Presenter: Nicole Machado, Director, Card Services, Harland Clarke
Presenter: Rob Dixon, Product Director, CPI Card Group

Nathan:	Good day, and welcome to Harland Clarke's webcast, Post-EMV Engagement Strategies. This webcast is being recorded and will be provided to you within a few days. If you have questions, please use the chat box located in the control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Nicole Machado, Director of Card Services at Harland Clarke. Nicole, you've got the call.
Nicole:	Great. Thanks, Nathan. My name is Nicole Machado, and I'm the Director of Card Services at Harland Clarke. I've been in the card services industry for just about 18 years, and I've held several different positions ranging in implementations, marketing, and operation. Before I was working in the card industry, I was a personal banker at a credit union for almost ten years, so I have quite a bit of experience in this space. I'm excited to talk to you all today about instant issuance, which I think is really exciting. I would like to also introduce my co-presenter, Rob Dixon from CPI Card Group. Rob?
Rob:	Thanks, Nicole, and I appreciate the opportunity to join you on this call today. My name is Rob Dixon. I'm Product Director for Instant Issuance Solutions at CPI Card Group. I have about ten years of experience working for some of the world's largest payment processors, banks, and financial services providers on all different sides of the payment ecosystem. Largely, I work in growth products and products that enable banks to generate higher revenues, better consumer experience, and save money on operational expenses. Again, I'm excited as well to teach you or talk to you a little bit about instant issuance and some of the strategies we've come across. Again, Nicole, I appreciate the opportunity to join you today.
Nicole:	Awesome. All right, so let's get started. I'm just going to go over the agenda today. With disrupters like Google Wallet and Apple Pay battling financial institutions for payment supremacy, the lack of an effective engagement strategy could be costing you. We hope to provide you with valuable information about why instant issuance is now a must have for every financial institution that values engaging and retaining account holders, so today, Rob and I are going to talk about consumers need for immediacy. We live in a world of instant gratification and what that means to you as a financial institution. How have payment solutions evolved as it relates to instant issue? As you know, many banks and credit unions are reevaluating the role of the

branch, and we'll cover how instant issuance can play a pivotal role in a financial institution's branch transformation strategy. We'll look at how EMV has facilitated the adoption of instant issuance, and finally, we'll spend some time on why instant issuance makes sense, the types of instant issue solutions, and some comparisons and things to consider. Rob, I'm going to transition over to you to talk about consumer gratification.

Rob: Great. Thanks, Nicole. I think everybody, if they look at the way that their lives have changed, I think we would all agree that we sped up a little bit. The I want it now generation – if we can go to the next slide. Again, if we look at our lives and we see that we as humans and as we continue to evolve and technology continues to evolve, we start to desire immediate service, flexibility, convenience in all aspects of our lives. I mean, today, we can use a mobile app or a website to stream music anywhere in the world, any type of music anywhere in the world on demand. We can order a car to come pick us up via Uber or Lyft at anyplace in the world as well.

If you even look at people like Amazon who are doing same day delivering of online orders, again, it's all about convenience and immediate service. That doesn't change as we look at the financial landscape as well, and Nicole mentioned this in her introduction. We look at even the financial services space is being impacted by this speeding up of our needs or wants. We look at Apple Pay and Google Pay and some of these other new financial services entrance into the marketing challenging the traditional way that we interact with our banks and how we get services from those banks. Today we're becoming increasingly removed in the bank branch, this struggling or looking for ways to continue to provide the service that traditionally has been done by banks and credit unions.

Summarize, the world's speeding up. Customers are demanding immediate service, flexibility. As consumer behavior begins to change, banks need to be flexible in changing some of the services that they provide. I'm going to let you, Nicole, describe to you some industry activities that have taken place that position instant issuance as a competitive differentiator, and can help banks address these new changes and these new desires that they have. Nicole?

Nicole: Great. Thanks. Thanks, Rob. Okay. A major key advancement came in 2009 when MasterCard and Visa relaxed their requirements for embossed cards and allowed for flat printing on debit and credit cards. The flat printing would be the consumer name, the account number, and expiration date. This ultimately was a game changer for instant issue as it allowed for the flat print technology to enter into the instant issue printer market. A flat print technology allowed for printers to have a much smaller footprint than the old embossing machines, which were very large and very noisy and very expensive. The flat print technology not only allows for a smaller footprint, but also allowed the printers

to be much less expensive than the larger embossing units, which made them more accessible and affordable for financial institutions of all sizes. Now everyone could get into the game.

If we look at EMV, high-profile data breaches such as the Target and Home Depot put EMV into the consumer mainstream. It really brought it to the forefront where consumers were starting to ask their FIs about EMV and how their cards could be more secure. While instant issue technology had been around for some time, the adoption rate started to grow as financial institutions were seeing the added cardholder benefit of immediate delivery and branch or at the new account opening while they were completing their card portfolio migrations to the chip. That's where we land today. You can see there is great opportunity. If you look at the column all the way over to the left-hand side, you can see that the current instant issue penetration is about 14% of financial institutions, but by 2018, it's projected to be about 33% of banks and credit unions will have an instant issuance solution.

We're going to stop here just to see if you guys are awake and have a short poll question to better understand what your organizations are thinking about when it comes to instant issuance. Okay. I'm going to read the questions and the answers there, and then if you can – over to the right-hand side of your slide there, if you can choose the answer that fits best with your institution. The question is are you thinking of implementing an instant issuance solution? Yes, but we don't know where to start. Yes, but have not started looking for a vendor or supplier. Thinking about it but it's not a priority. Want to understand why and a value instant issuance has for a financial institution, or quite honestly, this is not a priority. We're not thinking about it at this time. We'll give you a minute to go ahead and choose your options, and Rob, if you want to go over the results there. I think they're pretty interesting.

Rob: Yeah, absolutely. Forty-three percent of you are saying that you're thinking about it, but it's not a priority. I know that we're always competing for resources internally. Try and understand how we can support some of these new technologies that are coming to market. I think as we go through the presentation we'll talk a little bit more about how we can help with the business case justification as well as some of the new trends for using instant issuance to address some other things that are going on inside your branch so maybe in demigration, customer concerns with the uptick in security breaches over the last couple years. We'll talk a little bit how we can help maybe raise the priority for you.

The second answer or second response, we have a tie, actually. We have a tie between, yes, we are interested, but we have not started looking for a vendor or supplier. The other one is we want to understand why and the value for the financial institution. Again, as we continue the presentation, hopefully at the

end of this you'll come out of that with a better understanding of why instant issuance is important for your branch, what the benefits are, and then how do you go about implementing a solution? I think we go forward. Nicole is going to go a little into some of the things we're seeing.

Nicole: Yes, awesome. Thank you. If we look at the payment landscape, it continues to change. We mentioned it earlier. It's experiencing a dramatic shift with the mobile payment disrupters, a sense of immediacy for everything including financial services, and there are a few other key items that financial institutions should consider. The disrupters such as Apple Pay earn a portion of the interchange for each transaction, and of course, then that can take away some of the revenue that financial institutions have always looked for. In addition to that, there are prepaid card providers introducing card serving alternative markets that remove the financial institution from the equation completely, and those entities are now earning all the fees and the interchange. That said, financial institutions have to remain diligent about how to continually engage their cardholder, so as financial institutions are becoming more removed from the day-to-day consumer interactions, we want to be sure that those interactions that they are having are high value.

Let's take a look at the next slide as we look at shifting towards nontraditional banking. We're talking about a shift towards nontraditional banking, and the rise of digital self-servicing tools has impacted the branch interactions that financial institutions have with their account holders. If we look at this slide, it's taken from a 2016 survey about how consumers interact with their financial institutions. In-branch engagements among account holders have declined relative to online banking, but survey responders still indicate they like to interact with the branch a little more than half of the time at about 57%. When we take that and break it down, so when they are going to the branch, what are they doing? Most went to the branch to either make a deposit or a withdrawal, and of course, about half of it is for the ATM. This is interesting. About 40% went to the branch with the intention of opening a new account. That's significant and is where banks and credit unions can impact multiple levers such as satisfaction, cross-sell, and revenue opportunities.

If you can move to the next slide and look about monetizing the in-branch experience. As financial institutions think about their branch transformation strategy and how to position their branches to be more profitable, instant issuance offers a high-value added, revenue-generating opportunity. By being able to put a fully functioning debit card in a new account holders hand is an unexpected benefit for that cardholder, and they appreciate receiving their card immediately and being able to use it instead of waiting seven to ten days. Having that card right away starts driving the activation and usage, and that makes that card top of wallet for that financial institution. Another valuable benefit is the ability to educate their account holders about the benefits of not

just their card. Particularly when it's EMV, there are a number of additional things you may want to talk to your account holder about relative to security and payment benefits, but you also have the opportunity to talk to your account holder about other services such as online and mobile banking. You're able to educate in leveraging the instant issuance experience to drive an incremental lift in the adoption of those other products and services. As more and more banks are reevaluating their branch positioning strategy so that they're more meaningful and profitable engagements, instant issuance is becoming more appealing. I think, Rob, you can show that here on the next slide.

Rob: Yeah, absolutely. When we think about instant issuance, I think most of us remember those ATM-only debit cards that you used to get. Excuse me. Not debit cards. Cards you used to get when you opened an account. That goes back to the 1980s. Earlier in the conversation, Nicole mentioned some advances in technology around printers and some card issuance trends that have changed over the years to enable more technologies coming to a branch, specifically around instant issuance. Since 2009, 2010, permanent instant issuance in-branch has become feasible with some of those changes in technology. As you can see on this slide, the majority of adoption, if you will, has been in the community bank space around instant issuance. Roughly 56% or 60% of community banks or credit unions have a financial instant issuance solution in their branch.

On the other side of that, we are now seeing more and more of these banks, the top banks, adopting a strategy around how do they provide instant issuance capabilities to their customers as well? It's becoming more and more of a me too or a mainstream product. It's something that you need to have to be competitive in your space. As we look at how the market's trending, we anticipate 40% or more of the branch market here in the United States to have an instant issuance solution by 2018. The time is now to look at instant issuance and how it benefits not only your branch from a revenue and an operation perspective but also in the customer experience that you're giving to your customers in the wave of new technology that's coming to market. Again, we talked about Apple Pay and those but also with EMV migration and security breaches going forward, so lots of reasons to do it. Lots of folks are starting to do it and starting to realize the benefits of doing instant issuance as we go forward.

Other benefits, Nicole touched on the cross-selling opportunity or the in-branch customer experience that you could provide those that come into the branch for various reasons. There's also a straightforward business case for instant issuance, and that is incremental lift in revenue from additional transactions that you get from that card being issued and the cardholder using that card in the first five to seven days. They would traditionally be waiting for that card to be mailed to them, so there's an incremental lift. There's also some operational

savings that you get from issuing that card permanently and not mailing it. Those are the traditional business case levers, if you will, that banks have used to justify this expense.

Going forward though, we're seeing more and more banks start to leverage instant issuance around increased security. Again, we live in a world where technology has evolved. That has impacted our fraud numbers, our fraud portfolio. Imagine if you had a cardholder one day that woke up, and on the front page of *The Wall Street Journal* was an article about a top retailer that had a data breach in their card portfolio. You're most likely to have one or many of your bank customers or credit union customers come into your branch location and want to replace their card. Regardless of whether they were involved in that breach or not, they want to feel secure coming to the branch. Being able to respond immediately and provide the level of service that customers demand, minimizing the impact, not having to mail that card and have them wait five to seven days, that's a tremendous benefit to your cardholder and a tremendous customer experience.

In addition to that, we look at another thing that's impacting all of us right now is the EMV migration. One of the things that we hear from our customers is the EMV migration seems to be forced upon us or forced upon cardholders. In reality, there's a reason that that migration has taken place. However, from a customer perspective, they still are struggling with the idea of how do I use this chip? Where can I use this chip, those types of questions and unknowns, if you will? Our banks and credit unions that have leveraged instant issuance see a value in being able to look at the cardholder. Show them the card. Tell them all the prompts on the terminal. You're no longer going to swipe the card. You're going to have to leave the card in, right, minimizing that consternation that that cardholder's going to have when they go out into the wild and use this new technology that they see as forced upon them, right?

That's a better customer experience for them, and it's also going to drive higher revenues through increased usage of the card. We see some stats on this page. Roughly 58% of cards that are instantly issued are activated within 12 hours or used within 12 hours and 28% or more increase in transaction volumes not only in the first 5 to 7 days but over the lifetime of that card. Some real benefits not only from a consumer experience, but making your customer feel comfortable, minimizing their consternation, impacts the bottom line. When we talk about how does it impact the bottom line, we talk about the consumer experience, 98.5% say that an instant issuance portfolio is beneficial to them or that they liked it. You're going to have – again, we talked about the 30% instant savings from the reduction in cost for mailing. Then, of course, you're going to find an instant issuance solution that's easy to implement and quick to market so you can realize these benefits. This is all going to impact your consumers and how they feel about you and your brand.

Nicole: Great. Thanks, Rob. I think now we can talk about the two different card distribution strategies for instant issuing, and Rob did touch on one of those. There is the temp to perm, which is something that folks were doing back in the 80s, and still some continue to do today. Then there, of course, is the fully personalized instant issue card. Many years ago, the temporary to permanent was the way that most FIs offered instant issue. A lot of cases they were simply ATM cards.

Financial institutions had their preprinted non-personalized cards in their vault that they would hand out at account opening. These cards would simply have an account number printed on them, generally not be the customer's permanent account number, and would come with a predesignated PIN number. The consumer would activate that card, generally at an ATM or something of that nature, and then would get a fully personalized card in the mail seven to ten days later. While it's an easy way to implement to not have to integrate into the financial institution's core systems or into their daily process, it doesn't do much to lessen the cost of the card. Of course, you're issuing it twice, and you are having the potential of added confusion for that customer to have that card and not know what to do with it once they get the permanent one in the mail. The fully personalized instant issue card is where the card is printed at the branch with the permanent account number, expiration date, cardholder name. In many cases, the financial institutions can offer multiple card types, such as a consumer debit, credit, an ATM, a business debit, HELOC, etc.

In both cases, it does give the branch staff the opportunity to educate and cross-sell account holders during the instant issue process, so that certainly is a plus. No matter what your instant issue distribution strategy is, you really want to have the right balance. Instant issue and central issuance are not mutually exclusive. In fact, they're partners. Central issuance is still very valuable for monthly card reissues, large breach situations, mass reissues, or account openings that are not done in the branch. Where instant issue is a great compliment to that is for the new account openings that are happening in the branch. As we see on the previous slides, folks are going into the branch to open new accounts a good portion of the time. They're valuable in breach situations, particularly if the account holders are close to the branch.

If we spend a little more time in the fully personalized instant issue solution, there are two different models. There's a software as a service and a software for purchase. I'm going to turn it over to Rob to really go over the very important distinctions between these two models as it relates to the fully personalized instant issue solution.

Rob: Thanks, Nicole. We're going to start with the conversation around software for

purchase, or what we call an in-house model. That is the model where the financial institution is not only going to be responsible for purchasing the printer, and the consumables, and the card stock that they will need in the branch to issue cards. They will also be responsible for purchasing the server, the HSM, and all the network components that they will need to support the instant issuance program inside of their ecosystem. They will stand up servers and HSM to support even the key loading. They will stand that up all inside of their IT infrastructure at the financial institution. As part of that, the financial institution will be responsible for all ongoing maintenance for the software, all software code pushes, all maintenance releases. They will also be responsible for maintaining the EMV unloading – EMV HSM unloading keys as well as ongoing PCI compliance requirements and maintaining Visa and MasterCard regulations for instant issuance. All of the knowledge management around the instant issuance program within that financial institution will be provided internally.

On the opposite side of that, there is a model called software as a service for a staff-based model. This model is where a provider of instant issuance will have a network or an infrastructure established outside of the financial institution that the provider will maintain. They will maintain all PCI compliance. Maintain all components of system maintenance and upgrades. The financial institution will just be responsible for purchasing the printer, and the consumables, and the card materials that they will need inside the branch to support their instant issuance application or program so two different models there. Again, software for purchase, that's an in-house. That is where, really, the onus is on the financial institution to not only stand up the program but provide ongoing maintenance, and there's a software as a service or a SaaS model where largely you're outsourcing the upfront investment in ongoing knowledge management policies to a provider and just purchasing printers and consumables for supporting the in-branch network.

Those are the two models. As you start to look at which model fits well for you, you really have to start looking at who is in the market, and what makes a good partner? I think Nicole is going to go over a little bit of how she views partners and what makes a good partner.

Nicole: Great. Thanks, Rob. Once you've decided that instant issuance is right for your institution and you've decided that doing a fully personalized instant issue solution is probably the way that you want to go, then it's a matter of looking at that the right partners. Obviously, in today's world, we want to be sure that any partner that is chosen is able to accommodate EMV, both a contact and a contactless environment. As EMV becomes more mature here in the United States, more and more institutions are going to be moving to a contactless solution. You'd want to be sure if you're making the investment that whatever solution you are looking at is able to accommodate that, even if you're not

doing it today.

You want to be sure that the provider has ongoing support that you're comfortable with. Is there a 24/7 hotline if you need it? What are their hours that they are manning their service desk? Can they support remotely, or in most cases, do they need to come on site? Those would be some things that you really want to want to look at. Again, enhance services, what types of training programs are they providing? Again, is that something that can be done via over the phone on a train the trainer? Do you need to have folks come in to do that?

You want to look at the reporting and monitoring tools. What are they offering you so that you'll be able to monitor the success of your program? Both from functionality but, also, how successful is it? Of course, you want to be able to prove to the executives, or board of directors, or whomever that the solution is working very well for your financial institution. You want to be sure that the correct reporting and monitoring is out there. Then you want to look at the implementation timeline. How quickly can it be implemented? How affordable is it?

Again, within the two models that Rob had spoken to, software as a service or software for purchase, there are different investments in both of those models. It's a matter of determining which of those models works best for your financial institution. You want to look at what kind of marketing services are available. Do they have things that can help you augment, to help put on your website? Have web banners or such that can highlight the fact that you are offering an instant issue solution, and for even prospects to your institution or for existing account holders, that they can come in and get those cards.

The other items that you really want to look at of course is around security so if we can go to the next slide. Rob had touched on this. As far as PCI certification and being certified there, certainly you want to be sure that whatever solutions you're putting in are certified, obviously, Visa, MasterCard, Discover, American Express compliant. You want to be sure that you're comfortable with the actual physical security measures that are on the equipment itself, the various locking mechanisms on the printer both internally and even to wherever you're placing it. Is it a small enough footprint that you're able to put it under a camera? Can you secure it to a location, to a credenza easily? You want to be sure that you can manage the user access controls. You would hope that your solution has a number of different reporting options. Perhaps you don't want to give everyone in the institution the same type of access, so a solution that has some user access controls that you can really choose what's happening within your branch personnel. Then, again, just that enhanced reporting and audit capabilities.

When we look at instant issuance and can it deliver a favorable ROI, obviously, you have to balance your expense drivers as well as your benefit drivers. Your

expense drivers really, with any programs, are going to be the cost to set it up, the program set up. Then you look at the actual hardware itself, the printers, the PIN pads. Is the software included, or is that something that is extra? Is servicing the equipment included, or is that extra as far as warranties or other items that you might need to think about? Then, of course, the consumable supplies, ribbons, cleaning kits, cards, etc.

On the flipside, as far as your benefits, how many cards are you issuing per month, and how many branches do you have? Your incremental activation and usage, the total number of active instant issue cards out in the market, and the fact that you are not having to pay delivery. If you think about it, today, to get a PIN and a card to a consumer, I mean, you're looking just shy of a dollar just to do that in postage. You can start saving in that regard. Those are the things that are going to adjust your ROIs, and then, of course, the things that cannot be measured with perhaps a dollar amount but your consumer satisfaction as far as being able to get a card right away. Those other things that you're able to do when you're sitting down across from your account holders or opening up an account and you're getting them their card. What else can you educate them on? What else can you cross-sell them on? What are the things that are important to your institution? Those are things that are hard to quantify with the specific dollar amount.

As we wrap up, a couple of things that we want to be sure that you should take away from our discussion today is, number one, instant issuance has become a competitive differentiator for financial institutions. It's starting to become the expectation among account holders. Again, that whole idea of just we want things now. We don't want to have to wait.

Rob: Yeah. Nicole, when you look at other key takeaways, I think one of those is what types of programs or providers are out there in the business delivery model that they give you. That in-house or software for purchase model versus the software as a service model as well. Which one of those is right for you and your financial institution in the way that you're set up? Then I think the other one is is that, as Nicole indicated, as instant issuance becomes more of a mainstream and more of an expectation among your account holders is how do you use some of the information we provided on some of the tried and true statistics that we've given you? How do you use those to help your bank understand the priority and the benefits that it'll provide? Not only the branch itself and the network that you're supporting but also in your customers and the customer satisfaction strategies that every bank and every financial institution, every organization has for taking care of its customers. To me, those are the three key takeaways after the conversation today, and I hope you found it valuable.

Nicole: Great. That does bring us to the end of our presentation. If you have questions,

we can certainly take them via the chat box in the presentation itself, or the lines are open for Q&A as well. We'll give you a minute here if you have any questions, and see if we can answer them for you.

Rob: I think we had one that came in, Nicole, as part of the conversation as we were speaking earlier, so we have one to start. The question is what size financial institution works best for instant issuance? I think that's a great conversation. It really goes back to what type of delivery model would work? In my opinion, financial instant issuance and the benefits that we've outlined for you in this presentation, they relate to a bank of any size from one branch to thousands of branches. I think it just scales the more that you have. Really, what's going to come down is who is best tailored? What delivery model is best tailored for your financial institution in the infrastructure that you have? Is that software as a service or outsourced model, or is it the in-house or software for purchase delivery model? Nicole, did you have any comments for that question as well?

Nicole: No. I think you covered it well there. It looks like one other question came in through the chat. When is an all instant issuance distribution approach good for an institution? I think it goes back to the slide that we were talking about where, really, they're complimentary to each other. An all instant issuance distribution approach would really depend on the – probably a couple things, the size of your institution. How many cards are you issuing per month at the reissue cycle? What does that look like? What do your resources look like internally to be able to do that and just centralize all of your card issuance within your branch? Then, essentially, you become the card production facility.

While I think as a general rule it's a great thing to have both distribution channels, the central issuance distribution channel as well as an instant issuance, they really fit various needs that a financial institution has as far as their card program. There certainly are times when an all instant issuance approach may work for a financial institution. That's just going to vary. Rob, do you have anything to add to that?

Rob: No. I mean, again, I think you summed it up pretty well. We have seen some customers in the market that support their own reissuance. Again, you have to make a determination of whether you have the resources to support that and whether it makes sense for your institution in what you're trying to accomplish. I don't have anything to add to that, Nicole.

Nicole: Another question came in through the chat. What happens to all of an institution's existing cards? I'm wondering if that's as it relates to when you're bringing on instant issue as well. I'm not 100% certain the context of that question. Again, instant issuance and central issuance can coexist within a branch footprint. Is there any additional questions?

Nathan: I think that will do it. We'll go ahead and wrap up. I would like to thank our attendees. Remind them that in just a moment we'll send out a brief survey, and we really appreciate your feedback. Also, the presentation and recording of today will be sent out within a few days. Thanks for joining us. Have a great day.