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A CREDIT CARD PROGRAM CAN BE A CREDIT UNION'S HIGHEST-EARNING ASSET

A Research Brief by:

CSCU

CARD SERVICES FOR CREDIT UNIONS

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A robust credit card program is one of the best ways credit unions can create value for members, build loyalty, cross-sell products, generate revenue, and keep banks from raiding its top membership with their own lucrative programs. By implementing effective strategies for increasing penetration, activation, and usage (PAU) of the credit cards they issue, credit unions can stay competitive in the marketplace and boost income.

For example, consider a 40,000-member credit union with 3,600 (9 percent penetration) credit card accounts; of these, 1,980 are active (55 percent activation) with an average balance of $1,500 and 5.5 transactions per month. A portfolio with these performance attributes could easily generate in excess of $400,000 in annual revenue (finance charges, interchange, and fees). Increase penetration to 13.5 percent, average balances to $2,000, activation to 60 percent, and utilization to seven transactions a month and this portfolio generates an incremental $330,000 in total revenue for the credit union.

Bill Lehman
VP of Portfolio Consulting Services

"Return on assets, fee income, interest income, and overall profitability are all higher for credit unions that have a credit card program, compared to those that do not," says Bill Lehman, vice president of portfolio consulting services for CSCU. "Credit cards are a very effective way to improve the loan/share ratio."

So why don't all credit unions have robust credit card programs?

It's a matter of culture and aversion to risk.

Michael Chenderlin
Senior Portfolio Consultant

"Some credit unions have difficulty getting upper management to buy into a credit card program," says Michael R. Chenderlin, a senior portfolio consultant for CSCU. "Often this is because there isn't a full understanding of the benefits of credit cards and how they help create a stronger offering across all products to deepen relationships and drive profitability."

Ed Jesionowski, another CSCU senior portfolio consultant, agrees that culture plays a big part.

"Two of my credit union clients are in the same city, five miles apart," he says. "One instantly issues a credit card and debit card when an account is opened; members can imprint the cards with photos of their kids or the family dog. This credit union has a 51 percent penetration rate. The second credit union has a totally different mindset and doesn't take full advantage of what their program can offer—here the result is a penetration rate of 8 percent."

Ed Jesionowski
Senior Portfolio Consultant

Changing Perception

It is indisputable that credit unions must have well-designed credit card programs to compete with banks—without these programs credit unions will struggle and lose market share. The bottom line is that credit cards with strong reward programs are what credit union members and bank customers want. Deliver the benefits they are they looking for and they will do business with you; ignore what they need and they will open up an account with a competitor that offers a 6.5 percent interest rate and rewards them generously for their business.

Credit unions need to be mindful about not losing their top members to banks.

Credit union members are constantly being bombarded with attractive offers from big banks that promise highly competitive rates, big point rewards, and even 0 percent interest rates for balance transfers and initial purchases.

"Banks have unloaded their non-profitable customers and are now trying to bolster their portfolios by going after the most profitable credit union members," says Lehman. "Most of our credit card holders are between A+ and B+ paper—they are perfect targets for banks. Banks are trying very hard to acquire upscale members with good income levels and good credit history."

Barney Moore
Senior Portfolio Consultant

"If you look on some credit union websites, you might see their credit cards on a list under the loans program," says CSCU senior consultant Barney Moore. "Those credit unions have a great opportunity to promote their credit card programs much more prominently. Citi Chase, Bank of America, and other large issuers leverage their online presence and create attractive and dynamic promotion of their credit cards on their websites—it's not just a bullet point. Credit unions should use a similar approach to make their credit cards stand out and to promote the value, simplicity, fairness, and transparency of their offerings through every marketing channel."

Increasing Market Share

According to Lehman, the average penetration rate for credit unions is 14.74 percent—this means that 85 percent of a credit union's membership does not carry the credit union's credit card. Even the top-third of credit union performers average a penetration rate of only 27 percent. Although these numbers are low, this also means there is tremendous opportunity for increased market share (and more revenue) with an aggressive credit card program.

The first step is developing a credit card strategy—how attractive can you make your rate and what are the point programs and strategies?

Determine what rewards members prefer or are enjoying with other cards. This is critical to know before an effective strategy can be planned; considerable time and money will be wasted if you do not have the right credit card products for your members.

"Teaser rates can be very effective in improving PAU," says Jesionowski.

A recent CreditCards.com survey indicated that 53 out of 102 cards offered teaser rates. Of those 53 cards, 49 cards offered 0 percent interest rates, while the others offer promotional rates ranging from 3.9 to 5.9 percent, typically running for 6-12 months. Jesionowski recommends teaser rates in the 2.9 to 5.9 percent range.

Consider giving members points for activation and first usage. A good way to keep redemption costs down is promoting programs that "cash in" credit card points for lower interest rates on mortgages, loans, and CDs—this has less direct financial impact than redeeming merchandise and also helps cross-selling.

"Many credit unions are targeting inactive card holders by running an inactive list every month," says Jesionowski. "The credit union will start by calling some of its inactive accounts and asking, 'We see that you have our credit card but have not activated it—would you tell us why?' Once they get the answer they will respond by saying, 'If you activate your card today, we'll give you 1,000 bonus points and then, after your first usage, we'll give you another 1,000 bonus points.' All they are trying to do is motivate the member to activate and then use that card so that it becomes 'top of wallet.'"

Implementing a credit card program can be challenging —don't try to do it all on your own. Take advantage of resources such as CSCU's complimentary portfolio consultants, who understand portfolio analytics, know the latest industry trends, and help build customized strategies to meet a credit union's individual goals. In addition, consultants can provide guidance on integrating portfolio growth programs into a credit union's offerings, such as ScoreCard, a rewards program that increases transactions, market share, and profitability on both existing and new card accounts. Another tool is ProDirect, a direct-mail acquisition program that sends out and manages solicitation mailers that are professionally designed for your target base. They also provide insights on early month on book (EMOB) activation programs such as FastTrack, an incentive-based program that helps activate non-activated and dormant credit and debit cards (a side benefit is that it also rebuilds relationships with members).

A LOOK INSIDE A CONSULTATION

"We are currently working with a credit union ($750 Million in assets) that recognizes the opportunity in credit cards and is aggressively pursuing strategies to grow its program," says Moore. "The chief lending officer has garnered support from senior leadership and assembled a cross-functional team to execute several growth initiatives."

A full credit card program analysis and consultation identified areas of opportunity and made specific recommendations to improve performance and grow the program.

Key recommendations:

- Focus on product design and the execution of strategies and tactics to drive greater penetration, activation, and utilization.

- Expand the breadth of the Platinum product's enhancements, benefits, and rewards program to existing Classic and Gold card carrying members. Platinum products, especially when coupled with strong issuer and merchant-funded loyalty programs, have shown greater performance in terms of overall spend, utilization, and balances—drivers of growth and profitability.
- Launch double-points promotions on certain purchases made during the upcoming holiday season to augment the higher spend already anticipated in other retail spend categories, and to leverage the overall momentum
- Roll-out introductory rate offers to members not currently carrying the credit union's card to capitalize on the enhanced product offering that is now available.

After the consultation, the credit union implemented all of these recommendations and is continuing to work with their consultant through the execution and into the future as they continue to grow their portfolio.

Strategies that Work

Member Penetration/Account Acquisition

- Credit cards can be a key driver for developing new memberships. Promote your credit card prominently on the credit union website and highlight the value, simplicity, and transparency of your credit card products.
- Educate member service staff on the features and benefits of your credit card and incent them to promote and sell it during member interactions. "Qualify members and make credit card offers to members during mortgage and other loan-closing processes," says Moore.
- Make it a standard process (and an easy one!) for issuing a credit card during the deposit account opening process. Solicit creditworthy members gained through indirect lending for credit cards at time of funding or via follow-up communication.

Activation

- "Activation is the first step toward regular use and is the primary objective in member life cycle marketing," says Moore. "Regular communication with new member cardholders is the best way to reinforce the need to activate." This includes promotional messages and incentives with new account materials such as card carriers, PIN mailers, welcome kits, convenience checks, intro rates, balance transfer offers, and bonus points.

- Segment your portfolio to identify target groups for activation. Activation campaigns are typically directed toward segments of inactive accounts; time, effort, and expense should be proportional to likelihood of success and potential return.
- “Be sure to track key analytics such as potential value, length of inactivity, revolvers, and size of balance,” Moore indicates. “Tactics and incentives that can be effective include reduced rate on transactions for a specified time, or other incentives such as bonus points or cash rebates.”

Usage

- Ongoing usage is the driving force behind credit card program growth and profitability, as well as member loyalty. Regular usage is the member behavior that will make your card top of wallet and make members less likely to respond to other offers or switch spend to another card.
- Rewards are the biggest factor that drives ongoing usage. Auriemma Consulting Group indicates that consumers view their rewards program as the primary reason for carrying their cards and 80 percent of them use their rewards card most frequently.
- Similar promotions that incent activation can also be used for usage (rate sales, bonus points, etc.) Credit line increases are another way to encourage additional utilization. “Definitely tie usage back to rewards campaigns or other contests for members,” says Chenderlin. “For example, use your card ten times this month and qualify for a drawing for a pair of football tickets.”

Parting Thoughts

Some credit unions are concerned about the cost of the rewards programs that accompany the credit card. In order to compete effectively and increase penetration, rewards must be comparable to what banks and other credit unions are offering. Any points program must also reflect rewards that members want. Therefore it is essential to survey members about what rewards they want with a credit card program and then determine the most cost-effective ways to provide these rewards, before rejecting the possibility of credit card program based on the assumption it is too expensive.

Developing a successful credit card program requires long-term, cross-functional leadership from all credit union departments.

“All senior staff should be in room, especially the CEO, CFO, and vice president of marketing," advises Jesionowski. "It is essential that everyone is committed to the program over the long term and fully understands its goals and objectives."

Then it's time to market, market, and market to serve more members.

"Most of a credit card portfolio is made up of A+, A, and B paper," says Lehman. "There is, however, a real opportunity for credit unions to expand their portfolios, and honor the credit union mission, by reaching out to members who don't have as high a credit rating. With the right product and the right rate, selected underwriting in C paper can be very successful. We all need to challenge ourselves to extend our lending practices further into the community."

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