

Why should banks own loyalty programmes

The loyalty challenge

Loyalty schemes are a valuable way to encourage regular spending. Done right, they can enable businesses to retain and grow their customer base. But getting them wrong can be costly and damaging. In order to be worthwhile, rewards and loyalty offerings should be cost effective, have high perceived value for the customer, and drive the desired behaviour for the business.

SMEs have long struggled with creating effective loyalty schemes for three main reasons:

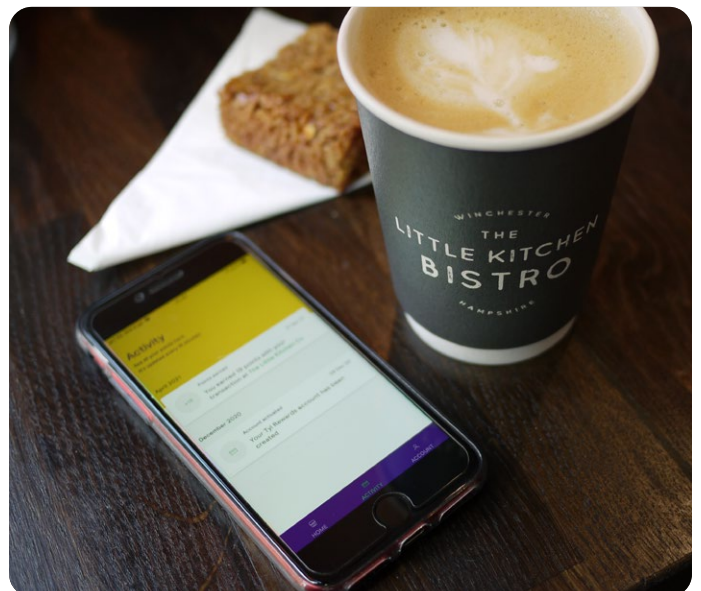
1. **Cost** – The cost of implementation can be expensive. Beyond the upfront expenses of tech, there are ongoing data and analytics requirements to keep rewards relevant, the need for staff training, and marketing of the rewards.
2. **Value** – For consumers, there has been a perception barrier around the value exchange. Consumers need to know they'll get a certain threshold of value back before they are prepared to sign up. For supermarkets or petrol stations, this is easy. The average consumer spends \$4,099 a year on groceries. So 1% back is worth having. Your regular coffee shop works too – a £20 a month pret coffee subscription means three coffees a week cost 95p each. That's rational. But it's harder for a consumer to rationalise signing up to a retailer they might visit less regularly.
3. **Trust** – there has been the trust issue. Even though consumers are becoming more comfortable sharing data, it's still a huge sticking point and requesting too much information from a customer with no visible return can cause suspicion.

Banks and loyalty programmes

Banks have long been a player in the loyalty arena, but their potential has yet to be fully recognised.

Historically, banks have run loyalty programmes on the card issuing side of their business. They offer customers “points” or “cashback” as an engagement tool to drive use of that particular card – versus another card, or cash. Think of Club Lloyds, Santander 123, or Chase rewards. Card issuers used to use the profit from interchange to fund these rewards.

But as interchange is being regulated, we often see the rewards disappear.



A new role for banks: Acquirer-side loyalty

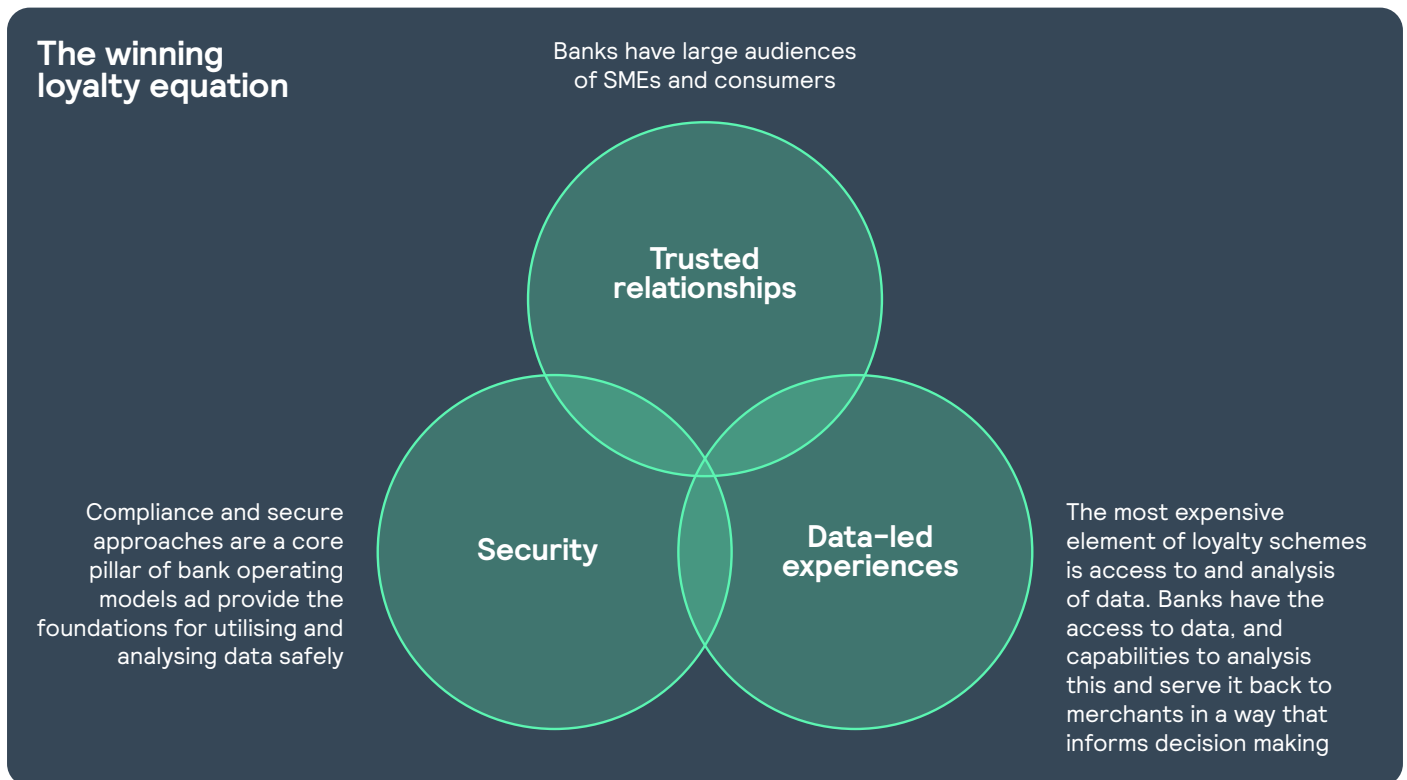
Whether banks or stand alone acquirers, these companies have the transaction data to enable a loyalty platform, and shift the consumer relationship back from issuers to the merchants.

Creating a platform that SMEs want to use and is valuable leans on the core strengths of banks and their customer relationships.

Fundamentally banks have the opportunity to own the loyalty space if they can reduce the time and cost for

both consumers and SMEs in finding and redeeming loyalty, offers and rewards. SMEs are desperate to retain their relationships as they continue to be disintermediated by aggregators from ecommerce platforms to buy now pay later providers.

Have we lost the point about the value in connecting transactional data, across merchants to create a single customer view?



Is loyalty Banking's silver bullet?

It's no secret that banks are under pressure. Customer experience expectations are transforming, especially digitally, and every user expects a tailored offering. While they're moving fast to innovate, banks are constantly having to rethink their strategies on both the retail and business side.

If banks fail to take advantage of this, they risk losing yet more ground to FinTech and Big Tech. Emerging competitors in the market are fast building ecosystems of small businesses and consumers. Amazon is a well known example. But Afterpay (recently acquired by Square for \$29bn) originated nearly \$10bn transactions between consumers and their merchants in the first half of 2021, up 106% from H1 2020.

As these companies continue to delight their business and retail users, and even begin to add embedded finance products, banks must capitalise on their advantages before it's too late. Loyalty specific providers like Bink in the UK are gaining in traction.

They provide an opportunity to understand how banks can use partnership to speed up route to market.

However, key to successful uptake in market is ensuring a 1-2-1 consumer and merchant relationship.

Finding a smart partner who can provide functionality for your bank to leverage is key.