



for people involved in payment card marketing and product development

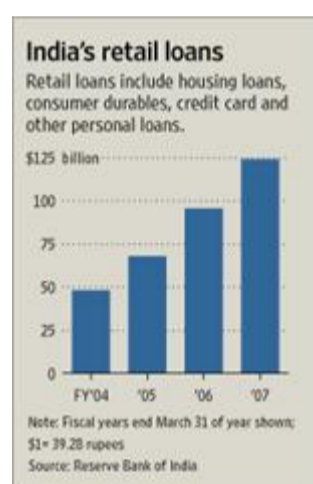
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Issue Ten, March 2008

In The News

Now the world can access world-class tools

From India comes the announcement that Fair Isaac has teamed up with local partner High Mark Credit Information Services to introduce credit risk scoring technology to Indian lenders. Following on previously reported agreements in Singapore, the Republic of Korea, Taiwan and Thailand, it's clear that issuers in Asia now have access to world-class tools in credit assessment.



And they aren't alone: in every continent, banks are moving to assess loan applications using fast-response scoring software. Today, systems like these are being implemented or evaluated in markets as diverse as Saudi Arabia and Panama, Poland and Peru.

Capabilities along these lines are transforming lending practices around the world, to the benefit of customers and marketers alike. Let's go back to India for a glimpse of how the lending industry is booming: the graph¹ shows the dizzying rise in personal loans outstanding, as a new middle class emerges in India with a whole range of material needs for which they're prepared to borrow. The needs aren't new: what is new is the ability of lenders to assess would-be borrowers' ability to repay. And that has to be a good thing for all concerned.

¹ Wall Street Journal, 8 January 2008



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Call it the flight to quality

For the payment card industry, it's probably the most compelling consequence of the credit crunch. In card issuers' boardrooms, the mood has changed dramatically. No longer is senior management demanding, "How do we get more customers?" Now they're asking, "How do we get good quality customers – and at the same time, hang on to the ones we already have?"

Well, you could follow the example that's been set by one issuer: Egg, part of the giant Citibank empire, has recently written to 161,000 credit card accounts in the UK saying that their accounts have been terminated. These customers – around 7% of the total – were deemed to be "unacceptably high risk"². That may be so, but at least some of those customers claim that they paid off their accounts in full every month, and that the consequent lack of profitability through interest income was the real reason they were cancelled. Egg strenuously denies this allegation.

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Whatever the truth is of the claim and counterclaim in the Egg case, it's not a route that will appeal to every issuer. There are less controversial methods of getting to the same goal of better quality business.

The quickest way is to set tougher standards for would-be new customers. Minimum credit scores can be changed almost overnight, and in fact there's evidence that acceptance criteria have been tightened very sharply: banks who were previously happy to turn down only 30% of credit card applications, are now setting decline levels of 50%. At the same time, there's a much greater emphasis on targetting: prospect lists are being very carefully scrutinised to ensure that potential accounts are likely to have a sound financial history. And, of course, there's one prospect list about which banks know more than any other: their existing customers.

"People with strong credit records are receiving ever-increasing numbers of solicitations"

The result? People with strong credit records are receiving ever-increasing numbers of solicitations from marketers getting more worried by the day about whether they going to hit their business targets.

Now, put yourself in the position of one of these prospects: which direct mail piece are you going to open today? Which ad are you going to respond to? All of them? None of them? Predictably enough, the intense competition for the best quality customers is setting a high premium on offers which will cut through the clutter to get a prospect's attention.

Take a hard look at your current new business campaign. Are you really confident that it has that special spark?

² Precision Marketing, 12 February 2008



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To charge or not to charge, that is the question

In these uncertain times, if the theme for bankers is the flight to quality, the theme for their customers is a flight away from debt.

Those customers who can afford it are voting with their feet and paying down existing debt as fast as they can go, while at the same time cutting down on discretionary expenditure. Increasingly, the accounts which revolve regularly are those who have little choice but to continue to owe money – and that, by definition, can include customers who ultimately won't be able to continue to carry the debt burden, and will go into delinquency and collection.

"We're always looking for new sources of revenue," says Mike McWhortor, a spokesman for First Horizon National bank, based in Memphis, Tennessee." ²

Net result? Billings fall, and so does interest income: it can sometimes seem that the only performance measure on the rise is the write-off rate. It's another problem to add to shrinking interest margins, and state-regulated cuts in interchange. The harassed marketer could be forgiven for asking Is there a magic trick to get me out of this?

Some bankers clearly think they've found one: fees. Here's Keith Horowitz, a banking analyst at Citigroup Inc.: "If you need to hit your target, one of the easiest ways to do it is to raise your fees," he says. "It falls straight to the bottom line."³

Clearly, many financial services institutions have taken his advice. Last year in the US, card issuers generated no less than an estimated \$30 billion in card holder fees, up about 6% on the previous year. Around \$18 billion of this was penalty fees of one sort or another – typically unauthorised over-limits, late payments, and returned cheques. Compare this with the \$33 billion they earned in interchange, and there's no room for doubt that fees, and especially penalty fees, are a huge part of the bottom line for these issuers. By way of comparison, interest income amounted to some \$97 billion.⁴



But, as bankers in the UK are finding out, fees can be a double-edged sword. Encouraged by consumer advocates and media campaigns, current account customers who feel that penalty fees on overdraft over-limits and returned cheques are excessive are taking banks to court in a bid to have these charges overturned and previous payments refunded. For their part, the banks argue that the fees involved reflect the costs incurred and that, in any event, customers were made well aware of the charges when they signed up for the service. No decision has yet been reached on the principle, but there has to be a real risk that the courts will find against the banks.

If so, that's where our old friend, the Law of Unintended Consequences, will come into play.

Because it does seem at least possible that in the past the so-called free banking enjoyed by UK current account holders has been subsidised by precisely the penalty fees which are now complained of. If the fees go away, so does free banking. At that point, financial services marketers will have to consider whether they can introduce charges for products and to customers who previously have never had to pay them.

Some justification will have to be found for those charges. Simply implying that "Surely you understood that there's no such thing as a free lunch" won't work. It will be necessary to provide some sort of service element above and beyond what is currently offered free to make any kind of sense of introducing a move to charges.

The principle, of course, applies across all markets and across all kinds of financial services. Current account product managers in Russia, card marketers in the UAE, all have to face similar challenges: how can I generate more income?

And, as an answer to that question, intuitively it makes more sense long term to find a way of adding value to your product than, openly or otherwise, hitting customers with penalty fees.

Otherwise, the phrase "charge card" is likely to take on a whole new meaning.

³ Wall Street Journal, 26 January 2008

⁴ CardFlash, quoting R.K. Hammer, 22 January 2008



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And finally...

Barclays has just bought the Discover credit card business from Morgan Stanley for £35 million. With a portfolio of 1.7 million accounts, mostly under the Goldfish and Morgan Stanley labels, that gives a cost per account of around £20. Compare that with the £200 or so it can cost to acquire a new customer by conventional means, and it looks like purchasing small card businesses may be a cheaper way to build scale than costly marketing campaigns. Don't tell the advertising agency...

The race to ever longer card names continues. Here are a couple of outstanding examples from, where else, America. First USA are the proud issuers of both the **"SmartChoice VISA Card with Flexible Rewards"** and the **"Continental Airlines Presidential Plus World MasterCard"**. Jawbreakers like this probably tick all the right corporate boxes, but pity the poor copywriter who has to work them into powerful ads and compelling direct marketing pieces.

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Consulting editor bio note

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In previous issues of Enhance we covered:

Your best customers: How to find and influence them

The search for the holy grail: How do I make more profit from the customers I already have?

The power of data-driven marketing: Using information to build profitability

Maximise the returns from your marketing budget: What effective card marketing programmes all have in common

Coping with the commoditised credit card: Using relationships to build profitability

Business card marketing: Is there a case for product enhancement?

Conflicting signals from co-brand cards: The rules that successful issuers are following

Emerging markets: How different are they really?

Channel optimisation: 6 rules for getting the most value out of your card acquisition budget

What happened to all the good ideas?: Maximising profit the right way

Green cards: From Zero to Hero?

Vive la différence: Lose the cookie cutter!

The language of rewards: What does it all mean?

Price-led or product-led?: The dangers of focussing on price-cutting

Let's hear it for rewards programmes: How savvy issuers get value from loyalty

The world is changing – and banking is changing with it: There are huge prizes out there, if you're fast and flexible enough

Is there life beyond balance transfers?: How to stop customers walking out of the door when the interest rate changes

We have ways of making you pay: Who said that fees were a thing of the past?

Rewards: most things to most men: Just decide what behaviour you want to encourage

Keeping only the best: Retention is a good thing – but it's not for everyone

Make sure your card comes out first.



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