a debit card to provide maximum utility to the customer. The focus of the acquisition stage should be: What steps does the financial institution currently take for new customers? Instant debit issuance at branch? Debit mailers for online opened accounts?

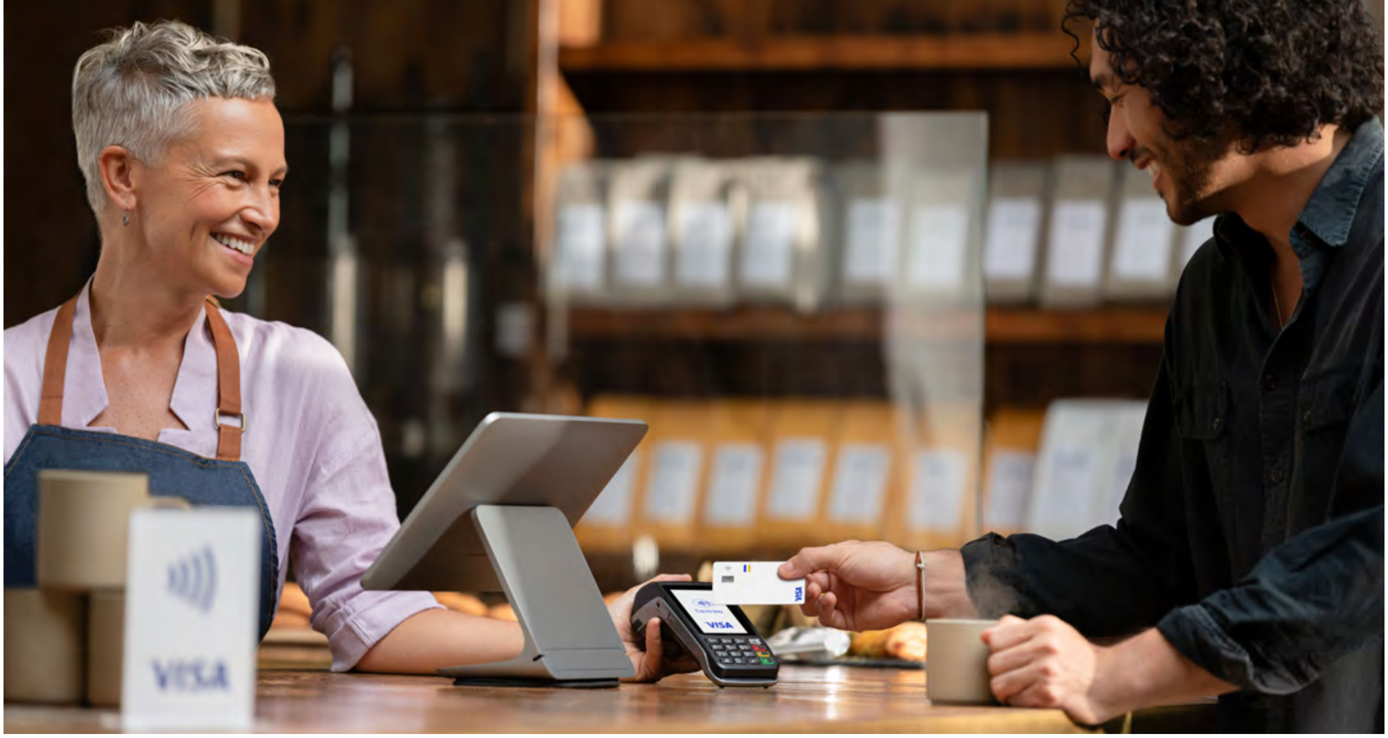
Current customers without a debit card - may be unaware of the benefits of a debit card or may not feel comfortable using one. Does this segment currently exist at the financial institution?

Existing customers who use debit for cash withdrawals at ATM only - already understand the convenience of using a card to withdraw cash, but card usage needs to be addressed. Does the financial institution have a strategy to do this?

New revenue streams – turning opportunities into revenues

Debit can open up new revenue streams such as deferred debit (i.e., overdrafts), installment payments and the ability to introduce new fee structures.

Financial institutions should design their approach, strategy, and implementation for installment products through segmentation analysis so that identified customers are being targeted. In the case of deferred debit, for instance, this would mean identifying customers who have a high cash usage with limited balances but don't have a credit card.

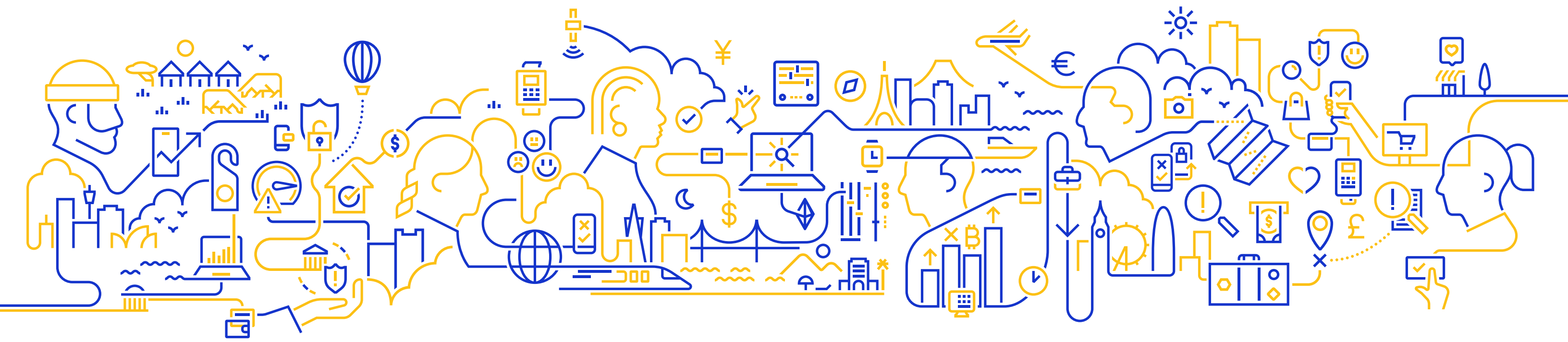


To effectively optimise your debit business, redefine what debit profitability and the debit lifecycle mean

Instead of seeing debit profitability as defined by direct debit revenue, financial institutions should consider widening their perspective to also include indirect revenues. Furthermore, the debit lifecycle should be valued as a medium to define short, mid, and long term strategies for growing payment volumes.

When assessing card value and loyalty propositions we look at:

Payment Volume Acceleration through Portfolio Optimisation Quick Wins, Short Term Focus			**Retaining Loyal Customers** Short to Medium Term	**Revenue Diversification** Medium to Long Term	
Increase Activation	**Accelerate Usage**	**Authorization Optimisation**	**Create Feature-rich Programs**	**Acquisition**	**New Revenue Streams**
Activation and EMOB focus	Cash Displacement	Minimize Declines	Re-invest in moments that matter	Cross Sell Credit	Deferred Debit
Dormancy Reactivation	Digital Engagement		Evaluate differentiating features	Bundle Issuance	Installments
	Cross Border Spend			Reactivation	Introduce New Fees
	MCC Expansion				



About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

Our consultants are experts in strategy, product portfolio management, digital, risk and more, with decades of experience in the payments industry.

Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.

Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

We can help you to improve your digital offering and design, sharpen your targeting and acquisition strategy and transform the digital experience your customers receive.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to **VCA@Visa.com** or visit us at **Visa.com/VCA**

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