



Card Services

EMPOWERING YOUR MISSION

# **Turning a Card Program into a High Performing Asset**

A Best Practices  
Approach to Success

*A TNB Card Services White Paper*

## **Introduction**

A credit card program can be the outstanding performer in a credit union's product portfolio, but only if it is a well-run program. The challenge for any credit union that believes in its card program is to move it to ever-higher levels of performance. The goal should be to continually enhance and refine a product that not only meets and exceeds the needs of member cardholders but generates important revenue for the credit union.

It takes hard work and dedication, but any credit union that is serious about its card program can achieve that goal, by taking a Best Practices approach to the management of the program.

For some credit unions, this is accomplished by selling the credit card program to a third party, which operates the program in the credit union's name and shares the revenue. Credit unions that take this approach typically see themselves as lacking in resources to properly build and manage the program, or with a need to redeploy these assets.

As this white paper will show, almost any credit union is capable of turning a card program into a high-performing asset. Those who take this journey will find that the return on this investment of time and resources will be significant. It will benefit current members with a highly functional payment product, increase usage and balances, convert more members into cardholders, and deliver exceptional value to both the member and the credit union.

### **Credit Card Snapshot**

**A 2007 Experian study found that:**

- **The average U.S. consumer has 4 credit cards.**
- **14 percent of U.S. consumers hold 10 or more credit cards.**
- **One in 7 U.S. consumers uses 50 percent of their available credit.**

## Managing for Performance

Turning a credit card program into a high-performing asset requires a two-pronged approach. The first objective is to maximize existing accounts, in order to retain cardholders and encourage them to increase usage of the credit union's card. The second objective is to grow the portfolio through new accounts.

For existing accounts, the key goals are to manage the attrition rate, control risk, and increase income both through usage (interchange fees and interest income) and other fees.

To a great extent, the activities involved in managing the attrition rate are very similar to those involved in growing the portfolio, and will be discussed in more depth in later sections. The same things that attract new cardholders – desirable products, attractive pricing, effective marketing and promotion, and compelling loyalty programs – will also keep current cardholders from being lured away by competitors.

Member cardholders can be grouped into four general categories (see the accompanying chart). Low-risk cardholders who deliver high revenue for the credit union are the prize. It is with these members that a credit union wants to build its strongest relationships. They deserve VIP treatment, in the form of the best reward offers, preferential interest rates, and recognition of their importance through the credit union's marketing.

### Why Offer a Card?

With its 10 percent average yield, a credit card can easily be the highest-yielding loan product in a credit union's portfolio, as well as serve as a relationship tool and a brand builder.

### ROA Comparison



Low-risk cardholders who currently generate low revenue are prime targets for program growth. With this group, the credit union should encourage increased card usage, since they are least likely to default. Balance transfer offers, credit line increases, and promotional interest rate offers can be important tools to increase their usage.

Higher-risk cardholders who generate high revenue are worth keeping, but should be watched closely. Because of their risk levels, they are not good targets for efforts aimed at increasing usage and balances.

Finally, the high-risk cardholders who yield low revenue are simply not good candidates for retention efforts. It is in the credit union's best interest to find ways to discourage them from using their accounts or at least to make no effort to retain them as cardholders.

Determining how your cardholders measure up in terms of risk and revenue can be challenging. TNB Card Services offers its portfolio management expertise to help credit unions with this assessment. TNB closely examines cardholders' FICO scores and an array of other attributes to determine their suitability for credit line increases or other incentives. Based on this analysis, cardholders are grouped into numerous risk pools. We will discuss this in more depth in the section on Finding Optimal Pricing Levels.

Balancing Risk and Revenue	
Category	
HIGH RISK/ LOW REVENUE	Goal: Lose through attrition
HIGH RISK/ HIGH REVENUE	Goal: Keep but monitor vigilantly
LOW RISK/ LOW REVENUE	Goal: Boost usage among these cardholders
LOW RISK/ HIGH REVENUE	Goal: Build and maintain a lasting relationship

## **Offering Desirable Products**

What once used to be seen as a premiere product for a very elite group of cardholders, the Platinum card is the card offered most frequently to the greatest number of people. Nine out of every 10 card account offers sent out today are for Platinum cards.

Despite its pervasiveness, the Platinum card is still viewed as top-tier by cardholders, so it has a very positive perception. It also offers better member benefits and is proven to deliver greater member retention. Cardholders with a Platinum card have higher card usage rates, higher outstanding balances, and higher net retail sales. If your credit union is not already offering a Platinum card, the time to act is now, because you can be sure that competitors are offering those cards to your best members.

In addition to the Platinum card itself, a credit union can increase the desirability of its products among the low-risk cardholders by rewarding them with a higher credit limit. This puts greater spending power and financial flexibility in the members' hands, and TNB client credit unions that have taken this step have seen significant increases in outstanding balances as the low-risk cardholders respond.

**If your credit union is not already offering a Platinum card, the time to act is now, because you can be sure that competitors are offering those cards to your best low-risk members.**

Other product offerings that credit unions can consider are target-specific, such as a business card or family-account type card. A business card provides tools to manage business expenditures that easily separate business and personal payment transactions. It gives a credit union the opportunity to enhance and broaden its relationships with members who also own small businesses.

A family account card product lets a family set up individually numbered accounts for each household member, yet all of them are tied to a main account. With wide flexibility built into payment arrangements, this provides a unique combination of control and convenience for everyone in the family.

## **Finding Optimal Pricing Levels**

From a management standpoint, it is tempting for a credit union to establish a small number of annual percentage rates (APRs) and credit limit amounts. In some cases, credit unions have a single APR and credit limit for everyone. But this is similar to an auto dealership selling only one model of car, available in just one color. That wouldn't benefit car buyers or the dealership, just like the limited APR and credit limit options don't serve a credit union and its members very well.

**Typically, credit unions' credit lines are extremely conservative, and this can result in lost revenue, particularly from the highly desirable low-risk cardholders.**

To truly meet the needs of cardholders, a credit union needs risk-based pricing and effective credit line management. This approach rewards lower-risk members with the most attractive interest rates and increased credit limits, encouraging them to use the card more frequently and build balances. In turn, the credit union boosts the share of card revenue that it gains from those lower-risk members, improving its overall risk profile.

It is much more effective for a credit union to tie its pricing and credit lines to its cardholders' credit scores, rather than to a card type. The most desirable cardholders then see and appreciate the tangible and perceived benefits from the more competitive pricing and higher credit line. At the same time, the credit union can be more restrictive in its pricing for those members in the moderate and higher risk categories.

One TNB Card Services client credit union that migrated to a risk-based approach, with varying APRs for each risk level, was able to reward 70 percent of its existing cardholders with more attractive APRs. It paid off for the credit union because it encouraged usage as well as card retention in the lowest-risk groups.

In its consultations with credit unions moving to risk-based pricing, TNB Card Services recommends tiered pricing, or for a more precise approach, Account Level Pricing. Account Level Pricing makes it possible for a credit union to go beyond credit score "tiers" to assign pricing to individual accounts instead. The credit union can then offer its best pricing to those cardholders who are the most profitable, while keeping pricing in place that reflects the risk other cardholders may present. This flexible account management tool provides both marketing and risk management capabilities.

Working hand-in-hand with Account Level Pricing, Incentive and Penalty Pricing are approaches to modify the behavior of cardholders to generate a desired response. Penalty pricing increases the interest rate on delinquent accounts. The purpose is to get the cardholder to bring the account current by charging them a higher rate. Penalty pricing is temporary and can revert back to the normal rate once the account is in good standing.

Incentive pricing enables a credit union to reward and recognize cardholders in good standing, by offering them a temporary rate reduction. For example, cardholders who transfer a large balance to their card, use it a certain number of times, or spend a specific dollar amount each billing period, would be eligible for a rate reduction.

### CREDIT LINES: HOW CUs COMPARE

	Outstanding Balance	Credit Line	Utilization
<b>Top 10 Issuers</b>	\$2,433	\$8,110	30%
<b>Industry Average</b>	\$1,293	\$5,684	22.8%
<b>Large CUs</b>	\$1,729	\$3,941	43.8%
<b>Mid-sized CUs</b>	\$1,341	\$3,093	44.1%
<b>Small CUs</b>	\$1,211	\$2,529	49.9%

Credit line management is a very effective risk control tool, and how a credit union manages credit lines also affects cardholders and their usage. Typically, credit unions' credit lines are extremely conservative, which can lead to lost revenue and higher attrition, particularly from the highly desirable low-risk cardholders.

As the accompanying Credit Lines chart illustrates, even the largest credit unions are far below average when it comes to credit lines. The large credit unions have credit lines only about half as aggressive as the top 10 issuers, and stand at only about two-thirds of the credit card industry average. Their utilization is also much higher.

Utilization around 28 to 30 percent is considered optimal. At usage rates above 33 percent, a credit line increase is called for. As the chart suggests, most credit unions' cardholders are due for an increase.

One TNB Card Services client credit union that proactively addressed its credit line issue had tremendous success. It started with 70 percent active accounts and an average credit line usage of 29.9 percent. After raising its average credit line by a third, the outstanding balance average climbed by more than 60 percent. The credit union was also able to increase its number of card accounts by 20 percent in a year and a half.

Another TNB Card Services' tool, Auto Credit Line Increase, is an automated method for evaluating accounts and adjusting credit lines based on the cardholding members' account history. It eases the task of monthly maintenance and systematically rewards members who use and maintain their card account in good standing.

## Marketing and Promotion

A credit union can develop the right card products and find effective and attractive pricing levels, but if its cardholders and other members don't know about it, they can't take advantage of it. That is where marketing and promotion play a vital role in both informing the target audience and "selling" them on the advantages of the credit union's program.

When done correctly, marketing is a continuous process. The levels of marketing activity may vary month to month or season to season, but it should never stop. Frequent and consistent contact with cardholders and members is a must if a credit union is going to increase card usage and balances and add new cardholders.

Why is it so important? Because credit unions that either don't market their card program at all, or do it inconsistently, suffer declines in the cardholder base, both in numbers of cardholders and the average levels of risk. Account attrition averages about 15 percent annually, and credit unions must grow their card base by an equal amount in order to maintain their program at its current rate.

Category	Benchmark
New account acquisition	0.42% of average outstanding balances
Promotional expense	0.27% of average outstanding balances
Rewards/rebates	Up to 1% of average outstanding balances of net sales
<b>Total</b>	<b>.69% - 1.19%</b> of average outstanding balances

\*Visa 2005 Consumer Credit Card Issuer Benchmark Study

It is also important because even if the credit union isn't marketing to its cardholders and members, it can be sure that competitors are. The big issuers target low-risk, high-spending members through direct mail promotions, e-mail, and advertising via TV, radio, newspaper, magazine, and the Internet.

To meet that challenge, credit unions need marketing programs that address what consumers look for in a card. For the typical consumer, that means a Platinum card with a highly competitive interest rate, no annual fee, pre-approved status, a high credit line, and worldwide acceptance. To get the attention of these consumers, credit unions need a marketing program that encompasses these elements:

- Low introductory rate offers
- Upgrade offers
- Reward cards
- Balance transfer offers
- Convenience checks

In one survey, it was found that only 28 percent of credit unions make introductory offers of any kind. But the competition frequently uses very low introductory rates to attract cardholders. These introductory offers can be promoted through direct mail offers, statement inserts, on the credit union's website, in regular newsletters and within the branch using posters, table tents, and other promotional materials.

**Marketing is the fuel that powers a card program.**

Balance transfer offers can be effective promotions when done once or twice a year, especially after the holidays. Allowing cardholders to pay off other cards by moving the balances to the credit union's card can leverage the affinity that members naturally feel for their credit union and build a good base of outstanding balances. This tactic is particularly effective if the promotion is targeted to lower-risk cardholders.

With the appeal of Platinum cards, offering them to the appropriate cardholders can be a strong draw. A TNB Card Services client credit union had great success with this approach, and was able to stop the erosion of its cardholder membership base and stabilize its portfolio. This was the key to the turnaround that enabled the credit union to build a higher quality portfolio, with higher average balances.

Convenience checks can help cardholders move balances onto the credit union's cards, helping them pay off the balances on other cards or clearing other debts. Whether they are offered via the monthly statement or on a seasonal basis, these checks are quite effective in growing outstanding balances in a way that is member-friendly.

Reward cards are clearly effective, and the flexibility and scope of today's loyalty programs is amazing. In the next section, we will discuss loyalty programs and reward cards in more depth.

A credit union that has increased credit lines and wants to further strengthen its portfolio can bundle its promotions for increased effectiveness. For instance, a low-rate balance transfer offer could encourage cardholders to move outstanding balances from other cards into the credit union's program. With the higher credit line, cardholders have more credit line capacity for this type of transfer. Typically, the low transfer rates disappear after six months or a year, with the remaining balances reverting to a higher rate, but still well below what other national issuers charge.

As far as how to promote your card program, the ideal approach is to use a well-coordinated plan that leverages various channels. That includes statement inserts, direct mail, e-mail, website promotion, newsletters, in-branch promotions and activities, and sales incentives to the staff. This combination assures that in one way or another, the members the credit union wants to reach with its marketing and promotional efforts will receive the message. All of these methods can be done in-house or in partnership with TNB Card Services.

One of the most effective, yet often overlooked, marketing vehicles for growing a card program is the credit union branch. In fact, according to Visa, in-branch marketing is the most cost-effective channel for generating new cardholders, costing approximately \$45 per acquisition, compared with about \$170 per acquisition for pre-approved direct mail.

Branches represent a huge acquisition opportunity for every credit union, regardless of size. Fifty-two percent of new credit card accounts originate from in-branch, and on average, each branch accounts for 10 new credit card account openings per month.

In addition to generating new cardholders, the branch should be used to drive card usage and lower cardholder attrition. Promotions that start in the physical branch and extend across all the member touchpoints are a low-cost means of growing card accounts and awareness. These promotions can range from the most simple – making sure “take-one” applications are available everywhere a member comes in contact with the credit union – to a full-blown campaign offering employee incentives to drawings for prizes for cardholder usage.

Marketing is the fuel that powers a card program. It drives new account acquisition, stimulates activation and usage, grows balances, and enhances the positive messaging of your credit union brand to your members.

## Building Compelling Loyalty Programs

Credit and debit card products tied to reward programs pay off both for member cardholders and the credit union. Reward cards yield higher levels of commitment and drive more usage and spending than non-reward cards. It is also much more cost-effective to retain an existing cardholder than to attract a new one.

**The question for a credit union is not whether to offer rewards or not, but how to structure a successful rewards program.**

Financial institutions are also quickly adopting rewards to drive card usage. Reward credit cards currently make up 50 percent of the total number of cards issued. By 2010 they will account for 90 percent of all cards, and 60 percent of financial institutions will offer rewards to their cardholders.

So the question for a credit union is not whether to offer rewards or not, but how to implement a successful rewards program.

The four key factors in a rewards program are:

1. **Retention.** Retaining cardholders is the top priority. A rewards program should be aimed at tying the at-risk members tightly to your credit union; attracting new cardholder members is secondary.
2. **Strong Value Proposition.** Offer products and services that are meaningful to your members and can be achieved/redeemed with a reasonable amount of points.
3. **Cross-selling.** A rewards program offers great opportunities for cross-selling new accounts, loans, and other products.
4. **Penetration.** The reward program should pave the way for you to increase the product usage by your low-risk or inactive cardholders.

For a rewards program to be successful, it should fit your credit union's character, both in the way it operates and the rewards it offers. Many programs offer a mix of rewards, from things you can hold or touch, such as iPods, TV sets, high-end appliances, tools, or gift cards, to things you can experience, such as airline travel and hotel stays, downloadable music or videos, a day at a spa, or the opportunity to give to your favorite charity.

A mix of easy-to-get rewards and "aspirational" rewards lets program members satisfy their desires immediately with a small number of points (downloadable music or ringtones), while others stay in the program to save for a big reward. Your program should also limit any barriers to redeeming rewards, such as fine-print restrictions on travel or long shipping and handling delays on merchandise.

A successful program will focus on rewarding those cardholders and members that offer the best financial return for the credit union, with a goal of encouraging incremental spending and usage via the program. To further motivate this target group, promotional efforts such as bonus reward points could be offered to encourage them to reactivate if inactive, or increase usage for low-usage accounts, or even pay on time.

A credit union should carefully consider whether to charge a membership fee for their reward program. It can be a double-edged sword. People who pay a fee to be in a reward program tend to feel more invested in the program, but it does stand as a barrier to entry to others. If you do charge a fee, you may waive that fee for the most desirable program members, which will make them feel exclusive and appreciated.

In the long run, you will need to decide how many of your products and services will fit under the reward umbrella.

Reward points can be offered across the entire suite of retail products to members applying for, personal loans, or home equity loans, purchasing CDs, enrolling in online banking, and more. This rewards strategy builds a complete relationship with members and stronger loyalty to the credit union. As the latest Edgar, Dunn & Company research shows, these “relationship rewards” programs are a strong incentive, more so than reduced interest rates.

### **Communication**

Promoting and communicating your reward program is critical to its success. Among the methods and media are:

- Printed and online catalogs
- Your credit union’s website
- Special program member website
- New member “welcome kits”
- In-branch promotions
- Targeted direct mail
- Online redemptions
- Quarterly statements
- E-mailed statements
- Reward program call center

## Managing for Revenue Growth

Revenue growth in a credit card program can be achieved in two ways. First, the credit union can encourage its existing cardholders to use their cards more frequently and spend greater amounts. Second, the credit union can attract new cardholders, both from existing members and from new members. Accomplishing these two objectives involves a well-crafted mix of several of the best practices that we have previously discussed.

The low-risk cardholder is the ideal target for credit union efforts at building usage. Because of the lower likelihood of chargeoffs and other payment issues, these cardholders' increased usage and spending not only generates revenue but strengthens the overall risk profile of the portfolio.

Cardholders in the desirable low-risk group should be given Platinum cards at the earliest opportunity. Members' high regard for these cards will translate into increased usage. Their credit lines should be increased appropriately, and they should be offered preferential interest rates, achieved through the implementation of risk-based pricing. While that may seem counterintuitive to revenue growth, their higher usage will offset any revenue reductions connected to lower interest rates.

A reward program that effectively retains and drives usage among existing cardholders is one that maximizes flexibility. The options of frequent small rewards or the enticement of a big reward in the future appeal to different types of individuals, and both types can be encouraged to use and spend more to achieve satisfaction.

When it comes to marketing and promotion, the low-risk group should be approached through methods such as balance transfer offers and convenience checks, both of which increase their outstanding balances and help tie them to the credit union. Marketing of the reward program, both to those cardholders who join it and others in the targeted segment, should be consistent and ongoing.

To encourage more usage and spending from existing cardholders, the key activities are:

- Targeting low-risk cardholders
- Make them platinum cardholders
- Raise their credit lines
- Losing high-risk cardholders through attrition
- Loyalty programs
- Retention-focused marketing

To attract the right kind of cardholder, the individual who presents little risk yet high potential for revenue, the best product is a Platinum card. For this desirable group, it should be the “standard” card that is offered. Along with that should be a sufficient credit line (based on credit score). Pricing should also be based on credit score and relative risk, and low introductory rates should be offered as needed to encourage the low-risk candidate to become a cardholder.

While a reward program may be best suited to retaining existing cardholders, it can also be a tool for attracting new cardholders and new credit union members. For this purpose, a relationship rewards program is more effective, as it entices the individual to not only earn rewards via credit card usage, but also a wide range of other credit union products. The attraction of knowing there are many ways to achieve a reward can be a powerful enticement for new members.

In terms of overall revenue growth, one of the key practices is management of credit lines. By working to achieve as close to a “perfect balance” as possible of credit lines based on the individual cardholders’ risk levels, a credit union can further encourage additional spending and usage among the low-risk group. Typically, cardholders will use more credit when they have more credit line available. By making sure that credit lines are appropriately sized for the lowest-risk individuals, it improves the overall risk profile of the card portfolio as a whole.

Revenue growth is essentially a gauge of how well the credit union performs overall at the delicate balance of keeping the revenue (interest income, interchange income, and fees) ahead of the expenses (chargeoffs, the cost of funds, processing costs, and reward program costs). Managing for revenue growth requires dedicated management attention. Closely monitoring accounts for usage levels, relative risk, and potential for improvement is hard work, but it will pay off. This also helps ensure that the credit union’s members are receiving a highly competitive card product that increases brand loyalty for the credit union and also minimizes attrition risk.

To attract new cardholders, the key activities are:

- Offering desirable products
- Establishing attractive pricing
- Comprehensive loyalty programs
- Effective marketing
- Managing a successful in-branch acquisition program

## **Conclusion**

Turning a card program into a high-performing asset is a process that offers significant rewards for credit unions and their members if the credit union is willing to invest in its program. They will see solid growth in their card programs if they dedicate resources to the following: determining the products their members desire; offering products at the right prices, marketing and promotion; developing appealing loyalty programs, and managing both for performance and for revenue growth.

By implementing the best practices approach that this white paper has spelled out, a credit union can build a card program that benefits current members, drives usage and balances, turns more members into cardholders, and delivers valuable revenue. For more information about building card programs, visit [www.tnbcards.com](http://www.tnbcards.com) or call 888-742-0260.

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