

Card Program Analytics and Marketing

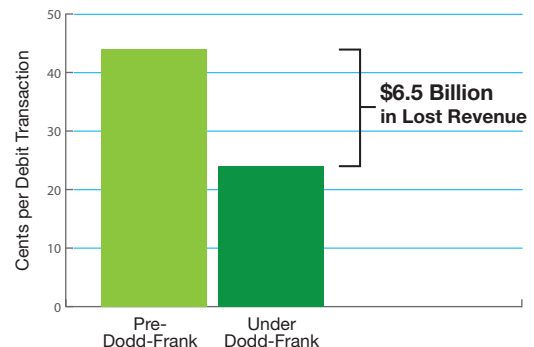


Executive Summary

The Great Recession coupled with new government regulations was a one-two punch that left a visible scar on the face of the economy. As a result, large banks are adjusting fees and truncating loyalty programs to compensate. This market shift is forcing frustrated banking consumers to look for an alternative which presents new, viable options for progressive credit unions. In this new climate, the question remains: how do credit unions retain members while building new business relationships?

From a federal level, the playing field changed in 2010 when the Dodd-Frank Financial Reform and Consumer Protection Act was signed into law. There hasn't been such sweeping financial reform since The Great Depression. The most onerous section of the Act for the banking and credit union sector is The Durbin Amendment. This addendum expands the Federal Reserve powers for setting interchange fees related to debit card transaction processing.

According to a report by Bankrate.com in 2009, 76 percent of banks offered free checking accounts. As of August 2011, that statistic dropped to 45 percent, and with the Durbin Amendment in effect, it is expected to drop further. With the Dodd-Frank Act empowering the Federal Reserve to cut the swipe fees merchants pay on debit card transactions from 44 cents to 24 cents, banks will lose an estimated \$6.5 billion in revenue.



The Mercator Advisory Group recently released a report, “Debit Processing in the United States: A Focus on Issuer Solutions,” which found that “success” in this market segment is realized when card issuers offer preferences across varied customer segments. “The ability to integrate meaningful analytics in an accessible manner is becoming increasingly important as issuers look for ways to build deeper account holder relationships with a more sustainable rate of return,” the report states.

Therefore, in order to remain competitive, it is essential that a credit union’s card program includes management summaries and customizable reporting; data analyses, including alerts, benchmarking and profitability modeling to better determine cardholder segmentation strategies; and a profitability analysis and marketing campaign management.

CO-OP Financial Services understands that your credit union’s goal is to build a deeper level of engagement with both new and existing members while making

your credit union their primary financial institution. In this white paper, we take a look at the changing market conditions and resulting opportunities, including our Payment Processing analytics solution, CO-OP Total Revelation®, which provides analytics tools to make sound business decisions.

To provide a thorough review of this overarching market shift, we've collaborated with Rachel Swank, Relationship Manager at Saylent Technologies, and David Robinson, President of O'Leary and Partners Advertising and Public Relations.

The Time to Act Is Now

Providing a personalized and friendly approach to banking is a credit union's tent pole, and it is under this tent that members feel safe, secure and welcomed. As more traditional banking customers become disenchanted with the major financial institutions, they will look for more options; however, the window of opportunity to acquire these potential new members will eventually close.

"We have entered a sensitive period which will last for the next twelve months or so, and this is directly tied to the Durbin Amendment," says Swank. "This presents a great opportunity for credit unions to grow through account acquisition from dissatisfied banking customers, while enhancing their existing member relationships, because credit unions are still receiving debit and credit transaction fees that the larger banking institutions aren't today." She continues. "From a profitability perspective, credit unions are not yet at the place where they need to change reward programs or fees, because their profit margins haven't changed."

Swank explains that the average debit card penetration for credit unions is 73 percent, and the average active card base is 66 percent. "If your debit card program is at or below these levels, you may have significant opportunities for increasing revenue," she notes.

Thus, opportunities for credit unions are available, but they can be elusive. However, when thought leadership, progressive thinking and mentorship are combined with a powerful card program analytics platform, the benefits to the members are far-reaching, and the profits to the credit unions are significant.

Swank stresses the critical role of managing a card portfolio to boost profitability, and this is best achieved with a robust analytic solution. "When it comes to portfolio management, some credit unions have their finger on the pulse of the market while others don't. It seems that everyone is aware of the Durbin Amendment because it is all over the news, but many small and mid-sized credit unions may not fully understand all the opportunities that are now available to them."

The paramount goal for credit unions, adds Swank, is to "become top of wallet" for their members. To this end, many credit unions seek to aggregate card payment intelligence about member patterns and behavior, but struggle due to limited time, resource constraints, and management issues. Employing an all-encompassing analytic tool provides the information a credit union needs to compete for business against banks and credit card companies.

Key analytics requirements to consider:

- Pre-built management summaries and custom report capabilities.
- Analytics for high-level data analyses, including alerts, benchmarking and profitability modeling.
- Ongoing consulting support to help credit unions determine cardholder segmentation, strategies, profitability analysis, and marketing campaign management.
- ATM transaction reporting.

Swank explains that when properly administered, an analytic solution can produce positive results within one year or less. However, quantitative analysis is

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essential to maximize the loyalty program. For example, one credit union tied its debit cards to a rewards loyalty program. The marketing touted the benefits of using the card as a signature transaction, as well as popular rewards the resulting points could be redeemed for.

With CO-OP Total Revelation, they increased the interchange revenue by 47 percent resulting from debit card campaigns. The annual savings in marketing expense due to more selective targeting kept the credit union on track in making the analytical tool pay for itself within 18 months of acquiring CO-OP Total Revelation. The credit union realized a growth in average monthly transaction per card user by 134 percent—from 2.6 transactions per card per month to 6.1 transactions per card per month. The signature spend on purchases increased by 44 percent.

“This program helped the credit union improve the success of its portfolio, strengthen member relationships while identifying underperforming, at-risk segments,” says Swank.

Tools of the New Trade

Growth rates for credit unions are hard to quantify, but if reports from submarkets around the nation remain steady, all credit unions can expect increased call volumes expressing interest in their financial services. As a result, an effective analytical card processing program should be sought with appropriate levels of service and engagement to ensure that penetration, activation, usage and retention goals are achieved.

Recommended elements should include:

REPORTS

- Statistics and trends with charts and graphs for C-level review.
- Detailing a range of variables, including penetration, activation, usage, retention and year-over-year comparison.
- Providing both print and export capabilities.

ANALYSIS

- Detailing cardholder demographic data to include access merchant, card and ATM acquirer.
- Providing portfolio alerts and recommendations including tailored marketing campaigns and peer-to-peer benchmarking.

CONSULTATION

- Managed outsourced solutions that maximize portfolio performance.
- Detailing best practices for training, support and bench marketing.
- Providing a Durbin impact analysis.

Empowering the Messenger

With roughly 93 million members belonging to approximately 7,500 credit unions nationwide, credit unions face daunting marketing challenges. This is because many credit unions are regional and competing against the large advertising budgets of bigger banks.

The good news for credit unions is that the Durbin Amendment is essentially a free national advertising campaign. Take, for example, Nicol Morris, chief operating officer of the Charlotte Metro Federal Credit Union, who told the Charlotte Observer that her credit union realized a 350 percent increase in new accounts opened online since the Durbin Amendment was enacted.

David Robinson agrees there will be an uptick in interest, adding that credit unions are positioned to deliver pointed campaigns. “From a marketing perspective, the great thing is that credit unions can go to their members with relevant messages,” says Robinson. “One of the key factors that generate response is the relevance to the individual experience. How you market your message will always depend on the intended audience, but it might be in the form of an email, a text message or a print advertisement.”

CO-OP’s signature product offerings are designed to maximize your profits, engage your members, boost your bottom line and ultimately grow your credit union. That’s why one CO-OP Financial Services credit union client using CO-OP Total Revelation realized a 68 percent increase in signature interchange.

To underscore the benefits of a sound marketing program that runs in tandem with an analytics platform, Robinson points to a recent success story with a credit union that partnered with a retailer. The program required five signature debit transactions in a 30-day period. Members meeting this requirement would receive a free companion airline ticket.

Using CO-OP Total Revelation, they identified a target list of members who were issued a card between 45 and 120 days, but never activated their card. This list was exported for a specific email and print marketing campaign. As a result, over 70 percent of debit card holders activated their card and completed at least one transaction, while 44 percent of inactive cards were activated and performed more than five transactions in 30 days. Validated cards, notes Robinson, remained “top of wallet” three months post-campaign with a sustained usage of over 95 percent.

A key to marketing success, Robinson explains, is partnering with an experienced but competitively priced consultant that can deliver a comprehensive suite of products tailored toward all aspects of the payment processing platform.

“The most successful marketing campaigns reach the right people, with the right offer at the right times. An experienced consultant can help you define those terms for your specific credit union,” says Robinson. “With easily generated reports, you can develop a picture of your target audience, what might motivate them, and where they are currently spending money.”

From a marketing perspective, the components of a marketing successful campaign include:

- Identifying the target group.
- Creating the marketing campaign.
- Developing direct mail creative.
- Managing direct mail and incentives.
- Analyzing results.
- Fulfillment of incentives.
- Presenting final results.

An issue many credit unions face is being able to determine exactly why members are using their services. They can assume a number of reasons (e.g., free checking, low interest rates, personal approach, etc.), but without analytic tools, the solution (i.e., the answer) cannot be determined. Without this all-important knowledge, it is difficult to affectively

CO-OP Total Revelation Delivers Actionable Insights

In order to thrive in the post-Durbin Amendment era, it is critical to better understand and analyze your debit transactions so you can increase your profitability. This can be achieved by using an intuitive and easy-to-implement program: CO-OP Total Revelation.

Marketing

CO-OP Total Revelation allows you to make more informed marketing decisions backed by an in-depth understanding of your members’ behavior and demographics. It lets you:

- See how non-members, as well as members, use your ATMs, so you can best plan ATM sites and promotion to maximize revenue.
- Understand exactly where you stand with peer-to-peer and customized benchmarking.
- Save marketing costs and resources with turnkey marketing campaigns tailored to your members’ transaction behaviors.

Management

CO-OP Total Revelation allows you to lower fraud losses by identifying fraud patterns and vulnerabilities down to the transaction-level in minutes rather than hours. It will:

- Save your staff hours of labor to create management reports with one-click Revelation Reports.
- Eliminate the need for in-house software maintenance with web-based application maintained by CO-OP.
- Allow you to receive expert recommendations on how to turn around below-average performance.
- Provide industry expertise with full-service consulting and analysis.

“CO-OP Revelation is an invaluable tool in a variety of respects. It has helped us make it easy to get transaction data and export raw data into useful reports,” says Erlinda Seib, Electronic Services supervisor for Christian Financial Credit Union. “The new CO-OP Total Revelation will allow us to build reports with graphs and charts to make it easy to view report data, compare data on a monthly and annual basis, and analyze card usage distribution and trends.”

advertise, recruit new members and retain existing members.

“When working with a consultant, a credit union needs more than a sales program. They need a consultant that only succeeds when a credit union succeeds,” says Robinson. “An organization that is a one-stop shopping experience for the credit union – that can offer the tools for success – is essential.” He continues. “This includes saving marketing costs and resources with turnkey marketing campaigns tailored to your members’ transaction behaviors.”

To this end, many C-level credit union executives voice the following concerns (all of which are addressed when a proven, effective payment processing platform is deployed):

- I want easy-to-use management reports suitable for board/leadership analysis of my portfolio.
- I want to measure the value of each network I participate in, and the income/profitability of each ATM in my fleet.
- I want to educate my members on how and where to use my card products.
- I need help to interpret data, manage my portfolio, and determine what actions are available to me based on member behavior.
- I want to run targeted marketing campaigns based on cardholder behavior, but I don’t have the in-house resources.
- I need to address the impact of new legislation and regulatory changes on my bottom-line.

These concerns are valid and on point. The challenge many C-level executives experience is bringing all their card-program concerns together and determining one solution that will address all of them. To achieve this goal, many credit unions look to outsourced solutions. “Credit unions have to focus on penetration, activation, usage and retention,” says Saylent Technologies Relationship Manager Rachel Swank. “Those are the four keys to success. For those credit unions that do not have an on-boarding process in place, to remain competitive, they should have it operational as early as possible in 2012.”

Conclusion

As credit unions look ahead at the financial landscape in the coming months, they will undoubtedly see a more level playing field. It is important to keep in mind that any customers leaving bigger banks are doing so because of the fees assessed on the services that were most often enjoyed. Therefore, credit unions have to be both careful and forward-looking to ensure that any new members gained are retained. The only way to achieve this goal is by not only offering members top-of-the-line services, but also having analytic tools in place that provide C-level executives a thorough understanding of their members.

“Credit unions have a big story to tell, and sometimes they go wrong by trying to tell their entire story at once as opposed to the most important part – namely, that credit unions are member-driven,” says Robinson. “And while it will be important to attract new members, it is also important to grow existing members organically by focusing both on the products they are using *and* those they are not using, as they are equally important.”

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Erlinda Seib, Electronic Services Supervisor, Christian Financial Credit Union

Contact us and learn more about how CO-OP credit can benefit your Credit union. Visit CO-OPFS.ORG or call 800.782.9042, option 2.