Visa Consulting & Analytics

The importance of tracking customer engagement through the COVID-19 pandemic

VISA

At any time, in any economic climate, it is useful for payment card issuers to track and optimize customer engagement. In today's unusual circumstances, it is all the more important. If issuers can understand new needs and predict future behaviors, they have an opportunity to deliver far more value to their customers – and protect their most important relationships.

As the world responds to the repercussions of the COVID-19 pandemic, it is important for businesses to understand how their customers are behaving, and comprehend how their needs may evolve in the aftermath of the crisis.

For many companies in many sectors, this can be a difficult task. A retailer, for example, may only have access to aggregated data, which obscures individual customer behaviors. Similarly, a manufacturer may be a step or two removed from their end customers. Using limited data and unproven hypotheses, they may need to do some second-guessing about the shifting needs and expectations of their customers.

In the payment credit card business, it should be a different story.

Payment technology providers and card issuers are in a privileged position. Their transaction data provides a direct line-of-sight to where, how and when people are spending their money. Shifts in individual consumption habits or changes in circumstances can be exhibited by this data and through engagement monitoring, it can be possible to quantify the true depth of their customer relationships.

The challenge, however, is to sift through the digits, spot the patterns, extract the insights, and draw meaningful conclusions.

About engagement monitoring

What it is

An analytical technique to quantify the full breadth and depth of customer relationships – including recency, frequency

A means to work out where you fit in the customer's preference hierarchy – are your payment products top-of-wallet; are they used for specific spend categories and/or channels; are they a back-up

What it does

- Gives you an insight into changing customer needs
- Allows you to predict future customer behaviors
- Enables you to deliver more value – by meeting needs and enabling behaviors
- Delivers a way to defend and extend your most valuable customer relationships

The relevance of engagement monitoring during the COVID-19 pandemic

With the entire world rocked by the COVID-19 crisis, millions of consumers facing a potential shift in their circumstances, and uncertainty about the future, engagement monitoring becomes all the more critical.

For example, in the wake of the initial lockdowns, a large proportion of spending immediately migrated from face-to-face to digital channels. Even people who were previously resistant to spending online had little choice but to embrace ecommerce. In May, the US-based payments industry news service PYMNTS.com reported that, in a period of just eight weeks, it had observed "*six times more consumers working from home, four times more consumers buying groceries online instead of going into the grocery store, four times more consumers ordering takeout from aggregators or their favorite restaurants, and three times more consumers shopping online for things other than groceries.*"

This brought a new competitive dynamic to the market. If an issuer's Visa product is specifically configured and optimized for digital spending, the transition should be seamless. But, even so, a new-to-digital customer would probably appreciate some reassuring and educational messaging.

If, however, digital has not previously been a priority for the issuer, there is a significant risk of attrition, with the customer defecting to a card that has been strongly promoted for online spending, or one that has been optimized for ecommerce spending. Similarly, if the issuer has enjoyed a top-of-wallet card for face-to-face spend, but the customer has always used a different card for their online spend, the relationship may be at risk.

Another consideration is whether there has been a shift in the cardholder's financial circumstances. With the economic effects of the crisis, millions of people are likely to face significant financial difficulties. As you would expect, needs and priorities are shifting accordingly.

Cardholders who used to be highly motivated by rewards may now be more concerned by value. For example, a well-timed fee-waiver could encourage them to promote a secondary card to the coveted top-of-wallet position. Similarly, if they are reminded of zero liability protection, they may be encouraged to favor the card that offers it.

Engagement monitoring can help issuers to quickly recognize and respond to these shifts in attitude and behavior.

The imperative of engagement monitoring as the pandemic recedes

The time to really sharpen the focus is, arguably, when the crisis begins to recede.

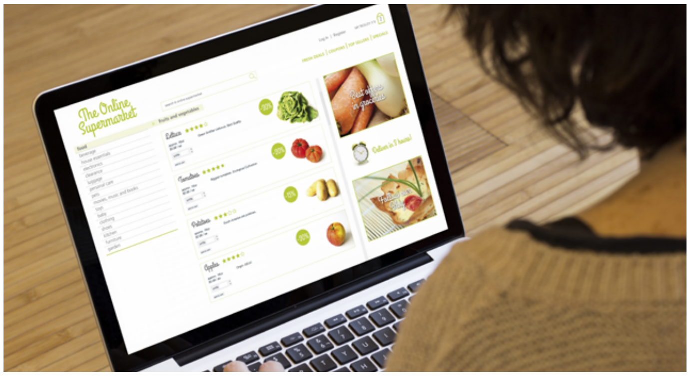
With some semblance of normality beginning to return, spending patterns will become less erratic. Even so, the crisis is likely to have a lasting impact on behaviors. In addition, many customers will have to adapt to new financial circumstances and the most successful issuers will be those that can best meet the post-crisis needs of their customers.

In understanding what these needs may be, an analysis of historical spend levels and channels will reveal little of real value. Instead, a much wider set of factors (such as recency, frequency, consistency and diversity), and peer-level comparisons, will be required. With new machine learning techniques, it should become possible to capture behavioral changes quickly.

Such an approach can accurately identify those customers who are fully engaged with a single issuer, those who split their spending across a few core cards from a few preferred issuers, and those who have no real loyalty to any product or any issuer.

Engagement monitoring can also detect early-warning signs. If, for example, a seemingly engaged customer is at risk of defecting, or of relegating their existing card further down the wallet, the process will typically play-out over several billing cycles. If they can see what is coming, even if it is three-to-five months away, an issuer can intervene.

Similarly, if there is potential to nudge a less engaged customer closer to the top of the wallet, an engagement monitoring program will spot the potential, and enable the issuer to create a highly targeted, usage-driving campaign, or perhaps a merchant-diversification campaign, or a channel diversification campaign.



A stronger than ever business rationale for engagement tracking

According to Visa analysis, issuers typically lose top-of-wallet status with up to 10-25% of cardholders each year. Given that top-of-wallet cardholder spend is up to four-times higher than for other cardholders, this churn has significant implications. Once a top-of-wallet position is relinquished, the risks of purchase inactivity escalate which, for around 40% of cases, leads directly to active attrition.

In a post-crisis world, where the economic situation is tough, many millions of consumers are financially challenged, and the costs of new customer acquisition campaigns may be prohibitive, there is even more reason for more issuers to get more serious about managing customer engagement.

Moreover, Visa Consulting & Analytics (VCA) is already seeing marked shift in consumer preferences, especially when it comes to digital adoption. We believe the COVID-19 crisis has accelerated the shift in specific categories. By analyzing VisaNet transaction data from January through June we have identified several distinct payment behavior changes that demonstrate the increased spend in key digital categories.

Below is an example which shows how the spending behaviors have shifted as the pandemic progressed.

Snapshot from early days of COVID-19

	ONLINE HOME SERVICES				OUT OF HOME STAPLES			OUT OF HOME DISCRETIONARY			TRAVEL		
	Food & Grocery delivery	Online Gaming	Retail: Apparel	Retail: Non-Apparel	Groceries & Drug stores	Non-grocery retail	Salons/Laundry	Non-grocery retail	Restaurants	Movies & events	Airlines	Lodging	Vehicle rental
APRIL 2020	2.7x	2.2x	1.5x	1.7x	1.3x	0.7x	0.1x	0.7x	0.2x	0.2x	0.1x	0.3x	0.4x
JUNE 2020	1.9x	1.4x	1.3x	1.4x	1.1x	0.9x	0.7x	1.1x	0.6x	0.2x	0.3x	0.6x	0.9x

Two ways to deploy engagement tracking across a card portfolio

Customer engagement monitoring can be deployed in two ways in order to monitor the engagement levels across a portfolio.

1. The first is a **diagnostic approach** that monitors how customer spend patterns are shifting and how they compare with the wider market.

2. The second is a **predictive approach** that proactively analyzes engagement levels and can identify a drop in engagement levels almost 3-5 months in advance. This vastly improves an issuer's ability to re-engage customers using highly targeted campaigns. Moreover, there is also an opportunity to predict delinquency risks at the cardholder level, and to augment current risk management programs accordingly.

	Acquisition	On-boarding	Established Usage	Attrition
1 Diagnostics & Benchmarking	**Best markets** and **customer segments**	**Early "moments" on book** effectiveness	Identify **spend pattern change** across clusters • Monitor shift in customer channel & merchant category diversification • Quantify engagement for portfolio and benchmark with the market	**Fraud** & **authorization** optimization • Benchmark authorization rates across channels to identify opportunities to improve customer experience while balancing risk
2 Predictive Insights	Timely **cross-sell** and **upgrade**	Differentiate **gamers** vs **engaged**	Protect **Top-of-Wallet** customers • Deploy machine learning models to proactively identify potential switching from top of wallet position	Re-engage **customers** at risk of **attrition** • Deploy machine learning models to proactively identify potential 'silent' attrition
			Identify change in delinquency risk momentum • Deploy our risk data products to identify shift in cardholder delinquency risk using their spend patterns to augment issuer's current risk practices	

How VCA can help with engagement tracking

VCA has access to data that flows through the VisaNet payment network. Because it has the capacity to process such a vast volume of transactions (more than 65,000 a second), VisaNet is one of the world's largest caches of transaction data. This enables VCA to identify actionable insights and make recommendations that drive better business decisions.

CASE STUDY

Customer engagement monitoring in action

Background & Approach

The client had been struggling with silent attrition (cardholders stopping spend) on the credit card portfolio.

VCA developed a silent attrition prediction model that identified cardholders who might disengage and are at a high risk of attrition.

Visa Marketing team developed a campaign strategy and conducted an in-market pilot test on a Visa Campaign Solution.

Impact

Cardholders identified to be at high risk of attrition and who were targeted with the test campaign showed a 5-7% spend lift rate two months after the campaign was launched.*

*Results not guaranteed and may vary.

A case in point is using VCA's engagement monitoring programs, which are able to quantify and track consumer engagement throughout the customer lifecycle. By analyzing how, where, when and across what channels cardholders are spending, engagement monitoring can quantify the true depth of an existing relationship with a Visa product, and make predictions about future spending behaviors.**

Based on these findings and predictions, issuers are able to intervene with highly targeted campaigns, with the aim of steering cardholders towards different behaviors – such as using their card across more digital channels or in more merchant categories, trying contactless payments for the first time, intervening with educational messaging, or acknowledging and rewarding their loyalty.

We will provide you these insights and can also help you execute through our Visa Marketing, Campaign Solutions and Loyalty Platforms.

Importantly, these tools, combined with VCA consulting expertise, can help issuers use customer engagement monitoring techniques to stay ahead of the competition.

**Please note, due to the current pandemic, the machine learning models utilized for predictive analytics may need recalibration from time to time or Visa may opt to use alternative methodologies for such analysis.

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About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the ideas, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to **VCA@Visa.com**. You can also visit us at **Visa.com/VCA**.

