8 ways to increase interchange:

The Holy Grail of Non-Interest Income

Dennis Jones
Senior Marketing Manager, Jack Henry™

Industry-wide revenue challenges are keeping a lot of financial services professionals awake at night. While interchange has held the coveted position of being one of the highest, recurring, non-interest revenue streams, it's becoming even more important to revenue models in the current interest rate environment, and as the competitive environment heats up with big brand fintechs and big techs successfully offering traditional financial services like cards.

With interchange being a vital component of overall financial performance, here are eight ways you can move the interchange needle.

1. it's not rocket science

The fundamental key to increasing interchange is expanding your cardholders and motivating them to use your cards. This certainly sounds simple, but in today's highly competitive cards space, keeping your cards top-of-mind, wallet, and app is a big, never-ending challenge. Card programs must be continually elevated to remain relevant and competitive, and to support your interchange-building usage and retention goals. Two great places to start: 1) empowering your cardholders with anytime, anywhere self-service apps seamlessly embedded in your digital banking experience, and 2) offering meaningful, highly personalized rewards programs that incentivize cardholder behavior.

2. math is fun

To improve anything you must accurately and continually measure it. To improve card program performance, you must benchmark current cardholder behavior, leverage those benchmarks to identify realistic goals to improve card usage, launch practical plans to achieve those goals, and establish clear KPIs. Improving card programs takes actionable insights which should be based on three fundamental metrics:

- **Penetration** – Determine how many of your accounts are eligible for cards and match those accounts to your cardholder base. Eligible cardholders without your cards represent immediate, highly targeted opportunities to market your cards.
- **Active Rate** – Determine the cards that weren't used during a specific time period. With the help of some analytical thinking and historic and competitive transactional data, identify the possible reasons why your cards aren't being used and develop an action plan to address them.
- **Usage** – Determine the industry average of monthly transactions per cardholder, compare it to your cardholders, and launch a plan to motivate your below-average cardholders to use your cards for more transactions.

These three highly targeted gap lists are the proverbial fish in a barrel. The data is all there, patiently waiting for the analytics that will convert it into the actionable insights you need to grow your cards programs. And this fun with math should be a recurring, strategic exercise for every bank and credit union.

Card programs must be continually elevated to remain relevant and competitive, and to support your interchange-building usage and retention goals.

3. less is more

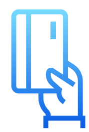
The original Durbin Amendment included in the Dodd-Frank Act requires issuers to provide a choice of at least two unaffiliated networks for routing debit transactions. In the name of least-cost routing, the amendment also enables merchants to choose which network they use. Today, many banks and credit unions support more networks than the two required. It's a given you want to balance compliance and being both competitive and fair with your merchant accountholders, but reducing your network relationships could accomplish those goals while optimizing your interchange opportunities.

4. networking opportunities

Payments networks are not all created equal and neither are their interchange fee structures. The fee differences might seem negligible and not worth the effort to do some number crunching, much less change networks. But considering the networks you partner with literally impact your bottom line, do yourself a big favor and multiply the differences in per-transaction fees by your total number of transactions last year. For many banks and credit unions, the seemingly negligible suddenly becomes consequential.

5. extra credit

According to the Diary of Consumer Payment Choice (a 2020 Federal Reserve study), card transactions are shifting to credit from debit – consumers made 28% of their payments with debit cards and 27% with credit cards. Overall, 84% of consumers said having the option to pay by credit is a must, and those earning $100,000+ a year prefer credit over debit.[1] In addition to these fun facts, debit interchange will likely be reduced if another Durbin bill passes. So banks and credit unions need to diversify their revenue models to accommodate decreasing debit interchange. Launching a new credit program or reinventing existing ones are great diversification strategies.



84% of consumers said having the option to pay by credit is a must, and those earning $100,000+ a year prefer credit over debit.

6. experience required

The primary reason people select Uber versus Lyft is their perception of the app-driven experience used to request a ubiquitous ride home. In the digital era, user experience is king and translates into user adoption and loyal customers. In the digital era, we also expect every interaction and transaction, including card interactions and transactions, to be experience-driven. For example, card programs must strike the delicate balance of mitigating fraud while delivering a frictionless transaction experience. Card programs must leverage experience innovations like instant issue and digital issuance to be relevant. And the competition for cardholder experience has never been more intense. With traditional competitors, opening a new DDA account with a supporting debit card or applying for a credit card takes about five minutes. We can open those accounts with a credit union down the street, a bank across the country, or a fintech or big tech in the palm of our hands. With the non-traditional competitors, fintechs and big techs are targeting some of the most profitable financial services – like cards – and they are leveraging tremendous brand equity and loyalty to introduce this traditional financial service with an elegant, engaging, contemporary user experience. With cardholder experience evolving from a competitive differentiator into a competitive necessity, every bank and credit union must obsessively pay attention to the experience their card programs provide.

With cardholder experience evolving from a competitive differentiator into a competitive necessity, every bank and credit union must obsessively **pay attention to the experience their card programs provide**.

7. partners in crime (crime prevention, that is)

It's a hard, cold fact that card fraud is inevitable, pervasive, and growing. And today, how you fight it has two important considerations. First, the fraud headlines provide banks and credit unions with a unique competitive advantage. While fintechs and big techs are leveraging their enviable brands to attract millions of cardholders, most consumers and businesses currently trust financial institutions more than these non-traditional competitors for one reason – they believe banks and credit unions are more accessible and willing to resolve fraud-related issues. Second, no bank or credit union can fight fraud without proven partners deploying multi-layered solutions and modern capabilities like real-time scoring of all card transactions. It's impossible to increase card usage and ultimately interchange without cardholder confidence.

8. get a little help from your friends

Modern card programs are inherently complex, and most banks and credit unions don't have the resident expertise, staff, budget, or time to maximize program performance and organic growth which ultimately drive interchange. You should expect a lot more from your card partner than seamless, secure transaction processing. That's the steak, but you should also expect some sizzle. Sizzle like consulting services that provide expert guidance, practical strategies, and proven best practices for developing new card programs and reinventing existing ones, managing costs and profitability, creating competitive pricing methodologies, and creating meaningful loyalty programs. Sizzle like free marketing campaigns and resources that will continually drive card adoption and usage. And sizzle like easy access to cardholder and transactional data and intuitive analytics tools to aggregate that data and turn it into meaningful insights.

Like all payment channels, cards are changing to meet today's expectations for experience-driven interactions and transactions. But one thing that won't change is the importance of interchange and the need for every bank and credit union to develop and deploy dynamic strategies to expand and retrain your cardholders and motivate them to use your cards more. There's never been a more important time to reinvigorate your cards programs with an enterprise-wide commitment to program reinvention, modern strategies, high-touch partners, and state-of-the industry technology.

unlock your potential

Learn more about our modern credit card platform and programs.

For more information about Jack Henry, visit jackhenry.com.

There's never been a more important time to **reinvigorate your cards programs** with an enterprise-wide commitment to program reinvention, modern strategies, high-touch partners, and state-of-the industry technology.

sources

1. Ackary, Mariah; Holmes, Tamara E.; Ruiz-Camacho, Antonio; Steele, Jason. *Payment Method Statistics*, CreditCards.com, accessed May 2, 2022.

© 2022 Jack Henry & Associates, Inc.®