



PROFIT RESOURCES
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Keys to a High Performing Debit Program

Managing Debit Card as a Product

by Phil Jarrell and Candace DeBarger

The Debit Program Landscape

There are significant differences in debit card program profitability across community banks and credit unions around the country. One common factor that ties to debit card profitability is how the card business is managed: when the card business is managed with a growth focus (typically within the retail, product or sales side of the organization), debit card performance improves. Too often the debit card business is managed with a reactive “keep the lights on” strategy where the focus is limited to an operations and risk management focus. In these situations the card business often significantly lags relevant benchmarks and industry growth rates. In other words, the debit card program just isn’t generating as much profit as would be expected.

When a debit card program is properly managed it should deliver the highest amount of non-interest deposit income for the financial institution. Why then do many FIs manage debit card from an operational perspective? The primary reason is that many community FI’s do not have a clear view of debit card contribution to the bottom line. This is often due to complex or even confusing revenue and expense reporting from networks and processors, lack of subject matter



“It’s not uncommon to see community banks that are laser focused on managing card losses, but pay little attention to improving interchange revenue.”

Tom McGill, PRI

expertise within the FI, and overly generalized financial general ledger classifications within the FI.

Accordingly, debit card programs should be managed as a product, with a growth focus. High performing debit programs have certain attributes and key activities that drive revenue and profitability.

Hallmarks of High Performing Debit Programs

- Responsibility for debit performance is assigned at the senior level
- Debit financials and key metrics are tracked, reported, and acted on
- Debit card is integrated within the sales process
- Ongoing focus on driving cardholder debit engagement

Hallmarks of High Performing Debit Programs

The following are common practices and approaches to consider:

Responsibility for debit performance is assigned at the senior

Responsibility for overall debit performance is assigned at the senior level of leadership. This role has overall responsibility for debit program performance: revenue, expense, compliance, and cardholder experience. Ideally the role is in the retail, product or sales organization and can influence bank policy and sales processes, including marketing.

Except for the largest FIs in the community space, this is not typically a full-time role. Support areas such as technology, operations, risk, and marketing are often dotted

line reports. This role needs to understand the basic financials and drivers of debit performance, as well as the role key vendors play. Because the drivers of profitability include revenue, cost and risk components, the person managing debit cards needs to be comfortable managing all aspects. For example, staff in the Operations area managing debit often focus solely on lowering fraud costs. We can lower fraud to zero if we decline all transactions, but imagine the cardholder reaction to that! The person in charge needs to maximize profitability, not just expenses or revenue.

Debit financials and key metrics are tracked, reported, and acted on

Mathematician W.T. Kelvin said, "What is not measured cannot be improved." The highest performing FIs understand this. A high-level P&L for debit is tracked with goals set,

along with a dashboard showing key metrics such card penetration, activation and usage (i.e. PAU), interchange rate, etc. Only by measuring and tracking these KPIs over time can a financial institution ensure that the foundation is set for improving the metrics and overall performance of the debit card program and the financial institution as a whole. Strategies are identified to achieve these goals and action plans are created to support them.

Debit card is integrated within the sales process

High performing FIs also understand that the ideal time to inform cardholders on the debit value proposition is at account opening. Be certain that a prospective cardholder doesn't have to "apply" for a debit card. Don't offer a debit card as an option. Of course the prospect needs a debit card; that is the primary vehicle for accessing



Debit Income Drivers	Definition
Penetration	% of DDA's with a card
Active Rate	% of DDA's with card making purchases
Usage	Average number of purchases per DDA's with a purchase
Average Ticket	Average purchase Amount
Net Interchange Rate	Revenue earned per purchase less transaction expenses

the account. This is also the time to understand and address cardholder barriers to debit usage and to educate on key features like rewards, card controls, mobile wallets, etc. Sales and service employees are trained on the debit card product and measured on debit performance for their branches and especially new accounts. Your branch staff and call center are your best chance to sell. Be sure that all of these employees have a checking account with your financial institution as well as a debit card. If you support mobile wallets or contactless cards, be sure that your branch staff know how both work and can demonstrate to current and prospective cardholders.

A regular check-in cadence after account opening includes time for the banker to follow up with a service call, email and/or text to the cardholder on any questions or concerns with their debit card, along with mobile app, online banking, etc.

This process is referred to as EMOB – Early Month on Books. A new debit cardholder won't be an engaged one unless they activate and use their debit card, add their card to their mobile wallet, add their card for merchant bill payment at their favorite sites, and set up their direct deposit to go to their new account. For cardholders slow to do any of these, offer incentives to galvanize them into action.

Ongoing focus on driving cardholder debit engagement

High performing FIs have an ongoing focus on driving cardholder engagement, with strategies aligned to address performance gaps to benchmark in PAU. Internal marketing partners leverage card brand resources and incentive funding to deliver productive programs. Debit messaging should be prominent on online banking and the website. And the messaging

shouldn't refer to ATMs (which cost you money), surcharge free programs (which cost you money and bring dubious value) or anything other than ways to educate, engage and drive more transactions.

In addition to marketing strategies, high performing banks focus on removing friction from processes to drive cardholder satisfaction. Authorization and fraud strategies are optimized to minimize unnecessary transaction declines, card servicing request processes are streamlined, etc. Back up to the introduction, where we said that we can eliminate all fraud if we decline all transactions. A smart program manager balances risk and reward and knows that some fraud is necessary in order to capture good transactions. A Mastercard study reported that 1 out of every 4 cardholders that received a false decline (a decline on a good transaction) puts their card away for good.





Summary

Financial institutions that take a proactive, product approach to managing the debit card program see many benefits:

- Increased net revenue growth and performance
- Improved response and awareness of competitive threats
- More effective management of vendors, especially in areas of innovation
- Improved understanding of financial variances and improved forecasting
- Enhanced cardholder experience



About Phil Jarrell

Phil has over 18 years of proven experience in financial services and debit card management. He previously worked on the debit card portfolio P&L at Bank of America and MUFG Union Bank. He has effectively guided organizations in vendor selection and processor conversions. Additionally, he has been heavily engaged on product innovations, including mobile wallets, contactless, and EMV migration as a member of the EMV forum. Phil has also led strategy and marketing development, P&L and performance dashboard development. Prior to joining PRI, Phil was a Senior Director at Visa, consulting with community banks and credit unions before supporting a regional bank client.



About Candace DeBarger

Candace DeBarger has 37 years in financial services, including 30 years at Mastercard. She has a foundation in debit card operations and technology, project management, and product management. The latter half of her career has been spent working with financial institutions under \$10B in assets, helping them to grow and manage their debit and credit card programs. Candace has a deep understanding of network profitability, card program KPIs, card marketing strategies and the connection between an engaged card user and profitable checking customer.



About Profit Resources, Inc

Profit Resources Incorporated (PRI) strengthens financial institutions by improving profitability and efficiency, so that they can best serve customers, employees, and shareholders. By taking a hands-on approach to consulting, the PRI team of seasoned banking professionals makes a measurable impact on the bottom line through income enhancement and expense reduction. Established in 1990, PRI's expertise covers most areas of the financial institution including:

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- Debit Card Profitability
- System Evaluation and Negotiation
- Process Improvement
- Retail Banking
- Lending
- Non-Interest Expense
- M&A Integration
- Digital Transformation
- Treasury Management
- Depository Operations
- Loan Operations

PRI takes a hands-on, personalized approach to strengthening financial institution profitability.