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Point of View

Five Steps for Growing Your Credit Card Program

Understanding Consumer Preferences Is the Key to Growth and Success

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A credit card may be the most profitable consumer product your financial institution offers, so maintaining the health of your portfolio is a top priority. As consumer spending rebounds, it's time to focus once again on growing your credit program.

The pandemic created significant economic turmoil. Beginning in 2020, consumer confidence declined, unemployment rose and government responded with multiple stimulus programs. As a result, financial institutions saw significant increases in deposits and substantial decreases in credit card spending and balances.

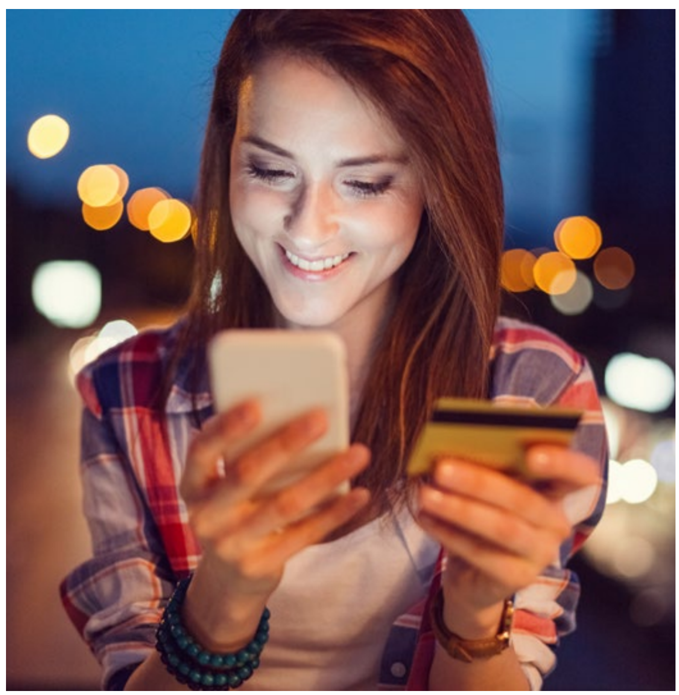
Now economic growth is returning and, with it, consumer enthusiasm for using credit cards. Fiserv research shows that 80 percent of consumers have credit cards. And 73 percent have used them within the last 30 days, according to Expectations & Experiences, a 2021 consumer trends survey from Fiserv, which also found 92 percent are satisfied with their credit card paying experiences. In this positive consumer environment, financial institutions have an excellent opportunity to reboot their credit card programs.

The Steps to Growth

Whatever goals you've set for your credit card portfolio, the key to growth is offering credit card products that satisfy the needs and preferences of the consumers you are targeting.

Here are five steps to ensure you are positioned to meet your consumers' credit card needs and safeguard your role as a trusted financial partner.

1. Segment Your Consumer Base
2. Develop a Compelling Value Proposition for Each Segment
3. Review Your Credit Underwriting Policies
4. Price for Risk
5. Rethink Your Marketing



Step 1:
Segment Your Consumer Base

Consumers generally fall into four motivational segments:

Credit Builders: Individuals motivated by access to a credit card that enables them to establish credit or rebuild damaged credit

Revolvers: Consumers who want to save money and respond well to low introductory rate offers and ongoing low rates and fees

Transactors: A group motivated by rewards, such as an attractive introductory or ongoing rewards earn rate

Affluent: Cardholders motivated by rewards and experiences, who want high credit limits and extra perks and are willing to pay an annual fee to have their needs met

Within each of these segments, we find one or more usage profiles. Recent research by Raddon®, a Fiserv company, categorizes card consumers by their distinct characteristics:

- **Balance Rollers:** Comprising 34 percent of all cardholders, these users don't charge very much and tend to carry monthly balances
- **Heavy Users:** These consumers charge quite a bit, carry monthly balances and make up 18 percent of cardholders
- **Convenience Users:** These consumers charge a lot but manage to pay off their monthly balances; 32 percent of cardholders fall in this group
- **Low-Moderate Users:** Just 16 percent of all cardholders, these consumers don't charge much and pay off their monthly balances

It's important to identify shared traits within your consumer base. Doing so will help you understand the viability of your product set with each profile.

Step 2:
Develop a Compelling Value Proposition for Each Segment

Attracting consumers requires a focus on the features and benefits they care about. For example, revolvers will base the decision to apply for and use your card primarily on your introductory and ongoing rate structure. Transactors will be most concerned with how competitive your new account incentive and ongoing rewards earn rate are. Affluent cardholders will decide based on the new account offer, the rewards rate and the exclusive extra benefits it provides.

Be sure to align your credit card offerings with your consumers' primary motivations.

Step 3:
Review Your Credit Underwriting Policies

By accounting for the individuality of each applicant, financial institutions can grow their card portfolios without excessive risk. Credit decisions can still be based on conventional metrics and indicators, but more holistic reviews enable unique circumstances to be considered.

Remember that a credit card is not just another unsecured loan product. The risk profile of someone you actively solicit for a credit card is very different from that of a customer who requests an unsecured loan. Use appropriate criteria in the approve/decline decision and when making credit-line assignments.

It's also useful to consider how your consumer's application would be viewed by one of the national issuers. A financial institution with no banking relationship with the applicant should not be more willing to extend credit and offer a competitive line than a financial institution to which the consumer has entrusted their primary financial relationship.

Look for ways to get applicants into the right card product. For example, does your financial institution offer small-business credit cards? Make it easier for business owners to apply, so that you don't drive higher spend to consumer cards with lower interchange reimbursement fees.

While you're pursuing new credit card prospects, don't forget about your existing book of seasoned credit cards. These accounts may be stimulated for additional growth if offered a credit limit increase. When deployed before a spend-active calendar season such as back-to-school or the holidays, a credit limit increase can prompt higher engagement and cardholder loyalty.

Finally, be sure to regularly monitor your portfolio for changes in creditworthiness. The process will allow you to take appropriate levels of risk now and handle any future changes judiciously. Your processor can provide you with automated tools to manage your analysis.

Step 4:

Price for Risk

To say "yes" to as many applicants as possible while offering competitive products, you need to ensure you're priced for risk. Consider these factors in your pricing decisions:

- **Cardholder Risk:** Different cardholders present different levels of risk; annual percentage rates should vary with each applicant's risk grade
- **Interest Rate Risk:** Issuers are no longer able to reprice most consumer balances. Offering variable rates can protect your financial institution from interest rate risk while allowing you to price your "A" paper aggressively
- **Product Risk:** Some product types are riskier than others, such as a secured card product for consumers with bad credit or little credit history
- **Loan Type Risk:** Credit card cash advances are a riskier type of lending than purchase advances; some balance transfers may be purchase balances or could in fact be cash advances from another issuer's card

Step 5:

Rethink Your Marketing

A clear marketing approach can help you grow your credit card program. Make sure you're adequately addressing two general marketing categories: acquisition marketing and portfolio marketing.

In acquisition marketing, branch and online channels are the most important for small issuers. Prepare your branch staff to offer credit card products and overcome the most common consumer objections. Make sure your website clearly displays your credit card offerings and that your application is streamlined and easy to find. Keep in mind that your consumer base may not think of your credit card as a loan. Use your branch and online contacts to educate consumers about how credit works.

Portfolio marketing means communicating with your cardholders regularly to encourage card use and engagement. For example, if you have a rewards card, encourage redemption. Engaged cardholders are more profitable and less likely to attrite than those who use their cards infrequently.

Compete to Win

Well-executed credit card programs can generate new income streams, increase cardholder loyalty and provide a competitive edge for capturing new markets. Make it a priority to understand and cater to consumer preferences. By inviting consumers to explore credit card opportunities suitable for them, financial institutions can lay a foundation that will pay big dividends going forward.

About the Author

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