A Credit To Local Banks

Major banks have dropped the ball on customer service allowing smaller banks to capitalize—and there's no better way than with credit cards

Major banks had a long ride of success. Everywhere there was a major city, there was one of their ATMs. The majors offered what seemed like favorable mortgage loans as well, but the housing crisis unearthed unflattering motives and decisions which has paved the way for small banks to gain market share.

Durbin legislation has also presented an opportunity to smaller banks. With a cap on interchange fees, banks have been adding extra charges to many accounts. It may not seem like much to the wealthier client but the average person is scoffing at watching their once free checking account now cost them every year while getting next to nothing in interest. "There is a fundamental consumer shift going on in the banking sector" as large banks scramble to find ways to recoup lost revenue as a result of Durbin, explained Mike Moebs, CEO of Moebs Services, a financial research and training firm.

In fact, Independent Community Bankers of America (ICBA) surveyed its membership in October 2011 and found that 60% reported an increase in account openings by customers citing frustrations with large banks.

There's no question that credit cards are the way to acquire a large amount of local customers in the most profitable fashion—more than 600 million credit cards are held by U.S. consumers, according to a 2010 Federal Reserve Bank of Boston survey, noted on creditcards.com— but it will have to be presented in a way which sends a message of helping build a future as much as a way for spending on leisure purchases. This is a different time. The financial crisis sent the stock market plummeting and sent people to a place of greater conservatism. The foreclosure crisis signaled to people that borrowing what can't be paid back has greater ramifications than just a paper loss—the loss was real and it was felt. A bank can't just offer them high credit limits and airline points—they need to convince customers that their APR will not skyrocket without fair warning, that they won't be behind the eight ball again. The average consumer knows that a credit card is a part of life—it must be presented as a positive part of it.

However, despite conservatism, new fee structures for debit usage will cause more consumers to use credit. This new environment creates a window of opportunity for community banks that want to capitalize on this shift in the credit market. Mercator Advisory Group predicts credit card spending will grow 8% to 9% for 2012.

Rusty Cloutier, CEO at MidSouth banker, reminds that credit cards were a critical way for his company to take bank market share from a large competitor. "About 10, 12 years ago Bank One acquired the bank that we were issuing our credit cards through and they took all our customers and they were our competition right across the street," he says. "So we had to get back in the business, we contacted ICBA got into their direct credit card program. It is a key component to us keeping our customers at our community bank.” (The full video of Cloutier’s experience is available at www.icbabancard.org/clients.cfm).

Give Credit

Let’s look at the first way to get involved in credit cards: a direct program. In this situation, a direct issuer may have maximum control over their credit card program. This means they set pricing, APR and any fees. A bank can earn maximum revenue, earn fee income, and finance charge revenue. It’s also the bank’s brand on the plastic, a powerful attachment for their name.

Next is the agent alternative. The agent bank also has the power of their name on the card, a strong step in impressing the customer, but they are limited in terms of their revenue streams. Because the accounts are not owned by the bank, they don’t have to handle underwriting (it’s done by the lead bank) and may also not be as flexible as a program they were in charge of. The agent program is for the bank that doesn’t want the responsibility or the risk that can be involved with a loan product.

But, Scott Broughton, Senior Vice President at ICBA Bancard, reminds there can be an assessment advantage of going direct. “We will provide portfolio assistance and actually review the banks credit card portfolio,” says Scott Broughton, Senior Vice President at ICBA Bancard,. “We’ll look at a variety of metrics or measurements of activity.” From there, Broughton says, recommendations are made, taking in the strengths and weaknesses of a portfolio and what improvement can be done for greater revenue, reduced expenses and marketing programs for more organic growth. Broughton says they also have use of a tool called ACE (Automated Card Expert), a portfolio assessment tool through the web sites to look at their numbers every month for a vital year-to-year comparison.

The Life of a Card

A bank also needs to look at the full life cycle of the credit card and the tools that can be available to do that. Credit and debit card rewards program are very effective in acquiring and keeping customers, particularly when it comes to programs which lead to free airlines tickets or travel upgrades. In fact, roughly 60 percent of consumers have a rewards credit card, according to The Survey of Consumer Payment Choice from the Federal Reserve Bank of Boston.

But it can go far beyond free flights. What’s extremely popular is turning the credit card into a shopping experience. The customer earns points for shopping at many of their favorite retailers through the credit card web site. They can even get extra points for purchases specifically made through a credit card mall setup. Again, it allows an institution to become much more than just a bank—they’re their lifeline to purchases they may never have considered.

A bank may be able to set the offer criteria, including risk scoring, and it may include duplicate name elimination, list cleaning for potential mailing, entering the new cardholder information into FIS' system and sending the bank the list of new accounts

Local banks also can compete with the big banks by marketing to the affluent, senior citizens and students. The latter is particularly underutilized as a 2009 Sallie Mae report noted on creditcards.com shows 84 percent of undergraduates had at least one credit card (on average 4.6 credit cards) and the average card balance was $3,173.

With higher interchanges fees, a bank much consider the advantage of issuing cards not just to consumer but to business, especially when they have higher interchange fees. According to creditcards.com, "credit cards are now the most common source of financing for America's small-business owners."

This is Just the Beginning

At the end of the day, banks have to view credit cards as the tip of the iceberg. If customers have an overwhelmingly positive experience with their cards, an area which requires a high level of trust—their FICO score and debt on the line—then they're much more likely to give a local bank more of their business. And banks have to ask themselves why they shouldn't be in charge of a customer's mortgage, financial investments and other major financial areas? It's time to capitalize on the opportunity a credit card relationship can create and do it in a way which feels natural, as an improvement to their professional life and personal goals.

Conclusion

The consumer has become a discerning group but that doesn't mean they've abandoned loyalty. They want to be able to go to one online screen and one bank for as many needs as possible. In other words, they're the local bank's customer to lose—on several fronts. The credit card is the most profitable partnership a local bank can have with them, both monetarily and for creating a long-term relationship, which can stretch to larger commitments and all-important referrals.

As consumers attempt to grow or reestablish after a tough time in our financial history, the last thing they want to do is close a credit card that's just been approved—if a bank can get their business there's a good chance for the long haul. This is a chance to sit down with an individual or family and assess their credit needs while you still have their ear. Explain advantages not just for today but for the future: the first credit card their child will have to establish a credit history, low introductory rates for a new business they're considering opening up, a clear explanation of how credit can help their needs. The 2008 census revealed that 113 million households have credit cards and that only figures to grow over time.

Bottom line, nurture that relationship once they get their cards, instead of allowing the stagnancy which too often happens. Create channels for continued communication. And, most importantly, help this alliance grow as the years pass.