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# Play your cards right

An industry article from ACI

As banks review their business following the financial crisis, card processing has been identified by some as having potential for greater revenue generation. To date, banks have approached two different strategies for card processing: many banks have outsourced their card processing, as the function has been viewed as a commodity, generating little additional value. By contrast, other banks have chosen to keep this function in house, but in doing so, have become weighed down by multiple legacy card systems that reduce their ability to innovate and take advantage of market developments.

## → Banks are now beginning to view cards as an important part of their business that can be leveraged for significant gains.

As the card market grows, so too does its revenue potential. With an estimated 80 million debit cards in circulation in the U.K. in 2009, the cards market has become a significant one. And in the U.S., the average credit card holder has 3.5 credit cards<sup>1</sup>. As a result, banks are now beginning to view cards as an important part of their business that can be leveraged for significant gains and are reviewing their card processing strategies, whether they are currently in house or outsourced.

### **Leveraging the value of card processing**

For those banks that have in-house card systems, perhaps the biggest challenge to taking advantage of developments in the cards market is that current systems are based on legacy technology which is particularly inflexible and costly to maintain, upgrade and integrate, making it difficult to respond to market innovations, such as prepaid and loyalty schemes. Legacy systems also

prevent banks from gaining a 'single customer view' which is valuable when analyzing customer data in order to develop customer profiles and provide the best possible customer service. Without this ability, banks could increasingly risk losing a valuable customer relationship.

In addition, recent acquisitions such as Banco Santander's acquisition of Abbey National or Lloyds TSB's acquisition of HBOS have placed added pressure on the banks' dated card systems. These systems were not originally designed to handle the enhanced volumes of transactions following an acquisition or merger. Increased merger and acquisition activity also significantly raises the levels of customer data that banks must absorb, placing added demands on the banks when trying to gain a complete overview of their customers. Despite the best of intentions, many banks have not yet centralized their systems and are therefore not gaining from the potential and significant savings.



In today's global business environment, cross-border transactions create further complications. Where mergers and acquisitions are cross-border and cross-currency, there is a need for the card systems to handle multi-currency activity. Banks often find themselves in a situation where they need to upgrade their card systems so they can process transactions for and from several institutions from one central hub, rather than having to manage multiple card management systems placed in different silos within the bank. In order for systems to handle the extra demands of cross-border transactions, they must operate on a multi-national platform and offer a highly integrated secure transaction process.

It is important that banks equip themselves to handle the demands being placed on their card systems as a result of growing merger and acquisition activity and cross-border transactions. Banks need a flexible solution that can be easily managed and adapted in order to provide

their customers with a fully operating card processing service. Flexible systems are key for banks to innovate easily, adapt to market changes, process multi-type cards from one platform, gain a single customer view and, importantly, gain significant operational cost savings.

### **Bringing card processing in house**

For those banks that have previously outsourced their card operations, the decision to bring card processing in house is becoming more compelling. While the move would necessitate an up-front investment in modern systems capable of handling the demands and volumes associated with card processing today, there are several advantages that would be unwise to dismiss without proper consideration.





Cards can offer financial institutions a broad, sophisticated and strategic opportunity. If building a robust, healthy global brand and card business is high on the bank's strategic agenda, then directly owning and managing the relationship with card customers through in-house processing presents compelling business, financial and strategic advantages.

First of all, managing card processing in house gives banks more control over their systems. With banks taking the responsibility for developing, improving and updating their card offering, banks gain the opportunity to be first to market with new, innovative, high value products and services.

Secondly, in-house card processing provides substantial operational cost savings for banks. By centralizing and consolidating their systems, a more efficient process is put in place, and having one, rather than numerous platforms from which multiple card processes are managed, is significantly more cost efficient.

Finally, having a card processing system in house gives banks direct control over customer information and activities. With the flexibility that comes with owning the system, banks can then strategically offer individual customers more relevant, attractive and useful card

products to suit their individual needs. As a result, banks achieve greater brand relevance, value and loyalty across all segments of their customer base.

### **What does the future hold?**

While bringing card processing in house places further pressure on banks to provide an efficient and reliable service, there are many benefits such as substantial cost savings, the opportunity for banks to innovate in tandem with market demands and the benefits of having a full view of their customers' activities.

From the other perspective, as banks now dare to look beyond the crisis, many are facing up to the fact that running siloed legacy systems is a costly undertaking and that prohibits them from taking opportunities to evolve their business model.

From either standpoint, it is important that current market players have the ability to be flexible and agile in order to adapt to the changing market and growing opportunity. This notion of agility is equally important for the card processing part of a bank's business as any other function. As financial institutions start to see the strategic advantages of card systems, perhaps the card business will no longer be categorized as just another commodity product and start bringing the banks true value.

<sup>1</sup> "The Survey of Consumer Payment Choice,"  
Federal Reserve Bank of Boston, January 2010



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