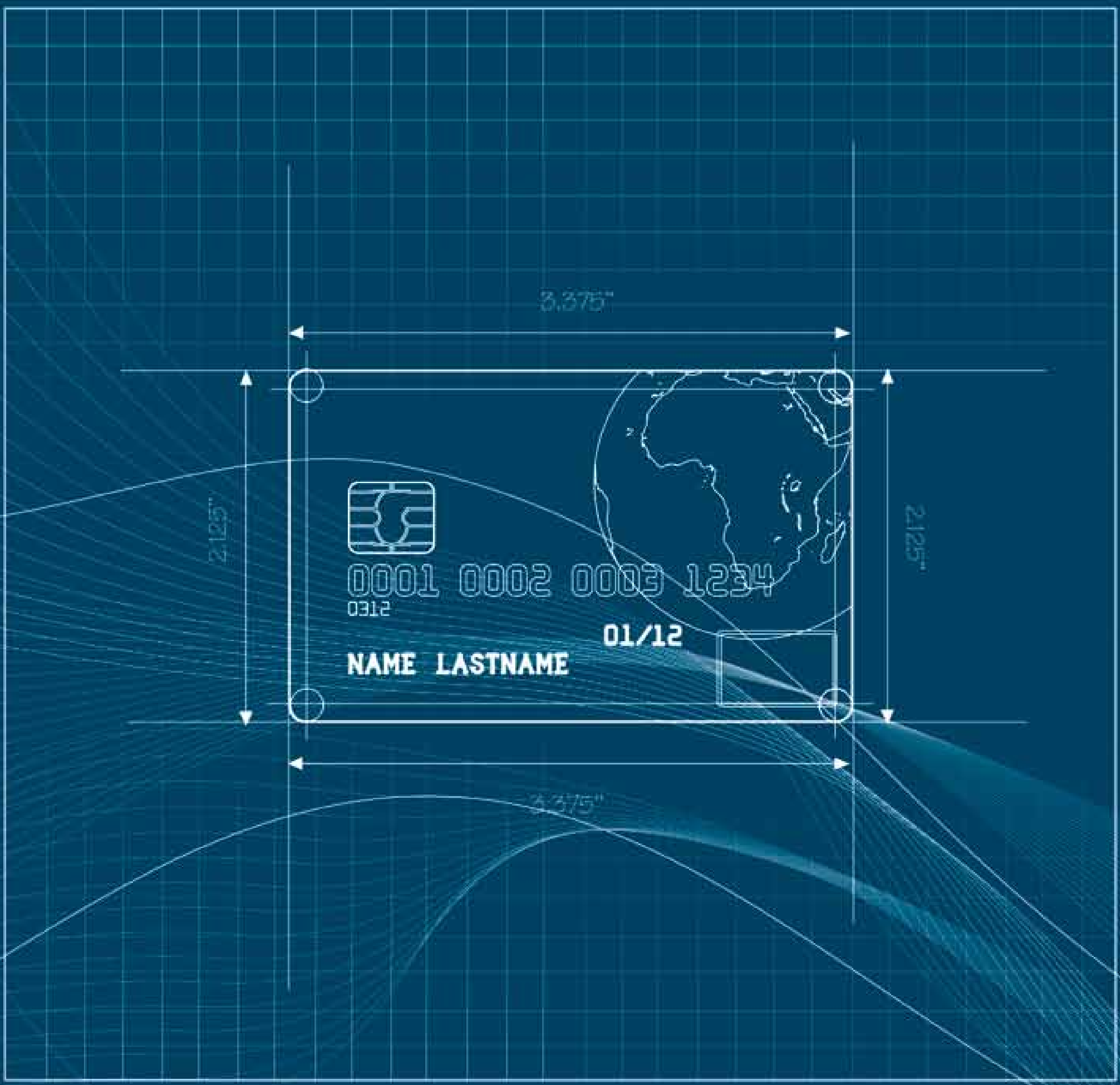
Reengineering Card Profitability

Real strategies to diagnose portfolio performance, rebuild revenues and reduce losses



FICO™

Make every decision count.™

"Issuers that do not adapt to the new realities will fall behind more innovative issuers. Those that ***begin strategic adaptive efforts*** *while the industry is still in crisis will position their business on firmer ground in anticipation of the eventual economic recovery."*

—Brian Riley, TowerGroup:
After Boom and Bust: Navigating the Credit Card Industry into the Next Economic Cycle

For card issuers, it's a fight for profitability

Record delinquencies, debit and prepay cards that replace credit card usage, recessionary stress and new regulations are damaging credit card profitability. Issuers are reevaluating every aspect of their card operation, business models, credit policies and strategies, in order to hold onto portfolio profitability.

The key to success is precision

By replacing the blunt instrument of conventional methods with sharper predictions and decision strategies, card issuers can adjust successfully to profound market changes—many of which will not go away even when the economy improves.

FICO has developed a program for Reengineering Card Profitability that can help issuers prosper in this new era of card management. This program brings together our 30 years of experience in card risk management and our latest analytic tools.

The Reengineering Card Profitability program can help card issuers in three critical ways:

1. Diagnose the impact on portfolio performance relative to new market dynamics and industry standards
2. Rebuild portfolio strength
3. Reduce losses by revamping strategies through precise segmentation

The "gold rush" in cards is over. FICO's experts in card management can help you take precise, effective actions to rebuild your portfolio's profitability.

FICO's Reengineering Cards Portfolio Program

Diagnose portfolio performance relative to today's market dynamics

Assess portfolio health

» **Understand** how changing conditions are impacting your portfolio performance, segmentation and strategies

» **Compare your results** to industry averages at a granular level that may reveal unsuspected divergences and opportunities for improvement

Improve performance in changing economy

» **Adjust scores** to predict not only a customer's current risk, but future risk under different scenarios

» **Adjust decision strategies** to prevent bad rates from rising even as scores/odds shift

» **Generate** more accurate loss forecasts

» **Increase** pricing precision in ways that account for changing risk

» **"Stress-proof"** strategies through simulation and optimization

» **Allocate resources** (risk exposure, staff, budget) to where they make the biggest impact on your top objectives

Efficiently comply with new regulations

» **Identify and measure** compliance gaps and impacts

» **Understand** which formerly profitable customers will no longer be, and vice versa

» **Determine** how to modify your strategies to maximize their effectiveness at meeting your business goals under the new rules

» **Achieve and demonstrate** compliance with far less expense and effort

Rebuild portfolio strength

Sharpen marketing & originations strategies

» **Increase risk scoring accuracy** for new accounts by 5–15%

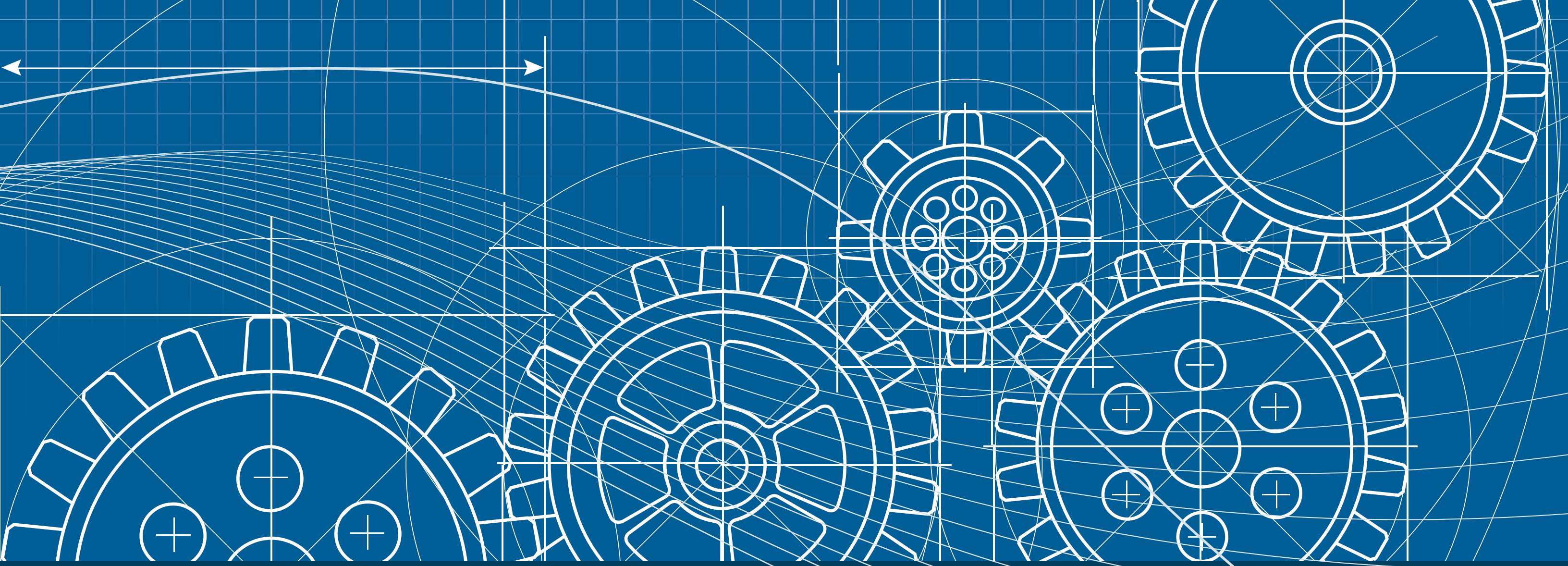
» **Improve separation** of bads/goods in new-to-credit and nonprime consumers

» **Identify consumers** with the capacity to safely take on additional debt

» **Optimize pricing** and initial credit line to maximize profit by balancing loss, revenue, attrition

» **Reduce first-party fraud** and credit abuse across all product lines

» **Improve detection accuracy** 10–60% using analytic advances, including ongoing adaptation of models to changing behavior patterns



Reduce losses & collection costs

Increase customer loyalty & value

- » **Identify which customers** are profitable and which have capacity to take on more credit
- » **Optimize pricing** to boost purchase activation and retention
- » **Increase profit** per account in segments with high price sensitivity and yield potential while controlling balance build
- » **Create more granular segments** based on predicted customer reactions to specific sets of marketing actions and extent to which these reactions will drive campaign target metrics like usage and revenue
- » **Recognize the right moment** to make a line increase or cross-sell offer—act before competitors
- » **Apply treatments consistently** across product lines and channels
- » **Boost customer satisfaction** by slashing debit account hold rates with no increase in losses
- » **Take careful pre-delinquency actions** to help customers stay out of collections and improve their financial management skills, retention and loyalty

Manage existing card risk more effectively

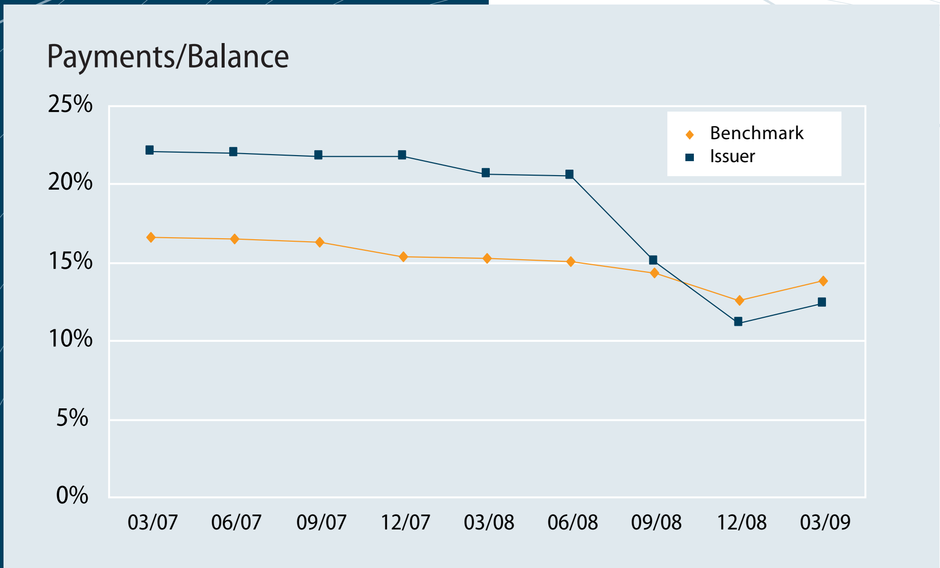
- » **Lift risk prediction accuracy** by 6–12%
- » **Act quicker** on intra-cycle indicators of rising risk
- » **Use wealth of authorizations detail** to create granular segments and recognize different risk patterns in customers who appear similar in cycle-end summaries
- » **Apply careful pre-delinquent strategies** that keep customers out of collections and reduce losses when delinquencies occur
- » **Optimize strategies** to reduce losses without reducing profit (raise it instead!)
- » **Explore a range of optimized strategies** ("Could we get more profit with the same loss rate if we allowed slightly more exposure and accounts treated?")
- » **Combine risk scores with additional analytics** that predict not only a customer's current risk, but future risk under various economic scenarios and/or increments of additional debt

Manage rising collection volumes & reduce roll rates

- » **Improve collections** results 15–20%
- » **Use pre-delinquent strategies** to increase collections readiness and better compete with other creditors for higher share of payment
- » **Significantly improve collection and recovery** amounts without increasing staffing by predicting which early-stage accounts are likely to roll and which late-stage accounts are likely to pay
- » **Mathematically identify,** for each delinquent account, the treatment likely to deliver the best results
- » **Keep customers paying** and increase likelihood of debt completion by offering wider range of plans to fit their needs
- » **Use rules-driven wizards** to recommend workout plans in real time, enabling current staff to resolve more delinquencies while minimizing training needs

Case Study: Insights lead to potential $150 million gain

Diagnose Your Portfolio's Performance



Is your portfolio heading in a dangerous direction? This issuer's payment-to-balance ratio has dropped from well above industry peers to below their benchmark. FICO strategy consultants can help you identify and address this kind of trend.

Because we view strategy performance from so many card issuers around the world, FICO is the ideal "extra set of eyes" to review your portfolio's trends. We can help you identify vulnerabilities and give you new ideas about where to focus your efforts.

For example, in reviewing one major issuer's portfolio against a prior year, and against industry benchmarks from FICO's exclusive research pool, our strategy consultants were able to determine that:

» The issuer operated at much higher average credit lines than industry peers, and with a much higher utilization rate

» Balances were building among riskier accounts, causing a rise in delinquent balances

» Payment-to-balance ratio lagged the industry

Based on these observations, FICO was able to recommend new tactics, including more refined analytics for assessing risk, that could generate an estimated $149 million in risk-adjusted revenue over 12–18 months.

Apply new analytic innovations to your risk assessment

Today's riskier market demands more precise risk assessment analytics. FICO has developed new approaches and scores that can easily be deployed in your card management program. These include:

» A new FICO® score that can increase risk prediction accuracy by 6–12%

» Transaction-based scores that add to cycle-based behavior scores to identify rising risk faster, giving you more time to act

» "Economically calibrated" analytics that modify scores and odds ratios based on economic projections, to give you a more accurate barometer of future customer risk

» Optimization for pricing, credit line management, early-stage collections and other areas, that improves not only account segmentation but also the assignment of customer treatments while accounting for new regulations

» Application fraud models that can help you stop first-party fraud from crippling your profitability

Put our "A team" to work for you

FICO's strategy consultants and professional services teams work with card issuers in every market worldwide. They bring not only solutions and experience but, most importantly, the right questions that can help you assess your portfolio's health and prioritize your action plan.

In addition to helping you develop strategies, our consultants can help you derive more value from the industry-leading FICO products for card issuers, including:

» The FICO® Score, the #1 credit bureau score in the world, used by US lenders, rating agencies, the secondary market and other parties more than 10 billion times a year

» The FICO® TRIAD® Customer Manager, used to manage about two-thirds of all credit cards worldwide, and available through processors around the world

» The FICO™ Falcon® Fraud Manager, which protects more than 1.7 billion cards

» The FICO® Debt Manager™, the most analytically advanced collections and recovery system

Get started on your custom program

The Reengineering Card Profitability program is entirely tailored to your needs. Contact your FICO representative for information, or email us at *info@fico.com*.

Learn more at *www.fico.com/cards*

Read related white papers, including:

- Reduce Your Exposure with Pre-Delinquent Treatments
- Build Your Action Plan for the Credit CARD Act
- Opting in or out: Protecting revenue under overdraft reform
- FICO score trends in today's economic uncertainty
- Credit CARD Act: Move Ahead of the Curve

View videos from FICO's risk management experts

Participate in a discussion on the Decision Management Community

10 Questions to Ask About Your Card Portfolio

1. Is your portfolio's performance slipping below the industry?
2. Are you modifying your account management treatments to address the profitability of customers in segments that were profitable and risky but are now just risky?
3. How will your portfolio perform if the economic recovery progress slips?
4. Are your origination strategies and processes set up to make you competitive and profitable under more stringent regulations?
5. Has your organization identified what actions need to be taken to achieve compliance with new regulations, including processes, procedures, systems, interfaces, data and models?
6. How much could you save by taking faster action to control risk using intra-cycle risk assessments that leverage more granular transaction data?
7. Have you right-sized your credit lines with scalpel-like precision—or have you dramatically slashed credit lines and eliminated potentially profitable credit line increases? Would more precise credit line reductions—and even credit line increases—protect your revenues better?
8. Are you measuring your customers' ability to manage additional debt before making new credit offers?
9. How will economic stress change the odds-to-score relationships for your risk models?
10. Are your collection measures driving the behavior required to reduce roll rates and total delinquency?

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