Introduction

The financial services industry has experienced profound changes during the last several years. Along with an economic recession that took a serious toll on many lenders’ profits, a new regulatory environment has had an adverse impact on a number of important revenue line-items that were critical to card issuers’ profitability. The CARD Act introduced new consumer protections designed to halt what lawmakers contended were egregious business practices that unfairly benefited credit card issuers’ at the expense of consumers (“universal default,” to name a prominent example).

Meanwhile, another, perhaps more far-reaching piece of legislation that known as The Durbin Amendment (“Durbin”) was appended to the Dodd–Frank (Wall Street Reform and Consumer Protection) Act at the last minute with limited discussion amongst lawmakers. Durbin effectively decimated interchange as a revenue item for many issuers on debit card transactions. Although it remains true that debit transactions remain less costly than check processing, the industry says that Durbin has erased billions in revenue at a time when the industry can least afford it.

Clearly, the card issuing industry, struggling to offset the loss of revenue from the economic slowdown and new regulatory measures, is seeking new sources of revenue growth. This paper seeks to help institutions drive growth by exploring data-driven strategies for increasing revenue in the altered economic and regulatory environment.
CARD Act and Durbin Amendment: Revenue Killers or Innovation Kick-starters?

Although the merits and downsides to these new regulations have been addressed in numerous studies and will not be discussed here, it’s relevant to acknowledge that the Durbin Amendment, as well as the CARD Act, have indeed had a major impact on the revenue-generating options available to financial institutions. In response, issuers must adapt and improve their card programs in order to thrive. In this way, the more restrictive regulatory landscape may well usher in an era of industry-wide transformation and innovation.

Traditionally, issuers deployed a rigid, limited set of debit and credit card products, rather than a suite of flexible payments solutions to serve varied and evolving consumer needs. It may be worthwhile to rethink that approach to the benefit of both institutions and their customers. For example, many consumers increasingly choose to use debit cards to help them stay within a budget and avoid borrowing money unnecessarily. What if banks could provide a “credit” card that reduced a customer’s available DDA balance with every purchase, and that subsequently made a payment automatically on the credit card cycle date? This updated variation on an old product would provide issuers with higher credit card interchange revenues, while simultaneously serving many consumers’ desires to avoid using revolving credit for purposes other than borrowing over a period of time (such as for big-ticket purchases).

Thinking creatively about the portfolio of card products offered to consumers is critical to revenue growth, but alone is not sufficient for long term success. Banks must also identify new sources of revenue and improve the efficiency of existing revenue channels to replace income that has been eliminated by new regulations—an undertaking that will certainly require using data and deep analytics in new ways.

Data: The Strategic Weapon for Unearthing Revenue Opportunities

First and foremost, financial institutions must recognize that customer data is perhaps their most important strategic asset to be used for generating marketing efficiencies and identifying new sources of revenue. Though often underutilized, data must be used vigorously and intelligently by any financial institution that seeks to compete successfully in the ongoing battle to retain customers, attract new ones and grow revenue. The effective employment of data and analytics can take many forms.

Internal data can highlight which customer accounts are profitable and which are not, which customers will utilize credit lines, which will generate overdraft income, and which will likely become delinquent. Data on merchant relationships can highlight which services are used and with what frequency. Pricing those services favorably or bundling repeatedly accessed services with others used infrequently can lead to a stickier, more valuable relationship from the perspective of both the merchant and the financial institution: the merchant is able to get a needed service and the institution retains a long-term customer.

Data can lead the way to extracting value from a branch network by identifying those account relationships that prefer the branch experience. If a bank located its branches ten years ago in support of business banking—but has since
changed it priority to consumer banking—how successful will the bank [branch] be? Have markets improved or declined in a way that would suggest that relocation or reinvestment would be highly productive? By determining which aspects of interaction in the branch create a feeling of comfort in identified customer segments, a financial institution can develop cost-effective programs to communicate and deliver these benefits to targeted customers.

Combining customer data from call centers and Interactive Voice Response systems with transactional data produces a much more comprehensive picture of customer segment behavior and profitability. At Merrill Lynch, expanding the use of relationship-focused tools just made sense, according to Alok Prasad, head of Merrill Edge. "We’re always looking for new ways and new technologies to help deliver better experiences while enabling our associates to be more effective," he said. "We are very comfortable taking a strategic risk that helps us leapfrog the competition. And for relationship-based experiences, we believe our real-time solution has given us a head start."

Outside and alternative data such as customer surveys, credit reports, etc., can supplement internal data with other useful information, including which customers are highly leveraged, and what percentage of a customer’s total spending a financial institution is supporting. Finally, through population segmentation and predictive modeling, an institution can identify which offers/triggers could provide the incentive that specific customers value enough to move financial relationships or increase their usage of revenue generating products. Through customer segmentation, data can indicate which products or services a financial institution should offer and in what sequence to promote them to increase the stickiness of the customer relationship.

Analysis of accounts using all data available provides a financial institution with the guidance to efficiently implement selective customer communications and incentives to change behaviors. Predictive modeling and development of highly refined strategies for different desirable customer segments will improve the uptake of beneficial value propositions for both customers and the financial institution. Accordingly, financial institutions either need to build the capability in-house to extract value from data or partner with an organization that has people with the right analytical skills to manage and use data effectively.

Three Traditional Ways for Data and Analytics to Generate Revenue for Financial Institutions

Judicious use of data and analytics can frequently improve revenue growth for existing products and channels, and even be a source of new revenue. Here are three tactics for accomplishing this:

1. Aggregate and monetize customer data for new purposes (e.g., merchants, consumer packaged goods companies).
   - Think differently about data and ways to make data useful and actionable for business customers.
   - Provide data on consumer purchasing trends and patterns to business customers to help them improve their profitability.
   - Use partners, such as First Data, to provide additional consumer information to merchants and enable merchants to compare their performance with that of their peers.

---

2 LaBarre, Olivia; Burger, Katherine; Rodier, Melanie; and Gabriel, Anne Rawland; “The Potential for Enterprise Analytics in Financial Services: Merrill Lynch Navigates the New Relationship-Centric Paradigm”, Information Week, Nov 2011, pp. 18-21.
2. Support and improve the customer experience by analyzing data that the financial institution possesses in order to provide meaningful incentives/rewards for specific customer segments.

   • Use data to create and introduce offers that the customer will perceive as valuable and that ultimately strengthen the relationship.
   • Use credit and debit transactions, which are usually the accounts with the most frequent transactions, as the launching platform for revenue generating opportunities.
   • Migrate spending to products that provide the most revenue to the financial institution by deploying targeted incentives.
   • Utilize spending trends (changes in types of purchases or payment patterns, etc.) to understand personal situations and anticipate upcoming lifestyle events. Cement the relationship through positive experiences rather than punitive measures.

3. Enhance success of multi-channel marketing efforts and offer relevance for all channels through strategic, analytic deep diving.

   • Analytics can help predict spending patterns.
   • Insightful analysis can create nuanced offers that can potentially delight a customer with their unexpected relevance.
   • For example, knowing through a credit bureau report or the financial institution’s internal data that a customer recently took out a loan for a new car, an offer of $10 off a $50 purchase of gasoline can help ease the burden of the new loan’s cost and trigger newly-recognized appreciation of the relationship’s value.

Three New Opportunities for Revenue Growth

The following three revenue generating opportunities are emerging because they meet the needs of both accountholders as well as financial institutions. For customers, these trends satisfy the ways that individuals, families, and businesses desire to handle their financial transactions and relationships.

1. Mobile applications enable commerce and strengthen customer relationships.

   • Mobile banking allows customers to view balances, see which checks have cleared and which deposits have posted, and execute tasks like transferring funds or paying bills. Having access to their current financial situation allows customers to make purchases using a preferred payment method without worrying about overdraft fees, bounced checks, declined POS transactions, etc.
   • Benefits can accrue to the financial institution by enabling customers to feel more in control of their finances.
   • Mobile messaging and chat functions employed intelligently and in a highly targeted manner can encourage customers to move a card to top of wallet.
   • Consumers have certain expectations about their banking experiences—and a financial institution without a mobile-optimized service model may soon find itself at a competitive disadvantage.
2. Personal Financial Management (PFM) tools help improve customers’ understanding of their total financial picture, while also enhancing and expanding customer relationships. One study found that financial institutions offer PFM to meet both retention and financial objectives. Sixty-five percent of institutions surveyed expected PFM to increase customer retention, while another 53 percent said they expected it to improve their brand perception. Many also expected PFM to increase products per consumer (50 percent) and increase account balances (38 percent).\footnote{Callahan & Associates, Inc.; “The ROI of PFM”, Credit Unions.com, Mar 1, 2010. URL: http://goo.gl/MBzA4 (accessed on Apr 12, 2012)}

- As the recent data breach in the news highlights, customers who view their accounts online every few days will spot a fraudulent transaction, report it more quickly, and limit the damage and inconvenience more effectively than customers who wait for their monthly statements to review the transaction history on their accounts.
- Enabling customers to view their entire financial picture online, including accounts held at other financial institutions, is a valuable convenience for the businesses or individuals who wish to take advantage of such a tool.
- Implementing the capability for the customer to perform “what if” calculations establishes a financial institution as their customer’s helpful resource. Suggesting products to help the customer accomplish a future financial goal, and then allowing the customer to “click to talk” with a product expert can ease the process for the customer and increase the stickiness of the relationship.
- Offering limited PFM tools for free and more extensive counseling and advice for a fee are ways that a financial institution can have its level of services adjust to the perceived need and financial situation of individual customers.

3. Universal Commerce is First Data’s strategy to deliver a seamless experience to consumers as they conduct transactions, whether online or in person. The goal is to create a more integrated and personalized consumer experience across mobile commerce, eCommerce and in-store shopping.

- Universal Commerce is emerging because consumers are leveraging technology in ways that change how commerce works. Merchants and financial institutions have to adapt by giving consumers convenient, consistent access to the services they need regardless of whether they are at home, walking down the street, shopping in their favorite store, or somewhere in between.
- Universal Commerce also includes enhancing the marketing side of the customer relationship. Sophisticated promotional management platforms like First Data’s new OfferWise solution improve the coupon redemption process for merchants at the point of sale. OfferWise lets consumers attach deals, coupons, and loyalty programs from participating providers to one or more of their payment cards or to their mobile wallet. When consumers use their cards or mobile devices to pay, the offers are applied automatically. Such offers reassert the value of the financial institutional relationship, encourage activity on that payment card, and save a customer’s time and effort in realizing savings—a win for all.
Conclusion

Executing on available data should be thought of as an iterative process. You don’t need to know everything to leverage what you have. Those financial institutions that do not create a sophisticated data and analytics roadmap now will find that those that do will experience greater efficiencies, provide more rewarding customer experiences, and will be better able to target strategies to drive profitability. Increasingly, comprehensive analytics will be table stakes for financial services companies. Focused data-directed decision-making throughout an organization will lead to more profitable insights, along with more valuable product and service offerings. The alternative is becoming an “also ran” financial institution that falls behind a more efficiently managed set of competitors.

Lastly, new media, email, chat, SMS and social networks increase the need for a data and analytics plan. We believe those institutions with data at the center of their consumer strategy will greatly benefit from new media. Those without a data and analytics plan will find themselves drowning in a sea of data with no insights to drive their business.