Five Tactics for Successfully Converting a Debit Card Program

BY TINA OREM

Bank leaders are constantly on the lookout for ways to increase their non-interest income, and one option is to switch debit card programs. But change isn't easy. We talked to three bank executives who recently moved to a different debit card program and asked about the snags and successes they encountered in the process.

01 Plan for it to take time.

Expect at least a year-long project. David Seyler, who is SVP of cash management services for Old Line Bank in Bowie, Md., says his bank's switch to Discover Debit, endorsed by ABA for signature debit, took about 18 months.

Reissuing debit cards, which can also involve card design and mass-reissue planning, isn't the only step, of course. "Have early conversations with your core provider because they are key," Seyler warns, noting that Old Line uses FIS.

Dann Lee, who is EVP and retail banking executive officer at Cadence Bank in Birmingham, Ala., says that Cadence Bank's conversion process to Discover Debit ran about 12 to 18 months, including a friends-and-family test that took about four months.

For Mike Grove, who is CEO of Bank of the Rockies in Helena, Mont., the switch—also to discover—has been about two years in the making. He expects his program to go live sometime in the fourth quarter of this year after a long effort with core processor Fiserv to accommodate the new debit vendor.

02 Think about how the program will behave in the wild.

Take some time to consider whether and how the customer transaction experience will change when your debit program goes live. "The world seems accustomed to Visa and Mastercard debit, but not Discover," Grove said. "Discover is a small player, but thanks to ABA they're going to be a big player here."

Old Line issued its first wave of new cards to about half its cardholder base in the past two months after its own successful friends-and-family test, says Seyler. "We pushed the acceptance rate to around 99 percent and there's still a little bit of concern about the remaining one percent, because one percent is still a number of phone calls and potentially still a number of customers who may be dissatisfied," he explains. Seyler says the solution has been that if the bank hears a merchant does not accept Discover, the bank reports that to Discover.

"They get on the phone with that vendor or that merchant and 80 or 90 percent of the time, they convince the merchant to accept Discover," he says.

International use is also something to think about, says Seyler. "For those customers that do travel overseas frequently, we typically would encourage them to use their credit cards for a whole variety of reasons. But if they insist on using their debit card, we did keep a Visa [bank identification number] active so we can issue Visa if need be to customers who just are going to travel a lot. We just don't want them to be inconvenienced, so we do have a backup there," he explains.

03 Have a robust communications plan.

Spreading the news about a debit program switch takes more effort than just throwing together a few employee training sessions.

"We sent out bank-wide emails explaining why we're doing what we're doing, the time frames involved," Seyler says. "For those customers that participated in what we call the friends and family [test], the branch team reached out to touch those people one-on-one and said, 'Hey, we'd like you to kind of be a guinea pig for us. What do you think?' Most of them were fine and more than happy to do it. Then we sent out additional communication to our customers saying, 'You're going to be getting a new Discover card.' We had statement stuffers, statement messages, mailings, all that kind of stuff."

Dann Lee says Cadence Bank sent out its cards in completely different packaging than customers would typically get for a new card, and it began using branch merchandising

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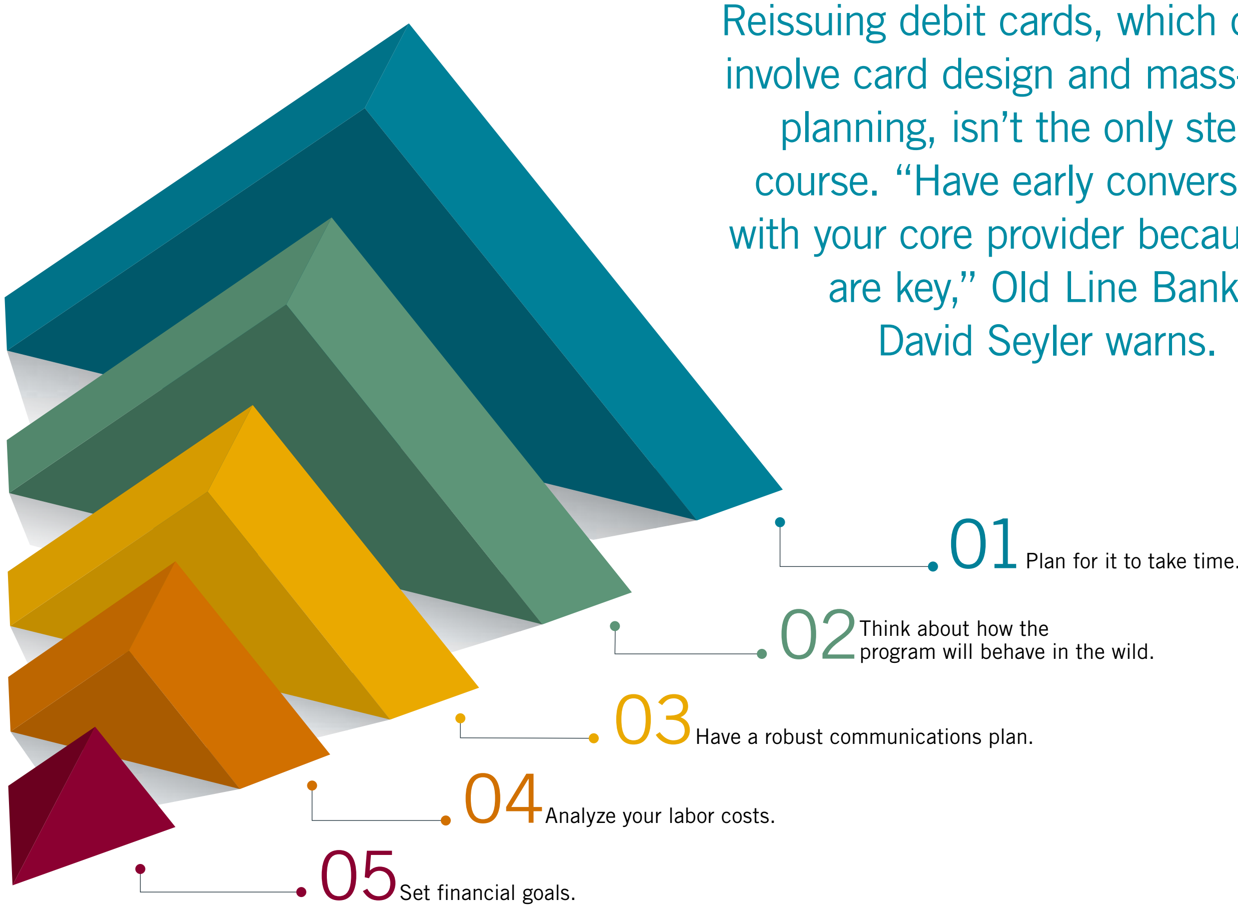

materials and other marketing tools about 60 days before the actual rollout.

04 Analyze your labor costs.

Debit program administration could be eating valuable staff time, so be sure to look beyond fees.

"We looked at it from a cost perspective, we looked at it from an income perspective, and we looked at it from an ease-of-operations perspective. Obviously, we looked at it from a customer's perspective as well," Seyler says. That process led Old Line to another discovery: the statement analysis work under its old debit program was creating significant labor costs.

"What we found was it was very difficult to trace the cost and the income associated with a Visa relationship," he says. "It truly takes a couple of Ph.D.s to decipher the statement from Visa, to figure out what we were truly getting charged and what we were making on the interchange side. Ease of understanding the statements should be much easier with Discover than it is with Visa. It's just three line items: here's your transaction volume, here's your interchange, and here's your cost."

05 Set financial goals.

Mike Grove is pleased that Discover's interchange fee is working out to be only about two-thirds of what Visa or Mastercard charges. "It's substantially more fee income for the bank," he says.

"Do your math, because each brand that you're going to look at is going to offer different financial incentives," Seyler adds. "They're similar, but a couple of basis points on the number of transactions makes a big difference at the end of the year." On a five-year basis, he explains, the net additional income for Old Line Bank was about $300,000 per year due to the switch.

"We probably won't recognize the full impact of this until 2018, by the time we get all of our cards transferred over and they start using them and we start seeing the income come in, but from a long-range perspective, it certainly... looks to be very profitable for the organization, and we hope convenient for our customers," he adds. "If it's not convenient for our customers, the whole thing falls apart."

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