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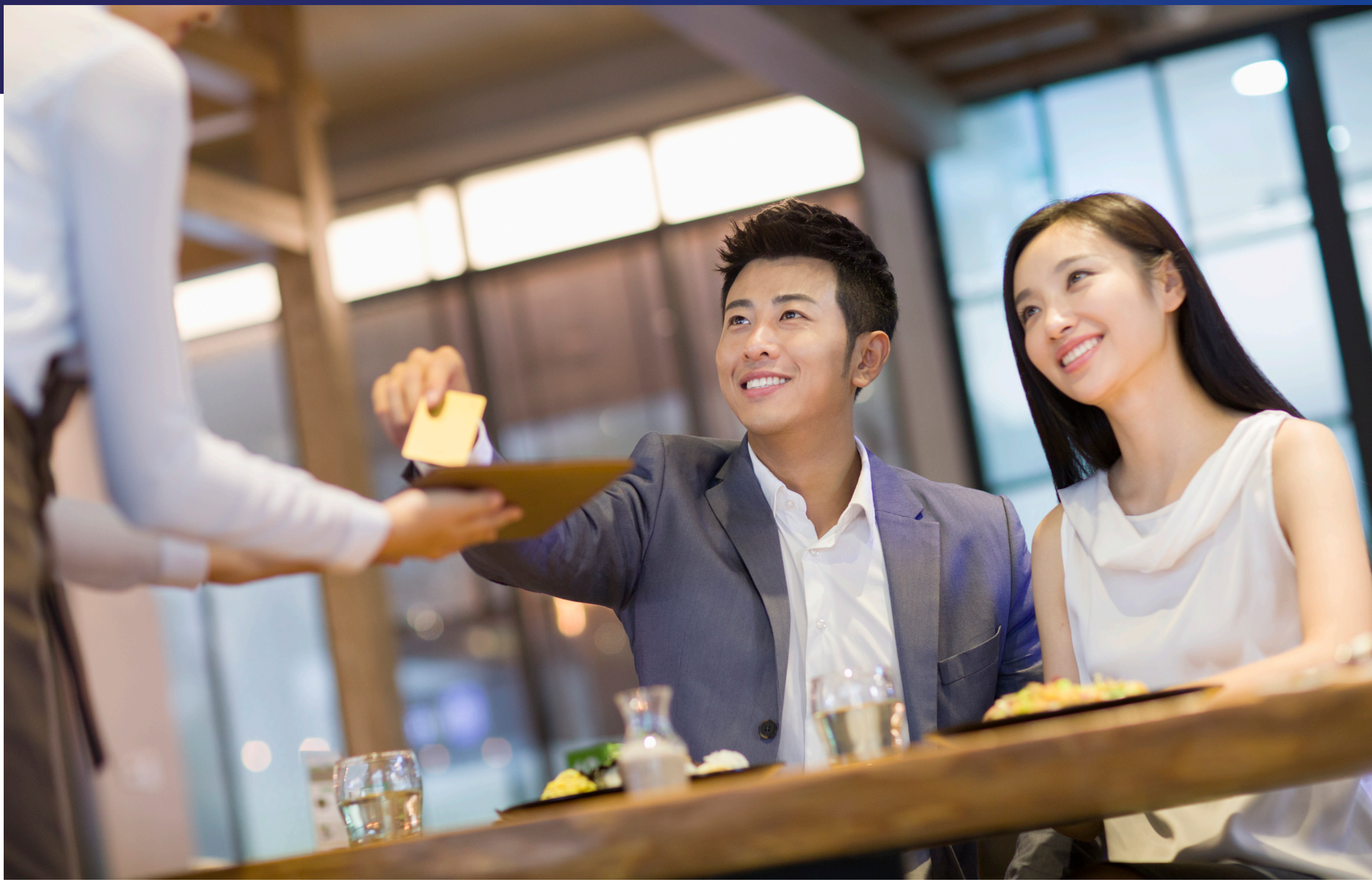


Opinion paper

Acquiring New Credit Card Customers

How to optimize the use of data and digital developments to acquire the best customers

Increased customer expectations have raised the bar

Anywhere you go in the world, today's credit card issuers are facing a mix of challenges as they strive to build and maintain a successful line of business:

- Increased competition is squeezing margins
- Tighter regulation is pushing down on profitability
- While significant up-front investment is required to digitize products and services

And, all the while, consumer expectations continue to rise making it harder to attract and keep good quality customers. Many of the customers who are prime targets for a credit card have grown up with technology and demand faster and more instant answers on credit.

As a recent report from the Boston Consulting Group puts it: In financial services, as in many other industries, digitalization has not only reshaped what's possible but also changed what's expected[1].

In other words, consumer expectations of their credit card provider are being shaped and raised by the experience of other 'digitized' sectors, such as social media, e-commerce, music and TV.

Today, credit card consumers expect relevant, real-time services available any time through intuitive apps that immediately deliver the solution that's right for them. They quickly lose patience with products, services or brands that fail to deliver on any of these dimensions.

If you cannot provide what the customer wants when they want it, increasingly, they will simply "move on". Encouraged by the breadth of offers available and the ease of access to them, they will take their business to a mainstream competitor, or one of the new breed of algorithm-enabled lenders, like Zopa and Wisr.

Optimize your customer recruitment through harnessing data and digital capabilities

As you aim to maximize the number of engaged, quality customers who transact and/or revolve within your credit portfolio, one of the most important audiences to focus on is new customers. Through re-engineering the way these are targeted, evaluated and on-boarded to deliver a "best in class" experience, you will make a valuable and long-lasting impression.

Your approach and capabilities to assess credit risk are core to ensuring that you target and approve the right new customers and grant them the appropriate credit limit. These skills need to be combined seamlessly with those from the marketing and digital teams to optimize customer acquisition, with relevant products offered, premeditated risk assessments undertaken, and faster, frictionless sign-up processes delivered.

Importantly, the entire process can also be integrated and digitized, which adds to the efficiencies as well as the effectiveness.

Putting the right product into the right hands in the right way, at the very start of your relationship with your new customer, lays the foundations for a long and fruitful association.

[1] Global Payments 2017, Deepening the Customer Relationship, Boston Consulting Group.

Reaching quality customers depends wholly on intelligent targeting

When it comes to credit cards, the 'right type of person' to target is someone who is attracted by the product, meets the risk criteria and is likely to regularly use their credit card to transact and/or utilize their credit limit.

In days gone by, targeting people with this degree of accuracy was a near-impossible task. Card issuers would often run "above the line" campaigns in the mass media. They would hope that consumers would do some rudimentary self-qualification; "yes, that looks like the type of card for me". And they would accept that only a proportion of applicants would meet their credit criteria.

Today, there are many more data sources to work with to ensure that the process is quicker and more efficient for both the prospective customer and the credit card issuer. There are new analytical capabilities available and a growing range of external third-party data sources to work with. As a result, card issuers can focus much more accurately on their target customers and also use their data sources to eliminate much of the friction from the on-boarding process.

Your target customers will be in demand and your initial knowledge about them will vary

Therefore, to improve your chances of success you should consider reaching beyond those customers who already have another product with your organization, to those new to your brand. Previously, targeting this latter group would have been extremely difficult to do, but nowadays it is possible to do this very effectively.

The customers who you would like as part of your credit card portfolio are likely to be exactly the same as those coveted by your competitors.

For each of the following three customer segments we will explore in detail the tools that you now have at your disposal to ensure that your targeting for each group aligns with your credit risk appetite:

1. **Your existing customers;** people who you already know.
2. **Non customers who behave like your best credit card customers;** people you don't yet know.
3. **New to banking customers;** people who you, and your competitors, know little, if anything, about. While this is a higher risk segment, it will contain many people who have the potential to become very profitable credit card customers in the future.

1. Your existing customers

The most logical customer segment to focus on, as they already have a relationship with your brand and you already know something about them. And if you hold their main transactional bank account, then the level of insight you have on that customer gives you a significant head-start over your competitors.

Knowing a lot about your customers is not enough to make the most of the competitive advantage at your fingertips. You need to convert this in to actionable intelligence and you may discover that you know more about them than you had assumed. Many issuers find that they can confidently "pre-qualify" their target customers for a credit card right away, without the need for any further credit checks.

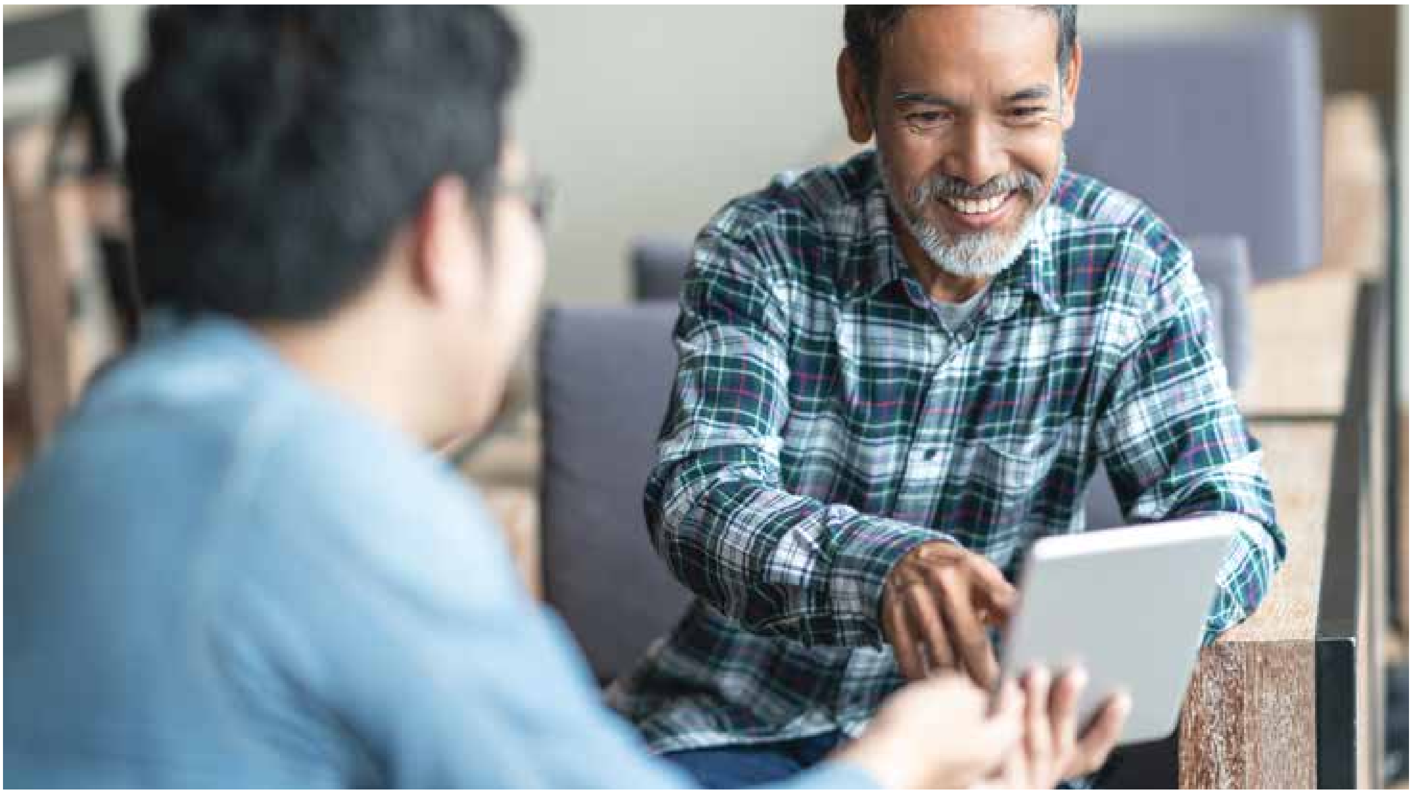
To transform what you know about your existing customers in to insight that works for your organization requires the integration of the demographic data you have on file ("hard" data), with the behavioral data you can observe ("soft" data).

Making better use of your "hard" data

You will hold a lot of data about your existing customers, such as age, employment details, educational qualifications and residential status. For example, if your target customer has their bank account with you, they will have gone through a rigorous Know Your Customer (KYC) process, when it was opened.

Therefore, for a substantial number of the data fields used in your credit risk assessment, you are likely to have the correct information on file. And, for several more data fields, the information can probably be derived, inferred or extrapolated.

Type of data fields that:	Data Fields
Are unlikely to change	• Gender • Nationality • Educational status
Can be derived	• Age • Number of years employed
Can be inferred or extrapolated	• Income (by applying a salary growth curve based on an applicant's age, the number of years they have been employed and their educational status) • Residential status (an applicant who was a homeowner 5 years ago, and whose address is unchanged, is still likely to be a homeowner)



Drawing conclusions from the "soft" data you have available

To supplement the "hard" data, use the equally valuable softer behavioral data that you can capture. This could tell you more about the true risk characteristics of your target customer, including their propensity to pay-down or to default. For example:

- Customers who have a current account and/or a savings account. Create an "affordability of credit" assessment based on account balances and account history
- Customers who have a retail credit product, such as an overdraft or loan. A customer's previous credit-related behavior, including utilization, repayment history and defaults, will inform a credit assessment
- Customers who have recently interacted with your call center or branch employees. A particular type of request or conversation can give guidance regarding the borrowing behavior of a customer. The use of "unstructured" data such as this is increasing

By integrating the demographic and behavioral data you have at your disposal for existing customers it becomes possible to deliver the following business benefits:

- **Minimize your acquisition costs** through improving your targeting by only engaging with those customers who are likely to benefit from a credit card
- **Maximize your response rates** by identifying which of your existing customers are most likely to want a credit card
- **Maximize your approval rates** through ascertaining which of them are most likely to qualify for a credit card
- **Improve the customer on-boarding journey** through pre-populating your online application form, which will remove considerable friction from the sign-up process

2. Non customers who behave like your best credit card customers

Today, there are many ways to accurately target consumers who do not have a relationship with your organization, and to do so in a way that is aligned to your credit risk policies.

In particular, the more sophisticated social media platforms (such as Facebook and Instagram) enable you to target likely customers with near-pinpoint accuracy. Here are just three ways that you can use digital marketing to your advantage, with each one focusing on a different aspect of the acquisition process.

a) Targeting: Use social media platforms to identify 'lookalikes'

You can use social media profiling to construct highly targeted marketed campaigns.
This is how it can be done:

Step 1

An issuer identifies its most profitable customer segment. For example, this could be high spending customers, who utilize their credit limit regularly, and repay their balances reliably.

Step 2

The identifying details for these customers are passed to the social media platform for analysis. These will typically be their mobile number and/or their email address and/or their social media ID number.

Step 3

Which of these cardholders use the social media platform is established through an automated cross-referencing procedure to produce a customer subset.

Step 4

For this subset of customers (profitable customers using the social media platform) an analysis is run to identify some common characteristics. For example, what subjects are of interest? What brands are followed? What are common behaviors, etc.

Step 5

A further analysis is conducted to identify other social media users, who exhibit similar characteristics. They will be selected as the target for an acquisition campaign.

In other words, an issuer can use social media platforms to identify and target a set of 'lookalike' consumers who closely resemble their most profitable cardholders. And logic dictates that these consumers will be attracted by the credit card on offer and be accepted.

b) Improving response rates: Issuers can use digital marketing techniques

With the near universal use of social media platforms by those customer segments that are likely to be good credit customers, their use to improve response rates can be effective. For example, those people who have visited your credit card pages on your website can be automatically re-targeted through social media with follow-up adverts or messaging.

c) Improving the on-boarding journey: Through the use of data provided to social media platforms

At the basic level, it's possible to target those people who meet the necessary demographic requirements, such as age and educational status. Then, by using lead-generation techniques that require people to provide some key data points, such as their name and email address, you can begin to capture the details needed for on-boarding. These basic steps can bring increased efficiency to the acquisition process.

3. New to banking customers

For credit card issuers who are looking to grow their quality account base the "new to credit" segment, also known as the "thin-file" population, represents an interesting dilemma.

This is regarded as a higher risk segment, as due to their lack of credit-line exposure, there is little data to draw upon when making a decision. Therefore it is important for issuers to have stricter vetting criteria when reviewing these candidates.

However, if you can get your credit decisioning right you have the opportunity to capture customers with future potential at an early stage of their working lives.

The potential benefits are significant, not just from credit card related revenue, but also other possible financial services opportunities. Research in Australia has shown that customers generate an average of AU$158k (US$ 112k) net value for their financial institutions over their lifetime and that their Main Financial Institution (MFI) can potentially capture up to 70% of this value.

Credit bureau data is an excellent data source for assessing the credit risk of the "thick-file" population, that is those who have retail credit experience, and in many countries, these bureaus are also looking for ways to assess the creditworthiness of "thin-file" applicants.

Some have begun to partner with payment networks and telecom providers and by assessing transactional data and mobile data, it becomes possible to correlate "thin-file" applicants with their "thick-file" counterparts. This data can therefore act as a proxy for more conventional credit-related data, enabling issuers to make better-informed decisions.

[2] The Value of Lifelong Banking Relationships, Australian RFi research on behalf of Visa, September 2017. US Dollar conversion 23/4/2019, source: XE Currency website.

Accelerating decisioning through the use of third party data and digital channels

There may also be an opportunity to collaborate with other partners, especially those who have established some form of a billing relationship with people in this category. For example, a utility company, retailer, or a mass-transit operator may have established an embryonic relationship, perhaps through a loyalty scheme. They may be open to offering some form of co-branded card, and the data they have gathered to date should help you in your credit assessment.

For all three of the customer segments we have looked at in this paper, credit bureau data is an excellent source to supplement demographic and internal data and provide a more holistic view of an applicant. Indeed, for most issuers in many markets, it is now standard practice to utilize real-time credit bureau data when assessing risk and affordability.

But, as well as assessing risk, credit bureau data plays an important role in removing friction from the on-boarding process to deliver a high-quality customer experience. For example, with access to credit bureau data, the issuer need only ask for a few key data-points, such as the applicant's income, to be able to make a well-informed, near-real-time decision and set an initial credit limit.

The table below provides an overview of how an issuer may use credit bureau data, combined with their own application score, to make a decision and simultaneously assign an initial credit limit. Then, with the completion of the application process and the capture of additional demographic data, there may be potential for the credit limit to be increased.

Top-Level Issuer Decision Matrix

		Issuer Application Score		
		Low	Med	High
Credit Bureau Score	Decline cut-off	Decline		
	Refer cut-off	Refer		
	Low	1	1.5	2
	Med	1.5	2	2.5
	High	2	2.5	3

Example of a "Fast Track" Credit Card Application Through a Digital Channel:

1. A credit card issuer e-mails a potential customer with the offer of a new credit card and **requests just two data fields to initiate the application:** Personal identification number and monthly income.
2. **The potential customer replies to the issuer with the two captured fields.**
3. The combined use of credit bureau data and their own knowledge **allows the issuer to respond within minutes with one of three messages:**
   a) Approval in principle with initial credit limit (subject to verification of income)
   b) Request for additional information
   c) Decline of application with reason for decline

In summary, you can improve the quality of your new credit card customers through better use of data and digital capabilities

The competition for quality credit card customers is intense. And the future success of your credit card portfolio is largely dependent on the quality of your customer base.

To attract the best customers to your organization you need to optimize the way that you target, evaluate and on-board your new credit card customers. The evolution of more data sources (see table opposite), together with digitalization, has raised customers' expectations and the way you recruit new customers has to continually evolve for you to keep pace.

Focusing on the following four key areas can help you do this and the suggested actions pull out many of the key points highlighted earlier in this paper.

Customer Segment	Key Data Sources
Existing customers	**Hard data –** facts, such as age, employment details, residential status. **Soft data –** behavioral information, such as credit related behavior: repayments, utilization, defaults.
Non customers	**Social media data** to identify lookalikes, improve response rates and deliver a better on-boarding experience.
New to banking customers	**Credit Bureau data** to correlate "thin-file" applicants with their "thick-file" counterparts. **Partner data –** those with a usage or billing relationship can help to fill data knowledge gaps.

Important Areas to Address	Actions to Consider
1. Target all quality credit card customers Customers who have an existing relationship with your organization will be a key source of new business, but don't restrict your focus to this group. Digital and social media channels allow you to accurately target non-customers.	• **For existing customers, integrate demographic and behavioral data** to optimize your targeting capability • **Use social media platforms to target quality new customers,** through using profiling of your current "best" customers • **Improve your credit decisioning for "new to banking" customers,** through working with partners to acquire the data required to make the right decision
2. Decide on how to "right-size" your credit assessments It's time to move on from long credit assessments. Customers' don't have the patience, especially if they are using a mobile to apply and/or they know you have the answers to many of the questions you are asking.	• **Review your application form** to see if it can be shortened • **Look to pre-populate data fields** with information that you already know, for the customer to confirm • **"Pre-qualify" customers** where you can, by using all the data sources available to you • **Adopt a two-stage process;** obtain enough information to make an initial decision and then request any further data to refine your offer

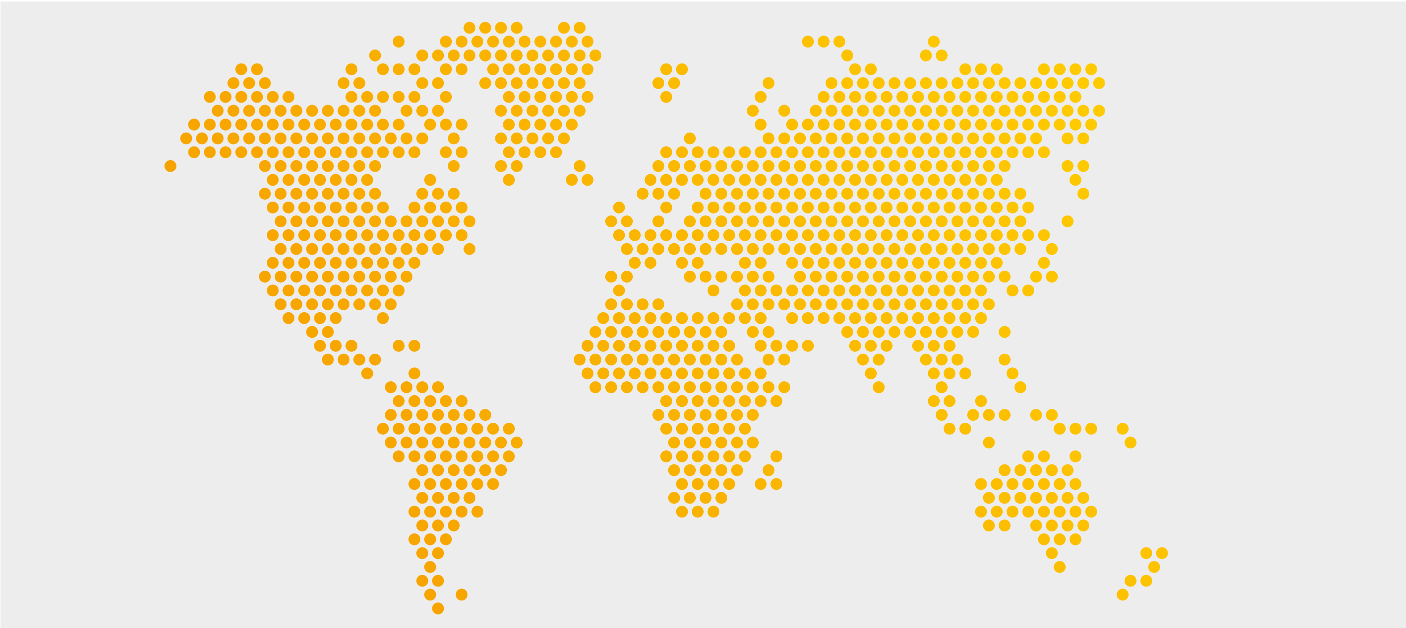
Important Areas to Address	Actions to Consider
3. Be clear on what you know and what you still require to target and evaluate the customer Use all the information you have about your prospective customer, understand what you still require and challenge whether it is absolutely necessary.	• **Use all the demographic data that you have** to better target, evaluate and on-board customers • **Try to derive the information you need** from the demographic and behavioral data you have • **Challenge whether the remaining missing data is essential** to achieve what you want • **Explore filling your data knowledge gaps;** work with partners who have information you don't capture
4. Explore how partners can complement your customer acquisition process You no longer have to build or source all the capabilities and information you need. Find partners who can help you make the improvements required for you to acquire the best customers.	• **Work with digital partners** to improve customer targeting and on-boarding • **Utilize the knowledge of credit bureaus** who have a more holistic view of the applicant • **Reach out to partners who have a usage or billing relationship** e.g. utility or telecoms companies, to fill your data knowledge gaps • **Connect with Visa** who can provide a wide range of tools and advice to help you refine your thinking and upskill your people

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- 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 payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

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.



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