Applied U.S. debit card marketing tactics to the Russian Federation market

Retail banking road map to increase debit card usage and avoid costly wrong-way turns

Experian
Decision Analytics

An Experian white paper

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Introduction

Many Eastern European and Russian Federation banks recognize the untapped revenue potential in stimulating increased debit card usage of existing customers. Demand deposit accounts in the United States (called current accounts in Europe) are typically opened by consumers and used for daily transactions such as buying merchandise and paying bills, which can be done with checks, debit cards or other electronic payment options such as online bill payment functionality. Spending in the United States on debit and prepaid cards in the United States topped $2,000 billion in 2011, with 75 percent of this purchase volume being non-ATM purchase transactions.[1] The United States consumer behavior to buy merchandise or pay bills with a debit card is common today. A decade or more ago, this was not the case. The evolution of marketing tactics for the U.S. debit card market and marketing knowledge is useful for other countries wishing to generate demand for debit card products abroad and benefits banks, consumers and merchants. Russian Federation and Eastern European banks benefit from higher transaction fee revenue and increase customer profitability by improving customer loyalty. Consumers benefit from debit cards with security and ease of use. Finally, merchants can increase overall transaction volume from debit-using consumers. Electronic payments increase the efficiency of the payment system overall and add to the total number of expected transactions for network merchants.

Current accounts in the Russian Federation and some other Eastern European countries are often seen as only payroll accounts that enable an employer to transfer salary funds to employees. These accounts rarely have check-writing capabilities, although there is functionality to issue person-to-person (P2P) and person-to-business (P2B) electronic money movement transactions in addition to the use of automatic teller machines (ATMs) to withdraw cash and, in some instances, move money to mobile devices. Ninety-three percent of all issued cards in the Russian Federation are salary cards, which are used mainly for cash disbursement.[2] Many consumers in Eastern Europe, especially in the Russian Federation, pull cash from these accounts rather than using the debit functionality to pay for daily purchases: 62.5 percent of all bank card transactions in the Russian Federation in 2011 are cash disbursements.[3] Some of this tendency emanates from historic skepticism of the banking system more generally, but other market-centric principles are an important part of this decision-making process.

1. Nilson Report, "General Purpose Cards — U.S. 2011," February 2012 Issue 988

2. Russian National Payments Bill, "Payment, clearing and settlement systems in Russia," 2011, p. 304

3. Analytic Research Group (ARG), April 2012

Russian banks recognize the opportunity for increasing transaction revenue by encouraging payment migration to debit card and partially displacing cash usage consumers' use for daily purchases. The excessive reliance on cash in Russian society signifies a large unrealized revenue opportunity for banks operating in these markets by migrating customer transactions to noncash payment forms such as debit card. Marketing strategies designed to migrate consumer spending to noncash forms in the Russian market, similar to United States markets, are subject to dual demand principles of both consumers and merchants. This means that both consumers and merchants demand and insist on payment forms that are easy to use, widely accepted and secure to use or accept. Marketing debit card use to consumers in places like the Russian Federation must be approached methodically using sound marketing tactics and include segmented approaches to both consumers and geographic markets. Marketing the debit card or other noncash payment use to consumers who lack cash-flow capacity or who reside in geographic areas where merchant networks function poorly will have inadequate return on marketing investment and result in decreased customer satisfaction. Drawing on lessons from other geographic locales by applying determinants of demand principles and targeting consumers with similar payment transaction behavior will yield a better return on marketing investment (ROMI).

Equally important, however, is identifying whether the right customers are promoters or detractors. It is not very useful for the underlying business if all the lowest average margin per user (AMPU) customers are the strongest promoters and the highest AMPU customers are detractors. As all customers are not equal, it is important to marry an indicator of customer delight with a notion of customer value. This way, the efforts to delight customers are truly aligned with those of the business and will be the most effective in driving real business growth.

By breaking the subject into two sections, this paper discusses how to successfully delight the right customers: firstly, the vitally important behind-the-scenes effort to create the correct environment to support a customer delight culture and, secondly, the key day-to-day factors needed to successfully delight a customer.

Executive summary

This white paper offers strategists with Russian and some Eastern European retail banks a road map of how to stimulate consumer noncash transaction revenue by actively marketing the use of electronic payment forms such as the payroll account debit card. These strategists are primarily focused on increasing bank revenue by means of increased transaction volumes or introduction of new value-added fees to consumers. Three key steps are required to create full value from consumers:

1. **Customer segmentation strategies** — Analyze and segment consumer cash-flow transaction behavior as well as external, off your firm, life-stage insights to develop profitable demand-generation strategies
2. **Adapt U.S. debit card marketing strategies** — Apply proven (and disproven) debit card marketing strategies to other markets by adapting universal demand determinants to existing cultural norms
3. **Develop geographic testing strategies** — Develop a framework to implement marketing testing strategies that leverages consumer transaction behavior from the existing payment network infrastructure

The use of proven marketing principles results in increased ROMI in excess of 10 percent by improving marketing efficiency and consumer targeting after initial adoption of new marketing approaches.[4] Increased ROMI results from stimulating use among consumers having spending capacity while eliminating the marketing expense of trying to stimulate debit card use to consumers without spending capacity.

4 Experian Integrated Marketing, "The Leaky Bucket — Four Ways to Fix Your Customer Retention Issues," October 2009

Implementing noncash migration customer segmentation strategies

Debit card usage differs from country to country and region to region. For example, the Russian Federation card market is different from the United States and other Western European markets in that 93 percent of cards issued within Russia are salary cards, which are simply individual payroll accounts for employees that have debit card functionality.[5] With such a high percentage of salary cards in the Russian Federation, it is intuitive these cards are primarily used for cash disbursement, typically at physical banking centers or ATMs, because consumers equate the debit product with a salary deposit product versus a traditional funds access account. Virtually all salaries deposited to Russian salary cards are moved to other accounts or withdrawn at ATMs. In the United States, debit cards represent about 51 percent of all plastic products, with more than 540 million debit cards in circulation. One-fourth of all debit card purchases within the United States are noncash, indicating only a quarter of purchases are cash withdrawals from ATMs or cash back at supermarkets. Almost $1.6 billion is spent annually on debit cards in the United States, representing a significant transaction revenue stream for banks.[6] In the United States, debit cards are seen as a multipurpose funds access product for all types of spending instead of just being viewed as access to cash.

How can the experience of one country benefit another? Irrespective of the country, consumers' individual payment behaviors are often consistent and typically change when there is some benefit to the consumer.

> Migrating payment from cash to noncash transactions is best accomplished by assessing which existing customers are using a noncash payment product such as the debit card product, how often they use it and how much is spent when used — then apply this learning to your future marketing targeting initiatives.

Generally, the average transaction spending amount of card payments in the United States is less than $40 per transaction. The average transaction spending amount in the Russian market is $43 U.S. per noncash transaction and $204 U.S. per cash disbursement transaction.[7] To assess and target consumers likely to buy and use a debit card for daily spending, simple segmentations split consumers into transaction usage groupings of low-, medium- and high-usage segments. Customer migration between segments of existing debit card users is often a function of demand drivers such as convenience, security and value proposition. Many other factors are relevant and include life stage, where one lives and affluence. Additionally, merchant networks within the Russian Federation are not as abundant and limit consumer convenience although this is less an issue in large urban areas such as Moscow. Two marketing approaches to increasing debit card transaction volume include increasing use for existing users and migrating transactions from cash or other noncash payment options to the debit product.

5 Russian National Payments Bill, "Payment, clearing and settlement systems in Russia," 2011, p. 304

6 Nilson Report, "General Purpose Cards — U.S. 2011," February 2012 Issue 988

7. Analytic Research Group (ARG), April 2012

Consumer cash-flow analysis can be used to assess consumers' spending capacity and preferred type of spending (cash or noncash). Analyzing available transaction behavior data is useful in determining how much cash is spent monthly as well as average spending per transaction.

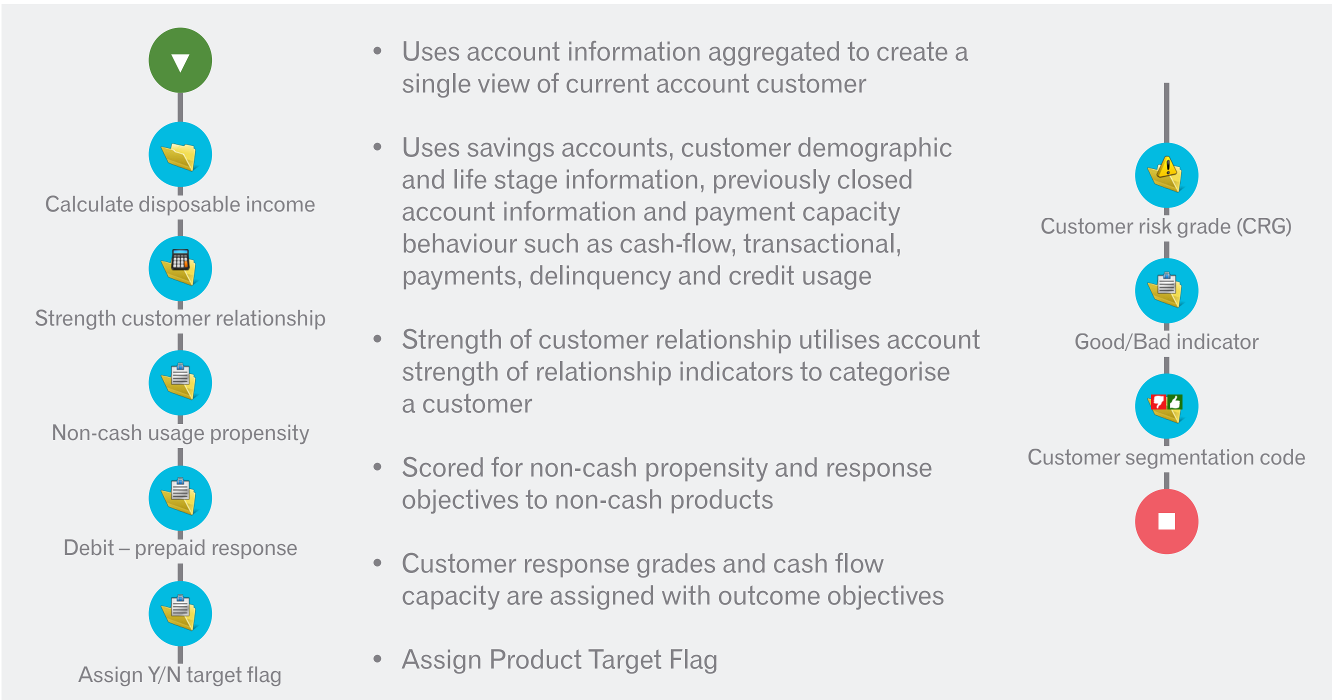

Figure 1: Experian PowerCurve™ analysis[8]

Designing and implementing current account customer segmentation that combines cash-flow behavior with existing consumer preferences for using the debit card and other types of noncash payments sets a basic framework to target existing bank customers and promote debit card usage. In addition to the opportunity for incremental revenue from debit card transaction fees, some banks abroad may have incremental revenue potential by assessing modest transaction fees for various types of money movement from ATMs to increase revenue on low debit-card-using customer segments. In addition, significant consumer retention opportunities exist by combining debit card spending marketing efforts with cross-selling of savings accounts to existing bank payroll account customers through the use of incentive-based marketing programs.

The marketing framework determines the high-level targeting strategies aimed at migrating customer transactions away from less profitable and more costly payment choices such as cash toward options that are more efficient and profitable for the bank, such as noncash debit card and prepaid card options.

8 PowerCurve™ is a software solution that helps companies make the right decisions, and adopt the most effective decision management strategies across the Customer Life through enhanced strategy design and performance monitoring capabilities as well as access to analytics.

The segmentation framework includes customer cash flow, transaction usage and marketing positioning insights.

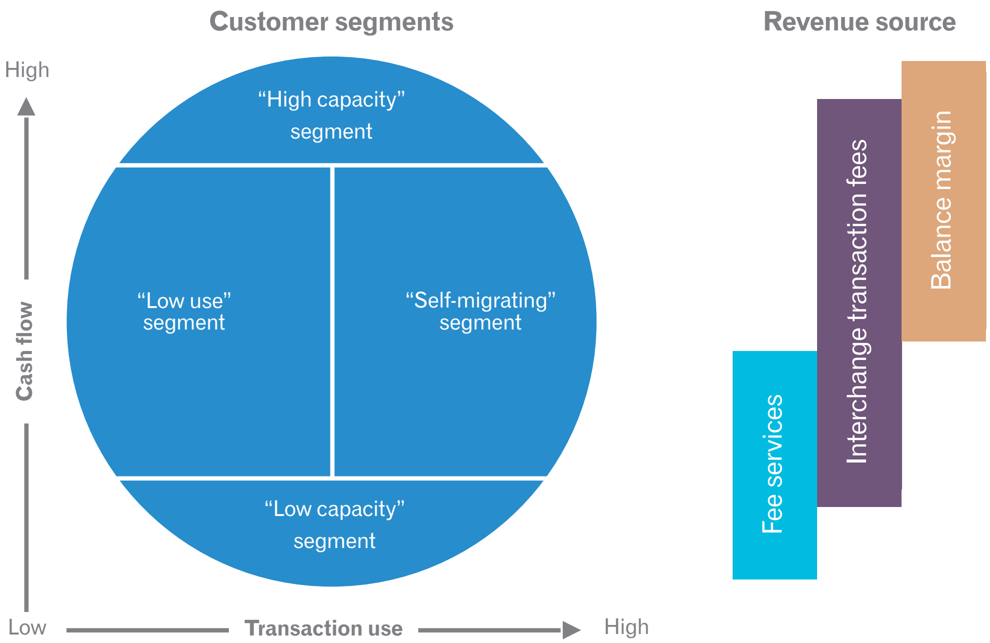

Figure 2: Marketing segmentation framework

Applying United States marketing approaches

This framework provides a way to communicate to existing customers the benefits of using the noncash payment options in addition to monitoring the profitability of key segments to ensure the bank is making an appropriate level of profit. The bank may also use qualitative survey insights to barriers to debit card or prepaid card use in addition to understanding other payment preferences of consumers. This further augments the bank's ability to communicate the benefits of noncash payment options to consumers more effectively. Simply put, banking organizations wishing to use marketing messaging to effectively migrate payment choices of consumers should focus efforts on higher cash flow and lower debit card transaction segments like the "Low Use" segment. Marketing communication intended to increase consumer debit card usage and targeted toward customers already exhibiting increased usage is ineffective and reduces overall return on marketing expense. This segmentation also can be used to offer fee-based services to unprofitable consumer segments that utilize costly transaction services. As an example, heavy cash and ATM users in low profitability segments could be charged a nominal fee for some transaction services to enhance profitability or offer fee-waive options with minimum debit card usage that links card transaction usage to the salary card as a usage stimuli. More profitable customer segments can be incented to use debit cards for purchases by means of rewards programs. Decisions need to be justified based on customer segment profitability and cost drivers.

Executing efficient and effective marketing strategies aimed at migrating consumer payment transaction behavior is not a new topic. In the United States, banks and payment processors have used incentives and attempted the use of fees in marketing the debit card to consumers. These approaches have generated mixed results with respect to balancing consumer perception with profitable debit card demand generation. Some tactics fail and create negative customer goodwill that has harmed well-known bank brands. Using marketing tactics that leverage customer behavior segmentation with customer life-stage and attitudinal insights to educate consumers about the benefits of using the debit card to pay instead of cash is the best tactic if done efficiently.

The U.S. market has a robust payment network allowing payments with debit cards and credit cards conveniently and safely with more than 1,300 ATMs and 17,000 point of sale (POS) terminals per million inhabitants. Payment networks function well regarding consistent availability and the accuracy of transaction posting to consumer accounts. These payment ecosystem attributes within the U.S. marketplace enhance the likelihood that consumers will choose to use these payment options instead of cash. Markets with developing payment system networks, like Russia, have far less current potential to use debit products with 386 ATMs and 1,686 POS terminals per million inhabitants. Exceptions to network density in varying markets are urban centers. Urban centers offer the right market conditions to promote the use of debit card and noncash forms of payments due to a high number of merchants accepting debit cards and consumers with money to spend. The Russian Federation's asymmetrical card market is caused by the limited number of regions and the density of functioning POS terminals in cities like Moscow and St. Petersburg that account for the bulk of transaction volume and use of plastic card products for spending.

For example, the majority of the Russian bank cards, in excess of 50 million cards, are issued in three regions, which include Moscow and the Moscow region, St. Petersburg and the Sverdlovsk region.[9] More than 85 percent of these cards are within the Moscow and Moscow region. This confirms the need to focus marketing efforts in key opportunity areas — primarily where a higher level of income and well-developed banking network exist.

Promoting the debit card to pay recurring bills such as utility obligations and other types of small- to medium-dollar transactions also can be effective to stimulate usage. Some critical steps to take into account when building marketing targeting programs to promote debit card use include:

1. **Focus on customer segments with cash-flow capacity and available network opportunity** to use the debit product on a frequent basis. Use internal bank data to analyze profit drivers and link product functionality together in marketing communication efforts.
2. **Use life-stage, demographic and attitudinal insights** to educate consumers on the benefits of using debit cards and noncash payment options. These data sources can be sourced internally and externally by the bank.
3. **Develop custom targeting behavioral models using payment behavior** data from the bank's internal systems of record in addition to outside sources that could include credit attributes, asset and income estimates.

Leveraging the cash-flow capacity and consumer noncash payment propensity segmentation with other demographic and behavioral data enhances the bank's ability to successfully increase the use of debit products. Using segmentation approaches also enables the financial institution to increase revenue per customer by understanding revenue drivers and key levers such as charging fees and mitigating losses appropriately. Using rewards-based incentives combined with cross-selling savings products and including reasonable fee charges for costly money movement options will generate a more efficient and profitable debit card marketing approach for Russian Federation banks.

9 Central Bank of Russia, 2010

A marketing strategy test design that works

Creating marketing testing strategies that leverage insights appropriately is important. Regulatory changes within the United States, specifically the Durbin Amendment within the Dodd-Frank Wall Street Reform and Consumer Protection Act, capped debit card transaction revenue for large banks, leading some to institute a debit card fee. This action generated negative customer sentiments and created negative brand impacts for some banks, leading them to reverse course and drop fees. Piloting proposed fee changes and marketing education is critical to objectively assessing results of marketing programs. This approach will allow a continuous improvement process whereby incremental response and profitability can be assessed. ROMI includes the cost of incremental marketing in addition to measuring the incremental lift in spending and use for the targeted payment option such as debit card. The piloting phase is critical to measure the benefits of marketing efforts and should be established carefully:

- **Pick like markets with respect to behavioral characteristics** — Delineating test and control markets enables objective measurement of transaction lift
- **Use alike customer segments across varying test markets** — Test your messaging and marketing communication within these segments to stimulate increased debit card use
- **Analyze results and make strategy changes objectively** — Monitor and analyze results for a reasonable period to ensure transaction lift is sustained
- **Implement winning strategies and dump losers** — Don't over-test failed approaches that waste time and money and annoy your customers

It is imperative that objective testing strategies be administered. These strategies include the items listed above as well as subjective elements related to specific markets with respect to barriers to using noncash payment options that are culturally based. Strategy test designs should incorporate basic determinants of demand generation with marketing communication around the benefits of alternative payment forms that are tailored to cultural norms within a given market. These types of approaches have the highest degree of success in implementation.

Conclusion

This paper has put forth a framework for designing, testing and implementing marketing strategies aimed at increasing noncash payment choices of bank consumers such as the use of debit card products. It is important to note that not all consumers have cash-flow capacity or have a favorable sentiment about using electronic forms of payments. Using a variety of internal and external behavioral, account transaction and demographic data to segment customers into opportunity groupings is an industry best practice within the United States.

Cross-cultural differences exist within various markets outside the United States that act as barriers to noncash payment choices. These differences should be recognized by relying on the local knowledge and experience, and local debit card marketing programs should be combined with the marketing strategies recommended within this paper. Figure 3 illustrates how Experian's data assets, software products and servicessolutions, custom models and consulting can be leveraged to create effective debit card marketing programs:

Data	+	Models	+	Strategies and software	+	Global consulting	=	Optimal
Internal bank data on existing customer usage of debit card		Cash-flow score		Experian PowerCurve		Review of existing policies and strategies		Retention
Internal bank cash flow behaviour		Response score		Cash-flow growth		Design marketing targeting strategies		Debit transaction growth
Income estimates		Debit use barrier segmentation		Debit card marketing strategies		Develop testing approach		Up-sell/Cross sell
		Attrition scores		Cash-flow growth strategies		Rewards program		NSF/OD
		Revenue score						Shadow limit

Figure 3: Uniting business understanding with information and tools for optimal results

About Experian Decision Analytics

Experian Decision Analytics enables organisations to make analytics-based customer decisions that support their strategic goals, so they can achieve and sustain significant growth and profitability. Through our unique combination of consumer and business information, analytics, decisions, and execution, we help clients to maximize and actively manage customer value.

Meaningful information is key to effective decision-making, and Experian is expert in connecting, organizing, interpreting and applying data, transforming it into information and analytics to address real-world challenges. We collaborate closely with clients to identify what matters most about their business and customers, then create and implement analytics-based decisions to manage their strategies over time.

In today's fast-paced environment where developing, implementing, and sustaining an effective strategy is imperative, Experian Decision Analytics helps organizations unlock a wealth of benefits immediately—and set the stage for long-term success.

Increased revenue: Our products and services enable clients to increase revenue by providing the insight and agility they need to find and engage the right customers, target products more effectively, and grow market share.

Controlled risk: A broad range of risk-management products and services help organizations verify identity and manage and detect fraud, optimize collection and recovery, and balance risk and reward.

Operational efficiency: Experian Decision Analytics helps organizations quickly integrate various information and processes to enhance operational efficiency and boost agility. Our flexible, collaborative approach helps organizations increase speed to market, enhance business agility and improve the quality of customers' experiences.

Compliance as differentiation: Proven expertise lets clients use compliance as source of competitive advantage. Experian Decision Analytics helps ensure compliance with essential regulations, while helping organizations better understand customers.

About the authors

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