Cure for the *Holiday Hangover*

STRATEGIES FOR CARD GROWTH DURING THE TRADITIONALLY SLOW FIRST QUARTER—AND BEYOND

BY KAREN BANKSTON

Card portfolio managers and marketers begin every new year with an uphill climb: January and February are especially tough times to drum up business.

"There's an inherent seasonality in the first quarter that goes along with the payments business in general—the holiday hangover, when folks are buckling down on spending," says Tony DeSanctis, senior director for CUES Supplier member and strategic provider Cornerstone Advisors (*crnrstone.com*), Scottsdale, Arizona.

This is a challenging time to build the credit card portfolio, agrees Charlotte Norton, SVP/central operations for $9.8 billion Randolph-Brooks Federal Credit Union (*rbfcu.org*), Live Oak, Texas. Many credit cardholders "just need to take a breath after the holidays. Plus, for members who file for their tax refund file quickly in the new year, paying down credit card debt tends to be a priority."

On the upside, this lull provides managers with an opportunity to evaluate and plan their strategy for the coming year, beginning with first-quarter campaigns tailor-made for the season of well-meaning resolutions. For example, the post-holiday marketing theme for Addition Financial Credit Union members is cleaning up finances by relying primarily on debit payments and paying down their credit card balances.

More storage boxes and cleaning supplies are purchased in January and February than at any other time of year, notes Suzanne Dusch, VP/marketing for $2 billion Addition Financial (*additionfi.com*), a credit union based in Lake Mary, Florida. "People want to get their lives organized, so we're talking to them about getting their finances in order."

PROMOTE FINANCIAL WELLNESS

This theme echoes the physical health goals at the top of many people's New Year's resolutions.

"The gyms are all packed with everyone committed to their personal wellness, but coming out of the holidays, it's also a great time to focus on financial wellness," says Norm Patrick, VP/Advisors Plus Consulting for CUES Supplier member PSCU (*pscu.com*), St. Petersburg, Florida.

Promoting the advantages of your credit union's checking accounts in branches, on the website and in wider marketing can reinforce that theme and help expand debit card transaction volume.

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"About half of debit card growth that takes place year over year stems from new checking accounts as those members begin using their debit cards," Patrick notes. "The first quarter is really the prime time to start talking to prospective members about moving their business to your credit union. ... Make it easy for new members to open accounts online so they can begin using their new debit cards as their primary form of payment."

PROMOTE BALANCE TRANSFERS

Inviting members to consolidate the debt they've accrued on holiday shopping in their lower-rate credit card accounts saves them money and helps the credit union grow balances, DeSanctis suggests.

Card managers can deploy technology to execute these campaigns effectively and efficiently. "The better your data analytics, the better your ability to leverage your work with card processing partners to identify members for these offers," DeSanctis notes. And a robust balance transfer process can employ ACH transfers from other financial institutions as opposed to mailing checks members can use to pay off their balance on higher-rate cards.

February may be the best time to launch a post-holiday balance transfer campaign, says Libby Calderone, president of CUES Supplier member LSC (*lsc.net*), Naperville, Illinois. "Timing this campaign before tax returns start to come in can build some nice balances quickly. Sometimes we've seen when credit unions begin those campaigns in January—that's actually a little too early. Members may not have even gotten their statements yet for their holiday spending, so they're not really thinking about it."

Following fourth-quarter 2019 campaigns to encourage members to use their debit and credit cards for both holiday and everyday spending, $250 million Streator Onized Credit Union (*socu.org*), Streator, Illinois, is switching gears now to offer lower-rate balance transfers.

Its most recent balance transfer offer rolled out last summer with a lifesaver theme, no fee and a 5.99% "life of loan" rate. Branch employees wore lifeguard shirts on casual days and handed out beach balls with "Let us be your lifesaver" flyers. The credit union even created a lifesaver float for community parades.

"It was a fun way to engage the staff, and it supported loan officers as part of our culture shift to talk about how this could save members money by transferring balances from higher rate credit cards," says Marketing Supervisor Dana Stillwell. SOCU added $2 million to its portfolio during the campaign.

STEP UP CREDIT LIMIT MANAGEMENT

SOCU's successful balance transfer campaign came on the heels of a credit line increase totaling $2.8 million, which boosted credit card transaction volume 19% and total spend 21%, reports Plastics Supervisor Josh Biros. The CU plans to keep that momentum going with regular increases on a quarterly basis for all qualifying $500 credit line accounts based on payment history on other credit card accounts (with $1,001 to $15,000 credit limits) annually.

Credit limit management is crucial, Calderone stresses. LSC works with credit unions to develop regular credit line increase programs, which can produce immediate average lifts of $300 per account.

"It's not unusual for credit unions to see a 10 to 40% increase in interchange revenue from credit card accounts following a credit line increase," she notes. "Once members get to about 50% of their credit limit, they tend to stop using that card. When their capacity to spend is increased, they feel better about that card and keep using it."

Another strategy to increase credit card use is to offer higher credit limits out of the gate. Card managers should work with loan underwriters to assess whether credit limits on new accounts can be increased within acceptable risk tolerances offset by increased revenue, Calderone suggests.

"Credit unions tend to be risk-averse, offering a $2,000 limit to new cardholders who might have a $10,000 limit on another card," she says. "You're not going to be the card of choice if you don't have a big enough limit up front, especially for well-qualified members."

And starter credit card lines with low limits for members who are building or rebuilding their credit standing should have "graduation programs" in place to reward cardholders who have been paying on time consistently, she adds.

"Members shouldn't still be on that starter program 10 years later if they've been paying successfully every month. You need to ... move them up proactively to a better card offering, maybe with rewards or a better rate. You're a hero to members when you do that. They love getting a new card they didn't have to ask for," Calderone says.

A RELATIONSHIP PRODUCT

RBFCU is considering those kinds of strategies in its bid to elevate the status of credit cards as "a primary relationship driver" alongside checking accounts and auto loans, Norton says.

"We want members coming to us to ask to apply for that great credit card offer. I think every member should have our credit card, just as we've done for debit cards over the years," she says.

While 80% of RBFCU members have a debit card with the credit union, credit card penetration has remained stuck around 28% over the past decade. "We're doing really well in our industry, but why can't we get to 30%? It's hard to move that rate," observes Norton.

RBFCU has launched a card acquisition team that includes card operations, marketing, collections and loan underwriting to develop new standards with the aim of issuing more credit cards with higher credit limits that will encourage members to use those cards while keeping losses in an acceptable range.

"The key is making sure that the executive team is ready to accept the combination of card growth and some additional risk," Norton says. "I believe we can accomplish that if we work as a team to figure out how to make credit cards a hook into a relationship with RBFCU."

TARGET AND REWARD EVERYDAY SPEND

Members may be "shopped-out" from holiday gift-giving this month, but they still need to buy groceries and fill their gas tanks. Offering extra rewards for those routine transactions and "gamifying" card use with prize drawings can help get members in the habit of using their credit union's cards in the offseason, Calderone notes.

"I encourage credit unions to get creative and have some fun with those campaigns," she says. "You really want to create some buzz to drive a little more of that everyday spend." Holding a random daily drawing to pay for a purchase from the previous day and announcing the winner via social media—"We paid for this member's Starbucks or that member's tank of gas"—creates a fun atmosphere and may encourage members to pull out their credit union cards more often.

And don't forget e-commerce. Short-term incentives for members who use their debit cards for recurring payments like cellphone bills and Netflix subscriptions can pay off over the long term. Addition Financial offered cardholders $10/month for using their debit cards for at least three recurring payments in July and August, which yielded an average increase in those transactions of 3.31 per account, says Mallory McGourley, marketing specialist for the CU.

Building debit transaction volume "is top of mind every day, because we truly believe payments are the primary financial relationship indicator," says Norton says. In fact, she contends, card payments solidify member relationships more than bill pay and are a better deal for CUs. "When members enter their debit card information for automatic payments rather than using bill pay, we get interchange income instead of having to pay for the bill-pay transaction, so it's a win-win to send members direct to biller."

Another targeted incentive Addition Financial offers is a 5X bonus category for credit card rewards each quarter. For October through December, members earned five points for every dollar spent on Amazon, "which has been a big hit, especially around the holidays when everyone is shopping for gifts," McGourley notes.

Credit card rewards are a competitive challenge. RBFCU rolled out a 2% cash back rewards credit card in 2017. With interchange income averaging 1.75%, a team member quipped that "The more you spend, the more we lose" might be an appropriate marketing slogan. Still, the program has generated enough interest income to turn a profit, and in tandem with the credit union's first credit line increases since the Credit Card Accountability Responsibility and Disclosure Act took effect in 2010, those rewards generated "phenomenal" growth initially, Norton says.

"The problem is that it's hard to keep that kind of momentum going," she adds. "That 2% in rewards is no longer a market leader, and it's hard to keep pace. Credit unions are capped at an 18% interest rate, so we can't set rates at 22% or higher to cover a richer offering."

Calderone suggests that credit unions can differentiate their offerings with credit card rewards tied to their own products and services. For example, members could redeem points for a lower auto loan rate, higher CD rates or reduced mortgage closing costs.

Large card issuers have been enticing consumers with fairly rich credit card rewards, but they may scale those back a bit with predictions of a cooling economy in the near future, Patrick notes. That may give credit unions a bit of an edge in the fierce competition for the business of cardholders who pay off their balances monthly and typically have a higher net worth.

RBFCU has a rich debit rewards program, which pays members 10 cents for every transaction in rebates issued annually in February. Last year, $14 million were returned to members. When those rewards were launched a decade ago, the CU saw a big jump in debit card usage, but these days, Norton suggests, "it's just how people pay." And as the credit union approaches the $10 billion asset threshold in 2020, "we're having a lot of discussion on whether we can afford" to retain the debit rewards, she says.

However your CU attempts to attract more card use, don't set it and forget it. "The biggest problem with marketing campaigns is that they're deployed, and no one ever checks to see if they worked or not—and, more importantly, no one decides how to make them better," DeSanctis contends.

He recommends building evaluation into every card offer, either with an A/B test or a test-and-control methodology. For example, if you're planning a double-points campaign, send it to 9,000 members and compare the lift in volume with 1,000 randomly selected control cardholders who didn't receive the offer. That comparison offers a better assessment of impact than a quarter-over-quarter view, which doesn't account for the seasonality of demand.

In an A/B test, you could also send 4,500 members one offer and 4,500 other members a different offer and compare both results with a control pool of 1,000 members.

"Then, to keep it rolling, send the best offer from the previous test to 7,500 members and a new offer to 1,500, to make sure there's not a better offer out there," DeSanctis advises. "You need to be sure your marketing campaigns are effective and robust based on measured results that you look at after each campaign."

NEW CARD FEATURES

Soon after Addition Financial, formerly CFE Federal Credit Union, began operating under its new name on May 1, 2019, it began a mass reissue of both credit and debit cards. Beyond the new logo and design, one of the most prominent features on the front of those new cards is the contactless symbol (see *additionfi.com/personal-debit-cards*).

With a low average member age—38 compared to the industry's 49—Addition Financial is calculating that tap-to-pay will have broad appeal among younger members initially but will eventually attract all members as regional retailers add contactless capabilities.

"We've really been trying to focus on our member experience over the last couple years, and we thought issuing contactless cards would be one way to get ahead of the ballgame, especially in terms of fraud prevention," says Kristin Marroquin, director of member experience.

The "gorgeous" new card design featuring the Addition Financial logo is also a great way to showcase the brand, Dusch says. "Our feeling is that debit and credit cards are like tiny billboards that members carry around in their wallets."

RBFCU has developed its own Manage Cards app with a steady stream of new features: security alerts and controls and digital instant issue, including automated provisioning of the new debit account number to members' mobile wallets. Next up will be the ability to select a new PIN.

A robust card management app offers the twin benefits of keeping the credit union's cards top of wallet and improving operational efficiency, Norton suggests. "Everything we can do on

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>
> – Suzanne Dusch

mobile to offer self-assist options in managing their payments is going to be very helpful. We had 15,000 uses of the app features in one month. That's 15,000 calls we didn't have to take."

IMPROVE ONBOARDING

Growing card business on a consistent basis requires looking beyond marketing campaigns to improve the member experience. The old-school method of opening a checking account and telling members "Your debit card will come in the mail in five to seven days, and then you can log into online banking" is overdue for an overhaul, DeSanctis says.

"The new account onboarding process needs to be much more dynamic, more real-time and quicker, with services like instant issue ... so that your payment product becomes the center of all of their digital payment transactions," he recommends. "That includes Venmo, Square Cash, Apple Pay and PayPal. You want to invest in your onboarding process and create digital engagement on an ongoing basis so that it's your payment product behind all those transactions."

Branch employees should be trained to guide members to load their new debit card numbers into mobile wallets and as the default payment vehicle in Amazon, PayPal and other online retail and digital payment services.

Providing an exceptional onboarding experience is a continual work in progress, given the pace of innovation in the card space. For example, DeSanctis says card issuers will likely be rolling out digital instant issue over the next 18 months, so "credit unions ought to be investigating it—if not investing in it—right now."

The high-profile rollout of Apple Card, with a process that goes from application to Apple Pay in the mobile wallet in three minutes, "is the new paradigm and the new expectation for what it means to establish a payment card," he notes. "That's why we think onboarding is the next big frontier that needs to be aggressively managed at most credit unions."

APPOINT A 'CHEERLEADER'

After its previous Visa supervisor moved to a new post, SOCU went a year and a half without filling the position, and the leadership team considered splitting up those responsibilities between existing staff in accounting and lending. But when the portfolio began to decline, the CU hired Biros on April 1, 2019, a self-described "cheerleader who bangs the drum to keep everyone energized and involved."

"Make sure someone always has their eye on the portfolio and is ... working with marketing on e-blasts and social media," advises Mandi Albert, VP/lending. "Those have all been big factors in helping to grow the portfolio."

Biros has helped lead a front-line culture shift to promote credit cards as a key product, with regular internal promotions. And he's worked with Training Supervisor Ryan Kern to create internal FAQs and coach employees through lunch-and-learns, after-hours sessions and one-on-one trainings to share the message that SOCU credit cards can save members money.

BRING IT ALL TOGETHER

Beyond interchange revenue, keeping the credit union's cards top of wallet reinforces member relationships, Calderone says. "The more touchpoints you have with members, the more often they'll think of you. They may only stop by a branch once a month, but they'll pull out their debit or credit card 20 times a month, so that's probably your most frequent interaction. You want them to be thinking about your credit union when they need a mortgage or auto loan."

Debit cards are an everyday touchpoint with many members, DeSanctis agrees. "On the credit card side, it's more of a value-add and relationship component, but it's a lucrative piece of the member relationship, so you want to get your fair share of the market and leverage that into the broader relationship."

Winning—and keeping—members' debit and credit card business requires a multilayered and never-ending commitment, he cautions.

"You need the right marketing, the right experience and the right product too," he says. "Your value proposition needs to be compelling. The message and the marketing around it and how you position yourself to differentiate in the market is absolutely critical. And then your process needs to be seamless and simple."

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