BENEFITS OF CARD-LINKED MARKETING FOR FINANCIAL INSTITUTIONS

Increased Card Usage and Decreased Customer Attrition

cardlytics
reach every one

In the last few years, the Durbin Amendment to the Dodd-Frank Consumer Protection Act has limited banks' ability to generate interchange revenue from one of their customers' preferred methods of payment—debit transactions. Card-Linked Marketing offers banks a way to make up for this loss by increasing card usage, enhancing engagement, and retaining more customers. At the same time, banks can build stronger relationships with their customers and inspire loyalty.

Customer Retention in the Wake of Interchange Fee Limits

Today's financial environment places unnecessary pressure on banks to choose between growing revenue and maintaining customer relationships. On the one hand, banks must invest significant money and effort in acquiring new customers. This often creates pressure for banks to increase fees and cut services. On the other hand, banks benefit greatly from focusing on building relationships with both new and existing customers. According Lee Resource Inc.: "attracting new customers will cost your company [five] times more than keeping an existing customer."[i] In order for banks to make a return on their investment in obtaining new customers, they must 1) recuperate the acquisition costs for new customers, 2) recuperate these costs quickly, and 3) retain these customers long enough to make additional money.

Limits placed on the amount of revenue that banks can generate from debit swipes further increase the importance of retaining customers long enough to make them profitable. Since the Durbin Amendment to the Dodd–Frank Act took effect in 2011, the Federal Reserve has capped the amount of money that banks can charge a retailer for a single debit card transaction.[ii] Banks must find a way to recoup this revenue—without chasing existing customers away with added fees and a decreased offering of services.

Enter Card-Linked Marketing

Banks can reconcile the seemingly separate issues of increasing customer retention and recovering interchange revenue through a single solution that also helps their customers. Beyond providing banks with a source of direct revenue through revenue sharing of advertiser fees, Card-Linked Marketing adds value to banks by transforming the new and existing customers that the banks worked so hard to acquire into continuously engaged, long-term customers who frequently use their cards. This results in the following six additional benefits for banks:

1. Increasing card spend
2. Attracting new retail customers
3. Decreasing attrition rate
4. Building relationships with business customers
5. Enhancing relationships with existing customers
6. Increasing online and mobile use

Each of these benefits helps grow bank revenue by attracting customers, retaining them, and ultimately, making them more profitable.

Increasing Card Usage Behavior

Since the Durbin Amendment, interchange fee limits placed on debit transactions have affected banks' revenue by reducing one of their greatest revenue opportunities. According to a Federal Reserve study conducted on payments made from 2006 to 2009, debit payments alone made up 35% of total noncash payments.[iii] The prevalence of debit transactions combined with interchange limits creates significant potential for banks to lose revenue. Banks have two major options for offsetting this effect:

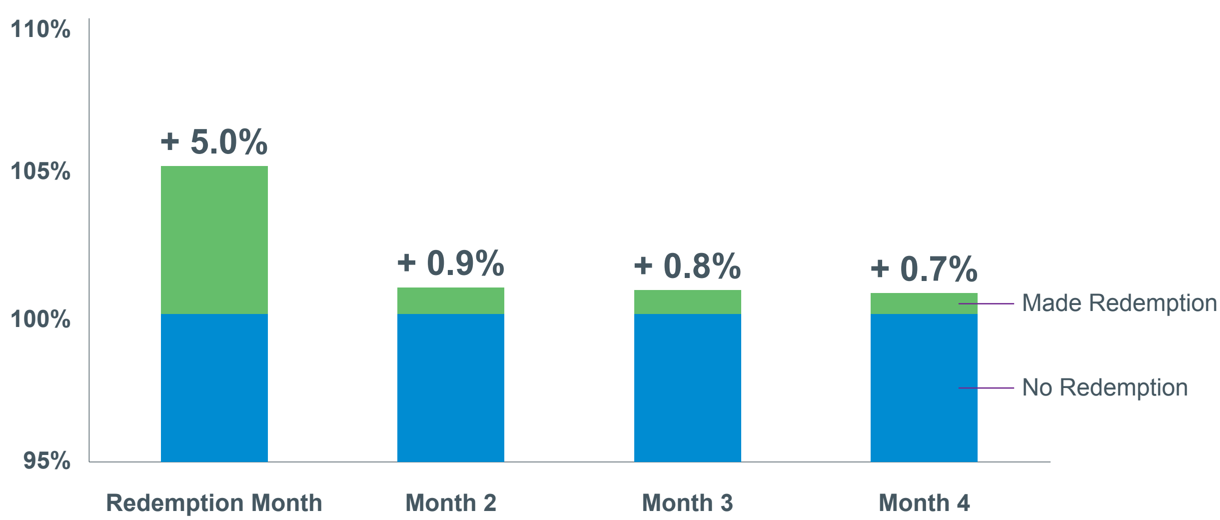
1. Increasing the frequency of small ticket debit transactions per customer
2. Increasing the total amount the customer spends in a single credit transaction (interchange feeds are not capped for credit card transactions)

Card-Linked Marketing helps banks with both options. It gives banks a way to compensate for restrictions on revenue from debit interchange fees by increasing both transaction volume (swipes) and spend. Month over month, customers who have redeemed at least one Cardlytics card-linked reward have an average of 4% more trips and an average of 4% more spend than customers who do not have the program.[iv] These lifts in both spend and trips directly lead to an increase in interchange fee revenue. Our data shows that even customers who engage in the program by simply activating their rewards still have a higher average of both trips and spend—even if they don't redeem.

Increased Spend and Credit Interchange

Card-Linked Marketing's ability to elicit an overall behavior change in participating customers produces a distinct effect on credit interchange. According to a Cardlytics study, a customer's first redemption drives a 5% increase in their total spending for that month. Even if customers do not redeem each month, we have seen that just having this first redemption drives more overall spend on their card for each of the subsequent months as compared to a customer who did not redeem. Therefore, program engagement drives a sustained lift in spend over time. Because credit transactions are not subject to interchange limits, these engaged customers can drive sustained interchange fee revenue for credit transactions.

IMPACT TO TOTAL MONTHLY SPEND AFTER FIRST REDEMPTION



Source: Cardlytics

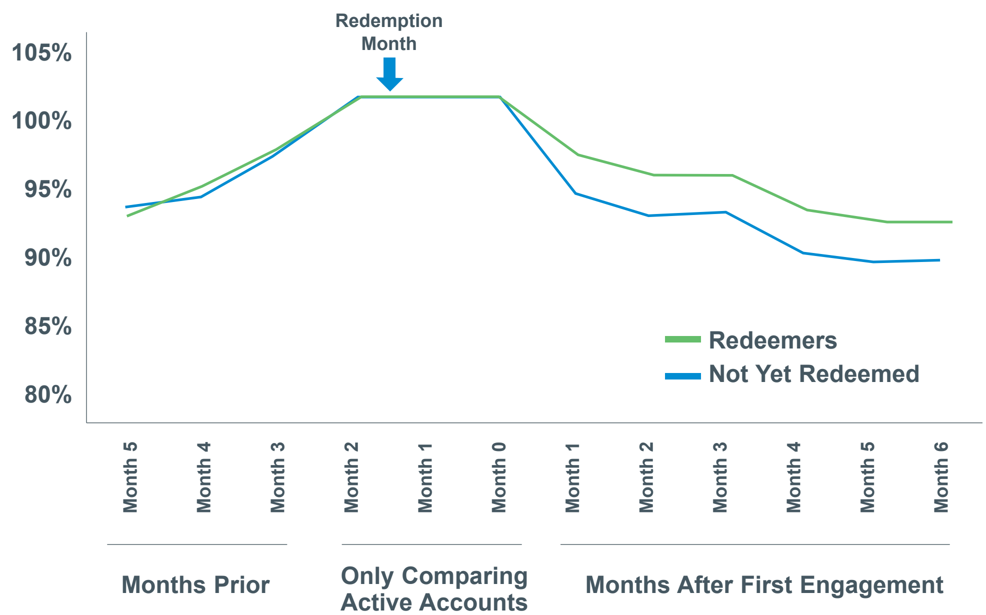
Attracting New Customers and Retaining Existing Customers

Because rewards programs attract young customers, banks that provide a Card-Linked Marketing solution can acquire these customers without spending money on large acquisition costs. According to a 2012 study by AlixPartners, 49% of customers between the ages of 26-34 are likely to switch card providers in order to get access to a targeted rewards program.[v] Although Loyalty and Rewards programs initially drive customers to switch banks, the Cardlytics Solution helps the new banks retain customers who have made the switch.

As banks continue to engage these customers with relevant rewards, they also keep these customers as active account holders for a longer period of time. A Cardlytics Study shows that customer engagement with Card-Linked Marketing produces an overall decrease in attrition rate at the bank. In the study, the attrition rate decreased by 26% on the credit side and by 19% on the debit side six months after the first redemption.[vi] While this lower attrition rate causes overall spend and account utilization to increase for both credit and debit customers, the effect was particularly pronounced for credit. This outcome is crucial when considering interchange fee revenue.

The redeemers not only show a higher retention rate, but they also stay more engaged than the retained customers who are non-redeemers. The following chart observes customers who were active on their accounts between October 2012 and December 2012, normalized by spend:

ON AVERAGE, CUSTOMERS THAT REDEEM ARE 2% MORE ENGAGED IN ONLINE BANKING



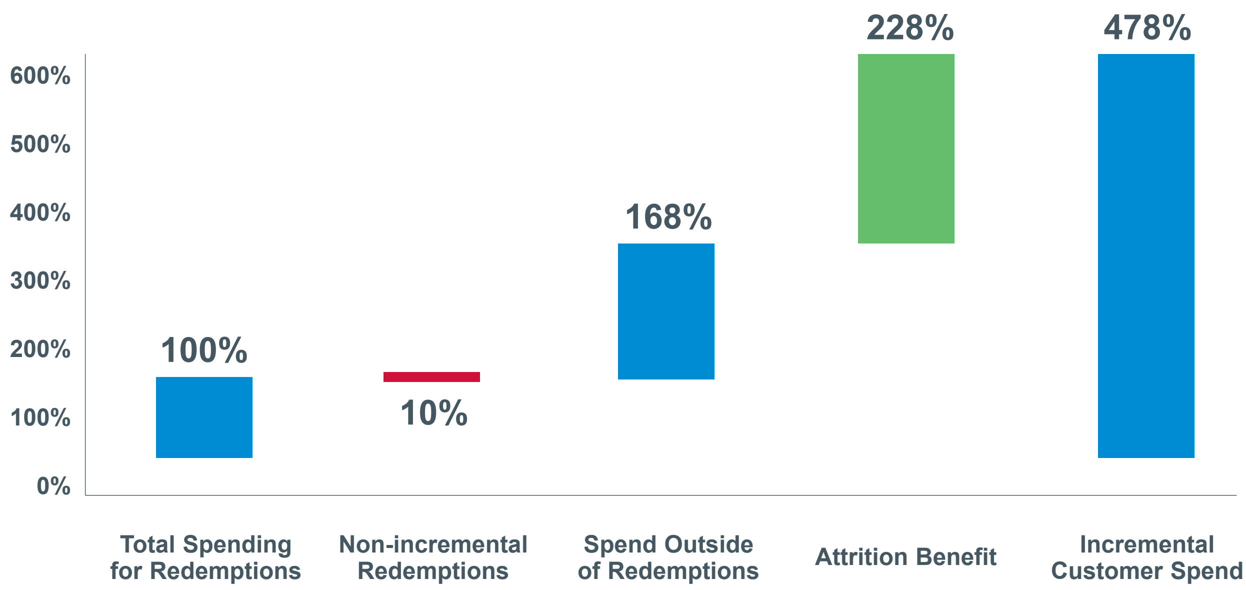
While both groups exhibited similar trends in activity in the months leading up to the redemption month of October, the percent of customers who were active on their accounts after making a redemption remained consistently higher than the percentage of non-redeeming customers who remained active on their accounts.[vii]

Card-Linked Marketing's ability to simultaneously drive incremental spend and reduce account attrition creates a significant effect. Customers who have engaged with the program by making a first redemption continue to stay active on their accounts. As we have seen, these redeeming customers also continue to spend more than non-redeeming customers. As a result, Card-Linked Marketing decreases the attrition rate while also retaining more people who are actively engaging with their accounts by spending more per trip.

Because credit has a higher average spend than debit and is not subject to the same interchange fee limitations, the increase in spend becomes a powerful way to help compensate for interchange limits on debit swipes. As a result, true spend value for a redeeming customer is amplified to nearly five times that of redemption spend, and the retained customers become considerably more profitable for the bank.[viii]

INCREMENTAL SPEND TO FINANCIAL INSTITUTIONS 12 MONTHS AFTER CARDLYTICS LAUNCH

(Relative to redemption spend)



Changing the Conversation with Business Customers

Card-Linked Marketing not only creates a tangible economic value add for banks but it also strengthens banks' relationships with customers and inspires customer loyalty.

Card-Linked Marketing changes the relationship between banks and their business bankers by switching the conversation from reducing cost to generating revenue. Our financial institution partners utilize the Cardlytics Solution to both extend relationships with their business banking clients and gain new business. The conversation changes from rates and interchange fees to focus on ways business banks can help their customers save money. This is a much easier conversation to have as a business banker.

Card-linked Marketing builds tighter B2B relationships for financial institutions

A popular restaurant brand wanted to target and reward their best customers; however, they were experiencing challenges. Their business banker presented card-linked marketing as a possible solution. Now, the advertiser can easily reach their best customers. This was a solution they never expected from their banking partner.

Recently, a business banker prospected a 150-location restaurant franchise for several months. The advertiser accepted their first meeting because they wanted to learn more about card-linked marketing. The advertiser is now both a banking customer and a card-linked marketing customer.

A major gas and convenience retailer works with several financial institutions, and their banking partner is a minority owner. The financial institution used card-linked marketing to create added value and sell additional banking products. The advertiser is driving frequency, trips, and increased spend thanks to their banking partner.

One business customer commented, "Our bankers are acting like our marketing advocates." By offering their business banking clients a unique advertising platform, our financial institution partners are able to offer their clients something that other banks cannot.

Enhancing Relationships with Existing Customers

Card-Linked Marketing provides banks with a way to create loyalty and brand value with their customers. Rewards are easy to use and help customers save money on the things they buy every day. The average customer redeems between one and three rewards per month. Since there is no limit on savings, some customers have saved hundreds in one month. The top quartile consistently saves over $120 per year.[ix]

Increasing Online and Mobile Use

Card-Linked Marketing creates additional touch points between banks and their customers by increasing online banking and mobile banking logins. We see a 16% increase in online banking logins for those customers that have activated a reward. That equates to 1.2 additional logins per month.[x] Customers do not even have to redeem in order to generate this increased engagement. Just the activation event alone drives more customers to log into their online banking accounts.

Banks can also connect with their customers through our widely implemented mobile solution. Approximately 95% of our client base has adopted our mobile solution, and we have over 15 million unique users logging into mobile banking per month on a consistent basis.[xi] Our mobile solution has proven to increase customer engagement by providing an additional avenue through which customers can view advertiser rewards and easily redeem them using our geocapabilities. We have seen that 30% of activations come from mobile within the first six months of adoption, and this number continues to increase.[xii]

Conclusion

Card-linked Marketing gives banks a way to meet a variety of needs all at once. Not only does Card-Linked Marketing attract new customers to the bank, but it also has a unique ability to drive incremental spend and reduce account attrition. This, in turn, creates significant interchange revenue potential. Banks can experience these returns in a way that also creates value for both their cardholder customers as well as their business customers. By using a solution that provides these benefits, banks can change the structure of their relationships with both new and existing customers in order to make them stronger and more meaningful.

About Cardlytics

Cardlytics is a leading advertising and technology company, and the pioneer in Card-Linked Marketing. Cardlytics partners with nearly 400 financial institutions including Bank of America, PNC, Regions and Lloyds Banking Group, providing insight into consumer purchase behavior for ~70% of U.S. and ~30% of U.K. households, across all stores and categories. Cardlytics' patented technology allows advertisers to make a direct connection to millions of active buyers, through online banking and mobile banking applications. Cardlytics advertisers are retailers, restaurants and consumer-facing brands, and represent hundreds of national companies and thousands of regional and local businesses.

Cardlytics is headquartered in Atlanta, with offices in London, New York and San Francisco. The company is funded by leading investors in Boston and Silicon Valley, as well as a strategic investment from the world's leading loyalty company, Aimia.

Citations

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[ii] FRB Press Release. (2011, June 29). Retrieved June 10, 2014, from Federal Reserve: http://www.federalreserve.gov/newsevents/press/bcreg/20110629a.htm

[iii] FRB: Press Release--Federal Reserve study shows more than three-quarters of noncash payments are now electronic--December 8, 2010. (2010, December 8). FRB: Press Release--Federal Reserve study shows more than three-quarters of noncash payments are now electronic--December 8, 2010. Retrieved June 27, 2014, from http://www.federalreserve.gov/newsevents/press/other/20101208a.htm

[iv] Cardlytics Data, "Impact of Cardlytics Platform on Card Usage ." Unpublished raw data. (Slide 3)

[v] (2013, July). Understanding Consumer Digital Couponing Behavior. Mobile Payments and Digital Couponing Studies July. Study conducted from AlixPartners.

[vi] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 5)

[vii] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 7)

[viii] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 8)

[ix] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 14)

[x] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 10)

[xi] Cardlytics Data. Unpublished raw data.

[xii] Cardlytics Data. "Impact of Cardlytics Platform on Card Usage Retention Mobile and OLB usage." Unpublished raw data. (Slide 11)