Increasing Performance of Debit Card Portfolio

David Anderson

XYZ Bank

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Contents

Executive Summary

XYZ Bank has a debit card portfolio consisting of 7,394 consumer debit cards, business debit cards and HSA cards. In 2019, the debit card portfolio generated $634,614 in interchange income for the bank. Despite the bank's asset growth, debit card activity decreased 7% in 2019. An analysis of the card portfolio and an action plan is needed to protect and enhance this significant source of non-interest income.

An analysis of the card portfolio has been performed and will focus on four key performance metrics: DDA Penetration, Activation Rate, Annual Number of Transactions, and Average Ticket. The DDA penetration rate of debit cards is 43.09%, which is well below the industry standard of 75%. The other three metrics are all performing above industry standards. The activation rate is 81.81% compared to an industry standard of 67%. The bank's cardholders perform an average of 298 transactions per year at an average ticket amount of $43.37. The industry standard is 297 transactions per year with an average amount of $39.34 per transaction. These four metrics indicate that once our customers are issued a debit card, they are actively using them at rates above our peers, however our weakness is deploying cards to our customer base.

Optimization models[1] show that an increase in the DDA penetration from 43.09% to 50% would result in additional revenues of $391,536, a 40% increase. In a fully optimized portfolio where the DDA penetration is 75%, the models indicate an additional $1,078,509 in

[1] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

revenue. The bank has a great earning opportunity within its card portfolio, and it should become a strategic focus by implementing a plan to enhance the portfolio.

To begin this process, the bank should designate an officer to manage the implementation of this plan and to manage the card portfolio going forward. The portfolio manager will work closely with other business units of the bank including, Data Analytics, Retail Sales, Treasury/Business Development, and Marketing to fully implement the plan. The plan to enhance the performance of the debit card portfolio will contain, but are not limited to the following:

- Develop process for measuring debit card performance
  - DDA Penetration, Activation Rate, Utilization, Transaction Volumes, Revenue, Average Spend
  - Compare metrics to industry standards
  - Report metrics to management regularly to gauge progress
- Initiate plan to increase DDA Penetration
  - Revamp and rollout new rewards program
- Develop Marketing Strategy
  - Employee training and education
  - Customer training and education
  - Marketing materials for appropriate channels
- Evaluate other factors affecting the portfolio
  - Increase Reg E Opt-in
  - Evaluate bill pay products that use debit cards rather than checks
  - Evaluate increasing debit card limits to increase average spend

The proposed plan requires minimal initial investment from the bank since it is an established business line. Most of the expense items associated with card usage are transactional charges that are offset by the interchange income received. Net income simulations were completed that account for rising income and related expenses that would occur with additional cards in increments of 500. There was an increase in net income in all tier scenarios ranging from $39,465 with 500 additional cards to $159,581 with 2,000 additional cards. The fully optimized portfolio shows an additional $639,835 in net income.

Net income models to forecast the effect on income of adding of low performing cards were completed to measure the earnings risk in less optimistic scenarios. These models assume that each tier of 500 will perform at half the rate of the bank average for the first year. All tier scenarios show a positive effect on net income except the first 500 cards. The first 500 cards result in a slight drop in net income of $13,210 before they begin performing at higher levels in year two. The financial models indicate minimal financial risk in implementing the plan to enhance the portfolio but show tremendous upside in earnings potential.

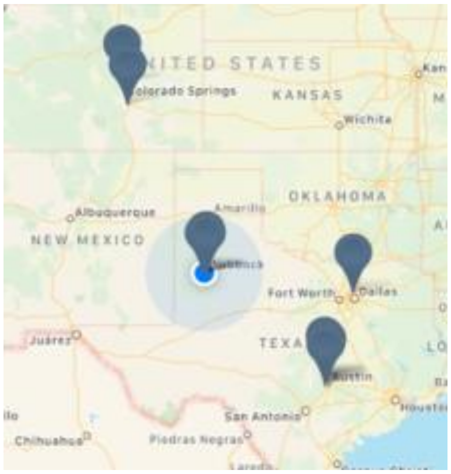
Non-financial factors were also identified as well as plans to manage them. Many of the non-financial factors feed into each other and relate to financial factors. Goal alignment among employees will be vital in increasing sales productivity. Higher sales productivity should result in higher product usage by customers, which will result in higher revenues for the bank. In addition to higher revenues, this plan should create a more desirable debit card product for our customers which will help create a stickier relationship and increase customer retention. Managing the non-financial factors addressed in this plan should result in increased long-term profitability for the bank.

The debit card portfolio is a significant source of non-interest income for the bank that is currently underperforming. After reviewing the financial and non-financial impacts of this plan, the bank is well-positioned to significantly increase its earnings from the debit card portfolio as well as improve customer acquisition and retention and can do so with little investment and minimal risk. XYZ Bank should make debit cards a strategic focus by implementing this proposal to increase the performance of the debit card portfolio and in turn increase the bank's revenue performance.

Introduction and Background

XYZ Bank is a privately owned community bank that was founded in Texas in 1962 by our chairman. The bank first opened as State Bank and the first branch was a temporary structure until moving to the first brick and mortar building in 1963. State Bank changed its name to XYZ Bank in 1972. The Chairman's family continues to own and manage the bank today. In 2013 The Chairman retired but continues to serve on the Board of Directors as Chairman Emeritus. Upon his retiring, his son, took over as Chairman of the Board.

The bank was originally founded to serve the financial needs of local farmers by providing them with a more convenient banking center that was closer to them than the banks in Lubbock, TX. XYZ Bank and the communities it serves have changed greatly since 1962. Since 1962, XYZ Bank has transitioned from an agricultural bank in rural Texas into a geographically spread commercial bank with 13 branches in Texas and two in Colorado.



XYZ Bank ended 2019 with $981,120 in average assets. The bank has experienced accelerated growth in 2020 primarily due to the Payroll Protection Program (PPP). At the end of June average assets grew to $1,177,571. In the last year loans have grown 21% and Deposits have increased 31%. ROA in June increased to 1.35 from 0.97, but this number is inflated due to receiving SBA fees for the PPP loans the bank originated earlier this year. ROA is expected to decrease in the months ahead due to the low yields associated with PPP loans as well as the current economic environment that is leading to lower loan demand and potential credit issues.

XYZ Bank specializes and focuses on commercial lending, specifically commercial real estate. Real Estate makes up 67% of the bank's loan portfolio followed by Commercial & Industrial at 29.5%, 2.5% for Agriculture and Consumer only amounts to 0.61%. The bank has spent many years developing relationships with real estate developers in the markets they serve as part of the commercial banking strategy. Historically, the bank does not place an emphasis in consumer banking within its strategy. Although consumer products are not the primary focus, the bank offers a variety of competitive products to attract the consumer relationships of the commercial customers they serve.

As stated earlier, the current economic environment is creating a lot of uncertainty in our industry. The results of businesses being forced to close or operate at a limited capacity is yet to be determined, but we can expect that many businesses may not be able to survive. This presents a concern for a bank that relies heavily on commercial real estate as we are experiencing a decrease in loan demand and tightening margins due to the low rate environment. Management will need to look to other areas of opportunity to increase performance.

Improving Non-Interest Income should become a strategic priority for management as we move forward. A large contributor to non-interest income is interchange income from the debit card portfolio. In 2019, XYZ Bank made $634,614 in interchange income from debit cards. This is a significant amount of income for the bank. However, despite the bank's asset growth, card activity has declined 7% in the last year, which is a trend that needs to be reversed. Using models[2] provided by Profit Resources, four card portfolio metrics were analyzed to determine the health of the portfolio: Activation Rate, Annual Number of Transactions per Card, Average Ticket and DDA Penetration. Activation Rate, Annual Number of Transactions per Card and Average Ticket are all above industry standards. The DDA Penetration Rate is 43% which is well below the industry standard of 75%. The DDA Penetration Rate measures the number of debit cards compared to the number of DDA accounts (Demand Deposit Accounts).

Debit Card Portfolio Metrics		
Metric	**Total**	**Industry Standard**
DDA Penetration	43.09%	75%
Activation Rate	81.81%	67%
Annual # of Transactions per Card	298	297
Average Ticket	$ 43.37	$ 39.34
	Below Industry Standard	
	Above Industry Standard	

The DDA Penetration Rate of the card portfolio presents an opportunity for the bank to increase revenues and overall financial performance. Interchange income can be significantly

[2] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

increased by increasing card adoption among our customer base. Optimization models[3] provided by Profit Resources show that increasing the DDA Penetration Rate slightly to 50% could result in additional $391,536 in interchange revenue which is a 40% increase. In addition to the improved revenues this could create, the bank's contract with MasterCard is up for renewal in 2022. MasterCard pays signing bonuses based on card portfolio performance, therefore by enhancing the performance of the portfolio the bank could also benefit from a higher bonus tier[4]. Currently, the debit card portfolio does not have a product owner and various aspects of debit cards are delegated among multiple departments of the bank. Without a product owner it is difficult to have a strategy for the program and without a strategy, it can be very easy to overlook an underperforming portfolio. The bank could capitalize on this opportunity by implementing a program to enhance the debit card portfolio with an initial focus on increasing debit card penetration of the customer base.

Strategy and Implementation

As the bank has grown over the years, so has the debit card portfolio as more customers transition away from traditional channels such as cash and checks and move to electronic methods of payment. XYZ Bank has been able to make significant amounts of income for their card portfolio with a limited amount of management and oversight; however, the bank stands

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[3] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

[4] Mike Holt, Profit Resources Inc, Phone Interview, June 18, 2020, 1:00 CST

to increase their earning power by committing to a structured debit card management program.

The debit card portfolio should become a strategic focus of the bank's management team. To begin this process, the bank should designate an officer to develop a debit card portfolio management program and to manage the card portfolio going forward. Under this program, the portfolio manager will work closely with other business units of the bank such as Data Analytics, Retail Sales, Treasury/Business Development, and Marketing. The program will initially include the following items which will be discussed in greater detail in a later section: Development of a process to measure debit card performance based on key metrics, develop a strategy to increase DDA penetration, develop a marketing strategy, develop a training strategy for employees and customers, and to evaluate other factors that affect card performance.

Once the development of the program is underway by the designated portfolio manager, the portfolio needs to remain a strategic focus. Accountability needs to be established through regular communication and reporting to the bank's management team. This can be achieved by regular reporting of performance metrics as well as new initiatives to the bank's Technology Committee which reports to the Board of Directors. The tracking and reporting of performance metrics should provide management with a clear picture of the success of new initiatives as well as opportunities and weaknesses within the debit card program.

Debit interchange generates approximately 25% of banks' non-interest income on an aggregate basis.[5] In 2019, XYZ Bank earned $634,614 in net interchange income and $6,843,000 in total non-interest income. Interchange income only represented 9.27% of non-interest income for XYZ Bank compared to the industry's 25%. This comparison to the industry coupled with the DDA penetration rate mentioned previously of 43% being well below peer establishes that there is a great opportunity for improvement within the card portfolio.

Although the current pandemic has created many challenges for banks such as lower margins and decreased loan demand, it is also presenting new opportunities. Card not present transactions have increased during the pandemic due to businesses being closed and consumers having to make their purchases online rather than in a store.[6] XYZ Bank's data reflects this trend as well as we see Signature (SIG) transaction growth outpacing PIN transactions. From January through August of 2019, SIG transactions grew at a rate of 11% while PIN transactions only increased 6%. Pulse[7] expects that they expect the pandemic to continue to affect consumer behavior resulting in higher rates of card not present transactions. This shift in consumer behavior is beneficial to banks because SIG transactions earn a higher level of interchange than PIN transactions. Before considering expenses, XYZ Bank earned an average of $0.76 in interchange income per SIG transaction in August 2019 versus $0.27 per PIN

[5] Pulse, A Discover Company, "2020 Debit Issuer Study."

[6] Pulse, A Discover Company, "2020 Debit Issuer Study."

[7] Pulse, A Discover Company, "2020 Debit Issuer Study."

transaction. A SIG transaction is almost three times the amount of income per transaction for XYZ Bank. This opportunity of increased interchange income driven by a change in consumer behavior combined with the possible decrease in lending related revenue created by the pandemic, create optimal timing for the adoption of this proposal.

Debit Income

	Aug	
PIN Debit Transaction		**$/Transaction**
Transaction Count	61,331	$0.76
Income Amount	$16,992	
Signature Debit Transaction		**$/Transaction**
Transaction Count	100,126	$0.27
Income Amount	$76,581	

By implementing a debit card portfolio management program, the bank can take control of this line of business to increase its earnings. In addition to adding to the bottom line, more attention to debit cards will allow for the management team to make adjustments to the product to make it more appealing to current and prospective customers, solidifying customer loyalty and creating a better product to attract new business.

The first step in implementing this new program is to appoint the manager of the card portfolio. I am proposing that I would assume this new responsibility. I managed the bank’s fraud department for three years and that has been my only experience with debit cards. There is much more to debit cards than fraud, so this presents a vast learning and development opportunity for me as well as an opportunity for the bank to have a tenured operations officer to manage this process. A vital piece to this plan is Marketing, which is another area that I have not previously worked in and provides another opportunity to further my development. Since the bank has never had anyone to manage the portfolio or have any centralized monitoring, this project is a large undertaking as all processes that will be discussed below will have to be created.

Measuring the performance of the debit card portfolio will be a critical component of the management process. Regular tracking of key debit card metrics will need to be established and reported to management. The key metrics the bank will need to track are DDA penetration, activation rate, annual number of transactions per card, and the average ticket. DDA penetration is a measurement of the percentage of the bank's DDA accounts that have a debit card attached to them. To calculate 100% DDA penetration, you multiple the number of DDA accounts the bank has by 1.25. By using the multiplier of 1.25, you achieve a more accurate target as many DDA accounts may have multiple signers with each having a card. If each signer has a card, that is more transaction potential. The DDA penetration is then calculated by dividing the number of activated cards on file by the 100% DDA penetration. Activation rate is a measurement to determine what percentage of activated debit cards have had a transaction within the last 30 days. To calculate the activation rate, you divide the number of cards with activity within the last 30 days by the number of activated cards. Annual number of transactions per card is calculated by dividing the number of debit cards transactions the bank has by the number of activated cards. This could be calculated with annual data or by annualizing monthly data. Average ticket shows the bank the average dollar amount of a debit card transaction. This is calculated by dividing the total purchase volume by the number of debit card transactions. These are four of the most used metrics to gauge debit card performance and there are industry standards to compare these metrics to. For this project, we will use industry standards and tracking templates provided by Mike Holt of Profit Resources Incorporated[8]. Below is an example of tracking that will be used to analyze the debit card portfolio and to measure the success of the project as we move through implementation. As you can see, there are other metrics that will be tracked in addition to the four key metrics discussed above.

	Totals	Industry Standard
# of DDA's	13,728	
# of Cards	7,394	
100% Penetration = 1.25 cards/account	17,160	
DDA Penetration	43.09%	75%
Active Cards (within last 30 days)	6,049	
Activation Rate	81.81%	67%
Annual # of Transactions	1,802,985	
Annual # of Transactions per Card	298	297
Annual Purchase Volume	$ 78,196,071	
Average Ticket	$ 43.37	$ 39.34
Gross Interchange	$ 991,025	
Blended Interchange Rate	1.27%	
Revenue per Active Card	$ 163.83	

You can see that the bank is well below the industry standard for DDA penetration at 43.09%. XYZ Bank has a BIN for both consumer and commercial debit cards so further analysis should be performed to break these metrics down further to see if the below average performance is driven by both BINs and if one needs more attention than the other. Upon analysis of the DDA penetration rate of the BINs separately, the consumer BIN has a DDA penetration rate of 55.03% and the business BIN has a rate of only 18.15%. The DDA

[8] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

penetration of our business BIN is much lower than the consumer BIN. Business debit card transactions typically only represent about 8% of transactions for a bank[9], so the lower rate is common. In the Strategies for Increasing Non-Interest Income session in year two of Stonier, Mike Holt mentioned that business debit cards earn higher interchange rates than consumer cards and the transactions are typically higher spend purchases[10]. With business transactions having more earning power and the penetration rate being low, it presents a good opportunity for XYZ Bank being a commercial bank. While lending is the priority with commercial customers, it appears that the bank is missing out on their debit card business which could add to customer profitability. The activation rate of both BINs is good as shown below. This shows that our cardholders are using their cards once they have them and we should place more focus on getting cards out to customers that do not currently have them.

Penetration and Activation by BIN

	# of DDA's	100% Penetration	# of Cards	# of Active Cards	DDA Penetration	Activation Rate
Consumer	8,888	11,110	6,114	5,222	55.03%	85.41%
Business	4,892	6,115	1,110	800	18.15%	72.07%
Total	13,780	17,225	7,224	6,022	41.94%	83.36%

For the bank to increase DDA penetration of debit cards, multiple items need to be addressed including the rewards program, marketing, employee education and customer education. The bank has offered a cash back rewards program for debit cards since January of

[9] Pulse, A Discover Company, "2020 Debit Issuer Study."

[10] Mikelle Brady, Mike Holt, "Strategies for Increasing Non-Interest Income", Stonier Session and PowerPoint, June 2020.

2016. Customers that have the cash back checking account receive $0.05 for every PIN transaction and $0.10 for every SIG transaction. The rationale behind this program was to encourage customers to use their debit cards to increase card usage as well as drive spending behavior from PIN to SIG transactions. To analyze the effectiveness of this we will look at the transaction levels 10 months prior to implementing the rewards program and compare it to a more recent 10-month period. The recent 10-month period selected is pre-COVID for a more accurate comparison that does not contain the drop in transactions caused by the pandemic. As the table below shows, total transactions only grew at a rate of 1.58% since the implementation of a rewards program. However, the mix of PIN and SIG transactions did change during this time. Prior to rewards, 52% of card transactions were PIN and 48% were SIG. After implementing rewards, this mix shifted to 39.92% PIN and 60.08% SIG. This shift does provide evidence that there was a slight shift in spending behavior, which does benefit the bank since SIG interchange is almost three times more than PIN transactions as previously discussed. This shift is positive, however, after three years the bank would have hoped for more change. This could indicate that the program is stale and there is an opportunity to refresh it.

Cash Back Rewards Analysis				
	Pre Rewards		Post Rewards	
	Avg. # Transactions	Mix	Avg. # Transactions	Mix
PIN	74,646	48%	62,944	39.92%
SIG	80,555	52%	94,716	60.08%
Total	155,201		157,661	
% Change in Total Transactions		1.58%		
Average Monthly Rewards Paid		$3,016		
Rewards paid for PIN		$1,204.10		
Rewards paid for SIG		$1,811.88		

We have established that SIG transactions pay more in interchange and that is the behavior we want from our customers. In conversations with Mike Holt with Profit Resources[11], he pointed out that online purchases and recurring debit card transactions are the highest earning transactions. A change should be made in the rewards program to drive customers to use our debit cards for these transaction types. The new program would continue to incent customers $0.10 for each SIG transactions but would remove the $0.05 paid on PIN transactions since paying rewards on these is taking away from what little we are earning on these transactions. With the funds that are saved from not paying on PIN transactions, the bank can offer monthly prizes for chosen criteria that could change from month to month to keep the program fresh. A popular online merchant or subscription service would be chosen for a month and any cardholder with a debit card transaction to the specified merchant would be entered for a random drawing for a specified prize. For example, in November if you have a

[11] Mike Holt, Profit Resources Inc, Phone Interview, June 18, 2020, 1:00 CST

transaction to Netflix, you will be entered into a random drawing for a TV. This would benefit the bank because now one of XYZ's debit cards is the recipient of the recurring charges from Netflix going forward. The following month could be $500 in gift cards to local restaurants for a charge to Door Dash. This accomplishes the bank's debit card being set up in the Door Dash app to be used for future purchases as well as being able to support the local economy with the reward being from a local business. This process would not be complicated to manage. It would require a report be generated for cards containing a transaction to that merchant and assigning each card a number. From that point, you would use Google's free random number generator to assign the winning number that corresponds to the card. This refresh to the rewards program would make our debit cards more attractive to customers that do not currently have a debit card as well as drive the desired behavior of our existing cardholders.

This rewards program is for consumer customers, but as we discussed previously, our penetration in commercial accounts is low as well. Many businesses prefer credit cards that have higher cash back or travel rewards that can be used for their business, so this makes debit cards a tougher sell, but in many cases our business customers may not know that we offer them. Our treasury department currently performs a customer account review with our lenders. This process entails the treasury department putting together a report showing the lender the customer's relationship balances and a list of products the customer has. They then have a list of suggested products that should be offered to the customer. Business debit cards should be added to the list of products for lenders and treasury to cross sell to their customers.

Marketing is the next critical step in this process. A marketing campaign will need to be developed for this new rewards program. The project manager will need to work closely with the marketing department to develop marketing materials and a plan. Since the plan changes month to month, the bank will want to focus on less expensive marketing channels. This will be accomplished by using the bank's website, online banking banners, social media, and a printout display at the teller line that we currently use to highlight our products. In addition to materials, it will be vital that our employees know about the program and actively talk to our customers about it. When a bank employee is assisting a customer, the system shows the employee if the customer has a debit card. If the customer has a card, the employee should remind them not to forget to pay their Netflix Subscription with our card this month for a chance to win a new TV. This is simple to do and provides a potential benefit to the customer and the bank. Once a winner has been chosen, the bank will take a picture with the winner collecting their prize. If a media release is obtained from the customer, the bank will incorporate the winner's picture into the advertisements across all media. Outside of printed and online material, the bank can update their local radio ads to inform current and potential customers about the program.

For this program to be successful, we must gain buy in from our employees. If the employees do not believe in the program, it will not succeed. To accomplish this, a training program needs to be developed. The employees need to understand why this product is important to the bank and not just another product to occasionally mention to a customer. The training will provide employees a high-level view of interchange and how it affects the bank's performance. Everyone knows that if the bank makes a loan it results in income to the bank, but many of them may not know that the debit card they are offering to a customer provides income while we all sleep. Employees will be trained on the differences of choosing debit versus credit so that they can encourage their customers to choose the preferred option and know that by choosing credit, it will benefit the customer by increasing their cash back rewards as well as increasing the bank's revenue which in turn, benefits them. The training will be conducted by the project manager and will meet with each branch's retail teams prior to launch. After the initial training, periodic updates should be given to employees on the progress being made during their weekly team huddles to keep them engaged in the process.

In addition to the major changes discussed above, there are many other elements that will be evaluated for change including, evaluation of debit card limits, adoption of Reg E opt-in, and future products that drive customers to use their debit cards. Debit card limits are in place to protect the bank and its customers from fraudulent charges when the card becomes compromised. The downside to a card limit, is it limits big ticket items that earn more interchange. When a customer is declined when trying to purchase an item above their card limit, the bank is at risk of losing the transaction and possibly future transactions from that customer. Over the past few years, the bank has experienced much lower card fraud losses than years prior. Prior to 2017, XYZ Bank experienced debit card fraud losses in excess of $100,000. Changes in the mitigation strategy and the introduction of EMV resulted in debit card fraud losses falling to $32,109 in 2019. Fraud monitoring is provided by the Jack Henry Fraud Center 24 hours per day and they actively block anomalous activity. Cards with active fraud are blocked most of the time before the card ever reaches the card limit. The bank's fraud mitigation strategy makes it possible for the bank to increase their debit card limits to capture higher ticket items in the card portfolio. Currently, XYZ's card limits are $1,000 for consumer cards and $2,000 for business cards. The recommendation is to increase the consumer limit to $1,500 and the business limit to $2,500. Once the limits are increased, debit card losses will be tracked along with interchange income to measure its effectiveness.

Another element that can prevent normal debit card activity is if a customer has not opted into Reg E for overdraft protection. Regulations require a consumer to opt their debit card in if they wish to be able to make debit card transactions that would use their overdraft protection. Currently there are only 1,142 cards that have opted in. 1,312 cardholders declined to opt in, 844 are ineligible to receive overdraft protection and 76 have had this privilege revoked. This leaves 2,815 customers that have failed to respond and should be targeted for an opt-in campaign. The training and marketing mentioned previously could also incorporate Reg E opt-in to improve the adoption of this service.

This card management program should evolve over time and there should be road map items such as evaluating bill pay programs that use debit cards instead of checks and ACH and keeping up with industry trends and new technology as it becomes available. The implementation schedule for the debit card management program including identified road map items can be found below.

	Debit Card Portfolio Management Implementation Schedule	
Task	**Responsible Parties**	**Target Completion Date**
Develop Reporting of Performance Metrics	Program Manager, Data Analyst	6/30/2021
Develop Reporting Schedule	Program Manager, Information Technology Committee	6/30/2021
Develop Updated Rewards Program	Program Manager, Retail Sales, COO, Compliance, Marketing	7/31/2021
Develop Marketing Plan	Program Manager, Marketing, Retail Sales	7/31/2021
Develop Employee Education Program	Program Manager	7/31/2021
Create Marketing Materials	Program Manager, Marketing, Compliance	8/15/2021
Employee Training	Program Manager, Retails Sales Dept, Treasury	8/31/2021
Evaluate Debit Card Limits	Program Manager, Risk Management Officer, COO, Risk Management Committee	9/30/2021
Reg E Opt In Campaign	Program Manager, Data Analyst, Retail Sales	10/31/2021
Evaluate Biller Direct - Road Map	Program Manager	12/31/2021
Evaluate Card Swap - Road Map	Program Manager	12/31/2021
Renew card contract	Program Manager, COO	6/30/2022

Implementing a debit card portfolio management program will allow XYZ Bank to capitalize on an existing product line. By placing focus on this business line, the bank will be able to increase its revenues by leveraging existing technology. This boost in non-interest income will assist the bank in meeting earnings goals in a difficult economic environment while also creating an attractive product to entice new customers. In addition to the increase in revenue the bank will see from improved debit card performance, Mastercard pays bonuses to banks when they renew their contract, which is up for renewal in 2022. These bonuses are significant and are higher for higher performing portfolios. When discussing Mastercard contracts with Mike Holt of Profit Resources Inc., he stated that banks with 7,000 – 10,000 cards and over $50MM in sales volumes can get up to a $1MM bonus if the portfolio is healthy and you negotiate the contract properly[12]. The possibility of a bonus of that level makes this the perfect time to implement this proposed change.

Financial Impact

Since Debit Cards are an existing line of business for the bank, the project to enhance the debit card portfolio will not require a large financial investment. There will be a significant investment of time required to implement the changes to the card portfolio, however the plan calls for utilizing existing personnel resources to avoid adding to salary expense.

The financial investment required for this project include funds that will be used for marketing, the cost of debit card issuance, transaction processing expenses that will increase as transaction volume increases, and increased fraud losses due to increased exposure. You will

[12] Mike Holt, Profit Resources Inc, Phone Interview, June 18, 2020, 1:00 CST

see through the following analysis, that most of the increase in expenses related to this project result from transactional expenses, which are offset by increasing revenues that outpace rising expenses.

To begin gauging the financial impact of increasing the debit card penetration to our DDA accounts, an analysis of the change in revenues across different scenarios is needed. This analysis was developed by using a Debit Card Optimization[13] tool provided by Profit Resources with adjustments made to work with this test case and additional scenarios added. The analysis shown below illustrates the changes in revenue based on five different scenarios.

Revenue Analysis of Increased DDA Penetration					
	Pen to 75%	500 New Cards	1000 New Cards	1500 New Cards	2000 New Cards
# of DDA's	13,728	13,728	13,728	13,728	13,728
# of Cards	15,444	7,894	8,394	8,894	9,394
100% Penetration = 1.25 cards/account	17,160	17,160	17,160	17,160	17,160
DDA Penetration	75%	46%	49%	52%	55%
Active Cards (within last 30 days)	12,635	6,458	6,867	7,276	7,685
Activation Rate	81.81%	81.81%	81.81%	81.81%	81.81%
Annual # of Transactions	3,765,132	1,924,508	2,046,405	2,168,302	2,290,199
Annual # of Transactions per Card	298	298	298	298	298
Annual Purchase Volume	$ 163,295,047.70	$ 83,465,923.11	$ 88,752,591.67	$ 94,039,260.22	$ 99,325,928.77
Average Ticket	$ 43.37	43.37	43.37	43.37	43.37
Gross Interchange	$ 2,069,534.60	$ 1,060,017.22	$ 1,127,157.91	$ 1,194,298.60	$ 1,261,439.30
Blended Interchange Rate	1.27%	1.27%	1.27%	1.27%	1.27%
Revenue per Active Card	$ 163.80	$ 164.14	$ 164.14	$ 164.14	$ 164.14
Aditional Annual Revenue	$ 1,078,509.60	$ 68,992.22	$ 136,132.91	$ 203,273.60	$ 270,414.30

Calculation of Model Components

- # of DDA's – The number of demand accounts held at the bank
- # of Cards – The number of debit cards on file
    - The penetration to 75% column is calculates # of Cards = # of DDA's x 1.5 x DDA Penetration
- 100% Penetration = # of DDA's x 1.25 (This accounts for accounts that have multiple cards
- DDA Penetration = Number of Cards / 100% Penetration
- Active Cards = Activation Rate x Number of Cards
- Activation Rate = Number of Active Cards / Number of Cards

[13] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

- Annual # of Transactions = Active Cards x Annual Number of Transactions per Card
- Annual # of Transactions per Card = Annual Number of Transactions / Active Cards
- Annual Purchase Volume = Average Ticket x Annual Transactions per Card x Active Cards
- Average Ticket = Annual Purchase Volume / Annual # of Transactions
- Gross Interchange = Annual Purchase Volume x Blended Interchange Rate
- Blended Interchange Rate = Gross Interchange / Annual Purchase Volume
- Revenue per Active Card = Gross Interchange / Active Cards

The model calculates the revenue impact of adding new debit cards to the portfolio starting from a baseline established by the performance of the previous 12 months. Historical data of the card portfolio was used in calculating the beginning metrics as referenced in the Strategy and Implementation section.

The Pen to 75% column uses Profit Resource's Optimization Model[14] and shows what happens if you were to take the bank's debit card portfolio and increase DDA penetration from 43.09% to 75%. This model is assuming all other metrics of the portfolio stay the same, so this should be considered as a best-case scenario. The metrics that will stay the same throughout this model are Number of DDA's, Activation Rate, Annual Number of Transactions, and Average Ticket. By increasing the penetration rate to 75%, the bank would experience an increase in annual interchange revenue of $1,078,509.60 which is more than double the current revenue of $991,025. The card portfolio is not going to increase to 75% in the short term, so this should serve as a long-term goal of what could be attained by a high performing card portfolio.

With a 75% DDA Penetration Rate acting as a long-term goal, it is important to analyze the revenue performance along the way. The next four columns within the model show the annual revenue effect of adding cards in increments of 500 cards. The model shows that adding 500 cards to the portfolio would result in the DDA penetration increasing from 43.09%

[14] Profit Resources Inc., "Benchmarks and EFT Data Workbook."

to 46% resulting in additional interchange revenue of $68,992.22. An additional 1,000 cards would result in additional revenue of $136,132.91; 1,500 cards result in $203,273.60 and adding 2,000 would result in an extra $270,414.30. The model shows that with each incremental increase in number of cards, the revenue begins to quickly increase.

Most of the bank's interchange expense comes from transactional expenses related to debit card processing and fees from the card networks. We know that revenue increases with an increase in transaction levels, but we should expect interchange expenses to also rise since they are volume-based expenses. Below is an expense model to project what happens with interchange expenses following the same scenarios as presented with the revenue model. The line items in blue represent flat rated items and the items in green represent volume-based expenses. The left side of the model represents the bank's current interchange expenses based on the monthly average expense of each line item. The average monthly expense was then annualized. To determine how expenses would rise with a change in volume, the first step was to calculate the average cost per transaction by dividing the total number of transactions for the last 12 months by the total expense of each line item. The model then multiplies the cost per transaction by the expected transaction volume for each scenario from the revenue model previously discussed. Marketing expense and Card Issuance are two newly added expense items that are directly related to the implementation of this plan. XYZ Bank's marketing department provided the estimates based on the marketing plan discussed in the Strategy and Implementation section. The average cost to issue a new card is $5 per card, with a 3-year expiration date, therefore Card Issuance expense was calculated as Number of New Cards x ($5/3).

	Current Expenses			Expenses with Increase in Cards				
	Monthly Avg	**Annualized**	**$ per Transaction**	**500 New Cards**	**1,000 New Cards**	**1,500 New Cards**	**2,000 New Cards**	**Penetration Rate to 75% (Industry Standard)**
Ancillary Services	$ 937.12	$ 11,245.48	n/a	$ 11,245.48	$ 11,245.48	$ 11,245.48	$ 11,245.48	$ 11,245.48
ATM Driving	$ 453.81	$ 5,445.76	n/a	$ 5,445.76	$ 5,445.76	$ 5,445.76	$ 5,445.76	$ 5,445.76
Cash Rewards	$ 3,080.70	$ 36,968.40	$ 0.02050	$ 39,460.11	$ 41,959.48	$ 44,458.86	$ 46,958.23	$ 77,200.26
Debit Processing	$ 4,521.48	$ 54,257.76	$ 0.03009	$ 57,914.79	$ 61,583.07	$ 65,251.35	$ 68,919.63	$ 113,305.23
Extra Awards	$ 250.00	$ 3,000.00	n/a	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00
Fraud Processing	$ 2,339.22	$ 28,070.63	$ 0.01557	$ 29,962.62	$ 31,860.43	$ 33,758.24	$ 35,656.05	$ 58,619.25
Mastercard	$ 14,224.24	$ 170,690.87	$ 0.09467	$ 182,195.61	$ 193,735.75	$ 205,275.89	$ 216,816.04	$ 356,449.81
Network Fees	$ 602.25	$ 7,227.03	$ 0.00401	$ 7,714.14	$ 8,202.75	$ 8,691.36	$ 9,179.96	$ 15,092.04
PIN Processing	$ 2,559.17	$ 30,710.00	$ 0.01703	$ 32,779.88	$ 34,856.14	$ 36,932.40	$ 39,008.65	$ 64,130.98
Visa	$ 78.22	$ 938.65	$ 0.00052	$ 1,001.92	$ 1,065.38	$ 1,128.84	$ 1,192.30	$ 1,960.16
Fraud Losses	$ 2,919.00	$ 35,028.00	$ 0.01943	$ 37,388.92	$ 39,757.11	$ 42,125.30	$ 44,493.49	$ 73,148.16
Misc	$ 1,795.00	$ 21,540.00	n/a	$ 21,540.00	$ 21,540.00	$ 21,540.00	$ 21,540.00	$ 21,450.00
Marketing Expense	$ -	$ -	n/a	$ 2,500.00	$ 2,500.00	$ 2,500.00	$ 2,500.00	$ 2,500.00
Card Issuance	n/a	n/a	n/a	$ 835.00	$ 1,670.00	$ 2,505.00	$ 3,340.00	$ 13,443.50
Total	$ 33,760.22	**$405,122.64**		**$432,984.22**	**$458,421.35**	**$483,858.47**	**$509,295.60**	**$816,990.63**
Annual Transaction Volume	1,802,985			1,924,508	2,046,405	2,168,302	2,290,199	3,765,132
Volume Driven								
Flat Costs								

The model indicates that expenses will also rise with the issuance of new cards and higher transaction volumes. Currently, the bank's annual interchange expense is $405,122.64. We see that expense rise $27,862 to $432,984 with the addition of 500 new cards and the continue to increase with each additional 500 cards. The last column shows the optimized portfolio where the DDA Penetration Rate is at 75% and we can see that expense more than double current expenses at that level which makes sense because transaction levels have more than doubled.

We know that both revenue and expenses rise along with increased card activity, so we need to compare the changes together to see the effect these changes have on the bottom line to ensure that it is worth the bank's effort to pursue. Below is a simplified Interchange Income Statement taken from the projections of the revenue and expense models discussed previously.

Interchange Net Income Projection						
	Current	**500 New Cards**	**1,000 New Cards**	**1,500 New Cards**	**2,000 New Cards**	**Penetration Rate to 75% (Industry Standard)**
Gross Interchange Income	$ 991,025.00	$ 1,060,017.22	$ 1,127,157.91	$ 1,194,298.60	$ 1,261,439.30	$ 2,069,534.60
Interchange Expense	$ 405,122.64	$ 434,649.22	$ 461,751.35	$ 488,853.47	$ 515,955.60	$ 843,797.13
Net Income	**$ 585,902.36**	**$ 625,368.00**	**$ 665,406.56**	**$ 705,445.13**	**$ 745,483.70**	**$ 1,225,737.47**
Additional Net Income		$ 39,465.64	$ 79,504.20	$ 119,542.77	$ 159,581.34	$ 639,835.11

We see from the Interchange Net Income projection that Net Income increases in every scenario. The addition of 500 new cards would result in an increase of $39,465.64 in Net Income each year and adding 1,000 new cards would result in an increase of $79,504.20. Each additional 500 cards added to the portfolio adds more Net Income. The projection shows that a fully optimized portfolio with a DDA Penetration Rate of 75%, would result in an additional $639,835.11 in Net Income for XYZ Bank, which is a very substantial increase.

The financial models we have looked at thus far are assuming that other metrics within the portfolio stay the same as our current portfolio. These metrics are Activation Rate, Annual # of Transactions and Average Ticket Prices, all of which are currently performing above industry standards. The newly added cards should not be expected to automatically perform at the same level, therefore we will analyze the portfolio using the models with these metrics adjusted down to a riskier scenario in the short term while these newly issued cards increase activity over time to our portfolio averages.

In the revenue model below, we will use the same model, but we will assume that the newest 500 cards will have roughly half the activation rate, annual transactions, and average ticket for the first year. To accomplish this, a blended average was calculated for these metrics.

The blended average was calculated by: Blended Average = (Current Number of Cards x Current Portfolio Rate + Additional # of Cards x Reduced Rate) / Total Number of Cards.

	Pen to 75%	500 New Cards	1000 New Cards	1500 New Cards	2000 New Cards
# of DDA's	13,728	13,728	13,728	13,728	13,728
# of Cards	15,444	7,894	8,394	8,894	9,394
100% Penetration = 1.25 cards/account	17,160	17,160	17,160	17,160	17,160
DDA Penetration	75%	46%	49%	52%	55%
Active Cards (within last 30 days)	12,426	6,249	6,658	7,067	7,476
Activation Rate	80.46%	79.16%	79.32%	79.46%	79.58%
Annual # of Transactions	3,678,168	1,855,920	1,970,804	2,091,883	2,212,821
Annual # of Transactions per Card	296	297	296	296	296
Annual Purchase Volume	$ 156,726,727.84	$ 78,097,132.49	$ 83,089,086.39	$ 88,319,301.54	$ 93,580,182.29
Average Ticket	$ 42.61	42.08	42.16	42.22	42.29
Gross Interchange	$ 1,986,290.40	$ 991,833.58	$ 1,055,231.40	$ 1,121,655.13	$ 1,188,468.32
Blended Interchange Rate	1.27%	1.27%	1.27%	1.27%	1.27%
Revenue per Active Card	$ 159.85	$ 158.72	$ 158.49	$ 158.71	$ 158.98
Aditional Annual Revenue	$ 995,265.40	$ 808.58	$ 64,206.40	$ 130,630.13	$ 197,443.32

By adding low performing cards into the model, you can see a negative effect on all metrics across the board. With lower spend, transactions, and activation we see that revenue projections decrease from previous models. Adding 500 low performing cards results in additional revenue of only $808 versus $68,000 on the previous model. However, with each additional card after the initial 500, the revenues begin to grow as the previous 500 cards begin to perform. We can see revenues grow to an additional $197,443 with the addition of 2,000 cards and the fully optimized portfolio would create and additional $995,265 in this scenario. Although revenue projections in this case are not as strong, they still represent a significant improvement for XYZ Bank.

The model below examines the effect on interchange expense by adding low performing cards to the portfolio. Projected Annual Transaction volumes in this model were taken from the projections from the revenue model that were adjusted with blended averages resulting in lower transaction levels. Again, we see that expenses rise from their current level due to added transactions, marketing, and card issuance. However, the expenses are rising at lower rates compared to the high performing model. When adding 500 low performing cards to the portfolio expenses only rise from $405,123 to $419,141 versus climbing to $432,984 in the high performing model. With each additional increment of cards, expenses rise at a faster pace due to the previous increment improving performance and adding to the transaction volume. We observe a very similar expense trend as the high performing model, just at a reduced level.

	Current Expenses			Expenses with Increase in Cards				
	Monthly Avg	Annualized	$ per Transaction	500 New Cards	1,000 New Cards	1,500 New Cards	2,000 New Cards	Penetration Rate to 75% (Industry Standard)
Ancillary Services	$ 937.12	$ 11,245.48	n/a	$ 11,245.48	$ 11,245.48	$ 11,245.48	$ 11,245.48	$ 11,245.48
ATM Driving	$ 453.81	$ 5,445.76	n/a	$ 5,445.76	$ 5,445.76	$ 5,445.76	$ 5,445.76	$ 5,445.76
Cash Rewards	$ 3,080.70	$ 36,968.40	$ 0.02050	$ 38,053.78	$ 40,409.36	$ 42,891.96	$ 45,371.68	$ 75,417.15
Debit Processing	$ 4,521.48	$ 54,257.76	$ 0.03009	$ 55,850.75	$ 59,307.99	$ 62,951.65	$ 66,591.08	$ 110,688.20
Extra Awards	$ 250.00	$ 3,000.00	n/a	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00	$ 3,000.00
Fraud Processing	$ 2,339.22	$ 28,070.63	$ 0.01557	$ 28,894.77	$ 30,683.40	$ 32,568.48	$ 34,451.36	$ 57,265.31
Mastercard	$ 14,224.24	$ 170,690.87	$ 0.09467	$ 175,702.29	$ 186,578.51	$ 198,041.21	$ 209,490.56	$ 348,216.82
Network Fees	$ 602.25	$ 7,227.03	$ 0.00401	$ 7,439.21	$ 7,899.71	$ 8,385.04	$ 8,869.80	$ 14,743.46
PIN Processing	$ 2,559.17	$ 30,710.00	$ 0.01703	$ 31,611.63	$ 33,568.44	$ 35,630.76	$ 37,690.68	$ 62,649.74
Visa	$ 78.22	$ 938.65	$ 0.00052	$ 966.21	$ 1,026.02	$ 1,089.05	$ 1,152.01	$ 1,914.89
Fraud Losses	$ 2,919.00	$ 35,028.00	$ 0.01943	$ 36,056.41	$ 38,288.35	$ 40,640.65	$ 42,990.20	$ 71,458.65
Misc	$ 1,795.00	$ 21,540.00	n/a	$ 21,540.00	$ 21,540.00	$ 21,540.00	$ 21,540.00	$ 21,450.00
Marketing Expense	$ -	$ -	n/a	$ 2,500.00	$ 2,500.00	$ 2,500.00	$ 2,500.00	$ 2,500.00
Card Issuance	n/a	n/a	n/a	$ 835.00	$ 1,670.00	$ 2,505.00	$ 3,340.00	$ 13,443.50
Total	$ 33,760.22	**$405,122.64**		**$419,141.30**	**$443,163.01**	**$468,435.04**	**$493,678.62**	**$799,438.94**
Annual Transaction Volume	1,802,985			1,855,920	1,970,804	2,091,883	2,212,821	3,678,168
Volume Driven								
Flat Costs								

The next model will project additional net income to the bank using the revenue and expense projections from the models where lower performing cards are added. In this model, we notice that the addition of lower performing cards to the portfolio bring Net Income projections down. In the first scenario of adding 500 cards, we see Net Income drop $13,210.08 from $585,902 compared to a gain of $39,466 the bank would achieve by adding 500 high performing cards. As we move to the next 500 cards, the situation improves to a gain of $26,166 as the previous allotment of cards are now performing better. In each additional card increment, Net Income improves. In the fully optimized scenario, the model still projects an additional $600,949 in Net Income.

Interchange Net Income Reduced Performance Projection						
	Current	**500 New Cards**	**1,000 New Cards**	**1,500 New Cards**	**2,000 New Cards**	**Penetration Rate to 75% (Industry Standard)**
Gross Interchange Income	$ 991,025.00	$ 991,833.58	$ 1,055,231.40	$ 1,121,655.13	$ 1,188,468.32	$ 1,986,290.40
Interchange Expense	$ 405,122.64	$ 419,141.30	$ 443,163.01	$ 468,435.04	$ 493,678.62	$ 799,438.94
Net Income	**$ 585,902.36**	**$ 572,692.28**	**$ 612,068.39**	**$ 653,220.09**	**$ 694,789.70**	**$ 1,186,851.46**
Additional Net Income		$ (13,210.08)	$ 26,166.03	$ 67,317.73	$ 108,887.34	$ 600,949.10

Another factor to consider is the blended interchange rate in the models. In the strategy and implementation section another portion of this project was to drive the bank's cardholders towards transactions that earn higher interchange rates. The strategy discussed changes to the card's rewards program to encourage customers to use their debit cards for online and recurring transactions. The bank's current blended interchange rate is 1.27%. The model below is to illustrate the revenue effect of increasing the interchange rate by just one basis point. We observe that a one basis point increase added to the lower performing projection, would increase revenue by $7,809.72 in the 500-card scenario and $15,673 in the optimized scenario. With each basis point added beyond 1.28%, that increase is slightly more.

	Pen to 75%	500 New Cards	1000 New Cards	1500 New Cards	2000 New Cards
# of DDA's	13,728	13,728	13,728	13,728	13,728
# of Cards	15,444	7,894	8,394	8,894	9,394
100% Penetration = 1.25 cards/account	17,160	17,160	17,160	17,160	17,160
DDA Penetration	75%	46%	49%	52%	55%
Active Cards (within last 30 days)	12,426	6,249	6,658	7,067	7,476
Activation Rate	80.46%	79.16%	79.32%	79.46%	79.58%
Annual # of Transactions	3,678,168	1,855,920	1,970,804	2,091,883	2,212,821
Annual # of Transactions per Card	296	297	296	296	296
Annual Purchase Volume	$ 156,726,727.84	$ 78,097,132.49	$ 83,089,086.39	$ 88,319,301.54	$ 93,580,182.29
Average Ticket	$ 42.61	42.08	42.16	42.22	42.29
Gross Interchange	$ 2,006,102.12	$ 999,643.30	$ 1,063,540.31	$ 1,130,487.06	$ 1,197,826.33
Blended Interchange Rate	1.28%	1.28%	1.28%	1.28%	1.28%
Revenue per Active Card	$ 161.44	$ 159.97	$ 159.74	$ 159.96	$ 160.23
Aditional Annual Revenue	$ 1,015,077.12	$ 8,618.30	$ 72,515.31	$ 139,462.06	$ 206,801.33
Revenue w/ 1.27% Interchange Rate	$ 999,404	$ 809	$ 64,206	$ 130,630	$ 197,443
Rev Change for + 1 BP in Interchange Rate	$ 15,672.68	$ 7,809.72	$ 8,308.91	$ 8,831.93	$ 9,358.01

This project is enhancing a current product line, so a large financial investment is not needed to begin implementation. Additional staffing is also not needed as the plan will be implemented and managed by current staff. Additional marketing expenses to promote the changes will be minimal due to the bank being able to use existing marketing software that is already being paid for. Additional marketing cost are associated with the printing of any materials which is also done in-house, leaving the cost of the materials as the only additional marketing spend in this plan. The bank already retains an outside company to assist with social media, so additional posts associated with this project would not be an additional cost. The expense models show that most of the expenses are transactional volume driven which are offset by increasing revenues. The expenses for this project provide a very low barrier.

The revenue models are also promising. All scenarios show a gain in Net Income for the bank except the first 500 cards in the low performing card model, which showed a slight drop in net interchange income. However, that model was assuming that all 500 cards would be low performing, which is not likely. Even if it were true, the assumption is that the cards would remain low performing for their first year before improving their performance. With each additional set of low performing cards, we see Net Income rising. If Net Interchange Rates were increased by one basis point, the performance increases by around $8,000 which would almost completely offset the dip in income in the only negative outcome in the models.

After analyzing the expense and revenue models, we observe that revenue growth will outpace expense growth and increasing the interchange rate will only add to the revenue growth. When you couple that observation from the models with the low initial expense to implement, I believe that the implementation of this project should be adopted by the bank and will lead to increased net income that will continue to grow each year. The additional net income gained by enhancing the performance of the debit card portfolio will help offset a loss of interest income in the current economic environment as well as to boost earnings performance once interest income returns to normal levels.

Non-Financial Impact

Financial impact is not the only measure that should be considered in the evaluation of this project. Non-financial impacts of implementing this project should be identified and considered. Identifying potential complications or barriers is crucial to the success of this program. Identifying potential problems prior to implementation will allow a plan of action to be established to increase the probability of success. The non-financial impact items that present a challenge to this project include allocation of additional training time needed for employees, the cultural lack of focus on marketing and consumer products, centralizing a currently de-centralized product line, and customer satisfaction. In the following sections, I will address each of the non-financial factors.

As with any new process, proper training is vital to successful implementation and adoption. Although training is important, it also requires commitment of time out of the already busy days of both the employees learning the new process as well as the trainer. Since this project is being implemented without adding additional staffing, the trainer will have a greater allotment of time needed to train the front-line employees in all markets and will have to complete training in addition to their current responsibilities. In addition to the time that will need to be dedicated to training, the quality of the training is just as vital to the success of the implementation. It will be important to balance the allocation of the appropriate amount of time for additional training while also ensuring that employees are left with adequate time to fulfill their daily responsibilities.

As discussed in previous sections, marketing will be an important aspect to enhancing the performance of the debit card portfolio. This brings us to our next obstacle. Historically, XYZ Bank has not made marketing a strategic focus of the bank. The bank makes most of its income from commercial real estate lending and has developed a strong reputation in its markets over the years. Much of our business stems from "word of mouth" from real estate developers that we work with. The bank benefits greatly from this form of advertising as it is very effective in bringing in real estate loans, but over time it seems that it has created a culture that marketing dollars are best spent elsewhere especially during the current economy where expense control becomes more of a strategic focus. The bank does not currently employ anyone that oversees marketing as their sole job function. Marketing is a job responsibility of the Retail Sales Manager who also oversees branch operations and staffing. Another obstacle that correlates with the lack of marketing focus, is a lack of focus on consumer products which also stems from focus being placed on commercial products. The focus on commercial products makes sense for our bank, however adding additional focus to consumer products and marketing of those consumer products could create additional income opportunities for the bank.

The next challenge that has been identified is the potential conflicts that could arise from centralizing the management of the debit card portfolio. Today, certain aspects of the debit card portfolio are managed by Retail Sales, Retail Operations, Operations, and the Fraud Dept. Each department makes decisions for the area of the portfolio that their department manages. Centralizing the management to a specific portfolio manager allows for the management of the portfolio to become much more strategic and for everyone to move in the same direction. However, anytime that you begin moving responsibilities away from one area to another, there is a risk of employees having negative feelings towards it whether it is just an aversion to change or the employee feeling like responsibility was taken away from them due to poor performance. It will be important to monitor the pulse of employee morale of those who are affected by these changes as we move through the process.

Another non-financial impact to consider is customer satisfaction. Increasing card penetration among the bank's customer base will result in more customers having a quick, easy, and reliable form of payment which should result in higher customer satisfaction. In addition to the possible increase in customer satisfaction, in theory each additional product a customer has make them less likely to move their relationship. There could also be negative impact to customer satisfaction that results from the proposed changes to the rewards program if some customers do not prefer the new incentives. With the possibility of improved or decreased customer satisfaction, it will be important to establish a process to measure this as we move forward.

Since all front-line employees will need to be trained on the changes made to the debit card program, training should be conducted in a manner that is least disruptive to their day to day activities. Currently, the front line has weekly huddle meetings where they discuss sales goals, sales productivity and other items that need to be addressed. The bank also conducts Wisdom Wednesday meetings that address a new topic each week for additional learning about bank products and processes. Incorporating the debit card training into these existing training channels will be less disruptive to the staff. Since they are already attending these meetings, we are not adding something else for them to attend. The training will include the changes that are occurring to the plan such as new incentives, changes in rewards, and our goals. In addition to educating them on the changes, we will also explain why debit card usage is important to the bank and provide examples of how they can persuade customers to use their debit cards. The items that will be addressed are a natural fit for the existing training channels since they are accustomed to discussing sales goals and productivity.

For marketing to be prioritized for this plan, buy-in will have to be gained from executive management. To achieve this, a solid business case will need to be established and that business case is within this proposal. Executive management will need to be briefed on this overall strategy to enhance the debit card portfolio. The presentation will need to include good data and a well-designed plan. The data needed will be our current portfolio volumes and metrics and the financial models that were discussed in the previous section. Informing the executive team of the earnings opportunity and accurate estimates of the marketing expenses needed will assist in justifying marketing dollars needed for implementation. This same approach will also assist in adding additional focus on a consumer product even though there are also business debit cards, it is primarily viewed as a consumer product.

As we move to centralize the control of the card portfolio away from individual departments, it will be important to ensure there is no ill-will between the individuals involved. This can be mitigated by including them in discussions of strategy and open communication about common goals. As with the executive team, it will be equally important to present the plan to the department heads that currently oversee portions of the portfolio so that they understand the additional opportunity that we have. Having open discussions about the plan and setting common goals will allow for each individual department to get behind the strategy.

To ensure that we maintain or improve customer satisfaction as we implement the plan, we will need to monitor customer retention, product usage and have open communication from the front-line employees to the portfolio management. During training, it should be established that customer feedback whether good or bad should be communicated to the portfolio manager. Customer retention, product usage and customer feedback will need to be documented and monitored by the portfolio manager and then reported to executive management as part of ongoing progress reports.

Just as we use financial measures to gauge progress on financial goals, non-financial measures need to be established to gauge the success of the non-financial factors. To monitor the success of training the bank can monitor training hours, sales productivity, and goal alignment. Training hours will be documented by the portfolio manager to track which employees have received training as well as the amount of time each employee was trained. The bank already uses a customer relationship management product to track referrals and sales and debit cards are an existing product within the system, so reporting is already available for tracking. Front line employees are currently incentivized on product sales including debit cards so there is already an established goal that we could emphasize. Using these reports, we will be able to trend sales productivity and goal achievement on an ongoing basis and this will allow the portfolio manager to see if training was effective or if additional training may be needed.

To assist with justifying the additional focus on marketing and consumer products needed in this plan, the portfolio manager will need to monitor product usage, new product revenue and customer retention. Product usage can be measured by the portfolio metrics that were created as part of this plan as well as sales productivity reports from the customer relationship management tool. Additional product revenue will also be tracked utilizing the portfolio metrics report that was established in the plan and this can be compared to the optimization models. Customer retention can be tracked through existing closed account reports as well as relationship and account tracking. Monitoring of these reports will allow the portfolio manager to compare the performance of the plan back to the marketing expenses and determine if the strategy is succeeding and justified. This analysis should become a part of the progress updates given to the executive management team.

Measuring the impact of centralizing the management of the portfolio is a little different from other items since it deals more with the personal feelings of individuals. The alignment of personal goals will be extremely important in addressing this threat. Prior to implementation, all individuals involved with debit cards should establish common short and long-term goals to keep everyone on the same track towards optimization. Having both group goals and individual goals will help the team reach the bank's goals which will help create unity among the team. Ongoing meetings to discuss progress against these goals will be needed to ensure everyone remains focused and engaged on the end goal.

Customer satisfaction can be measured by closed account reports, depth of relationship reports and customer feedback. The bank currently has closed account reports that include the reason of account closure. This report will be useful to the portfolio manager to ensure that accounts are not being closed due to debit card issues and can also be used to monitor an increase or decrease in closed accounts after implementation. Depth of relationship reports are established within the bank's customer relationship management software that show average number of products per customer. This report should help the portfolio manager see if the average number of products is increasing or decreasing after implementation. As discussed earlier about marketing success, customer feedback will also need to be reported to and tracked by the portfolio manager and become part of the progress reports given to executive management.

Now that we have identified the non-financial impacts related to this project and have established a plan to address them, it is important to discuss how I believe this proposal will affect them. First, we will look at the time that will be spent on training. I do not expect the time spent on additional training to have any negative impact on the employees being trained since it will be incorporated into regularly scheduled training sessions. The time commitment will have a larger effect on the portfolio manager as more time will be required to develop the training materials and plan. However, the portfolio manager will be able to save some time by conducting training during the scheduled meetings instead of having to train in person at every location. Quality training prior to implementation should increase the probability of success for this project.

I expect that there could be some resistance from executive management to the initial request for additional focus on marketing and consumer products. However, I believe that the proposal presents a solid business case to do so. Obtaining more focus in these areas from executive management will not only increase the probability of success on this project but could open the door to further strategic focus in these areas going forward and gradually begin to change the cultural aversion which could present new opportunities that could benefit the organization overall. Good marketing gets the bank's name out in the communities which allows for more business opportunities. In addition to more name recognition among prospective customers, I have observed improved employee morale when employees work for organizations that are well known and this could lead to a decrease in turnover and attracting new talent to the bank.

Centralizing the management of the portfolio is expected to increase the overall financial performance of the card portfolio. It will also create a unified plan where all areas are working together towards a common goal which not only improves chances of success, but further develops an engaged employee base. Centralizing the management should also create efficiency within the organization by eliminating the multiple departments from possibly working on the same tasks. The success of this proposal may result in approaching other areas in the bank with a similar plan of centralizing operations.

Although there is a risk of reduced customer satisfaction stemming from a change in the rewards program, I expect the reaction from customers to be mostly positive. Customers will still receive cash back for signature purchases and in addition to that will have the chance at winning larger and more desirable prizes. An increase in customer satisfaction will have a positive impact on customer retention as well an opportunity to attract new business from customers looking for something different in the market. Customer satisfaction also influences employee morale. In general, people are happier working at organizations with happy customers. The bottom line is that any business is nothing without their customers, so customer satisfaction should be a strategic focus and I believe this proposal will enhance customer satisfaction as well as financially benefit the bank.

In this section we have identified non-financial measures that will help measure success against non-financial factors, however improvement among these non-financial measures can also affect the financial performance of the bank. Aligning personal goals with the strategic goals of the bank has everyone working towards a common goal. In doing so, the bank should have greater success which results in higher profitability. Many of the non-financial measures feed into each other. When everyone has aligned goals, it should result in higher sales productivity which is another non-financial measure. Higher sales productivity should lead to higher product usage among the customer base. Higher product usage should result in additional revenue to the bank as seen in the financial impact section. Additional usage also adds depth to the customer relationship, creating a "stickier relationship" which reduces the chances of that customer closing their accounts which also increases customer retention. Improvement in the product line will enhance customer satisfaction which also reduces closed accounts and could lead to additional product sales beyond a debit card. As you can see the non-financial measures are very closely related to and drivers of financial measures. Therefore, the proposal to address these factors should be a strategic focus during the implementation of this project. Managing the non-financial factors and improving their measures should result in increased long-term profitability for the bank.

Conclusion

The debit card portfolio is a significant source of non-interest income for the bank that is currently underperforming. After reviewing the financial and non-financial impacts of this plan, the bank is well-positioned to significantly increase its earnings from the debit card portfolio as well as improve customer acquisition and retention and can do so with little investment and minimal risk. XYZ Bank should make debit cards a strategic focus by implementing this proposal to increase the performance of the debit card portfolio and in turn increase the bank's revenue performance.

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