

Unlocking Full Value of Card Benefits for Banks

By Amit Jain

One of the biggest challenges that financial institutions face is to differentiate the value proposition of their card products to attract and engage customers. Card benefits such as travel insurance, lounge access and concierge services are among those benefits and are an effective tool.

MasterCard in-market campaigns have shown that even simply communicating card benefits leads to greater awareness of benefits and can increase card holder transactions by 3 percent [1]. And with usage of benefits, profitable behaviors are even more impactful. However, awareness and usage of benefits remains under optimized and financial institutions are leaving money on the table by not unlocking the full potential of benefits.

Now may be the right time for financial institutions to review their approach and focus on the optimum card benefits strategy. Regulations around the world including US and Europe are disrupting the economics of cards business. Yesterday's drivers of profitability may not be that important tomorrow. New technology platforms are enabling issuers to better target and enable benefits and increase value. Growth in mobile technology, social media and digital data is shifting the power to the consumers who are increasingly demanding differentiated and personalized value propositions.

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Benefits can be optimized to create additional value in three ways:



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Let's look at these three approaches in more detail.

Revenue enhancement and new revenue streams

To enhance revenue from existing benefit investments, consider matching cardholders with the most relevant benefits. It's critical to segment customers and target the right benefits based on the needs of the segment. Example: Airport lounge access appeals more to frequent travelers than non-travelers. Targeting this benefit to frequent travelers will lead to higher adoption and usage in turn driving higher fee revenue, customer spend and loyalty.

Customer segmentation and targeting the right benefits can also create new revenue streams. For example, issuers can upsell a premium benefit to a sub-segment of the customer base of an existing card product that most values the benefit and is willing to pay for it. Without segmentation and targeting the only option financial institutions have is to offer the new benefit to the entire card customer base or not at all. That's not viable economically and may not benefit the customers who don't need it.

Segmentation and targeting cannot achieve the desired results if the technology cannot enable benefits at the desired segment level. Therefore it is critical to have the right benefits platform that can enable targeting of benefits by matching cardholders with the relevant benefits.

Cost savings and efficiencies

Customer segmentation and targeting relevant benefit offers can enhance customer experience and drive economic efficiencies. Financial institutions can disable benefits that an individual customer or segment don't need and save cost. There will be no impact on experience, and in fact there may be opportunities to enhance customer experience by using the savings to offer targeted benefits to customers as discussed earlier. Another way to drive cost savings and efficiencies is through smarter sourcing. This means aggregating benefit suppliers across card products/ businesses as well as choosing the most optimal supplier based on cost and value proposition. Working with a global partner that can provide global scale as well a broad choice of global suppliers could enable smarter sourcing more easily.

The key to achieving cost savings and efficiencies is having the right benefits technology platform. The decision of how to obtain the benefits technology platform could itself also have an impact; cost savings could be achieved by sourcing the platform from third parties versus building in-house.

Improvement of cardholder value and service differentiation

First consider a differentiated and seamless customer experience to drive awareness and usage of benefits. Financial institutions need to continue expanding beyond traditional communication methods like direct mail and continue investing in digital approaches. For example, consider a benefits platform that provides a mobile app with instant access to benefits information at the time of need. This will make benefits top of mind for customers and lead to higher satisfaction by providing a better customer experience (e.g., on-demand access, digital experience).

Second consider leveraging customer data to drive a timely and targeted connection between card benefits and card usage. For example, when customers purchase an airline ticket, highlight the car rental insurance that their card may offer to encourage them to use their card for car rentals and other spend abroad. Similarly, for customers primarily using their cards for everyday spend, highlight the price protection guarantee that their card may offer on discretionary products like electronics.

Conclusions

Card benefits can provide the differentiated value proposition that financial institutions are seeking for their card products. While benefits are already creating value, issuers may not be tapping their full potential. Recent regulatory changes and benefits platform technology innovation present an opportune time for issuers to unlock the full value of benefits.

In summary –

- Match cardholders with the most relevant benefits through segmentation and targeting.
- Select the right benefits technology platform that enables targeting of benefits to individuals/segments, smarter sourcing and innovative customer friendly approaches to drive awareness.
- Leverage customer data to drive a timely and targeted connection between card benefits and spend.
- Drive awareness of benefits using innovative methods that provide a seamless customer experience.

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Sources/Footnote

[1] Compared to a control group and post the communication period.