CORNERSTONE ADVISORS

CUES
POTENTIAL, REALIZED.™

Payments Trends & Disruptors

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What you need to think about in Payments

PAYMENTS GROWTH IS CONCENTRATED IN ELECTRONIC PAYMENTS – AND CARDS

MARKET CONCENTRATION IS HIGH

DISRUPTORS ARE CONTINUING TO GAIN GROUND

YOUR MEMBERS AND MARGIN ARE AT RISK

- How do you differentiate to your members?
- How do you stay relevant and primary in digital commerce?
- What strategies can you deploy to drive engagement and growth?
- What investments do you make in technology and functionality?
- Do you have the right vendors and relationships?
- How do you build a payments roadmap to protect your payments business over the next 2-3 years?

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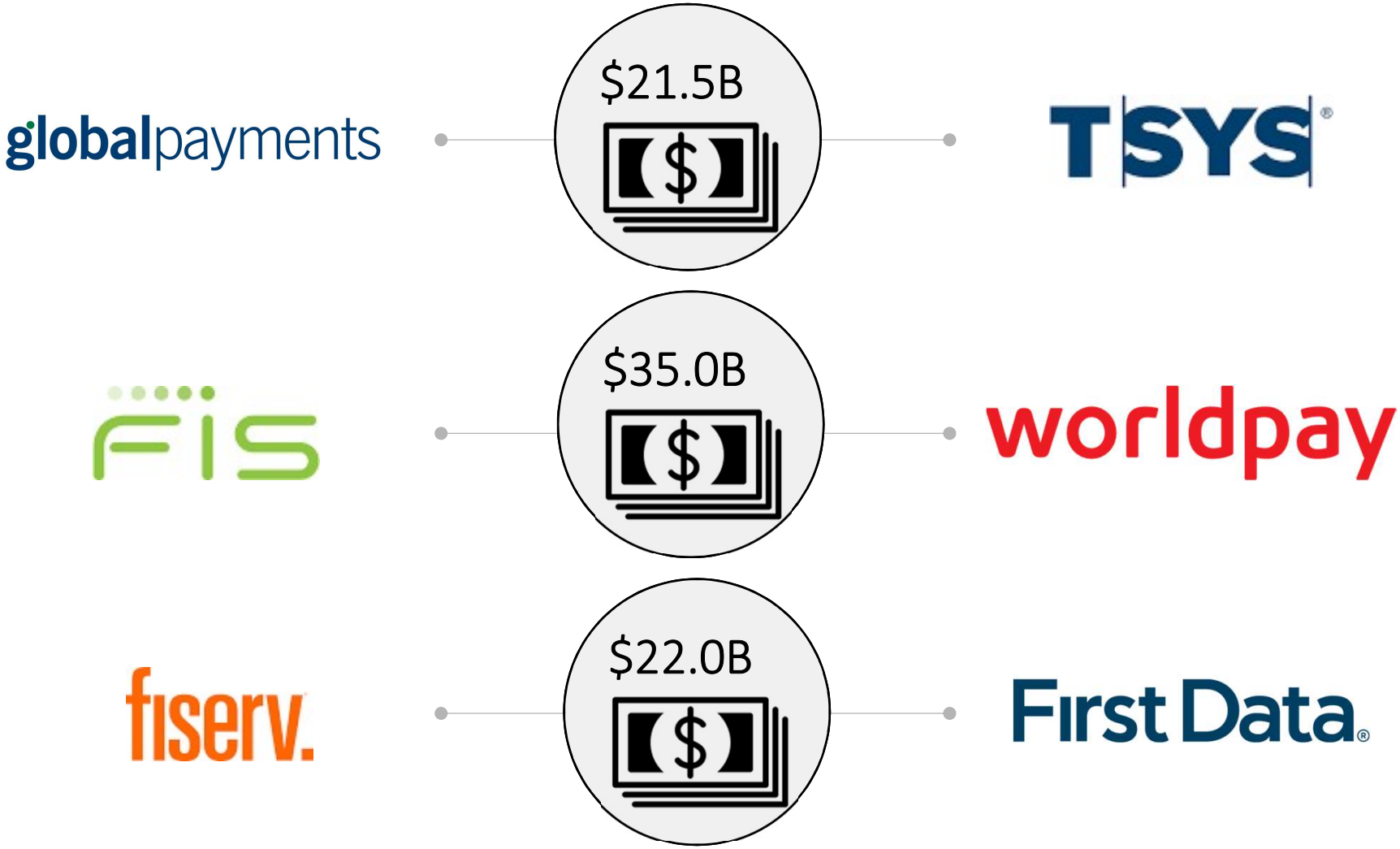
Payments Landscape

Digital Payments & Disruptors

Processors and Providers

Networks

The Year of Payments Mega Deals



The overarching goal is to offer "one-stop shops" for any number of devices, software and services for companies that give merchants and banks the ability to offer end consumers a range of (cashless) payment choices.

Source: Payments.com; Cornerstone Advisors

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Digital Payments – Ecosystem

Credit Unions & Banks

Zelle℠ The Clearing House

Pay℠

VISA Checkout

masterpass

Merchants

amazon pay

Walmart Pay

cvs pay pharmacy

Kroger

KOHL'S Pay

Fintech

Pay G Pay SAMSUNG pay

$ venmo

PayPal Alipay™

WeChat Pay Affirm

Banking as a Service

Customers Bank

The Bancorp Bank

BankMobile

Lincoln SAVINGS BANK

green dot

COASTAL COMMUNITY BANK

RADIUS BANK

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Payments Instruments by the Numbers – Projection

2012 - 2017 Actuals	5 Year Change	
Type	Volume	Transactions
PAPER	**-16%**	**-11%**
Cash	-2%	-4%
Checks	-34%	-38%
Other (MO,CC,TC)	-35%	-34%
CARDS	**42%**	**39%**
Credit Cards	48%	52%
Debit Cards	38%	37%
Prepaid	20%	11%
ELECTRONIC	**29%**	**47%**
Preauthorized Payments	28%	47%
Remote Payments	29%	46%
Total	**21%**	**19%**

2017 - 2022 Projections	5 Year Change	
Type	Volume	Transactions
PAPER	**-16%**	**-1%**
Cash	3%	10%
Checks	-54%	-61%
Other (MO,CC,TC)	-21%	-22%
CARDS	**41%**	**30%**
Credit Cards	43%	35%
Debit Cards	40%	29%
Prepaid	28%	20%
ELECTRONIC	**20%**	**27%**
Preauthorized Payments	17%	28%
Remote Payments	24%	26%
Total	**24%**	**20%**

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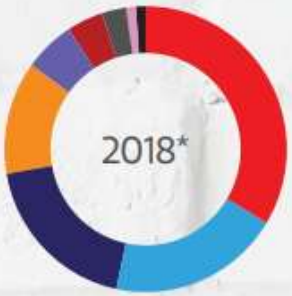
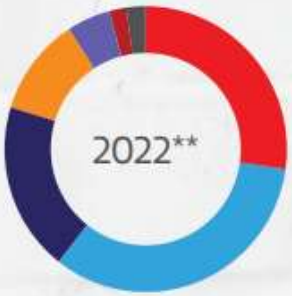
Payment Mix – Digital and POS

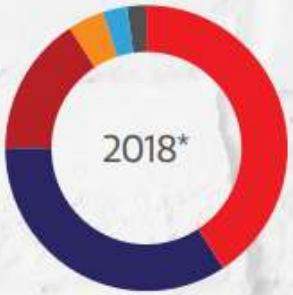
North America eCom payment methods

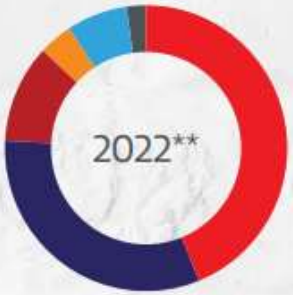




	2018*	2022**
Credit Card	34%	27%
eWallet	20%	33%
Debit Card	19%	19%
Charge & Deferred Debit Card	13%	11%
Bank Transfer	6%	5%
Cash on Delivery	4%	2%

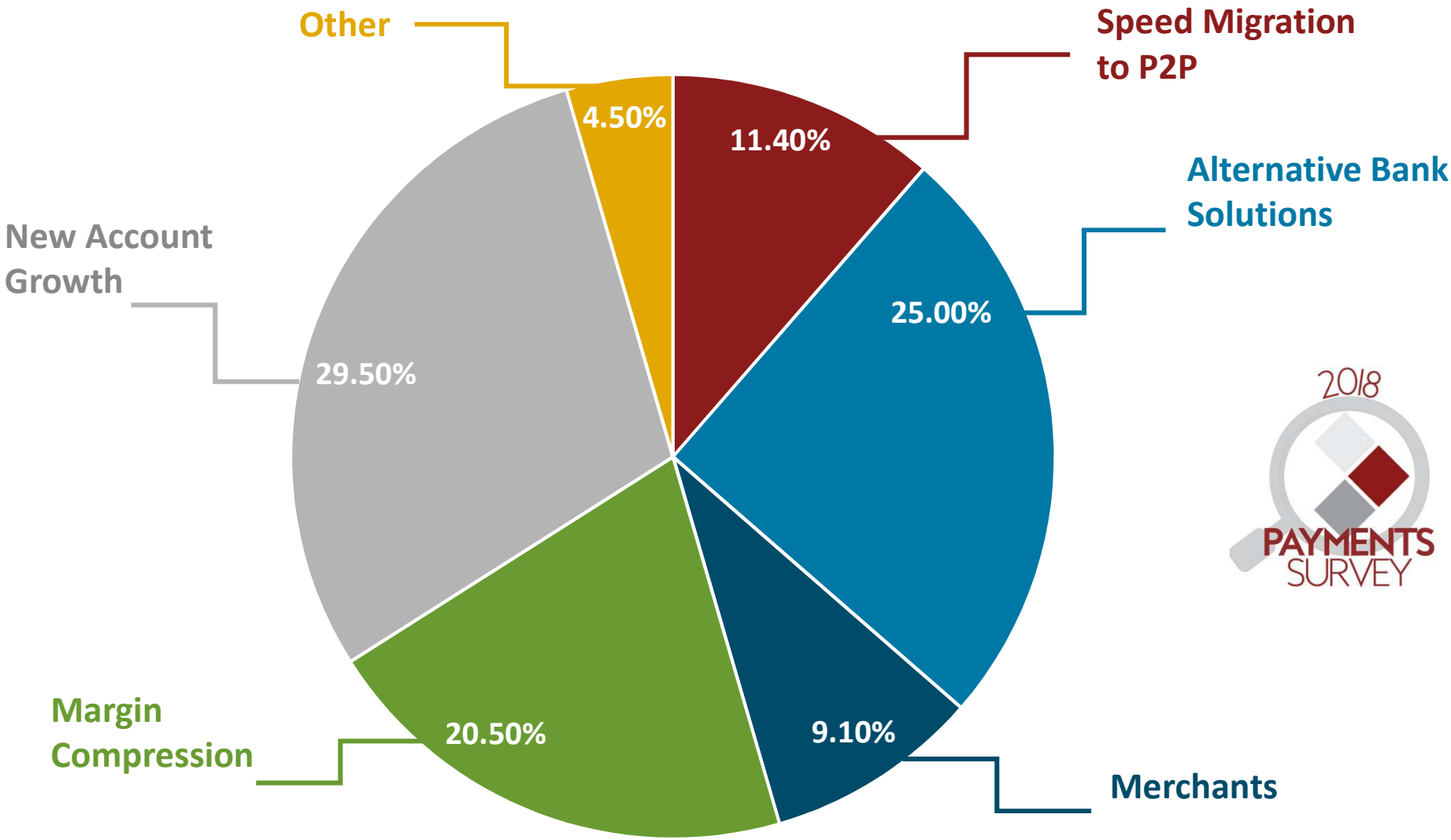
North America POS payment methods





	2018*	2022**
Credit Card	41%	44%
Debit Card	34%	32%
Cash	16%	11%
Charge Card	4%	4%
eWallet	3%	7%
Pre-Paid Card	2%	2%

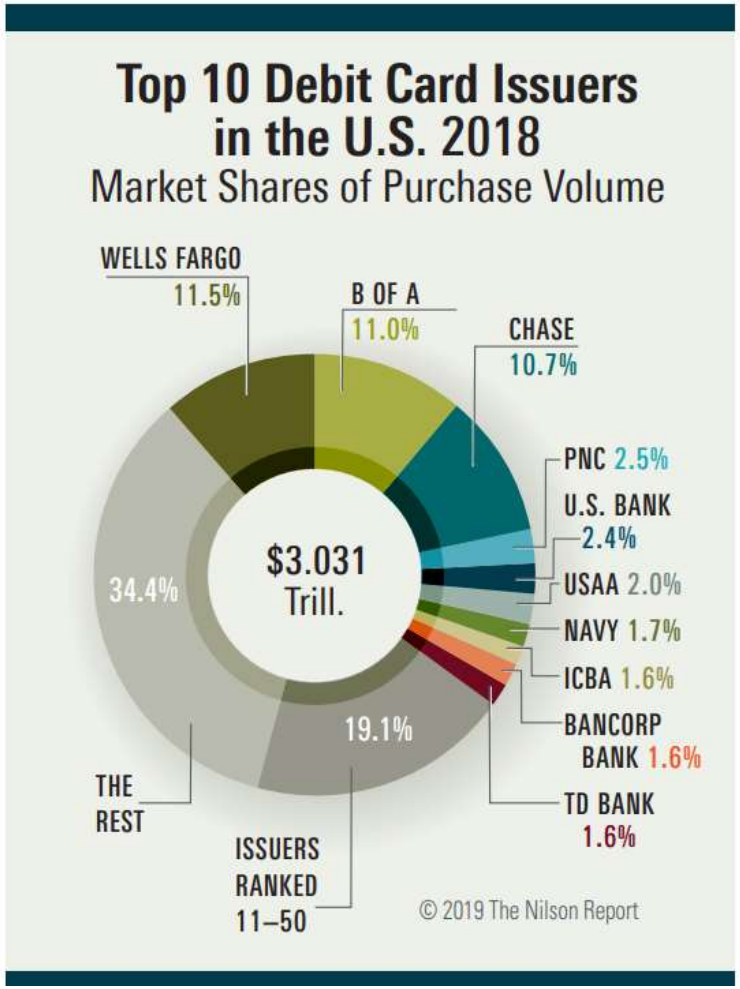
What trend is most concerning/interesting to you?



2018 PAYMENTS SURVEY

Debit Card

What Does the Debit Card Market Look Like?



- 47% owned by 10 FIs
- 66% owned by 50 FIs
- 34% owned by everyone else
- Many new players looking to gain ground in the market
- How do you grow your piece of the market

Chime Bank

CHIME BANKING

Banking the way it should be.

Say goodbye to ridiculous bank fees. Get paid up to 2 days early with direct deposit.[1] Grow your savings, automatically.

Get Started

Featured

NEW APPS WE LOVE

nerdwallet

The New York Times

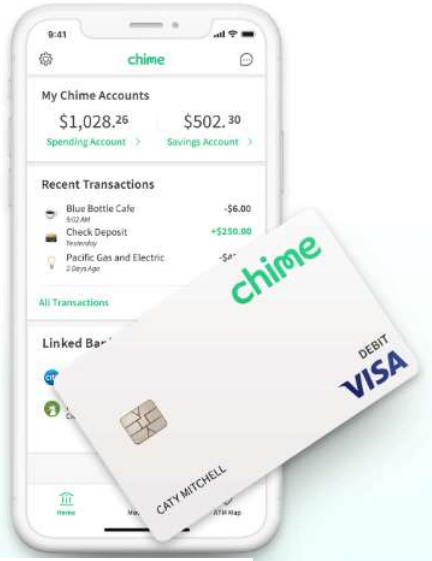
TechCrunch

USA TODAY

WSJ

Forbes

FAST COMPANY



Get your paycheck early.

Set up direct deposit and receive your paycheck up to 2 days earlier than your co-workers![1]

Learn More About Early Direct Deposit

No hidden fees. Ever.

No overdraft. No minimum balance. No monthly service fees. No foreign transaction fees. No transfer fees. Over 38,000 fee-free MoneyPass® and Visa Plus Alliance ATMs, plus 30,000+ cash-back locations.

Learn More About No Hidden Fees

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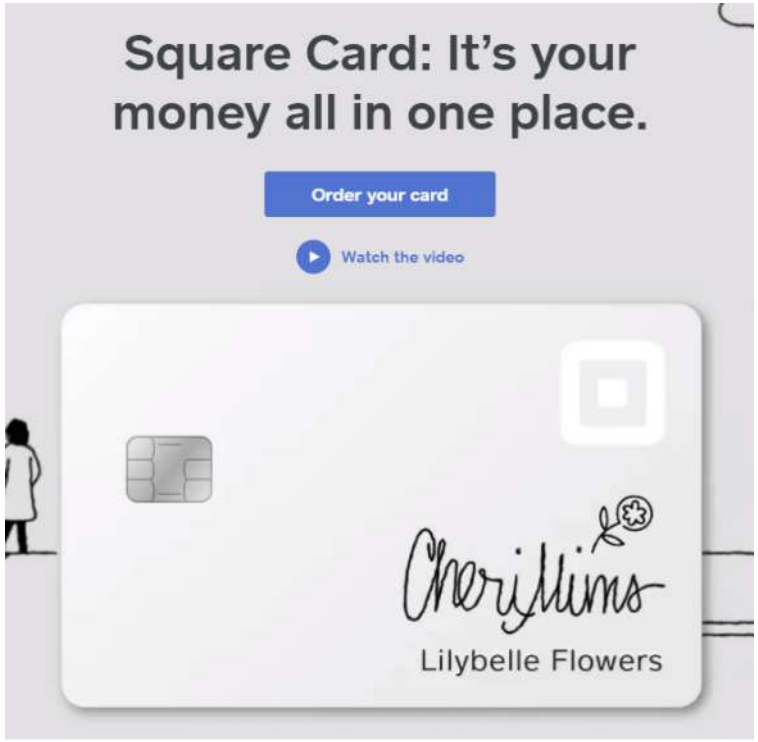
Square Debit for Business



Your money as soon as you make a sale

When you sign up for Square Card, you get real-time access to your Square balance. Use your business debit card anywhere Mastercard® is accepted, with no monthly fees, sign-up fees, or annual fees. It's everything you expect from Square.

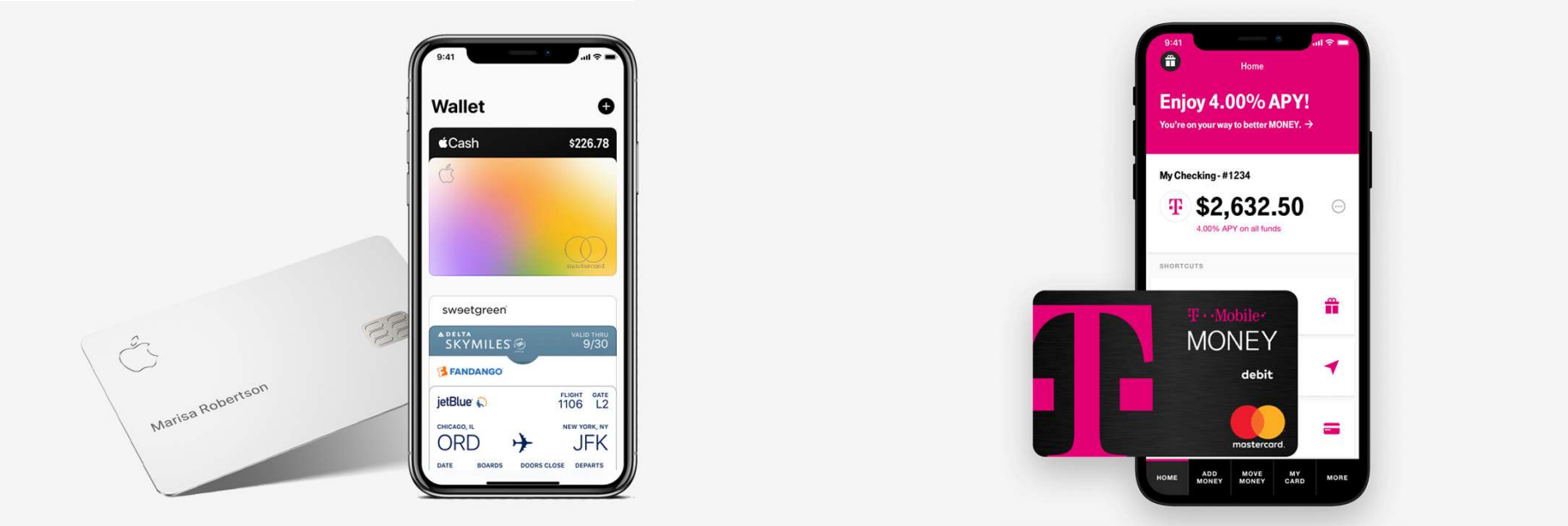
Square Card by the numbers:

Fees and Account	Square	Big Banks
Service fee	$0	$10–$16/month
Minimum balance required	$0	$500–$5,000
Overdraft fees	$0	$35/item
Minimum initial deposit	$0	$25–$1,500
Monthly account service fee	$0	$10–$16/month
ATM fee	$0 from Square; ATM provider fees apply	Free-$10
Flexibility		
Transaction limit	None	50–200/month
Daily ATM withdrawal limit	$1,000	$300–$700
Daily spend limit	$25,000	$1,000–$5,000
Features		
Instant discount	2.75% back at Square sellers	N/A
Integrated app experience	Yes (Point of Sale app)	No
Personally branded card	Yes	No
Dedicated business balance	Yes	Yes

"We now offer all sellers who use our point of sale a place to store their money, and a MasterCard to spend it instantly. No bank account needed."

– Jack Dorsey, CEO of Square

New Mobile-First Banking Entrants / “Banking as a Service”



Apple

- Offering Digital Debit and Credit Card
- Apple has 1.3 billion+ active devices
- The banking engine behind the Apple Card is Goldman Sachs for credit and GreenDot for Apple Cash

T-Mobile

- Attractive Rates: 4.00% Annual Percentage Yield (APY)
- T-Mobile has 80 million+ mobile customers
- The banking engine behind T-Mobile Money is BankMobile

Relationship Based – Credit Union

LAKE MICHIGAN CREDIT UNION

3.00% Max Checking

You'll earn **3.00%* on balances up to $15,000!** We'll also refund up to $15/month in surcharge fees if you use a non-LMCU ATM. And guess what? Max Checking was named the best checking account in the nation by Money Magazine!

Features

- 3.00% APY on balances of up to $15,000
- No minimum balance required
- Totally free – no monthly fees
- Free LMCU ATM usage
- Up to $15/month reimbursement for non-LMCU ATM use
- Free online banking
- Free Bill Pay, with direct deposit commitment

Requirements

To earn the most on a 3.00% Max Checking account, follow these requirements.

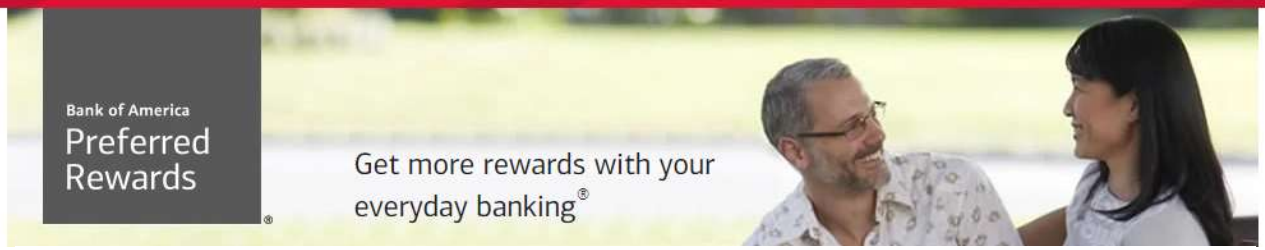
1. Direct deposit into any LMCU account
2. Minimum of 10 posted debit card or credit card purchases per month
3. Minimum of 4 logins to home banking per month
4. Sign up to receive eStatements/eNotices

Relationship Based – Top 5

Bank of America

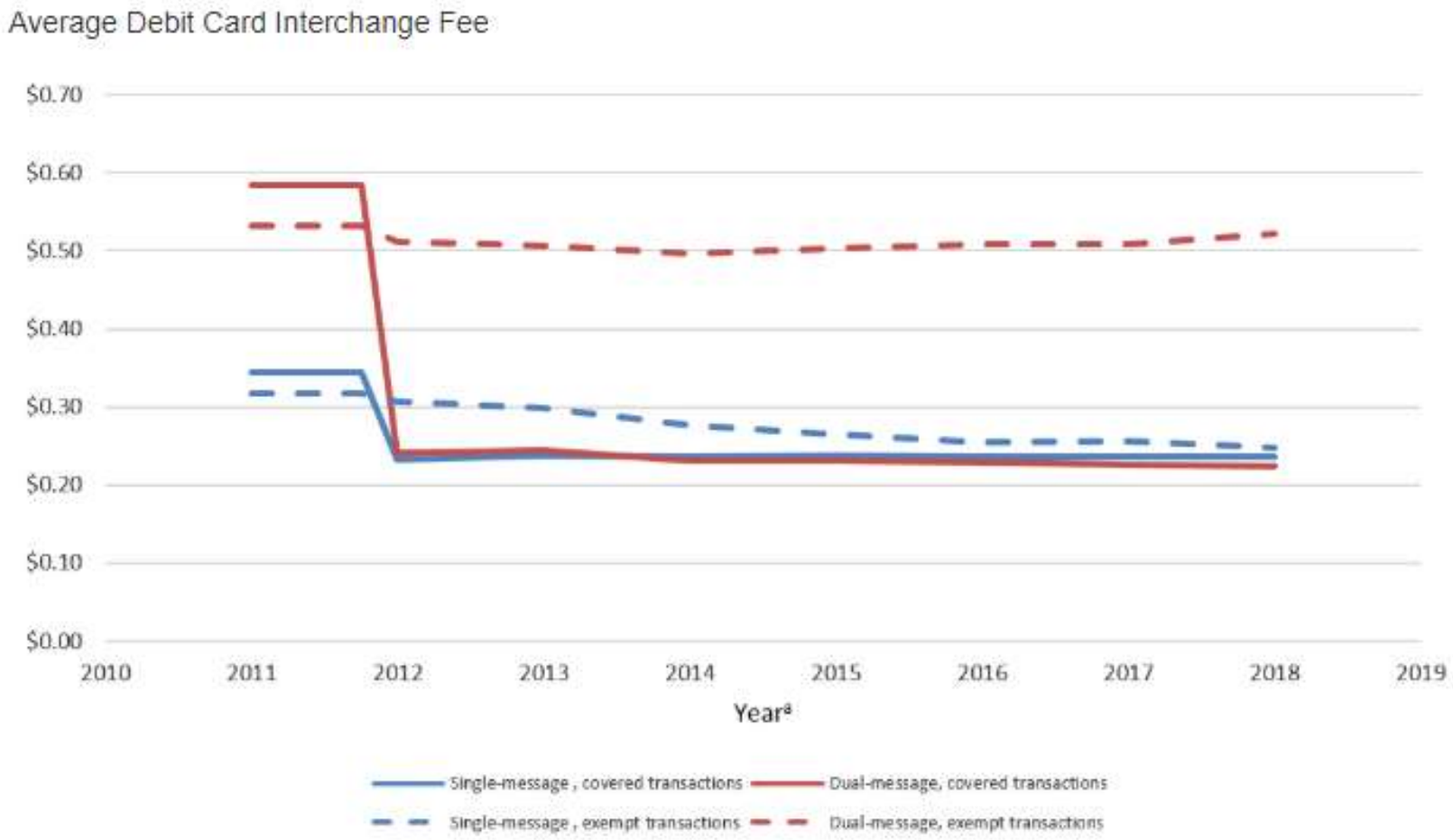
Sign in Locations En español How can we help you? Menu

Preferred Rewards



	Gold	Platinum	Platinum Honors
Required balance	$20K to < $50K three-month average combined balance	$50K to < $100K three-month average combined balance	$100K+ three-month average combined balance
Rewards Savings interest rate booster	5% interest rate booster[1] on a Rewards Savings Account	10% interest rate booster[1] on a Rewards Savings Account	20% interest rate booster[1] on a Rewards Savings Account
Credit card rewards bonus	25% rewards bonus[2] on eligible Bank of America credit cards Review card eligibility guidelines	50% rewards bonus[2] on eligible Bank of America credit cards Review card eligibility guidelines	75% rewards bonus[2] on eligible Bank of America credit cards Review card eligibility guidelines
Non-Bank of America ATM Transactions		up to 12/year no-fee ATM transactions — withdrawals, balance inquiries and balance transfers (one each per statement cycle) — with a Bank of America debit or ATM card at non-Bank of America ATMs in the U.S.[3]	unlimited no-fee ATM transactions — withdrawals, balance inquiries and balance transfers — with a Bank of America debit or ATM card at non-Bank of America ATMs in the U.S.[3]
Merrill Edge® online investing and trading MERRILL EDGE		up to 30/month $0 online stock and ETF trades[4] on a Merrill Edge online investment account ♦ Other fees may apply Plus Merrill Edge MarketPro[5]	up to 100/month $0 online stock and ETF trades[4] on a Merrill Edge online investment account ♦ Other fees may apply Plus Merrill Edge MarketPro[5]

Debit Interchange Trends



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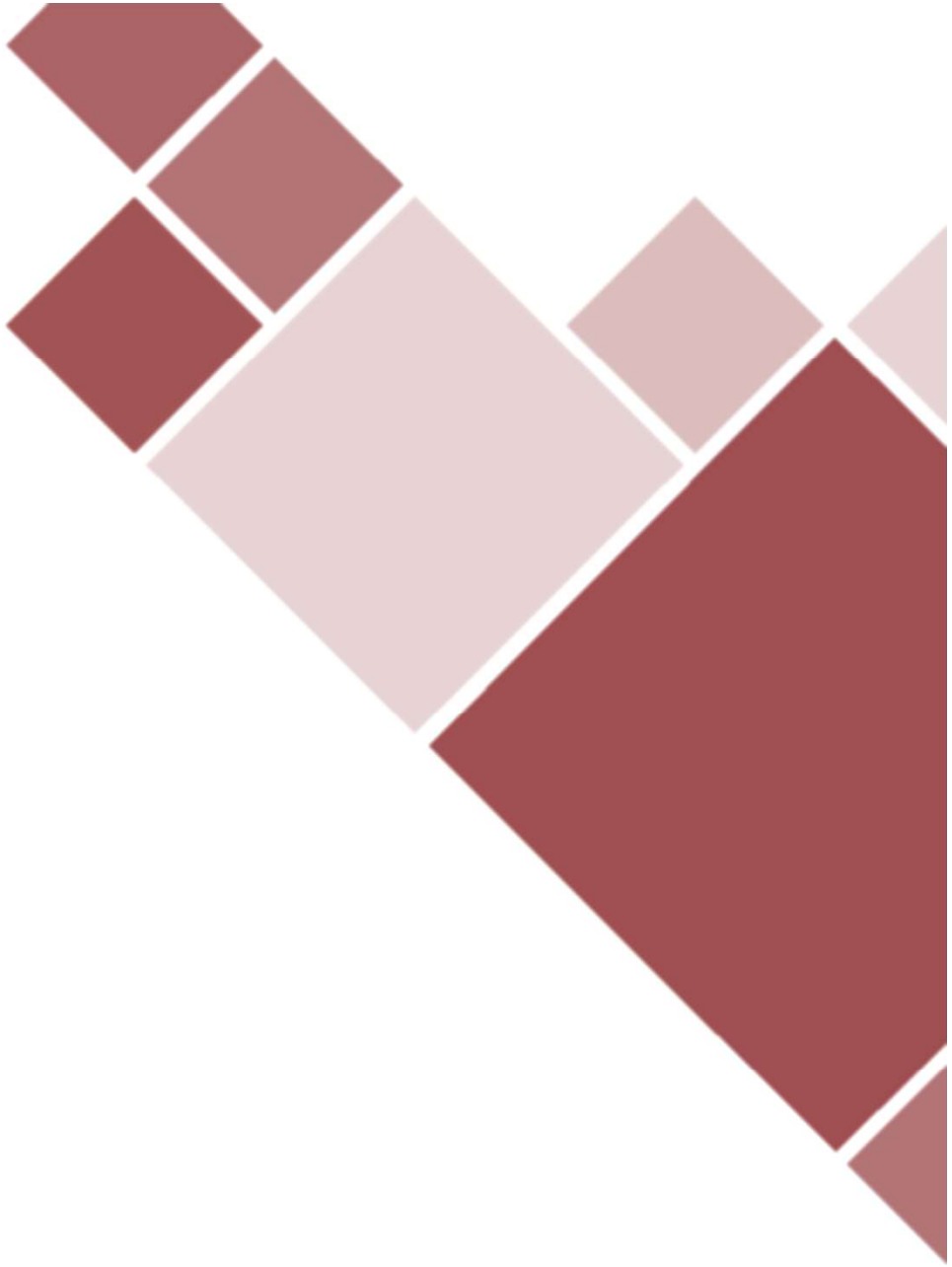
Debit Revenue

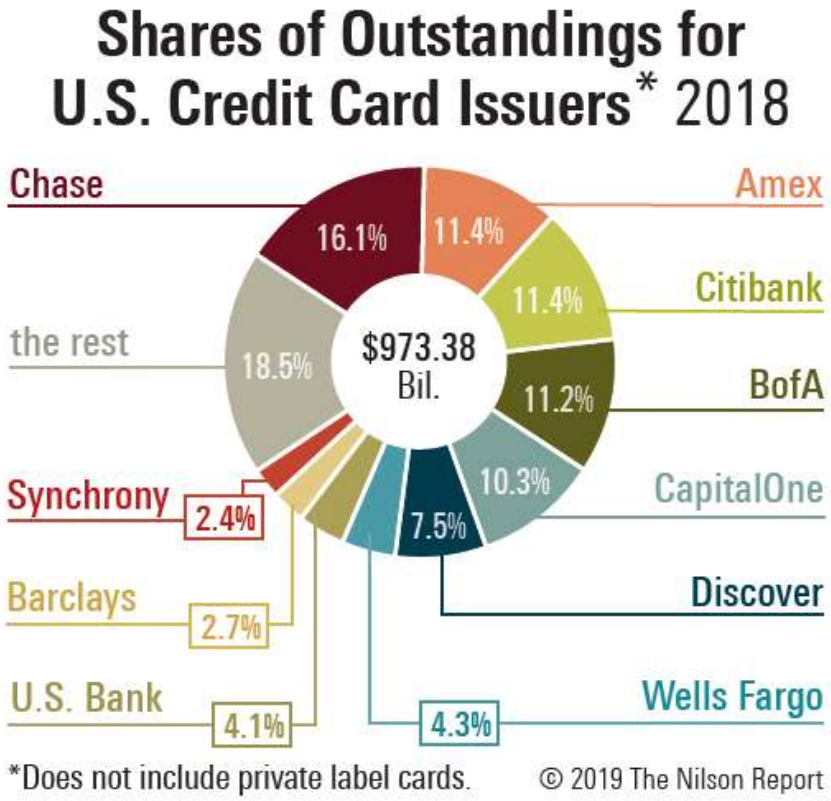
Merchant Network Deals
Fintech Disruptors

Merchant Steering
PINless Debit

Credit Card

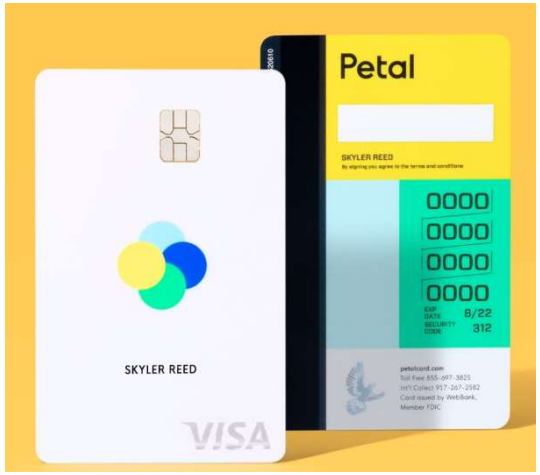


What Does the Credit Card Market Look Like?



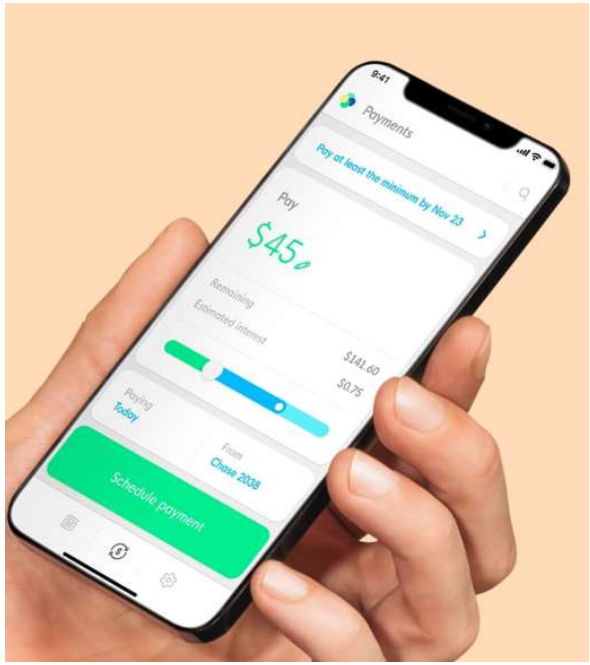
- 83% owned by 10 FIs
- 93% owned by 20 FIs
- 7% owned by everyone else
- Primary bank market share?
- Drivers of card selection
- Functionality that drives usage
- Acquisition channels

Petal – Starter Card



Credit from the future.

We're using modern technology to help more people build credit with a card that has higher limits, competitive rates and no fees whatsoever.



Link your accounts

Our clever algorithm analyzes more than just your credit score.

See if you're pre-approved

Get a decision in seconds without impacting your credit.

Build your credit score

Pay on time and grow your score.

Rewards that grow with you.

1%
Cash back right away

→

1.25%
After 6 on-time payments

→

1.5%
After 12 on-time payments

An app built by a tech company, not a bank.

We make it effortless to track your spending and manage your money, with all of your checking, credit, and other accounts in one place.

Zero Card – Hybrid Debit & Credit

Carbon 3.0%

The highest level Zerocard, Carbon earns an industry-leading 3.0% cash back on purchases and 2.00% in rewards annually on average Current Position. Requires referring 4 friends to become Zero customers or $100,000 in annual spending to qualify.*

Magnesium 2.0%

The second-highest level Zerocard, Magnesium earns 2.0% cash back on purchases and 1.00% in rewards annually on average Current Position. Requires referring 2 friends to become Zero customers or $50,000 in annual spending to qualify.*

Graphite 1.5%

One step up from the entry-level Zerocard, Graphite earns 1.5% cash back on purchases and 0.50% in rewards annually on average Current Position. Requires referring 1 friend to become a Zero customer or $25,000 in annual spending to qualify.*

Quartz 1.0%

The entry-level Zerocard, Quartz earns 1.0% cash back, still a game-changing rewards rate for a product that works with a Debit-style Experience.

Banking has never been so rewarding.

Introducing Zero. A mobile banking experience consisting of an app, a credit card called Zerocard, and a checking account called Zero Checking.

Zero is the first modern banking experience to combine the simplicity of a debit card with the rewards of a credit card, featuring unlimited 1.0% to 3.0% cash back on spending and 0% to 2.00% annually on average Current Position (daily Zero Checking minus Zerocard balance)* with zero of the most annoying fees of typical bank accounts.

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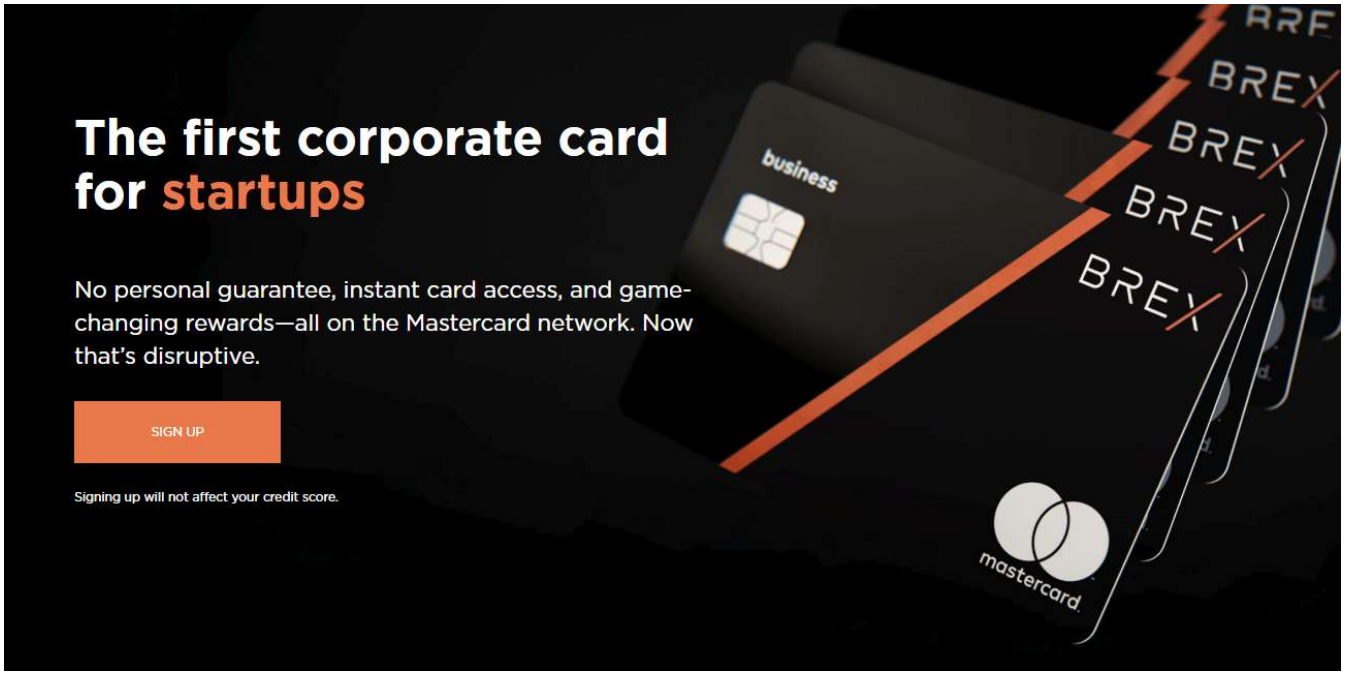
BREX – Small Business Credit Card



STARTUPS SPEND ON DIFFERENT CATEGORIES

Brex customers spend a lot on software subscriptions, travel and restaurants, and ridesharing services — so Brex crafted industry-leading multipliers in each of these categories.

BREX EXCLUSIVE REWARDS MULTIPLIERS

7x RIDESHARE	4x BREX TRAVEL
3x RESTAURANTS	2x RECURRING SOFTWARE

Net 60 terms

Take a full 60 days to pay to better manage your cash flow. See how it works.

Interest-free

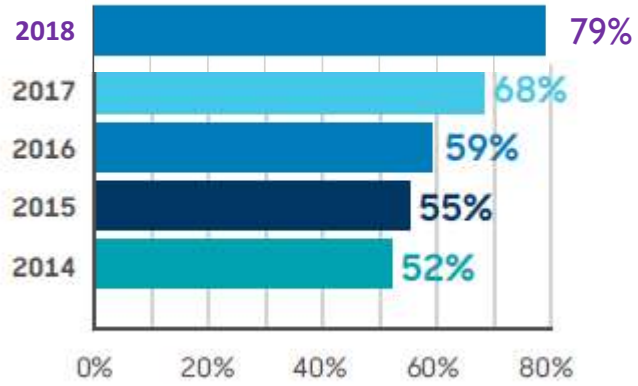
No interest, no fees, no catch. See how we compare and how Brex makes money.

Instant approvals

Apply in as little as 5 minutes, and get your virtual card instantly upon approval. See how to get started.

Loyalty & Rewards Drive Consumer Behavior

Rewards Remain Top Credit Card Feature When Asked About Most Attractive Features on Consumers' Preferred Credit Card



Redeemers are

2X

more likely to be highly satisfied with a loyalty program than non-redeemers

Source: Bond Brand Loyalty Report 2017, survey on 28,000 North American consumers

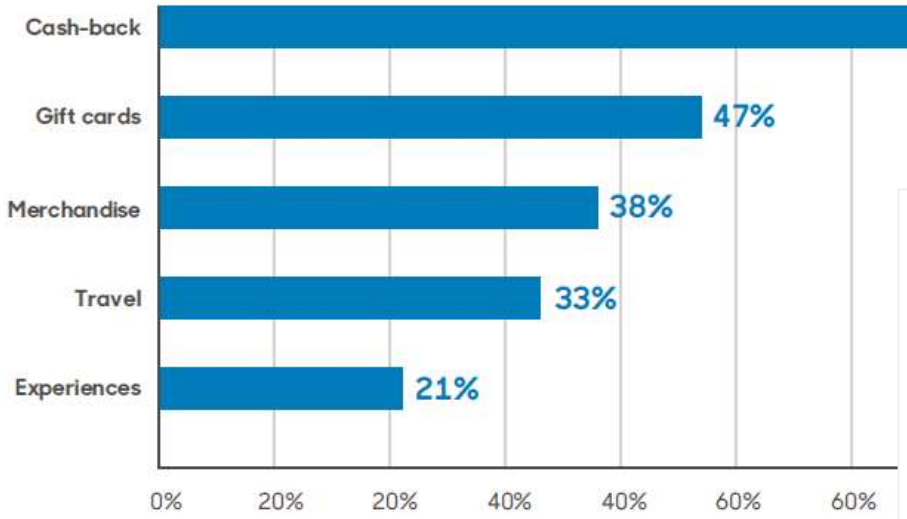
Rewards Remain Top Credit Card Feature – by Income

	Income					
	Less than $25,000	$25,000 to less than $50,000	$50,000 to less than $75,000	$75,000 to less than $100,000	$100,000 to less than $150,000	$150,000 or more
Rewards	55%	62%	71%	80%	80%	78%

TSYS 2017 US Consumers Payment Study

Loyalty & Rewards – Cash Back is King

Reward Types: Have on Preferred Card & Have Redeemed

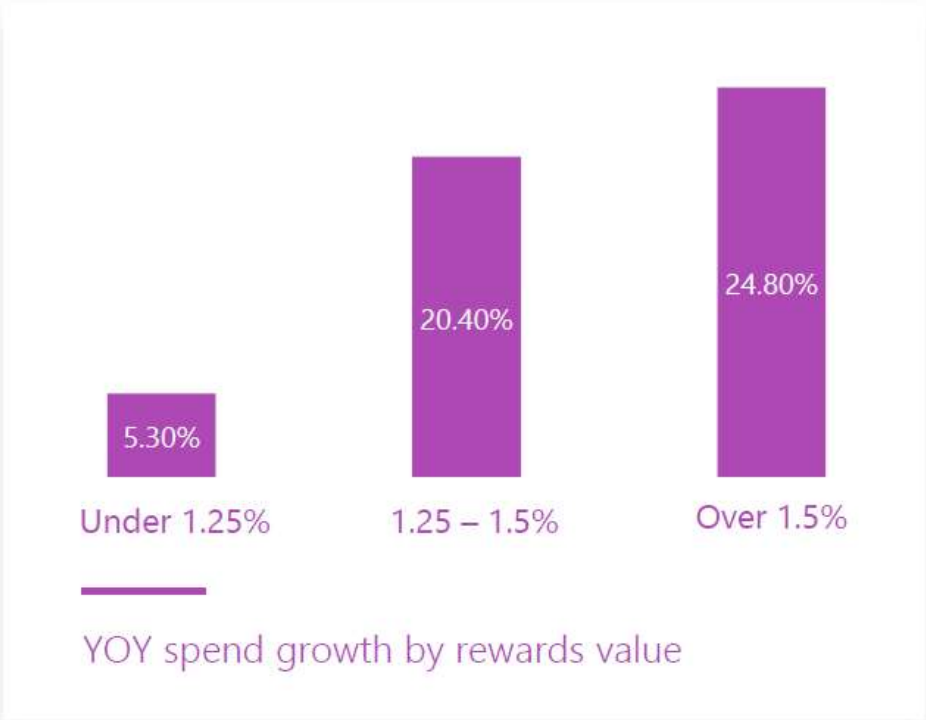


How Frequently Cash Back is Redeemed

	2016	2017
Once a month or more	15%	24%
A few times a year	30%	32%
Once a year or less	20%	25%
Infrequently or never	35%	19%

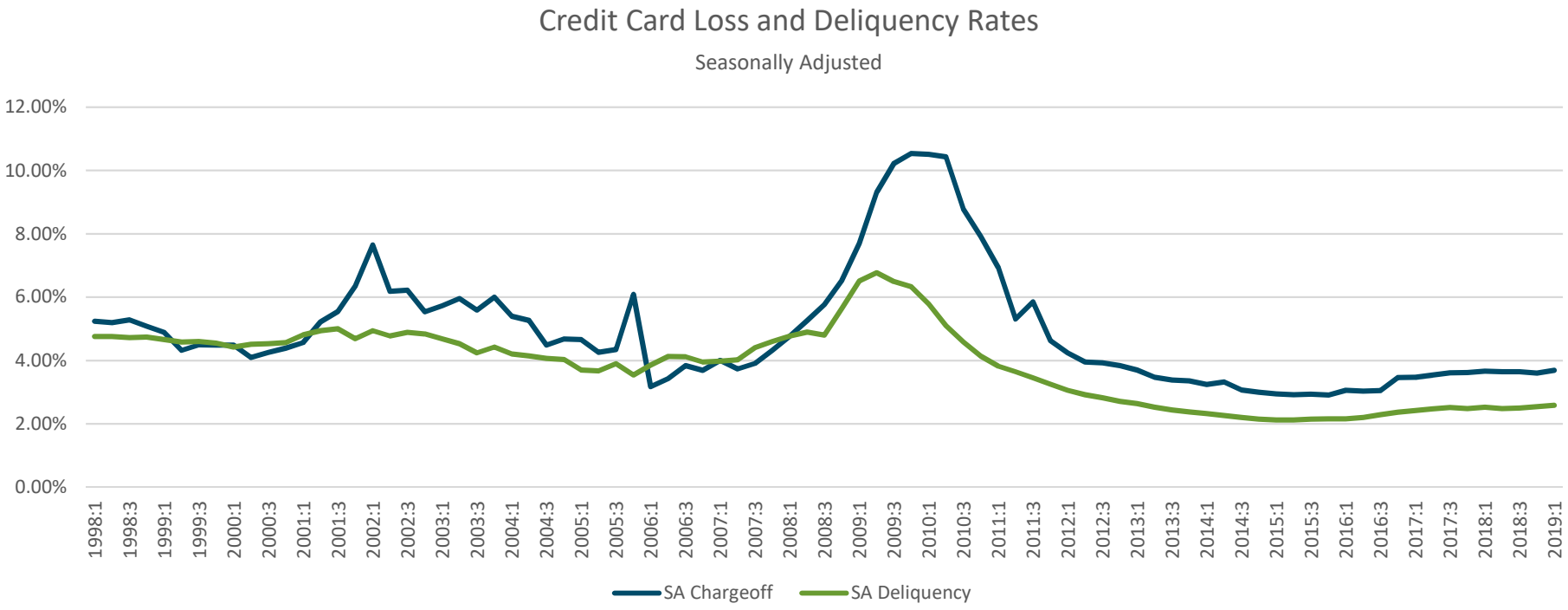
Rewards Paradox

Source: VisaNet data, July 2009 to June 2017, Visa analysis



Source: VisaNet 2016-2017

Loss Trends

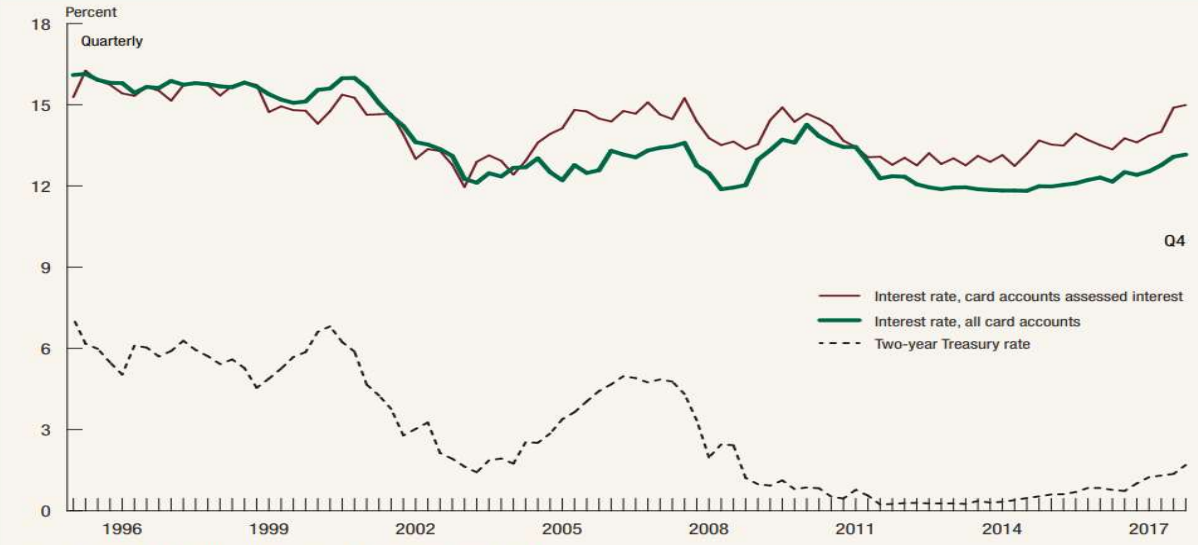


- Delinquency and Losses have been at a 15-year low
- Recent quarters have been trending upward and leading to pull back in lending

Federal Reserve Data

Margin Pressure

Figure 1. Average interest rates on credit card accounts



Source: Federal Reserve Board, Form 2835a, Quarterly Report of Credit Card Plans.

Table 2. Income and expenses for U.S. banks in 2016 and 2017

Percent of average quarterly assets

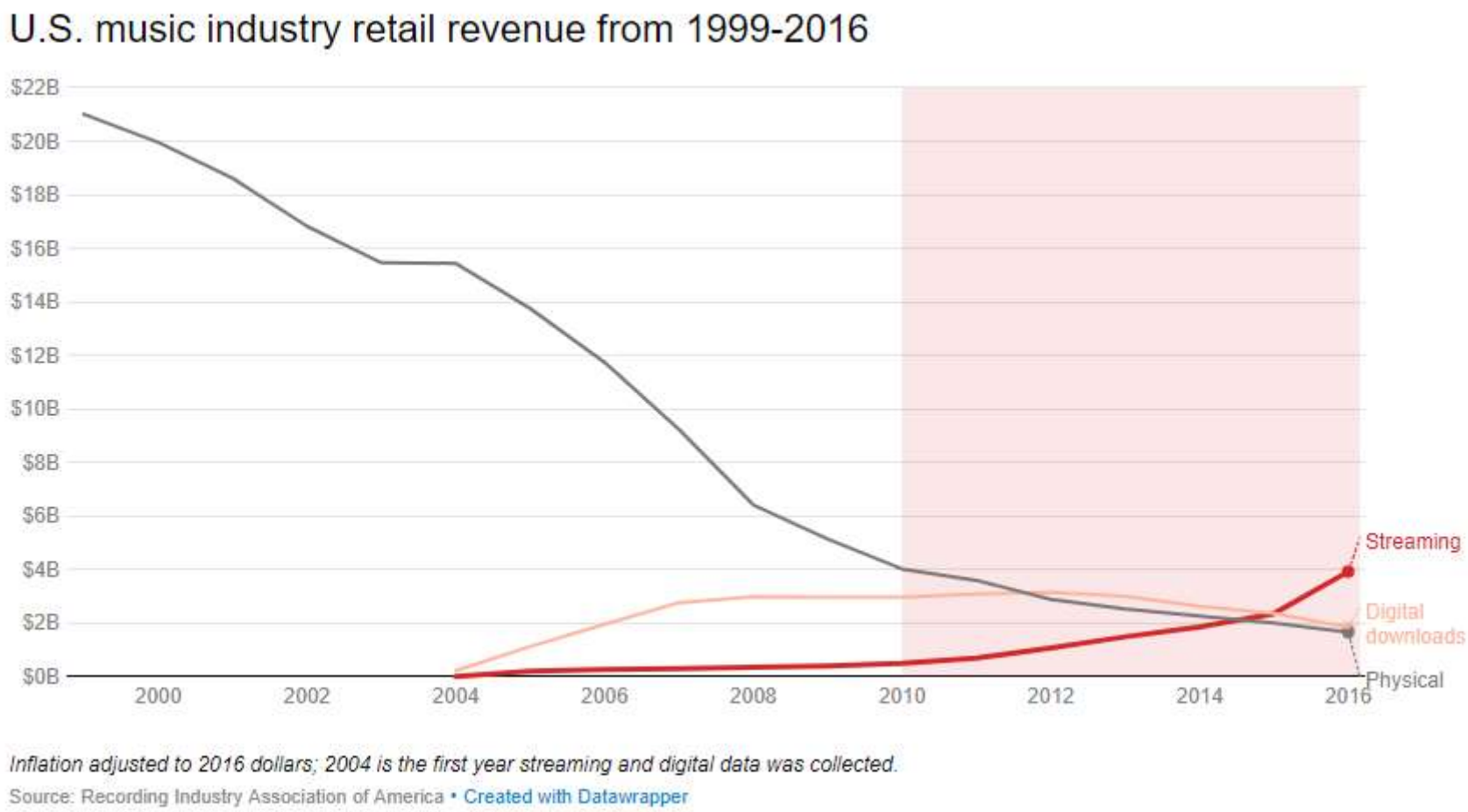
	Credit card banks in 2017	Credit card banks in 2016	All commercial banks in 2017
Total interest income	10.60	10.13	2.81
Total interest expenses	1.35	1.06	.38
Net interest income	9.25	9.07	2.43
Total noninterest income	3.57	4.01	1.43
Total noninterest expenses	5.89	6.08	2.31
Net noninterest income	-2.32	-2.07	-.87
Provisions for loan losses	3.57	2.96	.25
Return	3.37	4.04	1.32

Note: Credit card banks are commercial banks with average assets greater than or equal to $200 million, with a minimum 50 percent of assets in consumer lending and 90 percent of consumer lending in the form of revolving credit.

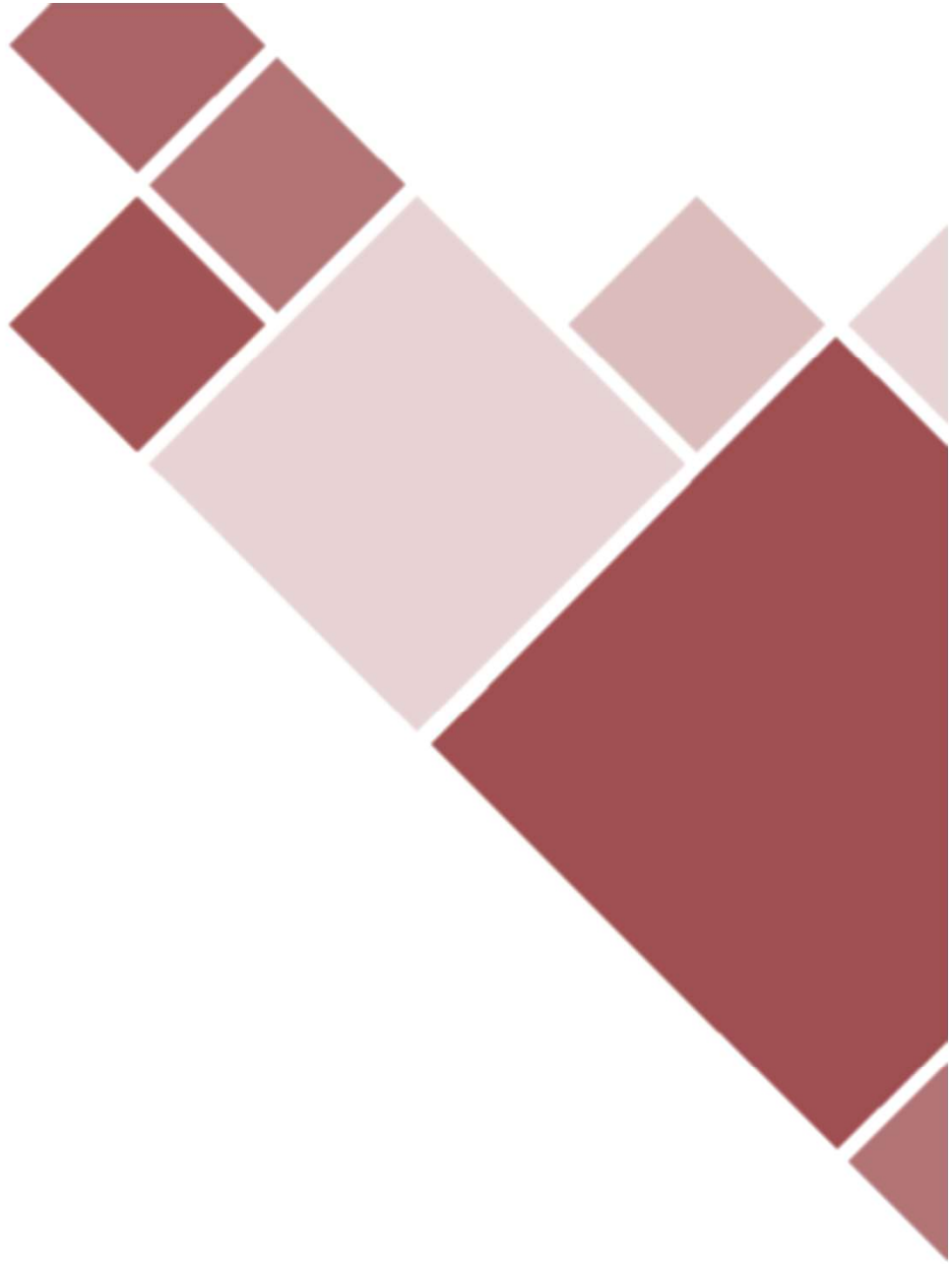
Source: Federal Financial Institutions Examination Council (FFIEC), Consolidated Reports of Condition and Income (Call Reports), https://www.ffiec.gov/.

- Historically low cost of funds has led to higher margins
- The increasing trend in losses and the higher costs of funds will put significant pressure on credit card profitability

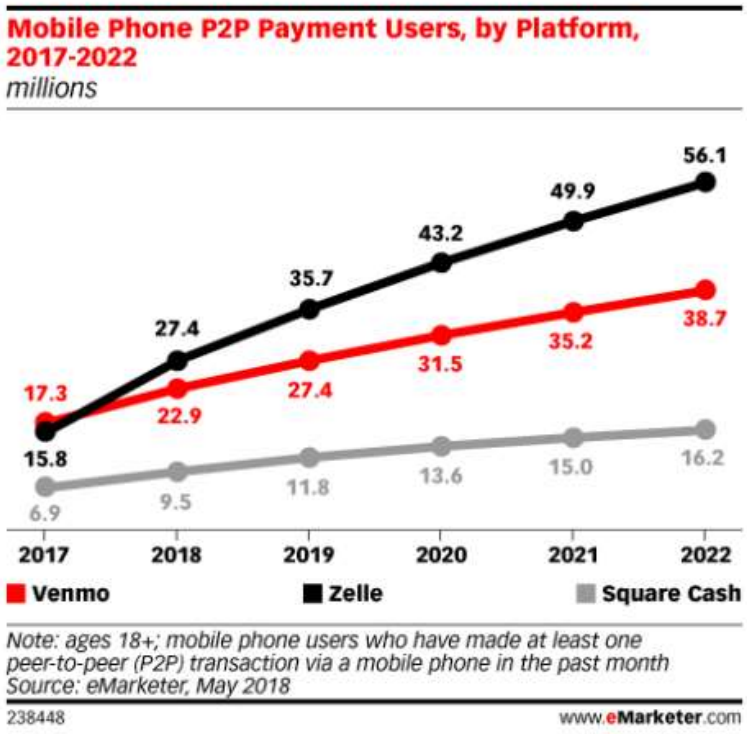
Music Industry – A sign of things to come?

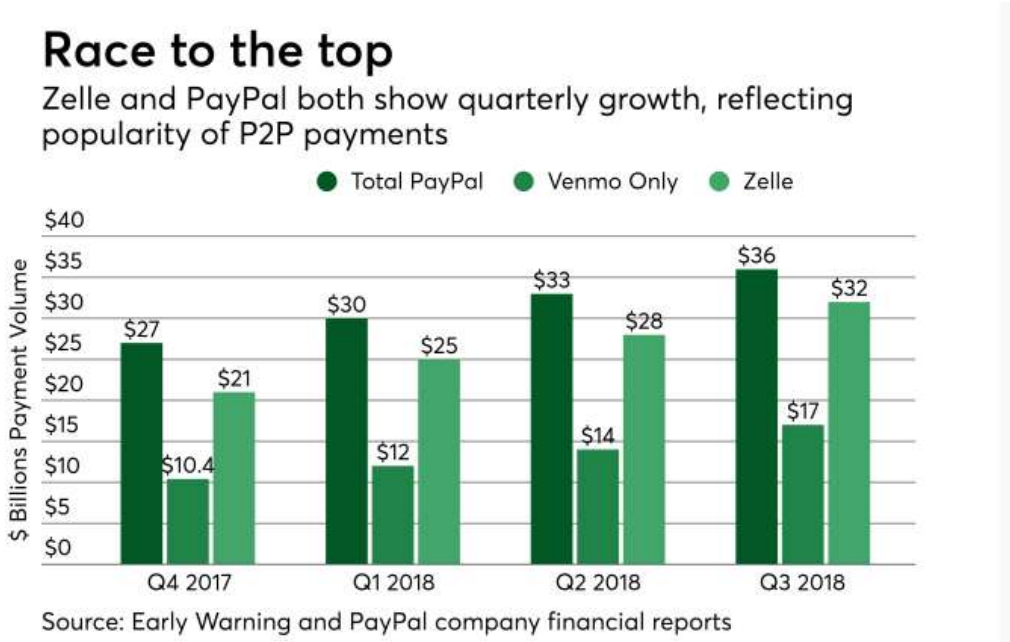


P2P



P2P Adoption and Demographics





Are We Talking About the Same Thing?

We do see people use the Cash App fundamentally as you would expect them to use a bank account," "They store money with us, it's accepted anywhere Visa is accepted. They can send and receive money from friends and family.“

– Jack Dorsey, CEO of Square

Most Zelle transactions don’t leave the sender’s bank. More than 70% of transfers are between two customers who have accounts at the same institution.

– Lou Anne Alexander,
Group President for Payments,
Early Warning Services LLC

Venmo and Square Debit Products

Wallet, meet Venmo card

A real debit card. For the real world.
Take your Venmo balance shopping.

Apply in the app

Cash App

It's Friday. You wake up to a $15 Cash App notification. A pal paid you back for that pizza you shared. Your balance now reads $172.30.

You use your new money to get $1 off coffee with your personalized Cash Card. You even hit up the ATM after.

5PM. Direct deposit hits. Do you buy Bitcoin, or do you cash out instantly to another bank? With Cash App, you decide.

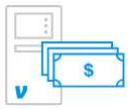
App Store Google Play

Card perks...

Re-up your balance

Big purchase but low Venmo balance? Turn on Reloads to use a linked funding source when your balance doesn't cover it.

How to enable Reloads



ATM access

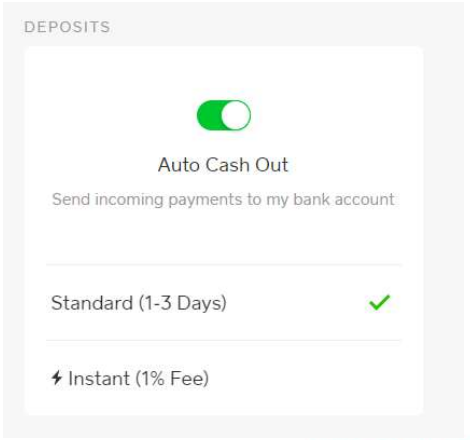
Need cash? Get no-cost withdrawals from MoneyPass® ATMs in the U.S.* (Other ATMs might cost you.)

Find no-cost ATMs near you
Learn about Venmo card fees

Swipe-free shopping

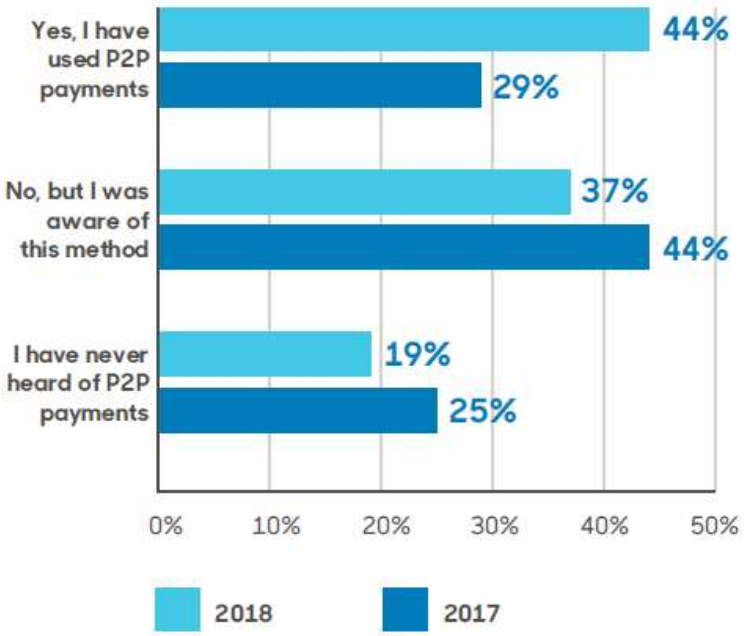
Tired of inserting chips and swiping cards? Just tap your card and go.

About contactless payments

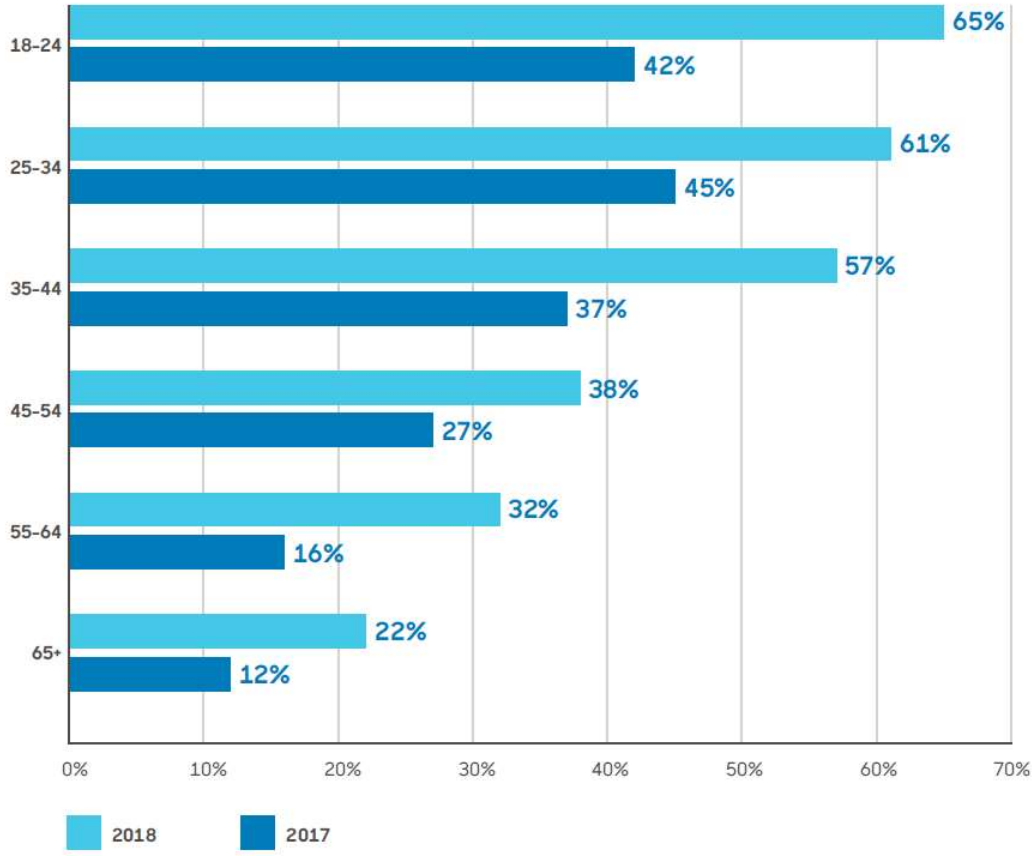


P2P Adoption and Demographics

Awareness/Use of P2P Services

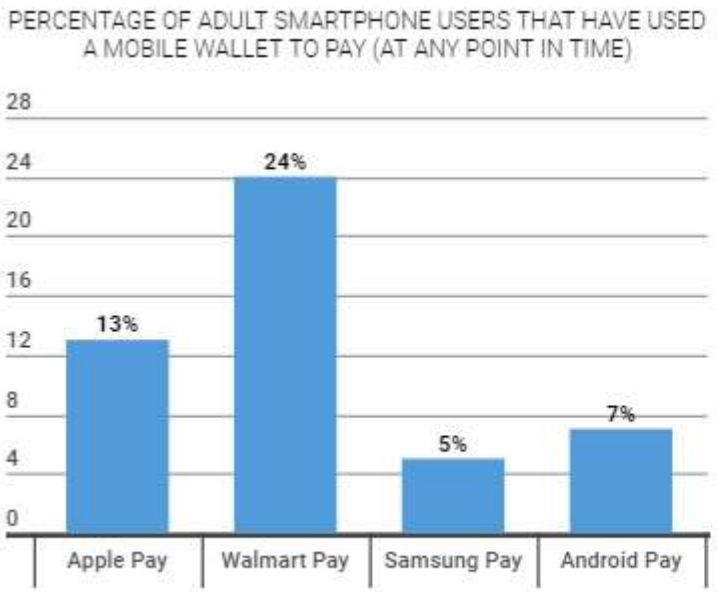


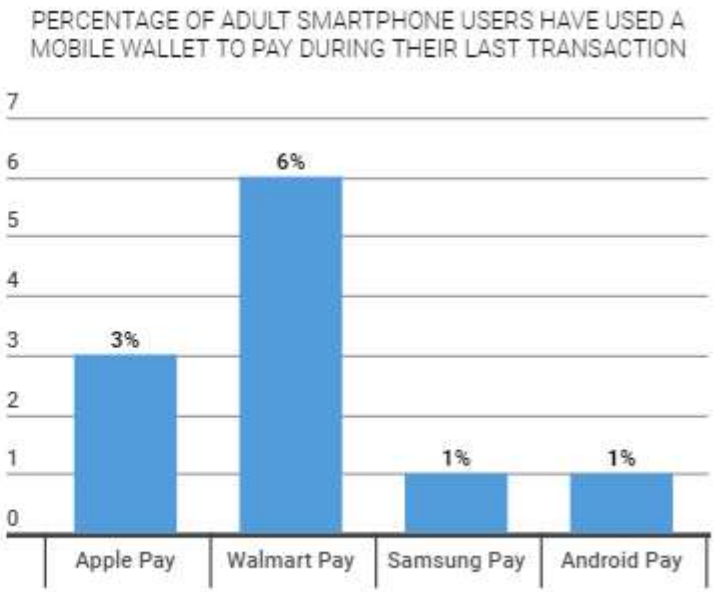
Age Breakdown: Those Who Have Used a P2P Service



Digital Wallets & Payments

Mobile Wallet Adoption

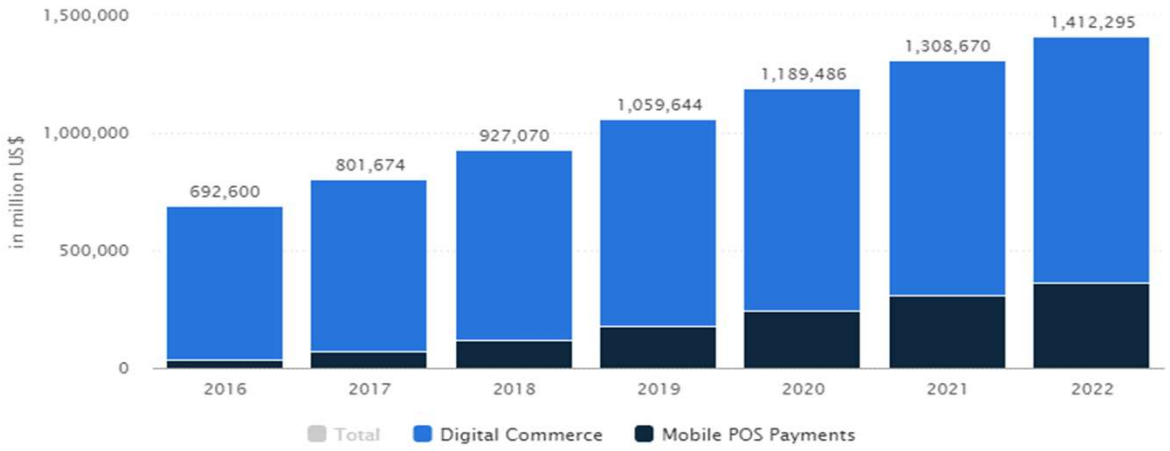


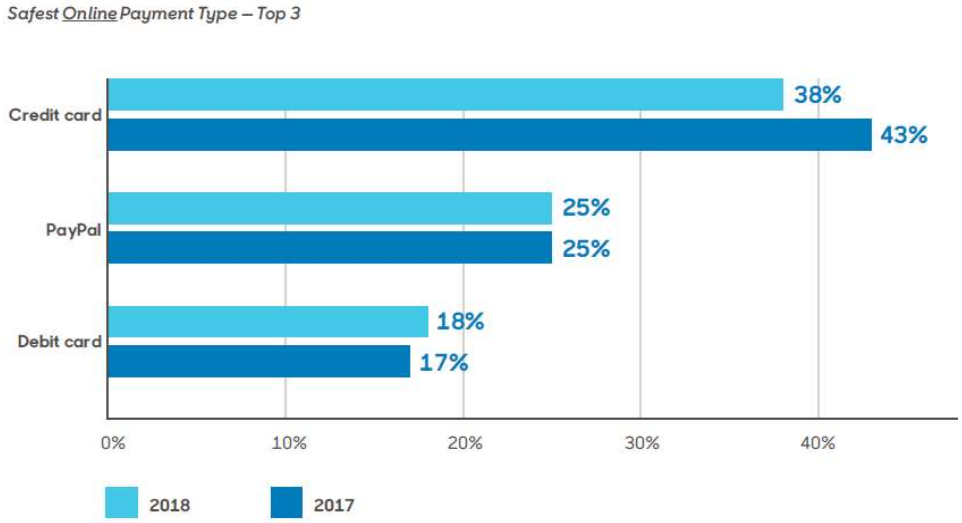


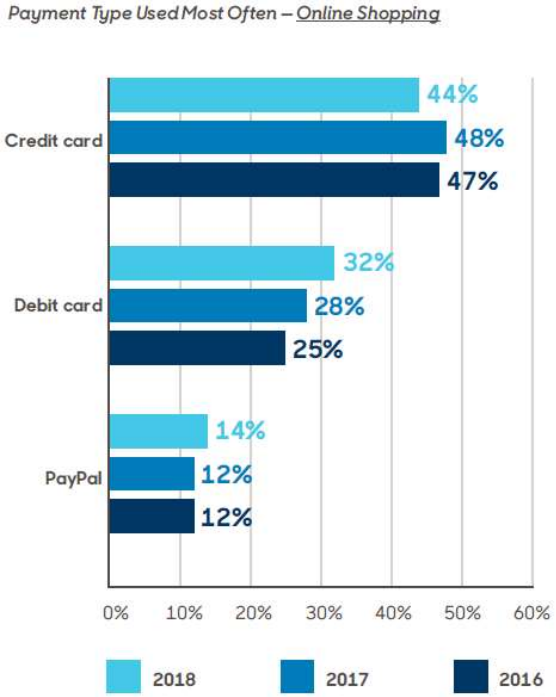
- Mobile Wallets have not been the boon to digital payments many predicted
- Wal-Mart Pay is the highest usage wallet at 6%

Pymnts.com – Mobile wallet adoption 2018 - https://www.pymnts.com/mobile-wallet-adoption-statistics/

Digital Payments – More than Wallets

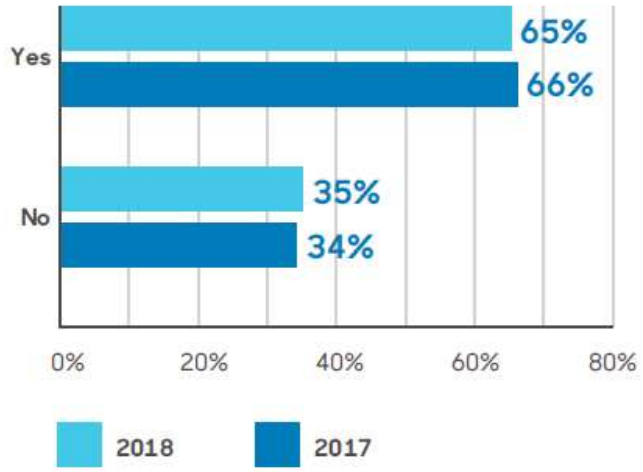




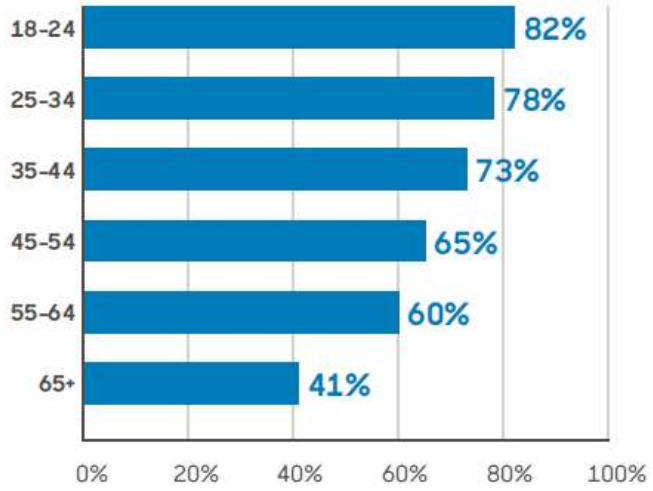


Digital Payments - Trends

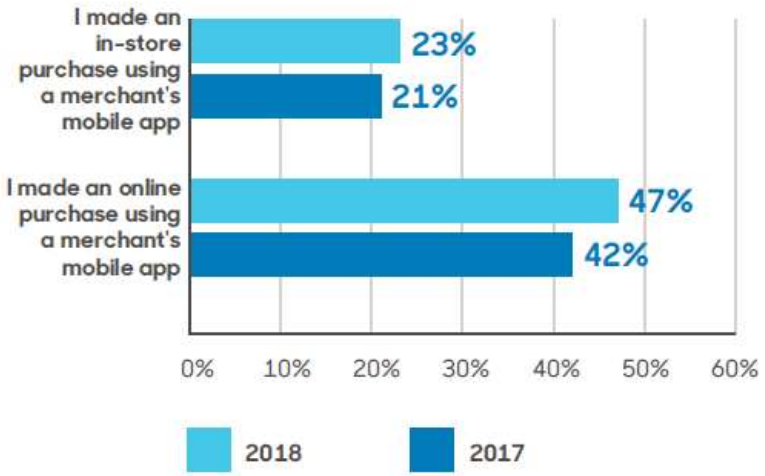
Familiarity with In-App Payments



Familiarity with In-App Payments by Age Group



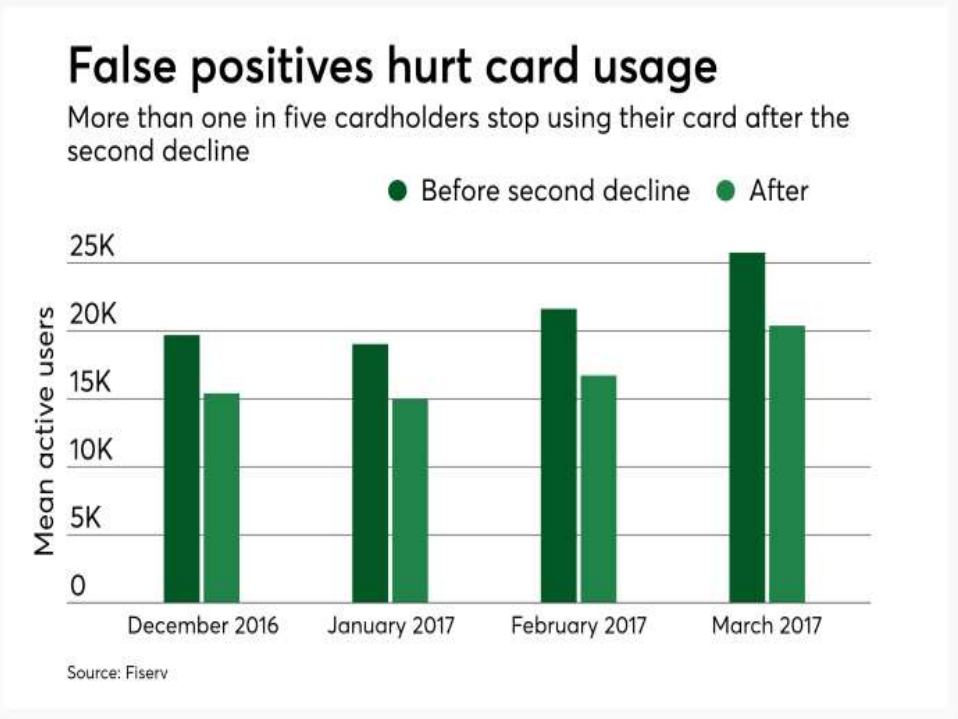
In-App Purchases Made Recently



- In-App Payment awareness is static
- Awareness is much higher in younger demographics
- In-App Payment growth is happening online more so than in store

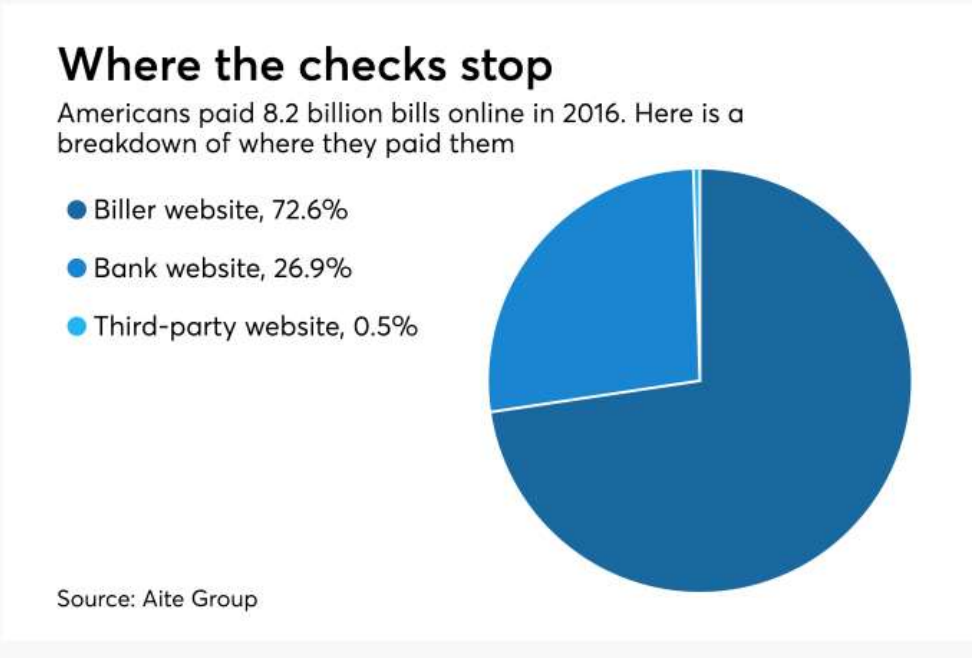
Other Payment Considerations

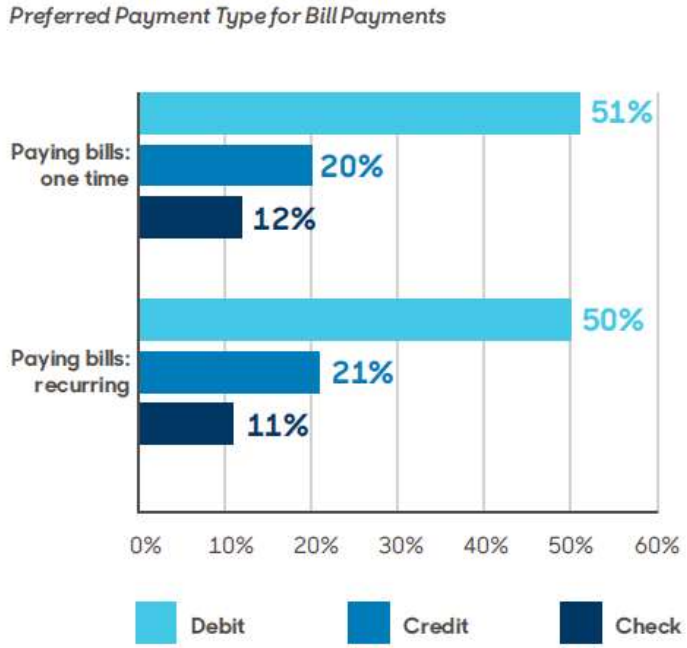
Fraud



- Global Fraud is projected to decline from $0.072 per $100 to $0.063 per $100 over the next 2 years
- False Positive impact on card usage can be as much as 25%

Bill Pay





2018 US Consumer Payment Study TSYS

10% of checking account users are active Bill Pay

47% of Bill Pay users are active

Average about 2 transactions per month

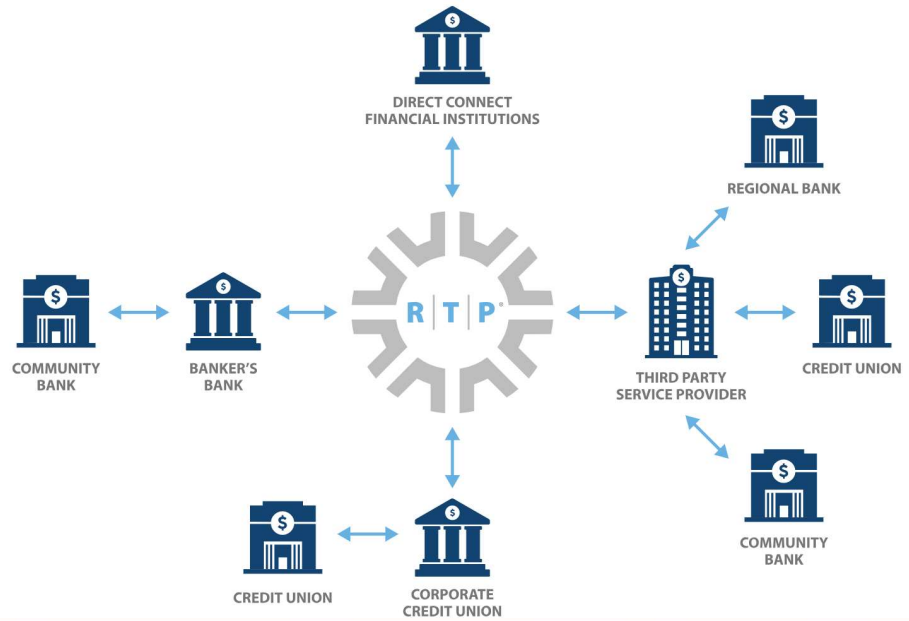
Transaction costs the bank or credit union

Opportunity to migrate Bill Pay volume to Card based transactions

P2P rails could be leveraged to displace Bill Pay transactions

TSYS 2017 U.S. CONSUMER PAYMENT STUDY

Real Time Payments



Category of Payment	Descriptions	Size of Transactions	Key Considerations
1. Business to Business (B2B)	Supplier payments	Low	• Real-time authorization/clearing • Intra-day availability of funds • Intra-day interbank settlement • Late-day interbank settlement
2. Business to Consumer (B2C)	• Legal Settlements • Insurance claims • Contingent Employee wages	Medium to High	
3. Consumer to Business (C2B)	• Bill Pay • Hospital Co-pay • Pay at POS	Low to Medium	
4. Domestic Peer to Peer (P2P)	Repayment to Friends/Family	Low to High	
5. Cross Border Peer to Peer (P2P)	Remittance to Family/Friends	Medium to High	

Consumer ACH Transactions in the U.S. 2018

	Transactions (mil.)	Change	Value (bil.)
Direct Deposit	6,759.6	4.44%	$ 9,682.38
Direct Payment	12,525.6	7.60%	$ 6,520.48
Internet[1]	6,179.8	13.80%	$ 3,226.29
Lockbox Check Conversion	1,115.4	-8.52%	$ 335.04
Telephone	598.7	10.20%	$ 238.67
Merchant Debit Cards	251.7	5.70%	$ 17.31
POS Check Conversion	196.7	-15.16%	$ 21.87
Back-Office Check Conversion	96.1	-8.10%	$ 14.04
Re-Presented Checks	1.8	-18.80%	$ 0.52
Other	4,085.3	5.60%	$ 2,666.75
TOTAL	19,285.2	6.5%	$ 16,202.86

[1]Person-to-person and bill payment transactions (from online banking sites) are counted in the Internet category. © 2019 The Nilson Report

The Clearing House , Deloitte Real Time Payments Study

So What Now?

PAYMENTS GROWTH IS CONCENTRATED IN ELECTRONIC PAYMENTS – DEBIT AND CREDIT CARDS

MARKET CONCENTRATION IS HIGH

DISRUPTORS ARE CONTINUING TO GAIN GROUND

YOUR MEMBERS AND MARGIN ARE AT RISK

- How do you differentiate to your members?
- How do you stay relevant and primary in digital commerce?
- What strategies can you deploy to drive engagement and growth?
- What investments do you make in technology and functionality?
- Do you have the right vendors and relationships?
- How do you build a payments roadmap to protect your payments business over the next 2-3 years?

CORNERSTONE ADVISORS

CUES
POTENTIAL, REALIZED.™

Payments Toolkit

Is your toolbox complete?

PRESENTED BY: Tony DeSanctis, Senior Director
adesanctis@crnrstone.com
480-990-5705

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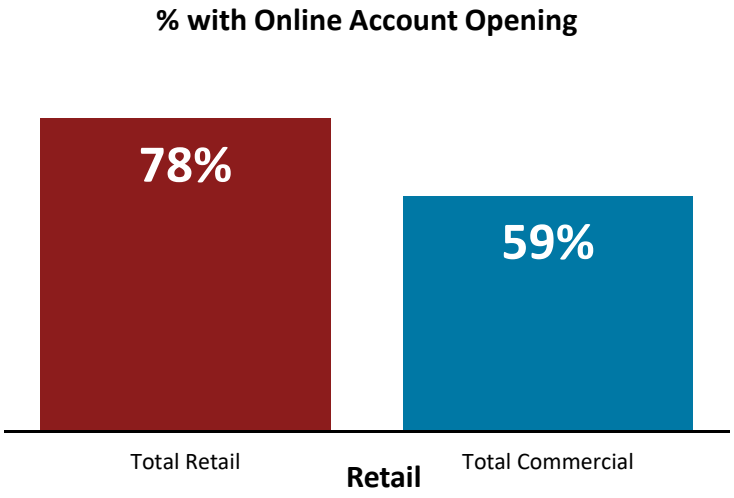
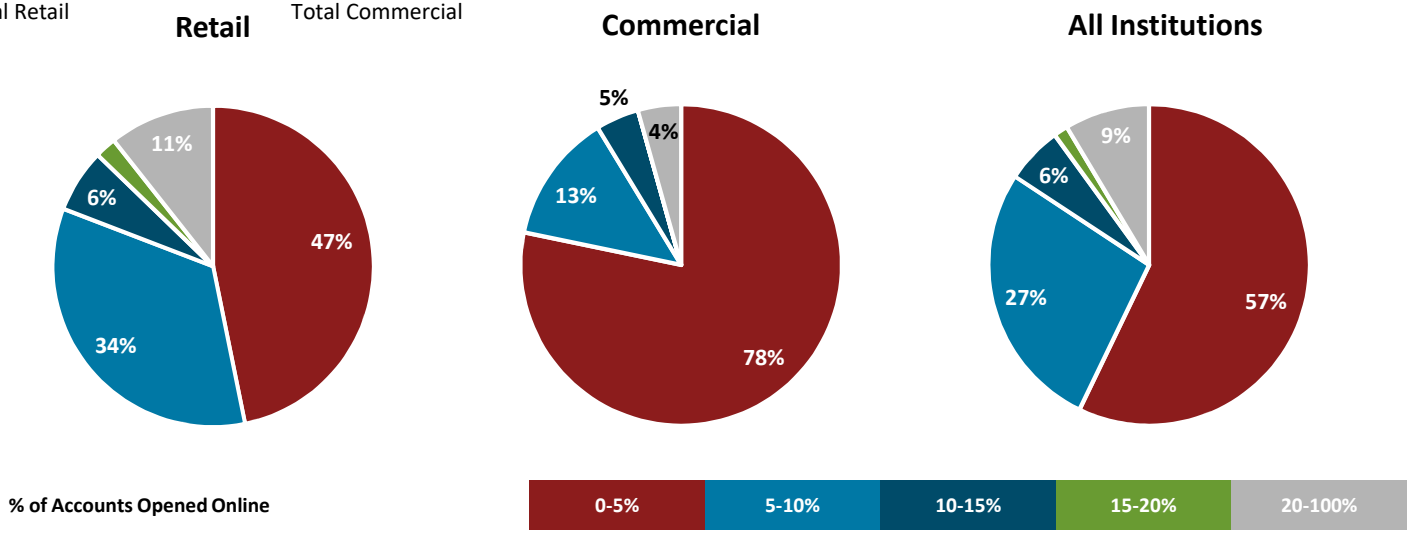
Digital Banking and Account Onboarding

Size Doesn't Matter in Online Deposit Opening



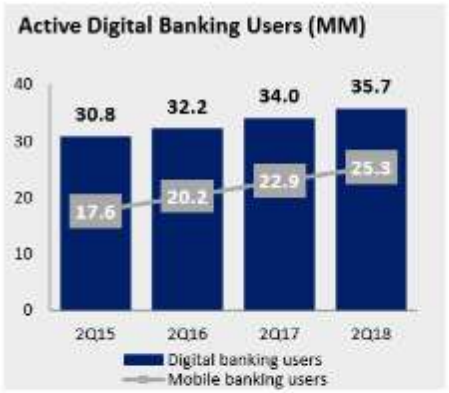
- Most banks open less than 10% online.
- Cornerstone predicts that this will be 25% by 2021.
- All tiers will expect a common platform for online and branch/call center.

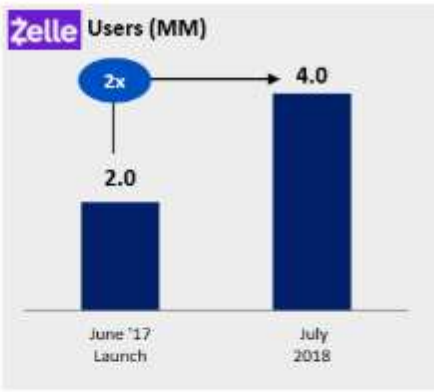


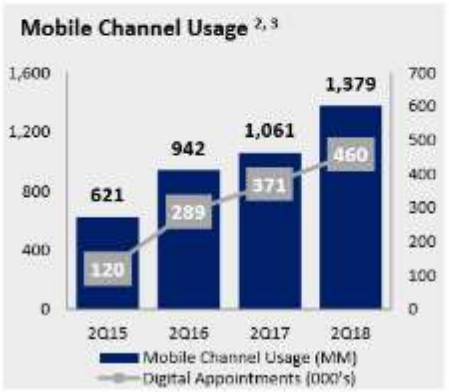
Source: Cornerstone Report Data

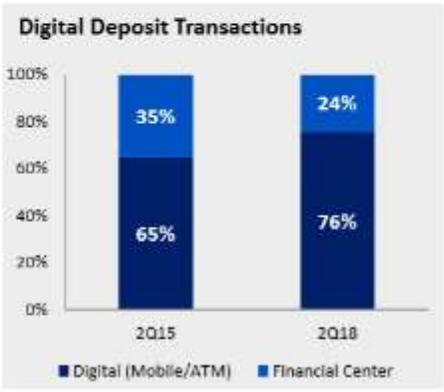
Big Banks Are Nailing the Digital Shift

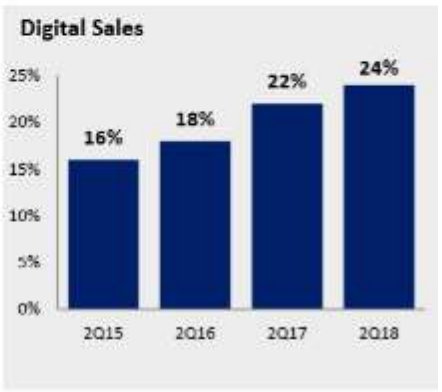
Consumer Banking Digital Usage Trends [1]







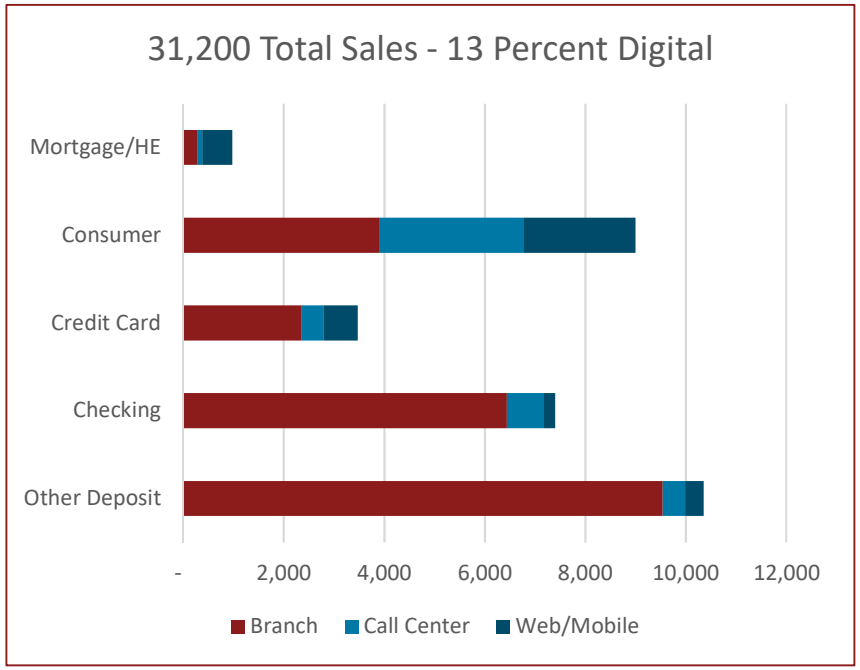




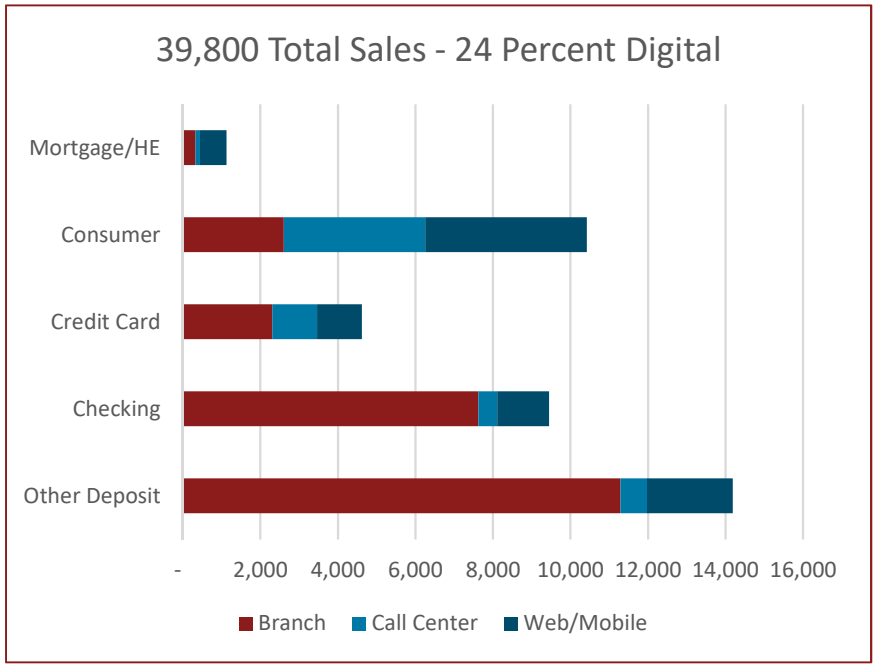
[1] Digital users represent mobile and / or online users in consumer businesses.
[2] Mobile channel usage represents the total number of application logins using a smartphone or tablet.
[3] Digital appointments represent the number of appointments made via online, smartphone or tablet.

Digital Drives the Highest Value Based on Servicing/Retention

Today



Tomorrow



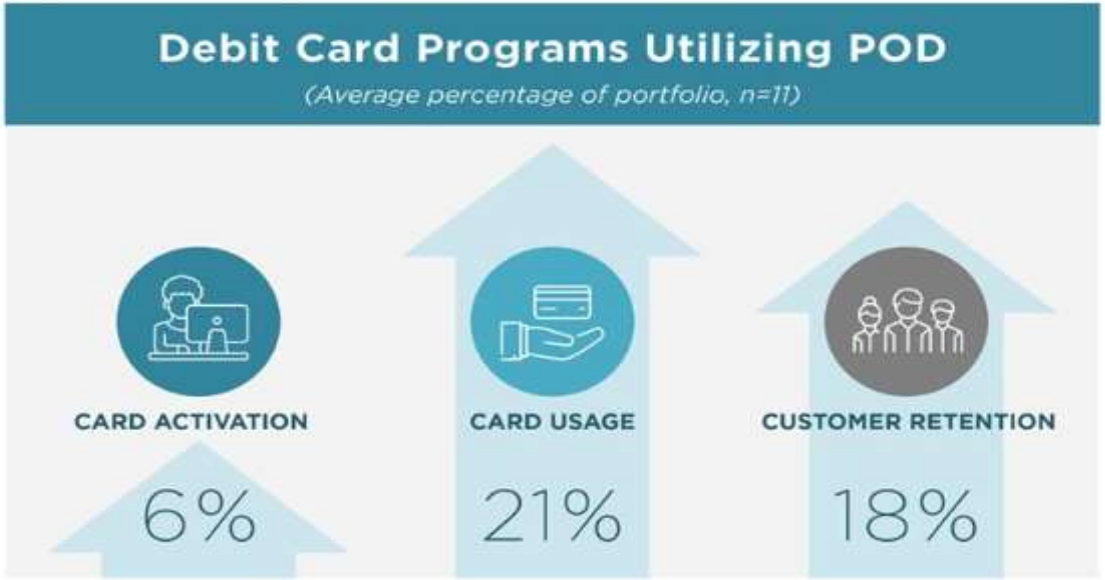
Predicting the Pace of Migration Lead or React

Account Onboarding

- Account Onboarding = New Phone Purchase
- Onboarding is more than instant issue
- Online account opening and onboarding are the next frontier

Card Portfolio Trends

Source: Aite Group



Mapping Results: In-branch New Account Opening

	Product:	Account opening		**Channel:**	Branch		**Persona:**	Robert		
Step:	1	2	3	4	5	6	7	8	9	10
Member	Walks into branch and explains needs to Teller, signs in	(Re-)explains general needs	Provides SSN and two forms of ID	Educated on relevant products and options	Signs disclosures and forms via signature pad	Waits at desk	Answers OLB security questions and creates password	Completes a tour and meets the branch manager	Contacted as part of 2-2-2-6 program, marketing campaigns, and survey	
Member Facing	TELLER directs member to sign into lobby tracking		MSR enters SSN and ID information	MSR checks options for debit, ODP, checks, starter checks, and digital banking	MSR accepts check or cash for funding, walks MBR through disclosures/ forms	MSR fills out instant issue system form and sends to manager	MSR walks MBR through OLB set up and turns keyboard + monitor		MSR completes 2-2-2 onboarding follow ups, MGR follows up at 6 months	
Support	MSR sees person waiting in LTS queue	MSR takes notes in LTS and email	MSR builds out the member profile and run ChexSystems		MSR scans ID and prints forms as they are signed	MGR or LEAD print debit card, MBR prints packet and builds new account folder			MARKETING submits survey and other communications	

Key Takeaways for Payments Owners – 1

Cross-Sell

- Pre-approved credit offer
- Ability to instant issue credit cards

Debit Card Issuance

- Instant Issue and real-time activation
- PIN selection
- Approval process
- Options if account is opened remotely

Digital Banking Enrollment

- Mobile-first enrollment capability
- Overview of key features (e.g., mobile card controls)
  - Integrated or standalone card control
- Digital payments onboarding
  - Recurring payments (e.g., cell phone)
  - Digital wallets (e.g., Pay Pal)

Key Takeaways for Payments Owners – 2

Onboarding Follow-Up

- Data-based triggers (e.g., debit card usage)
- Education/“nudge” about rewards and/or card benefits
- Clear roles and transparency related to customer outreach
  - Account usage, authorized users, etc.
  - Inactive customer incentives

Payments Organization

What Should a Product Manager Do?

- Define the product strategy and roadmap
- Deliver product specifications with prioritized features and corresponding justification
- Work with external third parties to assess partnerships and licensing opportunities
- Be an expert with respect to the competition
- Develop the core positioning and messaging for the product
- Perform product demos to internal staff
- Recommend pricing to meet revenue and profitability goals
- Deliver a monthly revenue forecast
- Develop sales tools and collateral
- Propose an overall budget to ensure success
- Brief and train the sales force
- Act as a leader within the company to focus on product growth and opportunity

Functional Ownership – Payments Product Manager

Marketing/ Sales Performance -

- New Account Marketing
  - Rewards
  - Promotional Offers
  - Sales Campaigns
  - Channel Strategies
- Existing Account Marketing
  - Early Month on Books Strategy
  - Usage Strategies
- Sales and Performance Management and tracking
  - New Account Activation and Usage
  - Existing Account Balances
  - Existing Account Activation and spend
  - Strategy Performance (New and Existing)

Operations

- Branch Inquiries / Escalations
- Customer Escalations
- Other LOB and Executive Complaints/Escalations
- Training/Education

Fraud/Disputes

- Gross Fraud / Net Fraud - Chargebacks, Loss Forecasting
- Fraud Types and Trends (CNP, POS, Account Takeover)
- Travel and Merchant Strategies
- Rule development - Custom to your market
- False Positive Rates - Customer impacts, Reporting

Credit

- Underwriting guidelines
- Approval rates
- Standard and Preapproval strategies
- Credit Line Increase / Credit Line Decrease
- Fraud Applications/KYC/AML
- Loss Trending and Forecasting

Finance / IT

- Daily settlement
- Nightly payments process
- Annual budgeting
- Ongoing Reporting
- Performance Forecasting
- Data Gathering and Rollup
- Website/Mobile integration
- File transmission – data integrity

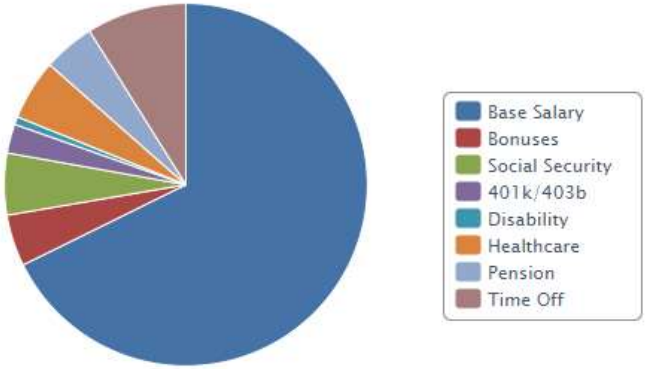
Collections – Vendor / Internal

Vendor Management – FFIEC, SSAE16, Third Party Risk

Compliance – Reg E, Reg Z, Card Act

Product Manager Market

Credit Card Product Manager



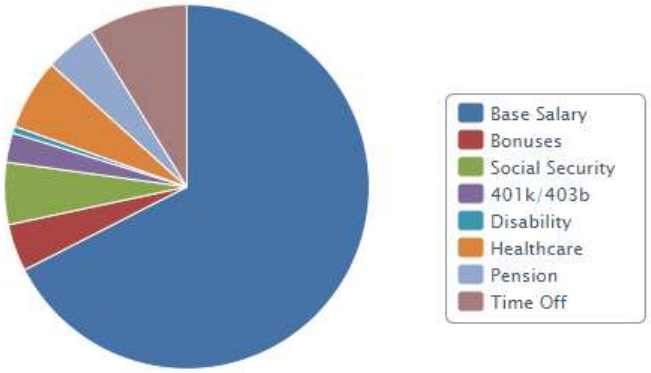
Core Compensation	Median	% of Total
Base Salary	$83,022	67.7%
Bonuses	$5,698	4.6%
Value of Benefits		
Social Security	$6,787	5.5%
401K/403B	$3,194	2.6%
Disability	$798	0.7%
Healthcare	$6,592	5.4%
Pension	$5,589	4.6%
Time Off	$10,919	8.9%
Total Compensation	**$122,600**	**100%**

Core Compensation is based on averages for this job and does not reflect personal factors used to determine your projected salary range.

Value of Benefits indicates the employer's expected contribution and paid time off.

Use the Benefits Calculator to compare your benefits with the industry average.

Checking/Debit Card Business Manager



Core Compensation	Median	% of Total
Base Salary	$70,445	67.4%
Bonuses	$4,424	4.2%
Value of Benefits		
Social Security	$5,727	5.5%
401K/403B	$2,695	2.6%
Disability	$674	0.6%
Healthcare	$6,592	6.3%
Pension	$4,717	4.5%
Time Off	$9,215	8.8%
Total Compensation	**$104,488**	**100%**

Core Compensation is based on averages for this job and does not reflect personal factors used to determine your projected salary range.

Value of Benefits indicates the employer's expected contribution and paid time off.

Use the Benefits Calculator to compare your benefits with the industry average.

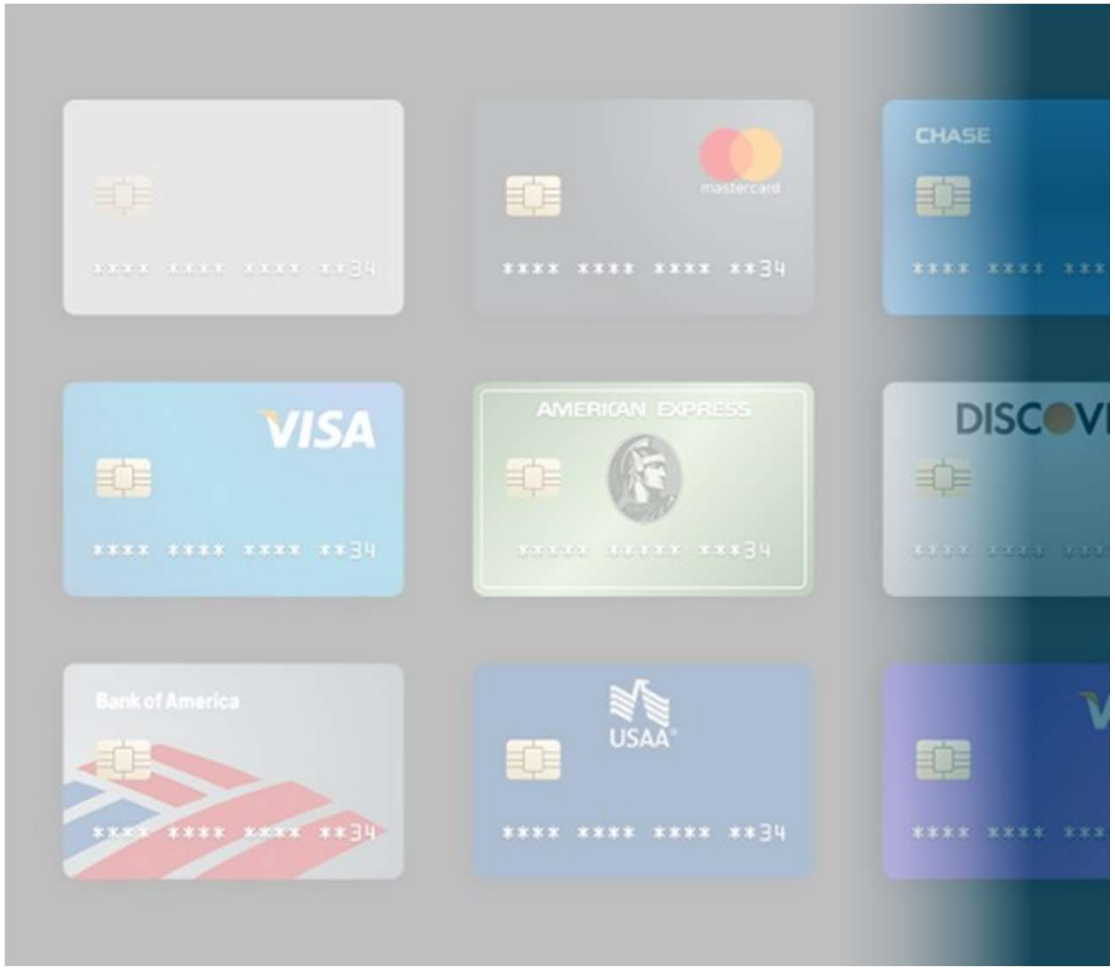
Salary.com

Vendor Relationship

Strategic Imperatives

A Card Vendor Must:

- Have a proven core integration story
- Have credible market presence
- Have an established fraud program
- Support customization
- Have a strong suite of APIs
- Offer access to actionable data
- Have proactive program management
- Have a reasonable price

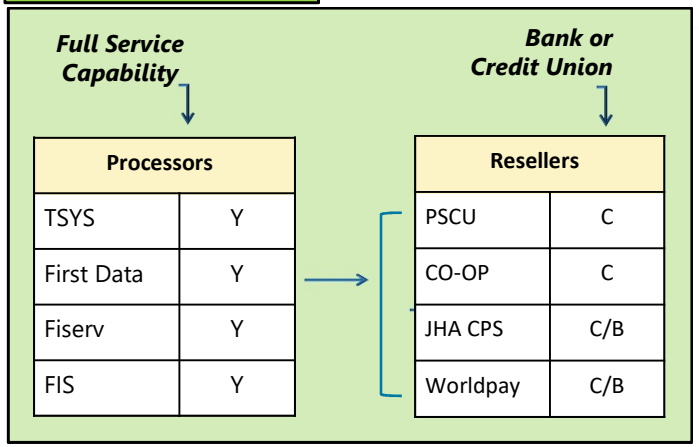


Payments Ecosystem

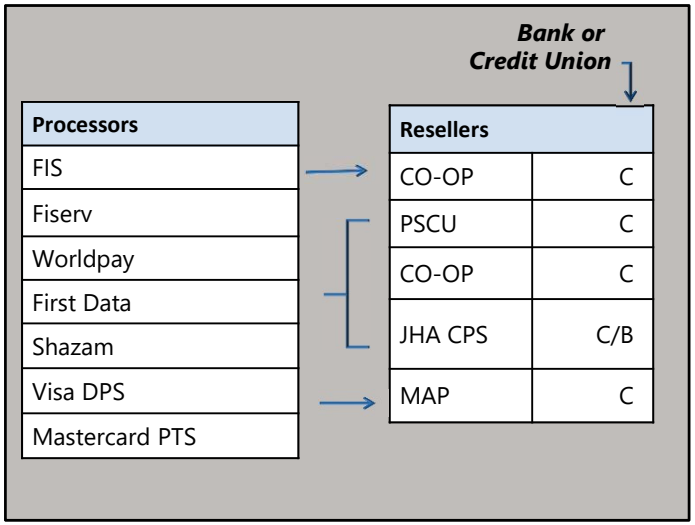
Networks	Owner
Visa Debit	Visa
Mastercard	M/C

Network	Owner	ATM, POS, Both
NYCE	FIS	Both
Star	First Data	Both
Accel	Fiserv	Both
Pulse	Discover	Both
Maestro	Mastercard	Both
Interlink	Visa	POS
Shazam	ITS	Both
Jeanie	Worldpay	Both
CULIANCE	FIS	Both
AFFN	AFFN	Both
CO-OP	CO-OP	ATM
Moneypass	Fiserv	ATM
Plus	Visa	ATM
Cirrus	Mastercard	ATM

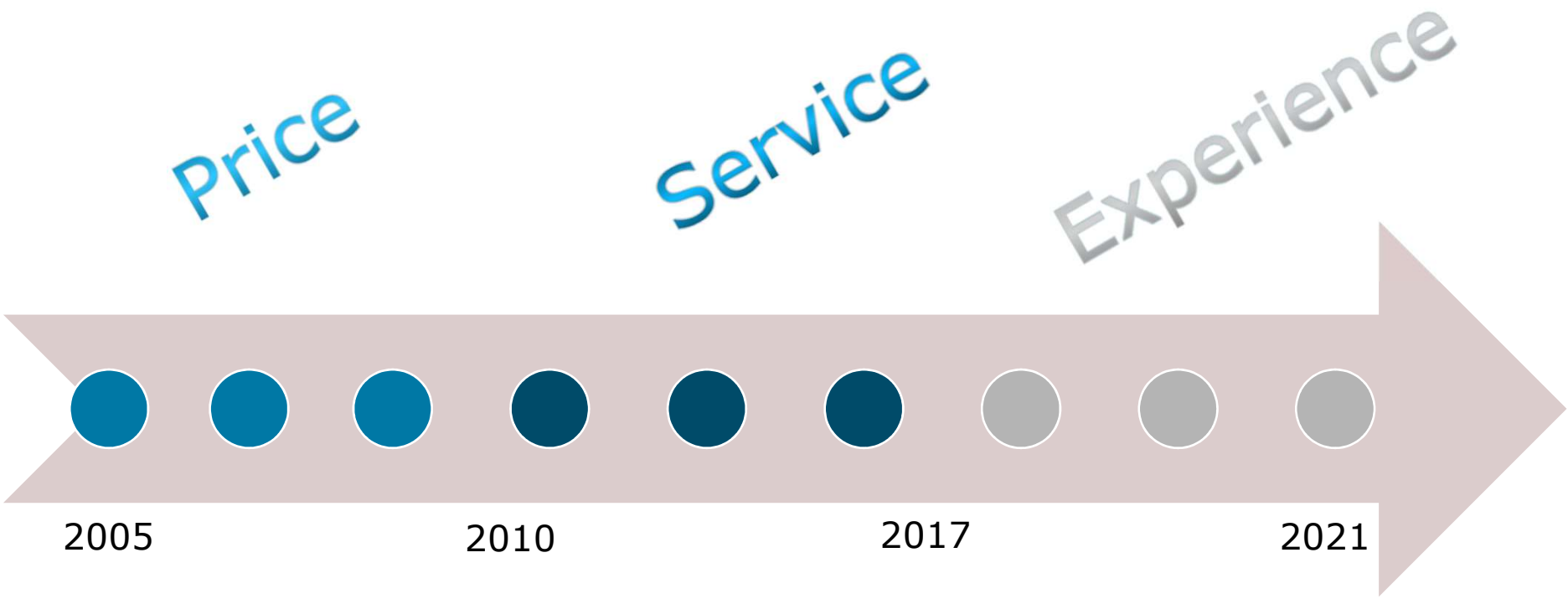
Credit Processors



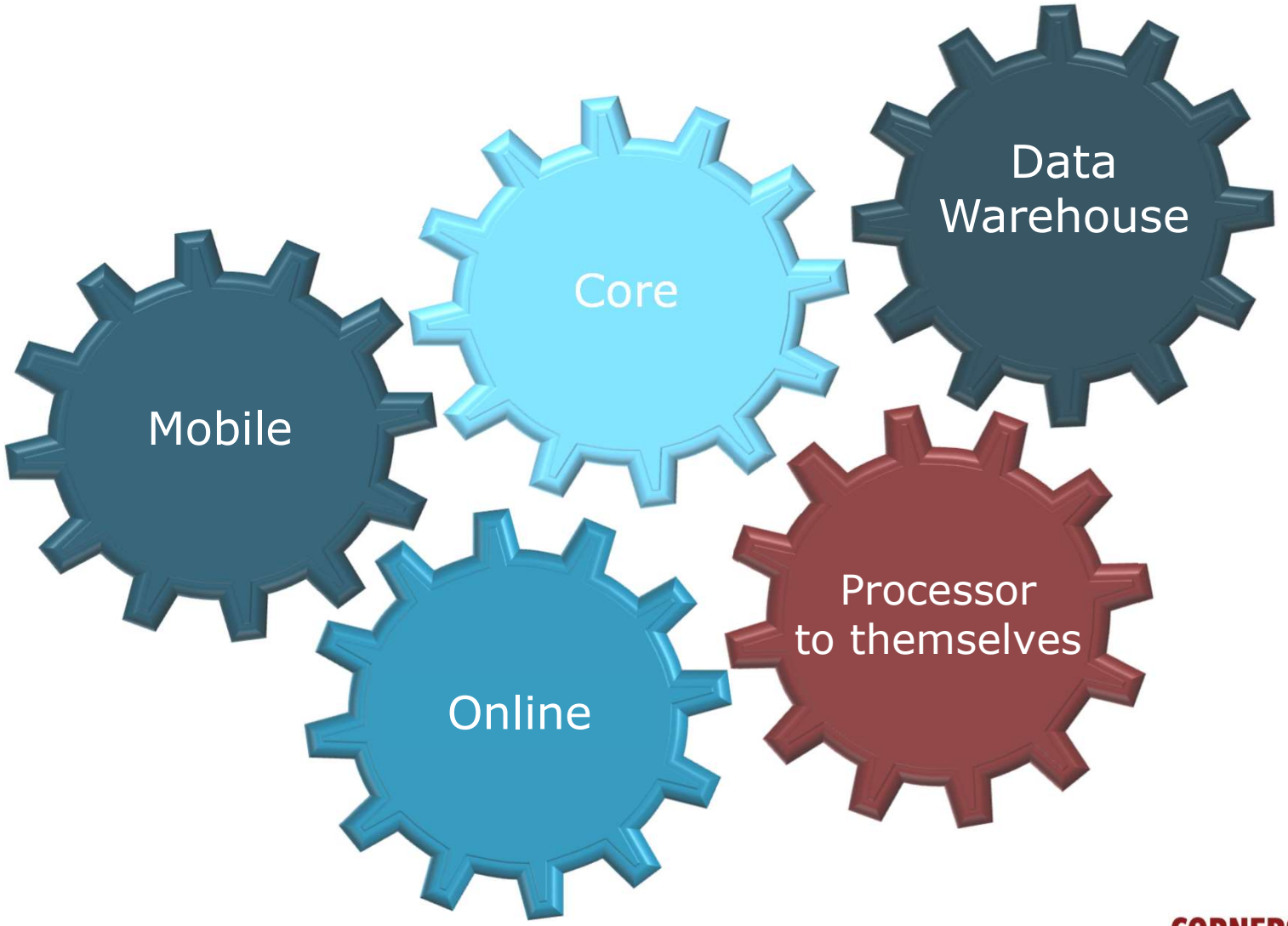
Debit Processors



The Evolution of Processor Selection



Integration Considerations

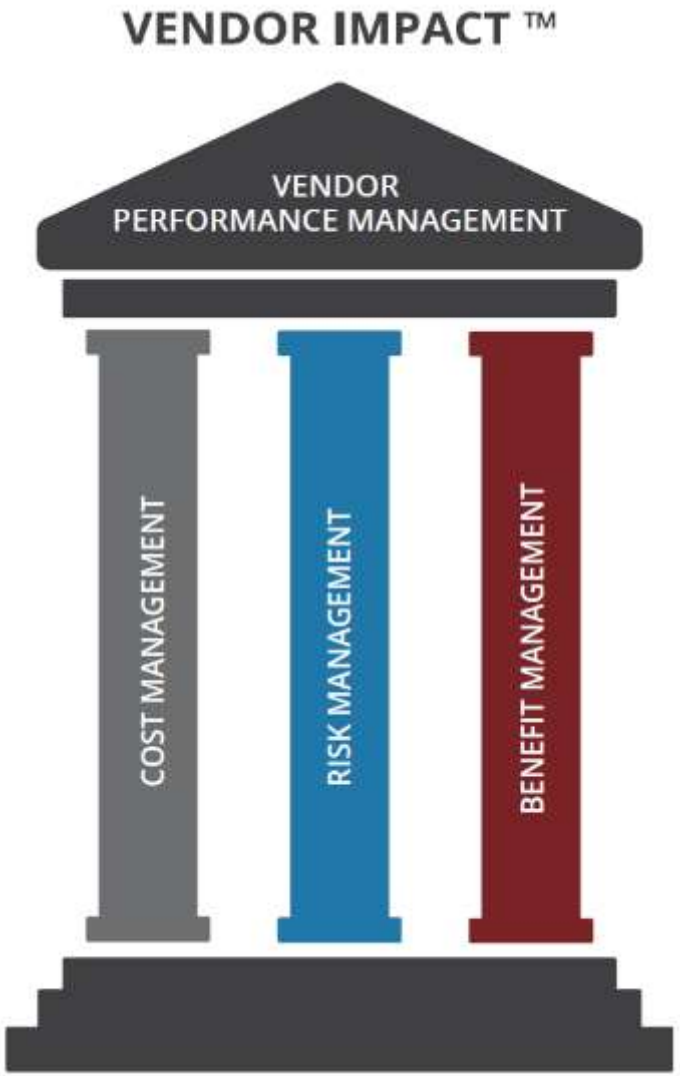


The Three Pillars of Vendor Management

I. Mitigate vendor risks

II. Improve vendor performance and accountability

III. Take advantage of growth commoditized pricing in key technologies to fund the innovative spending required for the future



Vendor Performance Best Practices

Before the Contract

- Develop business line and IT plans, budgets and KPIs
- Develop new purchase approval criteria including business case template for all significant vendor decisions.
  - Document expected costs, risks to be mitigated AND expected benefits. Quantify it.
- Structured evaluation process and selection criteria

At Contract Negotiations

- Guarantees of specific requirements, specific release dates, roadmap items, testing of new patches/releases
- Buy continuous training
- Try to tie to KPIs
- SLAs with penalties and easy outs – uptimes, output times, error resolution times, quality of new releases
- Negotiate utilization reviews

After the Contract is Signed

- User surveys
- Ongoing evaluation of original business case ROI
- Best practice sharing
- Continuing training
- SLA and contract monitoring
- Participate in user groups
- Actively manage account managers
- Utilization reviews/optimization studies

What are your goals for the session?

Payments Game Plan

- **Assessment**
  A deep dive into the data and your current situation. We also draw on the data we have from other clients.
- **Strategy**
  Development of the solutions you need to move forward and maximize the opportunities that are waiting for you.

ASSESSMENT	STRATEGY
• Data Gathering	• Payment Strategy
• Product Management	• Marketing Plan
• Competitive Landscape	• Payments Roadmap
• Product Assessments	• Payments Performance

Payments Metrics – Key Drivers of Profitability

Measurement	Key Performance Indicator	Debit	Credit
Penetration	#Checking Accounts with Card/ #Total Accounts	✓	
Penetration	#Members with Card/#Total Members		✓
Activation	#Accounts with spend/accounts or Credit Card Balance > 0	✓	✓
Usage	#Transaction/#Active Cards	✓	✓
Usage	$Total Spend/#Transactions	✓	✓
Usage	$Interchange Income/$Total Spend	✓	✓
Account Growth	New Accounts / Applications		✓
Effective Interest Rate	Interest - cost of funds / Total Balances		✓
Credit Loss	Net Charge Off / Total Balances		✓
Fraud Loss	Net Fraud Losses Spend	✓	✓

Payments Metrics – Data Gathering – Debit

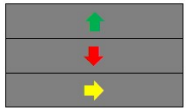
1. Fill in all blank debit data for 2017 and 2018

FI Level Metrics	2017	Trend	2018
Branches			

Debit Metrics	2017	Trend	2018
Retail Checking Accounts			
Total Retail Debit Cards			
Active Retail Debit Cards			
Retail Sig Transactions/yr			
Retail PIN Transactions/yr			
Total Transactions / yr	0		0
Retail Sig Spend/yr			
Retail PIN Spend/yr			
Total Spend/Yr			$0
Retail Sig Interchange Income/yr			
Retail PIN Interchange Income/yr			
Total Interchange Income/Yr			$0
Gross Fraud Losses			
Net Fraud Losses			
False Positive Rate			

Signature Interchange in Dollars

Payments Metrics – Data Gathering – Issuing Credit



3. Use arrows to update year-over-year trend (cut and paste the appropriate arrow)

Credit Issuing Metrics	2017	Trend	2018
Total Credit Accounts			
Active Credit Accounts			
Retail Transactions/yr			
Retail Spend/yr			
Interchange/yr			
Balances			
Interest Income			
Applications			
Approvals			
Net Chargeoff			
Net Chargeoff Rate			0.00%
Gross Fraud Losses			
Net Fraud Losses			
False Positive Rate			

Chargeoff / Balances

2a. Fill in all blank credit issuing data for 2017 and 2018

2b. If not issuing credit, populate next tab

Payments Metrics – Data Gathering – Agent Credit

1. Update New Account Metrics

New Account Compensation	New Account Income 2018	Per New Account	New Accounts
FI generated accounts			0
Partner generated accounts			0
Total New Accounts	**$0**		**0**

2. Update Interchange Metrics

Spend Income	Interchange Income 2018	% of Total Income	Projected Interchange Rate
Interchange Income			0.00%
Total Interchange Income	**$0**	**NA**	

Total Agent Program Income	$0

3. Update Key Volume Metrics

Key Volume Metrics	2018 KPIs	Growth % v 2017
Applications		
New Accounts		
Approval Rate	0.00%	NA
% FI Sourced Accounts	0.00%	NA
Attrition		NA
Year End Accounts		
Active Accounts		
Active Rate	0%	NA
Year End Total Checking Accounts		
Credit Card Penetration Rate	0.00%	NA
Annual Transactions		
Annual Spend		
Ending Balance		

4. Update year-over-year growth rates from 2017

Functional Ownership – Payments Product Manager

Marketing/ Sales Performance -

- New Account Marketing
  - Rewards
  - Promotional Offers
  - Sales Campaigns
  - Channel Strategies
- Existing Account Marketing
  - Early Month on Books Strategy
  - Usage Strategies
- Sales and Performance Management and tracking
  - New Account Activation and Usage
  - Existing Account Balances
  - Existing Account Activation and spend
  - Strategy Performance (New and Existing)

Operations

- Branch Inquiries / Escalations
- Customer Escalations
- Other LOB and Executive Complaints/Escalations
- Training/Education

Fraud/Disputes

- Gross Fraud / Net Fraud - Chargebacks, Loss Forecasting
- Fraud Types and Trends (CNP, POS, Account Takeover)
- Travel and Merchant Strategies
- Rule development - Custom to your market
- False Positive Rates - Customer impacts, Reporting

Credit

- Underwriting guidelines
- Approval rates
- Standard and Preapproval strategies
- Credit Line Increase / Credit Line Decrease
- Fraud Applications/KYC/AML
- Loss Trending and Forecasting

Finance / IT

- Daily settlement
- Nightly payments process
- Annual budgeting
- Ongoing Reporting
- Performance Forecasting
- Data Gathering and Rollup
- Website/Mobile integration
- File transmission – data integrity

Collections – Vendor / Internal

Vendor Management – FFIEC, SSAE16, Third Party Risk

Compliance – Reg E, Reg Z, Card Act

What % of time is spent on these functions?

Functional Role	% of Time	Comments
Marketing / Sales Performance		
Operations		
Collections		
Vendor Management		
Compliance		
Finance & IT		
Fraud and Disputes		
Credit/Underwriting		
Total Time Payments Leader	100%	

Payments Product and Features Assessment

Product Feature	Credit	Debit
Digital Applications		
Instant Issue		
Card Controls		
Email/Text Alerts		
Digital Wallets		
Existing Account Marketing		
Credit Rewards		
Promotional Offers		
Sign up Bonus		
Business Products		
Person to Person Payments		

Competitor Analysis – Debit

FI	Product	Key Features	Competitive Advantage	Comments
You				
Competitor 1				
Competitor 2				

- **Instructions**
  Compare yourself with your key competitors on product offerings, key features, their competitive advantage, and any comments or concerns

Competitor Analysis – Credit

FI	Product	Key Features	Competitive Advantage	Comments
You				
Competitor 1				
Competitor 2				

- **Instructions**
  Compare yourself with your key competitors on product offerings, key features, their competitive advantage, and any comments or concerns

Product Assessment Example – Retail Checking

Market Analysis

- Low rates have cooled balance-related deposit competition but this is very likely to change
- Durbin and further OD regulations could pose strong threats to checking profitability
- Consumers have shifted delivery channels but the majority of checking account opening is still branch based.
- Large banks and FinTechs are winning the digital account opening battle vs. credit unions

Performance Analysis

- Strong checking growth, but tempered profitability
- Strong % of "unengaged" checking members
- Historical relationship packages are deposit and loan balance based.
- Solid loan and credit card cross sell within checking base but still low overall member penetration rates

Competitive Analysis

- Large banks have rolled back free checking and firing the unprofitable
  - Reactive "hard" fees coming in quickly
- Some large players are paying high $ rewards to open accounts
- High sensitivity to consumer fee increases
- Non-branch players not yet impacting share but could as rates rise
- FI's are looking for ways to fix the unprofitable
- Many "gimmicks" being used to sell value of checking relationships but most are not successful.

Product Assessment - Debit

Market Analysis

- Bullet 1

Performance Analysis

- Bullet 1

Competitive Analysis

- Bullet 1

Product Assessment - Credit

Market Analysis

- Bullet 1

Performance Analysis

- Bullet 1

Competitive Analysis

- Bullet 1

Payments Strategies – Open Discussion

Penetration

Activation

#of Transactions

Avg $ Ticket

1. Expanding Acquisition Channels
2. Onboarding Enhancements
3. Activation Promotions
4. Usage Campaigns
5. Digital / Recurring Adoption
6. Seasonal Campaigns

Penetration

Activation

Spend

Balance Growth

Loss Mitigation

1. Expanding Acquisition Channels
2. Onboarding Enhancements
3. Activation Promotions
4. Usage Campaigns
5. Rewards Offerings
6. Underwriting Enhancements

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CORNERSTONE ADVISORS

CUES
POTENTIAL, REALIZED.™

Deep Dive

Are you actively managing payments?

PRESENTED BY: Tony DeSanctis, Senior Director
adesanctis@crnrstone.com
480-990-5705

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Payments Game Plan

- **Assessment**
  Where are you now, relative to market?

- **Strategy**
  What's your game plan for improving?

ASSESSMENT	STRATEGY
• Data Gathering	• Payment Strategy
• Product Management	• Marketing Plan
• Competitive Landscape	• Payments Roadmap
• Product Assessments	• Payments Performance

Payment Cards by the Numbers

Spend

Payment Card	2012	Share	2017	Share	2022	Share	Growth
Credit Card	$2,448	53%	$3,597	54%	$5,119	55%	42%
Debit Card	$2,187	47%	$3,019	46%	$4,194	45%	39%
Total	$4,635		$6,616		$9,313		41%

Volume

Payment Card	2012	Share	2017	Share	2022	Share	Growth
Credit Card	26,410	31%	40,023	34%	53,883	35%	35%
Debit Card	57,628	69%	78,452	66%	100,888	65%	29%
Total	84,038		118,474		154,771		31%

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Payment Cards by the Numbers

Spend

Payment Card	2012	Share	2017	Share	2022	Share	Growth
Debit Card	**$2,187**	**47%**	**$3,019**	**46%**	**$4,194**	**45%**	**39%**
Signature	$1,554	34%	$2,198	33%	$3,134	34%	43%
PIN	$423	9%	$537	8%	$691	7%	29%
Private Label	$210	5%	$285	4%	$369	4%	30%

Volume

Payment Card	2012	Share	2017	Share	2022	Share	Growth
Debit Card	**57,628**	**69%**	**78,452**	**66%**	**100,888**	**65%**	**29%**
Signature	40,837	49%	57,558	49%	75,199	49%	31%
PIN	10,916	13%	13,645	12%	16,890	11%	24%
Private Label	5,875	7%	7,249	6%	8,800	6%	21%

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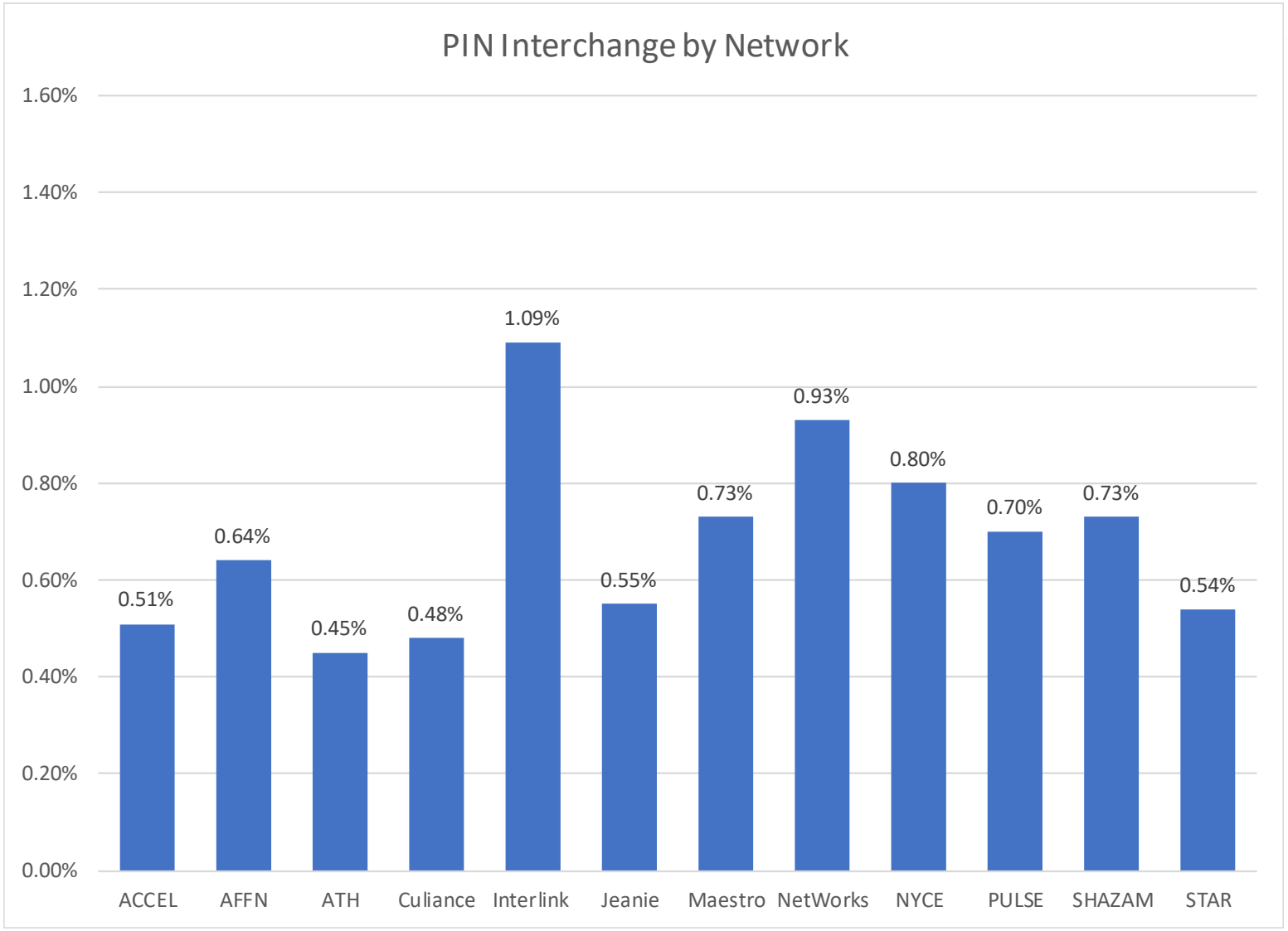
You have to manage your Network(s)

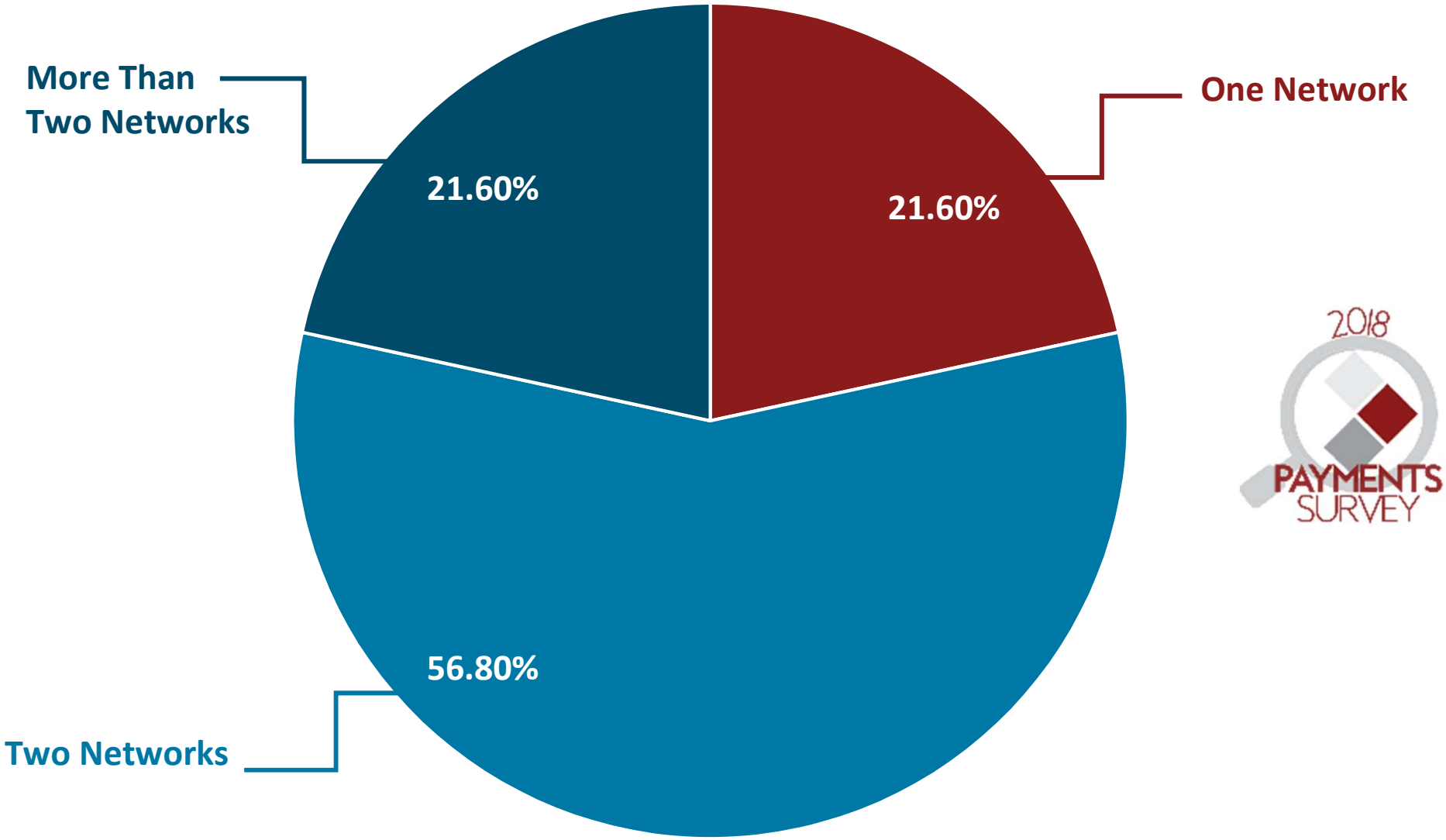


Is Your Vendor Issuer or Acquirer Friendly?

Network	2017 Average Transaction $$	2017 Avg Intx per Transaction	2013 Average Transaction $$	2013 Avg Intx per Transaction
Dual Message				
Discover	$ 38.22	$ 0.57	$ 52.23	$ 0.73
MasterCard	$ 38.87	$ 0.58	$ 37.23	$ 0.55
Visa	$ 36.52	$ 0.49	$ 35.65	$ 0.47
Single Message				
Accel	$ 41.75	$ 0.21	$ 42.28	$ 0.26
Jeanie	$ 45.53	$ 0.25	$ 47.08	$ 0.28
AFFN	$ 37.85	$ 0.24	$ 41.09	$ 0.27
Star	$ 36.20	$ 0.19	$ 37.70	$ 0.20
Pulse	$ 40.09	$ 0.28	$ 40.82	$ 0.30
Interlink	$ 32.06	$ 0.35	$ 36.15	$ 0.36
CULIANCE	$ 47.22	$ 0.23	$ 48.26	$ 0.23
NYCE	$ 36.20	$ 0.29	$ 39.72	$ 0.29
Shazam	$ 34.45	$ 0.25	$ 42.56	$ 0.25
Maestro	$ 33.69	$ 0.25	$ 39.19	$ 0.25

Source: Federal Reserve *Average Debit Card Interchange Fee by Payment Card Network, October 25, 2018*

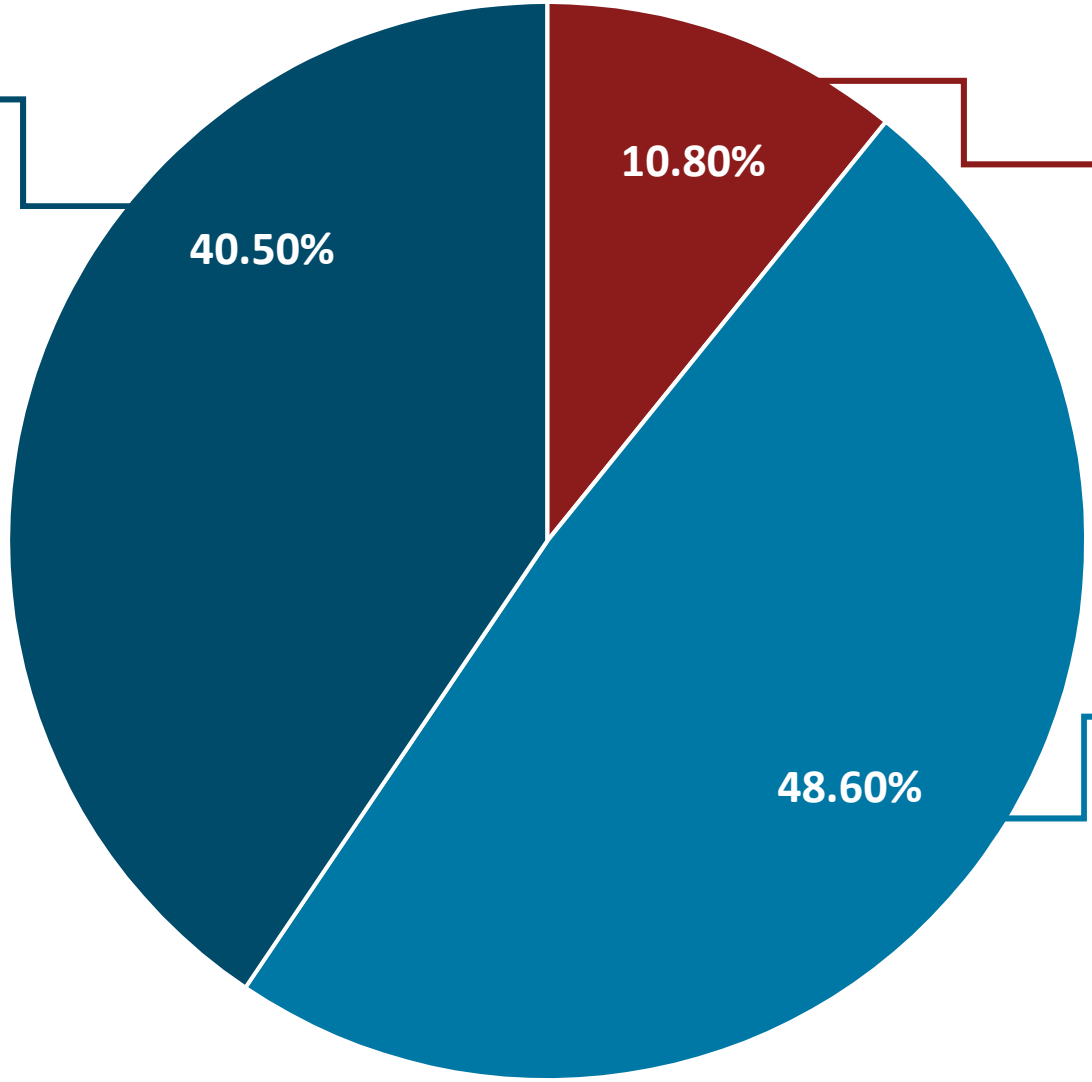
How may PIN networks do you belong to?



2018 PAYMENTS SURVEY

Debit Revenue

Do you have a debit marketing strategy?



2018 PAYMENTS SURVEY

Marketing Differentiation - Debit

Balances up to $10,000 Earn **3.09%** APY*

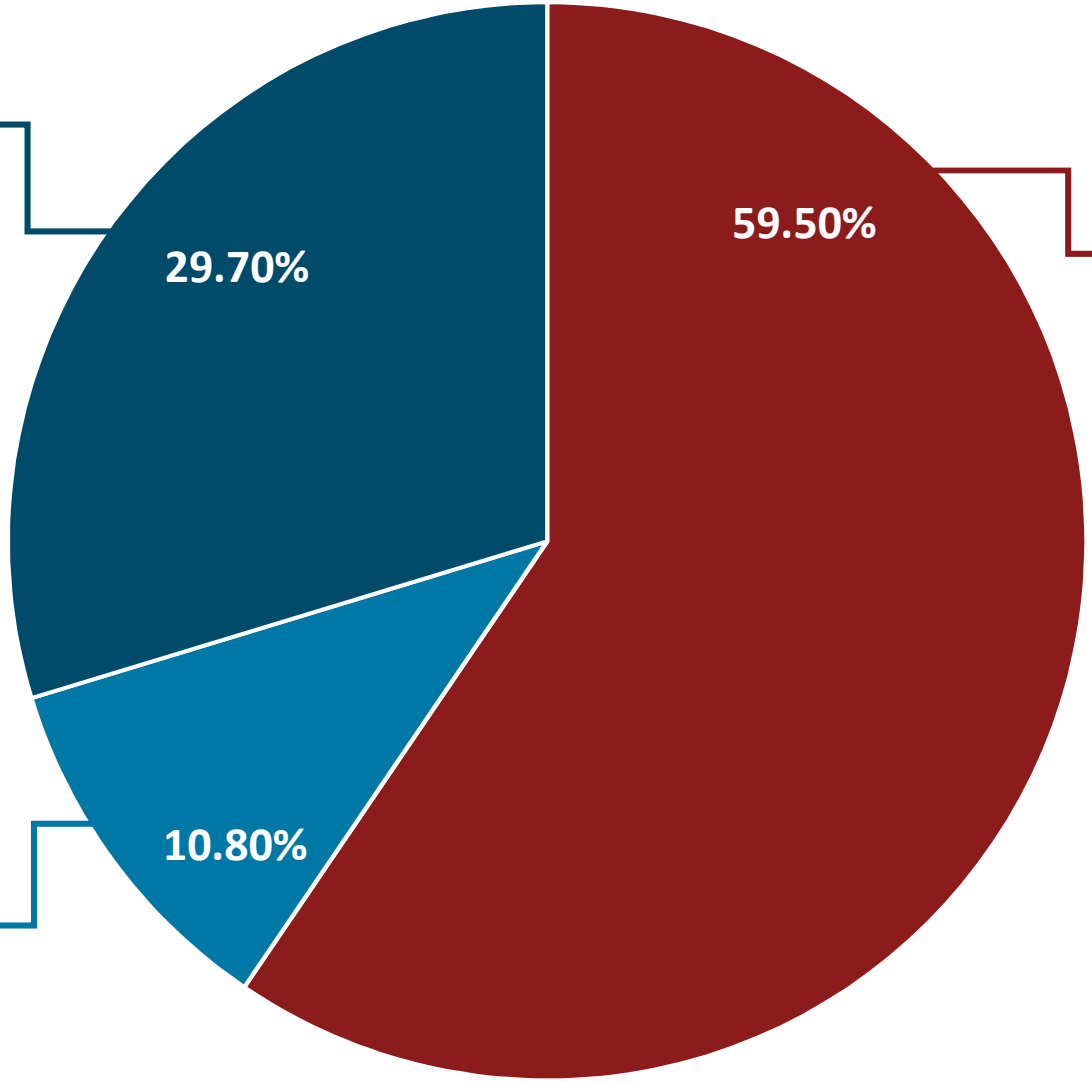
Complete at least 12 Debit/Check Card point-of-sale purchases of any amount (transactions must be made without using your personal identification number (PIN) to count toward the minimum of 12 and must post and clear your account as a credit transaction on or before the last day of the calendar month)

Each calendar month, one direct deposit OR one ACH debit OR pay one bill when using Consumers Credit Union's free online bill payment system must post and clear your account on or before the last day of the calendar month

Access Online Banking at least once each calendar month

Receive eDocuments (enroll and accept the disclosure)

Do you offer Instant Issue?



2018 PAYMENTS SURVEY

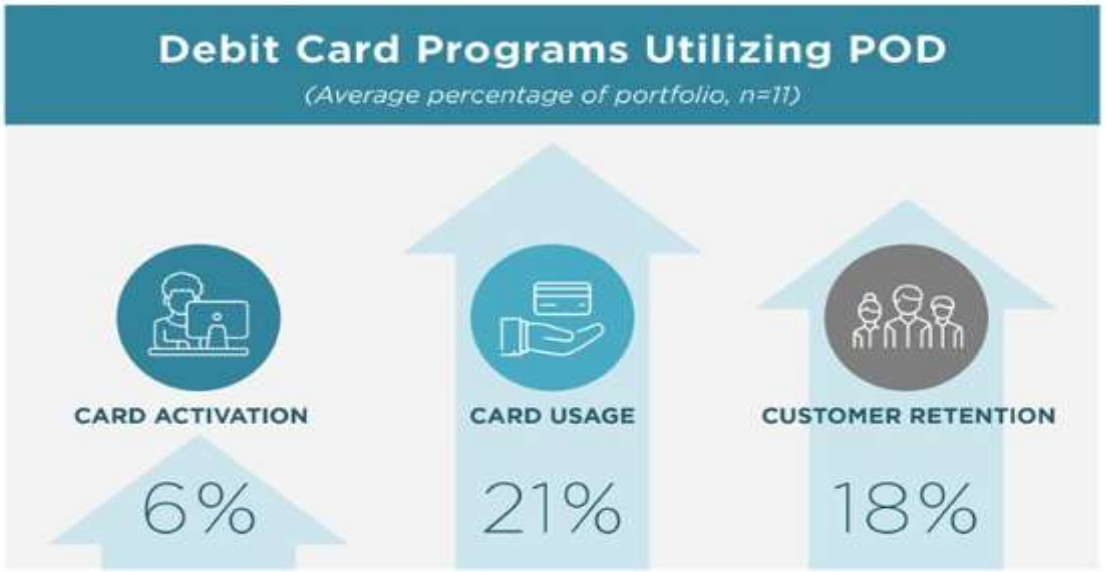
Based on Webinar attendees

Account Onboarding – Path to Victory

- Account Onboarding = New Phone Purchase
- Instant issue is table stakes to compete
- Onboarding is more than instant issue
- Online account opening and onboarding are the next frontier

Card Portfolio Trends

Source: Aite Group



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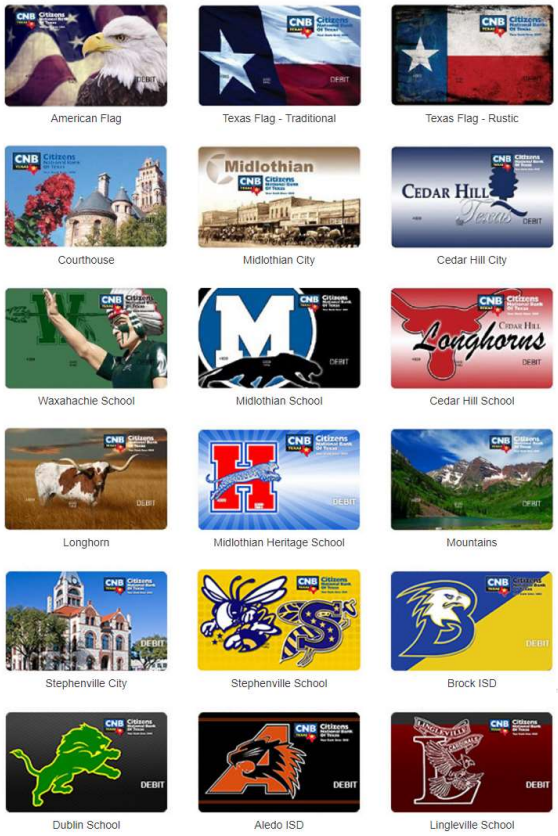

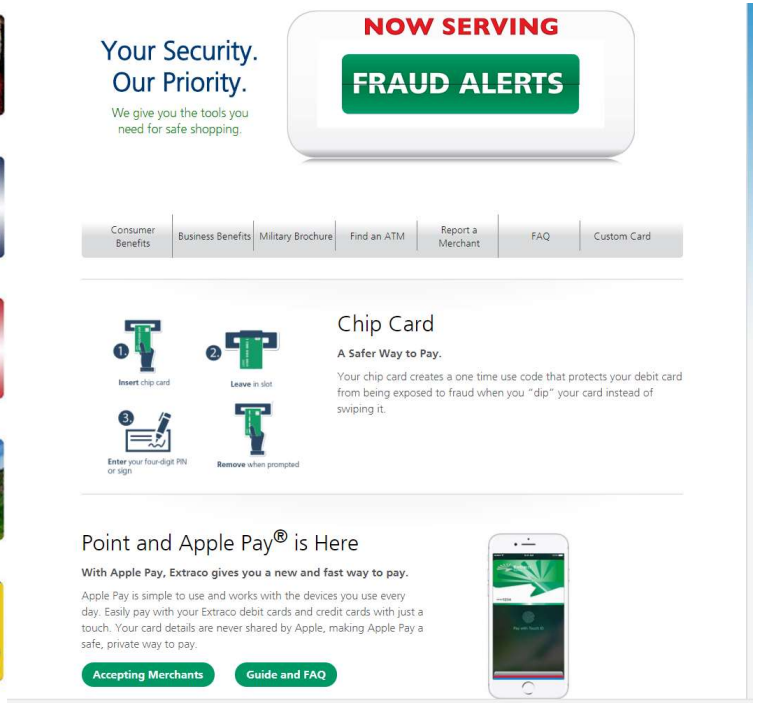

CORNERSTONE ADVISORS

Session 8 – Credit Card Best Practices

PRESENTED BY: Tony DeSanctis, Senior Director
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Payment Cards by the Numbers

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Debit Card	57,628	69%	78,452	66%	100,888	65%	29%
Total	84,038		118,474		154,771		31%

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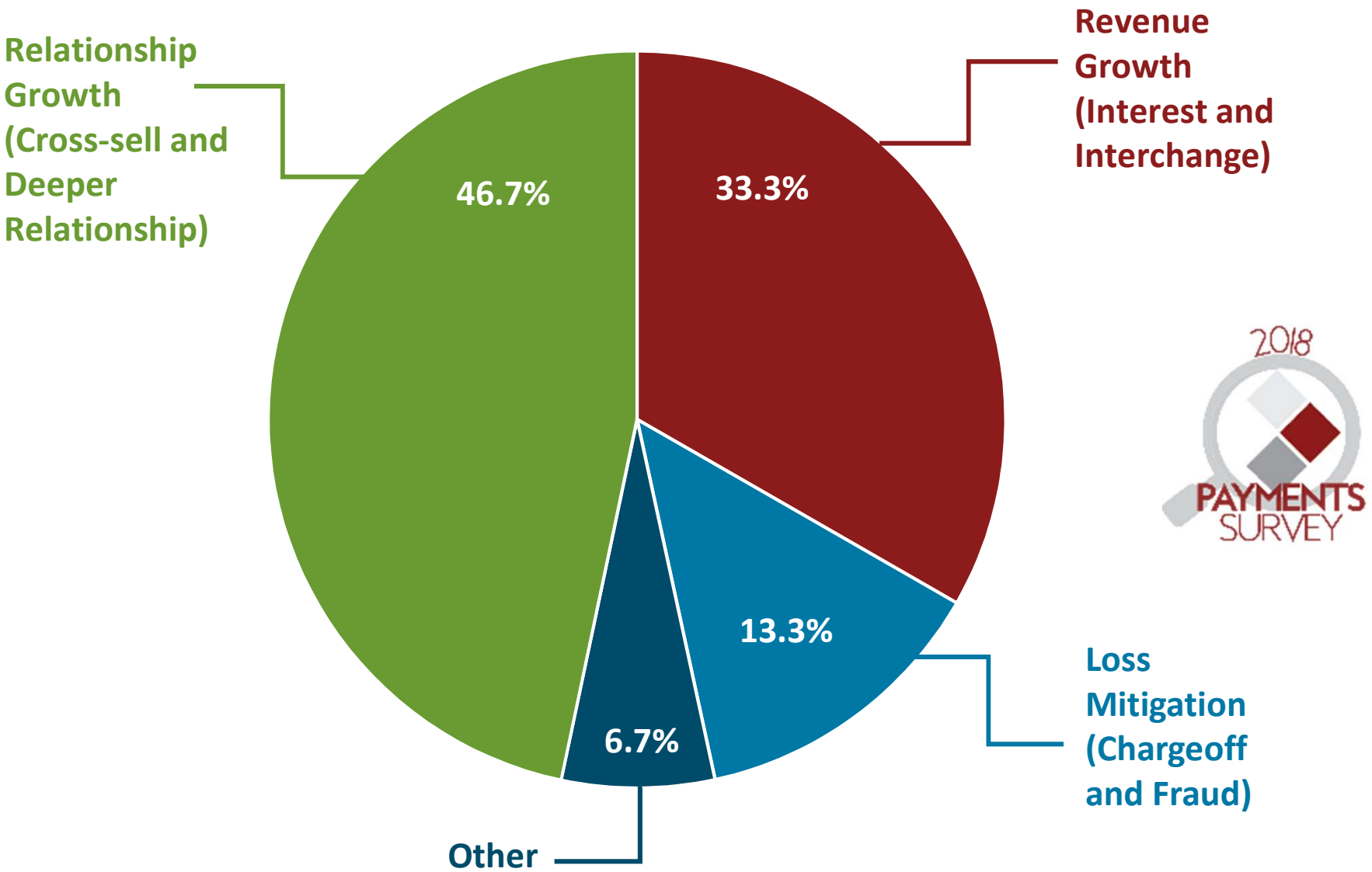
What Does the Credit Card Market Look Like?

- 83% owned by 10 FIs
- 93% owned by 20 FIs
- 7% owned by everyone else
- Primary bank market share?
- Drivers of card selection
- Functionality that drives usage
- Acquisition channels

What is your highest priority for credit?



2018 PAYMENTS SURVEY

Customer Loyalty?

Exhibit 3: Breakdown of cardholders by segment

PERCENTAGE OF CARDHOLDERS, 2014-2015

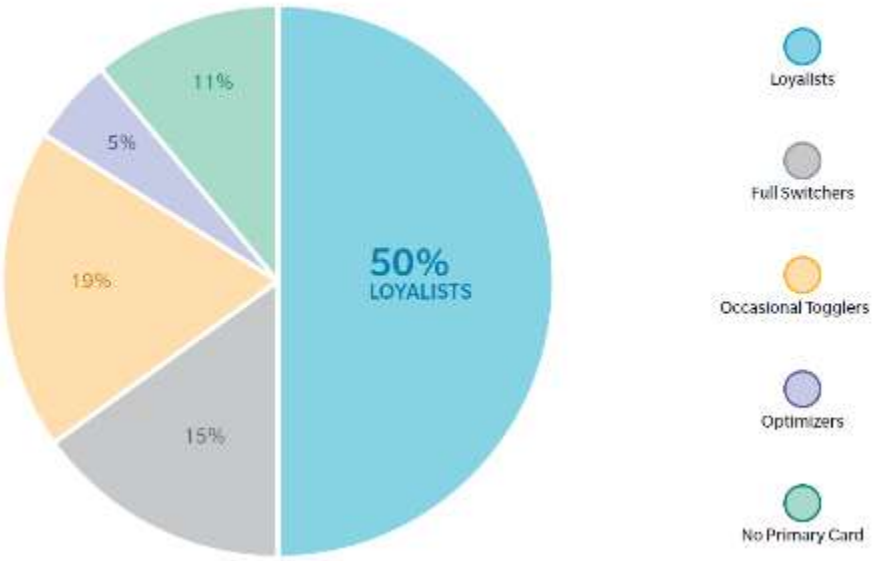


Exhibit 7: Switching behavior by rewards benefit for full switchers

VALUE OF REWARDS TO CONSUMER (% OF SPEND)	SWITCHED FROM	SWITCHED TO	NET CHANGE
>150 bps	10%	19%	+9 pp
100–150 bps	60%	58%	-2 pp
1–100 bps	15%	14%	-1 pp
No rewards	14%	8%	-6 pp

RICHER REWARDS

Exhibit 6: Revolving balance and spend behavior across segments (percentage of cardholders)

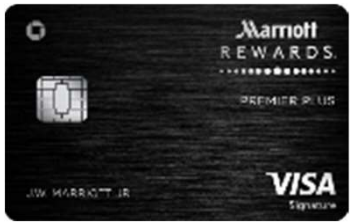
CUSTOMER TYPE				REVOLVING BALANCE Total balance	REVOLVING BALANCE % with $0 balance	SPEND % with <$50 monthly spend	SPEND % with >$2K monthly spend	SPEND Average monthly spend
Loyalists	36%	27%	37%	$2,776	46%	8%	20%	$1,230
Full switchers	33%	31%	36%	$3,265	46%	6%	22%	$1,357
Occasional togglers	28%	28%	44%	$3,800	38%	2%	16%	$1,177
Optimizers	22%	22%	56%	$4,002	28%	4%	10%	$872
No primary card	8%	12%	80%	$5,846	12%	43%	10%	$821

Transactor Mixed Full Revolver

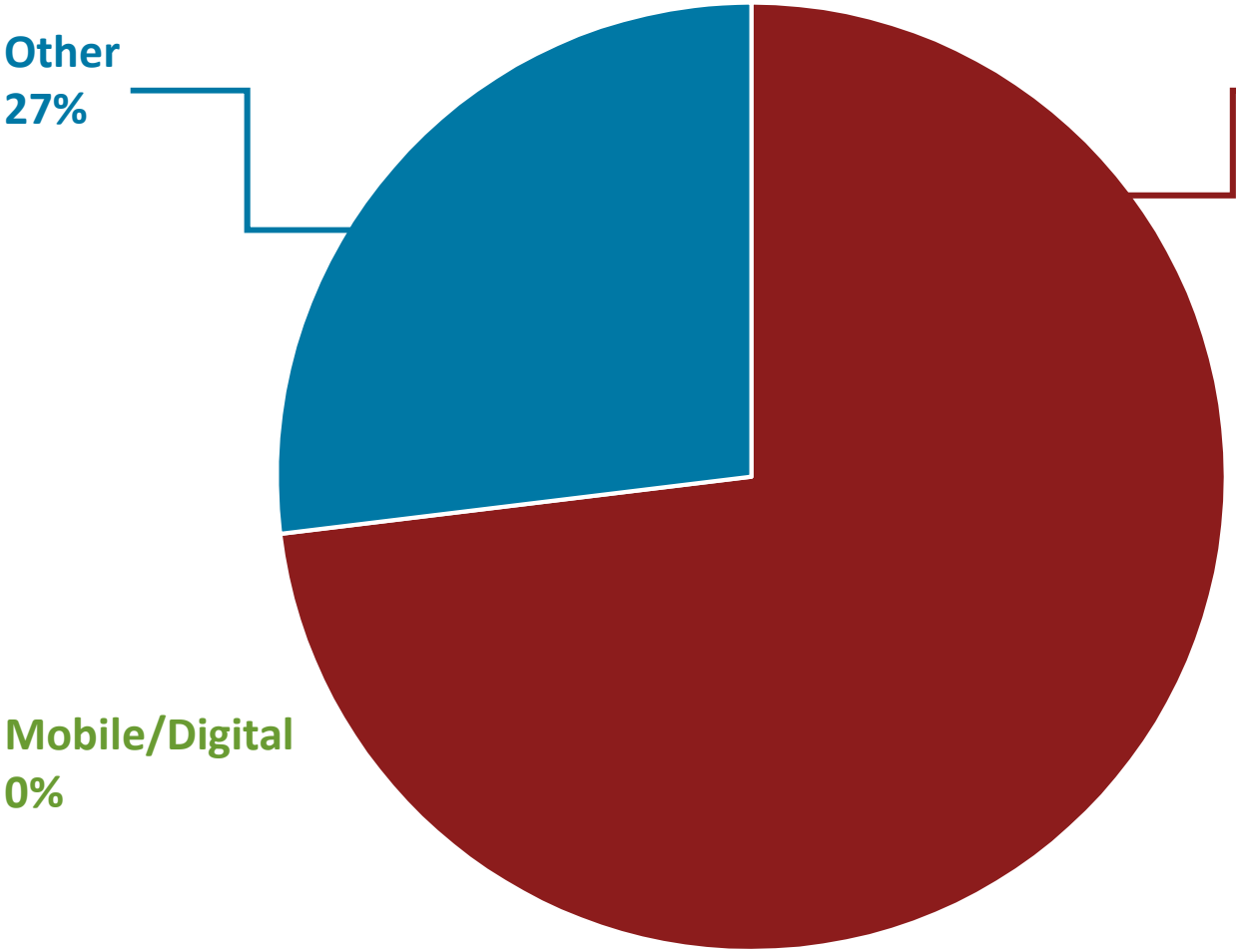
Source: Oliver Wyman – Achieving Top of Digital Wallet

Primary Acquisition Channels?

Digital



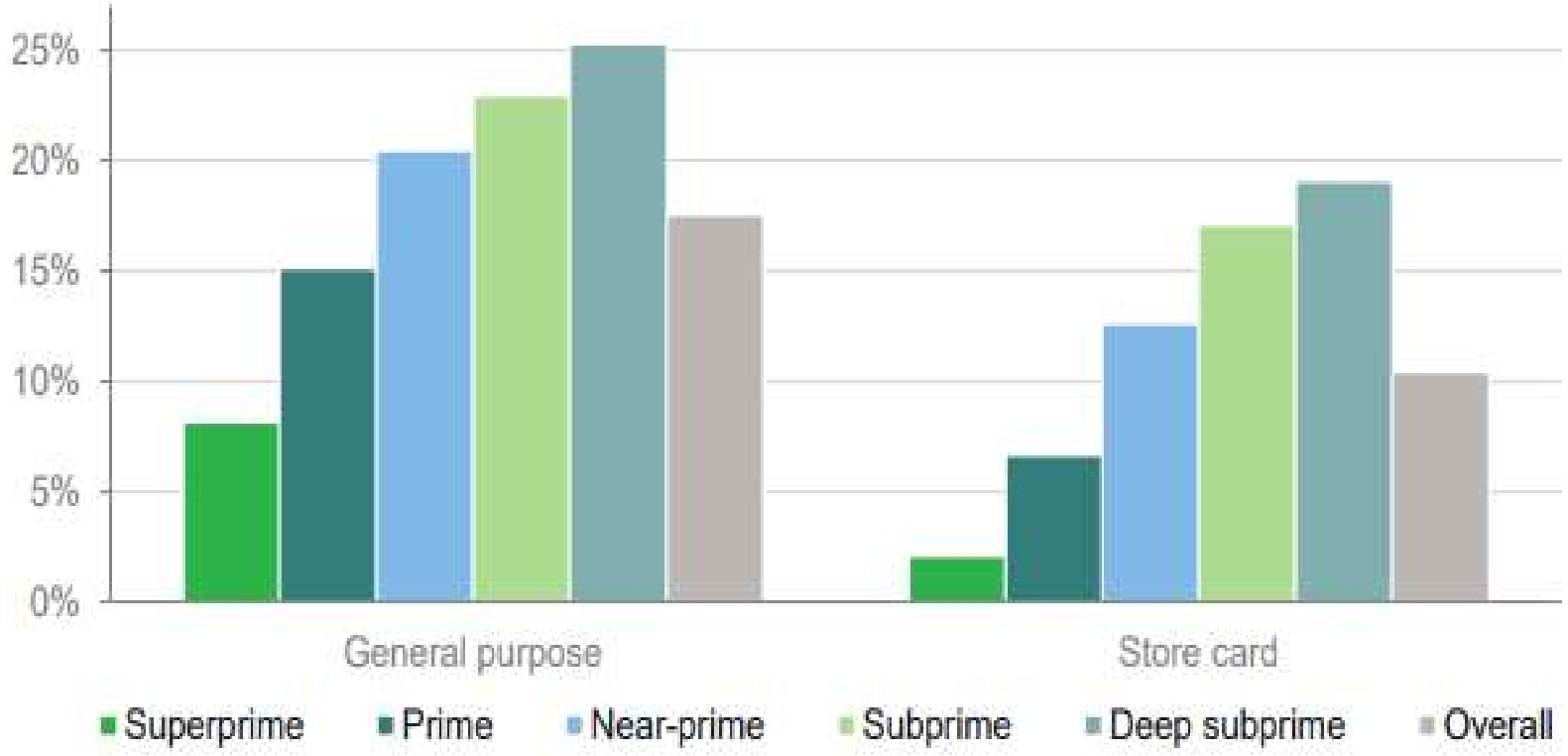
What is your primary channel of new account growth for your credit card program?



2018 PAYMENTS SURVEY

Mobile Is Significant Application Driver

FIGURE 4: APPLICATIONS SUBMITTED VIA MOBILE DEVICES AS A SHARE OF ALL APPLICATIONS IN EACH CREDIT TIER, 2015-2016 (MMI)



CFPB study

Do You Have the Right Product?

Issuer flexibility and choice

Visa Traditional

Visa Traditional Rewards

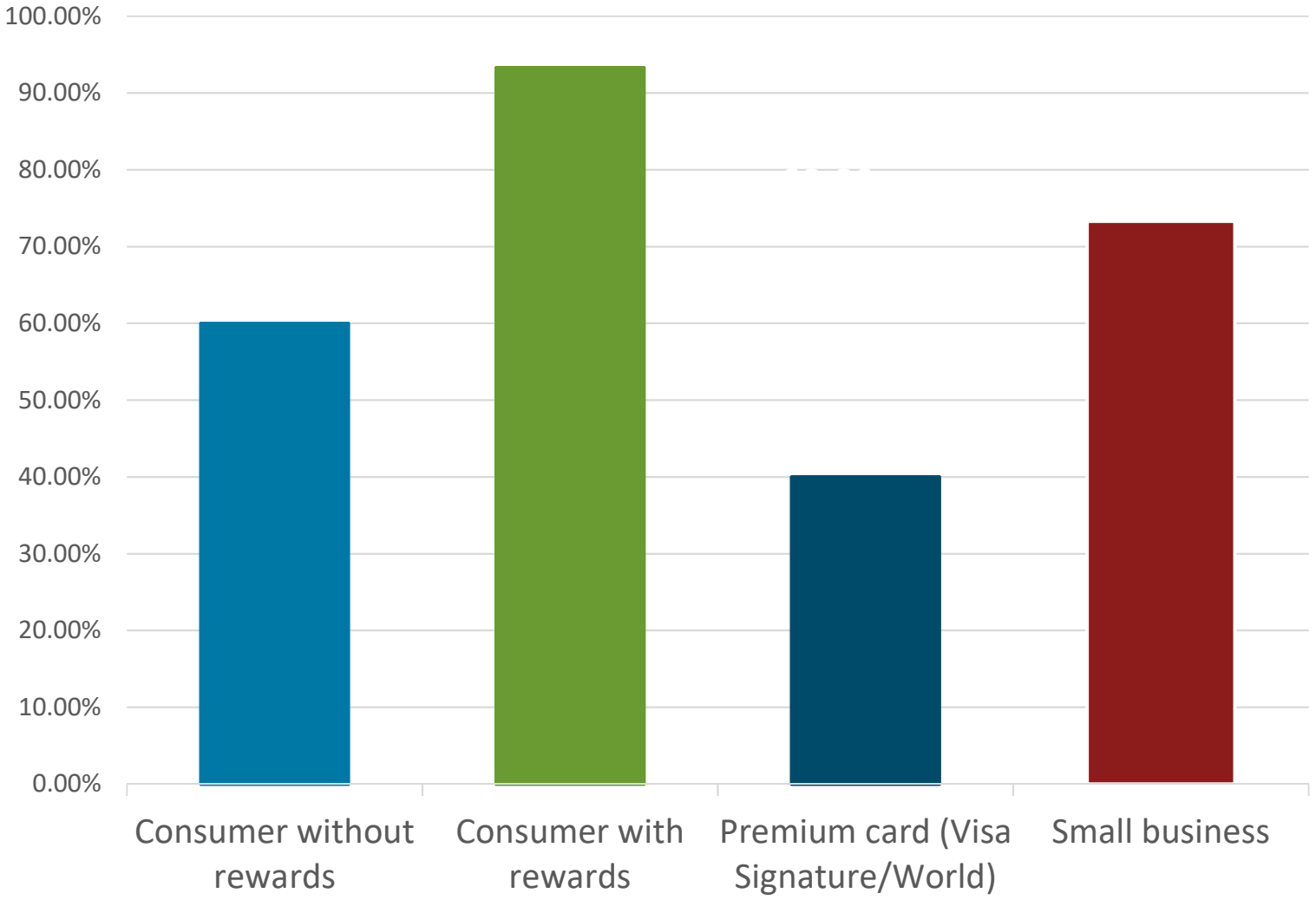
Visa Signature

Visa Signature Preferred

Visa Infinite

Protection Benefits	Visa Traditional	Visa Traditional Rewards	Visa Signature	Visa Signature Preferred	Visa Infinite
Auto Rental Collision Damage Waiver / Roadside Dispatch	✓	✓	✓	✓	✓
Extended warranty / Travel and Emergency Assistance Services			✓	✓	✓
Additional travel and purchase protections					✓
Lifestyle Benefits					
Concierge			✓	✓	✓
Signature benefits			✓	✓	✓
Infinite benefits					✓

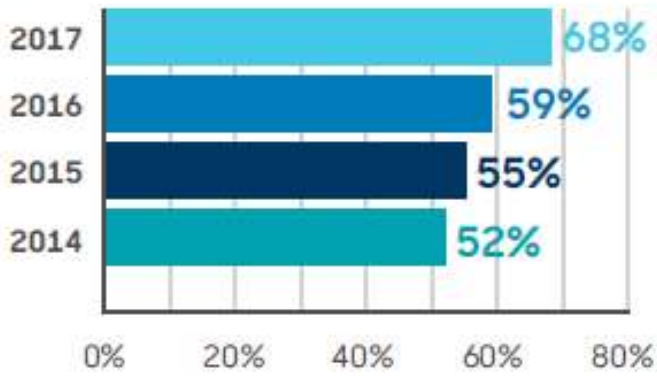
What Credit Products Do You Offer?



2018 PAYMENTS SURVEY

Loyalty & Rewards Drive Consumer Behavior

Rewards Remain Top Credit Card Feature When Asked About Most Attractive Features on Consumers' Preferred Credit Card



Redeemers are

2X

more likely to be highly satisfied with a loyalty program than non-redeemers

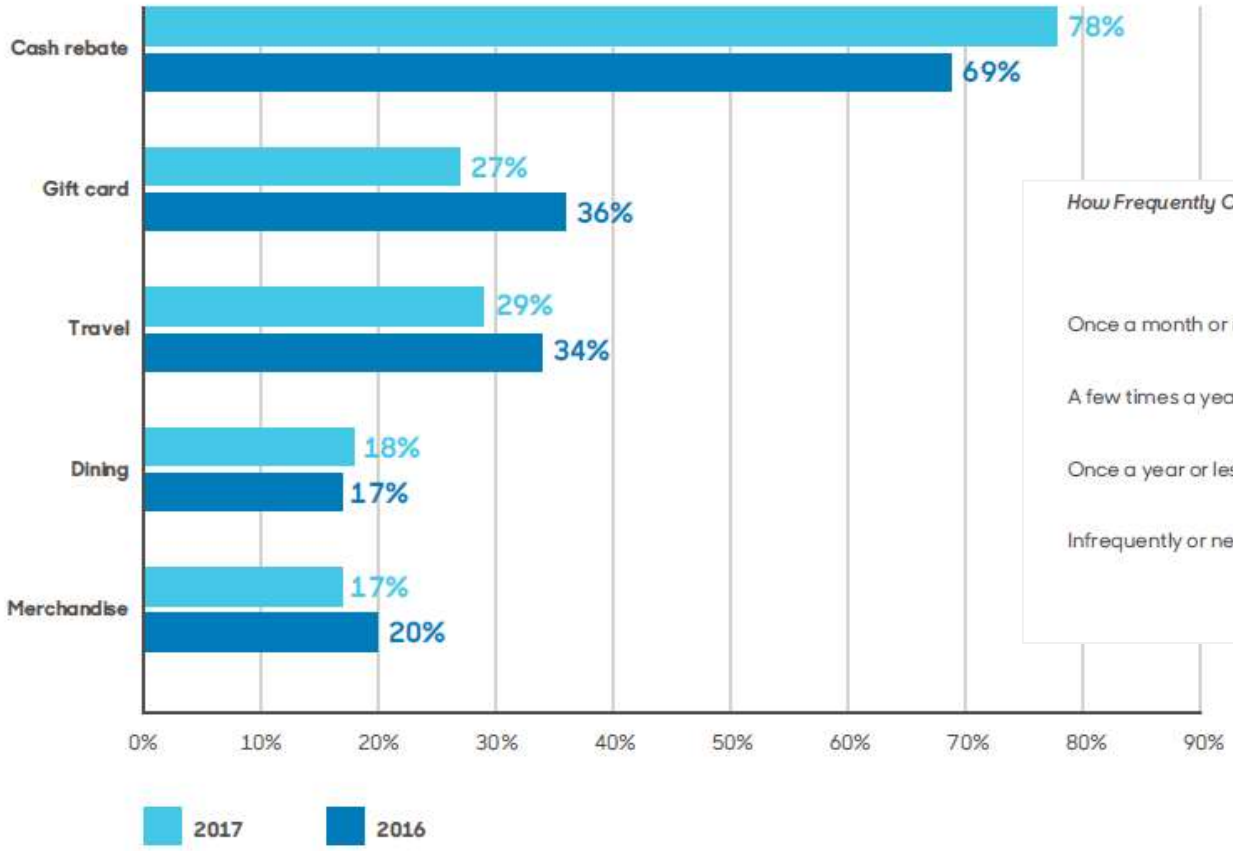
Source: Bond Brand Loyalty Report 2017, survey on 28,000 North American consumers

Rewards Remain Top Credit Card Feature – by Income

	Income					
	Less than $25,000	$25,000 to less than $50,000	$50,000 to less than $75,000	$75,000 to less than $100,000	$100,000 to less than $150,000	$150,000 or more
Rewards	55%	62%	71%	80%	80%	78%

Loyalty & Rewards – Cash Back is King

Type of Rewards Program on Most Preferred Credit Card



How Frequently Cash Back is Redeemed

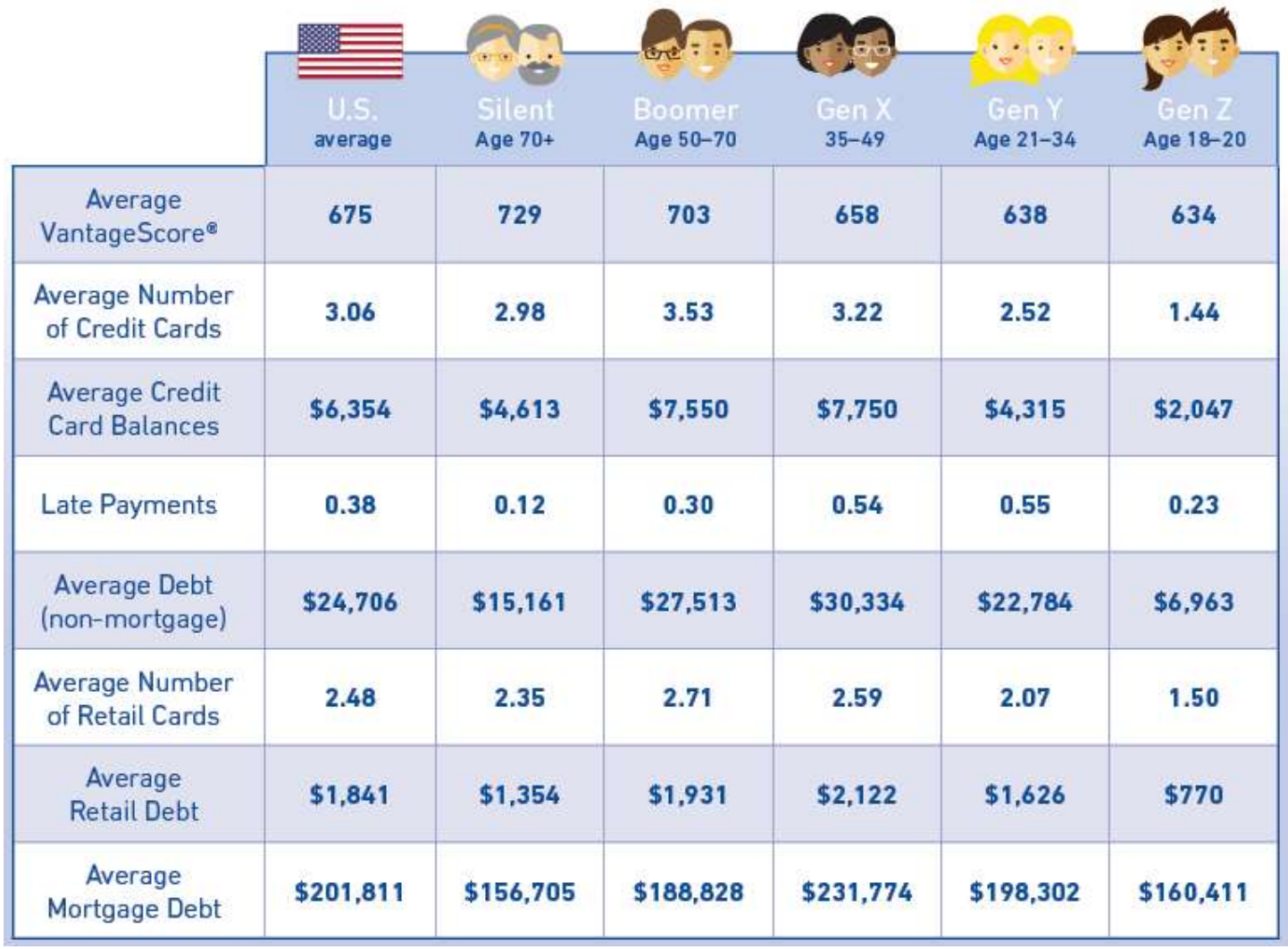
	2016	2017
Once a month or more	15%	24%
A few times a year	30%	32%
Once a year or less	20%	25%
Infrequently or never	35%	19%

Rewards Paradox

Source: VisaNet data, July 2009 to June 2017, Visa analysis

Source: VisaNet 2016-2017

Credit Demographics – Generational



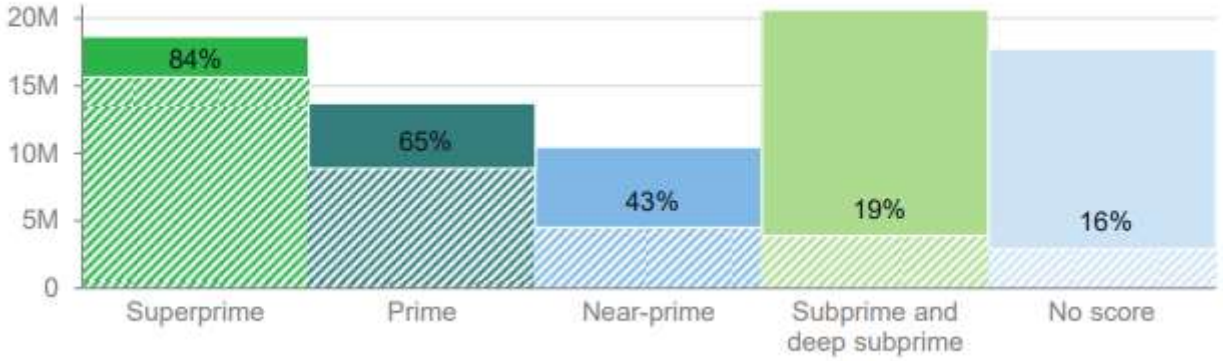
	U.S. average	Silent Age 70+	Boomer Age 50–70	Gen X 35–49	Gen Y Age 21–34	Gen Z Age 18–20
Average VantageScore®	675	729	703	658	638	634
Average Number of Credit Cards	3.06	2.98	3.53	3.22	2.52	1.44
Average Credit Card Balances	$6,354	$4,613	$7,550	$7,750	$4,315	$2,047
Late Payments	0.38	0.12	0.30	0.54	0.55	0.23
Average Debt (non-mortgage)	$24,706	$15,161	$27,513	$30,334	$22,784	$6,963
Average Number of Retail Cards	2.48	2.35	2.71	2.59	2.07	1.50
Average Retail Debt	$1,841	$1,354	$1,931	$2,122	$1,626	$770
Average Mortgage Debt	$201,811	$156,705	$188,828	$231,774	$198,302	$160,411

Experian – State of credit infographic 2018

Credit Demographics – Score Bands

Credit score tiers	% of U.S. population with a credit score	% of U.S. scored credit cardholding population
Superprime (scores of 720 or greater)	56%	62%
Prime (scores from 660 to 719)	17%	17%
Near-prime (scores from 620 to 659)	9%	9%
Subprime (scores from 580 to 619)	7%	6%
Deep subprime (scores of 579 or less)	11%	6%

APPLICATIONS AND APPROVALS FOR GENERAL PURPOSE CARDS, 2016 (SHADED AREA REPRESENTS APPROVED APPLICATIONS) (MMI)



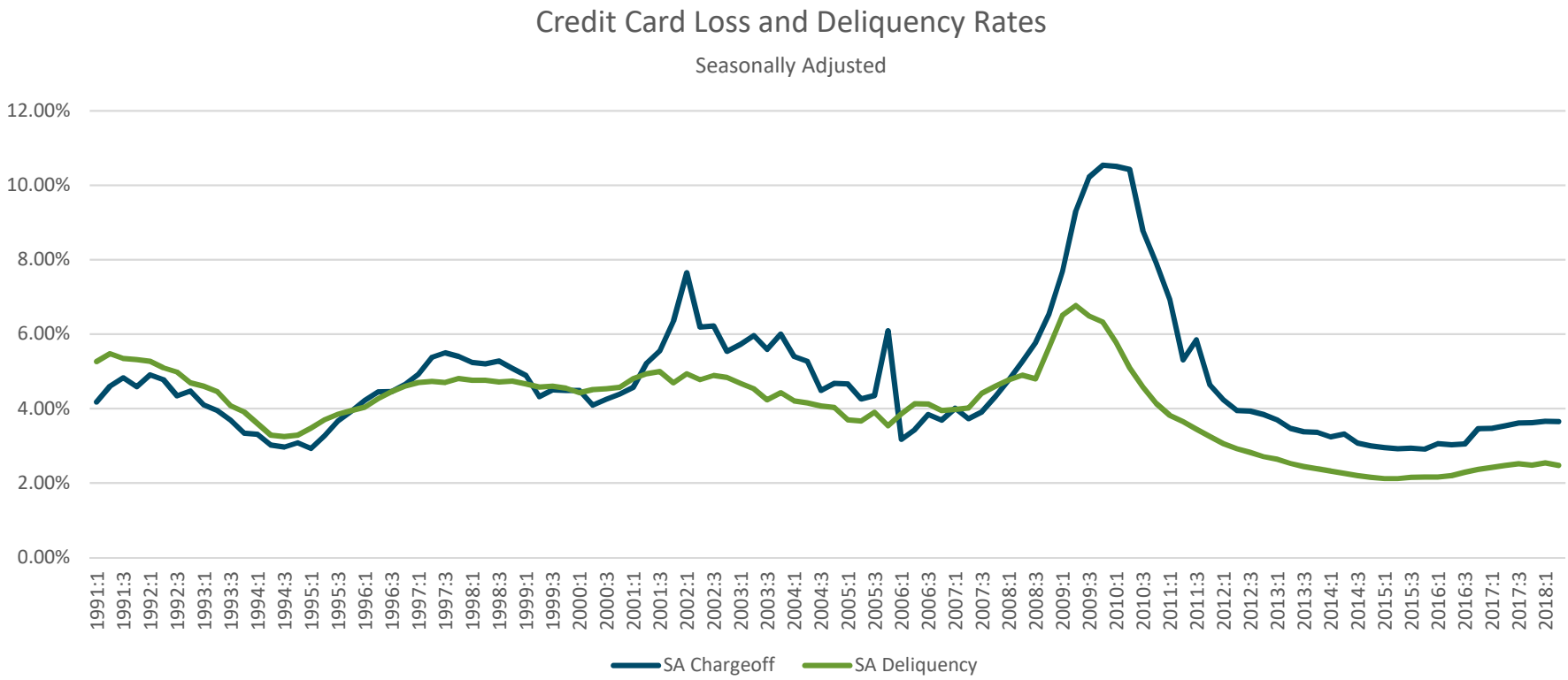
Credit Card Balance Regional View

Top 10 States with Highest Credit Card Debt	
State	Average Balance on Credit Card
Alaska	$8,515
Connecticut	$7,258
Virginia	$7,161
New Jersey	$7,151
Maryland	$7,043
Hawaii	$6,981
District of Columbia	$6,963
Texas	$6,902
Colorado	$6,718
Georgia	$6,675

Top 10 States with Lowest Credit Card Debt	
State	Average Balance on Credit Card
Iowa	$5,155
Wisconsin	$5,363
Mississippi	$5,421
North Dakota	$5,511
West Virginia	$5,547
Kentucky	$5,555
Indiana	$5,581
Michigan	$5,622
Nebraska	$5,630
Arkansas	$5,660

https://www.experian.com/blogs/ask-experian/state-of-credit//

Loss Trends



- Delinquency and Losses have been at a 15-year low
- Recent quarters have been trending upward and leading to pull back in lending

Federal Reserve Data

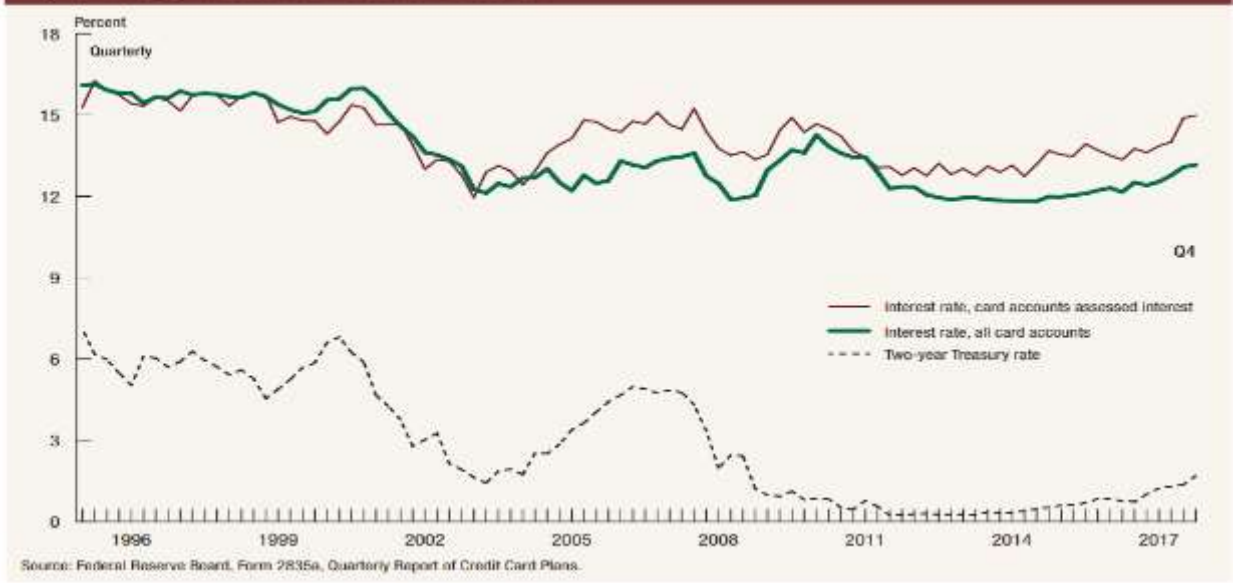
Delinquency and Charge Off – Top Issuers

Bank	DLQ (1-19)	DLQ (12-18)	NCO (1-19)	NCO (12-18)
Capital One	4.16%	4.04%	5.08%	4.95%
American Express	1.5%	1.4%	2.2%	2.2%
Chase	1.21%	1.17%	2.26%	2.35%
Synchrony	5.7%	5.8%	5.7%	5.7%
Discover	2.49%	2.43%	3.09%	3.06%

- Delinquency and Losses driven by segmentation and target market in addition to underwriting and collection efforts
- Month-over-month trends can be misleading if not seasonally adjusted

Margin Pressure

Figure 1. Average interest rates on credit card accounts



Source: Federal Reserve Board, Form 2835a, Quarterly Report of Credit Card Plans.

Table 2. Income and expenses for U.S. banks in 2016 and 2017

Percent of average quarterly assets

	Credit card banks in 2017	Credit card banks in 2016	All commercial banks in 2017
Total interest income	10.60	10.13	2.81
Total interest expenses	1.35	1.06	.38
Net interest income	9.25	9.07	2.43
Total noninterest income	3.57	4.01	1.43
Total noninterest expenses	5.89	6.08	2.31
Net noninterest income	-2.32	-2.07	-.87
Provisions for loan losses	3.57	2.96	.25
Return	3.37	4.04	1.32

Note: Credit card banks are commercial banks with average assets greater than or equal to $200 million, with a minimum 50 percent of assets in consumer lending and 90 percent of consumer lending in the form of revolving credit.

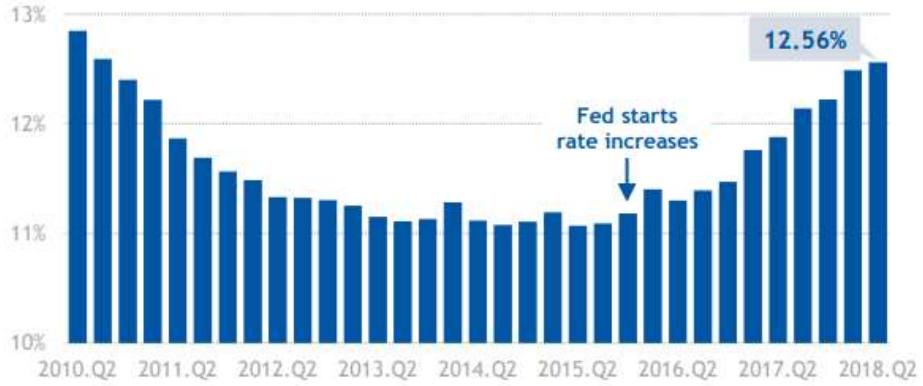
Source: Federal Financial Institutions Examination Council (FFIEC), Consolidated Reports of Condition and Income (Call Reports), https://www.ffiec.gov/.

- Historically low cost of funds has led to higher margins
- The increasing trend in losses and the higher costs of funds will put significant pressure on credit card profitability

Benchmarks Metrics

Effective Finance Charge Yield

The effective finance charge yield rose 7 basis points to 12.56 percent in Q2, likely reflecting recent federal interest rate hikes which have increased the cost of credit overall. Markets expect the Fed to raise rates once more by year end.



Source: Argus Information & Advisory Services LLC.

Distribution of Accounts by Behavior Type

Revolvers fell 1.0 percentage point in Q2 while Transactors increased 1.0 percentage point. The share of Dormant accounts held steady at 25.8 percent

Source: Argus Information & Advisory Services LLC.

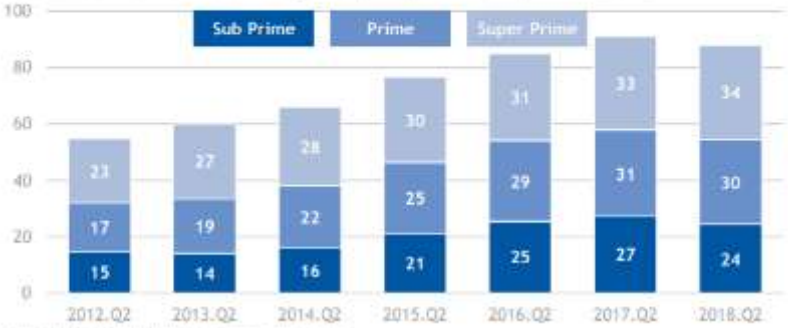
Monthly Purchase Volume by Risk Type

Monthly purchase volumes increased across risk tiers in the second quarter following seasonal declines in Q1. Compared to year-ago levels, purchase volumes rose 9.2 percent for super-prime accounts, 6.6 percent for prime accounts, and 3.0 percent for subprime accounts.

Source: Argus Information & Advisory Services LLC.

Number of New Accounts* (Millions)

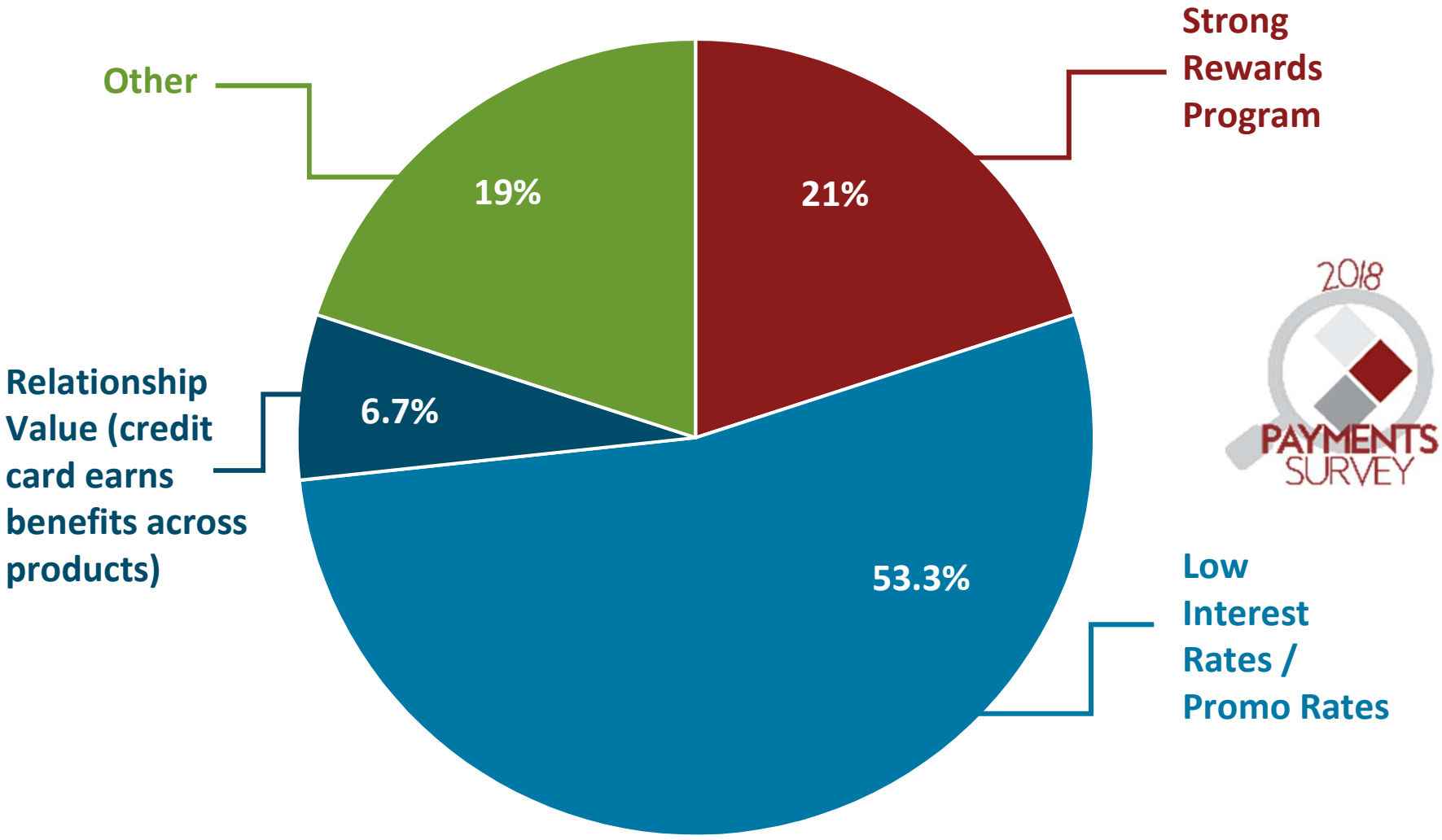
New account openings fell 2.9 percent in Q2 relative to the previous quarter, the sharpest decline since mid-2010. Compared to a year ago, new account openings decreased 3.5 percent, driven by a sharp drop in new subprime accounts.



Source: Argus Information & Advisory Services LLC.

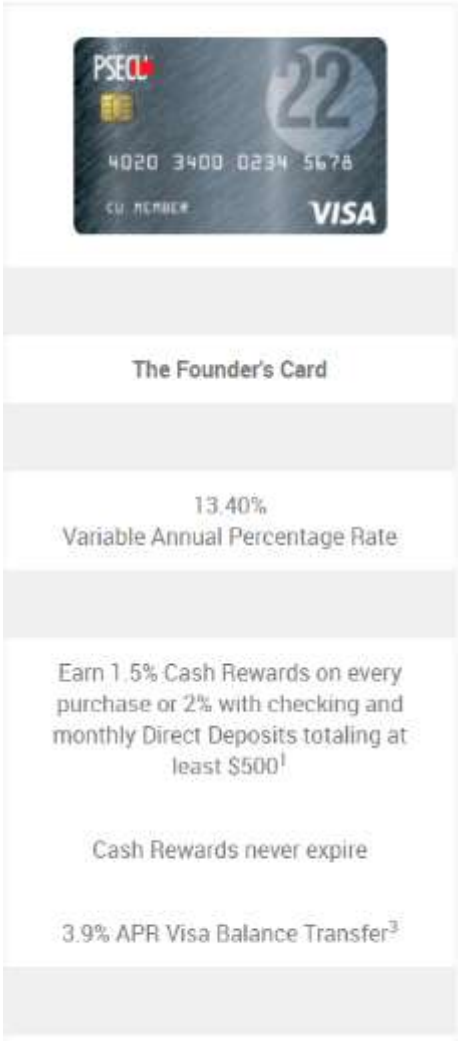
https://www.aba.com/Press/Documents/2018Q2CreditCardMonitor.pdf

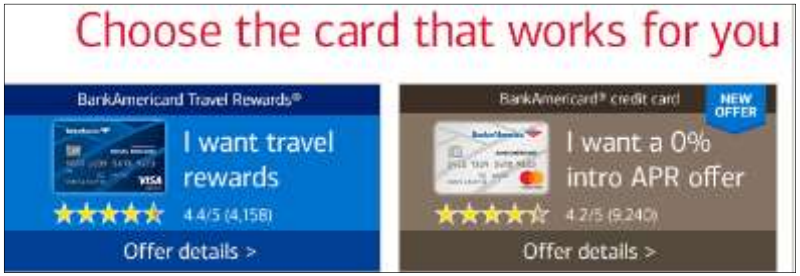
What is your primary credit card value proposition?



2018 PAYMENTS SURVEY

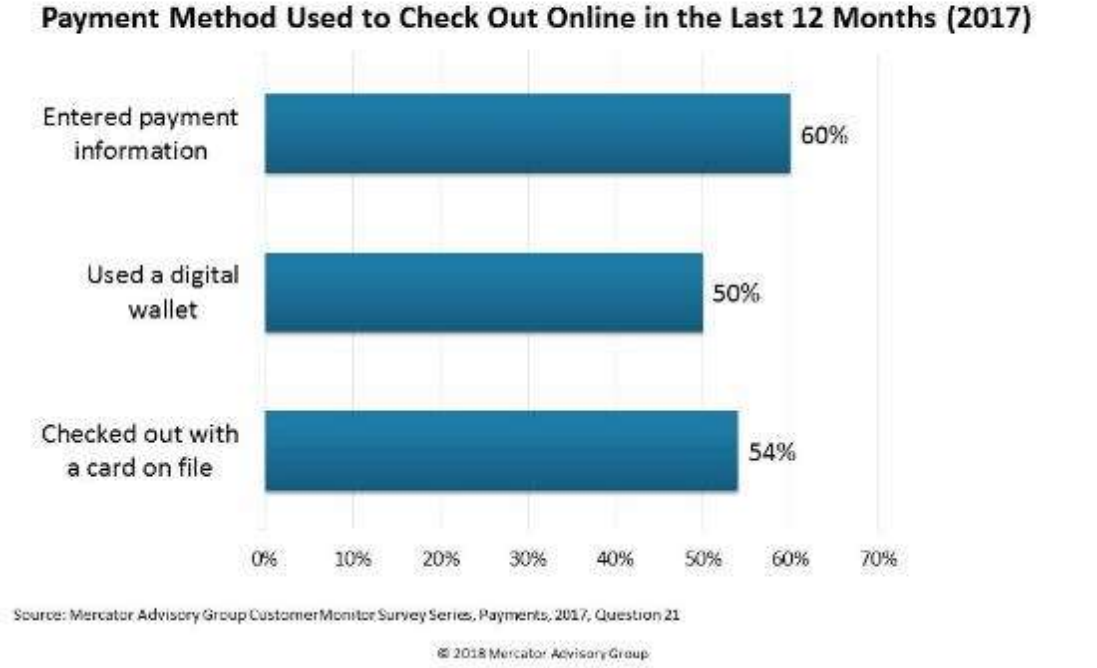
Marketing Differentiation – Credit





Digital and Recurring Payments

Figure 1: When checking out online, most U.S. consumers key in payment data.



Recurring transactions processed on debit and credit cards in the United States are expected to reach $473 billion by 2021.

Functional Ownership – Payments Product Manager

Marketing/ Sales Performance -

- New Account Marketing
  - Rewards
  - Promotional Offers
  - Sales Campaigns
  - Channel Strategies
- Existing Account Marketing
  - Early Month on Books Strategy
  - Usage Strategies
- Sales and Performance Management and tracking
  - New Account Activation and Usage
  - Existing Account Balances
  - Existing Account Activation and spend
  - Strategy Performance (New and Existing)

Operations

- Branch Inquiries / Escalations
- Customer Escalations
- Other LOB and Executive Complaints/Escalations
- Training/Education

Fraud/Disputes

- Gross Fraud / Net Fraud - Chargebacks, Loss Forecasting
- Fraud Types and Trends (CNP, POS, Account Takeover)
- Travel and Merchant Strategies
- Rule development - Custom to your market
- False Positive Rates - Customer impacts, Reporting

Credit

- Underwriting guidelines
- Approval rates
- Standard and Preapproval strategies
- Credit Line Increase / Credit Line Decrease
- Fraud Applications/KYC/AML
- Loss Trending and Forecasting

Finance / IT

- Daily settlement
- Nightly payments process
- Annual budgeting
- Ongoing Reporting
- Performance Forecasting
- Data Gathering and Rollup
- Website/Mobile integration
- File transmission – data integrity

Collections – Vendor / Internal

Vendor Management – FFIEC, SSAE16, Third Party Risk

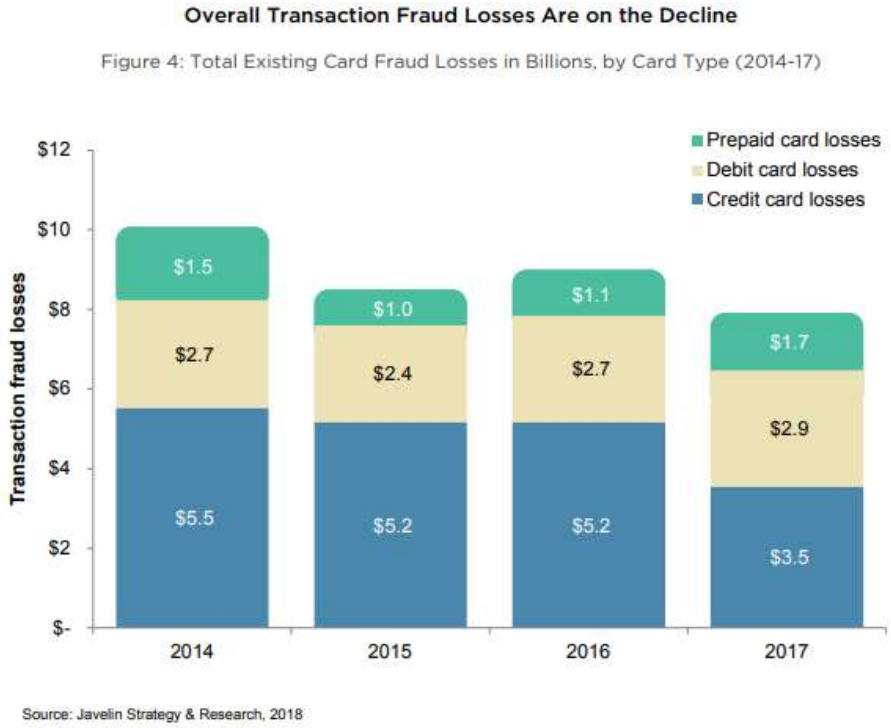
Compliance – Reg E, Reg Z, Card Act

What % of time is spent on these functions?

Functional Role	% of Time	Attendee Average	Cornerstone Recommendation
Marketing / Sales Performance			40%
Operations			15%
Collections			5%
Vendor Management			5%
Compliance			5%
Finance & IT			10%
Fraud and Disputes			10%
Credit			10%
Total Time Payments Leader	100%	100%	100%

Fraud Trends

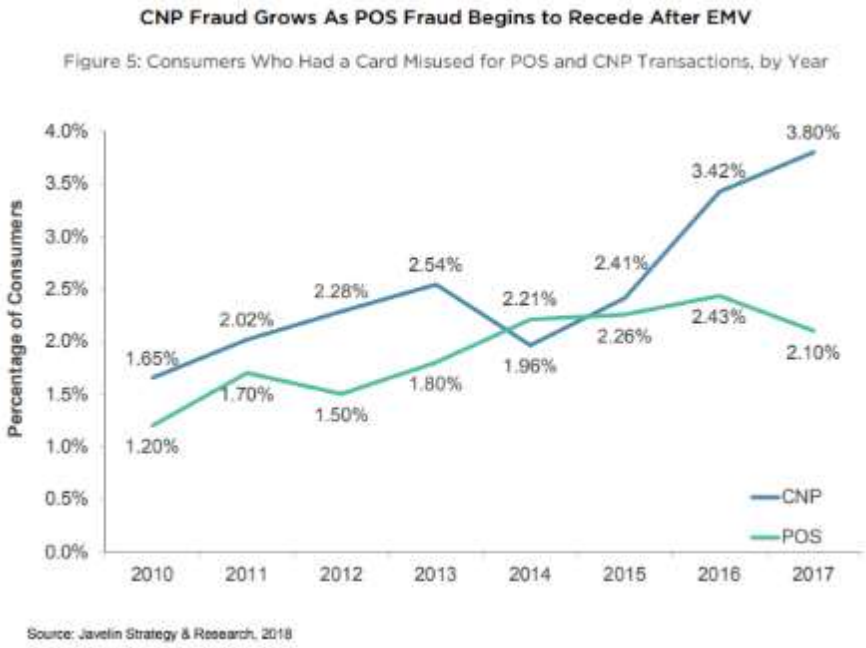
Fraud Performance



Fraud Trends

- Card not present application fraud and account takeover are growing fraud and credit risks
- In additional to account takeover and ID theft synthetic IDs are projected to grow 32% over the next 2 years

Card Not Present Fraud

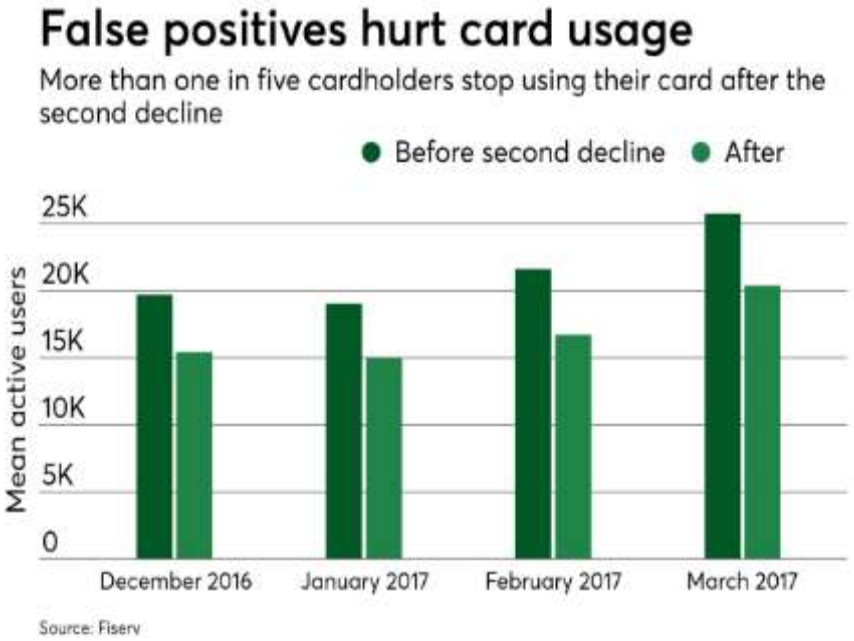


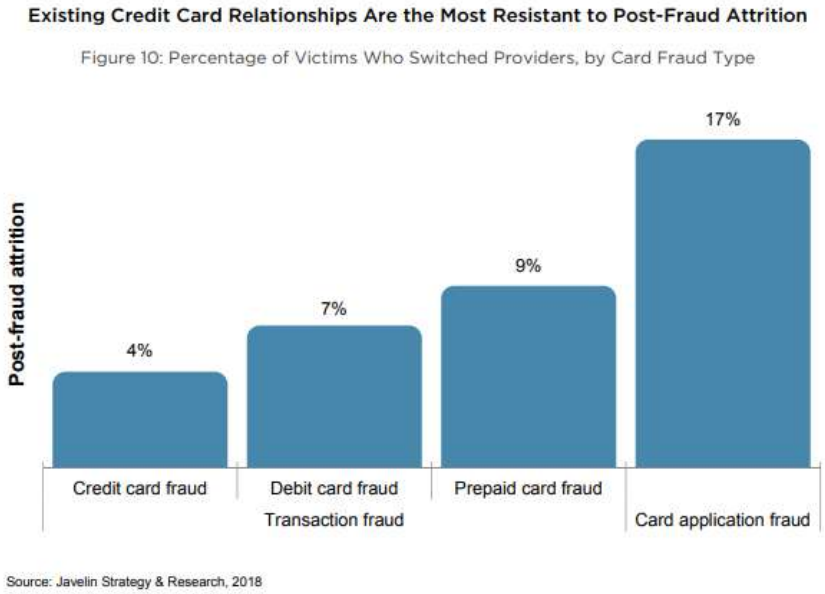
CNP Losses 2015	Percent of total
Dual-Message ("signature" Transactions")	100%
- Merchant losses	70%
- Cardholder losses	3%
- Issuer losses	27%
Single-Message ("PIN" Transactions)	100%
- Merchant losses	32%
- Cardholder losses	0%
- Issuer losses	67%

- CNP is growing much faster than in person fraud and is projected to reach $130B by 2023
- Single message card not present transactions have a much bigger impact to issuers based on chargeback rule gaps between signature and PIN networks

https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2015.pdf

Fraud Management Is All About Balance





- 20% drop in card usage after second decline at time of authorization
- Javelin indicates about $118B in transactions wrongly declined compared to $9B in actual fraud

Strategic Payments Plan

Payments Game Plan

- **Assessment**
  Where are you now, relative to market?
- **Strategy**
  What's your game plan for improving?

ASSESSMENT	STRATEGY
• Data Gathering	• Payment Strategy
• Product Management	• Marketing Plan
• Competitive Landscape	• Payments Roadmap
• Product Assessments	• Payments Performance

Managing Debit KPIs

The KPIs for debit are Penetration Activation and Usage (PAU)

Debit Key Metrics	July -June 17	Trend	July -June 18
Checking Accounts/Branch	0		0
Penetration Rate	0%		0%
% Active	0%		0%
Sig Interchange per Sig Transaction	$0.00		$0.00
PIN Interchange per PIN Transaction	$0.00		$0.00
Sig Interchange % per Sig Transaction	0.00%		0.00%
PIN Interchange % per PIN Transaction	0.00%		0.00%
Sig Interchange per Active Debit Card/yr	$0.00		$0.00
PIN Interchange per Active Debit Card/yr	$0.00		$0.00
Total Interchange per Active Debit Card/yr	$0.00		$0.00
% of Debit Txns That Are Sig Based	0%		0%
Avg Spend per Sig Transaction	$0.00		$0.00
Avg Spend per PIN Transaction	$0.00		$0.00
Avg Spend per Transaction	$0.00		$0.00
Avg Sig Transactions per Active Card/mo	0.00		0.00
Avg PIN Transactions per Active Card/mo	0.00		0.00
Avg Transactions per Active Card/mo	0.00		0.00

Managing Credit KPIs

The KPIs for Credit include PAU as well as Risk Adjust Interest Margin

	July -June 17	Trend	July -June 18
Total % Active	0%		0%
Average Spend per Transaction	$0.00		$0.00
Average Transaction per Active Account/mo	0.00		0.00
Balance/Active Account	$0		$0
Interchange Rate	0.00%		0.00%
Interchange per Transaction	$0.00		$0.00
Interchange per Active Account/yr	$0.00		$0.00
Application Approval Rate	0%		0%
Applications	0		0
Net Chargeoff	0%		0%
Net Chargeoff Rate (Ending)	0.00%		0.00%
Effective Interest Rate (Net COF)	0%		0%
Loss Rate (Fraud and Credit)	0.00%		0.00%
Risk Adjusted Interest Margin	0%		0%

Product Assessment Example – Retail Checking

Market Analysis

- Low rates have cooled balance-related deposit competition but this is very likely to change
- Durbin and further OD regulations could pose strong threats to checking profitability
- Consumers have shifted delivery channels but the majority of checking account opening is still branch based.
- Large banks and FinTechs are winning the digital account opening battle vs. credit unions

Performance Analysis

- Strong checking growth, but tempered profitability
- Strong % of "unengaged" checking members
- Historical relationship packages are deposit and loan balance based.
- Solid loan and credit card cross sell within checking base but still low overall member penetration rates

Competitive Analysis

- Large banks have rolled back free checking and firing the unprofitable
  - Reactive "hard" fees coming in quickly
- Some large players are paying high $ rewards to open accounts
- High sensitivity to consumer fee increases
- Non-branch players not yet impacting share but could as rates rise
- FI's are looking for ways to fix the unprofitable
- Many "gimmicks" being used to sell value of checking relationships but most are not successful.

Product Assessment - Debit

Market Analysis

- Bullet 1

Performance Analysis

- Bullet 1

Competitive Analysis

- Bullet 1

Product Assessment - Credit

Market Analysis

- Bullet 1

Performance Analysis

- Bullet 1

Competitive Analysis

- Bullet 1

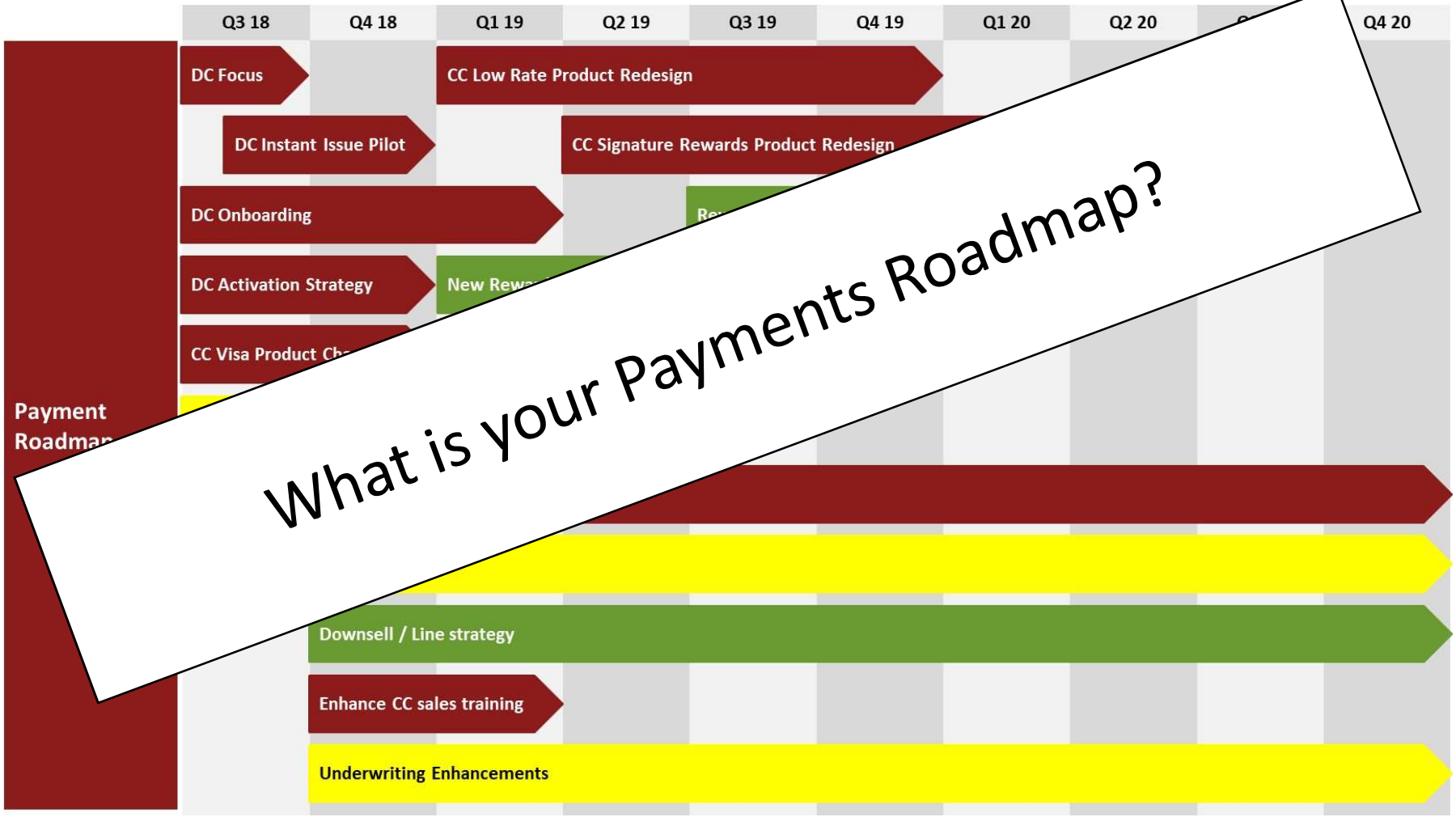
Recommendation 1

Recommendation 2

Recommendation 3

Payments Marketing Calendar

Payment Roadmap



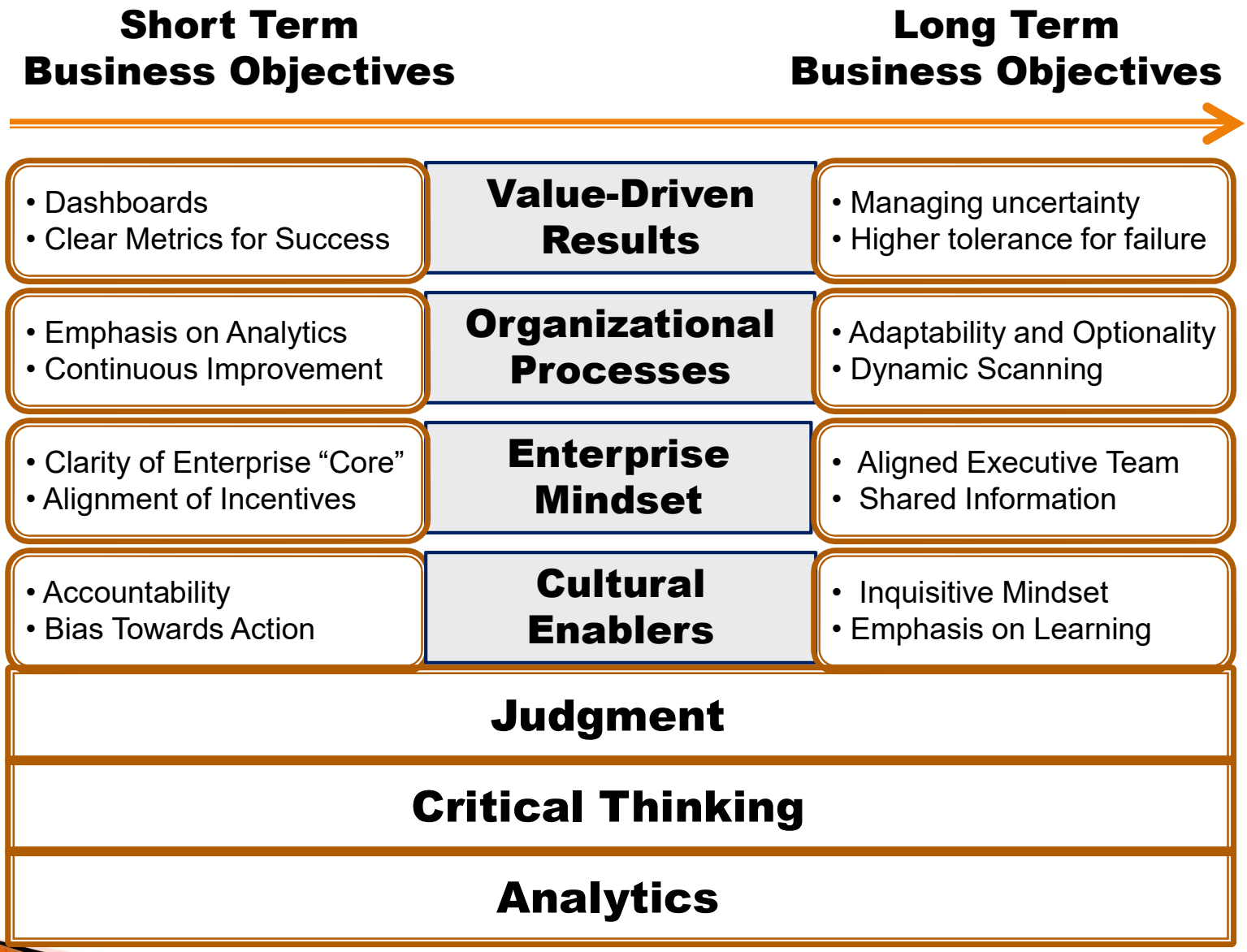
Identifying Weak Signals: Building Adaptability into Decisions

Kathy Pearson, PhD
kpearson@ELSLearning.com
Enterprise Learning Solutions

Connect on LinkedIn:
Kathy Pearson, Executive Development and Design

Achieving Positive Strategic Results

OUTCOMES


Short Term
Business Objectives
Long Term
Business Objectives
• Dashboards
• Clear Metrics for Success
Value-Driven Results
• Managing uncertainty
• Higher tolerance for failure
• Emphasis on Analytics
• Continuous Improvement
Organizational Processes
• Adaptability and Optionality
• Dynamic Scanning
• Clarity of Enterprise "Core"
• Alignment of Incentives
Enterprise Mindset
• Aligned Executive Team
• Shared Information
• Accountability
• Bias Towards Action
Cultural Enablers
• Inquisitive Mindset
• Emphasis on Learning
Judgment
Critical Thinking
Analytics

Best Practices in Strategic Agility

Clarity of Intent

Organizational Experiential Frame

PRODUCTIVE PARANOIA!

Prospect Theory: Insurance Professionals

You are a marine property adjuster charged with minimizing the loss of cargo on three insured barges that sank yesterday off the coast of Alaska. Each barge holds $200,000 worth of cargo, which will be lost if not salvaged within 72 hours. The owner of a local marine-salvage company gives you two options, both of which will cost the same.

- Plan A: This plan will save the cargo of one of the three barges, worth $200,000.
- Plan B: This plan has a one-third probability of saving the cargo on all three barges, worth $600,000, but has a two-thirds probability of saving nothing.

"The Hidden Traps in Decision Making", *Harvard Business Review*, John S. Hammond, Ralph L. Keeney, Howard Raiffa, January 2006.

Prospect Theory: Insurance Professionals

You are a marine property adjuster charged with minimizing the loss of cargo on three insured barges that sank yesterday off the coast of Alaska. Each barge holds $200,000 worth of cargo, which will be lost if not salvaged within 72 hours. The owner of a local marine-salvage company gives you two options, both of which will cost the same.

- Plan A: This plan will result in the loss of two of the three cargos, worth $400,000.
- Plan B: This plan has a two-thirds probability of resulting in the loss of all three cargos and the entire $600,000, but has a one-third probability of losing no cargo.

"The Hidden Traps in Decision Making", *Harvard Business Review*, John S. Hammond, Ralph L. Keeney, Howard Raiffa, January 2006.

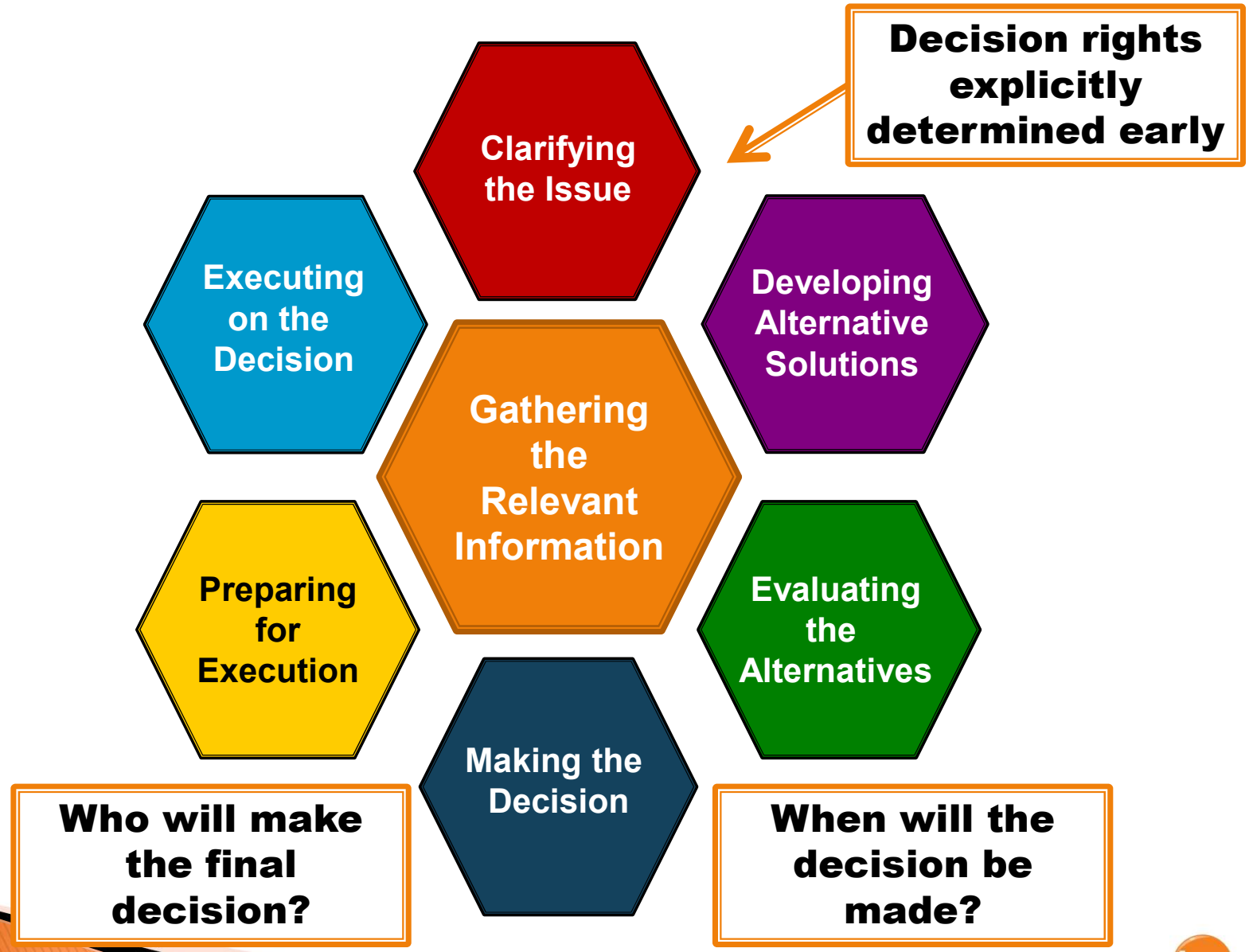
"Selective Information Processing": The Confirmation Bias

- We tend to concentrate on information or "select" data that supports our pre-conceived beliefs – the confirmation bias.
- With more complex situations, the confirmation bias becomes even stronger.
- In situations with information "overload", the confirmation bias becomes even stronger.

When Seeking Convergence:

- Define “consensus”.
- Surface the divergent views first.
- Find a “common language”.
- Ensure the group size is manageable.
- Beware the influencers!
  - Position of power
  - Subject matter expert
  - Strength of personality
  - Majority
  - Time

Decision Rights



Barriers to Agility

- Ensure **clarity of intent.**
- Promote **productive paranoia** by seeking **diversity of thought.**
- Ignore “We’ve always done it this way!” by **creating a sense of urgency.**
- Seek a **devil’s advocate**.
- Establish **clear decision rights.**

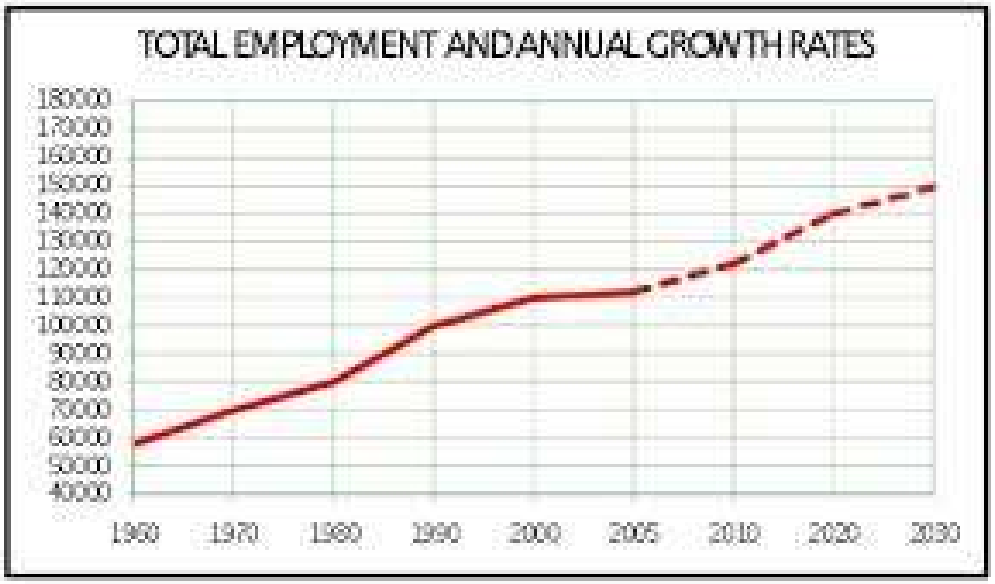
Three Steps to Strategic Agility

Three Actions for Strategic Agility

- Identify the key uncertainties:
  - Plan for the key trends
  - Manage the key uncertainties
- Track the key uncertainties:
  - “Trendspotting”
  - “Sense-making”
- Take action around the key uncertainties:
  - Conduct rapid experiments
  - Make small bets
  - Build adaptability and flexibility

Trends and Uncertainties

A **trend** is a future force in which the outcome is very predictable - a *known known* or a *"predictable"*



Trends and Uncertainties

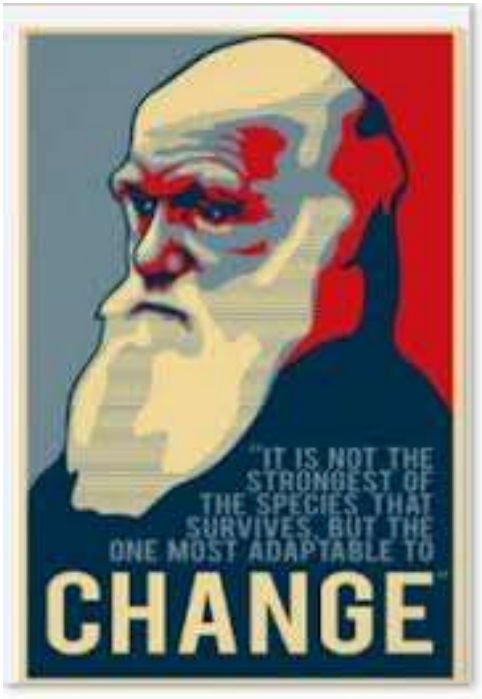
An **uncertainty** is a future force in which the outcome is unknown

Black Swan

Unknown Unknown

Known Unknown

Manage with Adaptability



Future Forces Worksheet

Key Trends	Key Uncertainties

Sources of the Early Indicators

- Various markets or countries
- Adjacent industries
- Headlines in leading business and / or tech journals
- Employees that interact closely with the external environment
- Formal process embedded in the organization

VIGILANCE

Testing the Initiatives

Initiative	U1	U2	U3	U4	U5	U6
Initiative 1						
Initiative 2						
Initiative 3						
Initiative 4						
Initiative 5						
Initiative 6						

= **Vulnerable to the uncertainty**

= **Invulnerable to the uncertainty**

An Agile Culture

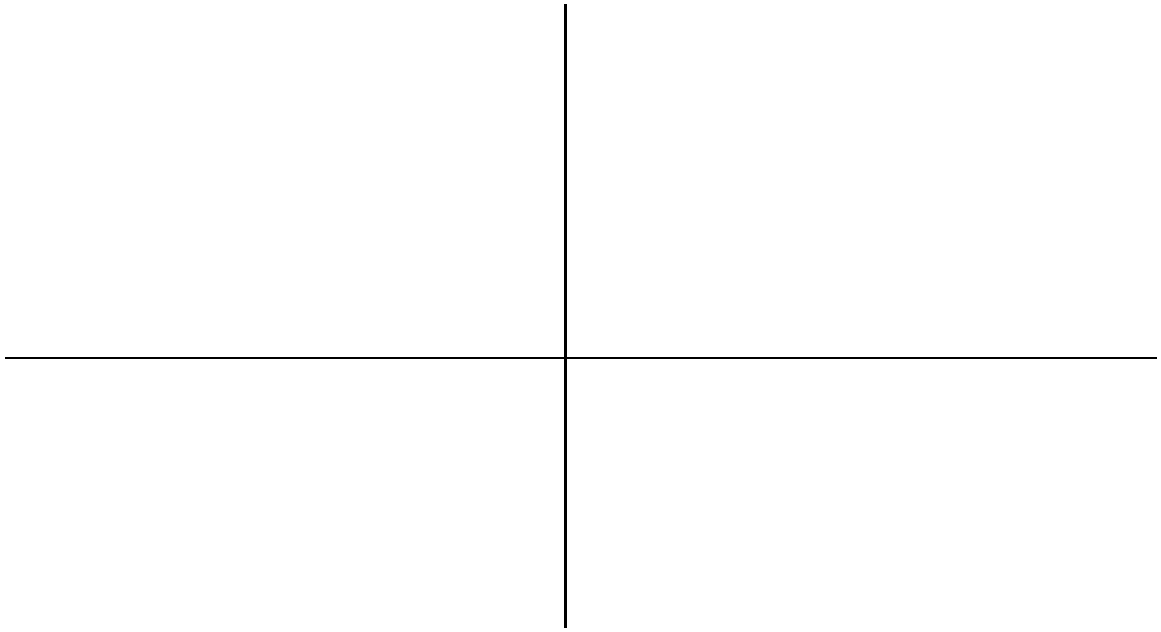
Is the Person Willing to Challenge Directly and Speak Candidly?

No **Yes**

Does the Person Care Personally?

Yes

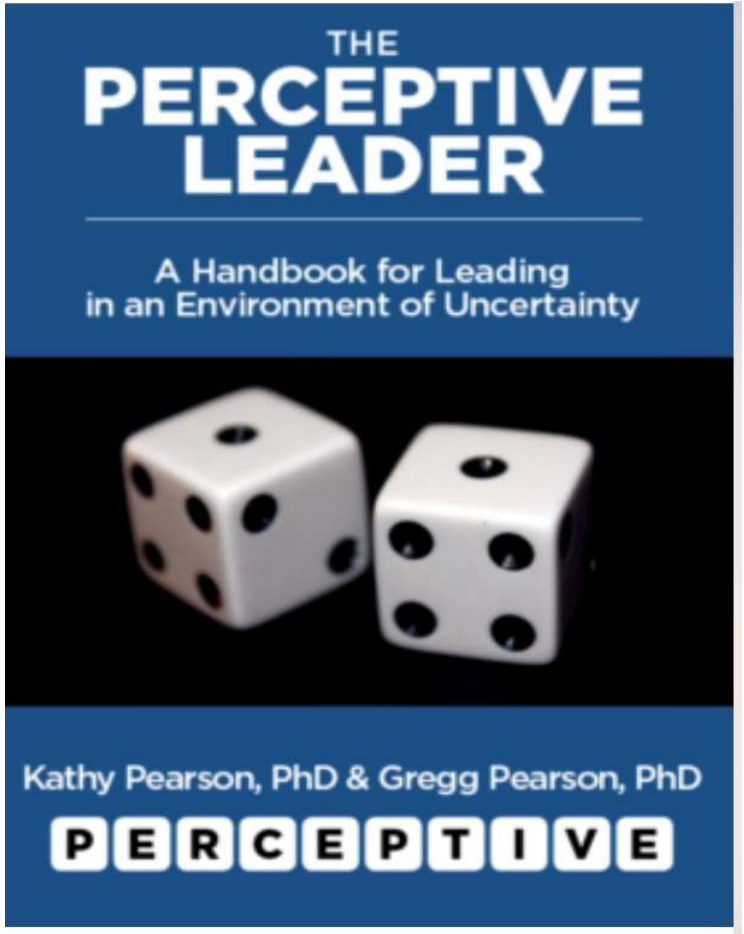
No



From Kim Scott

PERCEPTIVE LEADERSHIP

P	Purpose	Commander's Intent
E	Experiential Frames	Diversity of Thought
R	Range of Alternatives	Overconfidence Bias
C	Contrary Views	Devil's Advocate
E	External Landscape	Known Knowns and Known Unknowns
P	Productive Paranoia	Organizational Mental Model
T	Trust	Radical Candor
I	Internal Conditions	Culture of Agility
V	Vigilance	Weak Signals
E	Experimentation	Test and Learn


THE
PERCEPTIVE
LEADER
A Handbook for Leading
in an Environment of Uncertainty
Kathy Pearson, PhD & Gregg Pearson, PhD
PERCEPTIVE