Card Marketing For Main Street

A definitive resource for winning strategies and best practices

ICBA Bancard & TCM Bank®

Section 1 - Introduction

Card Marketing for Main Street was developed with three objectives in mind:

1. To assist current ICBA Bancard clients in developing a card marketing strategy.
2. To assist current ICBA Bancard clients in introducing a new card program.
3. To provide current ICBA Bancard clients with detailed information, examples, and samples to help to improve the performance of their existing card programs.

The resulting comprehensive guide, featuring nine main sections and an assortment of reference materials (including a glossary, sample documents and links to relevant content available online) offers a how-to for community banks focused on developing and maintaining a profitable card business.

The following synopsis offers an overview of the relevant sections and the content contained therein.

Program Development

Program Development will assist you in analyzing your bank brand positioning, organizational structure, geographic reach/distribution, customer base and its demographics, your target market, and the importance of executive management buy-in.

Products

The Products section reviews the available products to offer to your customer base, including those that have only recently been introduced in the U.S. or will be required in the near future. These include credit cards, debit cards, prepaid cards, secured credit cards, rewards cards, small business cards, commercial cards, EMV/contact and contactless chip cards, mobile payment, and merchant processing services.

Product Development

Product Development covers pertinent decisions that you will need to make in the product development process as well as information and sample forms to assist you in this process. Included in this section: the importance of competitive information and a sample form to assist you in completing a competitive gap analysis; the value of customer information in product design and samples of cover letters and customer surveys to assist you in gathering customer information; and pricing definitions and decisions that you will need to make for your new product. Also covered: enhancements that are available for your products; choices that you have for card design; and, the importance and types of collateral material needed.

Acquisition Channels

There are a number of acquisition channels available to you, but each will provide you with different results, whether it is the cost to acquire the account or the performance of the accounts acquired. These channels include branches, direct mail, your website, merchant take-ones, promotions, events and statement inserts.

Activation, Usage, and Retention

Activation starts with acquisition by offering the right product to the right consumer at the right price. That is why product development is so important. Usage is what drives account profitability. The goal is to drive customer behaviors which drive the revenue streams—interchange income and interest income. Successful retention strategy decreases account attrition and increases portfolio profitability. This section includes strategies and tactics to improve activation and usage and identifies five key attrition indicators, which can alert you to the potential for attrition and will allow you to develop tactics to offset the attrition risk.

Best Practices

This section reviews best practices that can be employed to make the most of your portfolio(s). These best practices cover solicitation/acquisition, new accounts, existing accounts, retention, communication, complaint management, and the development of a merchant discount program.

Analysis

Analysis allows you to see the trends in your portfolio(s). Some of the questions that you should be asking include:

- What are the results of my solicitations?
- Which acquisition channels provide the most profitable accounts?
- What are the trends in my portfolio and card plans?

In this section, we review analysis from an acquisition as well as a portfolio and plan/card product perspective to help determine portfolio positioning.

Media Relations

Contrary to popular opinion, the media can be your friend. Handled properly, outreach to reporters and other members of the media is a proactive strategy that represents time well spent. Media coverage of your community bank's efforts, products and services will educate customers and local residents, promote your business, and position you as a responsible business leader within the community. The media relations section provides helpful information on how to effectively communicate newsworthy events involving your bank or serve as a local expert on industry related matters.

Glossary

The Glossary provides definitions of important terms used in Card Marketing for Main Street. **Note**: An asterick (*) is used to identify glossary terms throughout the manual.

Helpful Hints

Throughout the document you will see resources to search for more information, if needed. The majority of these suggestions will direct you to the following sites. **You must have a username and password to view this information.**

Visa Online--*http://www.us.visaonline.com/*
MasterCard Marketing Center--*https://marketingcenter.mastercard.com/*
ICBA Bancard website--*http://www.icbabancard.org/clients.cfm*

Section 2 – Program Development

There are six valuable factors for a bank to consider when developing, reinventing or reinvigorating a card program for optimal success. Each plays a critical role in increasing the long-term viability of your card offering and should be reviewed periodically with adjustments made to compensate for material developments that arise. The factors are: Bank Brand Positioning, Corporate Goals and Objectives, Organizational Structure, Geographic Distribution, Target Market, and Management Buy-In--all of which will be explored in greater detail in this section.

Bank Brand Positioning

Positioning your program for consistency with your bank brand is critically important. Your logo, advertising, letterhead, business cards, statements, signage, website, card designs and online banking should all reinforce your brand. Use the following checklist to identify how you have positioned your bank brand.

Bank Brand Positioning Checklist

☐ Local community bank with local management

☐ Primarily a retail bank

☐ Primarily a commercial/business bank

☐ Balanced retail and commercial bank

☐ Targeted to mid-market consumers

☐ Targeted to affluent market consumers

☐ Balanced target market strategy

☐ Leading edge: Technologically oriented

☐ Targeted to younger consumers: 45 and younger

☐ Targeted to middle-aged consumers: 45 to 60

☐ Targeted to baby boomers and retirees: 60 and over

☐ Targeted to ethnic market

☐ Cater to new-to-credit (thin credit files)

☐ Cater to credit repair (bad credit)

☐ Cater to college students and local university/universities

☐ Low pricing

☐ Fee oriented

☐ Other ____

Once you have identified how your brand is positioned, you will have completed your first step in your program development. It's an important step. Be true to your brand!

Corporate Goals and Objectives

Corporate goals and objectives are set to keep the bank on target and ensure that new programs, products, and services will help the bank to achieve those goals and objectives. Typically, corporate goals and objectives are both quantitative and qualitative.

Quantitative goals and objectives might include the following:

- ROA – Return on Assets
- ROE – Return on Equity
- Asset base
- Loans outstanding
- Delinquency rate
- Loss rate (Charge-offs)
- Customer attrition rate
- Employee attrition rate
- Number of customers
- Number of demand deposit accounts (DDA)
- Number of branches
- Number of ATMs

Qualitative goals and objectives might include the following:

- High customer service ratings, which can become quantitative if supported by research (i.e., customer surveys and mystery shopping). Customer letters tend to be more qualitative.
- Positive image/profile in the market
- Customer referrals
- High level of community service participation
- Up-to-date product offerings

New programs, products and services should be developed with corporate goals and objectives in mind. They may not positively influence all of the bank's corporate goals and objectives, but they should not have a negative impact on them.

Organizational Structure

There is no standard for the organizational structure of a bank, although recommendations abound. When you are developing a new program, product, or service, it is important to determine where it best fits in the current structure. Usually, the program, product or service's objective is the key to determining its placement. Some examples follow that serve as a starting point for your discussions and will help lead to a final decision.

Credit Card Program

Credit card programs normally perform best as a **standalone** unit. This option provides independence from other departments and divisions while increasing flexibility and autonomy within the bank's structure. This organizational approach ensures accountability from the program manager and a more direct line to senior management, which usually keeps senior management better informed, more involved, and more supportive of the program. Credit card program structure can be classified as either centralized or decentralized.

A **centralized** program has one person overseeing the department with full responsibility for the performance of the program and with all departments/functions reporting to that person. The advantages of a centralized program are consistency in decision making, program advocacy, and identified responsibility for program performance. The disadvantage is that smaller banks with smaller programs may lack sufficient resources to fully staff a separate department. In such circumstances, one person may be responsible for the program, but may only spend part of each day actually working on the program.

In a **decentralized** operation, program management is assigned to one individual who may have some staff. However, credit decisions are made in lending; collections are handled in the bank's collection department; operational support is incorporated into the bank's operations area; and marketing is handled by the bank's marketing department. With this structure, each department is responsible for its particular area of expertise.

The disadvantage is that there is no central authority and responsibility for the program. However, by decentralizing the functions, banks with very small credit card programs can be assured that individuals with the required expertise are involved with, and responsible for, each function.

Banks can also offer credit cards as an **agent** of another bank. As an agent bank, you will still need to be members of Visa® and MasterCard® and you will be responsible for promoting the credit card program. Generally, the bank that signs your bank as an agent is responsible for all other aspects of the program. Normally, you will receive revenue from the program, usually based on approved and/or active accounts, a percentage of finance charge revenue or as a basis point (bps)* of sales volume. ICBA Bancard offers an agent bank program through its subsidiary, *TCM Bank, N.A.*

Debit Card Program

Debit card programs also usually perform best as a **standalone** unit. However, you can opt to place debit cards in the credit card department, in the ATM department, or in the checking account (DDA)/retail area of the bank.

While a debit card accesses funds in a checking account, and a credit card accesses a line of credit, there are many similarities with the programs. Usually you are working with the same national brand—Visa or MasterCard. Therefore, many of the debit card functions can be incorporated into an **existing credit card functional area**. This is particularly true if the bank is using the same processor for both debit and credit. If that is not the case, then housing the program within either the ATM department or checking account area will probably work better for you.

The **ATM department** may be working with a different processor than the credit card department for a variety of reasons. If this is the case, and the ATM processor can also provide all of the services needed for Visa or MasterCard branded debit cards, then your best alternative may be placing the Visa or MasterCard debit card in the ATM department. However, if the same processor is used and Visa or MasterCard debit cards are placed in the ATM department, there should be close coordination between the credit and debit card areas for volume pricing discounts in the processing contract and for card orders.

Some banks place their Visa or MasterCard debit card operations in the **checking account/retail area** of the bank. This decision is usually driven by the fact that the card accesses funds on deposit in checking accounts; the transactions are posting to the checking accounts; and checking account customer service has access to account information.

Prepaid Card Program

Prepaid cards are also referred to as stored-value cards and include gift cards, incentive/reward cards, general purpose reloadable (GPR) cards, payroll cards, Health Savings Account (HSA) cards and benefit cards.

Typically, prepaid cards are placed in the **same area/department as debit cards** since they work like debit cards: they access pooled funds on deposit, not to be confused with DDA accounts. The processor for prepaid may or may not be the same as your debit card or credit card processor.

In many cases, prepaid cards are **outsourced** to an outside vendor because they tend to be a customer accommodation product and sufficient scale is needed to be profitable—in general, 15,000 or more cards over a three-year period.

Merchant Program

Merchant services are usually **part of the credit card program**, although they can also be a **standalone** unit. Your decision to offer bank card processing services should be driven by the number of small businesses that have accounts with your bank as well as the size of the merchant market that currently does not have a relationship with your bank. You also have the option of outsourcing your merchant program to another bank in an **agent bank** relationship.

Geographic Distribution

The geographic distribution of the bank's branch network provides you with the available market for your products—the wider the distribution, the larger the market population.

Review the bank's expansion plans/objectives for the next five years to determine if your available market will be growing quickly and, therefore, should be considered in your plans.

Target Market

Your target market will vary with each program and product introduction. It will also vary depending on your bank brand positioning. The following general guidelines should provide you with information to size your target market.

Credit Cards

- Most community banks launch their credit card program by marketing to their own customers where they can generally expect higher acceptance rates (it's much easier to cross-sell additional services to existing bank customers) and lower marketing costs (there's no need to purchase mailing lists), all of which lowers acquisition costs.
- For credit cards, the general rule of thumb is that you should be able to issue cards to about 30 percent of your customers over a three-year time period. Be sure to take note of customers with more than one account with the bank to avoid duplicate customer solicitations.
- Marketing to prospective cardholders who are not current bank customers carries additional costs, but has the potential upside of additional cardholders and revenue, in the long run. Every approved application means not only a new card account, but also a new banking relationship with the cardholder. You will now have many opportunities to strengthen that relationship and cross-sell other banking services. Your non-customer target market may include:
  - Professional groups (e.g. doctors, lawyers, accountants, etc.)
  - New residents who can be reached through purchased vendor lists
  - New homeowners, who can be reached by working with your mortgage department and local realty companies or associations
  - Young people who are less likely to have a credit card. Consider offering cards to the graduating class of the local high school as well as college students, co-signed by a credit-worthy parent.
  - Baby boomers now referred to as senior citizens. Although older Americans historically have used less credit than young people, that is changing as baby boomers are more likely to travel, dine out and make purchases using a credit card because they are accustomed to using the product.
  - Community merchants that can be reached through the Chamber of Commerce or other business groups.

Debit Cards

- Debit cards are usually mass issued when the product is first introduced, to existing checking account customers who meet the bank's criteria and currently have an ATM card with the bank. While some banks use credit scores and checking account history to determine customers that will be issued an "enhanced ATM card," other banks issue to a broader base using checking account history, e.g. number of overdrafts in the past six to 12 months, average daily balance, etc. As a consequence, checking account penetration rates can range from 70 percent to 90 percent based on the bank's criteria. Those banks with higher penetration rates have not found that loss rates are higher. Typically, this is because they have a very strong risk management infrastructure in the bank. After the initial issuance, debit cards are offered to new customers at checking account set-up if they meet the bank's criteria.

Prepaid Cards

- The target market for prepaid cards depends on the type of prepaid card that you intend to issue. The prepaid product segments include consumer, government and corporate.
  - Consumer prepaid cards include gift cards, travel cards, general purpose reloadable cards, cross-border remittance cards and cards for the youth market.
  - Government prepaid cards include cards for benefits distribution, loan distribution and disaster relief.
  - Corporate prepaid cards include payroll cards, incentive/rebate cards, insurance claim proceeds cards, commercial expenditure cards, and employee benefits cards, such as FSAs, HRAs, HSAs, and Wellness Vouchers.
- While government and corporate prepaid cards may be beyond the scope of a prepaid program that a community bank would offer, consumer prepaid products can provide unique card payment solutions for both banked and underbanked consumers.
  - For banked consumers, prepaid cards can be complementary products for existing debit and credit card users. Prepaid cards that appeal to this market include gift cards, general purpose reloadable cards, cards for the youth market and travel cards.
  - For the underbanked or underserved consumers, there are consumer and commercial opportunities for payment solutions, including cards for youth, general purpose reloadable cards, cross-border remittance cards and payroll cards.

Merchant Programs

- Merchant programs are generally targeted to retail business customers of the bank. There may also be opportunities with some business-to-business customers, depending on the population of the community and the classification of some of the businesses.

Management Buy-In

As with any bank endeavor your management should be involved with program/product introduction and promotion so that there will be bank-wide buy-in and assistance. Bank management should continue to be involved with marketing and promotional activities. It is the responsibility of the program manager to keep management informed and engaged in the program.

Section 3 – Products

There are card products to meet the needs of all of your bank's customer segments. In the *Program Development* section, we outlined steps to help you identify your bank's brand positioning as well as your target market. In this section, we will review the products that can be offered.

Credit Cards

Consumer and small business credit cards* access an approved line of credit and can be used worldwide at any merchant that accepts Visa or MasterCard. There are various enhancements – such as Identity Theft Insurance, Extended Warranty, Price Guarantee, etc. that can be added to credit cards—that are either required by the brand or optional to the issuer. ICBA Bancard provides an extensive array of enhancement services through the *Cardcentives Program* or the *Advantage Program* from Bancard's long-term partner FIS.

Historically, the most cost-effective way to build a credit card program is through direct mail solicitations. However, some banks have found, especially community banks, that branch take-ones provide a steady stream of applications for their program and are much less expensive on a cost per account (CPA)* basis. A comparison of CPA for various channels can be found in *Product Development*. This information alone should not be the basis for your decision on acquisition channels. More information is available to assist you in this decision in *Analysis, Acquisition*.

Debit Cards

Debit cards* allow cardholders access to the funds in their checking account with the convenience of a MasterCard or Visa card at millions of merchants and ATM locations in the United States and internationally. A debit card is faster, simpler, more widely accepted than checks, and more secure than carrying cash.

Offline or signature debit cards* only require a signature at the point of sale* (POS) and are processed in the same way as a credit card, which is a three-step process: authorization, clearing and settlement. Offline debit cards must be a MasterCard or Visa branded card.

Online or Personal Identification Number (PIN)* debit cards require that a PIN be entered into a PIN pad* at (POS) for the transaction to be completed. Since a PIN is used, cardholders have the option of receiving cash back from an online debit card transaction at certain merchant locations, e.g. supermarkets. Cash back* is not permitted with offline or signature debit cards. Examples of online debit card POS networks include Maestro, Interlink, NYCE and Star in addition to the Visa or MasterCard. Networks in which the merchant and issuer participate can appear, respectively, at either the merchant terminal or on the back of the card.

Enhancements may also be offered on debit cards through the *Cardcentives Program.*

Prepaid Cards

Prepaid cards* are used to access previously deposited funds in a prepaid card account held on deposit at the bank. Unlike debit cards where checking account funds can be accessed by card and check, the funds in a prepaid account can only be accessed through the use of the prepaid card.

Prepaid cards meet consumer demand for the convenience and flexibility of accessing funds through a payment card, but are ideal for consumers that do not have DDA or other accounts at the bank. From a corporate standpoint, prepaid cards provide a cost-effective alternative to distributing funds previously only available via check. For example, payroll cards* can be more cost-effective to employers than the traditional payroll process. There are several varieties of prepaid card including gift cards*, general purpose reloadable (GPR) cards* and government benefits cards*.

Prepaid cards can be an excellent way to target and attract the unbanked, under-banked, and underserved consumer market. Prepaid cards allow this market to avoid paying large fees at check-cashing stores. In addition, cards are safer than cash and allow the cardholder to make purchases at merchants—on the Internet and at brick and mortar locations. The prepaid card becomes a way to introduce new bank services and products to these customers.

Secured Credit Cards

Secured credit cards* access a line of credit that is "secured" with collateral, usually a deposit to a savings account over which the bank has control. Secured credit cards may be considered for consumers who do not meet your bank's standard credit requirements because of low income or low credit scores, a lack of a credit history (also referred to as a "thin" bureau file), or bad credit due to delinquency, charge-off or bankruptcy.

Although the bank does hold collateral for a secured credit card account, losses are typically higher than for unsecured credit cards. Expenses are also higher due to higher operational and customer service costs. Usually a bank will charge an application fee (sometimes as high as $100), an annual fee, and higher interest rates to help to offset higher losses and expenses.

Over time, consumers who have demonstrated responsible payment behavior or have established sufficient credit history to qualify for an unsecured credit card can be converted to a more traditional credit product.

Rewards Cards

As an issuer, you have a number of choices for reward programs. Once an exception, reward cards* are now expected by most consumers and encompass affinity cards*, cobrand cards*, cobrand lookalike cards*, cash back cards*, merchant funded rebate program cards* and relationship cards*.

Affinity Card Programs are partnerships between an issuer and an organization whereby the organization benefits from cardholder use and he or she is usually a member of the organization (i.e., charity, association, institute of higher learning).

For affinity card programs, a donation is made from the issuing bank to the organization, usually based on card usage as well as active cards. For example, a bank might offer 30 basis points (bps) on net purchase volume of all cards, plus $1 for every card generated by the issuer that has purchase activity within 90 days of card issuance and on anniversary dates. The bank might also offer an additional $25 for every card generated by the partner that has purchase activity within 90 days of card issuance and on anniversary dates. Program revenue is usually paid to the partner on a quarterly basis.

Some banks offer **"Hybrid" Affinity Card Programs** focused on a common interest, such as golf, tennis, skiing, etc. With these hybrid programs, there is no partner with whom to share revenue. Instead, the bank will issue points to the cardholder based on purchase volume and these points can be used to purchase relevant magazines, equipment, clothing, etc.

Cobrand Card Programs are partnerships between an issuer and a company (partner) that has consumer customers. Examples include United Airlines, Marriott Hotels, Shell Oil Co., Macy's, Toys"R"Us and Hertz Rent-a-Car.

For programs like these, cardholders earn points or miles based on card purchase volume. These can be redeemed for airline tickets, hotel stays, and in many cases merchandise as well.

For co-brand programs, the partner is paid based on card usage as well as active cards. For example, a bank might offer anything from 30 bps to 100/125 bps on net purchase volume of all cards, plus $1 for every card generated by the issuer that has purchase activity within 90 days of card issuance and on anniversary dates. The bank might also offer $25 to $50 for every card generated by the partner that has purchase activity within 90 days of card issuance and on anniversary dates.

For some of the large programs, the partner may share in providing points or miles to the cardholders and there may be a fixed revenue structure to the partner. The partner is responsible for fulfilling cardholder redemptions. Program revenue is usually paid to the partner on a quarterly basis, but can vary with large programs.

Cobrand Lookalike Programs are programs developed by issuers with no partner involved. Instead, the issuer works with an enhancements provider to develop air miles, gas and merchandise programs that look like and work like co-brand programs. For example, the *ScoreCard® Rewards Program*, managed by FIS, is a turnkey rewards program for debit and credit card programs. It offers brand name gifts and travel awards and can be used to create your bank's co-brand lookalike program.

Cash Rebate Programs can be applied to both credit and debit programs. They have the advantage of allowing the cardholder to determine how they will use their cash rebates. Consequently, they are very popular with consumers.

Cash rebate levels can be fixed, e.g. 1 percent, or tiered, e.g. 0.5 percent for purchase volume up to $1,000; 0.75 percent for purchase volume from $1,000 to $2,000; 1 percent for purchase volume from $2,000 to $3,000; 1.25 percent for purchase volume from $3,000 to $4,000; and, 1.5 percent for purchase volume over $4,000.

Earned cash rebate can be issued to the cardholder as a check or as a credit to their account. Checks are more expensive to issue, but you have the advantage of breakage* (checks that are not cashed). Credits to accounts are less expensive to issue since it is basically a processing expense, but you don't have the advantage of breakage. Checks can be issued at the end of the year, or once a predetermined amount of rebate has been accumulated--$25, for example.

Credits to accounts can be done monthly, yearly, or once a predetermined amount of rebate has been accumulated. Whether you decide to issue checks or credits to the accounts, be sure to show the amount of rebate earned year-to-date on the statement each month.

Cash rebate programs are also available through FIS' *ScoreCard Rewards Program*.

Merchant-Funded Rebate Programs provide cash rebates or points to enrolled cardholders who use their registered cards at participating merchants for purchases. Merchandise discounts are provided by the merchants in return for promoting patronage, usually through a website accessed by enrolled cardholders. After transactions are processed through the Visa and/or MasterCard system, the card processor posts the applicable rebate or points to the cardholder's account.

Usually, merchant-funded rebate programs include brick and mortar in-store retailers as well as online merchants. The programs do not require changes at the point-of-sale*, making them appealing to cardholders and merchants.

ICBA Bancard offers a merchant-funded rebate program through its processor, FIS. The program is called ScoreMore™ and can be added to any credit, debit and/or prepaid program as either Bonus Points or CashBack Rewards. As with all rewards, this program gives cardholders more incentive to use your bank's card over other cards in their wallet.

Relationship Card Programs offer incentives and rewards for having or opening multiple account relationships with the bank. With the *ScoreCard Relationship Rewards Program*, cardholders can earn additional Bonus Points by opening and using other services your bank offers. Customers may earn rewards for average account balances, new checking accounts, new loans or any other relationship the bank chooses.

Adding to customers' perceived value, the *ScoreCard Householding Program* allows cardholders to accumulate, combine and redeem bonus points from eligible cardholder accounts within the same household. This program may include active cards from both credit and debit card programs.

Small Business Cards

Small business cards are targeted to meet the needs of small business owners. Small business cards include credit cards, debit cards, and business line of credit cards.

Business Credit Cards* provide small businesses with essential business needs — cash flow management, payment convenience, efficiency tools, rewards and savings, and security and protection.

Business Debit Cards* help small business owners manage their finances by providing convenient access to funds in their checking account without the hassle of cash and checks. They also provide small business owners with the ability to monitor spending while simplifying expense management.

Business Line of Credit Cards* offer small business owners access to short-term working capital for instances of cash shortfalls, receivables financing, inventory acquisition, and unexpected circumstances.

Commercial Cards

The commercial card* is a card solution for small businesses that combines the functionality of purchasing cards*, corporate cards*, and/or fleet cards* into one flexible card program.

The commercial card reduces administration costs; improves employee convenience; allows small businesses to segment employee card use for their specific reporting structure; and, provides the ability to authorize travel and entertainment (T&E)* procurement and/or fleet spending based on each employee's needs.

In addition, the commercial card provides supplemental information for transactions at merchants in select industries, such as business-to-business purchases, lodging, airline travel and car rentals.

EMV/Contact and Contactless Chip Cards

Contactless chip cards* have been available for issuance in the United States. For several years but have yet to reach critical mass due to limited issuance and acceptance capability, with the exception of a few merchant categories like automated fuel dispensers and convenience stores. Target® made a major investment in contact chip cards* by changing its point-of-sale (POS) terminals to accept contact chip and magnetic stripe, and by reissuing its entire Visa card portfolio as contact chip/magnetic stripe cards, but has since removed the chip terminals and sold its portfolio.

EMV/contact and contactless chip cards* are now issued in all regions of the world and in the United States. Effective April 1, 2013: all Visa acquirers and acquiring processors must certify that they are able to support both EMV/contact and contactless chip cards. (EMV refers to an acronym describing the set of specifications developed by the consortium EMVCo, which stands for "Europay, MasterCard and Visa".)

MasterCard has mandated that ATM owners must have hardware accepting EMV chip cards by April 19, 2013 or face a liability shift. Currently, the card issuer bears liability for ATM and POS transactions. Under the new mandate if ATM owners haven't chip-enabled their machines, the liability for fraudulent transactions would fall to them.

Visa has also mandated that effective October 2015, there will be a liability shift for card-present counterfeit transactions in the United States. Currently, POS counterfeit fraud is largely absorbed by card issuers. However, if an EMV/contact chip card is presented to a merchant that only supports magnetic stripe the merchant will hold all liability for the counterfeit fraud. (Fuel-selling merchants have until October 2017 before the liability shift takes effect.)

Some larger issuers have already begun to issue EMV chip/magnetic stripe cards to their customers who travel abroad frequently, as merchants outside of the United States have begun to decrease their acceptance of magnetic stripe-only cards.

Your bank should determine its timeframe for conversion to EMV/contact and contactless chip cards based on processor readiness, your market (tourist destinations have probably already implemented EMV/contact and contactless chip/magnetic stripe cards), and your customer base. If you have customers who travel outside the United States frequently, they should be issued EMV chip/magnetic stripe cards sooner rather than later or you risk losing them to a bank that offers these cards.

Mobile Payment

Like EMV chip cards, payment by mobile phone is a reality in many markets outside of the United States. For many countries, mobile payment* was an easier way for them to offer electronic payment than issuing cards. The U.S. market is beginning to take an interest in mobile payment with organizations like Visa, MasterCard, Discover, Citibank, Isis and Google leading the way with planned market tests for mobile.

Visa has acknowledged that EMV contact and contactless chip technology mandates will help to increase the adoption of mobile payments.

Considering the organizations that are working on bringing mobile tests to market, mobile payments will be another product that needs to be in your bank's plans to stay current with the market.

Merchant Processing Services

Merchant Processing Services provide businesses (merchants) with the ability to accept Discover, MasterCard, and Visa cards for the payment of goods and services. Card acceptance increases a merchant's sales and provides a guaranteed form of payment as long as procedures are followed.

Your bank has several options in providing Merchant Processing Services, including:

- Being a direct acquirer* wherein your bank is responsible for the entire merchant relationship, including compliance liability and any losses from the program. Your bank receives all of the net revenue (merchant discount revenue minus interchange) and your bank is responsible for crediting the merchant's checking account for transactions processed.
- Being an agent bank* for another bank wherein your bank is responsible for selling the merchant and usually servicing the merchant. Your bank may or may not be responsible for losses from the program, depending on your agreement with your agents. Usually, your bank will receive a portion of the net merchant discount revenue as income from the program. Your bank is usually responsible for crediting the merchant's checking account for transactions processed.
- Having a relationship with an Independent Sales Organization (ISO)*, bank or processor where merchants are signed in the name of your bank on a referral basis. Usually your bank will receive a referral fee or other income for merchant accounts signed. Your bank is usually responsible for crediting the merchant's checking account for transactions processed. Compliance and losses are usually the responsibility – in whole or in part – of the ISO, bank or processor you choose.

View an *ebook* on ICBA Bancard's website for additional card strategies. You can also visit *MasterCard's Marketing Center* or *Visa Online* and do a search to find the latest available enhancements. At the Bancard website you will also find details on our other available *services*.

Section 4 – Product Development

Once you have determined the product that you want to offer, the next step is Product Development. As discussed in *Products*, there are a number of offerings available to serve various target markets.

In this section, we will review the product development process.

Competitive Gap Analysis

A Competitive Gap Analysis can provide you with valuable information about the current products you offer and assist you in your product development decisions. There are several sample analyses listed in the Appendix of this document.

Start a file of credit card product offerings from local, regional and national issuers. This can include direct mail solicitations, branch take-one's, industry articles and website information. Get everyone in the bank involved so that you have a large file of what is being offered in your market. If you have the staffing, have someone take the information from all sources and develop a monthly table that provides the product information on a per issuer basis. This will help you review offerings at a macro (all issuers in your market) and micro (individual issuers) level and help you identify patterns or trends. Compare this information to your product or proposed product to see how your bank compares to other issuers. *Credit Card Competitive Gap Analysis by Issuer*

Another way to look at the competitive information is on a monthly issuer-to-issuer basis. This will provide you with monthly industry trends, issuer versus issuer. *Credit Card Competitive Gap Analysis by Month*

A Competitive Gap Analysis is also useful in developing debit card and prepaid card products, although the information that you collect will be different and you will only be interested in the debit card offerings of banks in your market. *Debit Card Competitive Gap Analysis by Issuer.* With prepaid cards, information from your local market is useful, as well as some of the larger national issuers who provide prepaid cards in your market. Again, compare this information to your product or proposed product to see how your bank measures up against other issuers. *Prepaid Card Competitive Gap Analysis by Issuer*

It is helpful to identify how your bank ranks competitively in your Competitive Gap Analysis by shading the cells in a spreadsheet that are the best pricing, etc. for each issuer, including your bank. It will give you a visual of where your bank may need to be more competitive as well as provide the specific information.

Customer Surveys

Customer surveys are extremely valuable in understanding how you are viewed by your customers and help identify their card preferences. They also serve as a worthwhile retention tool because they show your customers that you are interested in their views.

Customer surveys do not need to be done by a research firm and can provide significant value compared to the cost of implementing one. A credit of $5 for completing a survey, for instance, can have a significant impact on response rates.

Consider the following segmentation tactics to better target your surveys.

- Never-active accounts. These represent customers that have opened an account with your bank but have not used the account. The customer may view the card as a backup or have received another card offer they considered more appealing. Review your FIS inactive reports regularly so you can identify these cardholders. *Cover Letter and Survey Never Active*
- Inactive accounts with a zero balance for the past six months. These accounts may have been active at some point but have been void of activity for six months or less. *Cover Letter and Survey Inactive No Balance for Less Than 6 Months*
- Inactive accounts with no balance for six or more months. In these instances, customers opened an account with your bank, but have not used your card for over six months. This is a critical juncture because after six months it may prove very difficult to activate such accounts without understanding why they are inactive. *Cover Letter and Survey Inactive No Balance for Greater Than 6 Months*
- Transaction inactive accounts. They were using your bank's card, but are no longer. Are they paying down the balance? Has another card taken the place of your bank's card? *Cover Letter and Survey Transaction Inactive Accounts*
- Transaction active accounts that revolve. They use your bank's card and revolve their balance. This is your bank's most profitable customer. Their survey answers are very important because they tell you why they use your bank's card, and also if there are other card features or pricing that they find attractive. This information can help you save an account before you otherwise know that it is in danger. *Cover Letter and Survey Transaction Active That Revolve*
- Transaction active accounts that do not revolve. They use your bank's card, but do not revolve on your bank's card. This is your bank's second most profitable customer. Their survey answers are very important because they tell you what they like about your bank's card that causes them to use the card, but it also tells you why they don't revolve balances with your bank. Do they segment their transactions so that one card is for balances that will be paid in full to capitalize on rewards? Do they revolve on another card because of preferential pricing? Armed with this information you can create a counter proposition that will allow you to convert these customers to revolvers. *Cover Letter and Survey Transaction Active Accounts That Do Not Revolve*

You may be wondering why we are discussing surveying customers in the Product Development section of this manual. It is because your bank's customers are consumers in your bank's target market. There are other consumers like them in your target market. Customer surveys give the dual benefit of understanding and improving the performance of existing customer accounts as well as understanding what will appeal to potential customers in your area.

Returned survey answers can be entered into an Excel spreadsheet, which will give you the ability to sort answers. The surveys can also be coded so that you know the specific account that responded and, therefore, have the information that you need to improve the performance of these accounts as well as others like them in your portfolio. (Tip: To track responses, note the last four digits of the account number on each survey.)

Your processor should be able to provide you with a list of accounts by segmentation criteria. At www.raosoft.com you will find a calculator that provides you the means to determine the number of customers needed in each segment to give you statistically sound results. If you don't have the volume for statistically sound results, you can still receive insights that are directional and gather valuable information. This is known as quantitative research.

Focus Groups

Focus groups provide you with a way to try out your new product ideas before investing time and resources to bring a product or service to market with limited or no appeal. It is a fast, inexpensive way to gather valuable information about the potential market acceptance of your new product idea.

Your bank does not need to hire a professional to conduct a focus group. It is something that can be done internally by the Card Manager or Head of Marketing and should be done any time a new product is being developed. Basically, focus groups are interviews of roughly 6 to 12 people at a time.

Unlike surveys which are quantitative research that rely on statistics and numbers, focus groups are qualitative research used to gain insight into people's opinions and motivation.

Plan on the following logistics for your focus group:

- Meetings should be 1.5 to 2 hours long.
- Hold your focus group in a conference room with all participants seated together. You can also conduct the focus group offsite, but this usually involves room fee costs.
- Provide nametags for focus group members and the moderator.
- Plan to have the following materials available for the focus group session: notepads and pencils; flip chart; list of participants; markers; masking tape; and a clock to keep the meeting on time. You should also consider a small gift for the participants. A giveaway with the bank's name and logo will work well. Some banks pay participants a nominal fee, e.g. $25 each.
- Provide refreshments. The type of refreshments will depend on the time of your meeting, e.g. heavier refreshments if the focus group is being held near meal time.
- Develop an agenda.
- Plan to record the session, if possible. Or, have one or two people take notes. If you will be recording the session inform the focus group members and advise them of how you will be documenting (audio, audio visual or note taking) the session.

Some helpful hints for developing a focus group are listed below.

- Identify potential participants and gather participant contact information.
- Select the person who will serve as the moderator/facilitator.
- Send invitations for the focus group with a follow-up phone call and a reminder call two to three days prior to the focus group.

- Develop a list of questions that you want answered. Effective focus group questions should be open-ended and move from general to more specific questions.
- Place each question on a flip chart—one question per page.
- Have a trial focus group session with staff of the bank using developed questions. Revise questions or their order as necessary.
- Use visuals whenever possible. For example, if you are interested in the focus group's opinion of your card design or designs, have photos or mock-up of the cards available.

Facilitating the focus group:

- Welcome the focus group members and thank them for participating.
- Have the facilitator introduce himself and other non-participants in the room.
- Set the expectations at the start. Encourage open, honest dialogue. Explain that all opinions/observations are valid.
- Probe for in-depth answers and the reasons for their answers.
- Make sure that everyone participates.
- Keep the discussion on track.
- Summarize for the group what you are hearing.
- Close the meeting on time and thank the focus group members for their participation.

Follow-up with focus group participants, analyze the meeting results, and write a report.

- Send a thank-you note/letter to the focus group members.
- Transcribe notes from the session.
- Analyze the results of the session and write a report based on your findings.
- Share the results with others involved in product development and make product decisions.

Pricing*

Pricing is a critical element in Product Development. If your bank sets the pricing too low compared to the competition, you may be unnecessarily forgoing revenue and may have unprofitable accounts because your expenses are not covered by the revenue produced from the accounts. If your bank sets the pricing too high compared to the competition you may experience adverse selection*, which is the result of too many poor credit risks prospects signing up and not enough strong credit risks prospects accepting your offer. This could lead to higher-than-anticipated credit losses because the ratio of poor-credit risks to good-credit risks is not what was expected or predicted if you used credit risk score cut-offs from a credit bureau.

The Competitive Gap Analysis discussed earlier in this section will provide you with valuable information in setting your card pricing so that you can avoid the pitfalls of pricing too low or too high. Remember, pricing information that you gathered for your

Competitive Gap Analysis is directional only. It *does not* mean that your pricing should be identical to the best priced product. Different bank card programs have different cost structures and different objectives. Some of the direct mail solicitations may actually be tests, not the bank's primary offer. A good source of national credit card pricing by a variety of card products can be found at *www.creditcard.com*, *www.bankrate.com*, and *www.bestrate.com*.

Community banks tend to price their credit cards below national industry averages for some of the following reasons:

- Conservative credit policies result in lower credit losses and lower expenses for their credit card portfolio allowing lower pricing while maintaining profitability.
- Credit cards can be a good bank customer retention strategy.

The pricing decisions that you will need to make include:

- Interest rates (APR), fixed or variable for:
  - Purchases
  - Cash advances
  - Balance transfers
  - Promotional rates--teaser or intro
  - Penalty rates, when applicable
- Floors and ceilings
- Minimum interest charge
- Balance or interest rate calculation
- Annual fee
- Balance transfer fee
- Cash advance fee
- Foreign purchase fee, also called a currency conversion fee
- Late payment fee
- Returned payment fee
- Grace period
- Minimum payment calculation

Interest Rate (APR), Fixed or Variable[1]

The interest rate is the percentage that is charged on balances on the cardholder's credit card account that are not paid in full by the payment due date. The interest rate can be fixed or variable.

Fixed interest rates do not change based on the Prime Rate. Whether the Prime Rate increases or decreases, the interest rate remains "fixed" at the same rate. Consumers tend to prefer fixed rates when the Prime Rate is rising.

Variable interest rates change based on the index that is used, usually the Prime Rate, although a few large banks use the London-Inter-Bank Offered Rate (LIBOR*). The bank would add a spread or margin to the Prime Rate, e.g. 6.9 percent. Therefore, if the Prime Rate was at 6 percent, the interest rate for the credit card account would be 12.9 percent. If the Prime Rate changes, then the interest rate that is charged changes. Banks usually adjust rates either at the end of each month or each quarter based on whether or not the Prime Rate has changed.

Consumers tend to prefer variable rates when the Prime Rate is decreasing. As with fixed rates, it is recommended that you set a floor and a ceiling for the interest rate.

The interest rate for purchases is usually lower than for cash advances since experience has shown that cardholders who use their card for cash tend to have higher loss rates than those who do not get cash advances.

Some issuers offer low interest rates for balance transfers for a fixed period of time (e.g. 6 months or 12 months), after which the interest rate increases to the purchase interest rate. There are some issuers who will offer low interest rates for balance transfers for the life of the balance. These offers require the operational capability to segregate balances at different rates.

Promotional rates*, also called teaser or introductory rates*, are also lower rates for a specified period of time for balance transfers only or, sometimes, for balance transfers and purchases during the promotional period. After the promotional period ends, the interest rate increases to the purchase interest rate.

Penalty rates increase the set interest rate on the cardholder's account due to unwanted actions by the cardholder, such as a late payment or a returned payment. Penalty rates may have a ceiling to comply with usury laws.

Floors and Ceilings

Fixed and variable interest rates can have floors or ceilings. Setting a floor guarantees that the interest rate does not go lower than the interest rate that is needed to cover the cost of funds, loss rates, and other expenses of a credit card program. A ceiling is usually set to comply with appropriate usury rates that may apply to the bank's portfolio.

[1] It is the responsibility of the bank to be in compliance with all state and federal laws pertaining to credit card pricing. Legal counsel should advise you regarding these requirements. For Federal Regulations, you can review rules and regulations at www.federalreserve.gov under Regulation Z.

Minimum Interest Rate

A minimum interest rate is usually a fixed dollar amount applied whenever an interest rate is charged, but the amount of the actual interest rate amount is less than the fixed dollar amount, e.g. if interest is charged, it will be no less than $0.50, $1.50, etc.

Balance or Interest Rate Calculation

There are a number of methods of computing finance charges on the unpaid balances of cardholder accounts. They include:

- Average daily balance: The finance charge is computed by adding the daily balance of the account each day since the last billing and dividing that total by the number of days in the billing cycle. This method includes credits and payments and excludes purchases posted since the last billing date. If the balance is paid in full there is no finance charge assessed.
- Average daily balance including current purchases: This method is the same as "average daily balance" except that current purchases are included in the totals each day. If the balance is paid in full there is no finance charge assessed.
- Previous balance before payments and credits: This method is computed on the total previous month's balance due. If the balance is paid in full there is no finance charge assessed.
- Adjusted balance: This method computes the finance charge on the previous balance less payments and credits. If the balance is paid in full there is no finance charge assessed.

Various Finance Charge Calculation Methods Comparison

	Average Daily Balance	Average Daily Balance Plus Current Purchases	Previous Balance Before Payments and Credits	Adjusted Balance
Previous Balance 8/31	$300.00	$300.00	$300.00	$300.00
Purchases 9/11	100.00	100.00	100.00	100.00
Payment 9/16	50.00	50.00	50.00	50.00
Purchases 9/21	100.00	100.00	100.00	100.00
Credit 9/26	10.00	10.00	10.00	10.00
Closing Balance	440.00	440.00	440.00	440.00
Number of Days in Billing Cycle	30	30	n/a	n/a
Cumulative Daily Balances	$8,200.00	$11,200.00	n/a	n/a
Average Daily Balance to Which the Finance Charge Rate is Applied	$273.33	$373.33	$300.00	$240.00

As shown in the table above, the finance charge calculation method selected can have a positive or negative impact on the actual realized finance charge revenue.

Minimum Payment

The bank establishes the calculation used to determine the minimum payment due, which is the minimum amount a cardholder must repay each month based on the account balance. FIS can provide you with the options that are available in calculating minimum payments.

Annual Fee

A fee may be charged at account opening and on the anniversary date of the credit card account. If charged, it must be disclosed to the cardholder on the application, cardholder agreement or solicitation. Generally, annual fees are charged for rewards cards, cobrand cards and secured cards. The *Credit Card Competitive Gap Analysis by Issuer* and the *Credit Card Competitive Gap Analysis by Month* will provide you with guidance on whether or not you can charge an annual fee and the amount that you can charge and still be competitive in the market.

Balance Transfer Fee

A fee is usually charged for a balance transfer. Usually, the fee is a percentage of the dollar amount of the transfer or a minimum, whichever is greater. For example, the balance transfer fee might be either $5 or 3 percent of the amount of the transfer, whichever is greater.

Cash Advance Fee

As with the balance transfer, a fee is usually charged for cash advances. Cash advance fees tend to be slightly higher than balance transfer fees. For example, the cash advance fee might be $10 or 5 percent of the amount of the cash advance, whichever is greater. The following may be considered cash transactions: obtaining cash with the card at a bank or ATM; obtaining money through home banking; making a wire transfer; and, buying a money order, traveler’s check, lottery ticket, casino chip or similar item.

Currency Conversion Fee

A currency conversion fee, also called a foreign purchase transaction fee, may also be charged for all transactions that occur outside of the United States. Visa and MasterCard add 1 percent to all transactions that are converted from a foreign currency to U.S. dollars. The Operating Regulations of these brands allow issuers to charge a fee as well. Currency conversion fees usually range from 1 percent to 3 percent of each purchase transaction. However, it is the issuer’s decision whether or not a fee will be charged and, if so, the amount of the fee.

Late Payment Fee

A late payment fee may be charged whenever a cardholder’s minimum payment due does not post to his account by the payment due date. The late payment can be a fixed fee (e.g. $25), or may be tiered based on the account balance (e.g. $15 on balances up to $100; $29 on balances of $100 to $250; or, $35 on balances of $250 and over). However, the fee cannot be greater than the balance due on the account.

Returned Payment Fee

A returned payment fee may be charged whenever a cardholder's payment is returned. A returned payment is usually defined as an electronic debit, payment check, or similar payment instrument that is returned unpaid. Returned payment fees can be as high as $35 to $39.

Other Fees

Other fees that may be charged include a card replacement fee, rush or expedited card fee, statement copy fee, and a transaction copy fee. FIS can provide you with a list of fees that you may select for your card program.

Grace Period

The grace period is the time period that a cardholder has to pay their statement balance in full without incurring finance charges. Grace periods are usually in the 21 to 25 day range from the statement billing date. Most banks do not offer a grace period on any cash transactions.

It is the responsibility of the bank to be in compliance with all state and federal laws pertaining to credit card pricing. Legal counsel should advise you regarding these requirements. For federal regulations, you can review rules and regulations at www.federalreserve.gov.

Brand

The brand that you choose for your card product, Visa or MasterCard, can be determined by asking the following questions:

- Which brand does your bank offer: Visa, MasterCard or both? Are you licensed for one or the other brands for your debit or merchant programs?
- If you currently offer both brands and you conducted a focus group, did the focus group participants indicate a brand preference?
- Does the positioning/image of one brand suit your bank brand and the product better?
- Do both brands offer the card product that you want to provide?

Enhancements

The enhancements that you choose for your product should be driven by the product, market competition, and any required enhancement by Visa and/or MasterCard if applicable.

ICBA Bancard clients can become a sponsoring member of FIBA (Financial Institution Benefit Association Inc), a non-profit organization formed to provide group benefits at special rates. FIBA offers enhancements, insurance products, wholesale-priced services, special discounts and optional products.

ScoreCard, a rewards program available to banks that issue with FIS, is no longer part of FIBA. Loyalty programs like ScoreCard have become a common enhancement to credit cards. Your bank should consider offering a rewards program to meet the needs of consumers who have come to expect such enhancements.

FIS manages every element of the ScoreCard program to ensure successful implementation at the financial institution, including a cardholder website, scoring platform, administrative tools, professional marketing materials, bonus point accumulation notification, reward catalogs, and cardholder customer support.

For more information on ScoreCard and other FIS enhancements go to the *ICBA Bancard web site*, contact your FIS Client Relations Representative at (800) 215-6280, or send an email to *moreinfo@fisglobal.com*.

Card Design

Card design is an important decision in the product development process. The card design should reinforce the positioning of the card product.

With the ICBA Bancard program, you have three options for card design.

- Option One: Using **Standard Cards.** ICBA Bancard produces the cards that many community banks use. Professional graphic designers have created standard cards to which a bank logo can be added. By printing these cards in volume, ICBA Bancard has significantly reduced the cost of the cards. These cards are already in inventory at FIS. The advantages of using the standard cards are that your bank saves time and money. In addition, your bank does not need to outlay any cash for a supply of card plastics. You “pay-as-you-go”. FIS charges you on your monthly billing for each card that was embossed and sent to your customer.
- Option Two: Using ***CPI Card Designer* Cards.** *CPI Card Designer* is an online tool that allows your bank to custom design a card plastic. In conjunction with CPI Card Group, a Visa and MasterCard licensed card manufacturer, and ICBA Bancard, *Card Designer* was developed to provide a secure online process for your bank to view what a new card plastic will look like before you place your order. You can even print your designs for others to view. Some of the features of *Card Designer* include:
  - Choosing from a variety of over 300 card designs, including the standard card design
  - Selecting Visa or MasterCard brands
  - Uploading your bank’s logo
  - Selecting custom tipping colors
  - Printing your design for review and approval
  - Forwarding your order online
  - Ordering quantities as low as 500 for most designs
  - Contacting dedicated staff to assist with your design or a custom background

  CPI Card Designer is a free online tool provided by ICBA Bancard. To access the tool and produce card prototypes, *click here* and enter or create your Password and User name. For further assistance from the CPI Card Designer staff you can call **(**800) 897-4896 or send an email to *help@carddesigns.com*.

- Option Three: Producing a **Custom Card.** Custom cards cost more than standard cards. The difference in cost depends on the volume printed and the cost of your bank's design. Most card manufacturers require a minimum order of 1,000 to 1,500 cards; the more you order, the lower your per-card cost will be. From the time the vendor proof is approved by your bank, Visa or MasterCard, it usually takes 6 to 8 weeks to produce a custom card. Production times may vary. With custom cards, your bank must monitor your custom card supply for reorder. Custom cards may offer particular advantages to community banks. A drawing or photograph of a local historic landmark or a familiar landscape can work well to reinforce a marketing strategy of your bank.

  Visa and MasterCard card design requirements and specifications should be available from the card manufacturer that you select to produce your cards.

  You will also need to ensure that the card manufacturer places the ICBA Member logo on the back of your card along with appropriate ATM logos and network logos (for debit cards). The manufacturer should have all of these logos. If you find that they do not have the ICBA Member logo, please call ICBA Bancard at (800) 242-4770.

  CPI Card Group is a preferred service provider for ICBA. For more information on custom card designs, call (800) 897-4896 or email *help@carddesigns.com*.

Collateral Material

Collateral materials are printed items, such as posters, applications, and statement inserts used to introduce and promote your product as well as communicate your marketing message. There are a number of ways to utilize collateral materials.

- Bank Walk-In Traffic: The use of collateral material in the bank is an excellent, cost-effective way to expose customers to the products that you offer or to new products that you are introducing. Collateral considerations for the bank include:
  - Banners
  - Tent cards for counters and desktops
  - Posters to display in your lobby
  - Badges for tellers to wear
  - Take-one displays for applications
- Bank Drive-Through**:** A lot of customers like convenience and prefer to use the bank drive-through rather than going into the bank. Collateral materials also work well here. Consider using:
  - Banners
  - Window clings
  - Posters
  - Badges for the tellers to wear

  - Inserts enclosed in the envelope or with the receipt provided to the customer at the completion of the transaction

- ATMs**:** Collateral material can also be used at your ATM's for customers who drive-up or walk-up to the ATM. Collateral considerations include:
  - Posters
  - Banners
  - Messaging on the ATM (before and after the transaction)
  - Messaging on the ATM receipt

- Statements**:** Statement inserts are a cost-effective way to market to your customers. Statement inserts can be used in all bank statements--from checking account statements to home equity and loan statements to credit card statements. If you are using your statement insert to introduce a new product and you have the ability to take applications over the phone, include that in the text of your statement insert.

  Statement messages are also a cost-effective way to get a message to your customers. Like statement inserts, they can be used in all statements to introduce a new product, offer a way to apply for a card (if applicable), and reinforce a marketing theme.

- Merchant Take-One's**:** If your bank has a merchant program, you have the opportunity to offer take-one applications in the merchant's place of business. Some banks pay a small amount of money to each merchant from whom they receive an application. Other banks may require that the application be approved. To track applications, stamp the merchant's name or an assigned number for the merchant on the application. This will provide you with the information that you need to pay the merchant and also track which merchants are generating applications so that you can eventually eliminate applications at merchants where you have recorded no activity.

- Community Events**:** Consider displaying applications, banners and posters at community events attended by the bank. This could include: Chamber of Commerce functions, holiday events, crafts festivals and local fairs.

- Bank Website**:** With the advent of online banking and bill payment services, consumers are now accessing the Internet for financial information. Use your website to promote your products and introduce new products. Establish a link to your card application to make it easy for your customers to apply for your product online. Emails are another way to get the word out about your card products.

- Social Media**:** Social media has become a new delivery channel for banks. If your bank is using social media such at Facebook and/or Twitter, be sure to include messages about your card programs. A new generation of bank customers are getting their information through social media channels so your bank should be prepared

You have two options for creating your collateral materials. You can create your own using a local vendor that you may use for other bank collateral material. Or, you can use FIS. FIS produces applications with professionally designed marketing themes, which, when matched with other available collateral material, can provide a comprehensive marketing campaign. FIS collateral packages include:

- Applications
- Take-one display stands
- Employee lapel badges
- Statement inserts
- Newspaper ad slicks

Contact your FIS Client Relations Representative to order new materials or to place a re-order at (800) 215-6280.

In an agent bank program, marketing collateral is provided by the issuing bank.

It is important to set-up a process to manage your collateral material. Appoint someone to ensure that the materials are used effectively and efficiently and that they are up-to-date and in compliance. Duties may include the following:

- Unpacking and storing materials and creating an inventory checklist
- Setting up displays, banners, posters, etc
- Providing badges to all branches
- Refilling take-one displays
- Ensuring that statement inserts are delivered to the correct source on time for insertion

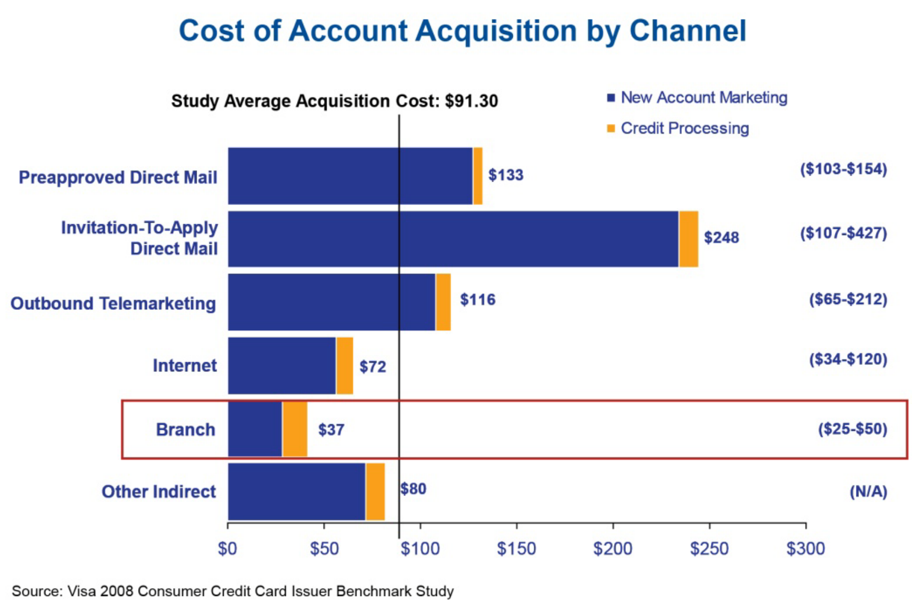
A specific date should be set to review inventory levels and determine if re-orders are needed. Sufficient time should be allowed to review collateral material for relevancy and accuracy in case changes/revisions are necessary. Allow 6 to 8 weeks for production of new materials after the review for needed changes.

You may also order marketing materials through *Visa* or *MasterCard*.

Section 5 – Acquisition Channels

Bank card issuers use a number of different channels to acquire cardholders, each of which provides different results. To maximize your results, determine the best mix of channels based on the product, new account goals, budget, cost per account acquired, and performance of accounts from each channel.

The following chart illustrates how acquisition costs can vary by channel per approved application from the Visa 2008 Consumer Credit Card Issuer Benchmark Study. The new account marketing cost is the cost of the acquisition of the account. The credit processing cost is the cost of reviewing and approving or declining that account.



In this section, we will review the acquisition channels that you should consider for the products that you offer. In *Analysis*, we will review how you can track and analyze the performance of your products.

Branches

Typically, branches provide the best source of low-cost accounts, especially for community banks. The key to successful account generation at branches is to have properly informed and trained branch personnel. You will also want to have appropriate *Collateral Material* that provides product features, benefits and pricing. Incentive programs also help to motivate branch staff to stay informed and talk with customers about new and existing products and services. Collateral includes branch signage at teller locations, applications handy in lobbies, posters, banners on your website and any other way you have of letting customers know you offer credit cards.

ICBA Bancard, Visa, and MasterCard can provide you with information, tools and collateral to help you train branch staff. Access this information on the Bancard web site *here*, or go to *Visa Online* or *MasterCard Marketing Center*.

There are four target audiences in-branch: Consumers opening an account(s), recent customers (within the last month), existing customers, and existing customers opening an additional/new account.

Since new account openings represent consumers with the least knowledge about your bank and the products and services offered, this is an excellent time to suggest additional accounts that might fit their needs. For example, if a consumer is opening a checking account, you can offer a debit card. If your account opening approval process is automated, you can set product score ranges that provide you with information on other products for which the consumer qualifies.

For example, you could offer a preapproved credit card with an approved credit line whereby all customers have to do is sign a form accepting the offer (with any other information that you may require). You can incent them to accept the card and use it by offering a credit to their account that can only be accessed by using their new credit card. And be sure to provide them with a listing of all of your card products in their new account package including merchant services if the new customer is a small business owner.

Existing customers with other loans at the bank also make great candidates for a credit card line of credit.

Employee incentives have historically worked well as a way to involve staff in selling card products in the branches. Whether it is a cash prize, time off or something of value, bank staff will get excited about promoting cards.

Direct Mail

Although the most costly acquisition method on a cost-per-approved (CPA) application or account basis, as demonstrated in the chart *above,* direct mail has been, and remains, the best way to build scale in a credit card program.

The response rate on direct mail determines the CPA to acquire customers in this channel. Historically, community banks have experienced higher response rates than larger credit card issuers given their proclivity to limit mailings to existing customers and those in their market area as opposed to blanketing non-customers outside their geographic footprint.

There are three types of direct mail solicitations: preapproved, pre-qualified/pre-selected, and invitation-to-apply (ITA)/non-preapproved.

The response rate on **preapproved** solicitations is higher than solicitations that require recipients to complete an application, such as ITA solicitations. The expense of pre-approving the prospects is partially offset by eliminating the cost of mailing to unqualified recipients. Preapproval also avoids the negative experience of declining a customer. Preapproved solicitations may not be declined unless there has been a material change in the credit bureau information for the consumer since your mailing. Be sure to obtain advice from your attorney on what is considered a “material” change.

Prequalified or **preselected** solicitations have the appearance of preapproved solicitations to the consumer, but responses can be declined based on Federal regulations. The solicitation must prominently indicate that the solicitation is pre-qualified or pre-selected as opposed to being preapproved. Again, be sure to obtain advice from your attorney on the causes for denial that are allowed by Federal regulations.

Invitation-to-apply (ITA) or non-preapproved solicitations are used when a bank wants to move beyond its customer and market base with prospects typically culled from companies that develop and sell mailing lists without qualifying the individuals on the list. ITA solicitations are more challenging because they target consumer with no relationship with your bank, who may not be familiar with your bank, and will need to complete an application to apply for the card. Since the creditworthiness of the customer is determined after the application is received, there are more declines with ITA.

Sample direct mail letters can be found by clicking on these links: *Rewards and Introductory APR Letter*, *Introductory APR Letter.*

FIS provides a preapproved mailing service for banks called *ProDirect®*. For information call (800) 822-6758 or email *moreinfo@fisglobal.com*. You may also contact your FIS representative at (800) 215-6280.

Website

Your bank website is an easy way to promote your card products and their benefits as well as provide a credit card or merchant services application. Your webmaster should be able to set up the link and application forms. Many community banks have designed their own online applications or applications that can be downloaded and printed, making it easier for a customer to complete the form.

Many banks have the capability to review and approve the credit card application and respond within seconds or advise the applicant when they can expect to receive a response on the application. Usually banks that respond quickly are using bureau scores and their internal cut-off score.

Merchant applications downloaded from the bank's website require a more detailed process for review and approval than credit accounts, but still provide an easy and inexpensive way to sign a merchant account.

Merchant Take-Ones (Optional)

Merchants with whom you have a banking relationship can provide you with inexpensive advertising and account generation by displaying applications for your credit card. Some banks pay a small amount per approved application to the merchant. To track the merchant that originated the application, stamp the merchant number or name and number on the application in a designated location. Merchants should be paid on a monthly basis and, if possible, tracked on an individual basis so that you can review the number of accounts that are generated per merchant as well as the performance of those accounts.

Sending a thank you letter to the merchants with the largest number of approved applications is another way to encourage them to stay active in the program.

Implementing a successful Merchant Take-One program requires that the card department and the merchant department work well together. The card department must make it easy for the merchant department to place applications in merchant locations and keep the application holder supplied.

Keep a record of the merchant sales representative that has generated the most accounts each month and post it in the bank as a further incentive for the merchant department to actively participate in the Merchant Take-One program.

Promotions

A promotion is a structured account acquisition program that takes place during a short, fixed period of time. A key to its success is to create a higher level of customer interest and employee effort than could be sustained on an ongoing basis. You can choose to run periodic promotions that occur during certain timeframes. Take advantage of events that a majority of your customers participate in, such as Valentine's Day, tax season, spring break, summer vacation, back-to-school, holidays, or special promotions based around a theme that you develop.

For example, consider these special promotions:

- Commemorate a significant moment or event. It could be an anniversary such as your fifth year of issuing cards or a milestone such as a countdown to your 1,000th cardholder.
- Celebrate the introduction of a new product or a new card design.
- Participate in special Visa and MasterCard promotions by visiting *MasterCard's Marketing Center* or the *Visa Resource Center* or *Visa Online*.
- Tie-in your promotion with a local charity event (with the charity's permission). Make a donation to the charity for each approved application leading up to, and during, the event. Additional activities you may want to consider to help promote the event include:
  - Hold a press conference or send out a new release with the local charity group leadership to announce the promotion
  - Decorate the lobby with the charity group posters and a sign showing the total amount raised to date
  - Provide charity group badges or stickers for employees to wear
  - Send out a news release to announce the amount raised midway through the promotion and at the end of the promotion
  - Publicly present a check for the final amount raised for the charity and submit a photo to the local papers.

The publicity generated by the bank is welcomed by the charity group, which in turn supports the bank's promotion. These initiatives may also count towards the bank's Community Reinvestment Act (CRA) requirements. Be sure to check with your compliance officer to see if the promotion meets CRA criteria. For more on generating media buzz around bank activities, see *Media Relations.*

A promotion could be held for any charity or organization that has widespread appeal and benefit. That includes local schools, marching bands, and college/university booster clubs as well as nationally known organizations such as the American

Cancer Society, the Susan G. Komen Foundation (“turn the branch pink"), Wounded Warrios and United Service Organizations Inc (USO).

Events

Many banks are successful soliciting credit card applications at concerts, sporting events, local festivals and crafts shows, and other similar events.

You may hear this referred to as “tabling” because it usually involves having a table staffed with trained bank personnel who actively solicit people at the event to apply for a credit card. An incentive, such as a T-shirt, may be offered. This can be an effective way to generate low cost accounts, but often the people will simply apply so that they can get the giveaway. Many accounts do not activate and do not perform as well as accounts acquired by other means, such as direct mail.

Be sure to track accounts obtained through events to determine the performance of accounts generated in this way.

Statement Inserts

Statement inserts placed in bank account statements for checking accounts, home equity lines of credit, loans, and other bank mailings are also a cost-effective way to generate accounts. The weight of the statement inserts may cause additional postal expense for some of the statements, but they are still cost-effective. Unlike some direct mail, you are assured that the envelope will be opened because it carries your bank’s name.

Another way to use statement inserts is at teller windows and the bank drive-through window. Have the teller include a statement insert with the cash or receipts that they return to the customer.

ICBA Bancard offers insert opportunities from Visa and MasterCard. Banks are encouraged to take advantage of this low-cost account acquisition marketing strategy. Look in your periodic FIS CommView Updates (*also posted on ICBA’s Web site here*) to obtain more information on statement inserts.

Please note that MasterCard and Visa normally charge fees for inserts and FIS charges an insertion fee for items inserted into credit card statements.

Section 6 – Activation, Usage and Retention

The card industry is a challenge today due to increased competition; higher losses; declining active and revolving rates; increasing, but silent, attrition; and increasing acquisition costs. As a result, the number one rule for operating in today's market is to protect your customers first!

You probably know the basic customer facts:

- 80 percent of profits probably come from the top 20 percent of your customers and the bottom 20 percent are usually unprofitable
- Long-term customers have higher spending rates; higher retention rates; higher referral rates; and a lower cost to service
- The more products per customer the greater the likelihood of loyalty and long-term profitability

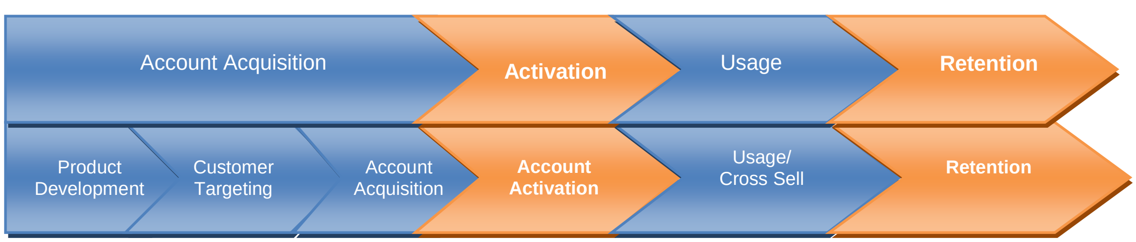
The key is to target the right customer at the right price. For your high-value customers, you need to create an interactive relationship to maintain your share of their business. For your potential high-value customers, you should offer incentives to increase your share of their business.

Activation, usage and retention are important because, in general, ***it costs up to 10 times more to acquire a new customer than it does to retain an existing customer.*** The basic rule of thumb is to allocate 35 percent to 40 percent of your marketing budget to activation, usage and retention. Dollar for dollar, activation, usage and retention promotions produce more revenue than the same dollars spent on acquisition. In general it is true that active customers are more often retained. So you should spend money to keep them because your competition is spending money to try to acquire them!

Lifecycle Analysis

When formulating a lifecycle management strategy, the most compelling questions to ask are centered on cost-benefit analysis. In other words, how much are you willing to invest and what kind of return do you expect from that investment?

Each part of the customer lifecycle presents specific challenges to banks. But, with attention to identifying the lifecycle of the customer and the value of that customer to your bank, you can grow your portfolio and your bottom line results.



In the acquisition stage of the lifecycle, banks must focus on providing the right product to the right cardholders to maximize revenue and minimize losses. In *Products,* we reviewed various card and service types. In *Product Development,* we reviewed the steps and considerations to develop the product. In *Acquisition Channels,* we reviewed the various acquisition channels available to the bank and the trade-offs in determining the right mix of channels.

In this section, we will review how to benefit from your investment by providing an incentive for the product to be used (activation), how to gain greater wallet share (usage), and how to keep your profitable customers (retention).

Activation

Activation starts with acquisition by offering the right product to the right consumer at the right price. That is why product development is so important. You have a good opportunity to activate new cardholders because they found something attractive about your product to cause them to accept it. Now the focus turns to getting them to activate the card in the critical early months. (Cardholders who have not activated within six months are unlikely to ever activate.)

Every customer contact within the first 90 days should be focused on activation. Use your card carrier wisely by including a message on the importance of activating the card (i.e. calling the toll-free number, if you use that service) as well as the benefits of using your card. The most important details should be easy to understand and quick to read. **Be sure to monitor activation reports provided by FIS.**

Other activities to consider:

- Include an activation message on your PIN mailer
- Send a Welcome Kit to all new cardholders with a greeting message that includes card benefits and the importance of calling to activate their card

Customers who have opened an account within the last month are also receptive to other product and service offers from your bank. Consider including some of this product and service information in your Welcome Kit with your introductory letter. However, remember that the Welcome Kit is for your card product and that should be its primary focus.

Usage

Usage is what drives account profitability. The more a cardholder uses your card, the more interchange income you receive, and the more likely he or she is to remain a customer. If the cardholder also revolves balances, your account profitability improves considerably due to increased finance charge revenue. The goal is to drive the customer behaviors which drive the revenue streams—interest income and interchange income in that order.

Segment your cardholders based on usage. Past cardholder behavior is a reliable indicator for how you should address increasing usage. The following general guidelines apply:

- Cardholders who have never been active or have been inactive for six or more months can be difficult to activate, so you should focus fewer resources on changing their behavior.

- Cardholders who are high users of your card have shown card loyalty so do not over-invest in promotions that target this segment. But do not ignore this segment either.
- Cardholders who are low- to medium-users of your card usually represent your best opportunities for growth and improvement and, therefore, should receive the largest share of your resources.

Factors that drive usage include:

- **Credit line increases**: A general guideline is to provide a credit line increase to cardholders who have high utilization of their existing credit line and are a low risk from a score perspective. Revolvers tend to choose cards with the lowest unpaid balance and the largest open-to-buy. FIS' Readi Review scoring product helps you identify those cardholders who may be eligible for a line increase. (Contact your FIS Client Relations Representative at 800-215-6280 to learn more.)
- **Major life events:** Major life events include marriage, buying a new home, becoming new parents, going to college, and planning for retirement. If you stay engaged with your customers, you will know when these events are occurring and can target appropriate promotions.
- **Key seasonal events**: Key seasonal events include the new year, spring break, summer vacation, back-to-school, and the holiday season.

  The beginning of the new year is an excellent time to make a promotional balance transfer offer and encourage cardholders to consolidate their debt on your bank's credit card. This can be accomplished through a statement insert if your processor has the capability to insert only those accounts that meet your credit criteria. Otherwise, a balance transfer package with convenience checks is another way to make the offer to your customers.

  For spring break, promotional rate convenience checks targeted for use toward vacations or home improvement work well.

  For summer vacation, promotional rate convenience checks and travel discounts are very valuable. Offering travel enhancements during the summer months is also well received and encourages the cardholder to concentrate spend on your card.

  Back-to-school means it's time to purchase new clothes, school supplies, and books. Again, promotional rate convenience checks with a back-to-school theme as well as enhancements such as Purchase Protection and Extended Warranty work well for this key seasonal event.

  Convenience checks with a promotional rate also work well during the holiday season. Promote them as a way to give the universal gift—cash—without having to use current funds.

  Remember that these offers should only be made to those cardholders who meet your credit criteria. LetterChecks offered by FIS are available and can be targeted to certain cardholders. Contact your FIS representative for more information at (800) 215-6280.

- Recurring payments are another way to increase usage with the added benefit of encouraging retention. Think of recurring payments as ACH credits and debits to a checking account. Once a cardholder has committed to recurring payments being made to their account, they will be less likely to attrite because of the need to notify those companies to stop the recurring billing. You can promote recurring payments inexpensively through statement inserts and statement messages.
- New merchant categories are also an opportunity to increase card usage. It could be merchant categories that are new to accepting cards for payment or merchant categories where your card is not being used. Promoting usage in these merchant categories will increase card usage and can be promoted inexpensively through statement inserts and statement messages.

Merchant offers and enhancements that you can utilize as usage incentives can be found on *ICBA Bancard's website* or searching under "merchant offers" and "enhancements" at *MasterCard's Marketing Center* or *Visa Online*. FIS offers convenience check mailings in their LetterChecks program.

Retention

Studies have shown that a successful retention strategy decreases account attrition and increases portfolio profitability. Issuers should establish a consistent account base to measure attrition, such as total number of accounts on file on the last day of the year or the first day of the start of the year, even when calculating monthly or quarterly attrition. Otherwise, new account acquisition during the year will provide a larger denominator and thus show a lower than actual attrition rate. ICBA Bancard's ACE portfolio assessment tool can help you monitor accounts on file and many other metrics that give you an overall picture of your portfolio's help. Access the ACE Tool on the Bancard web site by *clicking here*.

One frequently used method for calculating the attrition rate is to divide the total number of voluntary cardholder-closed accounts by the total number of accounts at the end of the previous year or the beginning of the new year. This method provides an effective way to measure portfolio, product, channel and vintage trends. ("Vintage trends" refers to each distinct solicitation.)

Once you have established your method of measuring attrition, you can take the following into consideration:

- Studies show that as time-on-book or tenure increases for accounts profitability of those accounts also increases. Accounts are usually unprofitable in the first 12 months primarily due to acquisition costs. Once the acquisition costs are recouped, accounts with tenure of 13 to 24 months become profitable unless they become delinquent. Once an account is more than 24 months old, it becomes most profitable barring delinquency.
- Customers usually leave (or attrite) because they are unhappy with the price, the product or the way they are treated. Unfortunately, many unhappy customers leave without telling the bank to close their account. They just stop using their card. This is called silent attrition. Key indicators are discussed below and can help identify these customers.

You do have an early warning system and that is your Customer Service Representatives (CSRs). CSRs speak directly with customers and should be trained to spot clues that a cardholder may be considering leaving. These include:

- Requests for the payoff amount on outstanding balances
- Questions about interest rates, credit card account terms, enhancements or reward programs
- Indications that a cardholder is not satisfied with the resolution of an account problem

This is very "low tech", but also very effective in spotting at-risk accounts. Before implementing this process, you should include the following in the training for your CSRs:

- Ask open-ended questions and listen carefully to what the cardholder says and does not say
- Probe for the reason for the cardholder's questions
- If possible, take action on the reason for the cardholder's questions even if it requires the CSR to seek a supervisor's assistance

- There are five key attrition indicators. The accounts that demonstrate these indicators can be provided to you in report form by FIS. By knowing the presence of a key attrition indicator and the profitability of the account, you can have a plan in place to address these factors. Contact your FIS Client Services Representative for more information on these reports.

    1. **Increasing pay-down rate:** If the cardholder is paying more than the minimum, he may be planning to pay off his account balance. This could be due to a decision to minimize the amount of existing debt or a decision to pay down the balance because another card is being used for purchases. If the cardholder's motivation is to reduce his debt, it may be difficult to save the account. However, if the cardholder is transacting on another card, you can learn through outbound CSR calls the features of the card that caused a shift in spend. If you have a competitive product, make the offer to change the cardholder's product and determine if the other account should be left open as the balance is paid down.

    2. **Decreasing usage:** If there are declining transactions on an account, you have a situation similar to an increasing pay-down rate. The cardholder is either decreasing his card use in general; has decided to compartmentalize his spending (e.g. business use on one card, transactions to be paid in full, transactions that will be revolved, etc.); or, has moved most of his transactions to another card with better benefits, such as rewards. Outbound CSR calls can also help here because you can learn the reason(s) for decreasing usage and respond with an appropriate offer.

    3. **Introductory rate expiration:** When you make an introductory rate offer with a solicitation, you already know that when it expires there is the likelihood that the balance will be moved to a new card with an

intro rate lower than your product's standard or "go to" rate. Be prepared to offer these customers a promotional rate that is higher than your intro rate, but lower than your go-to rate.

4. **Promotional rate expiration:** Like the intro rate, an end to a promo rate can trigger movement of a balance to another card unless you take action. Consider offering bonus reward points (if the card is a rewards card), an upgrade to a rewards card, or an increase in the credit line (if appropriate) if the balance stays on the account.
5. **Annual fee:** Since you know when the annual fee will be charged to an account either because the first year's fee was waived or because it is the anniversary date of the account, consider offering the cardholder something of perceived value equal to, or greater than, the annual fee the month prior to the annual fee charge. This could be bonus reward points (if the card is a rewards card) or merchant discounts offered through statement inserts, with a message acknowledging the anniversary.

Whatever you decide to do to retain customers, remember it costs more to solicit and book a new account than it does to keep an existing customer!

Section 7 – Best Practices

In *Activation, Usage and Retention* we discussed the importance of activation, usage and retention and ways to address each in your portfolio. The various channels available for acquisition were discussed in *Acquisition Channels.* In this section, we will review best practices that can be employed to make the most of all of these activities.

Solicitation/Acquisition

While emerging technologies, such as the Internet and social media, have expanded acquisition and marketing opportunities, the traditional channels discussed in *Acquisition Channels*, especially direct mail and branch solicitation, continue to be the most productive and cost-effective way to solicit accounts. Additionally, online marketing through your website can complement your acquisition efforts.

Each bank must determine the optimal mix of channels based on its objectives, customer base, prospect base, goals and budget. You can optimize your acquisition strategy by considering the following best practices.

- Target new banking customers first. They are in the process of opening a new account; use the opportunity to cross-sell other products and services.
- Make sure branch personnel are well-trained on the bank's products and have the marketing and collateral materials as well as sales training that they need to solicit new accounts.
- Cross-sell existing banking customers. Target customers who have multiple products and services with your bank including loan customers.
- Be aware of major life events or other triggers, such as a marriage, a new baby, a home purchase or remodeling, vacation planning, and a graduation and use them as a sales opportunity.
- Remember the 40-40-20 rule for success in direct marketing developed by marketing guru, Ed Mayer, years ago. It allocates direct marketing success to three factors: 40 percent to using the right mailing list; 40 percent to who the sender is and what he has to offer (in this case, your bank and your product offer); and 20 percent to everything else—postage rate, format, paper, stock, color, copy, graphics, etc.
- Use your completed *Credit Card Competitive Gap Analysis by Issuer* and *Credit Card Competitive Gap Analysis by Month* to determine what is being offered in your market. From that information, determine the product features and pricing that are complementary to your marketing strategy, competitive for the market, and profitable for your bank.
- Develop a cost analysis to compare a low APR for the life of a balance versus a zero percent APR for a fixed period of time for balance transfer offers in your solicitations. For "life of the balance," the rate is usually tied to the cost of funds or the cost of funds plus a small margin. Then test out, if possible, varying scenarios to see the impact on responses and ultimately, card performance:

  - Allow the prospective cardholder to choose a low APR for the "life of the balance" or zero percent for a fixed time period. Determine if requiring this decision of the prospect depresses response rates. Some issuers have found that the more decisions that the prospect has to make in order to respond to an offer, the fewer the number of responses. Compare booked account performance.
  - Offer a low APR for the "life of the balance" for part of your solicitations and a 0 percent APR for a fixed time in the remainder. Assess which produced the best response rate and performance.

- If you mail to the same consumer multiple times, you may want to vary the offer or design so that each mailing looks distinct. As a general rule, if a direct mail package nets strong results, it should not be changed without a test mailing against a new offer or new design. Remember that with testing, you only want to change one thing for the test to be valid. Otherwise, you don't really know what gave you the results for the test.
- The higher the authority (title) of the signer of the solicitation letter, the more credible the letter.
- The postscript is one of the most read parts of a letter and should always contain an important message including a call-to-action.
- When soliciting your customers always identify the bank by name and address. The more the envelope looks like an "official" mailing from the bank, the more likely that it will be opened.
- As a general rule, the best time to solicit is when there is a need for your product and/or service. Refer back to *Major Life Events* and *Key Seasonal Events* in Activation, Usage, and Retention.
- If your bank is in a market with a college/university, consider working with the institution for a list of accepted students each year and mail a solicitation prior to their arrival at school. Visa research indicates that over 50 percent of incoming students already have a credit card, so waiting until they arrive at school diminishes your chances to acquire an account. Check with your compliance officers and legal counsel to be sure you are in compliance with solicitation guidelines for college students.
  - Consider including other bank offers with your credit card solicitation in order to obtain multiple account relationships, e.g. checking account, debit card, etc.
  - Include financial literacy efforts with your credit card solicitation and other offers, e.g. how to balance your checkbook, how to manage credit, how to develop a good credit history, the importance of a good credit score, etc.
  - Consider working with the college/university on an affinity card* that you can offer to students, their parents, alumni and staff. Refer back to *Products, Rewards Cards.*
  - Learn more about the ProDirect direct mail acquisition program by clicking *here*.

New Accounts

Your best opportunity to activate new accounts is at account opening. Don't miss this opportunity because the longer a new account is inactive, the more difficult and expensive it is to activate that account. Try these new account activation best practices to get the most from your portfolio.

- Include a "thank you" for choosing your card on the card carrier or on an insert sent with the card carrier, as well as card benefit information. Remind the cardholder to activate their account by calling the toll free number, and consider providing an incentive for initial activity.
- Offer a fixed dollar amount, e.g. $5, $10, $20, $25 etc. that will be applied to their statement if they make a certain number of transactions or spend a certain dollar amount in the first billing cycle or a 1 percent rebate for the first 3 months. This will probably require special programming, so determine the most cost-effective way to implement this by speaking with a client services representative at your processor.
    - Determine the most cost effective way to credit the cardholder's account if they meet your criteria for the incentive. Options include:
        - An automatic credit to the cardholder's account. This requires no additional action on the part of the cardholder. Remember, there will be no breakage* and it will probably require special programming.
        - A statement insert or letter check included in the cardholder's statement. Since not all cardholders will include the insert or check from the bottom of the statement with their payment there will be breakage. Work with your payment processing area to determine the best way to handle these incentive payments.
- Recognize the first time that the card is used with a statement message, such as "Thank you for using our credit card. We appreciate your business." Consider offering an incentive for continued card usage. Speak with your FIS Client Services Representative to find out more.
- Include a thank you message, such as "We appreciate having you as a customer" on **every** billing statement. Vary the message from month to month so that it remains "fresh" to the cardholder.
- Incent activation of accounts not activated within 45 to 60 days of card issuance.
    - Use loyalty points if your bank offers a rewards card to encourage first-time usage.
    - Offer a 1 percent rebate on all purchases for the next three statements. This will build habit-of-use* that will remain after the rebate promotion has ended.
    - Determine the most cost-effective way to advise the cardholder. Options include creating a:

        - Separate mailer, advising cardholders to activate their card to earn a 1 percent rebate automatically on all their purchases made on their next three statements.
        - Zero balance statement mailer with messaging, such as: "Earn a 1 percent rebate on all purchases on your next three statements. Call the 800 number on the sticker attached to your card to activate and start using your card right away. The more you purchase the more rebates you will earn."
    - Determine the most cost effective way to pay the rebate.
        - By issuing a check or doing a statement insert. You will have the additional expense of printing and mailing the check. Be sure to include a "void by" date on the check. Allow the check to be valid for at least 3 to 6 months from date of check issuance.
        - By automatic credit to the cardholder's account. There will be no breakage with this method. Special programming may be required if a cash rebate is not currently offered as an option by your processor.
- Recognize and indicate appreciation for new customers/cardholders in your voice recognition unit (VRU)* activation message.
- Incent use of activated accounts with no activity within the first 60 days after card issuance with a cash rebate.
    - Determine the most cost effective way to pay the rebate.
        - By issuing a check or statement insert.
        - By automatic credit to the cardholder's account. There will be no breakage with this method. Special programming may be required if a cash rebate is not currently offered as an option by your processor.

Find even more suggestions, search under "account activation" at *ICBA Bancard online* or visit *Visa Online* and *MasterCard's Marketing Center*.

Existing Accounts

In *Best Practices, New Accounts,* we covered ways to encourage initial activation of new accounts. This requires information about product features as well as the implementation of promotions that will generate activity and sustain it for a 3 month period of time. This helps to build habit-of-use and yield a loyal cardholder.

For existing accounts, one of your critical goals is maximizing usage. It's important to target the right cardholders in this effort. For your high-value cardholders, create an interactive relationship to maintain your share of spend. For your potential high-value cardholders, offer incentives to increase your share of spend. And, for your low- or no-value cardholders, you may take no action at all. This group may also be open to a new product that you offer. Perhaps they were not targeted correctly with their current product or their circumstances have changed.

Past behavior can be a reliable indicator of future behavior for your cardholders. Keep these guidelines in mind when planning tactics to maintain or improve cardholder actions.

- Cardholders who have been inactive for 6 months or more can be difficult and costly to reactivate, so fewer resources and strategies should be used to change their behavior. Never-actives are the most difficult to activate.
- Low and medium spending cardholders are your greatest opportunity for growth and should receive most of your attention and resources.
- High spending cardholders have demonstrated loyalty to your card. Don't ignore them, but don't over invest in this segment.

Suggestions for existing accounts can include:

- Offer balance transfer/convenience check packages at the beginning of the year for debt consolidation and income tax payment; prior to spring break for vacations or home improvement; prior to summer for vacations; in late July/early August for back-to-school; and in November and December for the holidays. Combine these with a credit line increase for those accounts that qualify for an increased synergistic effect.
- Schedule periodic credit line increase programs throughout the year for qualifying accounts. Cardholders tend to choose the card with the largest open-to-buy* to minimize any fear of being declined at the point-of-sale.* Credit line increases offer the best opportunity for additional profit if targeted appropriately and the best opportunity for additional losses if targeted inappropriately.
- Recognize the tenure of the cardholder with "Member Since xxxx" or "Cardholder Since xxxx" embossed on their card(s).
- Recognize the active cardholder on their statement each month with a message thanking them for being a loyal customer.
- Send a standalone mailing, an email or a statement insert holiday card that includes a coupon good for a gift such as discounted travel, entertainment or dining.
- Send a card with a coupon or incentive, a statement insert, and/or an email to recognize your cardholder's account anniversary.
- Send a card, statement insert, and/or email to recognize your cardholder's birthday.
- Provide "surprise and delight" rewards to active cardholders and encourage continuation of their good spending behavior. The reward can be merchant discounts, a credit to their statement, a check for credit to their statement, etc.
- Increase usage of low and medium users with rewards-based incentives. Use "spend and get" promotions offering cardholders a rewards bonus for meeting specified usage thresholds, having transactions within certain

categories where you are not currently seeing usage, or for establishing a recurring payment*.

- Upgrade your best cardholders to a more valuable card product that you offer. Make sure that the cardholder understands the additional value of the product and the reason that he has been recognized for this product upgrade.

Visit ICBA Bancard's website to review the *ScoreCard Rewards Program*, the *FastTrack™* Card Activation Program, *LetterChecks℠*, and *Targeted Incentives Program* (TIP Options). You can also log on to *Visa Online* or the *MasterCard Marketing Center* for more suggestions about usage and loyalty for existing accounts.

Retention

In *Activation, Usage and Retention*, we reviewed the basic customer facts that make retention so important in a portfolio:

- 80 percent of profits come from the top 20 percent of accounts.
- The bottom 20 percent are usually unprofitable.
- Long-term cardholders have higher spend rates, retention rates and referral rates. They also have a lower cost-to-service.
- The more products per customer the increased likelihood of loyalty and long-term profitability.
- And, perhaps most important, on average it costs up to 10 times more to acquire a new customer than it does to retain an existing one. Therefore, it's logical to spend 35 percent to 40 percent of your marketing budget on retention activities.

Some best practice retention recommendations:

- Encourage cardholders through statement inserts, statement messages and email to initiate recurring payments to their account. Recommend merchant categories such as: utility companies, membership fees, ISP fees, subscriptions (i.e., DirecTV, NetFlix, magazines, Sirius XM Radio), insurance premiums, and charitable donations.

  Consider providing an incentive for cardholders initiating recurring payments, which provides card activity and encourages cardholders to maintain the account (due to the inconvenience of cancelling). If the account is a rewards account, you can offer additional points, miles, etc. If the account is not a rewards account, you can offer a financial premium or a valuable merchant discount.

- Keep the value of cardholders/customers top-of-mind for employees by printing customer value slogans such as "Think like a customer," "Providing good customer service is our business," and "Customers are our top priority" on memo pads and posters, and by posting customer value slogans throughout the main office, branches, on ATMs, and at drive-through windows.

- Maintain superior quality and timely service in customer interactions. Your ability to turn a negative, or potentially negative, situation into a positive one can mean the difference between retaining and losing a customer.

  Consider having customer service representatives (CSRs) follow-up on customer calls where an issue was inappropriately handled or when an action from a prior call was not taken. Use either a preprinted letter with a generic message that only needs a signature, or a computer-generated letter that can be relevant without excess detail. Empower the CSR to make a nominal credit to the customer's account that can be referenced in the letter or have "customer care" certificates preprinted that can be included with the letter for the customer to include with their next payment. This can also be done by email if you request and capture cardholders' email addresses.

- Use your CSRs as your first line of defense to prevent attrition. If a cardholder calls to cancel his account, train your CSRs to probe for the real reason for the request, and arm them with offers and incentives for the cardholder to stay. Sometimes it is enough to let the customer know that his business is important to your bank and that you want him to be happy and satisfied. When that is not enough set up a list of offers that can be made based on account characteristics and account profitability—if you have that information readily available online.

  – Offer selective pricing concessions for profitable cardholders. If the cardholder has indicated that he/she wants to cancel the account because of the interest rate or the annual fee, have a competitive pricing counter-offer ready to present.

  – Offer to upgrade to another product type with more enhancements or rewards if the cardholder meets the criteria.

  – Refund fees if the circumstances are appropriate.

  – Give bonus reward points for rewards accounts.

  – Increase the credit line if the account meets the bank's criteria.

  Have an easy-to-use tracking system set up for the CSRs so that you know why the cardholder wants to close his account; where the cardholder is considering moving his account, or has already moved his account; what type of account the cardholder accepted; the rates and annual fees, if any, for the new account; and the name of the bank offering the card.

- Along with your processor, develop a report(s) of key attrition indicators. The report(s) should give you 2 to 3 months' notice of the following:

  – Increasing pay-down rate. This usually means that the cardholder is paying off his balance. This may be due to current financial or economic circumstances or it may mean that the cardholder is moving his card business to another issuer.

  – Decreasing usage. The cardholder is using your card less, but is this due to current financial or economic circumstances or for other reasons. It may be an indicator that he plans to cancel his account with your bank. It could mean that he has decided to segregate his card spend on a number of accounts for a variety of reasons: business versus personal spend; revolve versus transact; or, different accounts for different merchant categories.

– Introductory rate expiration. Your bank offered an introductory rate when you initially solicited the account. That introductory rate will soon expire and the account will move to the go-to-rate*.

– Annual fee. The card has an annual fee which was waived initially or is due for renewal.

The first two of these key attrition indicators are initiated by the cardholder and are not known to the bank until they begin to occur. However, with notice through processor-generated reports and predetermined counter offers developed by the bank, these accounts can be saved and you may actually learn that they are not at risk.

The last two key attrition indicators listed above are predetermined by the bank. At the time that the introductory rate was offered, the bank should have determined a promotional rate offer that would be timed to the introductory rate expiration to lessen the impact of transferred balances. The promotional rate offer should be higher than the introductory rate, but lower than the go-to-rate and only made to qualifying accounts.

At the time that the card was offered, an annual fee was charged or was waived for some period of time—usually one year. Just prior to the annual fee being charged to the account or at the same time that the annual fee is charged, the bank should provide something of “perceived” value equal to or greater than the annual fee. This is usually not needed as much for rewards cards, especially the high-value rewards cards such as airline cards, cobranded cards or affinity cards.

- Make reinstatement telephone calls and send reinstatement letters to closed accounts as soon as possible after closure. Reinstatement calls and letters show cardholders that the bank appreciates their business and would like to have them back as customers.

  Reinstatement calls should be no-pressure, and should show interest in what the customer has to say. Often CSR’s can clarify misunderstandings that may have caused the cardholder to close the account. Establish a predetermined list of offers that the CSR can make to reopen the account based on the account meeting certain criteria.

  Reinstatement letters should be customer-oriented and show concern that the account has been closed. The reinstatement letter provides the opportunity to resell your credit card benefits and services or up-sell the customer to another more appropriate card product. As with the calls, the bank should have a predetermined list of offers that can be made to reopen the account along with a computer generated letter that can be customized where needed.

Visit *www.icbabancard.org* and log in to review the *ScoreCard Rewards Program*, the *FastTrack Card Activation Program*, *LetterChecks*[SM], and *Targeted Incentives*

Program (TIP). Also, click on Visa Online or MasterCard Marketing Center under Quick Links for more suggestions about retention of existing accounts.

Communication

The acceptance of your card by the consumer is the beginning of the bank-cardholder relationship. After initial acceptance, banks should regularly and consistently communicate the importance of this relationship to their cardholders. A cardholder who feels valued, who receives good service, and has a competitive product is less likely to be lured away by a competitor.

Good communication with your cardholders helps build loyalty, enhance customer service, retain cardholders, cross-sell other products, and increase card usage. There are many ways to communicate with your cardholders. Some of them are very basic and many have been discussed in this and other sections.

Best practices for communicating with your cardholders will be covered in the following channels: Statement Messages, Statement Inserts, Email, Website and Social Media.

Statement Messages

- Statements provide you with the opportunity to get a message to your active cardholders each month. At a minimum, include a monthly message expressing appreciation for the cardholder's business. It can be as simple as "We appreciate your business" or "We appreciate having you as a customer." Develop four or five messages and rotate them from month to month so that they do not become stale.
- You can also use statement messages to thank a cardholder for their first card transaction.
- Tailor statement messages to the time of the year, such as tax time, spring break, summer vacations, back-to-school, the holiday season and the start of a new year.
- If you have affinity or cobranded cards, tailor the statement message to the relevant events of your partner such as homecoming for colleges or other campus events, sales for retailers or new store locations. Work jointly to establish a calendar of messages for 4 to 6 months of statements in advance.
- Use statement messages to encourage new ways to use your card, especially for rewards cards, such as the convenience of recurring bill payment while providing more ways to earn rewards.
- Statement messages should be part of your marketing plan. Consider establishing a statement message calendar for each of your products and look for ways that the statement message can deliver added value to your marketing plans.
- Work with your processor to arrange for messages to be posted. Fees apply.

Statement Inserts

- Use statement inserts to promote your activation and retention programs and to cross-sell other products. Statement inserts can be educational and remind cardholders about product benefits or offer card safety tips. Or, they can stimulate usage by selling a variety of products and services. Depending on how you use them, however, statement insets can be perceived as a real value or real irritant.

  In order to maximize the benefit of statement inserts, consider these tips or general rules on their use:

  – Limit statement inserts to no more than two per statement. Any more than that "junk up" the statement and increase the chances they will be discarded without being read.

  – Limit statement inserts to quality items that are value priced and/or unique and which may not be found in retail stores. That means no cheap luggage or pots and pans. They may provide some limited income, but are they worth the image that they provide for your product? Require samples of the products being offered in the statement insert before agreeing to the insert so that you can confirm that the products are a positive reinforcement of your bank's brand. Most vendors allow you to keep these samples. Consider using these samples as prizes for employee incentive programs that you may have.

Look for special Visa and/or MasterCard insert opportunities on *ICBA Bancard' website* or search *Visa Online* or *MasterCard Marketing Center* for more suggestions about statement inserts and statement messages.

Insertion fees typically apply for each insert so be aware of costs. Costs can be provided by your FIS Client Relations Representative at (800) 215-6280. You can also view your pricing schedules by visiting www.icbabancard.org. You must have a username and password to view this information.

Email

Email will extend your customer service and expand your relationship and dialogue with your cardholder. It also allows you to engage with your cardholder on a more economical basis.

Before you can start maximizing this channel you'll need to secure customers' opt-in and email address. Ask new cardholders for their email address on your application. Ask existing cardholders for their email address when they call customer service, when they use your website, or with a special mailing.

Many banks already use email to provide customer-selected alerts on their website, including:

- Payment due date reminders at a customer specified time
- Advise of receipt of payment

- Advise of non-receipt of payment
- Advise of transaction activity above customer selected amounts
- Advise when reaching a certain percentage of the credit line
- Advise of international charge authorization
- Advise of online, phone or mail order charge authorization
- Advise of a gas station charge authorization
- Advise of posting of a balance transfer
- Advise of balance reaching a customer-selected amount

Email allows your bank to extend customer service capabilities and service hours with confirmations and responses to emails. Email also allows you to extend your relationship with your customers with thank-you notes, reminders and special offers.

Consider these other ways to use email to provide customer service and expand your dialogue with your customers:

- Acknowledge receipt of an application or response to a solicitation
- Advise of account approval
- Verify card receipt
- Acknowledge and provide thanks for the first transaction on an account
- Advise of credit line increase
- Acknowledge special occasions, such as an account anniversary, birthday, etc.

MyCardStatement.com provides web access to cardholders, allowing them to status their accounts, print statements, set alerts, pay their bills, etc. Contact your FIS representative at (800) 215-6280 for more information about this valuable cardholder service.

Website

Websites have become a way to provide traditional customer service in a new way, such as account or transaction history; statement copies/downloading of statements; year-end summaries; and dispute notification. In addition, almost all banks offer the ability to pay your credit card bill as well as other bills with online bill payment.

However, you can take your website beyond providing traditional customer service to making it a customer destination or customer home page. Your website can be used to engage with your customers on a more economical basis. Like email, it allows you to establish a dialogue with your customer, but it must be a trust-based relationship.

First, participation must be voluntary for the customer. You want to empower and delight them, not pressure and persuade them. Leave the customer in control.

Next, there must be a fair exchange of value. You should not be perceived as selling, but rather providing information that increases the value of the relationship.

Finally, treat the customer's information with respect. Although privacy legislation dictates when, where, and how you can share the customer's information and only with the customer's permission, would you really want to share such valuable information? If you ask your customers for permission, aren't you really saying to them that their personal information is not really that important to you and you will share it if they allow it? It's a serious decision for the bank to make.

Here are some additional website capabilities that you may want to consider.

- Provide links to sites with useful information, such as the weather, headline news, and the stock market
- Provide financial calculators for mortgages, installment loans, college tuition and retirement
- Provide electronic newsletters that provide valuable information rather than selling products and services (i.e. draw attention to other online tools that are valuable but not utilized often; interview your bank staff or a long-time customer, local government official, or resident of your town; highlight an local charity or public event at which the bank took part; announce upcoming promotions or local events.)
- Provide a reminder service for birthdays, anniversaries and other important events. Make it even more valuable by providing e-cards that they can send or linking to sites with e-cards.
- Provide discounts for shopping online and offline through companies that offer this type of service, or work with your own merchants if you have a merchant acquiring program. See *Best Practices, Merchant Funded Rebate Program* later in this section.
- Provide recognition through preferred customer clubs based on the products that they have through the bank (i.e. Senior's Clubs, etc.)
- Provide free games to engage younger generations. Some examples can be found *here* at Visa's Practical Money Skills for Life site.
- Host customer surveys to gauge their experiences with the application process, customer service interactions, opinions on your reward programs, and new products and services to offer. Refer to *Product Development, Customer Surveys* for more information on surveys.
- Consider offering balance transfers and product upgrades to those who qualify.

Social Media

Social media is yet another way to engage your customers, create a relationship, and establish a dialogue. Facebook, Twitter, YouTube, Flickr, LinkedIn, and WordPress are not just for individuals or for the big banks. They are also a powerful tool for community banks, especially since community banks are all about creating and building relationships with their customers and their communities.

For information about social media including rankings; understanding the slang; the pros and cons of some of the most popular social media platforms; and, how to venture into this new channel of communication, visit the *"Social Media Matters" section* of the *ICBA Independent Banker*® web site.

Complaint Management

The Internet is a powerful medium for disgruntled customers to air their grievances, including such sites as *www.complaintsboard.com*, *www.complaints.com* and *www.ripoffreport.com*. Search "bank complaints" on Google and you will be amazed at the number of resources that the consumer can use to complain about any business – including financial institutions. Assigning a point person at your bank to monitor these types of sites may be a good way to stay aware of any negative press you may receive, and provide an avenue for acknowledging and addressing customer complaints.

In his book "50 Powerful Ways to Keep Your Customers," Paul Timm explains that if someone has a bad customer experience, they tell 11 others who tell each. So for one bad customer experience, a total of 67 people know about it. If someone has a great customer experience, they tell 5 others who tell 2 each. This results in 16 people learning about the great customer experience. Those are not very good odds.

This suggests that a complaint management strategy is imperative for your bank. Many customers never complain. They just leave. Your odds are much better, therefore, if your customers complain.

Consider the following strategies:

- Establish an environment that is receptive to complaints
- Make sure that customers know how and where to complain through a special complaint area that is well publicized, at a complaint toll free number or email address, and on your website. Be bold and let your customers know that it is okay to complain. Instead of asking for suggestions or comments, ask for complaints or compliments.
- Complaint management is an invaluable source of information about what is wrong with your products and service. Proper handling of complaints can create loyalty and improve your image with your customers. Complaint management assists in the development of dialogue and a relationship with your customers.

American Express has a strong reputation for great customer service and the handling of complaints. Consider this quote from one of its officers: "Better complaint handling equals higher customer satisfaction equals higher brand loyalty equals higher performance." Being receptive to complaints is a positive for the bottom line.

Merchant Discount Program

For those banks that have a merchant program, a Merchant Discount Program is a great way to develop synergy between the merchant program and the card program and checking accounts. The program would add benefits for both consumers and merchants, aid in loyalty and retention and could become a profit center for the bank.

With a Merchant Discount Program, a targeted couponing capability could be sold to each merchant to increase consumer traffic and loyalty and that same program could provide incentives for card solicitations, for account activation, for account retention, and could form the basis for a rewards program.

Merchants would have the ability to target specific, relevant zip codes for cardholder accounts and checking accounts. For this ability, the merchants would provide the discount on their merchandise/services and pay for access to the bank's customer base (through the bank, not directly) as well as aggregated data showing program performance.

For credit card customers, discount coupons would be provided as a statement insert or statement coupon. For debit cardholders and checking account customers without a debit card, the discount coupons would be provided as a checking account statement insert.

The Merchant Discount Program would be a way for your bank to provide "everyday value" to your card and checking account customers while increasing traffic and loyalty for merchants signed with your bank.

The processing capabilities for a Merchant Discount Program exist at most processors in one form or another. Contact your FIS representative to determine their statement insert and/or statement coupon capabilities and costs.

Section 8 – Analysis

At this point, the *Products* to be offered through a variety of *Acquisition Channels*, have been developed *(Product Development).* Customers have been solicited. *Activation, Usage and Retention* promotions and *Best Practices* have been implemented. But, the work does not end here. Now the "tweaking" begins to make your products and portfolios more profitable.

These are some of the questions that you should be asking:

- What are the results of my solicitations?
- Which acquisition channels provide the most profitable accounts?
- What are the trends in my portfolio and card plans?

To answer these questions, you need data and good information management. This gives you the knowledge that you need to make good decisions going forward.

In this section, we will be reviewing analysis from an acquisition as well as a portfolio and plan/card product perspective. .

Acquisition

As discussed in *Acquisition Channels,* there are a number of acquisition channels that can be used to build and grow your card portfolio. Many issuers will look at cost per account booked (CPA) as a guide in determining allocation of marketing dollars. Refer to the *"Acquisition Costs by Channel*" graph in Acquisition Channels. As relevant as that information is for you, it should not be the main driver of your decision on acquisition channels because it is only accounting for the marketing cost, the credit processing cost, and the response rate.

While direct mail tends to be the most costly channel, it does produce volume and helps to grow a portfolio quickly. For many issuers, it is the fastest way for them to grow their portfolios. Direct mail also offers you a valid response rate percentage versus most of the other channels. However, the more important information in determining allocation of marketing dollars to various acquisition channels is account performance by acquisition channel.

One of the most important pieces of information that you can include in your master file data is a source code, which identifies at a minimum, the acquisition channel that generated the account, e.g. direct mail preapproved, branch, website, etc. If you have the ability to add the date of the direct mail solicitation (month, year) and the date the account was generated (year) for the other acquisition channels, you will have the means to determine which acquisition channel or channels provide you with the best performing, most profitable accounts. That is where you should concentrate your marketing dollars.

One note of caution, your first concern when introducing a card program or a new card product should be the number of accounts generated because you want to make sure that you are covering your fixed cost for providing the card to your customers. So, initially it is a balancing act. You need to build account volume quickly for the short term, but you want the most profitable accounts for the long term.

When comparing the performance of your acquisition channels, you should look at the following data:

- Response rate (when available)
- Approval rate
- Percent of accounts active
- Percent of accounts debit active
- Percent of accounts revolving
- Percent of balances revolving
- Average sales volume
- Average cash volume
- Average balance
- Average finance charge revenue
- Average interchange income
- Average fee revenue
- Average credit line
- Credit line utilization
- Average percent of credit losses, also referred to as the NCL rate or Net Credit Losses rate. Please keep in mind that, in general, it will take 12 to 18 months for your credit losses to peak.
- Average fraud losses
- Attrition rate

Use this data to determine the profitability of each of your acquisition channels on a **per account basis**. That will give you the comparative base you need to use in determining the allocation of marketing dollars to your acquisition channels.

Portfolio Trending

Portfolio trending is another valuable analysis tool to assist you in making informed decisions about your portfolio and card products. There are several options when determining how you can look at portfolio trending:

- From an overall portfolio level
- From a hierarchical approach:
  - Overall portfolio
  - Each card product
  - Each acquisition channel
- From a detailed approach:

- Each card product
- Each acquisition channel

Obviously, more detailed information is more valuable, but looking at only the overall portfolio trending can give you actionable information. You should be looking at year over year trending by month. A minimum of three years is recommended; five years is optimal.

The data that you should be tracking include:

- Total outstandings
- Total accounts
- Total new accounts
- Active (statemented) accounts
- Percent active (statemented) accounts
- Average balance per active account
- Debit active accounts
- Percent debit active accounts
- Average credit line
- Credit line utilization
- Percent of active accounts not revolving (convenience users, no interest income)
- Percent of active accounts revolving (revolvers with interest income)
- Total volume
- Total sales volume (purchase)
- Total sales volume per active account
- Total cash volume (cash advances)
- Total cash volume per active account
- Total interest income
- Interest income per active account
- Interest yield annualized
- Total interchange income
- Interchange income per active account
- Fee income
- Dollars delinquent as percent of balances
- Percent of balances delinquent

- Net credit chargeoffs (losses)
- Percent net credit chargeoffs (losses)
- Net fraud chargeoffs
- Net fraud chargeoffs as a percent of sales
- Percent of accounts voluntarily closed (voluntary attrition)
- Percent of balances voluntarily closed (voluntary balance attrition)

Most of this data is available to you in ICBA Bancard's free Automated Card Expert (ACE) tool, or on your Executive Reports and integrated billing statements from FIS.

To learn more about ACE, visit *www.icbabancard.org* and click on *Analyze*, or click on the hyperlink from the Bancard main page, under "Quick Links". *Please note that ACE only provides one year of trending at a time*. Your own bank's process for compiling this information may require a time commitment. However, once you have established a process for managing and compiling this information, you will be able to update your data easily and quickly on a monthly basis. All reports in ACE can be downloaded into Excel for additional data manipulation.

It is also important to keep a record/spreadsheet of each solicitation to help you track any abnormal patterns in your portfolio trending. This should include date of solicitation (month/year), type of product, APR, annual fee, and other offer elements along with data on other solicitations that were in your market during this time frame. This will help you to understand response rates as well as net credit losses. If your net credit losses are higher than normal, you may have had adverse selection* to your solicitation because your product was not competitively priced.

Section 9 – Media Relations

If you serve green punch and shamrock cookies in your lobby on St. Patrick's Day, that's customer relations. If you provide the editor of the local paper a photo with a short story about the event and he decides to run it (with your encouragement), that's media relations. If the photo and story are run in the paper, that's public relations and free advertising for your bank, which is particularly important to a community bank with a limited budget.

Building Relationships

Building relationships with your local media takes time. But handled properly, outreach to reporters and other members of the media is a proactive strategy that represents time well spent. Media coverage of your community bank's efforts and, products and services will educate customers and local residents, promote your business, and position you as a responsible business leader within the community. Below are some tips on how to reach out and establish mutually beneficial relationships with your local media.

- Identify the correct journalist. Frequently, journalists are assigned to "beats," which are subjects that they follow and report on. The best way to identify journalists who cover banking and business issues is to read the local newspaper, online publications and relevant blogs each day: watch news broadcasts; and listen to public or talk radio programs.

- Be a resource. The best way to build mutually beneficial relationships with local media is to be an informational resource for them. Provide other local sources and experts, and educate journalists on newsworthy issues or complex issues that they don't yet fully understand. Be consistent following up and call them when there's a newsworthy development. Always be helpful and responsive.

- Follow the news. You expect journalists to follow and know your business, and they expect you to do the same. If you're going to talk to a journalist, read that day's paper, online publications and blogs, and watch the local news and follow the top news stories for the day. This may alert you to other major news that may affect the day's schedule. Also, be familiar with recent stories that the journalist has written. The journalist will be flattered when you keep up with his or her stories.

News Opportunities

The ability to recognize news value is fundamental to effective media relations. And, for many local newspapers, news value is a guide to placement in the paper. Once you have a good idea, be proactive and reach out to your local news outlet. The worst thing that could happen is that the paper will not run it. But if they do you've just scored free advertising!

So what type of news should you offer for consumption? Here are some suggestions for stories that you could provide to your local paper:

- A new development at your bank. It could be someone's promotion, the introduction of a new product, the relocation of a facility, a new branch opening, special events, anniversaries, community activities—bank sponsored and employee initiated. Use your imagination. Any time that something is happening at the bank, think "this could be good for the newspaper, local magazine, etc."

- News about the card industry. When you read articles about the card industry, relate it back to you market area and how it might affect the community. Offering to serve as a source for a story could lead to a bank mention and give you an opportunity to distinguish your bank from local competitors.

- Community education. One of the most worthy public relations opportunities for card issuers is community education on the responsible use of credit and other banking products or services. There are several outlets available to get the message out including speeches, appearances, printed materials and videos that your bank could donate to a local school, community college, or university, all of which could lead to a published article or appearance on a local TV or radio show. Appropriate topics for high school or college students, might be budgeting, learning to use credit responsibly, the importance of building a good credit history, or how to balance a checking account. Parents could be educated about teaching children to manage money wisely or even products or services to help fund their children's education needs. For general audiences, the topic could be managing money wisely.

Both Visa and MasterCard have created several materials that will support your efforts in community education. They include pamphlets aimed at general or specific audiences (i.e. college-age, senior planning), seminar kits, and videos. These programs may also contribute to your bank's CRA compliance as well as help to educate your next generation of customers. You can access materials and information on Visa's *Practical Money Skills for Life website* and the *MasterCard Marketing Center*.

Online resources abound to promote and inform the public on financial literacy, including: *www.callforaction.org* and the *Consumer Financial Protection Bureau's website* to name a few.

Writing a News Release

The most common way to place a story in the media is to write a news release. A news release is written in the style of a news story, with the most important information summarized in the first paragraph. When possible it should address as many of the six questions Who, What, When, Where, Why and How as possible.

A news release may be used in one of three ways:

- All or part of the news release may be run as you wrote it. This is more likely, for instance, at a community newspaper with a small staff.

- It may be edited to fit style and space requirements and appear as a news story.
- It may alert the news organization to an important story and a reporter will be assigned to cover the story in greater depth.

News releases have a standard format that includes the following:

- Contact person. The name and telephone number of at least one bank employee to contact for clarification or additional information should be listed at the top of the news release.
- Release date. Most news releases state that they are “For Immediate Release” indicating that the news organization may use information in the news release in their next issue or broadcast. On rare occasions, information is given to the media before it can be officially announced. An example of this is a news release on a new executive given to the press the day before the bank’s board of directors meets to vote on the appointment. The news organization can prepare the story and, when the vote takes place, the appropriate person at the bank will call the reporter to confirm the appointment.
- Headline. The headline of the release, like the headline of a news story, informs the editor of the essence of the information in the news release. It should be simple, brief and direct. If the news organization uses your release, the editor will likely write another headline that fits its layout requirements.
- Organizational identification and information. This is optional, but a closing paragraph that identifies and provides basic information about your organization is always useful and usually expected. The basic information should include the size of the bank, the number of branches, the number of cardholders, or promotional phrases such as “the leading credit card issuer in Ipswich Valley” or “the only bank in Bradford that is locally owned and operated”. This paragraph is seldom used verbatim. The information provides ready facts for the convenience of the reporter who may be assigned to complete a quick rewrite of the bank’s news release. If the news release is about a partnership or a joint effort with another organization, there is usually an additional paragraph of identification and information for that organization. Sometimes contact information for that source is also helpful.

You may find the following general guidelines useful in writing a news release.

- Ensure that your topic is localized and newsworthy. If not, find a local news angle that makes it newsworthy.
- Use bank letterhead. The first page of your news release should be typed on bank letterhead. Include the bank name, location, date, contact name and phone number.
- Make the headline catchy. Too many words or long words will weigh it down.
- Avoid jargon. Remember that many journalists are unfamiliar with your line of business.

- Keep it short. Try to keep your news release to one page; it should be no longer than two pages, double-spaced.

- Use a quote. In the second or third paragraph of the news release, a high-ranking officer of your bank should be quoted expressing his or her opinion of the news development reported in the first paragraph.

- Proofread. Be sure that the news release is reviewed and edited carefully. Have all pertinent employees and officers review the news release for approval. In most banks, there is one person or department that is responsible for approving all press releases, distributing them and working with the press.

- Photographs. The enclosure of a photograph, when appropriate, may get your news release more space. For example, you might send a photograph of a person quoted in the story or from an event discussed (like a fundraiser). It's good to have a requirement that all bank officers have formal photographs taken so that they are available when needed. They are sometimes called "head shots" and are usually in black and white, although color photographs are becoming popular especially for electronic media, such as websites.

- Distribution. It is usually wise to send copies of news releases to your boss and your staff, and your board of directors. People with a vested interest in your bank often feel that they should know about all developments before they appear in the news.

Click here for an example of a local news release.

Click here for an Op Ed example.

Click here for sample credit card related press releases.

Placing a News Release

- Send the news release to journalists who cover the "beat" i.e. local business.

- Follow up with the journalist with a quick call after you send the release to ensure it was received. Use this as an opportunity to introduce yourself and the work you do in the community. If you already know the journalist, use it as an opportunity to follow up and touch base.

- Tie your news release pitch to something the journalist is interested in, has written about in the past, or is currently working on. This is where doing your research pays off. Journalists appreciate your showing an interest in their work and making their lives easier by providing relevant and timely information.

- Offer photos, video and local sources, such as customers or employees, who can add valuable anecdotes and color to the story.

- Be a resource, and don't be afraid to be persistent and follow up. After all, this is half the battle. By providing resources to the journalist you will increase your odds of getting your news release placed and also establish an ongoing relationship, which will ultimately be of great benefit to both you and the journalist.

Writing and Placing an Op-Ed

An op-ed, abbreviated from opposite the editorial page, is a newspaper article that expresses the opinions of a named writer who is usually unaffiliated with the newspaper. As with other subjects discussed in this section, there are some basic tips or rules for writing an op-ed.

- Be brief. Most publications limit the length of op-eds to about 350-500 words.
- Clearly articulate the main message in the first paragraph.
- Make sure your writing is precise and persuasive.
- Provide colorful anecdotes, interesting facts and vivid language to support your main point and to keep the reader engaged.

When placing an op-ed, be sure to follow these rules.

- Check to see that your op-ed meets the word count requirements set by the publication.
- Find the name of the editorial page editor of your local paper. Contact information is usually available in the paper, on their website or by phone. Be sure to note whether the paper prefers traditional mail or email. If you have a good relationship with reporters at the publication, you may want to ask for suggestions on where to direct your op-ed.
- Write a short cover letter or email to the editorial page editor. In this letter or email, you should:
    - Introduce yourself as a local banker.
    - Note that the topic of your op-ed will affect readers of the paper.
    - Explain how the subject of your op-ed will be of interest to readers.
    - Specify a date on which you plan to follow up.
- Follow up with the editorial page editor on the date you indicated. Half of the battle of placing an op-ed is following up and being persistent.
- Use the news cycle to your advantage. If you are writing about a "hot" issue, make sure to tout your op-ed's timeliness and relevance.
- If the editor offers to post your op-ed online in lieu of print, accept the offer. Online editorials can be just as effective, if not more so, than their print counterparts.

Handling a Media Interview

Treat a media interview like a business meeting. Reporters are doing their jobs by interviewing you. They may appear interested in you personally, but they are not necessarily your friends. To them, an interview is business. Be on time, be prepared, and stay focused on your own objectives for the interview.

Know what you want to say during the interview. Prepare a list of three or four points that you want to make in the interview (often called “must airs”), and be sure to make them before the interview ends. If you feel that the reporter isn’t picking up on your points, reinforce them. If the interview loses focus, keep returning to your “must airs” because that is the story that you want to be told.

Choose your words carefully. Remember that the reporter can print anything that you say during the interview, even if you say it in jest. Humor, especially sarcastic or ironic humor, can have a different meaning in print than you intended, so use it carefully, or not at all, in interviews.

You do not have to answer every question. An interview isn’t a test and you don’t have to answer every question the reporter asks. If you can’t answer, say that you can’t. If you don’t know the answer, admit that you don’t. If you don’t want to answer, don’t answer. If the reporter asks you a question that you need to investigate, be sure to ask about the deadline for the story to run. This will give you a time frame to find the answer.

A good rule of thumb to keep in mind is: if you don’t want to see it in print, don’t say it.

Remember that honesty is the best policy. Your credibility is the foundation for your relationship with the media.

Always respond to media inquiries. Your access to the media is valuable to you. One of the fundamental ways to cultivate that access is to always take or return reporters’ calls. Make it a rule to respond to the call within one hour. Even if you don’t have all the answers, call back promptly. Find out what the story is about, what questions he or she has and the deadline. Take time to prepare your “must airs” and gather your thoughts, and schedule a time to speak with the journalist before the deadline passes. The key is being responsive and willing to provide information for the story.

Do not panic when you are talking with a reporter. Always take a moment to formulate your answer to a reporter’s question before you start talking. Think, “Is this the best possible response? How will it look in print?” This mental double checking is different from how you normally converse and it takes some practice, but it is in the best interests of a fair and accurate story that will serve both the bank and the news organization well.

Offer to email pertinent background information. ICBA has developed fact sheets and other *sources of information* that answer a wide range of questions about the community banking industry.

Interview Tips

There are four types of interviews: telephone, print, radio, and television. There are some basic tips for each type.

- Telephone Interviews
  - Ask the reporter if the interview is going to be taped. If the interview is with a radio reporter, it is highly likely that it will be taped.
  - Telephone interviews can be particularly challenging because they most often occur at your desk in the middle of a hectic workday, making it difficult to focus.
  - Establish an “interview atmosphere” and mindset. Clear your desk and visualize the outcome you’d like to achieve.
  - Review your “must airs”—and keep them in front of you during the interview.
  - The emphasis is on the voice, inflection and pace. Speak visually and personalize your delivery. Feel free to be conversational and animated.
  - Always say and spell your name for the reporter. Also, make sure to mention your title and company name. Spell out the name of your company if necessary.

- Print Interviews
  - Always say and spell your name for the reporter. Also, make sure to mention your title and company name. Spell out the name of your company if necessary.
  - Newspaper and magazine interviews can take place either in person, through email or on the phone. The length of the interview and deadline for the story will vary depending upon the reporter and type of publication.
  - Think about what you’re going to say before you say it. If you do not want to see it in print, don’t say it. There is no such thing as “off the record.”
  - Always speak clearly and concisely.
  - Newspaper and periodical reporters have the narrowest beats and, consequently, tend to be more knowledgeable than their peers in broadcasting.
  - Reporters will often repeat questions in different ways to obtain varied responses. Don’t assume that you’ve been unclear if the reporter asks the same question several times in various ways. This is often a technique to elicit a specific answer.
  - Print interviews give you a chance to correct misstatements.

- Radio Interviews
  - During a radio interview, your voice establishes your image. The emphasis is on the voice, inflection and pace.
  - Speak visually and personalize your delivery. For instance, address your interviewer by name. Be conversational and animated.
  - Use notes to remind you of your “must airs”—but don’t shuffle them. Shuffling is audible.

- Always assume that the microphone is on. If you don't want something to be heard over the airwaves, err on the side of caution and refrain from saying it altogether.

- Television Interviews
  - Because television is a visual medium, your physical manner and the style of your presentation are just as important as what you say.
  - Remember to have good posture. This means sitting up straight while leaning forward slightly.
  - Gesture naturally, but subdued. Sitting with your hands folded or inanimate will make you appear wooden.
  - Talk to the reporter, not the camera during the interview. Ignore the monitors, crew and camera.
  - Short answers are crucial. Work on a few 8-second "sound bites" using your "must airs" as a guide.
  - Put your most important "must air" up-front.
  - Again, reporters or producers will often repeat questions in different ways to obtain varied responses.
  - Speak in a regular voice for the audio check and always talk over, not into, the microphone.
  - When wearing a microphone, always assume it is on. If you don't want something to be heard in a sound bit or on tape, err on the side of caution and refrain from saying it all together.

- ***Tips for Men***
  - ✓ Avoid wearing small stripes, checks, herringbone or high-contrast colors. They are hard on the camera's "eye."
  - ✓ Wear to-the-knee socks.
  - ✓ Sit on the back of your suit jacket to keep it from bunching at the shoulders.
  - ✓ If standing, button your jacket.

- ***Tips for Women***
  - ✓ Avoid small stripes or patterns, or high-contrast colors. They are hard on the camera's "eye."
  - ✓ Don't wear large, shiny or noisy jewelry. It will reflect light and distract from the interview.
  - ✓ Avoid short skirts.
  - ✓ Wear more makeup than usual to compensate for the lighting in television studios.

Visit *http://capwiz.com/icba/dbq/media/* for a media guide that will help you to find and contact national and local media.

Section 10 – Glossary of Industry Terms

A.C.E. or Automated Card Expert: ACE is ICBA Bancard's exclusive credit card portfolio assessment tool available to all credit card issuing banks. This is a free service that allows banks to review their portfolio each month. Most of the data is uploaded monthly from FIS and is populated into ACE. ACE compares your portfolio to your peer banks, illustrates your growth from current year to previous year and assesses the overall health of your portfolio. It includes graphs and easy to interpret management reporting. Visit ICBA Bancard's website at *www.icbabancard.org* to access ACE.

Acquirer: The MasterCard and Visa definition is a *financial institution* that is a client and initiates and maintains contractual agreements with merchants for the purpose of accepting and processing MasterCard and Visa card transactions. The industry definition is an *organization* such as an Independent Sales Organization (ISO) that enables a merchant to accept cards by providing access to an authorization network and clearing and settlement systems.

Acquisition Channel: The means by which a bank obtains a completed card application such as direct mail, website, and branch take-one's.

Acquisition Cost: The cost to add an account to the portfolio calculated by dividing the total solicitation expense by the number of booked accounts.

Acquisition Cost by Channel: The cost to add an account to the portfolio calculated by dividing the total solicitation expense for a particular acquisition channel by the number of booked accounts.

Adverse Selection: Higher than expected losses for a solicitation as a result of offering higher interest rates than other solicitations in the market.

Affinity Card: A MasterCard or Visa card program between a bank and an organization that has members that provides an income stream to the organization based on card usage by the members who have their card. The logo/name of the organization is included on the front of the card.

Agent Bank: A bank that signs merchants and solicits cardholders for another bank.

Annual Percentage Rate (APR): The percentage rate applied to the outstanding balance on a credit card if the balance is not paid in full by the payment due date. Also known as APR.

Basis Point (bps): Used to express differences in interest rates of less than 1 percent per year. The relationship between percentage changes and basis points can be summarized as follows: 1 percent change = 100 basis points, and 0.01percent = 1 basis point. Also referred to as bps.

Booked Accounts: A response form or application that is approved and set-up on the master file as an account.

Branch Account Acquisition: Accounts that were acquired in a bank branch as the result of an application being completed and submitted.

Breakage: The difference between value accumulated and value redeemed. For prepaid cards, value funded/loaded versus value spent.

Business Credit Card: A MasterCard or Visa credit card developed for small businesses to serve their short term borrowing needs.

Business Debit Card: A MasterCard or Visa card issued to a small business to access their business checking account.

Business Line of Credit Card: A MasterCard or Visa card issued to a small business to access an approved line of credit with the bank.

Cash Back Card: A MasterCard or Visa card that provides the cardholder with cash rebates based on purchases made.

Cobrand Card: A MasterCard or Visa card program between an issuer and a partner, such as an airline, retailer, etc. that provides points or miles to the cardholder based on card usage, which can be redeemed for the products, services, etc. of the partner. The logo/name of the partner is included on the front of the card.

Cobrand Lookalike Card: A MasterCard or Visa card program developed by an issuer, using available enhancements, that offers value similar to cobrand cards, such as airline miles or rebates on gas purchased.

Collateral Material: Marketing pieces developed to promote and advertise a product or service, such as applications, branch posters, inserts brochures, etc.

Commercial Card: A MasterCard or Visa card issued to a small business that incorporates the features and functionality of corporate, purchasing and fleet cards into one card for convenience for employees needing the functionality of all of these cards.

Competitive Gap Analysis: A table that displays the pricing, features and functionality of other cards in the issuer's market compared to the issuer to help determine where the issuer may need to make changes to its product(s) in order to be competitive.

Contact Chip Card: A MasterCard or Visa card that contains an embedded microprocessor that provides strong security features and other capabilities not possible with traditional magnetic stripe cards. The gold square on the front of the card is known as the card's contact. When inserted into a card acceptance device (point-of-sale terminal), the contact allows the chip to connect to a reader. This connection enables the chip to exchange data with the terminal.

Contactless Chip Card: A MasterCard or Visa card that contains an embedded microprocessor that provides strong security features and other capabilities not possible with traditional magnetic stripe cards. Unlike the contact chip card, the contactless chip card works by holding the card within a couple of inches of a contactless-capable reader. The reader allows exchange of data via radio frequency without the card ever leaving the cardholder's possession.

Corporate Card: A MasterCard or Visa card primarily used for travel and entertainment purposes that provides extensive reporting of purchases made on the card and provides the employer with the ability to block spending in specific merchant categories.

Cost Per Account (CPA): The cost to approve an application and set-up the account (book an account) on the processor's master file calculated by dividing the total solicitation expense by the number of booked accounts. Also known as CPA.

Credit Card: A MasterCard or Visa card that enables the cardholder to purchase goods and services and obtain cash against a line of credit established by the issuer of the card.

Debit Active Account: A MasterCard or Visa card that has transactions (purchases) during the billing cycle.

Debit Card: A MasterCard or Visa card that enables the cardholder to purchase goods and services and obtain cash from the checking account that they have with the issuer of the card.

Direct Acquirer: A merchant program where the signing bank is responsible for the entire merchant relationship, including compliance liability and any losses from the program.

EMV Chip Card: A MasterCard or Visa card that contains an embedded microprocessor that meets the EMV standards set by EMVCo., a series of specifications and testing procedures for EMV chip payment cards and card accepting devices, such as point-of-sale (POS) terminals and ATMs. A primary goal of the EMV standards, and EMVCo as an organization, is to help facilitate the global interoperability and compatibility of chip-based payment cards and payment terminals. This role extends to new forms of payment as well, including *contactless payment* and *mobile payment*.

EMVCo: An organization jointly owned and operated by American Express, JCB, MasterCard and Visa that establishes EMV standards that encompass specifications, test procedures and compliance processes.

Fleet Card: A MasterCard or Visa card issued by a bank to support the needs of a business that has groups of motor vehicles owned or leased by the business. Typically, the card is used for fuel, repairs, etc. as well as travel and entertainment expenses, such as lodging, meals, etc.

General Purpose Reloadable Card (GPR): A MasterCard or Visa prepaid card that has value loaded at issuance and value can be reloaded over time. Also referred to as a GPR card.

Gift Card: A MasterCard or Visa prepaid card that replaces paper gift certificates. The card is loaded with a specific value at issuance and is disposed of by the cardholder when the value is depleted.

Go-to Rate: The ongoing or standard rate for a credit card, which becomes effective after an introductory rate.

Government Benefits Card: A MasterCard or Visa prepaid card issued by the government to citizens for government benefits, such as disaster relief, food stamps, temporary assistance for needy families, etc.

Habit-of-Use: A term used to refer to incenting cardholders for a short, defined period of time to use their card with the outcome that they continue to use the card at the same or greater level after the incentive has expired.

Independent Sales Organization (ISO): An organization or individual that performs merchant solicitation, sales, and/or service for an acquirer bank, but is not eligible to join MasterCard or Visa. Also referred to as an ISO.

Internet Account Acquisition: A MasterCard or Visa card applied for by a consumer on a bank's website, through a website that refers accounts to the bank, or as a result of an email solicitation.

Introductory Rate: A low interest rate offer for a fixed time period used to increase response rates and build balances quickly. Also known as an intro rate or a teaser rate.

Invitation-to-Apply Account Acquisition (ITA): A MasterCard or Visa card applied for by a consumer as a result of a solicitation that was received and was not preapproved.

Issuer: A financial institution that is eligible to join MasterCard or Visa for the purpose of initiating and maintaining cardholder relationship.

LIBOR (London Inter-bank Offered Rate): The standard rate of interest for loans between financial institutions.

Merchant Funded Rebate Program: A rewards program consisting of merchants who provide cash rebates or points to enrolled cardholders who use their registered cards at participating merchants for purchases.

Merchant Processing Services: A service provided by clients of MasterCard and Visa that provides businesses (merchants) with the ability to accept MasterCard and Visa cards for the payment of goods and services and have those transactions authorized, cleared and settled.

Merchant Take-One's: MasterCard and Visa applications that are displayed at merchant locations for the purpose of generating accounts. Merchants are usually paid a fee for approved accounts.

Mobile Payment: An alternative payment method to cash, checks, credit cards and debit cards whereby a consumer can use a mobile phone to pay for a wide range of services and digital or hard goods at accepting merchants.

Net Credit Loss Rate (NCL): Gross charged off balances minus recoveries expressed as a percent of outstandings.

Never Active Account: An account that has had no cardholder initiated activity since account opening.

Non-preapproved Direct Mail: A solicitation that is mailed without having the prospects scored by a credit bureau(s).

Offline Debit Card: A MasterCard or Visa card used to access a consumer or business checking account through the MasterCard or Visa network and only requires a signature at the point-of-sale. Offline debit card transactions are processed on the credit card network, also called a dual message network. Also referred to as a signature debit card.

Online Debit Card: A MasterCard or Visa card used to access a consumer or business checking account through an online network, such as Interlink, Maestro, or Star, and requires that a PIN be used at the point-of-sale. Online debit card transactions are processed on an online network on a single message system (SMS). Also referred to as a PIN debit card.

Open-to-Buy: The amount of the cardholder's credit line after the current balance and any outstanding authorizations for transactions that have not yet been posted have been deducted.

Outbound Telemarketing Account Acquisition: Calls to consumers by the bank or a telemarketing organization for the purpose of soliciting accounts.

Payroll Card: A prepaid MasterCard or Visa card offered by an employer to its employees for the direct credit of payroll to the employee's card to replace the issuance of payroll checks.

Personal Identification Number PIN): The number assigned by the bank or selected by the cardholder that must be entered at an ATM to complete a transaction or at the point-of-sale if the card is being used on an online network.

PIN Pad: Equipment attached to or incorporated into an ATM or terminal at the point-of-sale into which a cardholder enters their PIN to complete a transaction.

Point-of-Sale (POS): The location at a merchant where a consumer completes their purchase.

Preapproved Direct Mail: An offer for a credit card that is mailed to the consumer after a review at a credit bureau(s) and scoring has been completed. The offer can be rescinded only if there has been a "material" change in the credit bureau(s).

Prepaid Card: A MasterCard or Visa card that is loaded with monetary value prior to cardholder use. Prepaid cards include gift cards, general purpose reloadable cards, payroll cards, etc.

Prequalified Account Acquisition: A solicitation for a credit card where the issuer has obtained some financial information on the person in question, but they have not scored the person at a credit bureau(s).

Pre-selected Account Acquisition: Another term for prequalified account acquisition.

Processor: An organization that processes MasterCard and Visa transactions and is connected to the MasterCard and Visa systems.

Promotional Rate: A lower APR offered to existing credit cardholders for balance transfers and sometimes purchases for a defined period of time. At the end of the defined period of time, the rate on the cardholders' accounts returns to the prior rate, sometimes referred to as the go-to rate or promo rate.

Purchasing Card: A MasterCard or Visa card issued to businesses to replace the labor intensive and costly purchase order. Typically, the purchasing card is used for business-to-business purchases.

Recurring Payment: A transaction preapproved by the cardholder to be processed to their credit card at specified time periods, such as monthly, quarterly, etc. Some examples of recurring payments include utility bills, insurance premiums, monthly subscriptions, charities, etc.

Relationship Card: A program that offer incentives and rewards for having or opening multiple account relationships with the bank as well as transacting on those accounts.

Return on Assets (ROA): The after tax profit of a portfolio as a percent of outstandings.

Reward Card: Reward card programs offer benefits to the cardholder for use of the card. Some examples of reward card programs are affinity cards, cobranded cards, cash rebate cards, relationship cards, etc.

ScoreCard Rewards Program: A turnkey rewards program for debit and credit card programs offered by FIS. It offers brand name gifts and travel awards as well as cash rebates.

ScoreMore Program: A merchant-funded rebate program offered by ICBA Bancard through its processor, FIS. The program can be added to any credit, debit and/or prepaid program as either Bonus Points or CashBack Rewards.

Secured Credit Card: A MasterCard or Visa card that requires collateral, usually a deposit to a savings account over which the bank has control, before the account is approved. Secured credit cards are usually offered to consumers who do not meet a bank's standard credit requirements because of low income or low credit scores, a lack of a credit history (also referred to as a "thin" bureau file), or bad credit due to delinquency, charge-off or bankruptcy.

Signature Debit Card: See "Offline Debit Card".

Travel and Entertainment (T&E): Transactions that occur at merchants in the lodging, car rental, restaurant, and airline industries.

Vintage: A term that refers to the date of a solicitation.

Voice Recognition Unit (VRU): A system that is at the front end of a phone system (usually a toll free number) and collects information from a caller (and tries to fulfill the caller's request) before the call is transferred to an agent. Also referred to as a voice response unit.