



Visa Consulting & Analytics (VCA)

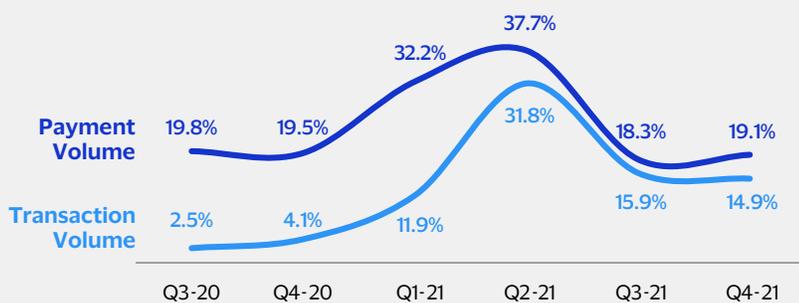
# Leading with debit

Three imperatives to drive debit value proposition,  
customer acquisition and engagement



With the shift from cash to card, driven by changing consumer preferences, the use of debit products is continuing to escalate – and this is especially true across the digital landscape, where purchase volumes have moved significantly.

Visa Consumer Debit YOY Growth



Source: Visa Consumer Debit transactions.

While the checking/current account is the cornerstone product of the financial institution, debit products are the access point to this cornerstone. In market today, innovation is driving a proliferation of debit value propositions. The goal: attracting customers early to open checking/current accounts.<sup>1</sup>

In this paper, Visa Consulting & Analytics (VCA) investigates the latest ways in which banks and fintechs are using debit products to acquire new customers or deepen relationships with existing customers. Whether through new features, improved digital experiences, or clearer go-to-market planning, financial institutions should be thinking strategically about their debit products.

<sup>1</sup> During Q4 2021, consumer debit spend and transactions grew 19 percent and 15 percent year-over-year, respectively. Source: VisaNet



In recent years, **four key trends** have shaped the debit card landscape:<sup>2</sup>

1.

### Reduced use of cash and increased digital spend

Hygiene has been a key factor in driving debit adoption, with features that minimize proximity, such as contactless, accelerating during the pandemic.

2.

### The preferred payment method for new flows

Several new flows, such as economic stimulus payments on pre-paid debit cards (G2C), early-pay wages (B2B), and gig economy payments (B2C), are all driving adoption of debit cards.

3.

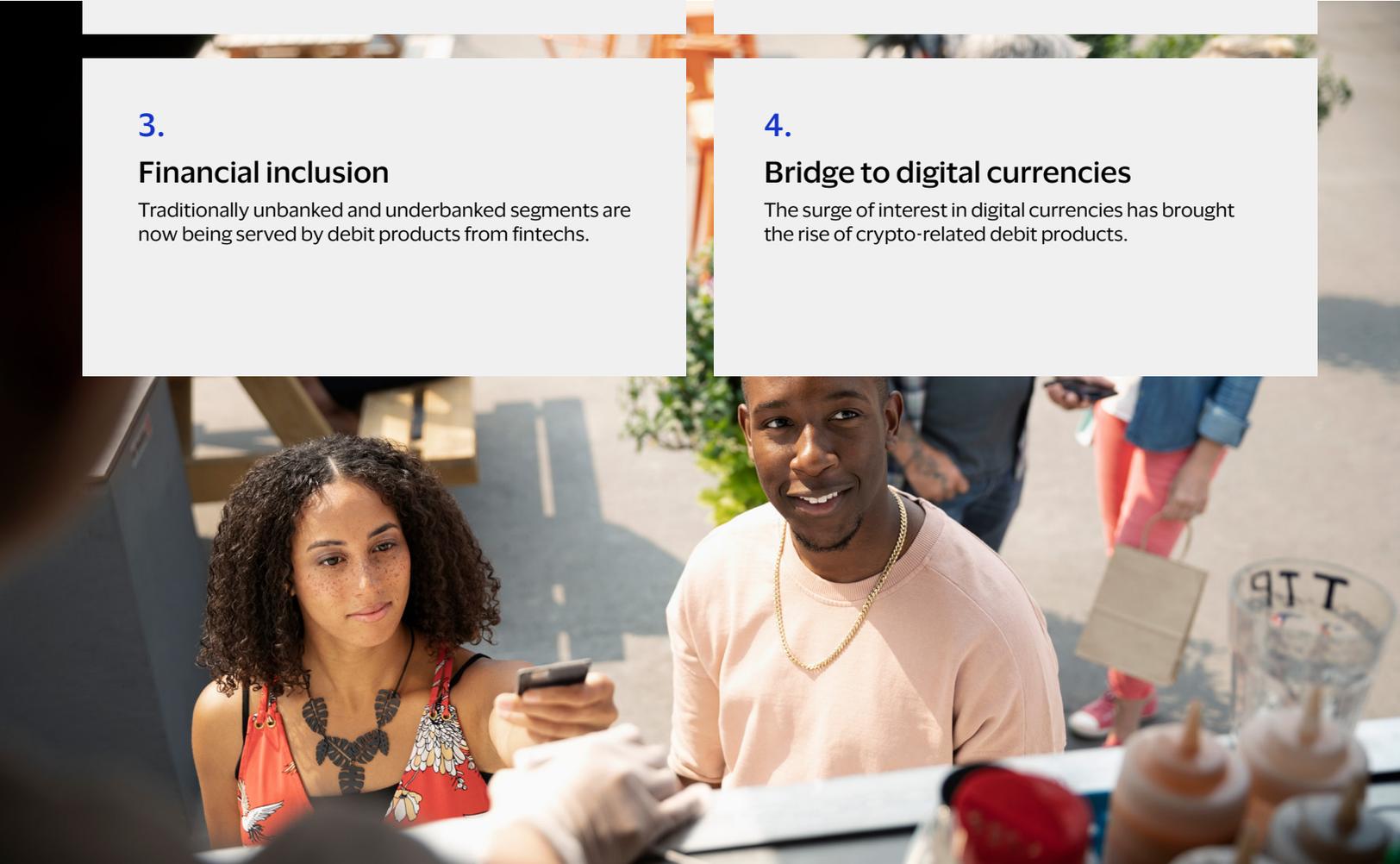
### Financial inclusion

Traditionally unbanked and underbanked segments are now being served by debit products from fintechs.

4.

### Bridge to digital currencies

The surge of interest in digital currencies has brought the rise of crypto-related debit products.



<sup>2</sup> Based on Visa Analysis



These trends are putting pressure on traditional financial institutions to innovate their debit products quickly. To grow and retain their debit customers, financial institutions should focus their attention around three imperatives:

## 1. Invest in innovative product features and experiences

It is key for both financial institutions and fintechs to keep pace with innovation in their product offerings. The core features that are built, adapted, and offered have evolved throughout the pandemic due to changing preferences. Examples of relevant offerings seen in the market today include **budgeting**, **loyalty**, and **travel benefits**.



### Budgeting and money management

**Early pay** is a trending innovation that allows customers to access their funds earlier once they set-up direct deposit. For consumers, this feature enables better control of budgeting, and, for the bank, it increases stickiness and loyalty by establishing a recurring deposit.

**Virtual disposable card** is a competitive product feature that not only brings increased security in payments, but also allows customers to better control the amounts paid out of their account. For example, customers can order multiple virtual cards at a time, and set an amount and type of online expense for each one. According to a Juniper Research report completed in 2021, the global transaction value of virtual cards is set to more than triple within the next five years<sup>1</sup>.

**Overdraft protection** has received a great deal of recent coverage and fanfare. While many institutions are holding firm on overdraft fees, or cutting them only slightly, some major financial institutions have said they intend to eliminate or limit overdraft-related fees.<sup>2</sup> Other financial institutions are offering perks to improve customer experience such as increasing overdraft protection on debit card purchases and cash withdrawals, with no overdraft fees. Others allow customers to set-up qualifying direct deposits to automatically be eligible for overdraft coverage, applying to the negative balance as soon as funds hit the account. As industry tides move away from overdraft fees and toward protection, financial institutions that rise to meet the need will win loyalty, helping customers save and budget more effectively.

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<sup>2</sup> Based on Visa Analysis



## Stickiness and loyalty

**Direct deposit** is a powerful tool to drive engagement with debit accounts and enhance customer loyalty. Yet, many financial institutions do not leverage direct deposits as a tool to drive engagement. Set up can be onerous and forms are often buried after the onboarding process. Additionally, there is often no incentive offered to customers to switch their direct deposits over. However, there are leading experiences in the market to learn from. Some best practices include the provisioning of downloadable, pre-filled direct deposit forms or micro-offers/rewards to incentivize customers to set-up qualifying direct deposits within a given timeframe from account opening. By taking steps to promote and ease onboarding, financial institutions of all sizes can capture direct deposits through product experiences and drive incremental debit engagement.

**Referrals** are a great way to engage existing customers, drive loyalty among them, and enlist their support for advocacy and lead generation. Indeed, Annex Cloud, a loyalty platform solution provider, found that 92 percent of customers trust referrals from people they know, with referral leads having a 30 percent higher conversion rate than leads from any other channel.<sup>3</sup> Rewarding customers for referrals can therefore be incredibly valuable as it helps to spread the word of the brand in a positive way and builds a network of new clients.

Recently, several innovative referral programs have emerged from both established financial institutions and fintechs. An effective technique is to use personalized links, enabling both the referrers and referees to earn a reward amount once a newly issued debit card has been used to spend a certain amount. For example, Revolut shares its program through a personalized link, but the reward is not advertised because it changes over time.<sup>4</sup> Instead, the referral reward is used as an acquisition lever and raised or lowered based on demand. There are many ways to craft a successful referral program, and evidence shows that it is a key vector to win new customers and strengthen relationships with existing ones.



## Travel benefits

Traditionally, reward and benefit programs have been associated most closely with credit cards. However, as reported in a recent Payments Journal article, 33 percent of debit users state they are more motivated to use their debit card when they receive rewards.<sup>5</sup> As financial institutions are looking to innovate in rewards spend; interesting examples focus on travel benefits such as: offering spend in 140 currencies at market rates for all accounts, overseas medical insurance, and lounge access.

There is also a significant opportunity to build awareness and promote usage of distinctive debit product features based on deeper insights generated from advanced analytics. For example, budgeting guidance alerts based on historical overspend behavior, or travel benefit reminders based on recent air ticket purchases, are two use cases where advanced analytics meets product features and user experience.

<sup>3</sup> Annex Cloud, 42 Referral Marketing Statistics that Will Make You Want to Start a RAF Program Tomorrow, <https://www.annexcloud.com/blog/42-referral-marketing-statistics-that-will-make-you-want-to-start-a-raf-program-tomorrow/>

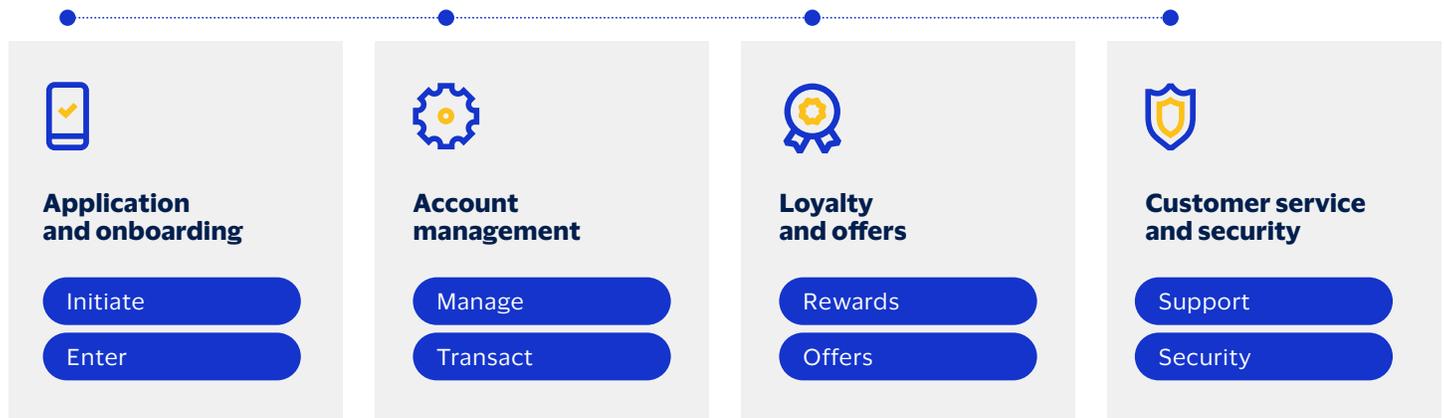
<sup>4</sup> Based on Visa Analysis

<sup>5</sup> Payments Journal, The Data Around Trends in Debit Card Rewards, Feb. 19, 2021, <https://www.paymentsjournal.com/the-data-around-trends-in-debit-card-rewards/>



## 2. Enable a digital-first experience

Experience innovation could be applied across the customer’s debit lifecycle journey to reduce pain points and incentivize activation and usage.



### Application and onboarding

Innovation to streamline application and onboarding experience is critical for debit growth. The Digital Banking Report, State of the Digital Customer Journey, found that if any mobile application takes longer than five minutes to complete, up to 40 percent of account openings can be abandoned.<sup>6</sup>

**Application pre-fill** is a differentiating tool that financial institutions could implement to streamline the application journey. Best-in-class players enable customers to access a pre-filled application by merely inputting the last four digits of their government issued ID. Prove, a rising fintech, reported that one of its financial institution clients had experienced a 15 to percent increase in sign-ups, reduction in onboarding keystrokes by 80 to percent, and up to \$200 million increase in annual revenue by pre-filling identity data based on phone intelligence.<sup>7</sup> Then, once an application is approved, financial institutions could look at new initiatives to increase card activation rates and boost payment volumes. For example, financial institutions could facilitate **card activation** through ‘tap to mobile’ functionality, where customers are prompted to hold their new card against their mobile device to activate in-app.

A more common activation feature is to enable the reading of a card’s personalized QR code or taking a photo of the physical card with the phone camera for instant activation, both of which reduce the need for call centers. In addition, **gamification** of the **onboarding experience** is a trend that helps financial institutions boost activation and engagement. Customers can earn points by performing various account activities, including logging into the mobile app, activating the debit card, using the debit card, enrolling in offered programs, watching videos and tutorials and more. By gamifying their onboarding process, BBVA, a leading bank in Spain, was able to acquire more than 100,000 new customers and increased satisfaction rates by 18 percent in only six months.<sup>8</sup>

<sup>6</sup> The Financial Brand, “How Financial Institutions Can Double (or Triple) New Business”, April 3, 2021, <https://thefinancialbrand.com/112423/digital-banking-account-opening-sales-growth/>

<sup>7</sup> Prove.com, “How to Stop Digital Banking Application Abandonment”, March 1, 2021, <https://www.prove.com/blog/how-to-stop-digital-banking-application-abandonment>

<sup>8</sup> Strive Cloud, “How better experiences will be the most powerful move for banks”, <https://strivecloud.io/blog/app-gamification/app-engagement-banking/>





## Account management

Consumers are increasingly using their smartphone as a main payment channel.<sup>9</sup> To gain a competitive edge, financial institutions can respond to the mass appeal of mobile wallets and provide cardholders with **same day digital card issuance** and instant provisioning to mobile wallets, thereby enabling transactions to be made before the physical card is even issued.

Meanwhile, in terms of money management, financial institutions can help their customers manage their finances through personal financial management tools. The option to integrate multiple bank accounts and debit cards, and track all transactions through a single interface, is the type of feature that is increasingly offered by fintechs, and traditional financial institutions. In fact, a survey from Citibank revealed that 79 percent of customers prefer to use a single app to manage finances instead of several apps.<sup>10</sup>



## Rewards and offers

Re-iterating the increased importance in reward offerings for debit products, financial institutions could offer **alternative ways to redeem rewards** within their digital experience (for example, by using rewards towards loan balances or investing the points in stocks and cryptocurrencies). Additionally, providing access to rewards through the automated activation of merchant-funded offers is a differentiating feature that several financial institutions have introduced. Also, analytics based on past spend and redemption behavior could be used to build highly **personalized redemption recommendations** and to construct marketing campaigns for cross-sell and up-sell opportunities.



## Customer service and security

There are several new customer service innovations that can help reduce customer pain points and boost early engagement. Examples include displaying the estimated wait time and call-back options in app, along with a broader range of self-service features like educational and informative videos.

<sup>9</sup> FIS Global, Three primary factors to adopt digital issuance, <https://www.fisglobal.com/-/media/fisglobal/files/PDF/infographic/debit-digital-issuance-infographic.pdf>

<sup>10</sup> Citi Group, Citibank Announces National Digital Banking to Serve Clients, March 26, 2018, <https://www.citigroup.com/citi/news/2018/180326b.htm>



### 3. Sharpen your go-to-market plan

Over the recent years, debit cards have benefited from notable innovation in go-to-market strategies, ranging from product positioning, to targeting micro-segments, to tapping new revenue streams.



#### Product positioning

Traditionally, financial institutions listed debit cards solely with reference to the checking/current account, which is positioned as the core product to initiate the banking relationship. More recently, the debit card is also positioned as one of primary payment products to attract consumers while still requiring checking/current account opening when applying. With this subtle shift, the debit card can warrant its own unique value proposition messaging, as much of this whitepaper suggests, to drive acquisition and ongoing engagement.



#### Emerging micro-segments

In response to the competitive nature of the payments industry, there is an opportunity to target niche segments with a debit product that fits their unique needs. One of these micro-segments is teenagers, a strategic entry point for what could become a life-long relationship. A debit product with digitally advanced features such as parental controls and real-time notifications addresses concerns of parents who may be hesitant to hand a debit card to their children.<sup>11</sup>

Another segment is recently settled migrants, who face their own unique challenges (like the lack of an identification number that is needed to initiate the financial relationship with a bank). By turning to alternative verification options, such as international government-issued ID with the proof of address, financial institutions can help migrants embark the financial journey.<sup>12</sup>

Financial institutions can leverage advanced analytics to uncover such niche segments within their existing base by examining the spend behavior or other user attributes and validating the potential. Some established financial institutions have recognized the opportunity to address everyday needs of such micro-segments and partnered with fintechs to accelerate the path to market. Prominent examples of a white label strategy for a teen debit offering include the Chase Teen Debit product powered by the Greenlight platform, and the Verizon Family Money service enabled by the Galileo prepaid card solution.<sup>13</sup>

Meanwhile, fintechs are targeting consumers who want to build or improve credit history (such as recent migrants, students, and other niche segments) by adding credit-building capabilities to debit cards, such as the provision of a limited line of credit. Customers stay within their spending limits and their payment of credit line assigned is shared with the credit bureaus to build and improve credit scores.<sup>14</sup>

<sup>11</sup> Finder.com, The best debit cards for kids, June 13, 2022, <https://www.finder.com/debit-cards-for-kids>

<sup>12</sup> Forbes.com, "New Banking Service Offered To Immigrants Without Access To Credit", Dec. 13, 2021, <https://www.forbes.com/sites/andyjemotiuk/2021/12/13/new-banking-service-offered-to-immigrants-without-access-to-credit/?sh=5a8f1db5d43c>

<sup>13</sup> Greenlight.com, <https://www.greenlight.com/debit-card/>

<sup>14</sup> Forbes.com, "Filling Gaps In The Credit Card Market By Putting A Premium On Debit", Oct. 19, 2021, <https://www.forbes.com/sites/forbesbusinesscouncil/2021/10/19/filling-gaps-in-the-credit-card-market-by-putting-a-premium-on-debit/?sh=61f2693f4380>





## Subscriptions and premium plans

Conventional revenue streams for debit cards include interchange revenue and other fees, such as those resulting from the use of overdraft features.

Monthly maintenance or service charges are often waived if customers maintain a minimum daily balance, use debit for purchases a minimum number of times per month, or are students. However, fintechs are repositioning the monthly fee as a paid subscription model with premium features that can help build differentiation and drive a new and steady source of revenue.<sup>15</sup> The subscription features offered are either broader to reflect general consumer needs (such as additional protection benefits, priority customer support, etc.), or tailored for target segments (such as investment options for families with kids, or retirement features for older consumers). Financial institutions can therefore expand their revenue model by taking cues from innovative fee strategies deployed by peers and disruptors in the market.

## Looking forward

As the entry-point into banking services and, therefore, a driver of growth and retention, the debit card warrants attention and innovation – and there is an opportunity to apply it holistically across product, customer experience and go-to-market.

Visa Consulting & Analytics is equipped to help in several ways, including serving as a bridge to connect our product and technology teams to your debit innovation efforts. To this end, we have built a range of data-driven, customer-focused solutions to support the growth of your debit portfolio.



<sup>15</sup> Acorns.com, <https://www.acorns.com/banking/>



