Preparation Your Card Business for the Future

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Introduction

Card issuers face challenges today that were unforeseen when they configured their businesses in the 1980s and 1990s. The booming economy of the latter part of the past century did not require business managers to consider the impact of regulatory price controls, global recession, and the challenges of mobile and alternative payments. Instead, card issuers focused on fee and interest opportunities as their card portfolios generated strong revenue performance.

Those that plan and adapt to the changing demands of consumers, regulators, and shareholders will position their portfolios for smoother operation and stronger revenue streams in the years ahead. Although there is no single solution to configure a best-in-class card operation, successful card issuers will leverage their core strengths and use specialized resources to help shield against risk, adapt to market changes, and exploit new opportunities. The legacy model of large call centers and rigid access points will most likely be irrelevant within the next decade; this scenario will be replaced by an organization intent on building broader customer relationships, capable of providing better payment options, and positioned to be the center point of a cardholder’s financial life.

The results of the 2012 U.S. elections amplifies the urgency of expense control in the card payments industry, particularly when you consider the potential of further regulatory influences, revenue constraints, and the commodization of credit and debit cards.

Understanding the Moving Parts of Payment Cards

Twelve major operational components must work together to facilitate cardholder transactions and account management in the payments network. Issuers need to either select accounts through outbound solicitations or inbound application streams. Acquisition groups set policies and standards for account approval, and staff needs to complete the onboarding process. After booking the account, plastic cards and electronic accounts provide cardholders with point of sale and online transaction capabilities. Cardholders require access points to manage their accounts and collection policies must protect against default and attrition. Fraud prevention strategies must be implemented to shield accounts from rogue transactions and interact with dispute units that contend with flaws in the acceptance process and customer exceptions. Authorization and settlement units must be in place to approve and reconcile transactions between the merchant and customer.

Issuers must support communication tools used to provide monthly account statements, routine communication, and collection dunning throughout the account lifecycle. Many cards carry reward programs that require interaction between internal loyalty units, co-branded partners, and/or merchant tie-ins; depending upon the complexity of the program, issuers must delve into merchant category codes, spending thresholds, and program limits. Cardholders expect low single digit response times every time they tender their card; they anticipate irrefutable transactions and are quick to react when processing goes awry.

Card issuers must harmonize their activities as they maximize operating revenue and shareholder value. Their customers require seamless access, whether the cardholder questions a charge, requests more credit, or explains reasoning for non-payment. Unhappy customers will attrite and issuers will lose the investments made to source the account; every customer is precious in today’s saturated card market.
Not All Parts Are Created Equal

The operational components of a payment card business vary significantly in their customer touch points and level of strategy required to execute, as illustrated in Exhibit 1. Although some smaller and mid-range issuers are successful turning virtually all functional components to trusted outsourcing partners, others will prefer to select certain functions for servicing. Strategies will vary based on issuer, but may focus on channels that affect operational risk, infrastructure, or product enhancements.

Each model has benefits, but must fit into the business requirements of the financial institution (FI). One issuer may aggressively outsource and create a turnkey relationship with its outsourcing partner. The FI and its partner can work on general risk strategies, and while the issuer maintains a marketing front-end, its partner can provide all services, from marketing collateral to collection processing and maintaining a system of record.

Other models might include a combination of managing operational risk, infrastructure, or product enhancements. In these cases, the card issuer can transfer technology expense, routine compliance, and staffing issues to its outsourcing partner. Outsourcing can often reduce total operating expenses by spreading technology costs across a wider pool of card issuers. Issuers will find that established outsourcing firms could deliver deeper levels of expertise with highly qualified and customized support systems. The issuer can work with scalable pricing that more closely aligns operating expenses with transaction or account costs. Similarly, staff development and training can be less sensitive to volume shifts and capacity plans, assuming the issuer and the outsourcing partner created standards when they settled the terms of their relationship.

Attacking Staff Intense and High Tech Segments

The long-term objective of reconfiguring a card operation is to improve stockholder value and increase net operating revenue. Exhibit 2 provides a deeper look at five major card based work units that are primed for collaborating with outsourcers. Segments heavily dependent upon staff, such as collection management and customer service, will often generate major operational savings. Functionally, the two areas are relatively static in their requirements for credit policies. Collection queuing — the ability to prioritize workflow, may require redesign to address volume and performance requirements; these operational components can be managed directly by the card issuer, co-managed with the outsourcer, or entirely offloaded to the partner. Standard servicing agreements can cover training requirements that govern customer interactions, establish credit policies, and provide fulfillment standards.
In contrast to customer service, collections carry more regulatory scrutiny at the operational level, as required by federal and sometimes local regulations. Chances are that an outsourcer with a strong industry presence will already have effective controls in place to comply with regulatory requirements and good customer service. If the potential partner is committed to servicing outsourced accounts, it will most likely have effective training staff and tools already in place.

Dispute handling and fraud control are other areas that rely on staffing, but they also have contractual and regulatory implications that require stronger skills to execute than other operational components. Time standards that govern responses to disputed transactions can create challenges for overstaffed operational units, although outsourcers will typically have sufficient resources on hand. Similarly, fraud units that react in real time can often see lift when placed in the hands of experienced outsourcers that can provide broader risk perspectives garnered from working your FI’s accounts and by understanding patterns and attacks that affect other card portfolios.

Mobile payments is an example of an initiative that is not staff intensive, but requires design expertise and the ability to integrate flawlessly with the payments architecture. Rather than cobbled together new channels that require extensive testing and integration, issuers can have immediate access to programs volume tested for network and product standards. Outsourcing service models can access proven and secure transaction pathways. Outsourcing operational components allows issuers to focus on the areas they do best: marketing the product, booking accounts, managing the credit risk, and increasing customer card spend.

Thinking Through a Transition to Outsourcing: FI Perspectives

An outsourcing strategy should consider broad business objectives such as the need for accelerating change, cost avoidance, and staff expense. Milestones should also address how and which selected work units will make a transition from the legacy model to one that takes advantage of outsourcing.

Exhibit 3 uses three of the 12 work units from Exhibit 1 to illustrate areas the FI should consider in deploying an outsourced business model. For this example, we selected collections, mobile payments and customer service. Collections and customer service are areas that require intense staffing and routine cardholder interfacing. Mobile payments is less staff intensive and relies a series of technical interfaces to achieve functionality.
The collection function demands staff that can work on high call volume on the front end, with increasingly intense follow through as the account ages to writeoff at 185 days contractually overdue. Most commonly, the outsourcer will be expected to process early stage accounts en masse on an autodialer and whittle down non-contactable accounts and those that cannot or will not pay. At this point, usually around 90 days delinquent, the account will be passed to a specialized collection unit. A responsibility for the outsourcer will be to handle the flow of volume, quality of staff, and coverage factors to achieve an expected aging flow rate.

The transition will require a good working partnership between the FI and the outsourcer. Issuers should determine whether volume should shift over as one large work unit or determine whether a phased implementation is more appropriate. A cautious FI might begin a transition plan where the internal unit competes on random accounts with the outsourcer, while another might direct specific account segments, like their mass market consumer accounts, and keep VIP accounts or accounts with dual credit and debit relationships. Most outsourcers are well versed with current core card platforms and can handle integration quickly.

The transition of the customer service function carries a different outsourcing challenge with similar opportunities. Rather than containing the risk associated with account aging, customer services face challenges that require actions such as address changes or more complicated questions that can bring account upsells or cross-sells.
Established outsourcers can create economies of scale from multiple FI clients that can smooth out peaks and valleys often experienced in call centers, for high-volume days, time periods, and seasonal periods. FIs will usually be able to work with outsourcers to forecast volume needs or the outsourcer will typically have enough data on hand to predict operational requirements based on current account volumes.

The FI should build in service level requirements for common metrics such as average speed of answer and talk time, to keep a keen eye on the outsourcing work, in the same manner that the collection function should consider account staffing levels and operational results. The interplay of automated response units (ARUs) for inbound calls cover both areas.

Mobile payments is an area that is the inverse of collections and customer service. Instead of offsetting staff intense function, mobile provides the FI with technical agility. Rather than developing and implementing a customized solution, either developed internally or externally, outsourcing mobile provides an instant product that can bolt into entry points that transact with either credit or debit functions. The FI should determine in advance whether a branded offering, one which might reflect a “powered by” relationship, is acceptable or if the preference should be for a white labeled solution that would be transparent to the customer. Some mobile transactions will require supplemental staff, either internal or outsourced, to handle exceptions and transaction overrides, but in either case, a decision must consider how the message will be sent to customers and whom will do the training.

These three areas provide a snapshot on necessary considerations for making a shift from a legacy model to a leaner solution that offloads several functions, ranging from risk based collections, to customer service interfaces and a technical function. Decisions do not need to be all or nothing; they can migrate gracefully by function, type of account, or a champion/challenger model.

The Future of Credit

Tomorrow’s world of credit will be more complex than ever. Issuers will need to balance operational strategies and credit risks at the same time they service accounts that require features such as near field communications and mobile access. The business models that served the industry well in prior years are not likely to be the best design to carry the business through the current and next decades.

In spite of the fact that card transactions have become commodity products at the point of sale, cards products offer features that differentiate value with services that go beyond the transaction point. Card issuers can draw on the expertise of outsourcers and service providers to create a laser focus on delivering better card offerings.
Conclusion

Card operations configured 20 to 30 years ago are not prepared to face today and tomorrow's challenges. Card issuers should look deeply into their functional processes and consider options that can streamline operations, reduce operating expenses and improve net revenue.

There are several options to consider. Issuers can effectively reduce headcount and more clearly align costs with transactions when they outsource collection and customer service functions. More complex functions such as dispute management and fraud control can take advantage of service platforms that enrich analytic models with a broader base of accounts. Technical operations, ranging from core processing platforms to mobile innovations are also primed for collaborating with industry outsourcers.

The next decade of cards will be more complicated than ever. Reduced margins, new compliance risks, emerging payment forms and an uncertain economy will bring new challenges that legacy models cannot handle. Now is the time to review your business model in the context of today and tomorrow's business challenges.

First Data commissioned CEB TowerGroup to conduct a review of current card industry challenges. The content of this report is the product of CEB TowerGroup and is based on independent, unbiased research not tied to any vendor product or solution. Although every effort has been taken to verify the accuracy of this information, neither CEB TowerGroup nor the sponsor of this case study can accept any responsibility or liability for reliance by any person on this research or any of the information, opinions, or conclusions set out in the report.