Visa Consulting & Analytics (VCA)

Maximizing value with effective card portfolio management: Best practices for retail banks

Each month, Visa Consulting & Analytics (VCA) advisors expand on one of the year's 10 key priorities for payments-industry stakeholders in 2024, to provide industry insights derived from expert analysis of anonymized VisaNet data.

This month, financial institutions (FIs) can learn best practices for maximizing value from cardholder retention through effective portfolio management.

For many banks and FIs, customer-acquisition costs often far outweigh those associated with retaining a customer. In addition to being more costly, newly acquired customers can be more resource-intensive, particularly around risk-exposure calibrating, onboarding, and servicing requirements.

Effectively engaging and retaining existing customers therefore represents strategic opportunities for FIs to drive profitability in their overall portfolios. Satisfied and engaged customers tend to display strong brand loyalty and serve as brand advocates, to use certain products or services more often, and to venture into other product categories.

The critical role portfolio management plays in financial institutions' success

Payment (debit or credit) cards are one of the most important products offered by retail banks—often used by cardholders multiple times per day.

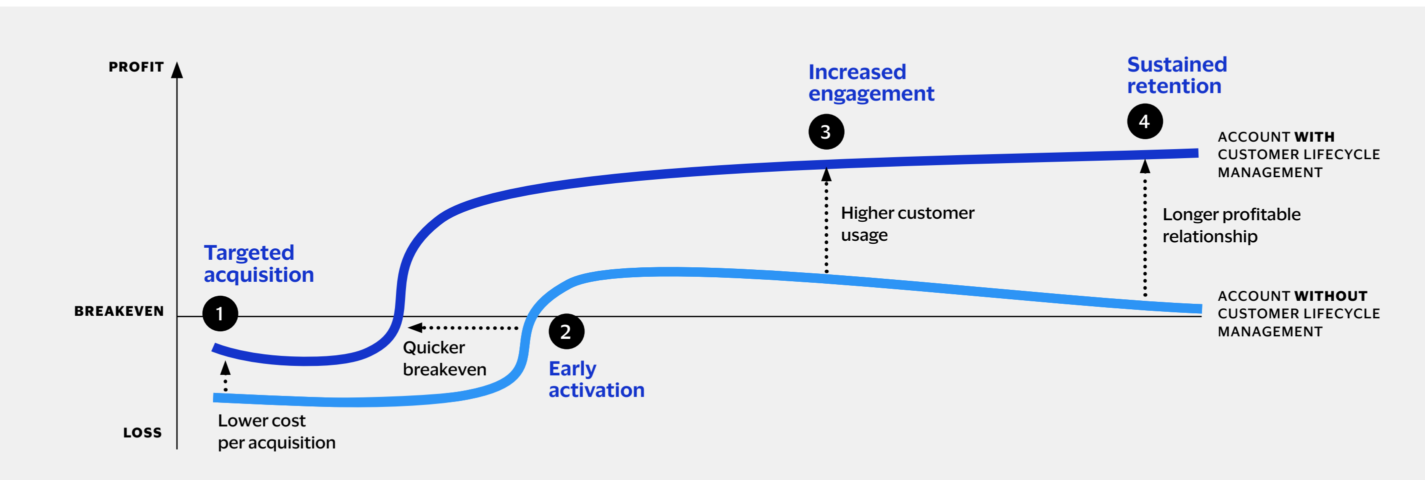
A well-managed card portfolio can enhance the bank's competitive advantage and strengthen customer relationships. It generates direct revenue from interest, fees, and indirect revenue from increased customer loyalty, retention, and cross-selling opportunities.

Managing a card portfolio, though, is typically not simple. The process requires the careful analysis, planning, and execution of complementary strategies to optimize performance and profitability.

Portfolio management's scope: A key to driving profitability for financial institutions at every stage

A customer's profitability typically changes over the course of the business relationship (visualized below) and is affected at various milestones by the quality of the FI's portfolio-management capabilities.

Portfolio management requires intentionality and predominantly comprises four touchpoints: acquisition, activation, engagement, and retention:



The successful implementation of active portfolio management helps issuers enhance their portfolios' profitability at every stage.

Phase One
Acquisition

Acquisition is the most cost-heavy stage of the lifecycle, making targeting and efficiency very important to manage the cost per acquired customer.

Phase Two
Card activation

The sooner that a card is activated, and its owner begins spending, the earlier FIs can break even. Cards activated within three months after being issued are more likely to become top-of-wallet, meaning cardholders use them for up to 80 percent of their personal spends. Without active guidance from the FI, however, a significant proportion of newly acquired cards can become dormant within 90 days, negating FIs' acquisition efforts.[1]

Phases Three and Four
Engagement and sustained retention

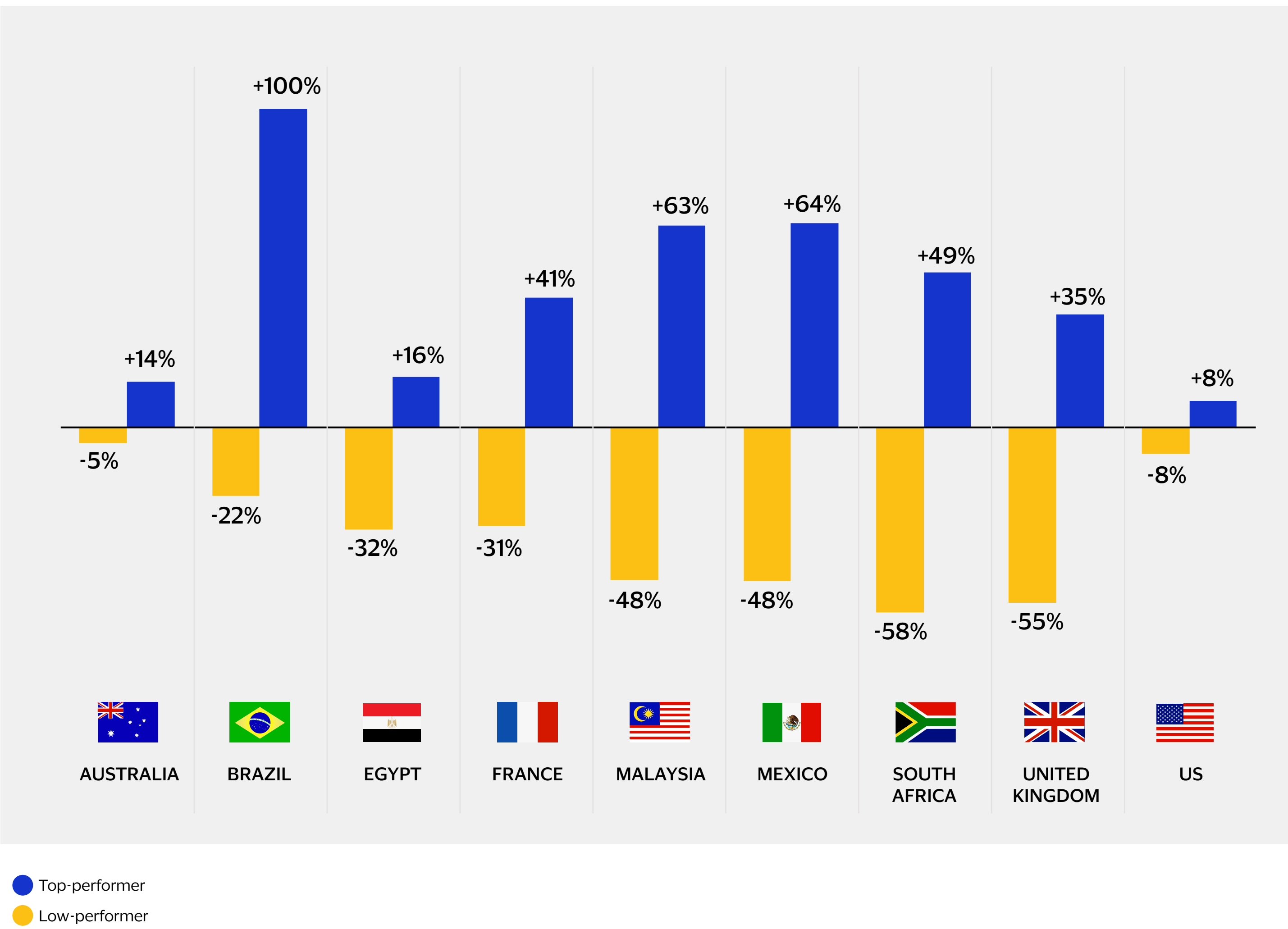
Engagement and sustained retention involve issuers maximizing value from customers. However, many issuers invest the bulk of their efforts on the first and perhaps second phases, and a minority of FIs work effectively across the whole portfolio management continuum. So, there is a significant opportunity to outperform the wider market and boost the profitability of many card programs.

1. Visa analysis

Effective portfolio management drives transformation in financial institutions

VCA experts observe considerable variabilities in portfolio performance by market and by institution. The chart below shows the difference in spend-per-active card between top-performing (top quartile) and low-performing (low quartile) banks in several markets. In general, we see a 50- to 80-percent disparity between the performance of issuers in the same markets, signifying huge opportunity for growth for those with low and median performance. Even among top performers, there is often an opportunity for more than five percent growth by boosting the performance of specific cardholder segments or by improving specific portfolio-management practices.

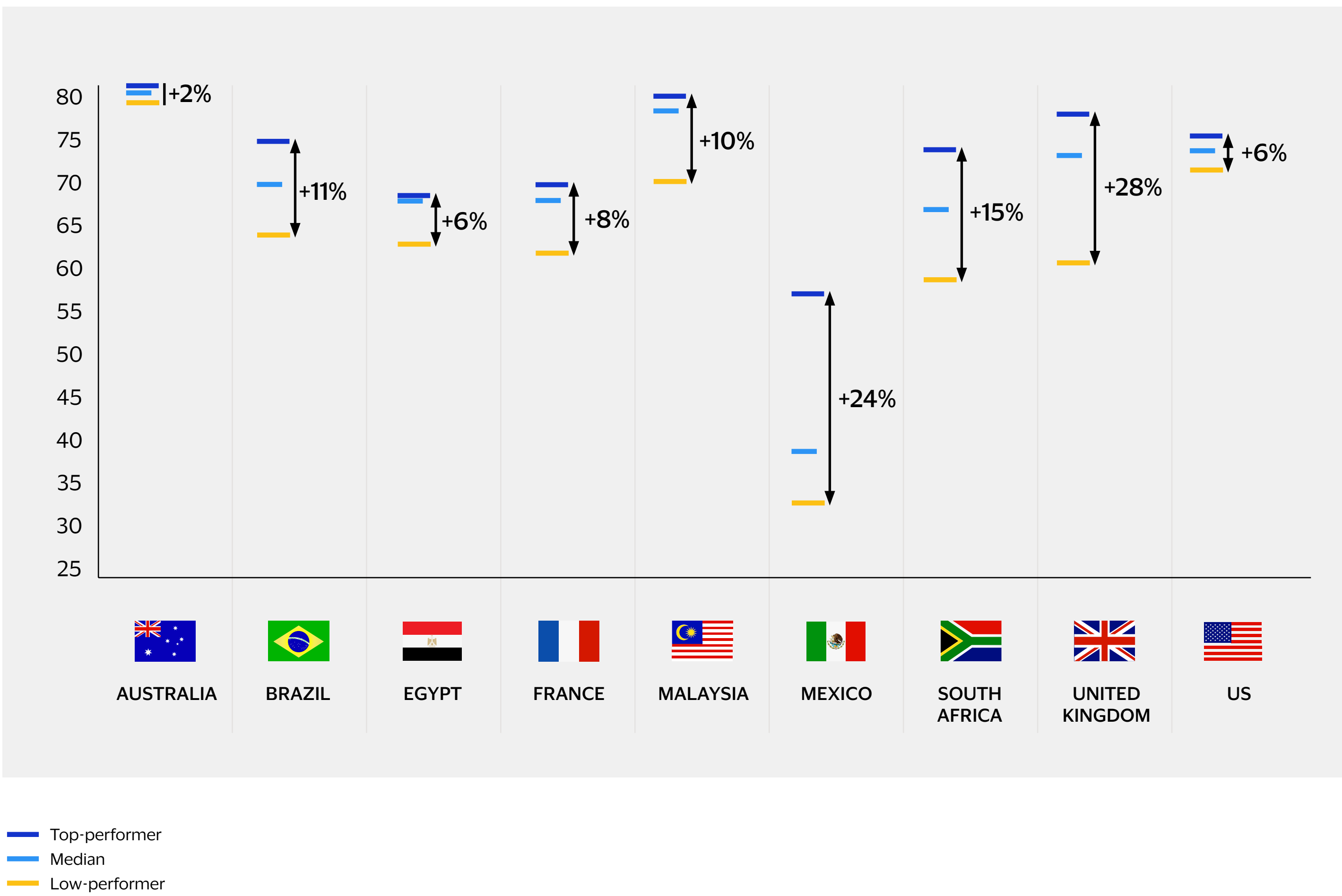
Spend per active card vs. median for top-performing vs. low-performing banks



Another critical metric for portfolio performance is share of active cards. This is affected by multiple portfolio management activities, starting from effective communication of product benefits to continuous client engagement.

Often the differences between various market performances are drastic. Yet, even in markets with high activation rates, the gap between high and low performers is wide, and the top-line impact of even small incremental improvements can be significant. For example, in markets with low activation rates, a 10-percentage-point increase in activation from (for example, from approximately 20 percent to approximately 30 percent) can bring a 50-percent increase to the size of an issuer's active card portfolio.

Share of cards active in the last 3 month within all active cards, %



Unlocking success: Best practices for boosting performance

For each of the four portfolio-management phases outlined above, there are many available best practices. Here are the four we have found to be most relevant and impactful:

Phase 1: Acquisition

Hyper personalization enabled by end-to-end digital experience

Phase 2: Activation

Interactive Early Month on Book (EMOB) activation

Phase 3: Engagement

Spend stimulation on profitable and targeted use cases

Phase 4: Retention

Early warning signs to detect attrition and enable intervention

Phase 1: Acquisition

HIGH-POTENTIAL BEST PRACTICE

Conduct deep segmentation-based acquisition and use mature digital channels for onboarding

Across the world, digital channels are disrupting the acquisition process, and digital banks have a strong customer acquisition momentum. In a Visa-commissioned survey, we found that about one quarter of customers had recently switched banks, and half of them had chosen a digital bank or a bank with a higher level of digital maturity.[2]

DEEP DIVE

Use hyper-personalization to optimize your activation campaigns

At VCA, we have found that the most insightful type of segmentation is behavioral, as it helps you assess needs of customers as well as potential profitability levels. For our clients, we do persona segmentation that is behavioral by assessing 1500+ features across channel usage, spend geography, spend category, etc. This enables us to generate a 360-degree view of customer profiles and develop 40+ micro personas for prioritization.

The value propositions – encompassing loyalty programs, campaigns and products – need to be personalized and to meet the customer where they are, while also considering local and global best-in-class benchmarks. In addition to developing targeted propositions, what we find to be a truly differentiating factor is to allow cardholders to choose benefits that matter most in a flexible manner (an example being the way that travel-related benefits became obsolete during the Covid-19 pandemic). Issuers should not continue adding endless benefits to a card, as is would be cost prohibitive. Instead, it is important to model the cost of features and privileges and compare them to expected revenues to develop customer value proposition.

De-averaging customer behavior between personas allows issuers to develop highly focused and competitive value propositions for different segments. For example, frequent travellers are significantly more profitable clients, and therefore justify a better set of features and privileges than those who would be economically viable for a regular customer who travels infrequently.

This enables us to generate a **360-degree view** of customer profiles and develop 40+ micro personas for prioritization.

2. Retail banking Spotlight on customer digital behavior in CEMEA, October 2022

Phase 2: Activation

HIGH-POTENTIAL BEST PRACTICE

Use interactive and personalized tactics for early months on book (EMOB) activation

The first 90 days are critical in shaping cardholder behavior, yet we see that many banks do not allocate enough investment during this important time. In fact, even globally, many issuers allocate only about one-fifth of their marketing budgets to the first three-month onboarding periods.

DEEP DIVE

Analyze historical activation behaviors to identify early engagement and drivers

A key approach in designing EMOB strategies lies in understanding the performance of existing customers and applying learnings to the new base of customers

For our clients, we analyze the engagement levels of customers who activated their cards within the first 90 days on book based on diversity, frequency, monetary value, and consistency of spend. Using this analysis, we build association rules to identify the next best action for each customer in the early months on book phase of the lifecycle.

EMOB program objectives

- Increase activation rates
- Ensure early spend growth
- Prolong customer retention

Communication topics examples

INFORMATIONAL					TRANSACTIONAL		
Welcome	**Alerts**	**Benefits**	**Milestones**	**Anniversaries**	**Activation**	**Transactions**	**Inactivity**
Greet the customer	Inform about activities or transactions	Explain the CVP features	Reinforce value from using the product	Celebrate and congratulate	Push first transaction	Nudge customer to perform desired actions (e.g. card-on-file)	Re-engage dormant customers

Take a multichannel approach to activation

The way that customers use communication channels, and their preference of channel are rapidly changing. Typically, issuers that deploy multi-channel communications are realizing an improvement of more than 300 percent in activations.

Moreover, mobile wallets have become critical for users across markets. Therfore, getting it right during the activation period is critical. Also, issuers can utilize multiple tools like push provisioning, Visa Account Updater and token lifecycle management techniques to streamline card activation.

Experiment with "gamification"

Gamification, which is the use of game elements in non-game settings to boost user engagement, can be a successful approach in implementing EMOB initiatives or strategies and in driving desirable customer spend behaviors. By setting challenges, competitions, rewards, etc., gamification enables FIs to encourage customers to perform tasks within certain time limits, supporting the overall EMOB strategy.

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+300%

in activations.

Phase 3: Engagement

HIGH-POTENTIAL BEST PRACTICE

Conduct ongoing spend stimulation for targeted, profitable use cases

It is essential to drive desirable customer behaviors by understanding customer needs and, at the same time, focusing on profitable use cases for your portfolio – like high-value transactions, cross-border spending, installment payments, and card-on-file payments. The power lies in the intersection of those two dimensions: meeting customer needs and understanding portfolio profitability.

DEEP DIVE

Monitor revolving portfolio and usage

Revolving behavior is the most profitable for credit portfolios. It is therefore essential to capture customers who have a propensity to revolve and to retain customers who are revolvers. This can be done by offering a suite of tailored products and installment services (e.g., buy now pay later (BNPL) programs, balance transfers, and loan against or beyond credit limit) extending the right product to the right customer segment and ensuring that take-up and conversion is seamless. To identify the right segments, propensity models can be used to pinpoint those customers who are most likely to revolve based on their existing transactional behavior. We can then deploy a product recommender engine for personalized installment recommendations and offers.

Target profitable use cases

FIs can target specific high-impact use cases effectively when applying data science expertise in a deep way. Every issue sits on a lot of rich data but, to gain predictive insight, you need to combine various modeling, data mining, and machine-learning techniques. For example, cross-border can be a very lucrative use case, but few banks capture the full end-to-end cross-border spend because they do not consider the full travel journey (including planning and booking, as well as travelling).

Propensity models can help identify customers most likely to travel within the next three to six months, enabling issuers to target them ahead of the travel period and to capture related spend. For example, issuers can use flight data (which comprises the most relevant booking information like airline company, departure date, destination, ticket prices, etc.) to tailor a suite of travel communications and related value propositions.

It is important to also understand how cardholders are likely to spend across each phase of their travel journeys. For example, FIs can identify customers who use their cards solely for pre-travel transactions but not at their destinations, and vice versa. When understanding and anticipating such behaviors using data, refining audience targeting and messaging becomes more strategic.

Experiment with contextual geolocation targeting

FIs should ideally focus on extending the right offers, to the right customers, with the right timing, via the right medium. This type of targeting can be two-fold: predictive (based on previous existing behavior) and actual (based on present behavior and context).

Geolocation targeting is a great example of relevant contextual offers. It means that, based on one's physical location and on proximity to a shop or a restaurant, for example, merchant offers are personalized to help promote business. Additionally, it means cardholders receive relevant and timely offers that can enhance their experiences and satisfaction. For example, in Brazil, Visa Infinite cardholders with travel-related purchases (e.g., airlines, hotels, car rentals, etc.) received communications about the Visa Infinite Lounge and Infinite Fast Pass available in the main international airport of São Paulo.

Geolocation targeting does not necessarily mean live location tracking. For example, when a customer completes a foreign exchange transaction, regardless of their destination country, an FI can send a targeted communication offering them a free ride home from the airport if they conduct a further two foreign exchange transactions that week.

Phase 4: Retention

HIGH-POTENTIAL BEST PRACTICE

Track early warning signs to ensure potential attrition is detected early

It is five times more expensive to acquire a new customer than to retain an existing one.[3] Intervening early on with customers that may switch bank is important to prevent attrition.

DEEP DIVE

Conduct proactive dormancy management by looking at spend migration

Proactive dormancy management should start before the cardholder falls into dormancy. As soon as a customer begins on the path of downward spend migration, banks can trigger an alert on that account and intervene.

Retention management activity should then be prioritized according to the client value. Customers who decrease their average spend can be targeted based on previous profitability levels to ensure you recapture share of wallet of the most profitable customers. In addition to spend migration analysis, addressing customers who fell into dormancy (whether on a short-, medium-, or long-term basis) should be targeted with reactivation campaigns to avoid their transitioning to a retention phase.

It is ideal for FIs to reactivate short-term (less than three months) dormant, previously profitable cardholders as top priority, as they are typically easier and more cost effective to reactivate than are longer-term (six to 12+ months) dormant cardholders.

For example, VCA analyzed an issuer's portfolio performance and created a Flight Risk propensity model, which drew on rich transaction data from across Visa's network to benchmark the issuer's portfolio performance against peers. The model identified ~30 percent of active cards as having a "high risk of dormancy" sometime in the next six months. Targeted cohort campaigns to drive card usage led to an overall ~20+ percent spend lift for these high-risk cardholders.

Establish a pre-approved offer repository

Reactivation efforts typically focus on spend enhancement incentives and campaigns. When a customer expresses interest in closing an account, the reactive retention process is essential to save as many profitable accounts as possible.

A retention team should be available to advise and encourage customers to keep their accounts live and be equipped with a pre-approved offer repository. Offers will vary based on customer pain point and previous profitability or spend levels. Types of offers can revolve around credit line increases, balance transfers, product upgrades, bonus points, spend incentives, etc.

3. Visa Analysis

How VCA can help issuers in improving their portfolio management

VCA works with issuers helping them to improve performance of their portfolio. Over the years, we have accumulated a vast reserve of knowledge and insights.

Based on our deep experience of delivering portfolio management assignments around the world, plus our access to VisaNet data, there are several ways we can support clients, including:

- Provide insights into portfolio performance growth opportunities by comparing performance of your portfolio with the market. VCA provides a wide range of benchmarking tools including Visa Portfolio Health Check and Visa Analytical Platform to track performance of issuer portfolios vs. market norms
- Evaluate and help to improve portfolio management practices. We help issuers to establish effective processes and apply robust analytical methodologies
- Develop cutting edge models including segmentation and propensity
- Help issuers to implement and run effective portfolio campaigns
- Help issuers to select, implement and onboard effective technologies

About Visa Consulting & Analytics (VCA)

VCA is a team of 1300+ payments consultants, digital marketing specialists, data scientists, and economists across six continents.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payments networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

For more insights like this, subscribe to the VCA Payments Pulse newsletter.

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