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The Value of Fintech Partners

I recently blogged about the decline that bankers are experiencing on non-interest fee income. If you haven't read that article, you can find it here. Without question, the downward pressure on overdraft fees is real and it's unlikely that in the future, OD fees will ever represent a large percentage of total non-interest fee income. But instead of conceding that the income category will forever be lower, bankers should be looking for ways that they can maximize non-interest fee income in other areas. Especially where the income can come from sources that are not perceived by customers as being "punitive".

I had the opportunity to sit in on a webinar that was focused on how banks can maximize their debit card portfolio that creates a positive impact on gross margin. I was fascinated that the issue is not just the ability to create more revenue with the debit card program but the ability to save money on the operation of the program itself. Of course, additional revenue increases gross margin, but a dollar saved in expense has the same effect on gross margin as a dollar added to revenue. Hmmm, actually, that last statement is not true. A penny saved is worth more than a penny earned, due to taxes paid on revenue.

The webinar was conducted by Mike Holt from Profit Resources Inc. (PRI) and full disclosure, PRI is a partner of FNBB. PRI offers multiple services but the optimization of a bank's debit card program is hugely popular with community bankers. According Mike Holt, a PRI founder, there is a significant difference to bankers when their customers use a debit card versus checks or cash – the debit card transaction creates revenue to the FI via interchange. So it stands to reason that there is strategic purpose for an FI to encourage debit card adoption and usage. And remember, the issue is not just focused on consumers; business debit card usage generates interchange for the FI also, which often generates 4 to 5 times as much interchange revenue as a consumer transaction.

Here is a brief summary of the webinar and the focus that PRI brings to the issue of how a FI can maximize profitability of the debit card portfolio:

- Make sure you have the right debit card program. Not all debit card programs are equal. There are differences that matter relative to the amount of NII you will derive from the card program. If the one you have today is leaving money on the table, then it's time to form a new plan and convert to a plan that is conducive to generating more interchange revenue.

- Reduce costs – This means more than just the fees you pay for your card program. Whatever losses, if any, you experience in your card portfolio also adds to the overall expense. Different debit card programs have different options for managing and remediating fraud, so those options need to be factored into your overall cost analysis.

- Improve Portfolio Performance – Regardless of the debit card program you deploy, it is up to the institution to actively promote debit card deployment and encourage debit card usage. Reminder: every debit card transaction rings the interchange cash register. How are you encouraging debit card usage?

To that last point, what should your institution do to specifically capitalize on debit card profitability? Again, from Mike Holt, here are the three activities you should be doing right now:

- **Benchmarking** – in order to make meaningful and strategic decisions about changes to the debit card program, you need a reliable benchmark of your existing service and its penetration into your consumer and business customer base. Since each transaction executed can be identified by the origin coding within your core, you should be able to provide reporting on debit card use fairly easily. It's also important to identify business customers that are hiding in your consumer account portfolio. They may be doing that to avoid the more expensive charges for online cash management. Most SMBs don't need more than what a typical consumer online banking offers. But if they have a consumer debit card instead of a commercial debit card, you are leaving money on the table. (If you want to identify SMBs hiding in your consumer portfolio, start by investigating any consumer that receives inbound ACH credits from Square, Shopify, Wix or other similar eCommerce platforms).

- **Optimize New Account Processes** – The way to dramatically increase debit card penetration is to focus on issuing a debit card for each and every new account opened. But while many FIs do encourage this at the new account step, the issuance of the card must be complimented with specific education to the customer about the benefits, *to the customer*, of using the debit card. Emphasis placed on the safety and security of debit card transactions over cash and checks can encourage card usage. Further, the ability that most FIs offer to control debit card access, including the ability to immediately disable the debit card if it is lost, are all strong motivators since these features are not available for checks and cash. Set up classes focusing on older customers to help them understand their benefit in using a secure debit card. Every time you convert a cash or check transaction to a debit card transaction is generating interchange revenue, so it's definitely worth the effort.

- **Accountability** – One major failing at most financial institutions is the lack of a sales culture. Either because of tradition or a fear of tuning the bank vibe into the equivalent of a used car lot, bankers have generally avoided the "4-letter S word" – sell. Very few bankers have sales in their titles. But I guaranty that your non-FI competitors have no issue with using that word. So it is imperative that you implement or strengthen the sales culture at your bank. Without the encouragement of incentives or the possibility of poor reviews for underperformance, it is unlikely that those charged with increasing penetration of debit card activation and usage will ever significantly move the needle for your program. From the highest levels of the organization, sales quotas need to be fair, backed up with tools and training for customer service reps and enforced.

FNBB is proud to have Profit Resources as a partner in offering targeted services that help community banks not just survive but thrive. PRI specializes in identifying profitability improvement areas for financial institutions through revenue growth, cost control, streamlining processes, and effective use of technology. Talk to your FNBB Relationship Manager and setup a call with PRI to learn how your institution can specifically benefit from their valuable services.