



# For Card Operations, Three Ways to Do More with Less

Focus on Improving Service, Dispute Resolution, and Authorizations

*By Catherine Weis and Steven Russell*

**F**or many years, U.S. consumers had been adding to their credit card debt at an annual pace of more than four percent—until the economy buckled in 2008. Beginning that summer, growth of revolving debt slowed, then went negative during October through December. With reduced portfolios under management, the challenge for banks is twofold: (1) How can you retain good customers and motivate them to put your card at the top of wallet? (2) How can you accomplish this when you have a mandate to cut costs wherever possible?

With fewer resources available—both people and money—banks need to focus their limited investments on areas of operations that provide the greatest return. MasterCard Advisors believes there are three components of card operations where working smarter can significantly improve portfolio profitability: customer service, disputes and chargebacks, and authorizations.

## **THE SERVICE IMPERATIVE**

Strikingly, about half of the customer defections from a retail bank studied by Frederick Reichheld and Thomas Teal in their

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book, *The Loyalty Effect*, “resulted from problems... such as customer service and problem resolution.”<sup>1</sup> How then can issuers retain good customers yet not drive up service costs?

While service excellence is obviously important to all cardholders in times of economic turmoil, there is every reason to segment service levels just as issuers do their cardholders—by each customer's lifetime value to the business. (For more information on cross-sales, see “Boost Acquisition ROI by Looking in Your Own Back Yard” in this issue.) MasterCard Advisors recommends an approach that combines segmented and automated service. Accounts should be “flagged” or identified within an issuer's Customer Relationship Management (CRM) systems so that the most important customers are sent to the front of the phone queue. And once the customer reaches a live customer service representative (CSR), that CSR or any other can handle the call. Called the universal rep approach, this method is the most efficient one for the majority of portfolios. Through our many operations efficiency engagements, we have learned that:

- Interactive Voice Response (IVR) messaging should be tailored by segment
- Some performance standards—such as wait times—should vary by segment, with the best segments going to the front of phone queues
- Universal reps should be thoroughly trained and given the proper tools to assist *all* customers

The exception to this last point pertains to those issuers with large segments of high-value customers who are most likely to be good candidates for cross-sales.

Many issuers (and other industries as well) have learned a painful lesson from their attempt to lower service costs by outsourcing it. Yes, it is cheaper—typically by one-third—but outsourced reps who are poorly trained or insufficiently knowledgeable about products have also tarnished reputations and relationships. As a consequence, smart issuers have brought some front-line servicing back in-house or at least on-shore, particularly to serve their best customers.

Some organizations are implementing “virtual call centers” that provide high levels of service while shaving costs. The benefits of virtual agents—human CSRs who work remotely in lower-cost locations—include reduced expense for labor, real estate, construction, furnishings, and recruiting; reduced employee absenteeism and turnover; and the ability to more easily service foreign customers globally with local personnel. The concerns with virtual agents are mostly in the area of security, as issuers need to employ technology to ensure that sensitive data is kept secure.

#### DIY Means Greater ROI

Beyond the call center, issuers who need to do more with less should automate as much as possible and shift more functions to do-it-yourself (DIY) service. Even the affluent want to get things done as quickly as possible, and often talking to a human being is *less* efficient (purchasing airline tickets being a good example). As consumers become more tech savvy and the customer base keeps gaining younger consumers, it's in issuers' interest to move service online. Provide incentives for customers to receive their statements electronically and make payments online. Doing so will cut down tremendously on service calls and statement processing.

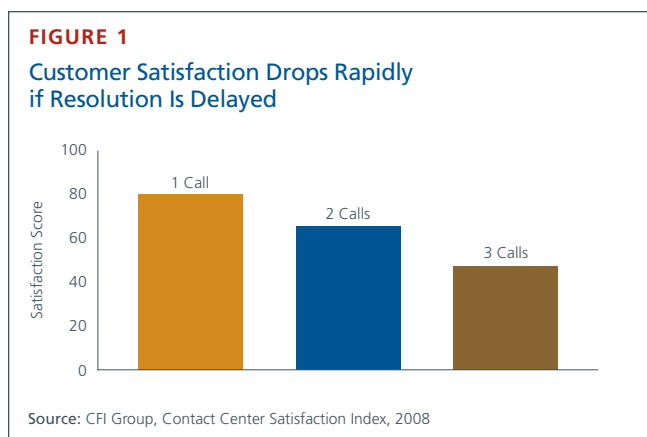
Likewise, use expedited procedures to resolve merchant disputes. Enable customers to register their disputes online or through IVR, accept e-mail, and streamline procedures to speed up the process. (In addition, ask employees on the front lines for ideas and reward them when their suggestions are implemented.) If these steps are done properly, customers will be even more satisfied. Moreover, it costs almost nothing to handle an inquiry online and only about \$0.25 through IVR, while a call to a CSR averages \$3. An issuer with one million cardholders, for example, can save more than \$80,000 annually by moving just one percent of its customer service calls to IVR or the Web.<sup>2</sup> Every second you can save on your CSR reps' time adds to the bottom line.



### Do It Right the First Time

When you *do* need to take a call that requires human intervention, the single most important goal for your organization should be first-call resolution. Completely resolving a customer's question might require 10 minutes on the phone, but that's much better than forcing the customer to call back and explain the issue to a second CSR before finally having their issue resolved. Satisfying the customer should be the goal—not reducing talk time—and that, in turn, will lower issuers' costs.

If employees are knowledgeable, well trained, and empowered to take appropriate actions, they will be able to resolve most issues on the first call. This is critically important, as customer satisfaction drops significantly the longer resolution is delayed (see Figure 1). Many studies have shown that customers will drop the cards of those issuers whose service they find lacking. On the other hand, cardholders who are satisfied with the outcome of a service call are much more likely to recommend your card to others.<sup>3</sup>



If you currently lack the ability to track first-call resolution properly, adding this metric should be a priority. First-contact resolution also has broader implications for your organization; “putting the customer first” changes how you hire, train, and compensate employees.

### OPTIMIZE DISPUTES AND CHARGEBACKS

In this environment, everything is changing—including incidents of fraud, chargebacks, and other disputes. As more consumers lose their jobs, issuers may experience a rising number of disputes, as cardholders look for ways to lower their account balances.

The best way to avoid a build-up of spurious disputes is for issuers to have effective front-end and back-office processes. This begins with the very first customer inquiry to the telephone agent: Properly trained, the CSR will know how to ask the right questions to “challenge” and uncover bogus or invalid disputes—or help the cardholder determine the true nature of the transaction. Preventing disputes from entering the inventory on the front end can save issuers precious time and money.

#### Speed Up the Resolution Process

Once a dispute is in the issuer's system, it often takes up to 90 days to resolve it. This is where well-designed back-office processes can make all the difference. Every day you can cut from the resolution process reduces labor costs and increases your chances of recovery. Issuers should take advantage of expedited billing dispute forms, reduce cardholder documentation requirements, and implement electronic communication with cardholders, including electronic signatures. With new card legislation on the horizon, issuers will soon feel even more pressure to quickly resolve disputes.

Naturally, cardholders should be held responsible for legitimate transactions. To increase your win rate, develop effective cardholder challenge and talk-off scripts. Once a dispute is in the system, make sure the investigation gathers all of the information needed to quickly resolve it, including required documentation from cardholders.

Another way to process disputes efficiently is to segment customers. All issuers understand that certain portfolio segments deserve different treatment. That's even more true as the number of desirable customers falls and competition increases. Policies and processes must be unique for certain segments, requiring distinct decision matrices, scripting, and write-off threshold calculations.

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### Know When to Hold and When to Fold

Do you know exactly how much it costs to process disputes and chargebacks? Your total costs vary according to chargeback type, reason code, chargeback cycle, merchant category, and even acquirer. Issuers need the analytic tools to know which chargebacks are worth pursuing, based on the amount of money at stake and the chances of winning. And for those chargebacks not to be processed, a decision matrix—including such factors as overall profitability and attrition risk—helps determine which disputes to write off as losses and which to bill back to the cardholder.

### BOOST AUTHORIZATION RATES

Our final recommendation is a tactic that delivers excellent results for the effort involved: fine tune parameters for authorization. Cardholders expect their purchases to go through without a hitch, while issuers and merchants alike want to safeguard customers from fraudulent transactions. Accomplishing both of these goals simultaneously is challenging, and stories abound of issuers who got it wrong. There's nothing more embarrassing for a cardholder than to be declined in the checkout line, and if that happens more than once, you can expect to lose that customer.

That's why even incremental increases in approval rates can have such a large impact on bottom-line profitability—and make all the difference in terms of cardholder loyalty and future spend. However, authorization strategies have to be aligned with an issuer's chosen segments as well as its risk and fraud strategies. Setting authorization parameters—which today means fine-tuning policies for each portfolio segment—requires flexible, up-to-date information systems and tools along with smart rules and procedures that address authorization and customer service issues in a timely and effective manner.

### WORK SMARTER, NOT HARDER

Maximizing operations productivity while delivering an outstanding customer experience is a challenge in the best of times. With tighter budgets, operations executives seeking to keep their customers satisfied and loyal would do well to consider the strategies outlined here:

- Provide segmented customer service to retain your most profitable customers
- Increase efficiency by expanding opportunities for self service and improving such back-office processes as disputes and chargebacks
- Hold on to your best employees and train them to optimize first-call resolution; rethink the use of outsourcing for your most highly valued customers
- Benchmark your authorizations performance and aim to maximize approvals while mitigating risk ●

- 1 Frederick F. Reichheld and Thomas Teal, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*, 1996, page 197.
- 2 Typically, 25 percent of active accounts contact customer service monthly. If 1 percent of those callers switch to IVR—saving the issuer \$2.75 on each call—that adds up to \$82,500 over one year on a portfolio of 1 million accounts.
- 3 MasterCard Advisors Payments Panel 2008 Master Survey.



Catherine Weis is the Global Solutions Leader of the Operations Efficiency team within MasterCard Advisors. She and her team help issuers worldwide to drive performance efficiencies, service improvements, incremental value, and measurable financial benefits from their operational environments. Based in Wilmington, Del., Ms. Weis can be reached at [catherine\\_weis@mastercard.com](mailto:catherine_weis@mastercard.com).



Steven Russell is a Senior Managing Consultant on the Operations Efficiency solutions team of MasterCard Advisors. He specializes in optimizing back-office policies and processes to enhance dispute management and authorization strategies. Based in Miami, Fla., Mr. Russell can be reached at [steven\\_russell@mastercard.com](mailto:steven_russell@mastercard.com).

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