BEWARE OF PATENT TROLLS

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Payments The lost franchise?

Nonbank inroads into a banking stronghold are no longer gradual

PLUS:

Cash management moves down market

Debit rewards require different approach

Debit card use has grown 20% a year at the point of sale since 1996, and today outpaces credit card use. Two thirds of this growth has come from less than a third of debit cardholders and only about 15% of bank customers, according to studies by MasterCard Worldwide and Furnace-Giltner & Associates. Even though most bank customers today have a debit card, that leaves a lot of room for growth in adoption and increased usage for a product that delivers key fee income revenue to banks.

About one third of banks now offer a rewards program to encourage debit use. In most cases, these programs have been modeled on credit card loyalty programs that reward annually for dollars of purchases made with the card.

With this approach, most of the rewards costs go to the 15% of customers already swiping an average of 35 times per month, and who have less potential for increased debit purchases. The other 85% of bank customers, currently using their debit cards less than 20 times a month or not at all, earn little or no reward incentives. This has caused many banks to question the economic desirability of these programs.

Segment your debit user base

Basic marketing methodology says you reward behavior you want to encourage, that is profitable, and is most likely to respond to rewards. It is the 85% of customers described above that best fit these criteria, and this runs counter to the way most banks are running their debit rewards programs.

Instead of offering everyone the same rewards based on their purchases, and having the heavy users self-select to get most of the rewards, some banks are using a segmented debit rewards program. One approach is to give nonusers and light users an immediate reward to start or increase usage. Customers responding with increased use get a reward as soon as the 30-day incentive period ends, depending on the program.

Such programs also reward users whether they use a PIN or signature transaction, although in some cases the signature transactions are rewarded at higher levels after the initial 30-day "bump" offer ends. Three times as many retailers still offer only signature-based transactions than PIN-only transactions. (McDonalds, for instance, the largest debit card taker, doesn't ask for a signature on most orders to keep things moving.) So banks don't have to attempt to get customers to switch.

Using these modified debit reward programs, banks are seeing "swipes" and interchange income grow.

They are also finding NSF income rises even more than interchange income with the 85% of accounts that are light and nonusers. As they increase debit usage, NSFs go up for these customers who value convenience over record keeping. Existing heavy users of debit cards who increase usage do not show concurrent increases in NSFs.

The segmented approach generates five times the revenue per account than simply rewarding for purchases, as shown in the exhibit on page 13.

Bank changes customer behavior

Republic Bank, a $3 billion-assets bank in Louisville, Ken., tested a debit reward program from Furnace-Giltner & Associates/Image Products in November 2006. "We sent a mailing to

By Rona Distenfeld, a business writer based in, Austin, Tex.

Sleight of mind

By Lillian Nielsen

Past solutions at *ababj.com*

May's puzzle, EPSOM DOWNS, was more difficult than it appeared to be. Most everyone thought $30 was the correct response. Actually, the answer was $29. The answer is explained on our website under PUZZLES at *www.ababj.com*.

We received three correct responses: Bradley M. Wahr, commercial lending officer, Mercantile Bank of Michigan, East Lansing; Christie Patterson, avp/compliance officer, First National Bank of Blythville, Ark. (with Debra Ford and Terri Bowling); and Barb Sheets, operations supervisor, Central National Bank, Superior, Neb.

Bradley Whar wrote:

x = money started with
2x-30 = y
3y-54 = z
4z-72 = 48

Therefore, Z = 30, Y = 28 and X = 29

As we have pointed out a number of times in the past, when anything seems too easy, let the solver beware!

TRY, TRY, AGAIN

The following progression of mathematical operations seems to prove that 1 equals 2, but there is an error. Can you guess what it is?

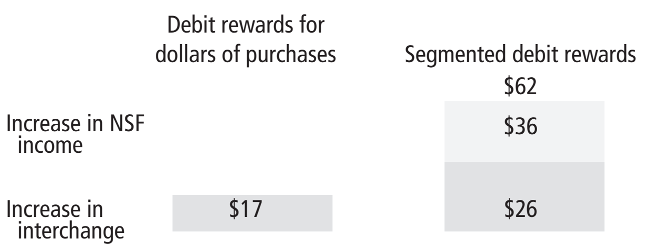
Step 1:	Given	$a=b$
Step 2:	multiply by b	$ab=b^2$
Step 3:	subtract a^2	$ab-a^2=b^2-a^2$
Step 4:	factor	$a(b-a)=(b+a)(b-a)$
Step 5:	cancel (b-a)	$a=b+a$
Step 6:	substitute a for b	$a=a+a$
Step 7:	combine	$a=2a$
Step 8:	divide by a	$1=2$

No computer program needed here. Sharpen your wits, and your pencils, and send your replies to PUZZLES on our website: *www.ababj.com*. Be sure to give us your name, title, company, city, and state as well as any comments you wish to make.

our nonusers and light users (1-20 swipes per month), asking them to use their debit card just five times, or five times more, in a month," says Michael Sadofsky, senior vice-president. "If they did it, they would get a one-time gift or reward right away." The bottom-tier gifts are things like a Milkshake Maker, a 25-piece tool kit, and a digital camera, he says. Or they could choose to save their points toward bigger gifts, like an iPod or a flat-screen TV.

"We saw over 20% of the nonusers become users, and the light users far exceeded the usage bump we asked for. Since then, more than 40% of these new and increased users have continued to use their debit cards at these same higher levels, and we have seen significant growth in interchange and NSF fee income, well above the cost of the program."

Increase in fee income per account



Source: Furnace, Giltner & Associates

Bob Giltner of Furnace-Giltner & Associates says these numbers are typical. "At a time when banks are seeing very low margins and low growth in fee income, debit rewards, correctly executed, can be a real profit driver quickly accretive to earnings."

Sadofsky's bank has had a debit card program for more than a decade and had experimented with more traditional reward programs. He believes that there are several key differences that make the new program work. "Segmenting the level of reward offer by group is critical," says Sadofsky, "and so are the immediacy with which they get their reward and the fact that everything our customers see around the rewards program is branded with our bank's name and under our control."

Segmentation levels and the goal for the increased swipes can be customized, he says, adding that it is important to reward all customers, but at the right economic level. ***BJ***

The world of debit cards was roiled last month by Capital One's announcement that it would begin issuing debit cards with the MasterCard logo that could be linked to the checking account at any bank via the ACH (see p. 26).