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A Slow Death of Plastic: How Can Banks Stay Top of Wallet?

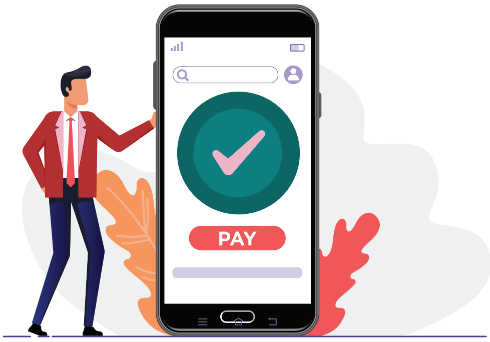
Digital transformation has moved from being a buzzword to a business necessity these days. No industry has experienced disruption from digital solutions quite like payments. Credit and debit card usage in the United States is still prevalent, but trends in the industry reveal a change in consumer preferences that the COVID-19 pandemic has accelerated.

A 2020 survey of Household Economics and Decision Making conducted by the Federal Reserve Bank found that credit card ownership decreases with age, with people over the age of 60 most likely to own one.[1] Further, a survey conducted by the New York Federal Reserve in October 2020 revealed that credit card application rates had declined during the year.[2]

While pandemic-related credit tightening measures partly account for these numbers, there's no doubt that digital wallets and payment apps are accounting for a rising share of payment activity. Thanks to technology giants like Facebook, Apple, and Google entering the industry, credit card issuers face competition from non-traditional sources.

Here are 3 ways in which banks and issuers can fight disruption and reposition their credit card programs.

Greater Engagement with Customers



Digital wallet activity was on the rise even before the pandemic struck. According to Mckinsey and Company, 40% of in-person spending in China in 2018 was conducted through mobile wallets on non- bank platforms.[3] While plastic remains entrenched in the United States, it's clear that companies have to invest in their platforms and increase user engagement.

Borrowing a leaf from the tech playbook could pay dividends. Apps rely on increasing user engagement to establish a relationship with the customer, and payment apps are no exception. For instance, Google's Pay app displays transactions grouped by relationship to provide a high-level personal financial dashboard to users.[4]

Engaging with users early and often will help card issuers understand their customer's needs better. Early engagement also ensures a stronger relationship between the issuer and customer, especially within the first 45 days. Further engagement via helpful tips and customized dashboards on a mobile app are examples of building stronger bonds with customers.

For instance, banks can email customers on the third day after approval, letting them know their card is on the way. On the seventh day, the customer can receive a summary of cardholder benefits and features. On the 15th day, banks can point users towards their mobile app, highlighting the ease of paying bills and tracking spending.

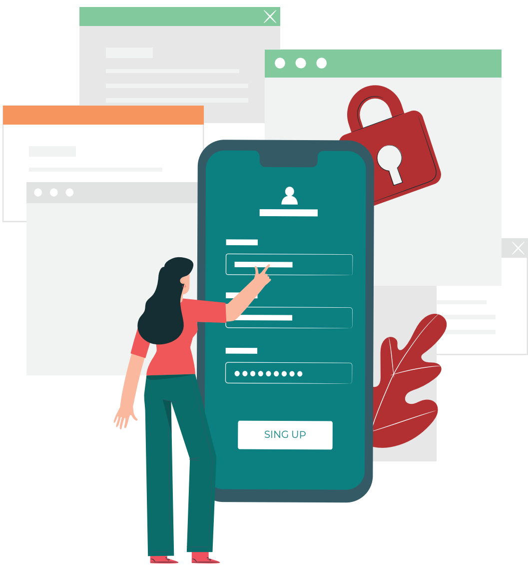
From this point, banks can initiate communication depending on customer behavior. Customers who display high engagement and positive financial behavior can be rewarded with personalized rewards while less engaged customers can be given an incentive to initiate action.

Sending customers helpful communication on topics such as personal finance, credit score monitoring, and efficient rewards redemption will give banks a human touch. Best of all, automation through an intelligent OTT layer can allow for easy user behavior analysis.

Over time, banks can fine-tune their customer offerings further through behavior analysis to drive greater engagement.

Personalization via Analytics

The solutions developed by the tech giants utilize analytics and data collection to drive product design. An example is the way Amazon integrates Amazon Pay into the shopping experience to the extent that users have stopped viewing payments as a hassle.[5] All they need to do is click a button. Compare this user experience to the typical online credit card payment workflow.



The user has to reach for their plastic, enter the card number, the expiry date, the CVV code, and then a one-time password if applicable. While multi-step authentication increases security, digital solutions bake security into the process instead of adding it as an external layer.

The result is users view credit card payments as a hassle. Deloitte reports that banking institutions have begun leveraging data analytics to compete with the wave of FinTech apps but there's no doubt they've been wrong-footed.[6] However, there are solutions under development that can right the balance.

The rise of open banking protocols is an example. By leveraging the power of application programming interface (API) connectivity, banks can integrate products seamlessly and leverage user data across their ecosystem. For instance, they can use digital onboarding to quickly collect and automate account opening processes.

Banking app activity can be leveraged to provide contextual offers. For instance, if a customer displays a propensity to spend more during weekday evenings, sending them targeted offers during these times will increase the likelihood of them using their bank-issued card.

Meanwhile, machine learning algorithms can crunch spending patterns and data quickly to issue possible fraud alerts and give users the option to customize their credit limits. Coupled with helpful email marketing campaigns, the customer will likely think of their bank when the time comes to pay and give their credit card the coveted top of wallet position.

Analytics can also be used to create flexible reward programs, where customers can mix and match their features. Currently, credit card applicants are usually directed to preset cards that have specific offers. Customers have limited customization currently. For instance, they can't choose travel rewards one month and entertainment the next.

Banks don't currently offer such options but leveraging analytics will allow them to create highly customized programs that create great user experiences.

Rethink Offers to Existing Customers

The typical bank or credit union's engagement campaigns target the wrong customer segments. The most active users receive the best offers and are routinely encouraged to spend more. However, these users are already active and have likely maxed their spending.

Instead, it's the less-active users that offer the highest potential for greater incremental spending. Ranking customers on an activity scale is the first step. Targeting the most active users with common retention campaigns will ensure those people remain active.

Targeting the middle segment of customers, the ones who are active but are at risk of becoming inactive, with personalized and proactive retention campaigns will likely bear fruit. Banks shouldre consider the types of offers they send to this customer segment as well.

For instance, if a low activity customer spends primarily on low ticket purchases, sending them a "use and get" offer doesn't make sense. Instead, a "spend and get" offer such as statement credit will allow banks to gain a higher percentage of spend. The former offer type can be used to entice customers who have low activity across all categories.

Banks should also rethink how they encourage customers to spend in specific merchant categories. Typically, card issuer campaigns offer discounts for spending in low spend categories. However, offering accelerated or customized rewards will provide customers with more value.

Time-bound reward accelerator programs can boost spending levels across all customer categories. Whatever the reward campaign style that banks choose, it's critical to begin by focusing on the potential for incremental spending. Thats what increases the share of spend and increases customer engagement.

Evolution, Not Revolution

In the face of technological progress, it might be tempting for banks to rip their playbooks up and design new systems. However, given existing credit card market share in the United States, evolving credit card programs along the lines suggested in this article is a better path.

Integrating technology into everyday processes and leveraging the power of user data holds the key. By borrowing a few pages from the technology playbook, banks can ensure their credit card programs remain competitive in the face of digital app disruption.

Source:

1 *https://www.federalreserve.gov/consumerscommunities/shed_data.htm*

2 *https://www.newyorkfed.org/newsevents/news/research/2021/20210111*

3 *https://www.mckinsey.com/industries/financial-services/our-insights/global-payments-expansive-growth-targeted-opportunities*

4 *https://www.engadget.com/google-pay-redesign-android-ios-2020-plex-venmo-mint-175321620.html*

5 *https://www.nerdwallet.com/article/small-business/amazon-pay*

6 *https://www2.deloitte.com/us/en/pages/financial-services/articles/infocus-payments-trends.html*

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