

Back-End Alterations Help U.S. Bancorp Tailor Products

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By [Marc Hochstein](#)

In a highly competitive credit card market, U.S. Bancorp's 2-year-old affinity card business is trying to differentiate itself even while it plans to cast a wider net by lowering the minimum FICO score it requires for a customer to qualify for affinity cards.

A relative newcomer to affinity cards, U.S. Bancorp says it can create customized programs more easily than competitors that have been in this niche longer.

A recent example it points to is a card it introduced last month targeting Jews and supporters of Israel. A percentage of the spending on the card is donated to up to five Jewish charities chosen by the cardholder from a network of 15. Spending with the card also earns points redeemable both for standard rewards, like miles on U.S. airlines, or for ones that would appeal to this segment, like Judaica, kosher food, or travel to Israel.

Heritage Affinity Services of Cedarhurst, N.Y., designed the program, markets the card for U.S. Bancorp through Jewish and pro-Israel organizations, and recruits the charities and the merchants that disburse the unusual rewards. (The standard ones, which also include George Foreman grills, come from U.S. Bancorp's rewards platform.)

Of course, ethnic marketing is common in financial services, and U.S. Bancorp itself has similar cards that combine charitable giving with tailored rewards - such as a Sons of Norway card that offers points for travel to that country.

However, "we have moved further" with Heritage "than any other partner we have in terms of the amount of merchandise, travel ... [and other] things related to the program," said Tanya Turner, U.S. Bancorp's senior vice president of affinity products.

Offering the card entailed incorporating the many partners involved into back-office processes - for example, wiring U.S. Bancorp's rewards vendor, Maritz Inc. of St. Louis, directly to El Al Airlines, so a cardholder can easily book a flight to Israel.

Doing so would be harder for an issuer that has thousands of affinity partners and processes that have been in place for a decade, Ms. Turner said. "You need to make some changes to back-end fulfillment that might not necessarily be justified for one or two partners." Though U.S. Bancorp has a standard rewards program for affinity groups that want it, it offers customization to all, she said.

Zev Dobuler, a Heritage co-founder and co-chief executive, said flexibility was the reason his firm picked U.S. Bancorp over several other issuers that expressed interest in the program.

For example, he cited the Minneapolis company's comfort with issuing a card that comes in four versions - one that has a picture of Jerusalem's Wailing Wall, one with the Israeli and U.S. flags, one with a Star of David, and, for those consumers who do not want to display their affiliations so prominently, one that bears a simple ray of light.

Ms. Turner said a machine manufactured by Datacard Group lets U.S. Bancorp print cards with several different graphics at once cost-effectively, rather than having to wait for a critical mass of orders for any image.

Since Nov. 20 more than 500 of the HAS Advantage cards have been issued, according to Heritage, which projects that several hundred thousand will be issued over seven years.

Banks are realizing "little by little" that the satisfaction of supporting a charity or other affinity group is not enough to get consumers to switch to, or use, a card, Mr. Dobuler said.

Spending on rewards cards is quadruple that of affinity ones, he said. "In the future the affinity model needs to take rewards into account." (Heritage gets a cut of the interchange from the HAS Advantage card.)

Mike Stephens, a managing director at Advantage Consulting Group, which represented Heritage in its search for a bank issuer, said other affinity cards offer rewards, but they tend to be "generic." It is rare to find rewards "tied to the underlying goals" of the affinity group, he said.

Ed Lawrence, a managing associate at Auriemma Consulting who deals with affinity cards and is not involved in the HAS Advantage program, said footing the bill for both charitable donations and rewards "eats away at interchange."

For such an arrangement to be profitable, an issuer would count on either a good number of accounts revolving or customers taking other products, he said.

Menachem Landau, Heritage's other co-founder and co-CEO, says it is looking at creating versions of its program for other ethnic groups, such as Russians, Portuguese, Jamaicans, and Colombians.

There may be a limit to banks' willingness to segment along these lines, however. Some issuers Advantage approached about the Heritage program "didn't want to touch it," Mr. Stevens said. "They didn't want to be seen as favoring one religious group over another."

On the other hand, Mr. Dobuler said Heritage was surprised that the most popular of the four designs for the Heritage card has been the Wailing Wall image, chosen by 75% of customers; the ray of light has had the fewest takers.

A lower minimum score for U.S. Bancorp's affinity cards goes into effect Jan. 1. Ms. Turner would not say what the new floor would be but put the current one in the neighborhood of 620.