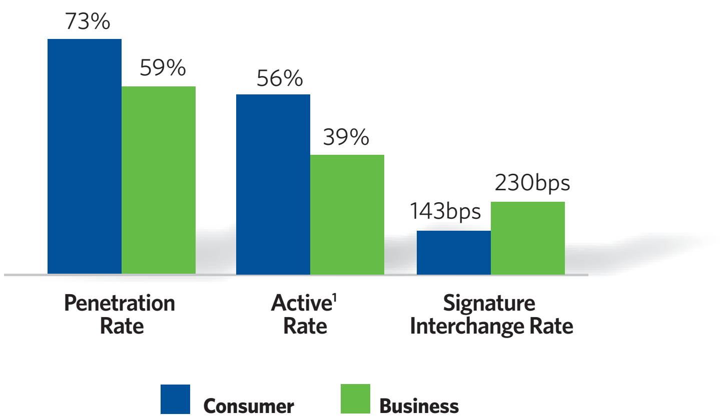
Increase Non-interest Income and Improve Relationship Value by Optimizing Your Debit Card Portfolio

The new Regulation E rules — and the potential revamp of checking product portfolios at many financial institutions — have created a much higher focus on individual account revenue. That means now is the time to re-evaluate whether your institution's debit card strategy is optimized.

According to the 2009 Debit Issuer Study commissioned by Pulse, the average consumer debit card penetration rate in 2008 was 73 percent. Among these cardholders, 56 percent were active — that is, they used their cards to conduct a signature transaction in the past 30 days. In addition, while the penetration rate and active rate for businesses were lower (59 percent and 39 percent, respectively), the revenue potential was greater due to a higher average transaction size and significantly higher interchange income.

Comparison of Consumer and Business Metrics



Source: Pulse 2009 Debit Issuer Study

[1]Any signature POS transaction in the last 30 days for consumer debit

Where's the Opportunity?

Compared with industry averages, best-in-class debit card issuers have penetration rates exceeding 90 percent. These institutions do the best job of selling the benefits of the debit card with new account holders at the new accounts desk, and they have made debit card activation and utilization two pillars of their onboarding process.

But penetration and activation are only part of the revenue equation. The most important impact on revenue comes from sustained utilization by consumers and the ability to move them to signature-based transactions. According to Pulse, the most successful debit card issuers have 30 percent more signature transactions per active card (which generates more than twice the average interchange rate), 50 percent more PIN-based transactions, and more than $100 in annual interchange income per active cardholder.

Over time, the active debit card user displays greater potential for relationship growth and loyalty than consumers who utilize other types of delivery channels. Active debit card users are receptive and attractive targets for cross-sell promotions, especially online banking and loan product sales. Just as debit cards have the potential to reinforce customer or member relationships, the absence of a debit card offering puts a financial institution at a competitive disadvantage that may result in the loss of the relationship.

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Solutions to Take Advantage of the Debit Card Opportunity

Successful strategies from the most profitable debit card programs include:

- **Instant issuance at the branch level:** While the process is more costly, instant issuance and activation of debit cards engage a consumer faster and increase the likelihood of an active checking relationship.
- **Targeted activation and utilization campaigns:** Institutions should focus on those households with nominal or active card activity as opposed to trying to convert non-users. Messaging and offers should be differentiated based on current activity levels, usage patterns, demographics and relationship dynamics. Best-in-class utilization programs are implemented at least quarterly and leverage multiple communication channels. Ongoing direct communication to consumers should emphasize the benefits of the debit card as a financial management tool and as a potential way to earn rewards, meet relationship requirements, etc.
- **Promoting debit cards as a bill payment option:** Chase Bank and other institutions have recently been promoting the use of debit cards for such recurring payments as rent, insurance, utility bills, and health club membership dues. This is an excellent way to increase interchange income and reduce customer or member attrition.
- **Marketing the use of debit cards for internet purchases:** Convincing more account holders to use their debit card for online purchases can greatly impact revenues as more consumers do retail transactions online. According to the Pulse report, internet purchases reflect only 9 percent of total signature-based POS transactions (up 50 percent from the previous year), providing a significant opportunity for growth.
- **Revisiting rewards programs:** Many financial institutions are re-evaluating the structure and viability of rewards programs as a relationship development tool, using debit card reward currency as the foundation for reward expansion into other preferred behaviors (opening accounts, increasing balances, etc.) and to support the overall institution brand. While more difficult to implement, several institutions have implemented merchant funded rewards programs as well.
- **Increased emphasis on business debit:** For most banks and credit unions, small-business debit card use is a tremendous under-utilized opportunity, with a higher average transaction size and significantly higher interchange income. Targeting small business with cards geared to their needs (limited or no ATM usage capability, partnership rewards, etc.) will yield substantial revenue improvement.
- **Enhanced metrics:** Many financial institutions still do not measure the primary drivers of debit card penetration, activation, utilization and revenue. Without these measurements, it is difficult to determine achievement of goals.
- **Innovation:** More than ever, product innovation will be necessary in light of the changes in checking product lines and fee structures. To differentiate your institution from your competition, it will be important to listen to consumers and develop enhancements to product lines that meet their needs.

To discuss specific ways to **optimize your debit card revenues,**
contact your Harland Clarke account executive.

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