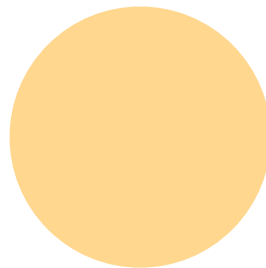


# Data-driven Business Models in Digital Banking

Card-Linked Offers and  
Market Insights

**Fintech Insight Series**



# Data-driven Business Models in Digital Banking

Card-Linked Offers and Market Insights

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# Summary

Competition is intensifying in the banking sector with nimble fintech startups, technology giants and social media leaders targeting various parts of the financial services profit pool. Open banking initiatives and regulatory directives such as the European Union's Payment Services Directive (PSD2) are set to open up data across the financial services landscape. This will give rise to data-driven innovation in the coming years - and banks need to lead the way or risk being leapfrogged by third parties.

This edition of Meniga's Fintech Insight Series looks at how, with the correct use of customer data, banks can expand their offering with innovative services that provide real value for them and their customers. Specifically, it explores how banks can use customer data to drive deeper engagement and build new revenue streams through personalised Card-Linked Offers (CLOs) and real-time market insights.

# Contents

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<b>I</b>	<b>Open banking is here</b>	<b>5</b>
<b>II</b>	<b>Card-Linked Offers: a major opportunity for banks</b>	<b>7</b>
-	Card-Linked Offers drive engagement	8
-	Card-Linked Offers deliver measurable results	10
<b>III</b>	<b>Real-time market insights: informed decision making with customer data analytics</b>	<b>11</b>
<b>IV</b>	<b>Getting started</b>	<b>12</b>
-	Start serving Card-Linked Offers to your customers	13
-	Start creating real-time market insights	14
<b>V</b>	<b>Data privacy</b>	<b>15</b>
<b>VI</b>	<b>Switch on the data value stream</b>	<b>15</b>
<b>VII</b>	<b>References</b>	<b>17</b>





## I. Open banking is here

Digital disruption has been brewing in the financial services industry for some time. Open banking initiatives and regulatory directives, which grant third-party providers regulated access to a customer's online account data and payment initiation are opening the door to increased competition, innovation and transparency. Banks face a wide-open opportunity to increase customer engagement and create new revenue streams using customer data, such as transaction and account data. But most banks are failing to grasp this opportunity.

A study from PwC showed that **68% of bankers feel they will be weakened** as a result of PSD2 and are concerned about losing control of their customer interface<sup>1</sup>

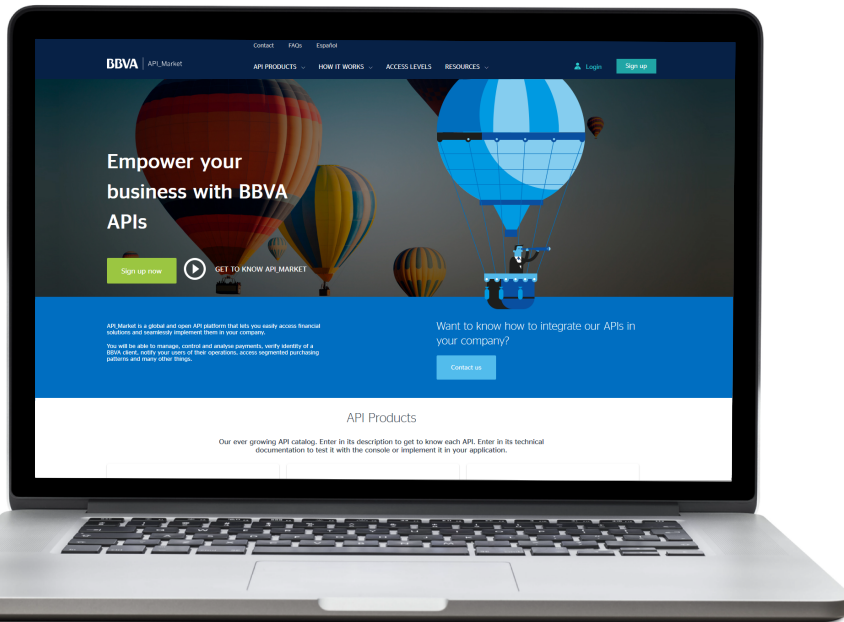


### Fierce competition

Traditional banks face competition from fintechs, app developers, internet giants including Google, Amazon, Facebook and Apple, as well as the Chinese powerhouses Baidu, Alibaba and Tencent. Banks stand to lose control over their customer interactions. A recent study showed that 73% of millennials would be more excited about new financial services offerings from Google, Amazon, Apple, PayPal or Square than from their own bank<sup>2</sup>.

The PSD2 directive, which has now formally entered into force, will see a gradual implementation of Open Banking APIs across Europe during 2018 and 2019, presenting a real challenge to banks. The goal is to drive increased innovation and transparency across European markets. Banks will have to make payment and aggregated account information available through APIs, granting third-party non-banking rivals such as Facebook, Google and Amazon, as well as fintechs and app developers, access to customer data (with permission from customers).

The customer relationship has already moved from being a human dialogue in a bank's branch into the digital space, presenting a threat to revenue that comes from upselling and cross-selling. When customers start accessing their banking information through a third-party platform such as a personal finance management app, these opportunities will recede further. According to a recent report by PwC on PSD2, 88% of consumers use third-party providers for online payments, which indicates that there is a large, primed base of customers ready for alternative digital banking services<sup>3</sup>.



*BBVA is a good example of a global bank that is determined to become a best-in class digital banking platform in an Open Banking Economy. BBVA's API Marketplace is out in alpha version with several interesting data feeds being used by select third-party providers to develop new products and services for BBVA customers. The project, led by former Bank Simple co-founder and CFO Shamir Karkal, is highly visible inside and outside the bank. It is as of yet unclear how BBVA will control access to its APIs and if the intension is to monetize part of the Marketplace.*

## Thinking bold

It is more important than ever for financial institutions to think bold and out of the box. Incumbent players need to focus on their competitive advantages and make sure they are exploiting them before they erode. For retail banks, this means taking advantage of the fact that they still have customer data at scale. They must invest in using that data to build value for themselves and their customers. We have already seen a number of interesting moves across Europe in response to PSD2. Two frequently cited examples are BBVA's API Marketplace (see above) and ING Yolt - the money management platform in the UK. Both are interesting and bold moves with potentially compelling end-games. However, we firmly believe banks need to be bolder and use data to expand their business model and offerings.

Banks are in a unique position to build a mutually beneficial ecosystem of banks, merchants and consumers powered by personal finance data. By enriching transaction data with merchant and sector information, banks can develop insightful market reports and drive targeted, convenient offer programmes for the benefit of their private and corporate customer base. This has the potential of substantially improving digital customer engagement as well as developing new revenue streams.

A study of **33,000 banking customers** across 18 markets published by Accenture showed that **78% of banking customers are happy to share personal data** with their bank if they receive a better service<sup>4</sup>.

## II. Card-Linked Offers: a major opportunity for banks

Banks, such as Bank of America and Santander UK, are already working with merchants to provide customers with Card-Linked Offers (CLOs) in an increasingly sophisticated and mutually beneficial ecosystem. Card-linked marketing is a frictionless way for customers to get more value from their shopping experience and for merchants to drive more sales at a higher return on their advertising spend.

CLOs provide a new kind of marketing that has become increasingly popular in recent years. They allow merchants such as restaurants, grocery stores, clothing stores and travel agencies to send tailored discount offers,

based on past transaction history and other financial information, to banking customers in their personal digital banking environment.

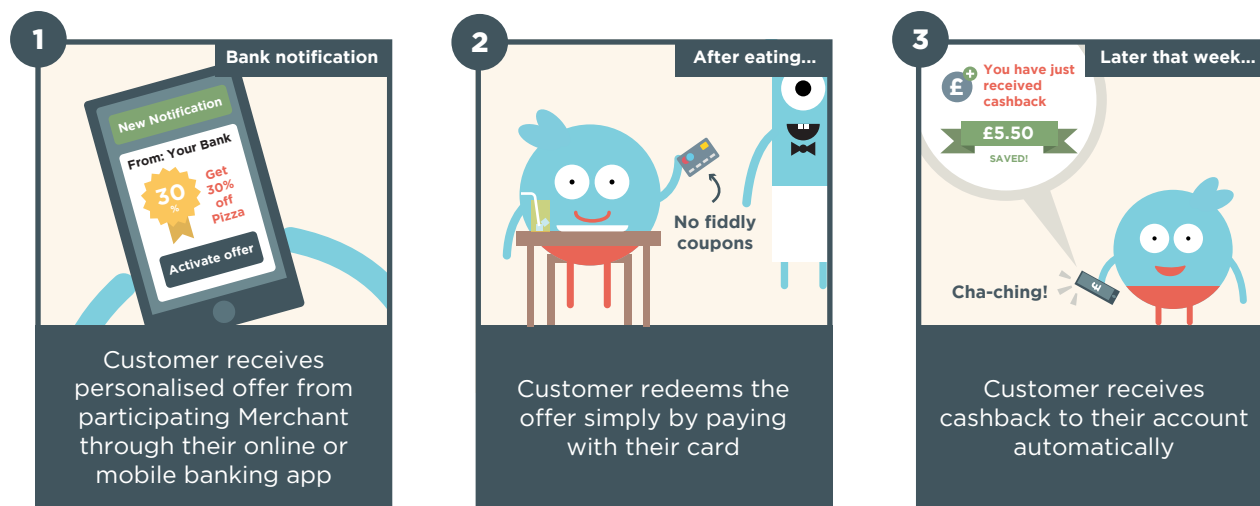
CLOs enable banking customers to receive discounts or loyalty points automatically when they use a bank payment card that is linked to a discount or loyalty offer.

Once a banking customer has received an offer and made a purchase with the merchant, the cashback discount is automatically transferred to their accounts – creating a delightful user experience.

A survey by The CMO Club and Bank of America found that **9 out of 10 marketers** who used card-linked marketing saw a boost in revenue from the programme. And 98% of those surveyed considered it an **effective solution for reaching target audiences**. Another 96% said they plan to use card-linked marketing in the future<sup>5</sup>.

### What exactly are Card-Linked Offers (CLOs)?

Card-Linked Offers are revolutionising how retailers reach customers. It enables them to build campaigns to a target audience based on their financial profiles, and only pay for offers that lead to sales in their stores.





CLOs are popular with retailers and customers alike. Nearly three-quarters (70%) of US companies used CLOs in 2015/16 and over 51% of all consumers in the US used a CLO. This is according to the 2016 Annual CardLinx Card-linking Industry Survey of leading payment card issuers, merchants, payment processors and networks, digital publishers and retailers<sup>6</sup>.

CardLinx is the leading association for CLOs – member companies include American Express, Bank of America, Facebook, MasterCard, Microsoft, Quotient, Samsung and Under Armour. Almost two-thirds (64%) of survey respondents predicted that up to \$50 billion of digital advertising spend could focus on card-linked marketing in the near future.

“Up to \$50 billion of digital advertising spend could focus on card-linked marketing in the near future.”

- CardLinx<sup>7</sup>



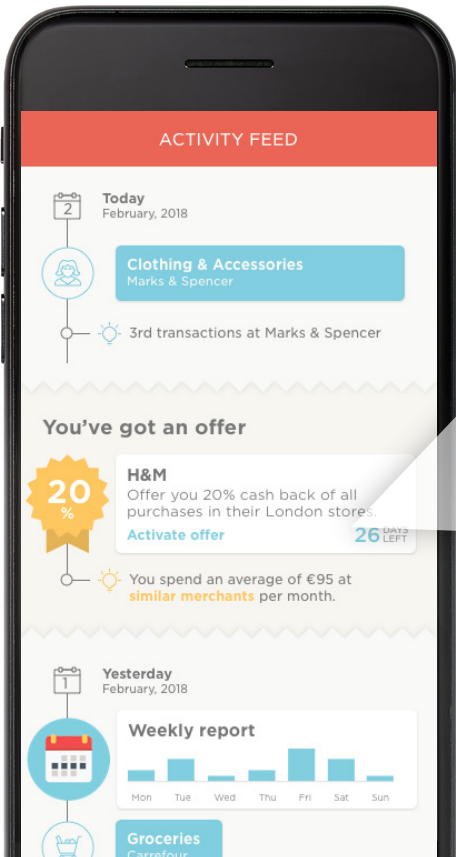
Banks are in a unique position to become the master of ceremonies in this ecosystem – enabling merchants to approach targeted segments of banking customers with tailored discount offers within their online and mobile banking environment and in context with their personal finances. The pay-for-performance setup allows merchants to calculate return-on-campaign investment accurately while customers get highly relevant offers and a seamless way to redeem them. Meanwhile, banks are dramatically improving customer engagement and building new revenue streams.

## Card-Linked Offers drive engagement

One of the key benefits of CLOs is that their personalised and seamless user experience drives customer engagement for banks and merchants. Most banks are considering Card-Linked Offers to replace ineffective loyalty programmes with revenue-generating offers that drive substantial improvement in digital engagement.

If banks fail to react to the changing landscape of financial services, new rivals could **slash return on equity** in the industry from 8.6% last year to just 5.2% by 2025

- McKinsey & Company<sup>8</sup>



“ The main reason I use Card-Linked Offers is that I get this **personal connection**. ”

- Hordur Agustsson  
 Founder and CEO of Macland

A financial activity feed where every day transactions are mixed with personalised insights, advice, Card-Linked Offers and more is a great way for banks to engage with their customers.

## How CLOs drive engagement

Up to **200%** increase in login frequency

**15%** growth in transaction volume

Successful programme should be able to activate **>50%** of active digital customer base

However, the CLO market is still evolving, and is far from realising its full potential. Today, most CLO programmes are still quite generic; targeted indiscriminately at all customers - ‘use your payment card to purchase from a certain retailer and get 10% off’, for example. On the left hand side you can see some of the performance metrics reported by successful CLO programmes to date. While impressive, we believe the full potential is much more.

Banks need to be at the cutting edge of personalisation and can learn from Google, Amazon and Facebook, where advertisers are able to target segments of users based on their searches, interests or browsing patterns. Underlying data, such as previous purchases, is the best indicator of future purchases. But success here requires scale. Banks can differentiate themselves from the competition with clever use of their large-scale customer data.

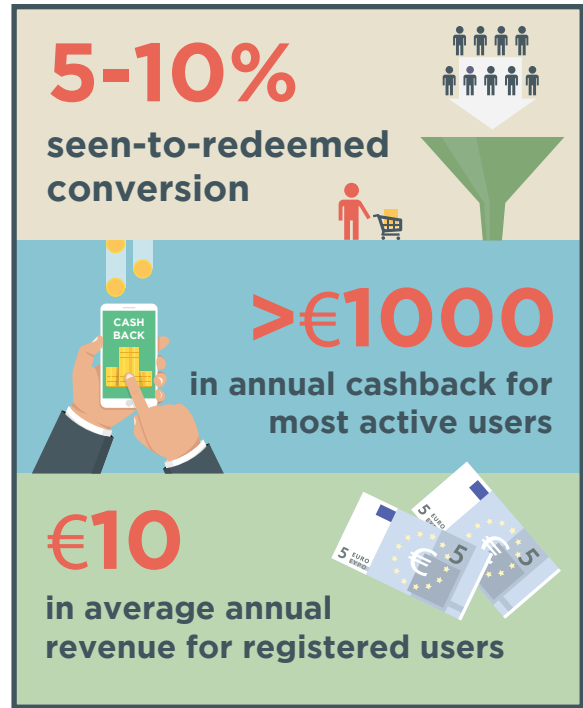
Key to a successful CLO programme is effective integration of the offers into everyday banking. For example, by serving offers as part of a financial activity feed at the heart of the mobile banking app - similar to social media feeds, but where customers receive personalised insights, advice, offers and recommendations all in one and on the same engagement channel within their digital banking environment. A CLO tailored to the spending patterns of the individual will drive many more people to actually look at their online or mobile bank. Then, banks can present customers with personalised offers from shops that the data indicates they like.

\*Example results from active CLO programmes

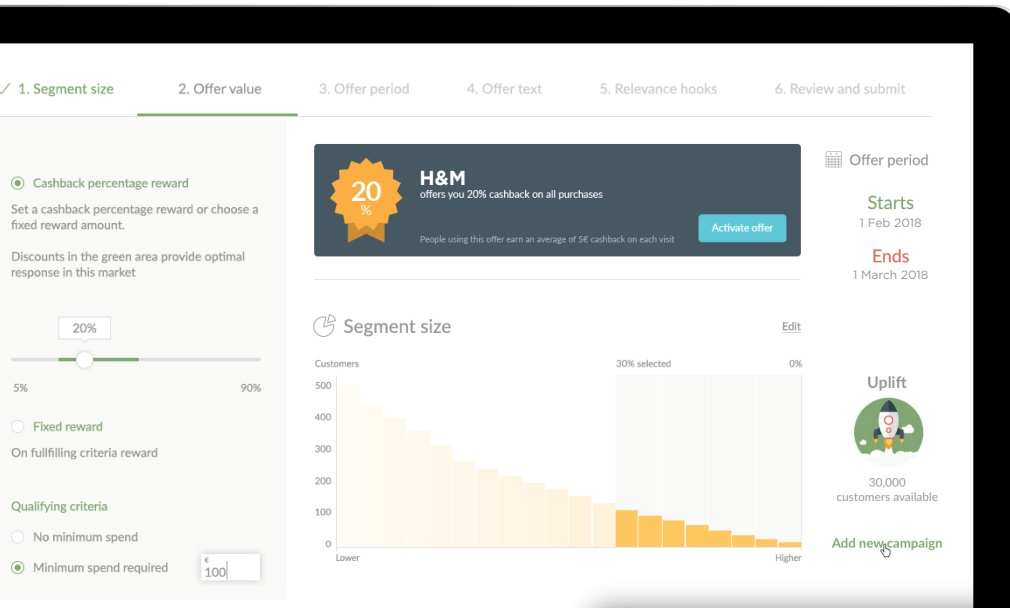
# Card-Linked Offers deliver measurable results

Many targeted marketing programmes describe themselves as ‘performance-based’, when in fact they are constructed around pay-per-click or pay-per-view, or they focus on rates of converting customers from online to offline, rather than actual revenue. Working with Meniga, merchants only pay for real performance. That means that they can target a group of customers – say, 10,000 people that have never shopped at their store before – send them a CLO of a 20% discount and only pay the 20% discount if people actually shop.

If the merchant is receiving £100,000 revenue, it will pay back £20,000 – but only when it receives five times that amount into its bank account.

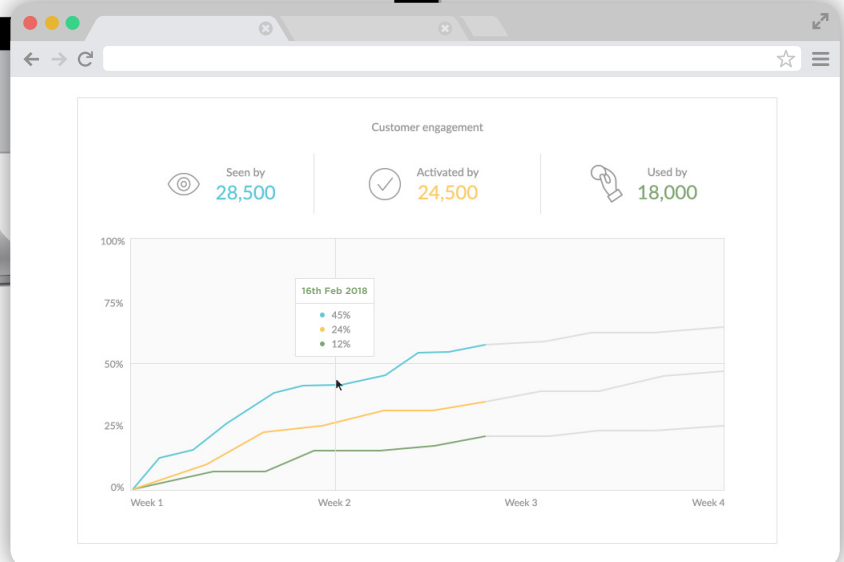


\*Example results from active CLO programmes



*An easy-to-use and intuitive web based portal is key; it allows merchants to create and manage tailored campaigns for customers of financial institutions, as well as track the success of campaigns in real-time with detailed reports and ROI calculations.*

*The portal can be seamlessly integrated as a banking service for business customers.*



“ Using Card-Linked Offers as a marketing medium has a real advantage over conventional media because you can **really track the actual purchase**. You are not tracking clicks on a website or how many times a customer is exposed to a certain ad. You are getting down to the dollars and the cents of **what actually happened**. ”

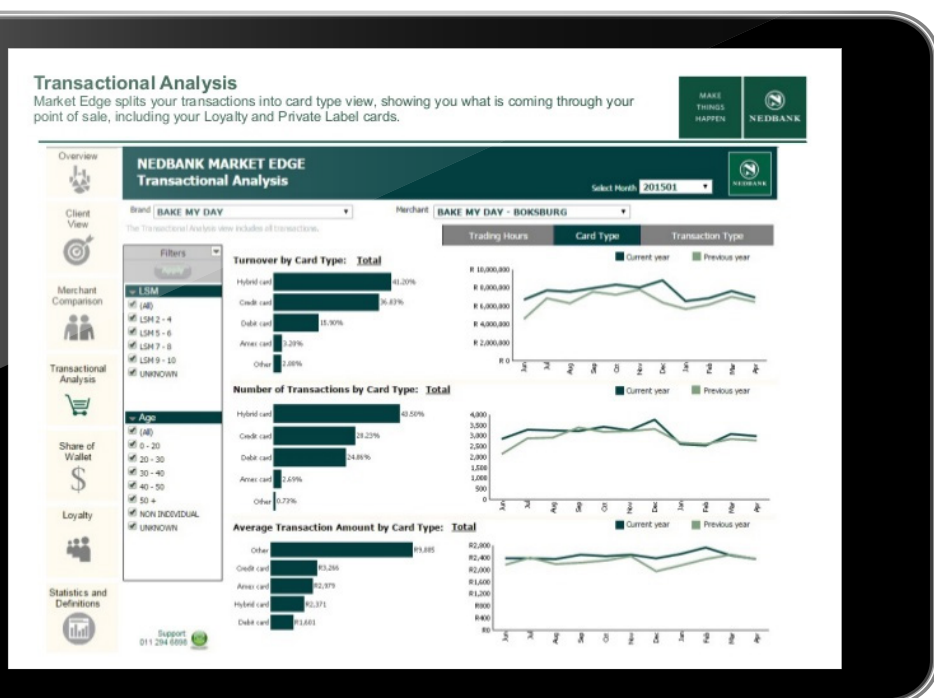
- Kristjan Bergmann  
 Director sales and marketing at Hertz

### III. Real-time market insights: informed decision making with customer data analytics

As well as putting customer data at the heart of CLOs, banks can also use customer data to provide marketing insight services. Out-of-the-box customer data does not translate into business value. However, as with CLOs, once transaction data is consolidated and enriched – it can be turned into marketable insights

Aggregated customer data means that banks are in an excellent position to develop compelling, real-time market insights for their merchant customer base.

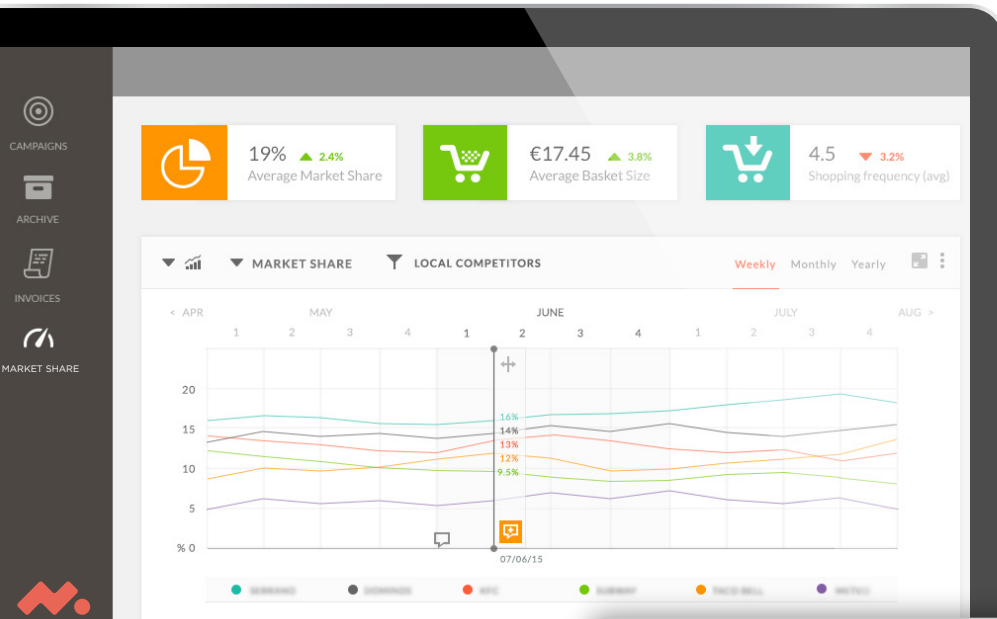
Using real-time market insights, banks can grant access to live, real-time information portals or create business insight reports that provide a clear picture of how a business is performing. For example, banks can provide merchants with data showing how they are performing against the competition’s sales in a defined geographical area or track market share development on a weekly basis against key competitors. Merchants can compare their share of the customer wallet across markets and competitors, and track average ticket size and recency in comparison to rivals.



Nedbank launched their MarketEdge market intelligence platform in South Africa last year and are marketing this towards their corporate customer base

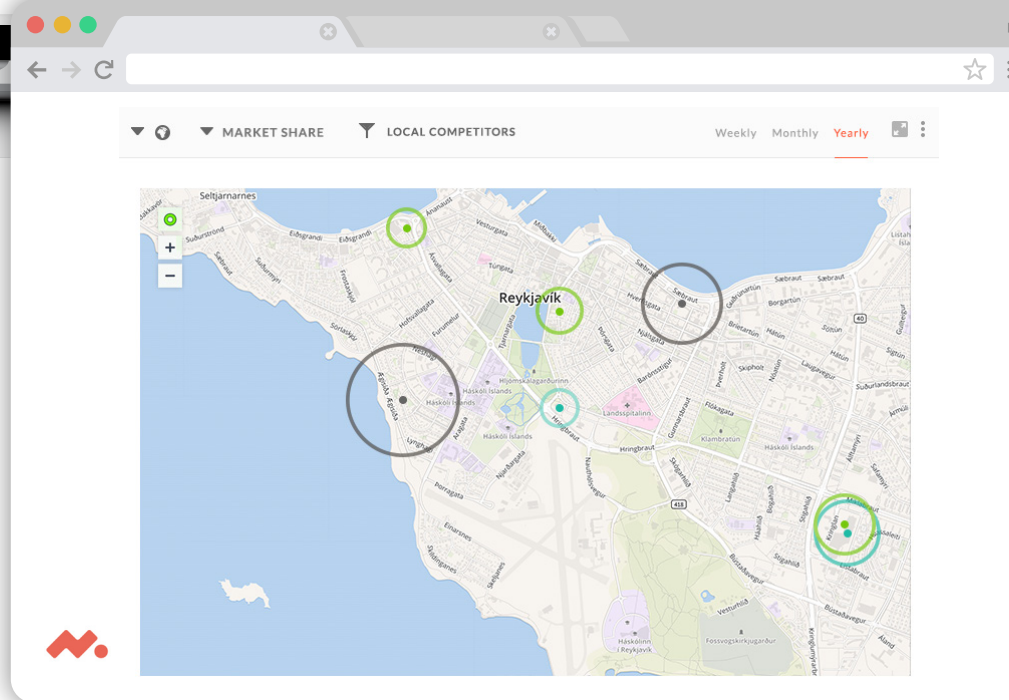


Using customer data that shows exactly where people are spending their money on groceries, a grocery store could establish beyond doubt that they have a 20% market share in their territory. When a marketing campaign is completed, the grocery store can see hard evidence as to whether market share has gone up or down in response to the campaign.



Banks can also use these reports to demonstrate the value of CLOs and sell them into merchants. For example, the bank's data might show that customers did a lot of Christmas shopping before December, so it might make sense for merchants to schedule CLOs related to Christmas purchases for October and November.

Providing this kind of real, actionable business insight strengthens banks' relationships with merchants and helps business customers make better decisions.



## IV. Getting started

Banks looking to reap the benefits of CLO or real-time market insight programmes need to get their house in order. The first step is to gather all your data in one place. This is the starting point for everything else. All transaction and financial product data such as card and account transactions – along with other core banking customer data such as that held in customer relationship management (CRM) systems needs to be readily accessible without over-loading core banking systems.

Once customer data has been consolidated into a single repository, it's time to enrich the information with third party data sources such as merchant directories. The final step is categorising the information to create insights. Consolidation, enrichment and categorisation should be dynamic, as the system learns from each user interaction and adapts marketing offers to suit.



# Start serving Card-Linked Offers to your customers

Before embarking on a targeted CLO program, there are several important strategic choices to be made. Here are some starting points:



## 1. Be clear about strategic goals.

What is the most important outcome for you? Increase engagement, drive new revenue streams or cut costs?



## 2. Decide on target audience.

CLOs are not just for millennials receiving fast-food discounts. They can be tailored towards all audiences as long as they are personalised with offers that make sense based on previous spending.



## 3. Decide which digital channels will work best for offers.

CLOs can be part of everyday banking, a special offer app or both. Whichever channel you use, transparency is key – let the customer know why they are receiving an offer tailored specifically to them. See below example of how this can be integrated into a mobile banking setting

**Offer discount**

**Offer duration**

**Constraints & requirements**

**Merchant details**

**Merchant location**

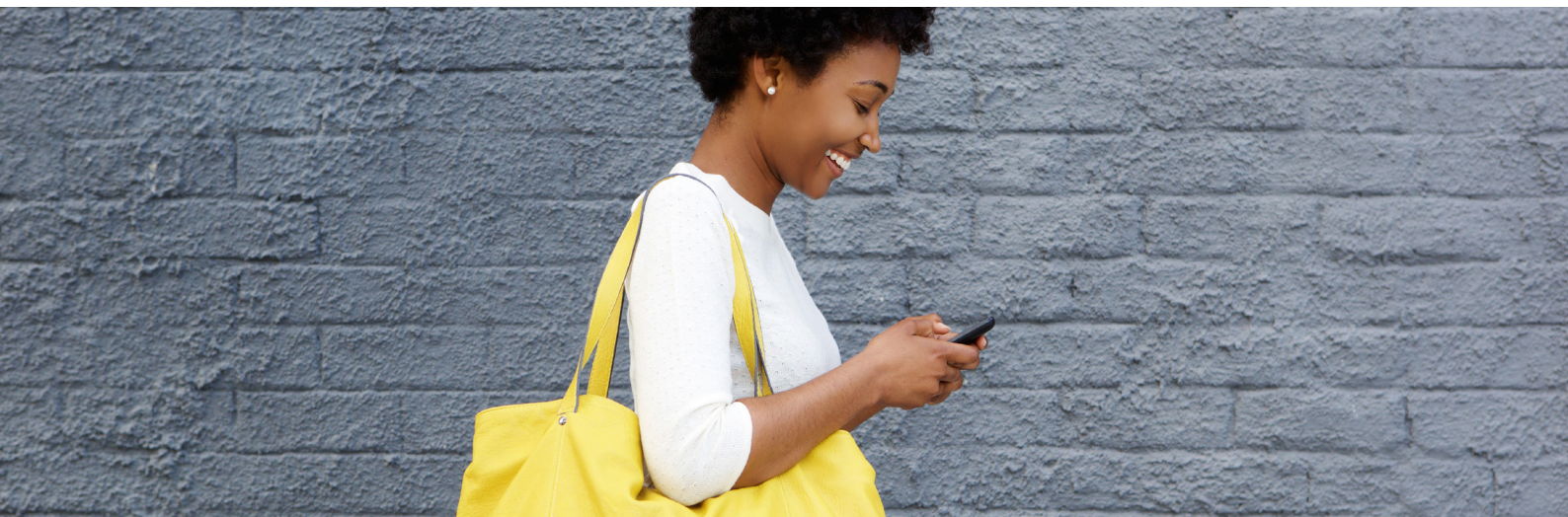
**Additional offer details**

**Activation button**

Transparency is key to a successful targeted CLO program. Whichever channels you choose you need to effectively design information depth into the user experience.

## 4. Decide on your strategy for sourcing offers.

The merchant offer-sourcing programme is a key component of any high-quality CLO. The first thing to decide is if the bank wants to be responsible for sourcing the offers or whether to use one or more offer-sourcing partners. Using partners typically means giving away a higher portion of the CLO revenues but saves on time and effort. Sourcing offers typically means setting up a local sales force that builds partner relationships and secures the right balance of quantity and quality offers before launching CLOs to all of the bank's customers. To scale the programme, banks should consider working with a vendor that can offer a self-service merchant portal to host merchant campaigns. This ensures a higher retention of merchants within the CLO programme and reduces the cost of maintaining and building recurring campaigns.



## Start creating real-time market insights

There are several possible starting points for banks interested in utilising their data to create and provide real-time market insights. Banks can start utilising real-time market insights in several powerful ways:

### Give the bank's business analytics team new data sources to base research on.

Adding enriched data to existing data lakes will allow business analytics teams to use more powerful data to base research, predictions and industry reports on.

### Improve reporting and advice for corporate client meetings.

When advising, corporate clients reports can be augmented with market insights.

### Add a special 'market insights' section to corporate online banking.

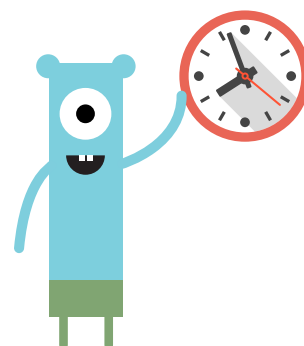
The bank can allow its corporate customers access to real-time market insights by integrating the functionality in the online bank or mobile channels.

### Make market insights available to non-banking clients.

Bank can make real-time market insights available as an online stand-alone service, servicing non-banking clients.

### Use real-time market insights to drive partnerships with merchants for CLO.

Data insights and actionable suggestions can be made available as part of a CLO programme. Merchants can receive market insights reports to push CLOs at the right time to the right customers.





## V. Data privacy

Europe's data protection rules are about to undergo their biggest changes in two decades, with the General Data Protection Regulation (GDPR) coming into force on May 28 2018. GDPR will mean new rights for customers to access the information a business holds about them, obligations for improved data management for businesses, and a revised regime of fines.

Transparency and ensuring that customer data is safe is a key component when implementing solutions such as CLOs. According to research by Strive Insights<sup>9</sup>, consumers are open to trialling new digital providers – 69% said they are willing to test a new product if it offers a clear benefit, regardless of who is offering it. Some 65% agree that banks, rather than new digital providers, are most likely to offer those high-quality financial services. In fact, 90% feel uncomfortable about third parties accessing their data to build new products and services.

It is important that privacy is respected and that customers are put in control of their personal finance data – banks are just custodians. New offerings and programmes need to put a high focus on transparency, explaining the value of opting in to the customer, and get an opt-in approval from participating parties.



## VI. Switch on the data value stream

Banks must act now to realise the value of customer data. The latest technology can help support banks as they make transformational use of their customer data to create new revenue streams and drive customer engagement in online and mobile banking. But this is not all about technology. It is also about new ways of working and developing relationships with merchants, customers, local business communities and marketers. Communication and engagement is at the heart of this. Customers must see regular, personalised communications and offers from their banks that make them feel that they are understood.



Banks are working hard to open up customer data. Taking this one step further by consolidating and enriching the data presents a real opportunity to maximise return on investment in new open data platforms.



## **Do you want to build meaningful customer engagement and develop new revenue streams? Do you want to make data work for you as it does for the Amazons and Facebooks of this world?**

If you are not making the very best use of your customer data, get in touch with Meniga and we can help you find new opportunities.

We offer a complete infrastructure for bank-based Card-Linked Offers and market insights. Our CLO and market insight algorithms are delivering market-leading metrics and our data platform is proven across over 23 markets.

Would you like to chat about how you can tap into our customer data expertise? We can share insights, train your people, collaborate on CLOs and help you develop real-time market insights services. We also offer a fully outsourced service to help data drive your revenues.

Contact us for a no-obligation conversation about how your customer data could work for you.

## VIII. References

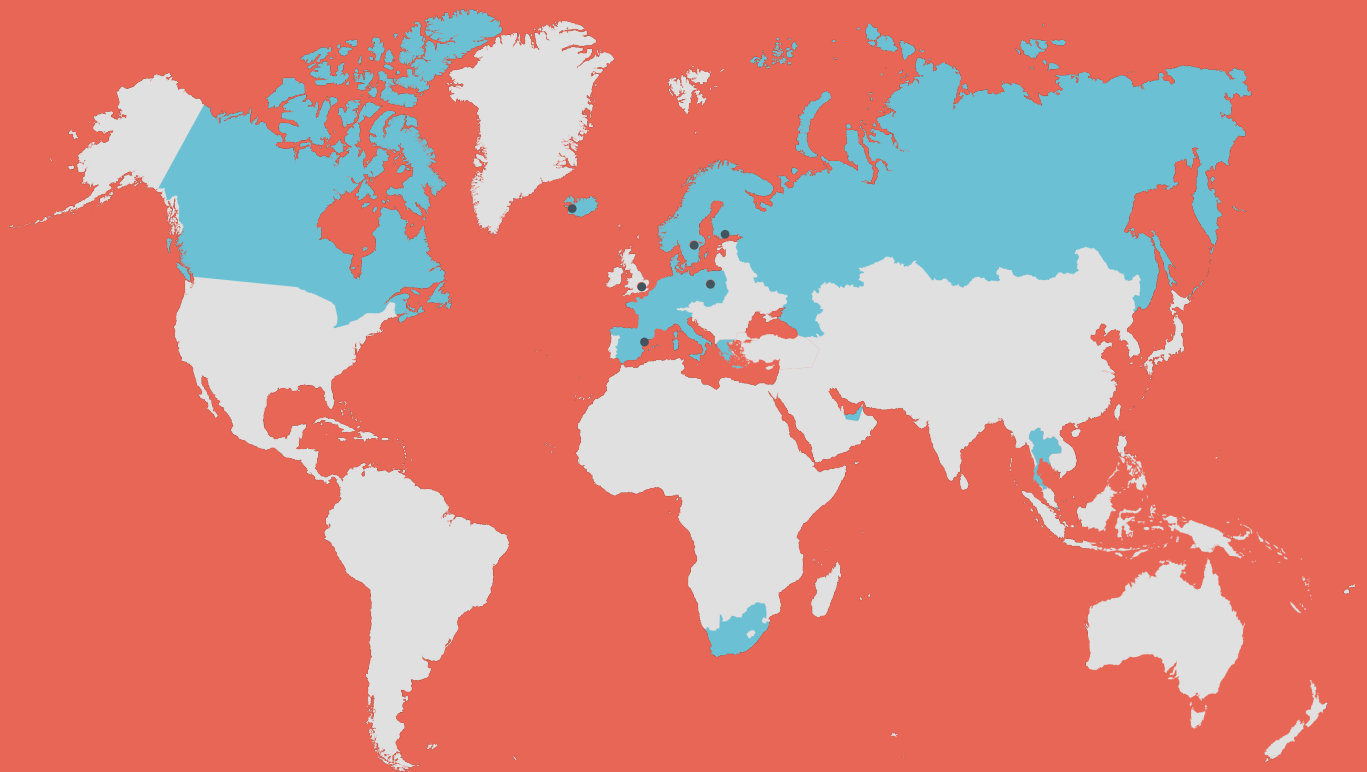
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- 3 <https://www.strategyand.pwc.com/media/file/Catalyst-or-threat.pdf>
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# Meniga helps leading banks worldwide build meaningful customer engagement and develop new revenue streams.

Meniga is a global leader in white-label digital banking solutions. Its award-winning products enable the world's largest financial institutions, such as Unicredit, Santander, Swedbank, BPCE, Commerzbank, Intesa, UOB and ING Direct to personalise and dramatically improve their online and mobile digital environment, enriching the user experience of over 65 million digital banking users across 30 countries. Meniga has developed a framework for next-generation digital banking around advanced data consolidation and enrichment, meaningful customer engagement and new revenue opportunities. Meniga's offices are in London, Reykjavik, Stockholm, Helsinki, Warsaw and Barcelona.

Meniga was awarded "Best of Show" at Finovate Europe in 2011, 2013, 2015 and 2018, "Best Company" at European Fintech Awards 2017 and was featured on Fintech50 in 2014, 2016 and 2017.

Meniga was founded in 2009 and is headquartered in London, UK



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