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Lauren Burke/Taxi

RELATIONSHIP REWARDS

LOYALTY PROGRAMS THAT SPAN THE BANK

MasterCard's new multiple-account platform means that customers can rack up points based on their entire banking relationship—and they can even customize their own prizes

BY GLEN FEST

MASTERCARD WORLDWIDE plans to go live in May with a new loyalty program for banks that will encourage customers to do more with their cards—and do more with the bank in general.

Banks using the MasterCard platform will be able to hand out bonus points to customers based on the use of multiple banking products. The rollout shows how rewards programs are evolving beyond the free-toaster gimmick and fostering a long-term link-up. It also signals that loyalty program administration is overcoming some technical complexities that have made multi-account rewards programs difficult to introduce.

Financial services companies are planning to make significant commitments to administer and fund all types of rewards programs over the next three years. Aite Group predicts bank spending will grow to \$18.4 billion by 2010, a 15 percent annual clip. That's actually a slower pace than earlier this decade, when costs for redemptions and management of rewards programs rose 27 percent a year from 2000 to 2005.

Interest in MasterCard's rewards program has surged since the company announced the program for financial institutions last fall, particularly smaller banks

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that normally eschew rewards because of low card volume, according to Mark Shipley, global practice leader for Loyalty Solution Worldwide for MasterCard Advisors, the professional services consulting group at MasterCard.

Besides rewarding the full scope of relationships a customer has with the bank, such as checking, savings, loan applications, money markets, etc., the MasterCard program also lets institutions customize the prizes, as well. "It's really whatever the financial institution wants to put forth as an offering," says Shipley.

The end-game is the same as in the card space: get customers invested in the relationship. The stickiness factor is well documented. According to a recent study of the loyalty industry by Aite Group, an internal Capital One study found four times as many reward card customers are retained compared to those who join for low-teaser rates.

Look for more banks to adopt the programs as card companies and third-party rewards administrators clear the path across banking silos and business lines. "I think more and more banks are emulating what Citi is doing," with its "Thank You Rewards" program, says Aite Group Research Director Gwenn Bezard.

Citigroup is one of only three major

institutions, along with Banco Popular and National Cit, that currently provide multi-account rewards, according to Bezard's recent report on loyalty programs. Between the three institutions, there are just over 2.5 million active users.

Banks are further encouraged to jump into the multiple-account rewards program thanks to competitive pressure from retail companies, which are competing for consumers. Aite reports 85 percent of all households participate in some form of loyalty relationship program, including merchant-based systems.

The infancy of multiple-account rewards gives banks few templates to follow when trying to establish the use-and-redemption equation. Indeed, handing out points is becoming a fine science. According to Shipley, a standard card-based ROI model dictates profitable customers will achieve a tangible award in four to six months—whereas customer in the bottom 20 percentile of profitability won't qualify for an award for 12 to 18 months.

Nat City's program, "Points from National City," offers credits for "everyday banking," says svp and program manager Tammy McIntosh. That includes debit or credit card usage, checks, direct deposits, direct debit, new accounts, online banking,

line of credit purchases, linking accounts, and more.

One key strategy is to promote family banking so households can team up on points. "One of our biggest advantages is we allow the small business customer to combine the small business accounts along with the personal accounts," says McIntosh. "The small business customer has responded well to that."

Banco Popular was the first of the above banks to enter the field, having launched its PREMIA service in 2002, which allows point accumulation for purchases, accounts, loans and the use of electronic services.

Along with the rise of multiple-account rewards programs is a trend toward client customization of rewards, which is proving quite popular. Hot-air balloon rides, wine-tasting, and hot-rod test drives are among the more exotic choices. Highly practical customers have even customized their points to pay for a daughter's wedding and, in the case of one fireman, a "Resuscitation Annie" mannequin for a CPR class, says Shipley.

Together, banks' ability to offer multiple-account rewards programs, and the clients' ability customize those rewards, look likely to transform the rewards space in the years to come. ■