

# RELATIONSHIP REWARDS: A GAME CHANGER FOR FINANCIAL INSTITUTIONS?

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## INTRODUCTION

In global markets retail banks operate in an environment of rapid change and uncertainty. New banking models are being driven by changing customer needs, increased regulatory intervention, new types of competitors and innovations in technology. In particular, banks are facing a need to adapt to changing customer behaviors and preferences, both to stay relevant and to communicate effectively with customers.

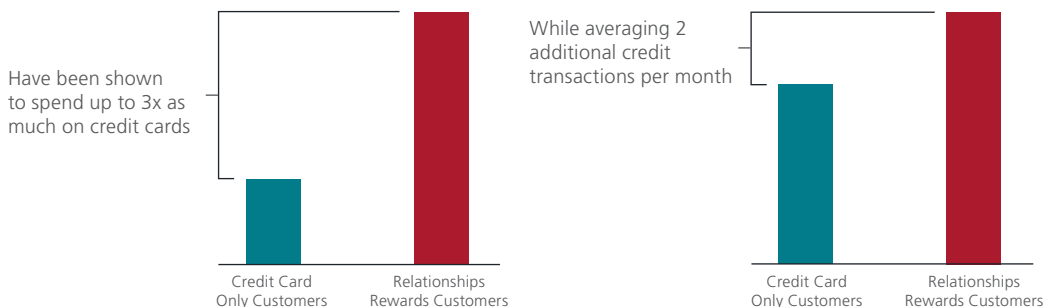
In light of these developments, efforts to encourage customer loyalty and retention take on added importance. Some banks are responding by taking a broader view of 'loyalty'. They are moving away from a short-term product-centric approach to a more holistic, 'customer-centric' one, based on the entire relationship across multiple products and services.

## RELATIONSHIP REWARDS CUSTOMERS ARE HIGHLY VALUABLE

In this emerging environment, finding ways to stimulate participation in loyalty programs is gaining attention, and rightly so. Loyalty program members who redeem rewards are highly valuable customers. These 'redeemers' spend, on average, almost three times more on their cards than non-redeemers. They are also more loyal, keeping their cards longer than non-redeemers, with 17 percent less attrition<sup>1</sup>.

'Relationship Rewards'<sup>2</sup> customers bring additional benefits to their financial institution (FI). Compared to customers with a credit card only, Relationship Rewards members spend upwards of three times as much on their credit card and conduct two additional transactions monthly (see Exhibit 1). Such customers also spend more on their debit cards, with a higher average ticket size. In other words, customers who are members of a Relationship Rewards program tend to make greater use of the products they have with their bank, the more products they have.

### EXHIBIT 1: CUSTOMERS ENROLLED IN A RELATIONSHIP REWARDS PROGRAM...



Source: MasterCard (2013 study)

<sup>1</sup> MasterCard US research, 2013

<sup>2</sup> Relationship Rewards programs enable customers to accumulate rewards across their entire relationship with their financial institution through engagement with multiple products and services

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Relationship Rewards (RR) programs offer other advantages to FIs:

- Firstly, they have emerged as a customer-friendly loyalty solution, enabling customers to pool rewards gained across multiple products or behaviors (see Exhibit 2), thereby facilitating redemption. In doing so, they help overcome an often-perceived weakness of rewards programs, namely that in some programs it can be difficult to reach redemption thresholds;
- Secondly, they help capture customer ‘mind-share’ as they help influence behaviors across the entire relationship spectrum. In practical terms, this means enticing customers to open more account relationships and using products and services more intensively, to earn rewards points;
- Thirdly, RR programs can enable FIs to continue to offer loyalty programs, even when profitability is under pressure in a particular product area (e.g. interchange caps reducing revenue from debit cards).

Overall, from the standpoint of financial institutions offering multiple products and services, Relationship Rewards represent a viable means of fostering and deepening customer engagement.

**EXHIBIT 2: ILLUSTRATIVE EXAMPLE OF A RELATIONSHIP REWARDS PROGRAM**

PROGRAM STRUCTURE		<i>Illustrative</i>
PRODUCT	EARNINGS	
<b>Credit Card</b>	Spend \$1 = 2 Points	
<b>Debit Card</b>	\$1 = 1 Point	
<b>Car Loan</b>	15,000 Points	
<b>Online Bill Pay</b>	500 Points	
<b>Bill Payment</b>	100 Points	
<b>Mortgage</b>	50,000 Points	
<b>CD</b>	20,000 Points	
<b>Profile Registration</b>	1,000 Points	
<b>Paperless Statement</b>	500 Points	
<b>Credit + 2 Products</b>	Annual Bonus = 1,500 Points	
<b>Credit + 3 Products</b>	Annual Bonus = 2,500 Points	
<b>Customer Anniversary</b>	5,000 Points	

Note: The program structure shown is illustrative. In a real-world scenario, program choices by the bank will be influenced by what the bank is trying to achieve in terms of customer behaviors. For instance, the bank may decide on a more transactional focus and therefore place program emphasis on day-to-day activities such as card usage. Alternatively, the bank may give greater point’s weightings to less frequent, but high value activities, such as CD purchases or a mortgage loan closing.

Source: MasterCard Loyalty Solutions

## MAXIMIZING THE ROI ON RELATIONSHIP REWARDS PROGRAMS

While Relationship Rewards programs offer tremendous promise, relatively few banks are truly leveraging them to the extent possible. To maximize the return on investment, several 'levers' may be identified that, in combination, would maximize the effectiveness of a RR program:

- **Effective Communication.** There is room for banks to improve communications, to better educate customers on their rewards program and how to participate in it (e.g. how to earn and redeem). Such communications should be incorporated into the bank's life-cycle marketing plan;
- **Seamless Redemptions.** Enabling easier redemptions improves customer experience and encourages greater participation in the loyalty program. Banks can reduce friction for loyalty members by making it easier to meet redemption thresholds (e.g. by enabling points transfers);
- **Card-on-file with eCommerce Merchants.** Consumers seem likely to spend more with a given merchant when their card is 'on file' with that merchant. Banks may therefore consider providing incentives to cardholders to use their card as the preferred card-on-file with online merchants;
- **Offers and Promotions.** Banks can influence cardholder behavior through selective promotions. For instance, it was found that international travelers to the US that were offered incentives to shop at certain merchants spent almost 4X as much on their cards as cardholders not redeeming such offers.<sup>3</sup> Banks aiming for similar success within a RR program may consider offering bonus points for purchases in particular merchant categories or at certain merchants during the next statement period;
- **Data Driven Marketing.** Banks can leverage data more effectively, to garner insights into customer behaviors as a stepping stone to a stronger relationship with their customers.

Banks that adopt such practices have demonstrated strong results. They have been known to achieve a ROI exceeding 2X the original program investment, a 40 percent + increase in card spending and a near 100 percent retention rate among RR program participants. Given the potential benefits of RR programs, banks of all sizes should be considering them, as they seek more effective engagement with their customer base.

## CONCLUSION

When implemented well, Relationship Rewards programs bring significant benefits to sponsoring financial institutions above and beyond those of other type of loyalty schemes. Just as importantly, RR programs provide banks an opportunity to re-engage with their customers. They are an opportunity to move away from the short-term strategies of product-centric loyalty schemes, in favor of a longer-term approach that fosters true customer loyalty across a relationship spanning multiple products.

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<sup>3</sup>MasterCard US research, 2013