

Credit Cards in the UK

Customer Characteristics

Type

One of the worlds largest banks.

Portfolio

4.6 million
credit card accounts

Engagement Objectives

- Increase revenue following another consulting engagement.
- Identify opportunities that were appropriate for the market and in compliance with emerging regulations.
- Implement strategies with minimal negative customer reaction.
- Minimize impact on transaction volumes and attrition rates.
- Easy implementation.

ENGAGEMENT PROCESS

Data Request

Two weeks prior to the start of the engagement, PROFIT INSIGHT® submitted a data request to the client for the following information:

- Copies of marketing material, disclosures and price lists
- Statistical data for the prior 12 months including number of accounts, balances and transaction volumes.
- Detailed financial data for the prior 12 months including fee income by type and net interest income.
- A data extract of 30,000 randomly selected accounts with various data including balances, interest charged and paid, fees assessed and transaction volumes.
- The data was available to the PROFIT INSIGHT® engagement team on the engagement start date.

Kickoff Meeting

A “Kickoff” meeting was held on the first day of the engagement. PROFIT INSIGHT® explained the purpose of the engagement to key members of the client team, including the business unit head, product managers and other stakeholders in operations, systems, finance, risk and legal. During the meeting, an overview of the engagement process was presented.

Interviews

After the Kickoff meeting, interviews were scheduled with key client stakeholders during the first week. The interviews focused on the market, client strategies and hot buttons, product positions and the inter-workings of the business.

Operational Tours

Tours were also scheduled for certain operational areas including payment processing, statement rendering, card production and issuance, customer service (listening to customer inquiry calls) and exception processing areas (overdrafts, returned payment processing, rejected transactions etc).

In many cases, PROFIT INSIGHT® analysts would simply observe certain operational functions, asking some questions with minimal disruption.

Data Analysis

The data requested two weeks earlier was provided to PROFIT INSIGHT® on the first day of the engagement. Over the next several days the PROFIT INSIGHT® analysts reviewed the data:

- Terms and Conditions, price lists and marketing material were reviewed to understand product and pricing structure. A spreadsheet was created summarising product features, pricing and any other assessment rules or exclusions.
- Volumes were reviewed and a statistical database created.
- Another table was created summarising revenue by fee type and interest category.
- Key ratios were calculated, such as average balances, fee income per account, etc.

Benchmarking

Once the data was summarised the benchmarking process started. This took two forms:

1. Statistical Benchmarking. PROFIT INSIGHT® maintains a database of statistical data for all previous engagements. The analysts compare the current client's data with prior clients to identify potential areas for further analysis.
2. Competitive Analysis. PROFIT INSIGHT® will "shop" the competition to obtain their price lists, terms and conditions.

Auditing

PROFIT INSIGHT® performs its own independent discovery or detailed audit to validate internal operations. The audit includes transactions, calculations, parameters, procedures and processes, exception handling, fee audits and a checklist review.

By following the analytical methodologies outlined above, an experienced PROFIT INSIGHT® analyst readily identifies opportunities. Additionally, analysts identified additional ideas by comparing the customers operations to the PROFIT INSIGHT® checklist of over 900 "Best Practices".

Opportunity Identification & Review

Through the above analysis, PROFIT INSIGHT® identified over 20 potential ideas to increase revenue. Some of the ideas were being applied by competitors in the market. Others were new to the market, but not overtly apparent. PROFIT INSIGHT® informally and collaboratively reviewed a summary of the ideas with the engagement sponsor and product managers.

The discussion focused on the practical application of the ideas to the bank and the market. The bank team decided to pursue 15 of the ideas. Three ideas were deemed not viable due to market conditions and two other ideas were already being implemented by the bank. PROFIT INSIGHT® asked for more details on the latter two ideas and readily determined there was an opportunity for further optimization.

Additional Data Sourcing and Analysis

Following the review, the team developed detail benefit calculations, reviewed the ideas with other stakeholders in the bank, determined implementation issues and assessed customer impacts. During this three week process, PROFIT INSIGHT® developed a formal presentation and a business case for each idea. Additional data was sourced for each idea to further quantify the benefits from alternative implementation methods.

- An extract of 30,000 accounts was then used to assess the impacts on individual accounts to determine potential negative customer reaction. In the vast majority of situations it was determined that customer impact was small and likely not apparent.
- To assess implementation issues, the ideas were reviewed with other areas: Legal/ Compliance, Operations, IT, Risk and Sales/ marketing.

Formal Presentation

During the 6th week of the engagement, PROFIT INSIGHT® conducted a formal presentation to the Business Unit Profitability Committee during which each idea was discussed in detail. Because PROFIT INSIGHT® had previously reviewed the ideas with all members of the committee during the previous 3 weeks, most major questions or issues

were satisfied. As a result, the meeting focused on specific aspects of the strategies including financial objectives, customer impact, risk implication, legal/ compliance issues and implementation planning. As a result, 6 ideas were approved at the meeting. In the following months, 4 more ideas were approved.

Post Engagement

After the presentation, PROFIT INSIGHT® worked with the bank to develop:

- Implementation plans addressing systems issues and required disclosure modifications.
- Tracking methods to measure the benefits of the individual ideas.
 - For certain fees with detailed and consistent histories, the benefits were readily visible by measuring on a base line.
 - In some cases, the development of monthly reports was necessary. Using the data warehouse, these reports identified customers - assessed a certain fee or finance charge - with specific activities.
- A control group was developed for some of the strategies. This group of accounts remained on the old terms and conditions. This control made it possible to compare the performance of accounts with the new strategies and those with the original parameters.

PROFIT INSIGHT® remained in regular contact with the client.

- During the implementation phase, conference calls were held weekly.
- After implementation, calls were held monthly to track benefits and plan future implementations.
- Eight months after the engagement, a meeting was held at the bank to review benefits and discuss pending ideas. As a result of regulatory changes in the BIS White Paper, an idea previously discarded became feasible. After some discussion, it was agreed to move forward with implementation.
- A year after the original engagement, PROFIT INSIGHT® developed a new idea and presented it to the bank for consideration. After a week of PROFIT INSIGHT® on-site analysis, the bank decided to implement that idea too.



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