Visa Consulting & Analytics

Optimizing your Debit Business

How to get the most from your Debit portfolio

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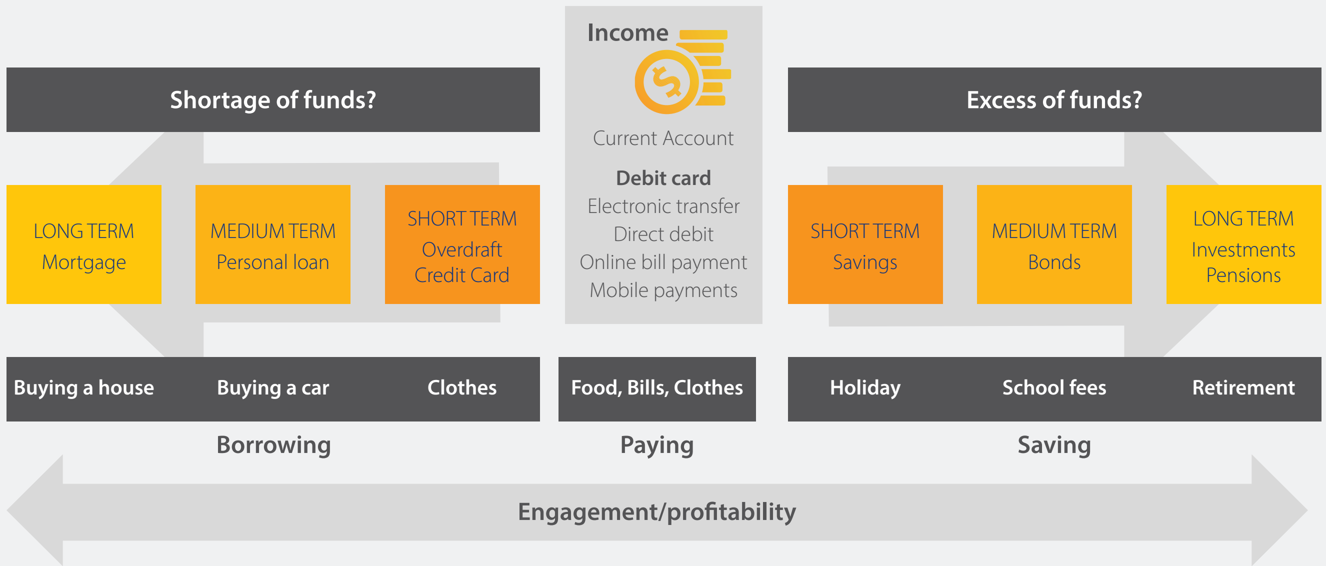
How to get the most from your debit portfolio

Debit sits at the heart of a customer's relationship with their Bank, giving Issuers the opportunity to embed themselves into their customers spending lives and cross-sell further products, while at the same time account holders benefit from:

- Having a payment product that meets their needs by being safe, convenient, and accepted everywhere, be that in store, online (eCommerce and mCommerce) or over the phone (MOTO).
- All the benefits of a credit card, without the risk of getting into debt, a concern which typically ranks among the top two reasons why customers avoid credit products.
- With the added perk of being able to make ATM cash withdrawals.

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



New regulation and the added pressure of the global COVID pandemic means that both globally and locally Debit Issuers are under pressure to increase profits and reduce losses. The easiest way to do this might appear to be downgrading premium products, removing benefits, loyalty rewards and cobrand deals, but these moves could reduce customer engagement, satisfaction and even encourage cardholders to turn to the competition for a better deal.

Instead, we at Visa Consulting and Analytics (VCA), believe that Issuers need to widen their view of debit profitability and look beyond the traditional debit lifecycle approach. They can then focus on driving revenue and optimizing costs from both the short-term quick impact and medium to long-term sustainable impact routes while still keeping customers happy with the value proposition they are being offered.

This paper will explain the three-step approach VCA has put together to help Debit Issuers optimize their portfolios while driving profitability and reducing losses:

Step 1 - Drive debit portfolio performance by leveraging Visa's data driven initiatives to increase activation, accelerate usage and optimize authorization rates.

Step 2 - Find cost efficiencies by revamping customer value propositions with benefits, features and loyalty programs.

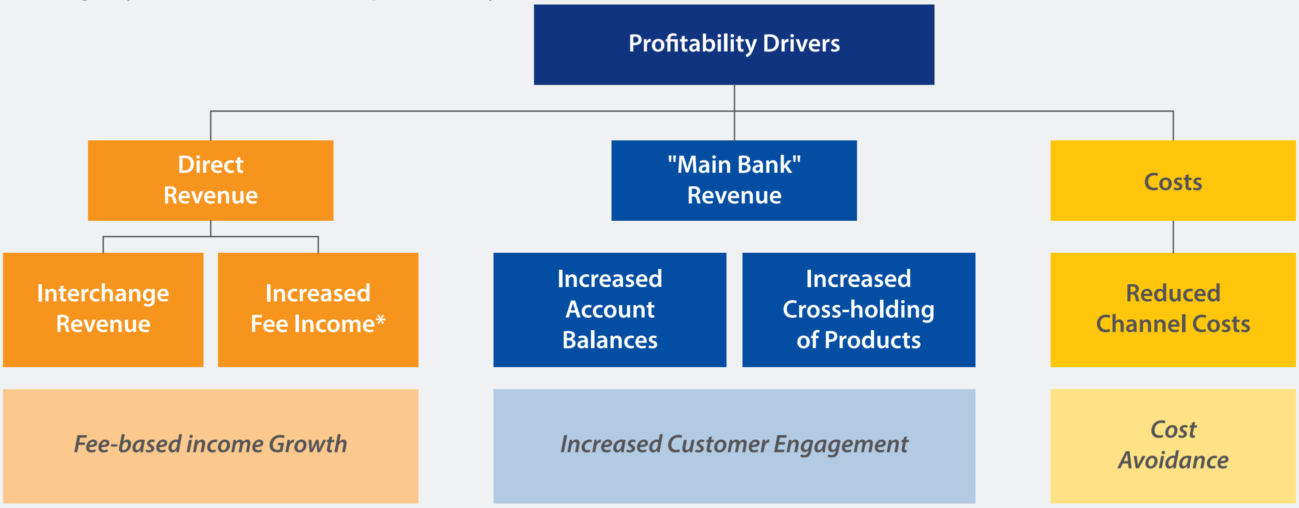
Step 3 - Diversify revenues by introducing installments, new fee structures, deferred debit and increasing credit penetration on the debit base.

Looking beyond the traditional view of debit profitability and optimization

When looking at the profitability of their debit portfolios, Issuers need to look beyond the typical assessment which only considers direct revenue streams generated by the card itself such as interchange and 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 Issuers 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 profitability



The same is true when assessing how to optimize 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, the lifecycle is important but this approach can only get you so far. More value can be added to debit through proactive portfolio management across each stage of the debit lifecycle. Focussing on prioritizing short term quick wins followed up with medium to long term strategies to maximize the return from your debit investment.

The debit lifecycle

	1. Acquisition	2. Activation	3. Usage	4. Reactivation
Objective	Ensure all customers have a debit card that can be used for purchasing and withdrawing cash	Getting customers to use their Debit cards quickly	Embedding habitual use of Debit in all merchant sectors and channels	Ensuring through continued Debit use, that the customer relationship is strong
Steps in this stage of the lifecycle	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	1. Assess existing activation rates 2. Understand barriers to activation 3. Establish an Early Months on Book (EMOB) process 4. Ensure resources are in place to deliver EMOB – communications material, staff training	1. Analyse 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	1. Segment your base – focus on high profit customers 2. Develop target segment treatment strategies 3. Implement, track and refine your plan

So, what is the best way to optimize debit?

VCA have put together a three-step approach that Debit Issuers should follow if they are looking to optimize their portfolio:

Step 1 - Payment volume acceleration through portfolio optimization (including immediate and ongoing lifecycle management).

Step 2 - Finding cost efficiencies that aren't detrimental to the customer value proposition.

Step 3 - Diversifying revenue by looking at cross-sell opportunities and finding new revenue streams.

Step 1. Payment Volume Acceleration

The idea here is to drive debit portfolio performances by optimizing the existing portfolio and leveraging data driven initiatives to accelerate payment volumes. These initiatives are quick wins that can be implemented in the short term for rapid mitigation with an incremental and lasting increase in payment volumes.

1.1. Increase activation – focus on early customer engagement and dormancy reactivation

Early customer engagement means having an Early Month on Book (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.

VCA regularly helps Debit Issuers to optimize their EMOB approach. By leveraging VisaNet data we can tailor your approach to get the most from your cardholders. We focus on vintages and top of wallet performance combined with the probability of activation to deploy initiatives that will increase activation levels in the first 90 days on book. When it comes to reactivation of dormant accounts, we can apply analytics to identify not only when but why dormancy has occurred and assess previous spend to determine tactics for reactivation.

A standard EMOB approach

Cardholders does NOT activate at POS

Receipt of a new Debit Card	Activation of Card	Day 5-10 after card receipt	Day 15-30 after card receipt	Cardholder not activate after 30 days	Cardholder not activate after 60-90 days	Cardholder not activate after 90 days
• The card carrier should contain engaging content, key safety and control messages and a merchant/ activation offer relevant to segment *(refer to activation recommendation 2)* • Outbound call centre should contact client to confirm card receipt	• Multiple channels of card unblocking should be offered: online, ATM, in branch, phone, etc. • Inbound call centre should be trained to educate cardholders on benefits and remind cardholders to use their card for purchases	• Reinforce activation through SMS and email communications	• Emphasize the call to activate through an additional outreach e.g. SMS	• Reinforce activation through reiteration of card benefits and new places to use the card • Include a relevant merchant discount offer • Outbound call centre to contact potential high value customers	• Offer an incentive linked to activation • Conduct a test and learn to determine the optimal reward value	• 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	Day 60 after first card use
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	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 3 months and get SAR 500

Taking EMOB further and using it to guide your decisions

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 → Program target: **Communicate:** Education reinforcement and rewards to use card at point-of-sale

NO → **Is the card dormant?**

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

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

? 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 issuer experience and portfolio characteristics

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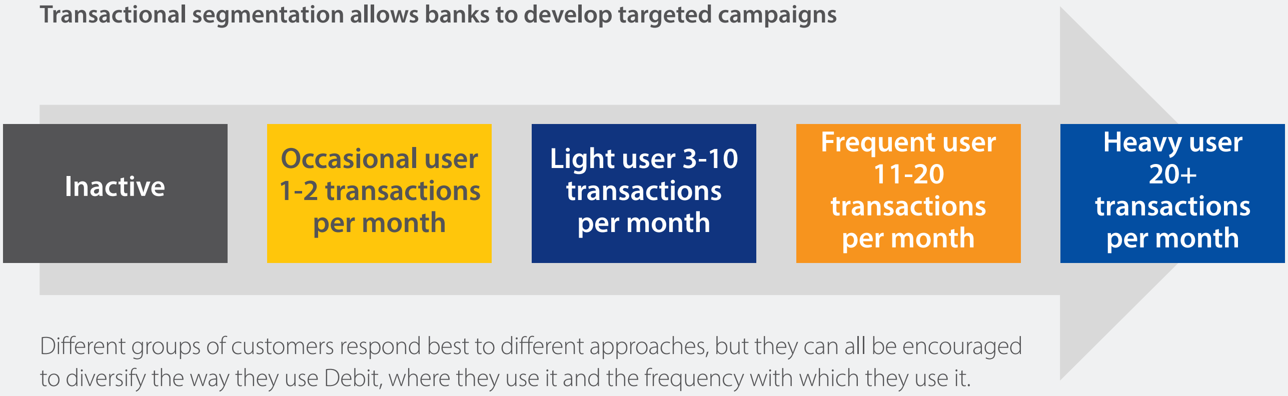
1.2. Accelerate usage – drive existing customer spend through segmentation, cash displacement, digital engagement, cross border usage and merchant category expansion

Accelerating usage requires Issuers to get their cardholders spending across multiple channels, merchants, and times – the more a debit product is used the higher its payment volumes are the higher the probability is of embedding debit behavior.

To get debit cardholders spending and accelerate their usage, Issuers need to understand their habits. VCA have several solutions to help Issuers accelerate everyday spend, digital and cross border usage, and they all leverage segmentation analysis. Segmentation provides the starting blocks to driving usage and reactivation forward. This is because any campaign to drive usage or reactivation should vary based on different customer segments. This allows us to recommend specific interventions (e.g. a series of campaigns) where each initiative has a quantified payment volume impact. For instance:

- Occasional users – Focus on building the card habit with use in "early adoption" merchants such as supermarkets, restaurants, petrol 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 expand usage to lower purchase values among everyday merchants, such as fast food, coffee shops, etc. Look to expand 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 – Challenge 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 the promotions related to paying by debit card when traveling.

Transactional segmentation allows banks 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.

Studying past spend behaviors can also allow us to identify the most 'reactivation worthy' cardholders. If we create dormancy segments based on the number of months a cardholder has gone without making transaction, we can then split them into the following:

- Dormant for 3 months or less – Short term dormancy and the easiest to reactivate.
- Dormant for 3 to 6 months – Medium term dormancy, harder to reactivate as they are falling out of the habit of debit.
- Dormant for over 6 months – Long term dormancy, should be treated as essentially attrited meaning that any reactivation efforts need to be looked at as re-acquisition and an opportunity to re-engage the account.

1.3. Authorization optimization – minimize declines

Once Issuers 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

VCA risk experts can work with Issuers to run a full assessment that determines the top reasons for declines and recommend how to reduce them further. This enables Issuers to capture lost revenue and build customer confidence while ensuring that the associated risk remains low.

Step 2. Cost Efficiencies

By revamping the benefits, features and loyalty programs associated with their customer value propositions, Issuers can find cost efficiencies to be implemented in the short to medium term while driving an increase in payment volume and ensuring customer engagement through the provision of the right benefits and rewards.

2.1 Card value proposition revamp – identify areas to optimize and rationalize

Providing customers with the right card value proposition is all about providing the right benefits, features and co-brands.

VCA can help Issuers to design a value proposition which resonates with their cardholders, by running a cost benefit analysis of the existing offering to determine what is and isn't being made use of. Once we have worked out what your cardholders are actually getting value from, we can help put together a strategic benefits package which allows Issuers to reduce the amount of card benefits they offer without risking customer attrition or dissatisfaction. This approach means Issuers are still offering benefits that cardholders get real value from.

2.2 Loyalty optimization – identify areas to optimize and rationalize

It is important to remember that card value proposition revamp includes loyalty.

Running a full assessment of your current loyalty program structure allows you to determine what is engaging your customers and increasing their loyalty. VCA can help Issuers determine the top merchant categories their cardholders are shopping so that if even if an Issuer chooses to reduce the rewards offered, they are still providing a loyalty program that benefits their cardholders and maximizes customer engagement while getting an optimal return on loyalty investments.

When assessing card value and loyalty propositions we look at

Card Core features

- Eligibility and age
- Cash withdrawal
- Top up (fee, minimum and maximum load values)
- Annual fee / joining fee and other fees
- Inactivity deadline
- Number of additional cards

Rewards

- Reward program types
- Earn and burn opportunities
- Sign up bonus

Privileges/Lifestyle

- Lifestyle benefits (shopping, dining, health etc.)
- Events, experiences and travel

Customer experience

- Customer application
- Virtual cards
- Top up methods
- Security and control
- Budget control and financial education features
- Accepted operations (Transfers etc.)
- Communication
- Customer support

Step 3. Revenue Diversification

Debit portfolio optimization requires Issuers to expand their views on debit profitability. Revenue diversification comes hand in hand with this idea. By introducing installments, deferred debit and increasing credit benefits on a debit base in a medium to long term basis, Issuers can see an incremental and lasting increase in payment volumes.

3.1. Acquisition – make the most of cross selling opportunities

Debit products provide Issuers with the perfect 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, Issuers can not only increase customer stickiness but also mitigate the risk of customer attrition by being the one to provide the credit product that your customers might have been looking to acquire.

VCA can help Issuers to develop an effective strategy for increasing stickiness by using a data driven approach to identify customers with credit worthiness and a high probability of accepting cross sell products. In addition to this we can help Issuers to create an effective acquisition strategy so that they have a firm basis to drive further activation and usage.

Having the right acquisition strategy directly impacts how well Issuers do later in the debit lifecycle (activation, usage, and reactivation). To get acquisition right Issuers need to target the right customers, position their product correctly and sell it effectively, this means putting a tailored plan together for three groups:

- New customers - all new transaction accounts should come with a debit card to provide maximum utility to the customer. The focus of the acquisition stage should be: What steps does the Issuer 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 Issuer?
- 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 addressed. Does the Issuer have a strategy to do this?

3.2. New revenue streams – turning opportunities into revenues

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

VCA can support Issuers to design their approach, strategy, and implementation for instalment products through segmentation analysis so that only customers with the highest opportunity 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 own a credit card.

For an Issuer to effectively optimize their debit business, they need to redefine what debit profitability and the debit lifecycle mean

So that instead of seeing debit profitability as defined by direct debit revenue they widen their perspective to include indirect revenues they may have previously overlooked. While also viewing the debit lifecycle as providing short-, medium- and long-term strategies for growing your payment volumes rather than a strict flow of focus that can't be deviated from.

Summarizing the three-step process to debit optimization

1 Payment Volume Acceleration through Portfolio Optimization – Quick Wins, Short Term Focus			2 Cost Efficiencies – Short to Medium Term	3 Revenue Diversification – Medium to Long Term	
Increase Activation	**Accelerate Usage**	**Authorization Optimization**	**CVP & Loyalty Revamp**	**Acquisition**	**New Revenue Streams**
Activation and EMOB focus	Cash Displacement	Minimize declines	Benefits Rationalization	Cross Sell Credit	Deferred debit
Dormancy Reactivation	Digital Engagement		Loyalty Optimization	Bundle Issuance	Installments
	Cross Border Spend			Reactivation	Introduce new fees
	MCC Expansion				

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To find out more on how to optimize your Debit business contact your Visa Consulting & Analytics representatives directly via e-mail

Sandy Samaan
ssamaan@visa.com
Sandy is Head of Visa Consulting and Analytics for UAE market and Head of Managed Services for MENA region.

Bilal Alavi
balavi@visa.com
Bilal is a Senior Director at Visa within the Visa Consulting & Analytics practice for the MENA region.

Nicolas Khoury
nkhoury@visa.com
Nicolas is a Vice President at Visa, leading the Visa Consulting & Analytics practice for the MENA region.

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, 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 to enhance your digital onboarding proposition.

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. You can also visit us at Visa.com/VCA.

