

# San Diego

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**COMMUNITY BANKS | America's Financial Foundation**



## BANCARD CONFIDENTIAL™

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[ICBABANCARD.ORG/BC](http://ICBABANCARD.ORG/BC)

### Assessing Portfolio Potential

Whether substantial or modest, your community bank's credit card portfolio may be one of the bank's most valuable assets. And since your best customers (aka portfolio accounts), responsible for the lion's share of the bank's monthly and annual revenue, are constantly prey for larger issuers, making sure your offering is as strong as possible, is imperative.

Find out what's working and what's not. Seek input from your customers. And most importantly, nurture your high performers before they consider making a change to what's in their wallets. Consider the following recommendations to stabilize and energize your credit card portfolio.

**Analyze Your Portfolio**

By comparing your key account metrics to those of top-performing peer institutions you can establish a reliable benchmark for measuring your own portfolio's potential. Essential items you will want to track on a monthly basis include:

- Total Outstanding Balances
- Account Growth
- Net Sales Volume
- Receivables Aging and Delinquencies
- Sources of Monthly Revenue
- Monthly Profit and Loss Statement

*(continued on page 4)*

### Credit Cards: Rx for Weak Loan Demand?

If shifting economic winds and consumer preferences mean anything, credit cards may be a good go-to product for community banks hoping to grow fee income and boost weak loan demand, say industry watchers.

"In similar economic conditions banks have tended to market less. The few that do continue to market usually come out ahead once the economy turns around," says Fran Dale, president of Entandem, a payment systems consulting company in Sterling, Va. Coupled with a general resurgence for localized banking and a rise in demand for credit, and you have a prescription to restore some of the lost interchange income anticipated from new debit card legislation, adds TowerGroup Research Director Dennis Maroney. "About 75 percent of community banks already offer a card. It isn't a real major switch to go from focusing on emphasizing debit to emphasizing credit which has better margins," Moroney reasons. Particularly if banks have to cut back on rewards or institute annual fees on debit programs to make them affordable in the wake of the Durbin amendment, he says.

**Straightforward & Simple**

And with consumers receiving fewer credit card solicitations, particularly from large banks, a no frill, no hidden fee offer may snag customers interests and provide a base on which to grow future business, Dale adds.

The Farmers & Merchants Bank in Stuttgart, Ark., has benefited from customer backlash against the big banks, says Vice President Ann Pond, who notes *(continued)*

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Washington, DC 20036-5623  
Suite 900  
1615 L Street NW



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## New Year, New Game Plan



As you're developing your New Year's resolutions don't forget to put catapulting your credit card to the top of customer's wallets near the top of your list.

With sufficient buy in, the right plan of action, and a targeted marketing message you can take advantage of what may be the most favorable environment ever for community bank payment cards to rejuvenate and expand your card portfolio.

It starts with buy in and support from all levels of management. Keep your board and managers informed about your portfolio's performance with analytical tools like ACE, available exclusively for Bancard clients. Set employee goals backed

by incentives for growth, encourage competition, and offer real rewards for the participating employees. Take part in contests and special programs offered by Bancard and its partners to inspire sales.

Of course, getting the card in the customer's hand is only the first step. Use segmentation for targeted marketing to encourage usage and track results. Be innovative without blowing the budget. Use this first quarter to line up resources—a new vendor you want to try out, a college student whose writing/design services you can secure at a discounted rate. Consider electronic mediums to defray direct mail costs. Texas First Bank shot a YouTube video featuring bank employees to encourage usage to promote Visa's Super Bowl "Fan for Life" sweepstakes in conjunction with a bank promotional effort

and received a 24 percent increase in debit sales volume and a 26 percent increase in credit sales volume for its effort.

So my advice to you is: Believe in the product. Get your board to buy in. Work as a unit to boost the bottom line. And above all, be a leader when it comes to your card programs.

Because unlike some of last year's resolutions soon forgotten, positioning your portfolio for success can produce dividends for years to come.

Sincerely,

John H. Buhrmaster  
ICBA Bancard chairman

## Partial Authorization: Turning Declines into Approvals

Implementing partial authorization (PA) for your debit portfolio is one of the key initiatives I would conduct as a debit portfolio manager.

You may be asking, what is PA and how can this help my community bank? Good questions, so let me share my perspective.

Partial authorization has been mandatory for Visa prepaid products for a number of years, but optional on all other Visa products and enables the issuer to approve part of the transaction as opposed to declining it for insufficient funds. Here's how it works. Let's say someone at the supermarket is trying to buy \$100 worth of groceries, but only has \$80 in his checking account. If his issuer and the merchant were supporting PA, then the transaction would be approved for \$80. The cardholder would have the option of taking \$20 worth of groceries out of his

shopping cart or paying the \$20 balance by some other payment means.

**PA is a service that can benefit the cardholder, the merchant and the community bank.**

Partial authorization is a service that can benefit the cardholder, the merchant and the community bank. It improves the cardholder experience at the point of sale; resulting in more sales for the merchant; and helps differentiate the community bank's debit card program.

Furthermore, PA can help improve two key operational metrics that can lead to additional debit sales volume and

corresponding interchange revenue. By implementing partial authorization, typically a community bank's authorization approval rate and decline rate metrics will improve. And PA is steadily growing in merchant adoption; with strong penetration in key segments such as oil, drugs stores and pharmacies, and department stores<sup>1</sup>.

There is no incremental cost to participate in Visa's PA program; however there may be some costs involved to initially enable this program. Contact your ICBA Bancard representative for more details on implementing partial authorization – and improve the customer's experience as well as your bottom line.

<sup>1</sup>U.S. VisaNet transaction data – July 2010

Greg Borchardt is a senior business leader at Visa Inc.



### Ask Marlene!

Below is a question commonly asked by our credit issuing banks.

**Q: Can ACE help me determine if my bank's credit card portfolio is profitable and growing?**

**Answer:** Yes, Automated Card Expert (ACE) is a terrific way to measure your portfolio's growth and profitability! Two detailed analysis reports: Executive Report – TYLY Comparison and Revenues/Profitability – Monthly History Report, are available for free on ICBA Bancard's Web site [www](http://www.icbabancard.org).

[icbabancard.org](http://www.icbabancard.org) and can provide insight.

With *TYLY Comparison Summary* banks can analyze several factors in year-over-year format, including: number of cards, outstandings, sales volume, average sales draft, receivables

and other revenue. *TIP:* Entering DDA/Household Data is also a good way to ensure penetration is accurately reflected. Each factor can be viewed as an average of all card products, or by specific plan (i.e. Visa Classic, MasterCard Business, etc).

The *Revenues/Profitability Report* gives you a quick view of the entire year (by month) of all revenue and expense info, including: finance charge income, Visa miscellaneous fees, and processing expenses, among several other line items. With this report you can see which months incurred greater costs and/or produced higher revenue.

Contact your client services liaison with more ACE questions at (800)242-4770.

*Marlene Wagner is a client services liaison for ICBA Bancard.*

\* The ACE Tool is currently available only to Bancard credit issuing banks on the TBS platform.

## Memorable Marketing

This year Bancard recognized two banks for their extraordinary marketing, awarding "Best Use of a Visa/MasterCard Campaign" honors to State Bank of Cross Plains, Wis. and "Best Original Campaign" honors to First Interstate Bank in Billings, Mont.

Mimicked after the popular CBS show, "Survivor," State Bank of Cross Plains executives challenged employees to leverage Visa's "Choose Your Next Adventure" campaign to grow the bank's Visa credit card applications by 20 percent over a four-month period.

For every sold Visa credit card, employees received a point and an instant win Visa scratch off. Points were tracked to determine a "sole Survivor" who received \$250 at the contest's conclusion. The result: an 18 percent lift over the previous year's promotion efforts, growing their total credit card accounts from 7,830 to over 8,200. First Interstate Bank also used pop culture



**Marketing Masters** — Crystal Lautenbach and Marjorie Nonn (left) of State Bank of Cross Plains receive honors from ICBA Bancard Chairman John Buhrmaster as does Nancy Brook (right) of First Interstate Bank.

references in celebration of its 20th year in the card business and to reinvigorate employees on selling the profitable product.

Bank employees took part in a reenactment of Michael Jackson's "Thriller" video as part of a 60-second commercial, featuring highlights of the 80s (including FIB's foray into cards) as a way to build team spirit and inspire enthusiasm for credit card sales. Communications outlining FIB's



card features and special incentives for customers, meanwhile, offered a forum to spread the word to customers who now had a reason to pay with FIB-branded plastic.

The effort generated 111 new credit accounts in just 14 days.

Congratulations to State Bank of Cross Plains and First Interstate Bank!

## Serving Credit Card Customers

It's ironic that many banks considered "too-big-to-fail" are the same ones who made a practice of dinging credit card customers with unfair late fees, double-cycle billing, and out-of-the-blue rate increases. On top of requiring billion-dollar taxpayer bailouts, they actually prompted a federal law banning such shameless abuses.

Few independent community bankers would tolerate this treatment of customers. They can't help caring about the people they're in business to serve or bump into while walking the dog, shopping for dinner or cheering at junior varsity games.

That's why the driving force was service, not self-interest, when the Independent Community Bankers of America founded TCM Bank, N.A. to issue credit cards on behalf of community banks through the ICBA Bancard program. Since then, ICBA Bancard has grown to offer complete credit and debit card solutions

for community banks across the nation. True to its community bank roots, TCM Bank decided from the outset to follow certain principles based on common sense, conservative values, and concern for customers. These principles have never been more appropriate than they are now.

*(continued at [www.icbabancard.org/bv](http://www.icbabancard.org/bv))*

### Inspiring Credit Card Sales

**Lend responsibly.** Don't push credit card customers to overspend or take on more debt than they should.

**Communicate clearly.** Be straightforward. Give customers the information they need to manage their money prudently.

*(Read the rest of [Serving Credit Card Customers](http://www.icbabancard.org/bv) at [www.icbabancard.org/bv](http://www.icbabancard.org/bv))*

## Debit: The Best "New" Banking Strategy

With the economy still a major concern, spending habits are changing. As a result, today's more frugal consumers are steadily shifting their focus to debit cards as their go-to payment method. In fact, debit cards have become the primary card for many consumers — a trend that offers tremendous opportunities to community banks.

The formula for success is actually quite simple. You need your customers to have more cards doing more transactions for higher dollar amounts, which results in higher revenue through interchange. The big question is: How do you do that? As you review your debit program strategy, consider three factors: penetration, activation and utilization.

**Penetration** — The more cards on the street, the greater chance for usage. When it comes to your bank's issuing policies, a few best practices include issuing debit cards as a default to checking account holders, issuing debit cards to all qualified customers and using debit cards as a way to cross-sell other services. Issuing a prepaid debit card for those customers who don't qualify for a debit card allows

you to establish a relationship without assuming too much risk.

Don't forget about your business customers and offering (or starting) a business debit program. The per-card revenue is typically higher for business debit cards than it is for consumers, which means this potentially untapped market can drive new sources of revenue. And implementing a business debit program is fairly easy — simply obtain a business debit BIN and begin issuing cards to qualified customers.

**Activation** — The rate at which your issued cards are activated is incredibly important to your bank. Statistically, cards activated quickly have greater usage, frequency and high-dollar spending levels. Your goal should be to get activation within 90 days. For increased success, you can incent customers by delivering activation programs, offering reward options or deploying a process to instantly activate cards at the branch.

**Utilization** — The more transactions and the higher the dollar amount charged, the more interchange revenue

your community bank generates. As you consider how to achieve "top of wallet" status for your bank's debit cards, ask yourself the following: Do you keep your card in front of your cardholders in statement inserts, promotions and e-mail contacts? Do you bundle products and leverage reward points? Does your processor provide state-of-the-art risk mitigation products to keep fraud at a minimum?

It's been said that everything old becomes new again. By looking at your debit program as a NEW banking strategy, your community bank can achieve higher interchange, improve operational efficiencies and reduce expenses. More importantly, you can utilize your debit program to improve customer satisfaction and loyalty.

### Questions?

Go to [www.fisglobal.com/icbadebit](http://www.fisglobal.com/icbadebit) for more information.

*Jeffrey C. Fazio is vice president, Payment Solutions — EFT for FIS.*

## The Truth About Fighting Fraud

Protecting one of your bank's most important resources — your credit and debit card portfolios — from fraud, identity theft and data compromise has become an indisputable reality of electronic banking.

The important question is, how can your card program remain safe, secure and profitable? Allan Trosclair of BFS Consulting, Inc. recommends that community banks take stock of their protection program(s) to uncover potentially damaging weaknesses.

Fortunately, most card processors use several fraud prevention methods, including those that offer an automated fraud monitoring solution. If you haven't already done so, you should also initiate card activation procedures and other authentication processes that, when

implemented correctly, can help reduce bank and consumer losses by as much as 40 percent.

Learn to measure and account for acceptable versus unacceptable levels of fraud. Industry averages for fraud loss on debit cards is around six or seven basis points. The industry loss average for credit cards is approximately 12 basis points, with all combined products averaging roughly 10 basis points (this is cut in about half for community banks). Average annual sales per card for a small issuer card program is \$4,300. At 10 basis points, that's \$4.30 per account which is an exceptionally high industry-wide threshold. Individual banks should control losses to well below that amount.

Monitor and track fraud loss cases — your own especially, but also industry-wide.

Banks have different responsibilities for compromised credit cards versus debit cards; make sure you monitor both. Track fraud cases by the date of report, date of first and last fraud transaction, and type of fraud. Watch for patterns in general location, amount of loss and amount of recovery, and the method by which the loss was incurred.

Understand the many avenues that fraud can take. In addition to lost or stolen cards, some of today's most devastating counterfeit threats come in a wide variety of attacks for which banks need to be on the lookout. In 2009, almost 500 breaches accounted for the compromise of 218.6 million records, according to [privacyrights.org](http://privacyrights.org).

*Alan Nevils is ICBA Bancard's senior vice president, operations and card risk.*



### Ask Karen!

*Editor's Note:* Karen chats with First National Bank of Lebanon officials about their recent internal promotion for new Visa account application referrals.

#### Q: How did the promotion work?

*Answer:* For each item sold employees received a ticket for a prize drawing. In addition, employees received a ticket for outstanding service and sales, keeping fee refunds below 5 percent for the month, and keeping charge-offs below certain percentages.



#### Q: Are there any other notable components?

*Answer:* Yes, in addition to earning tickets for sales, employees were awarded \$20 for every approved application with no cap. We know that everyone loves extra cash and from the energy and excitement we saw, we know it helped make the promotion a success!

#### Q: What were the prizes?

*Answer:* Cash incentives, gift card and apparel, an I-Pod, a digital camera and camcorder, a DVD player, and a 19-inch flat-screen TV.

*Karen Stephenson is a client services liaison at TCM Bank.*

- Year-to-Date Total Revenue
- Percentage of Active Accounts

A dedicated analysis tool can help maintain your portfolio's peak performance. ICBA Bancard's Automated Card Expert (ACE) tool is FREE for ICBA Bancard users and can run customized diagnostics to help you set and meet realistic goals for your portfolio.

### Optimize Top Performers

In a challenging economy, consumers have learned to be more realistic and cautious with their spending. They want to know and trust their card issuer. Suddenly, that makes community banks an appealing choice over large national issuers despite their mega marketing budgets, teaser rates and multiple card offers. If you offer a competitive product at fair market pricing, you can dominate on the local level and even bring in new business from strong existing relationships. Most community banks have not come close to penetrating even half of their creditworthy base.

"Community banks need to protect and champion their own best customers," explains Tim Kaliban, executive vice president, risk & portfolio management at TCM Bank, ICBA Bancard's credit card bank. "When consumers see their neighbors using a local community bank credit card instead of one from a giant national issuer it can have a tremendous impact. Banks that look after and cultivate their existing card base stand to add substantial growth, stability and profitability to their portfolios."

Banks need to pay attention to customers with fixed rates. Consider repricing strategies long before interest rates rise to manage rate, funding and margin risks. Remember that the CARD Act of 2009 protects existing account balances from rate increases, except in narrowly defined circumstances. Payments must first be applied to the highest rate balances on an account which means that banks can be stuck with low fixed rates for awhile.

### Know When it's Time to Sell

Finding the right mix of risk and profitability is always a tricky equation.

Keep in mind that one size does not fit all — for your bank or your customers. Similar to fixed rates, a single rate that does not address the unique concerns and situations of your customers may present inadequate return on riskier customers, low or no response from your best customers, or a potentially adverse selection of applicants.

Your best customers, of course, bring in high revenue with relatively low risk. They spend a lot and pay their bills on time. As previously mentioned, you should do everything in your power to incentivize and retain these customers. At the other end of spectrum are your low revenue/high risk accounts requiring similarly straightforward management: adjust prices, control limits or consider closing the account altogether.

### Credit Cards: Rx for Weak Loan Demand *continued...*

the bank's customers "want to be able to pick up the phone and call and talk to someone when they have a problem. They don't want to talk to someone in India."

"I think I'm going to see a lot more customers change from big card banks to community banks," she predicts. The \$562 million-asset bank's credit card portfolio currently stands at about 2,600 cards, with recent acquisitions presenting ever greater penetration opportunities, Pond says.

Even with minimal advertising Pine Bluff National Bank continues to report strong interest in its no-frills card offering, says Phillip Smith, vice president of consumer lending at the \$393 million-asset Arkansas bank. (Credit cards represent \$3 million of the bank's loan portfolio.)

"If we have a business that opens up it is only natural that they have a business credit card and we want to be able to offer that."

### Liquidity Option?

Some small businesses may even find credit cards a good temporary source of

The middle ground is not so easy. Current trends reveal high numbers of card transactions as consumers use plastic to pay for just about everything, except relatively low dollar amounts. For those customers who spend a lot but continue to be delinquent on payments, you need to ask yourself: Do they use just one bank product or multiple product lines? Is there a way to move them to another spend category? Is this an acceptable level of risk or should we plan an exit strategy with these customers?

Find out how ICBA Bancard can help keep your credit card portfolio in peak condition. Visit our Credit Card Solutions under Products & Services at [www.icbabancard.org](http://www.icbabancard.org) or call (800)242-4770.

*Scott Broughton is senior vice president, client services at ICBA Bancard.*

liquidity—particularly those that may have felt a credit squeeze in recent months, say experts. "The big question is whether or not the line is really sufficient to help them through a tight spot," says Dale.

For those that want to seize the moment and aggressively try to grow the business Maroney offers the following advice:

- Stay within your bank's footprint. If there's low penetration within your customer base, start there.
- Review your current program. Is there a strong rewards component? Does it fit your select target's funding needs?
- Provide the proper incentives and the necessary education to support employee sales efforts.

Outside dynamics, including any actions by the Fed, the newly elected bi-partisan Congress, and most importantly, consumer sentiment (final holiday sales figures could be a key indicator) may also signal better days ahead for card issuers.

*Joe Shallow is executive vice president of Business Development at ICBA Bancard and TCM Bank.*



ICBA Bancard President Linda Echard entreated bank executives gathered during its annual Card Conference & Expo in St Louis to "capture market share" capitulated by larger issuers in recent months to "solidify" customer loyalty and improve overall card profitability.

"With enough effort and enough gumption, great things can be accomplished," noted Echard, as she and leading experts gathered in St. Louis to impart words of wisdom and winning strategies to grow card portfolios and inspire usage.

Headliners for the two-day executive forum included marketing whiz, Mark Sievewright; economic forecaster, Jay Hawkins; Washington insider, Karen Thomas; and Olympian and inspirational speaker, Dan Jansen.

The following pictorial offers some highlights from the memorable event.



*Inquiring Minds—MasterCard representative Anthony Dade, right, shares product literature with a community banker.*



*Agenda-at-a-Glance—Bankers discuss which workshop sessions they'll attend.*



*Words of Wisdom—Keynote presenter Mark Sievewright, left, continues his conversation on how to reach online customers.*



*Fighting Fraud—Fiserv's J.B. Rambaud, center, and FIS' Eric Kraus, left, offer a one-on-one consultation following their presentation.*



*Autograph Please—After his inspiring story about overcoming disappointing returns, bankers line up for a meet and greet with Olympic Gold Medalist Dan Jansen.*



*Swapping Stories—Networking continues into the night as bankers converse during a Hard Rock Café social outing.*



*Information Roundup—Bankers make the rounds to discuss a wide range of topics including compliance, marketing and fraud.*