

# How Financial Institutions Can Increase Deposit Growth and Profitability in Today's Economy

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## **The Payment Landscape**

It is fairly evident that the financial industry has been shaken up in the last six months. Both consumers and businesses have seen a significant tightening of credit and a variety of economic and financial market corrections. However, coupled with these changes and events come opportunities and ways to improve. Banks and credit unions are in a great position to capitalize on the opportunities created in this current economic environment by re-focusing on areas that are most profitable -- such as core deposit growth and fee income.

The importance of deposit accounts among financial institutions has come to the forefront again as consumers cut back on credit card usage and focus on "spending what they have." Because of this, debit card usage continues to rise as the preferred method of payment. According to Business Week:

*"Debit cards are increasingly becoming the plastic of choice. Some use the cards as a budgeting tool to limit spending. Others are embracing them out of necessity as banks clamp down on credit. Debit purchases are expected to climb 13% to \$1.2 trillion, according to The Nilson Report—compared with a 3% rise, to \$1.9 trillion, for credit-card transactions. At Visa, the No. 1 card company, debit spending could surpass credit this year."*

Acquiring new customers and deposits, as a source for both capital and reserves, has become very critical for banks and credit unions in today's market to sustain liquidity and profitability. But, due to negativity surrounding the credit crisis and government bailouts, many consumers have grown skeptical of their financial institution – which eventually may lead to a switch.

So, what must financial institutions do today to retain and attract loyal and deposit friendly customers? The answer is and has always been...superior customer service and convenience, custom-tailored and competitive products, and innovative new services and technologies.

## **Smart Investments for Smart Business**

Instant card issuance is a great technology investment to help financial institutions retain and grow core deposits through improved service and convenience. More importantly, instant card issuance ultimately increases card sales, activation, usage and signature-based interchange revenue.

With instant card issuance, financial institutions experience an increased "shift" and "lift" in card usage resulting in increased interchange revenue. Instant issuance decreases the number of days from card issuance to first point-of-sale (POS) transaction. So, it "shifts" the timeline to date of first POS transaction. Independent studies done by Visa® have shown this to improve to five days from 15 days when compared to a typical central issuing model. "Lift", or the percentage of cards that actually get used as POS payment cards, is increased as well because customers can be educated on why they should use their card instead of cash or checks and to press the credit key and sign for the transaction instead of exposing their PIN. Both dynamics provide for

substantial interchange revenue increases that typically justify the investment in an instant card issuance solution in less than 24 mos.

Within the instant issuing market, a new innovation is also emerging – unembossed “flat” cards. This technology is starting to gain widespread market acceptance and a very enthusiastic response from issuers who have outgrown the traditional embossed card method. A recent study done by a financial institution that implemented a pilot program for instantly issuing unembossed Visa debit cards showed that 32% of cardholders preferred unembossed cards, 19% preferred embossed, and 49% had no preference.

In the past, financial institutions who wanted to implement an instant card issuance solution with embossers were required to store and secure many pre-printed plastics since embossers only do data personalization. With unembossed printing of cards, financial institutions can simply have a single, association-branded white card stock that can be easily customized with an array of backgrounds. With financial institutions being able to offer a customizable unembossed card that can be in the customers' hands immediately, they reduce card inventory or pre-printed card stock, aid in end-of-day balancing processes for branch personnel, and streamline the issuance process. Additionally, the printing technology used for unembossed cards is much more reliable, compact and quiet.

### **Reduce Costs and Increase Account Profitability**

As we examine why instant issue helps financial institutions stay profitable, there are key items that stand out as to how it helps banks and credit unions save money and increase revenue while advancing offerings and services to cardholders. These include:

- **Improved Customer Experience:** Delivering a card immediately means customers will not have to wait days or weeks to receive their card, or be concerned that it may be lost or stolen in the mail. In addition, by printing the card's text and images on-site, banks can offer their cardholders increased customization of the card with features like personal photos and co-branding logos – thus increasing customer loyalty and retention.
- **Enhanced Security:** By instantly issuing the cards, the risk of cards lost or stolen in the mail is eliminated. Furthermore, by allowing the customer to select their PIN securely at time of issue eliminates PIN Mailers and the possibility of the PIN being intercepted.
- **Increased Card Usage:** A large percentage of cards delivered by mail are never activated and never used. By issuing the cards immediately to the customer, the activation is automatic. That means higher interchange revenue realized because of increased card activation levels and personal, in-branch customer education.
- **Increased Profitability:** Increasing card sales, activation and usage increases interchange and thus profitability. But furthermore, card usage eliminates check writing and the costs associated. Additionally, electronic transactions reduce float times on POS transactions so NSF fee income can increase. Also, banks and credit unions have the ability to charge an annual fee for highly personalized cards.
- **Reduced Costs:** The cost to produce and mail new DDA account cards and PIN mailers is virtually eliminated. Also, emergency card replacements can be done quickly, conveniently and affordably in the branch eliminating the high costs associated.
- **Increased Cardholder Education:** Instant card issuance improves cardholder education and “steering” so customers perform more signature-based transactions when using their debit card which increases interchange income.
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- **Enhances Emergency Card Replacement:** With data breaches, many financial institutions are forced to rely on card processors to cancel and reissue cards to affected cardholders. However, financial institutions that have an instant card issuance program in place have complete control of the reissuing process. With the capability to instantly reissue cards, banks and credit unions not only eliminate the time it takes for cardholders to receive a replacement card, but they are also able to tremendously reduce costs associated with reissuance. Most importantly, the risk of losing customers and their business is reduced when a card can be reissued quickly.
- **Competitive Advantage in the Marketplace:** Instant issuance is an innovative marketing tool that financial institutions can use to optimize their debit and credit card program. It ultimately increases customer retention, acquisition and cross-selling opportunities.
- **Customer-selected PIN:** Deloitte recently revealed results from a study that clearly indicated that a debit card for which the cardholder does not know the PIN will fall to the bottom of wallet and not likely ever be used. Banks and credit unions are beginning to clearly see the value of customer selected PINs. By enabling the customer to select their own PIN, there will be no additional steps required before the card can be used.
- **Green Initiative:** Consider how much paper is wasted when financial institutions mail new or replacement plastic credit/debit/ATM cards to their customers. Being able to instantly issue a payment card at the branch level eliminates the need to mail a card to the customer – thus cutting down on paper and waste.

### **Instant Issue Implementation Recommendations**

So, how can financial institutions capitalize on the explosion of the debit card market and implement an instant issue program to help them become more profitable?

First, when considering an instant issuance system, it is important for financial institutions to consider their particular needs, as well as whether the package would integrate easily into their existing backend systems. They should look for an enterprise-type system with a single server which controls multiple desktops and connects to host applications and networks.

Second, the solution should be easy to implement at the branch level requiring minimal operational impact and be able to offering robust management, monitoring and security tools for the management team.

Third, the solution should be secure and compliant with the security standards imposed by both Visa and MasterCard. Any system that is not CISP/PABP compliant and compliant to Visa and MasterCard's Instant Card Issuance Security Standards should not even be considered.

And lastly, go with the proven vendor and industry leader even if the investment is a little higher. An investment in an instant card issuance program is a long-term solution that will benefit you and your customers. So, don't be "penny wise and pound foolish"!