



DISCUSSION PAPER

PAYMENT CARDS CENTER

Improving Experience in the Prepaid Card Industry: A Customer Service Workshop

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***Summary:** Contact Solutions LLC provides third-party contact center support for a number of government-sponsored prepaid card programs, including U.S. Treasury's Direct Express. One of the explicit objectives of these programs is to link previously unbanked individuals with access to electronic banking services. With little prior experience as banking consumers, these individuals exhibit usage and behavior patterns, including their consumption of customer service, that differ from those of customers more familiar with financial services. This has presented some new challenges for contact centers. Contact Solutions executives facilitated a Payment Cards Center workshop during which they described some of these challenges and discussed how contact centers are responding.*

Keywords: Contact center, prepaid cards, interactive voice response, underbanked consumers, customer-operator
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I. Introduction

The Payment Cards Center (PCC) continued its study of the public sector's use of prepaid cards as a means of electronic funds distribution to individuals without traditional bank accounts by hosting a workshop facilitated by Contact Solutions LLC, a Virginia-based provider of third-party customer service delivered through telephone and mobile channels. The company provides customer service support for more than 59 prepaid programs, including the U.S. Treasury Department's Direct Express prepaid card program.¹

Government-sponsored prepaid programs have encountered unique challenges related to customer service. First, customer service expense is a more decisive factor in prepaid profitability than it is in the credit or debit card business case. Second, in order to keep costs to end users as low as possible, the margins for these programs can be very thin. Third, cardholders who receive their cards through publicly sponsored programs avail themselves of customer service more frequently, in different ways, and for different reasons than what is typical of holders of other prepaid cards. The usage patterns among cardholders in government-sponsored prepaid card programs tend to increase operational costs in these already thin margin programs.² Consequently, customer service delivery within these programs presents certain challenges to ongoing program sustainability.

¹ The Direct Express program provides prepaid cards to recipients of federal government programs, including Social Security and veterans benefits, who do not provide bank account information for direct deposit purposes, often because they do not have such an account. Information on the Direct Express card and its part in advancing the Treasury Department's electronic payments mandate is available at www.fms.treas.gov/godirect/index.html.

² One forum where the costs related to such usage patterns were discussed was a PCC-hosted conference in 2011. A summary of that conference is available at www.phil.frb.org/consumer-credit-and-payments/payment-cards-center/publications/conference-summaries/2012/C-2012-Government-Use-of-the-Payment-Card-System.pdf. See especially Section IV. F. "Education, Outreach, and Cost Control."

Prepaid cards are used by government agencies as a way of electronically disbursing funds to individuals who might not otherwise have a bank account to receive electronic deposits. Electronic disbursements provide a substantial cost saving over printing and mailing checks. Delivery of funds via electronic means is faster, more reliable, and less subject to fraud and theft than monies transmitted via check.³ Funds are usable by cardholders immediately upon receipt, and the cards allow their holders to participate in the card payment system, make Internet purchases, and pay bills online.

Given the social benefits that these programs provide, there was interest in learning more about the issues specifically related to providing contact center services for these programs. Why do cardholders seek customer service? What are the costs of providing that service? Are there opportunities to reduce costs or create efficiencies without compromising response to customer needs? To obtain answers to these questions, the PCC extended an invitation to Contact Solutions to conduct a workshop for Federal Reserve staff and invited guests. This document summarizes information from that event. It also incorporates some observations on the role that customers play in achieving optimal value in service delivery and some thoughts about how changes taking place in the banking industry might affect that role.

II. Call Patterns

Based on its internal data and analysis, Contact Solutions reported that cardholders affiliated with large government programs contact customer service at a rate that is more than 3.5

³ See, for example, "Testimony of Fiscal Assistant Secretary Richard Gregg before the Senate Special Committee on Aging," June 19, 2013, available at: www.treasury.gov/press-center/press-releases/Pages/jl1987.aspx.

times greater than the average rate for other prepaid cardholders.⁴ Their findings, shown in Figure 1 at the end of this document, also reveal a small subset of cardholders who make multiple calls per day to the contact center. The presenters provided contact center statistics that represent multiple products and services across various industries. The overall average call length is 5 minutes, 6 seconds. For the manufacturing industry, the average length is 3 minutes, 24 seconds. For the financial services industry, the average is 4 minutes, 16 seconds. The public sector has a higher than average call length of 6 minutes, 42 seconds.

Citing information presented at a 2012 Bank Administration Institute conference, Contact Solutions stated that more than one-third of bank contact center calls are balance inquiries. (This includes calls related to various bank products, not just prepaid and other cards.) Specifically, 36 percent of customer calls are to check account balances, 25 percent are to obtain transaction history, 19 percent are for password resets, 9 percent are deposit related, 9 percent involve transfers, and 2 percent are to request card replacement. Because the majority of these calls are for information that is captured and stored in digital format, and therefore capable of being retrieved electronically, automated self-service systems can provide quick and accurate responses to cardholder inquiries while providing cost efficiency to card issuers and program managers. Indeed, as Figure 2 indicates, about 90 percent of Contact Solutions' incoming prepaid cardholder calls are resolved through interactive voice response (IVR) and do not require

⁴ According to information shared at a PCC-hosted conference, customer service contacts related to prepaid cards also occur at a higher rate than interactions related to other types of payment cards and checking accounts. A link to the conference summary, "Government Use of the Payment Card System," is available at footnote 2. See page 21 for program statistics provided by JPMorgan Chase, a large issuer of public sector-sponsored prepaid cards.

the assistance of a live agent.⁵ A walk-through of a sample call and the logic built into the IVR system helps to explain this high rate.

When a call is made to the 800 number on the back of the prepaid card, the automated response menu will request information that will identify the card, followed by prompts for information that will authenticate the cardholder. This takes an average of 43 seconds through the automated response. The system recognizes the card as prepaid and, because current balance is the most frequently sought information, the IVR system logic automatically provides that information to the cardholder. At this point, 84 percent of calls are terminated by the callers; they have obtained the information they were seeking and hang up.

Intelligence built into the system can even distinguish a prepaid card that is part of a government-sponsored program from other prepaid cards. For government-entitlement prepaid programs, the information that is most frequently requested (after a balance inquiry) pertains to the last transaction, and questions about when the next deposit is scheduled as being the third most asked-for item. Logic is built into Contact Solutions' IVR system to push out those two additional pieces of information to the caller. When these three pieces of information are automatically presented to holders of cards issued through government benefits programs, 85 percent to 95 percent of cardholder inquiries can be satisfied through self-service.

⁵ Technopedia defines interactive voice response (IVR) as “a technology that allows humans to interact with computers using voice or a dual-tone multifrequency (DTMF) signaling keypad. IVR allows customers to find answers to their own inquiries by speaking (using the company’s speech recognition software) or giving inputs via a telephone keypad. IVR uses prerecorded and dynamically generated audio to interact with customers. The key benefit to IVR systems is that they can handle large volumes of calls, where only simple interactions are required.” Available at www.techopedia.com/definition/1525/interactive-voice-response-ivr.

Contact Solutions noted the challenges of staffing contact centers for products that have substantial peaks and troughs in call volume, which is the case with government-sponsored prepaid cards. Distributions typically are remitted to all recipients on the same day, causing a spike in call volume around the deposit event. A recent document from the U.S. Department of the Treasury that graphs Direct Express program experience vividly depicts this pattern. During July 2013, more than 3 million calls were received on a peak day, while only a few hundred thousand were received on a low-volume day.⁶

Programs that distribute funds more frequently than once a month (unemployment insurance, for example) will experience more frequent call spikes. Figure 3 provides an example of card volume from a program that distributes funds on a weekly basis. In this program, more than 40 percent of cardholders make 10 or more calls per month to the contact center.

Other events can also drive up call volume. When a large merchant's point-of-sale system goes down and cardholders have difficulty using their cards, calls go up. When a major data breach makes the news, call volume increases. Because contact centers may need to overstaff to be prepared to handle maximum volume, there is the potential for escalated human resources (HR) costs. During the workshop, Contact Solutions provided an inside look at the costs of operating a contact center. Those costs will be discussed in the next section.

III. Contact Center Costs

Using internal cost information and usage statistics, Contact Solutions computed the average cost of a live agent call to be \$1.70 and the average cost of an interaction completed by

⁶ See "Requirements for Statements of Qualifications and Applications to Provide Prepaid Debit Card Services," available at www.fms.treas.gov/directexpressfasp14/FASP-Requirements-12-24-2013.pdf.

interactive voice response to be only 10 cents. Other industry sources also report significant cost differences between the two channels, some even more dramatic than Contact Solutions' findings. For example, TowerGroup Retail Banking's comparison of transaction costs by channel pegged a live operator interaction at \$3.75 in total costs, while total costs for an automated contact center interaction were 26 cents. Furthermore, TowerGroup's analysis revealed that an interaction involving a contact center agent is the most costly of the all channels they analyzed, including branch tellers.⁷

Figure 4 is a breakdown of costs that Contact Solutions presented to the PCC. It clearly illustrates that agent salaries are the contact center's largest expense item, accounting for 53 percent of total costs. Recruitment and training create additional HR expense. There is between 100 percent and 200 percent annual turnover in agent staff, making recruiting and training an ongoing requirement.

Training consumes 6 percent of total agent hours, according to Contact Solutions. In fact, the company reported that only about 60 percent of agent time is spent in "talk time," with another 7 percent of agent time spent responding to customers through e-mail and online chat. But administrative tasks (such as document shredding, which is a time-consuming and important task when dealing with consumer financial information) take up another 7 percent of agent time. Recording notes of the call into the customer's record and doing additional post-call wrap-up account for 10 percent of agent time. Agents are entitled to scheduled rest breaks that, along with

⁷ Other channels included in TowerGroup's analysis were ATM, online banking, and mobile banking. See "U.S. Retail Banking: Prescriptions for Channel Integration and Beyond," by Rajeshwer Chigullapalli, *Cognizant Reports*, December 2013, available at www.slideshare.net/cognizant/us-retail-banking-prescriptions-for-channel-integration-and-beyond.

some miscellaneous activities and moments of downtime between calls, account for the remaining 10 percent of agent time.

Workshop attendees asked a number of questions about offshore contact centers. Are they less expensive to operate? What are the recent trends in offshore customer service? The Contact Solutions presenters said there has been a lot of movement among onshore, offshore and nearshore facilities, but they have seen no consistent trend toward any of the three. For a time, moving offshore was rather common. Then companies tried to move back onshore, but they found that costs remained prohibitive.

Changes in the employment landscape may be conducive to a resurgence of onshore customer service contact centers. For a number of years, it was difficult to recruit service-oriented individuals for contact center jobs. With very low rates of unemployment, and near full employment in some areas, offshore facilities enjoyed a greater likelihood of operating at a fully staffed level. While the economic picture in recent years has generally been inopportune, for onshore contact centers, higher unemployment rates could yield higher recruiting success.

To some degree, location strategy for contact centers tends to operate in a continual state of adjustment, according to the presenters. An enterprise will discover a market where labor and other conditions are favorable to locate a contact center. Soon others discover the same opportunity and move in, creating competition for, and driving up costs of, local resources. If wages and other costs increase to a point that makes operating margins unsustainable, the enterprise must consider relocating to another market.

Per-contact costs are subject to economies of scale. Figure 5 illustrates the substantial advantages that a large operation (one with 350 or more agents) can have, especially when

compared to the smallest centers. The scale economies that can be achieved by standalone contact centers also become a consideration for enterprises weighing the decision to outsource. Smaller banks and card issuers may not be able to generate sufficient scale to operate an in-house customer service department as inexpensively as they can outsource it. (Additional factors besides cost would also play a role in these decisions.)

Contact Solutions estimates that customer care accounts for about 11 percent of total operating expense, and about 20 percent of the direct operating costs, of a prepaid card program. Compared with other industries, or even other card products such as debit and credit, customer care consumes a substantially higher share of operating expense. The next section will review some estimated prepaid card revenue and cost figures, and reveal how important customer service expense can be in determining whether a prepaid card delivers a profit or a loss to its issuer.

IV. A Glimpse at the Prepaid P&L

Culling information from the annual reports of two major prepaid card providers, Contact Solutions estimated average monthly revenue of \$9.97 per prepaid card, with average monthly expenses per card at \$8.99, leaving an average net income to the provider of 98 cents per card per month, for an annualized pretax profit of \$12.88 per card.⁸ Direct operating costs account for more than one-half of total program management expense.⁹

⁸ It is not implied, nor should the reader infer, that these figures can be imputed to any particular prepaid program or to the prepaid industry. These are estimates derived from publicly available information and should be considered only as an approximation of the expense to revenue ratio in prepaid portfolios.

⁹ Expense categories that are not part of direct operating costs include employee salaries and benefits; advertising, marketing, and promotions; administrative costs; depreciation and amortization; and certain legal and contingency costs.

At 20 percent of direct operating expense, cost for customer service is the second-most costly component in that category, but it is a distant second to ATM expenses. According to Contact Solutions' estimates, more than half of direct operating expense goes to supporting cardholder access to ATMs. Slightly less than 20 percent of direct expense is in plastic and purchase transaction costs, with occupancy and overhead accounting for a single-digit percentage of direct operating costs.

Scale economies can provide a benefit to overall prepaid card portfolio management, just as they do in contact center management. Cost efficiencies are achieved by spreading fixed costs over a larger number of cards. Scale can also offset some of the variable costs associated with high-maintenance customers. As scale increases, the per-card expense of servicing those individuals who cost the most declines at nonlinear rates, according to the Contact Solutions presenters. Small programs are forced to spread the costs of these relatively few outliers, with disproportionately high costs, across a fewer numbers of cards.

Even in large portfolios, however, the right customer mix must exist for the benefits of cost distribution to work optimally. There must be a sufficient number of productive, low-maintenance cards to counterbalance high-cost ones. Issuers who achieve a more favorable customer mix will enjoy a cost advantage even against similarly sized competitors with a less ideal customer mix. For issuers looking to scale advantages as part of their competitive strategy, both size and customer mix can be factors.

Using the prepaid program management costs and revenues they estimated, Contact Solutions plotted those figures along with the average cost of a live agent call. Included as Figure 6, the graph portrays how vulnerable account-level profit is to the customer service options that

cardholders use. One additional live-operator interaction per month beyond those accounted for in average costs can put an account underwater, profitwise.

Some cardholder problems are more complex and require the assistance of a customer service representative to resolve. Many calls going to live operators, however, are for information (such as current balance) that not only can be obtained via IVR, but it is available in less than half the time it takes to obtain from an agent. Contact Solutions data reveal that it takes an average of 90 seconds to obtain cardholder balance from a live operator. The same information accessed via automated response takes an average of 43 seconds.

According to Contact Solutions' calculations, migrating another 5 percent of total calls to automated servicing could yield a 24 percent improvement in net margin. Changing human behavior, however, is not an easily accomplished task.

V. Meeting the Challenges

A. Efficiencies and Automation

In addition to accomplishing some inquiries more quickly, IVRs provide a more secure environment. Because the communication of identifying information takes place directly between the telephone keypad and the contact center computer, authentication information and account data are not communicated verbally.¹⁰

Often, self-service is actually preferred. An anecdote shared by the presenters at the workshop concerned people calling from grocery stores in the early minutes of the day their

¹⁰ Customers who opt to use the voice recognition software of IVRs and who do so in a public place can put their information at risk of being compromised. Even in this case, only the consumers' responses can be overheard, not the questions they are answering. Nonetheless, cardholders who prefer to provide information verbally are advised to seek privacy when contacting their providers.

benefits are scheduled to be credited to their card balances. These are individuals who had run out of money as the month progressed and are lined up at the store, carts loaded, waiting until midnight to call to check their balance. They don't want to wait in queue to talk to a live rep; they just want a quick confirmation that the money is there so they can proceed through checkout.

A 2012 Bain Retail Banking US Touchpoint survey assesses these preferences more quantitatively. Of the 5,200 survey respondents, a low single-digit percentage indicated that the assistance or advice of another person was an important component of satisfaction in conducting routine transactions. "Simplicity/ease" and "speed to complete" influenced satisfaction for the majority of respondents for this category of transaction. Nearly 40 percent, however, prefer to speak with someone when they need to solve a problem.¹¹

Several inferences can be drawn from the Bain survey. Since the percentage of customers wanting to speak to someone when they have a problem is much higher than the proportion wanting the same access for routine matters, the investment in automated service delivery has the potential to positively influence satisfaction for the greater number. So it behooves financial institutions to provide useful and user-friendly self-service tools. As more routine customer interactions are automated, more customer service agents' time is freed to assist the 40 percent of customers who, according to Bain's survey, prefer to speak with an agent to address problems and nonroutine transactions. Still, for a very small minority of customers, personal interaction remains an important contributor to satisfaction, even for routine questions.

¹¹ The transactions in this study included interactions in other channels (including branches) and not just those that occur in a contact center setting. See "Customer Loyalty in Retail Banking," Bain & Company, Inc. (Global Edition 2012), available at www.bain.com/Images/BAIN_REPORT_Customer_loyalty_in_retail_banking.pdf.

Organizations have made use of research to increase their understanding of what people like about self-service and then to use that knowledge to enhance their IVR systems. Given the high number of calls completed with self-service, it appears that this research has been useful in designing tools to meet the needs of most callers. Less is known, however, about what motivates those who always opt for agents. Is this a population of technophobes? Do they distrust machines to deliver accurate information? Could the mandatory nature of government prepaid card programs have a coincidental, or even causal, connection with the presence of a small subset of people who persistently eschew automated self-service? Or perhaps there are callers who simply seek human interaction and a call to ask for current balance is a means to that end.

Understanding motivation is valuable in developing strategies to encourage behavioral change. For the government sponsors and program managers of prepaid portfolios, and even for those advancing financial engagement and literacy, improving insights into this behavior set might be a worthy endeavor. Contact center management teams, in the meantime, are combining what is known about customer self-service preference with internal data to improve and enhance IVR systems.

As the Contact Solutions presenters stated, automated service isn't necessarily inferior to live agent service. In fact, data and computerization can actually help deliver more personalized service. Customer analytics can help distinguish Cardholder A's call patterns from those of Cardholder B, and provide customized menus and information for each. The system can recognize, based on prior language selections, whether someone prefers English or Spanish. Through the development of an automated "fingerprint" for a customer, an interaction can involve less time and fewer buttons pushed. Contact Solutions maintains that even automated service is fairly "deluxe." Most issuers provide it 24/7 and provide certain highly requested

information without the caller even having to ask for it. For the relatively short time that general-purpose prepaid cards have been in the marketplace, the customer analytics capabilities of contact center software are fairly advanced and continually improving. Contact Solutions is considering adding the last five debit transactions, the last deposit amount, and information about pending deposit amounts to what is already being automatically provided to cardholders. Data will drive what information can be accessed through a self-service menu.

The goal is to increase customers' preference for self-service by creating more robust information delivery through the IVR. Contact Solutions also maintains that the customer recognition and personalization that can be built into an automated system can increase account retention for the issuer. If the issuer's system has come to understand the cardholder and uses that knowledge to provide quick response, abandoning that service level becomes a consideration for the customer when an offer from a new issuer comes along.

The presenters noted that demographics provide a tailwind to these efforts. Willingness to use self-service increases in each successive generation, with *willingness* actually shifting to *preference* among younger consumers.

B. Engaging Cardholders

Finding the right balance between the efficiencies of high tech and the personalization of high touch is an ongoing challenge for many purveyors of consumer services. As the workshop presenters observed, the ultimate in customer service is a 1 to1 ratio — one service representative to one customer — followed by personal-shopper or concierge-type service. These amenities are typically not practical for low-margin offerings and those that reach beyond the carriage trade to the mass market.

Classic marketing strategy offers businesses several ways of adjusting for the higher costs incurred in elevating product or service quality. Purveyors can raise prices, reduce costs, or exist on smaller margins. Government-sponsored prepaid cards operate on already thin margins, and increasing costs to end users is unappealing because many of the beneficiaries cannot afford to pay the premiums associated with higher service levels. Lowering costs through increased efficiencies then becomes the most viable alternative to the option of last resort: exiting the business.

JPMorgan Chase, one of the largest issuers of government-sponsored prepaid cards (but not Direct Express) appears to be exercising the option of last resort. In January 2014, the bank announced that it plans to sell or wind down the portion of its prepaid issuing business that provides disbursement of public-sector funds including tax refunds, food stamps, and unemployment benefits. This business line, according to published reports, presented operations and regulatory risks and challenges while generating revenue that, ostensibly, was insufficient to compensate for the necessary resource investment.¹²

The social good provided from these initiatives has been measured in government/taxpayer savings and in high satisfaction scores among the majority of beneficiaries. For example, the U.S. Department of the Treasury reported that 95 percent of DirectExpress recipients surveyed are satisfied with the card, and the following card benefits were each reported by more than 90 percent of respondents: A Direct Express card is a safer way to receive benefits than paper checks; the card is more convenient than cash to make purchases; and the

¹² Sources for the information in this paragraph include David Henry, "JPMorgan Chase Plans to Exit Prepaid Card Business," Reuters.com, January 9, 2014; and Robin Sidel and Saabira Chaudhuri, "J.P. Morgan Explores Sale of Prepaid-Card Operations," *Wall Street Journal*, January 9, 2014.

card makes it easier to pay bills.¹³ Chase's announcement did not set off an immediate domino effect among other providers of these programs. Still, it prompts the question of whether the use of prepaid cards as a means of distributing public funds is sustainable as it is now configured.

The Treasury Department's recently issued "Requirements for Statements of Qualifications and Applications to Provide Prepaid Debit Card Services" (see footnote 6) acknowledges that financial support from Treasury may be needed to sustain Direct Express¹⁴. The program has also employed efforts to educate and engage the program's cardholders in behaviors that can improve performance for the cardholders and the program as a whole.

The unique role of service industry customers as agents in the supply chain has been the focus of study by Harvard University professor Frances X. Frei. Unlike customers of manufactured goods, consumers of services can themselves be "key inputs to the production process," posits Frei.¹⁵ Her research found companies that, like the Direct Express program, employ efforts to modify customer behavior in ways that improved service delivery. Starbucks is one of Frei's case studies. One of that company's practices involves steering customers to use an ordering protocol that allows baristas to fulfill orders at peak accuracy and efficiency. In addition to providing customers with a written guide to ordering, Starbucks employees also repeat customer orders in the Starbucks-preferred sequence as a way of coaching customers to use that sequence when placing future orders. Starbucks' "training" of its customers to a common order

¹³ "U.S. Treasury's Direct Express Card Earns High Marks," Financial Management Service press release, July 17, 2012, available at fms.treas.gov/godirect/media/release/direct-express-card-satisfaction/index.html.

¹⁴ Section V.D.2.a.ii. Cost Recovery states, "We recognize that in light of the low fees, as well as the *unique customer service needs and card usage patterns* by the Direct Express cardholder population, the program may operate at a loss without additional compensation from Treasury" (emphasis added).

¹⁵ "Breaking the Trade-Off Between Efficiency and Service," Frances X. Frei, *Harvard Business Review*, November 2006.

language has helped its baristas to more quickly deliver these orders to customers waiting for them.

Statistics presented in Section II can be used to create an example of how consumer behaviors factor into the cost of service delivery. Recalling that 36 percent of customer calls were to check account balances and 25 percent were to obtain transaction history, we recognize that more than 60 percent of the customer service interactions occurring at banks today pertain to information that, a generation ago, customers maintained for themselves. Prior to the introduction of online access to bank account information, depositors didn't stop by a branch each day to get an updated balance; they manually tracked deposits, withdrawals, and purchases in a check register. While it is unlikely that instruction pamphlets or even intense coaching will produce a revival of the check register, this example demonstrates, first, what Frei observes about the significance of the customer's role in service encounters; and second, the relationship between consumer behavior and provider costs. In this scenario, even a customer who uses the IVR to obtain current balance has replaced a fully self-service method ... personal accounting ... with one supplied (and paid for) by the provider.

In a separate publication, Frei and coauthor Anne Morriss have coined a term for the role that customers play in this capacity: the *customer-operator*. In service industries, the authors contend that "customers don't just consume service, they also participate in *creating* it ... customers can increase the cost and reduce the quality of whatever service you're providing ... (and) sometimes they can help on both fronts."¹⁶ Engaging that customer-operator to be a less costly part of the supply chain (e.g., to employ automated response rather than live operator

¹⁶ Frances Frei and Anne Morriss, *Uncommon Service: How to Win by Putting Customers at the Core of Your Business* Harvard Business Review Press, Boston (2012).

service) can, along with other cost-reducing efficiencies, be an alternative to raising prices or adding fees in order for a service to be financially viable.

C. Financial Literacy and Consumer Advocacy

Government agencies have quantified the savings realized from substituting electronic funds distribution to prepaid cards for the more expensive cutting, mailing, and reconciling paper checks. Recipients give remarkably high satisfaction ratings to these prepaid card options. If a consensus emerges that these programs enhance social welfare, then a role may exist for individuals and organizations engaged in consumer advocacy and financial literacy in “reaching the last mile” along the road to having well-informed customer-operators. Heightening awareness and increasing understanding among marginally banked customer-operators may indirectly help to control the government’s operational costs of funds disbursement. More directly, enhancing consumers’ competence and financial capability will help them fully participate in the digital payments landscape of the 21st century.

Even fully banked consumers may need enhanced self-reliance. The sheer volume of debit card transactions in the U.S. — more than 50 billion last year — has produced a corollary increase in debit card–related calls to bank contact centers. A Bank of America debit executive, speaking at an industry event in October 2013, reported that 10 percent of the calls to the bank’s contact center are debit card related. With revenue collected from merchants by large issuers down substantially after implementation of the Durbin Amendment, and greater costs looming as the industry moves to higher-cost chip-embedded cards, the bank is building additional self-

service tools as a cost-reduction tactic.¹⁷ This action by Bank of America may represent only one example of adjustments being made in response to major changes affecting the consumer financial services industry.

Over the course of a half century, bank services expanded into the mass market, reaching several additional deciles of the population.¹⁸ The overarching trend of mass customization effected a proliferation of product variety. Variety in everything from contact lens types (one in the early 1970s; 36 in the late 1990s) to breakfast cereals (160 in the 1970s; 340 in the 1990s) to running shoe styles (5 versus 285) burgeoned.¹⁹ Banks also accommodated consumer demand for product selection. Over roughly the same timeframe, consumer banking expanded from a half dozen basic services to over 100.²⁰

The retail banking industry is currently experiencing a disruption of certain fundamentals which supported some of this expansion. Regulations enacted in the past five years restrict revenues that supported business models for providing low or no-cost basic banking services. For example, Regulation II establishes a maximum amount that an issuer may receive from a merchant in compensation for processing and settling a debit card payment. This regulation has resulted in revenue reductions of billions of dollars for large banks (those with \$10 billion or

¹⁷ "Big Debit Issuers Undeterred by 'Substantial' Costs, EMV Issues," *PaymentsSource News*, October 23, 2013.

¹⁸ Prior to the 1960s, bank checking or savings accounts were held by about 30 percent of American families. (See Anthony Patrick Carnevale, "America and the New Economy," a monograph of The American Society for Training and Development and the U.S. Department of Labor Employment and Training Administration [1991].) In 2007, the Federal Reserve Board's Survey of Consumer Finances found that 92 percent of U.S. families held some type of transaction account.

¹⁹ "The Right Stuff: America's Move to Mass Customization," Annual Report of the Federal Reserve Bank of Dallas (1998).

²⁰ Anthony Patrick Carnevale, "America and the New Economy," a monograph of The American Society for Training and Development and the U.S. Department of Labor Employment and Training Administration (1991).

more in assets.)²¹ These fees offset the consumer's payment-related costs, and their reduction may result in changes to banks' consumer pricing strategies.²² Because Regulation II applied to the largest banks, it could potentially affect a high percentage of consumers. In 2012, the 10 largest debit card issuers processed nearly half the total volume of payments made with debit and prepaid cards.²³

This is one example of regulations implemented in recent years that have affected costs, revenue, and risk at U.S. banks at the same time trends in the economic environment have reduced banks' demand for consumer deposits that once provided a rationale for free checking account products.²⁴ Consumers and corporations have curtailed borrowing and are retaining cash. The resulting deposit abundance has meant less competition among commercial banks for deposit accounts. All of this is transpiring during a time when rapid introduction of new technology creates a near-constant state of creative disruption.

As the consumer banking industry navigates through these paradigm shifts and reevaluates the cost-benefit of providing various banking products and serving different

²¹ Regulation II reduced per-transaction debit interchange revenue to large banks by about 45 percent, from about 44 cents to 24 cents, or an estimated total reduction of \$8.5 billion in revenue for the affected banks. See "Debit Card Interchange Fee Regulations: Some Assessments and Considerations," Zhu Wang, *Federal Reserve Bank of Richmond Economic Quarterly*, 98:3 (Third Quarter 2012).

²² For a discussion of how payment cost allocations have been affected by Reg II, see Appendix A, The Durbin Backdrop, in "Government Use of the Payment Card System: Issuance, Acceptance, and Regulation," the Federal Reserve Bank of Philadelphia (July 2011), available at www.phil.frb.org/consumer-credit-and-payments/payment-cards-center/publications/conference-summaries/2012/C-2012-Government-Use-of-the-Payment-Card-System.pdf.

²³ "Top 50 U.S. Debit Card Issuers," *The Nilson Report*, Issue 1016 (April 2013). In addition to exempting banks with assets of less than \$10 billion, Regulation II also exempts certain prepaid card programs, including government-administered prepaid portfolios.

²⁴ For further information on the possible effects of the 2009 CARD Act, the 2010 Durbin Amendment, and the 2007–2009 recession on the availability and cost of banking services to consumers, see "Recent Trends in Consumer Retail Payment Services Delivered by Depository Institutions," Darryl E. Getter, Congressional Research Service (January 16, 2014).

customer segments, some of the changes that will be implemented will likely affect consumers. Changes may be in the form of what is available, what it costs, and how it is delivered (channels), including how customer service is delivered. The result could be an interval of unlearning and relearning for consumer banking customers. The acumen needed by bank customers to acquire and maintain free services may not be sufficient in a market where these same consumers have to assess costs and evaluate trade-offs.

As the financial service marketplace changes, multiple groups including industry, government, academia, and the advocacy community can contribute to the advancement of consumer capability. Much of the recent activity directed toward the industry has been on the “manufacturing” side (e.g., promoting regulations affecting the design and pricing of financial services products). Safe, dependable, and financially viable banking products are essential, as are competent and capable customer-operators.

VI. The Contact Center and Customer Experience

The workshop also covered the role of contact centers in the overall prepaid “customer experience,” which Forrester Research describes as the customer’s perception of the entirety of interactions with a company. Using Forrester’s research across all industries, the presenters reported that total satisfaction with voice response is not high, but customers use the channel anyway. Contact Solutions views this as an opportunity to strategically leverage improvements in the IVR as a way to raise the overall satisfaction level of their clients’ customers. The presenters discussed the monetary impact that customer service can have on a business. Contact Solutions maintains that poor customer experience can result in the waste of substantial sums of money for

a typical financial services company. Optimally, when done right, a sound customer service strategy pleases customers, resulting in higher loyalty and customer retention.

This strategy may have special applicability to the prepaid market. For financial services other than prepaid, the online banking channel or the branch may be the most important point of interaction with the provider. For prepaid cards, the presenters reported that the IVR is the heaviest used channel. So improvements to IVR systems should positively affect a higher percentage of prepaid customers than might be the case with other products. As competition intensifies in the prepaid arena and the customer base compares prepaid cards with other financial tools, a positive customer experience becomes even more critical.

Additional benefit from smart customer experience programs comes in the form of valuable business intelligence, which can be used to direct strategy across many departments in prepaid companies. For example, Contact Solutions data indicate that 70 percent of calls received from prepaid card customers originate from mobile phones, but less than 10 percent use mobile messaging.

At a more qualitative level, contact centers can function as bellwethers of shifts and changes in the calling population. For example, the presenters disclosed a general sense that prepaid cardholders are progressing along the learning curve in understanding how prepaid cards work and how these cards can be used most effectively.

VII. Conclusion

Workshop participants learned that prepaid cardholders interact with contact centers more frequently than do credit and debit cardholders, and recipients of government-sponsored prepaid cards make even more frequent contacts than other prepaid cardholders. Although more than 90

percent of calls have the potential to be completed through automated response, a subset of the prepaid population persistently opts for a live operator. With one live operator interaction per month having the potential to create a financial loss to the issuer of that card, program managers and their contact centers are challenged to provide automated self-service solutions that create a preference for their use among customers.

To this end, Contact Solutions and other industry providers have customized their interactive response systems to automatically provide (without prompts) certain information, including balance and last deposit or reload amount, which prepaid cardholders most frequently request. Such efficiencies not only contribute to the financial sustainability of these programs but also leave open more lines for callers with complex and atypical issues, such as suspected fraud or card loss, which require the intervention of a customer service agent. By creating delivery mechanisms to respond to routine and predictable inquiries in an automated fashion, contact centers free up live operators' availability to help cardholders with these more complex and nonroutine issues.

Consumer interactions with prepaid customer service contact centers can help identify areas where consumers are successfully using their cards and the areas where they are experiencing challenges. This information could provide a critical piece of the puzzle to better understanding the prepaid customer journey. Along that journey lie opportunities to also advance the knowledge and skills of prepaid card users, particularly for those who may not otherwise have access to electronic payments.

For government-sponsored prepaid programs, experience to date has exposed some unique and costly aspects of providing customer service. A recent requirements document for

potential Direct Express partners includes a statement that issuers may obtain compensation for some of these costs from the Treasury. This may be an indication of changes in cost support for the next generation of these programs. The first experimental rounds of innovation in prepaid card-based distribution of public funds provided other valuable learning experiences. Agencies proved that they could realize substantial cost savings. The value to recipients was demonstrated in reported high levels of satisfaction. Public response to cardholder fees perceived to be unfair was swift and negative.

This acquired knowledge will no doubt inform future iterations of these groundbreaking programs.

Figure 1

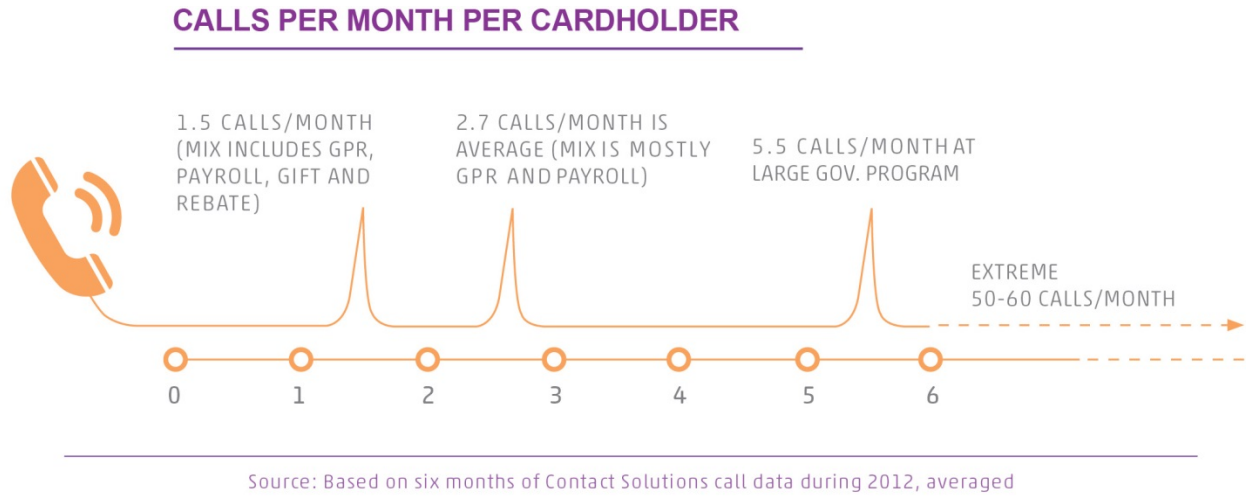
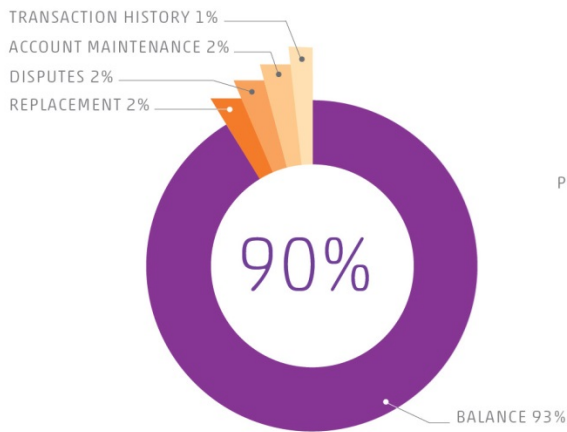


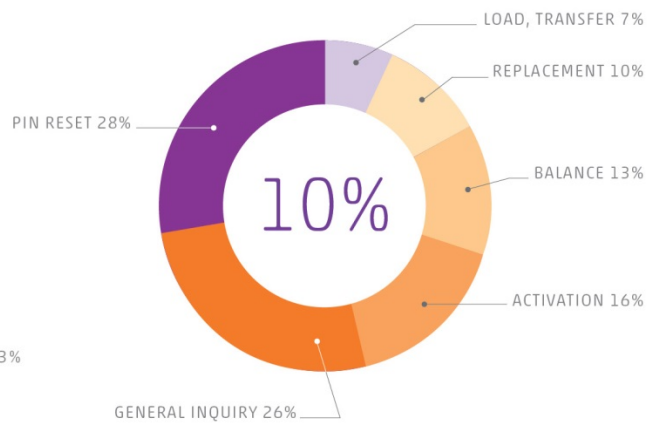
Figure 2

Today's Customer Journey and Call Goals

SELF-SERVICE CALL TYPES



AGENT CALL TYPES



Illustrative example of an average program where 90% of the calls are self-service and 10% use an agent. These numbers will vary across programs.

Figure 3

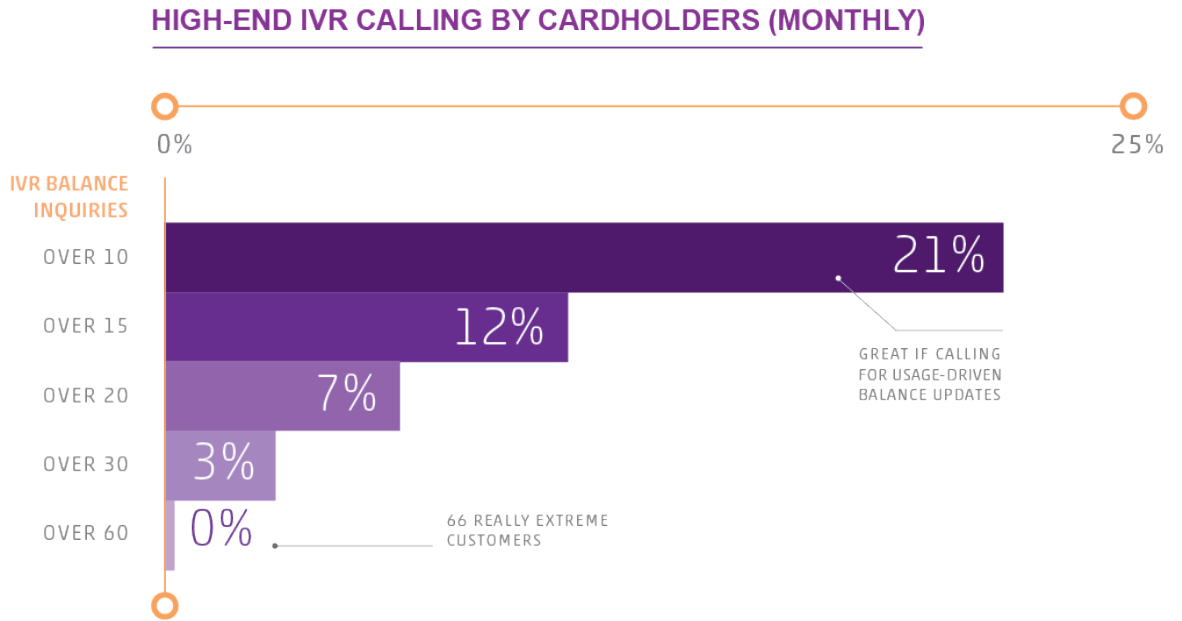


Figure 4

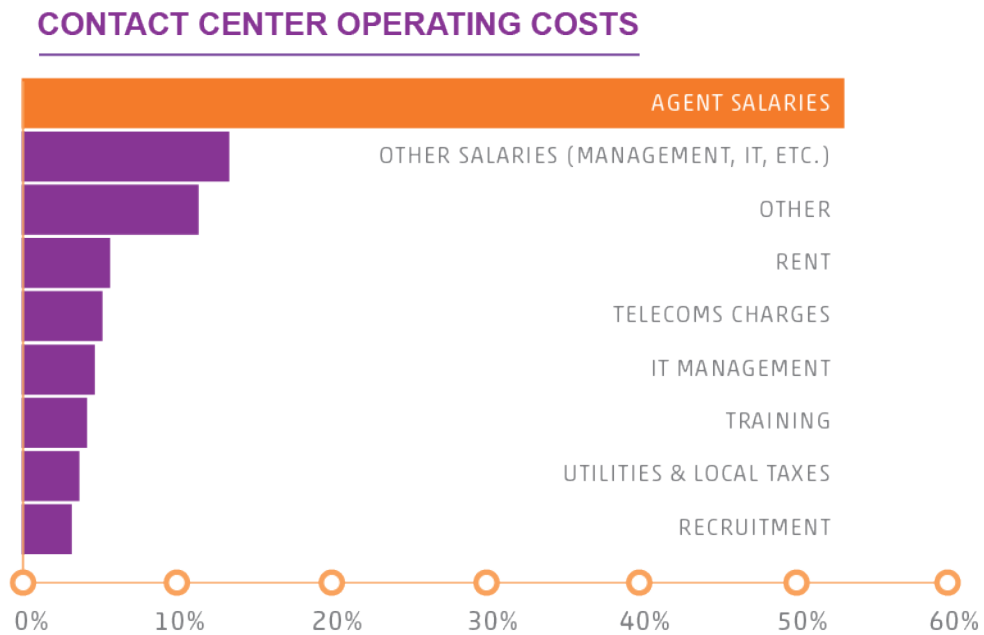


Figure 5

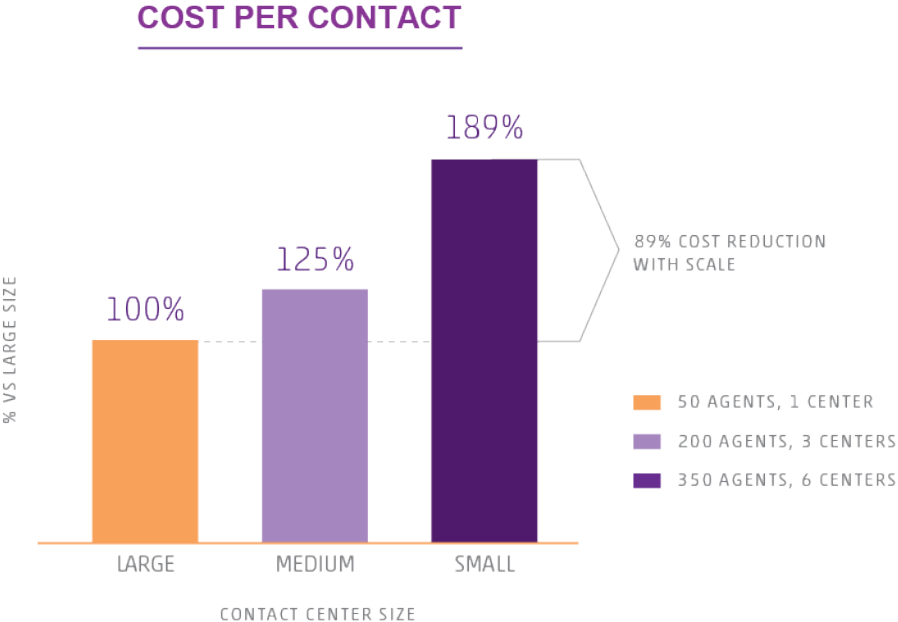


Figure 6

EXAMPLE OF PREPAID CARD PROFITABILITY

