Next Generation Loyalty Management Systems: Trends, Challenges, and Recommendations

The latest operational, market, and technological challenges for loyalty management systems

People matter, results count.

Contents

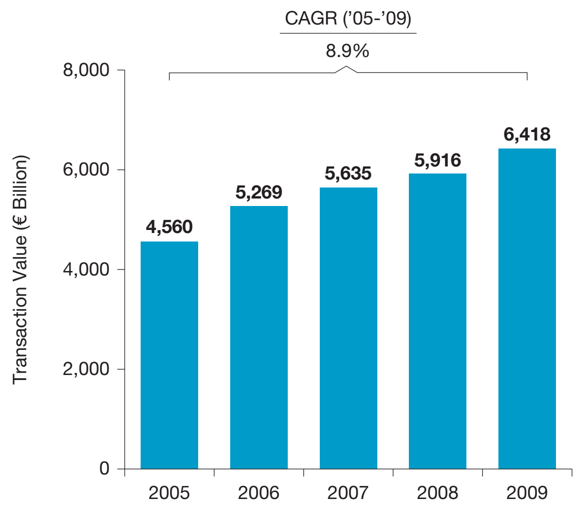
1 Highlights

Loyalty or rewards programs have become an essential feature for all debit and credit cards[1], and many card-issuers now maintain a growing portfolio of several debit- and credit-based loyalty programs. There are a host of loyalty programs that cater to almost every segment of the population with different lifestyle-based reward options for different customer segments.

Loyalty programs are specifically designed to reward customers for past purchases and to provide them with incentives for making future purchases. A rewards program enables retention, cross-selling, and increased customer penetration while providing a strong value proposition to the customer. These programs can also help firms drive profitable customer behavior, enhance consumer spending, and provide valuable data on consumer trends.

During the last decade, the payment card industry has grown significantly in size touching $6.4 trillion in terms of transaction value by 2009—a growth rate of 8.9% from 2005.

Exhibit 1: Global Card Market by Transaction Value (€ Billion), 2005-2009

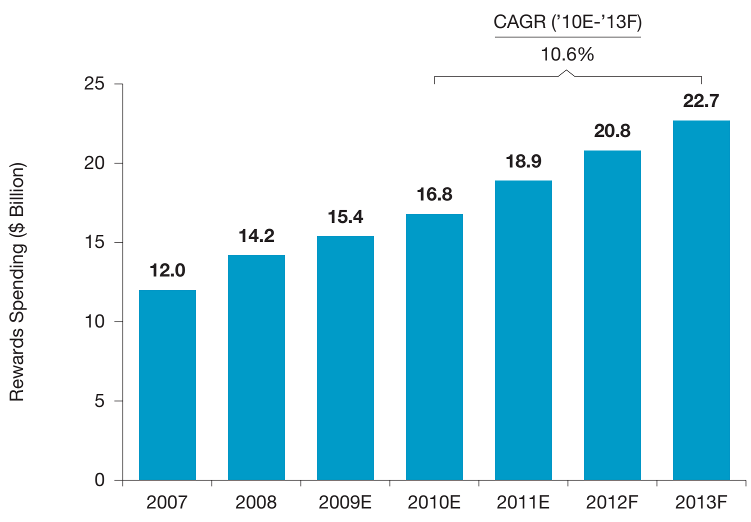


Source: Capgemini Analysis, 2011; *World Payments Report, 2011*, Capgemini

[1] Prepaid cards are out of scope in this analysis of the card market

Spending on loyalty programs has also seen a corresponding growth. For example, spending on loyalty programs by U.S. financial institutions is expected to reach $22.7 billion by 2013—a growth rate of 10.6% from 2010.

Exhibit 2: U.S. Financial Institutions' Spending on Rewards ($ Billion), 2007-2013F



Source: Capgemini Analysis, 2011; Aite Group Report, 2009

Most of the big banks offer rewards program on their cards in a market characterized by growing commoditization of card rewards programs. This growing proliferation and commoditization has resulted in a decrease in the perceived value of loyalty programs by the end consumer, which has prompted marketers to look for innovative programs that are better able to deal with the emerging challenges in the loyalty industry. Furthermore, effective management of loyalty costs and program profitability has also become an important factor in the overall success of a loyalty program.

2 History of Loyalty Programs

One of the early efforts to encourage customer loyalty began in 1896 when Sperry and Hutchinson started the S&H Green Stamps program. Retail organizations bought the stamps from S&H and gave them as bonuses to shoppers based on the dollar amount of a purchase. In 1938, the Gold Bond Stamp Company created Gold Bond Stamps which merchants gave out when customers purchased a certain amount of goods to be redeemed later for merchandise.

The modern history of rewards programs began in the 1980, when American Airlines® introduced AAdvantage® in 1981, a frequent flyer program, followed by many other airlines introducing their own frequent flyer schemes by teaming up with hotels, rental car companies, and credit card issuers. Even though credit cards had made their appearance in the 1950s, the first card-based rewards program was introduced in 1984 by the Diners Club® which was called the Diners Club Rewards®. Discover® introduced the first cash-back product in 1986 and was followed by Citibank® introducing the AAdvantage card in 1988[2].

In the 1990s, credit card rewards programs such as American Express® Membership Rewards, started offering a variety of redemption options that included travel, dining, and hotels. From 1995 onwards, there has been a proliferation of rewards programs and co-branded cards. More than 40 percent of all Visa and MasterCard credit cards have a rewards program tied to them.[3] The average consumer now holds various debit and credit cards, along with the various loyalty programs associated with them. To illustrate this, there were 1.8 billion loyalty program memberships in the U.S. in 2008, with an average U.S. household participating in 14 rewards programs.[4]

From 2005 onwards, there has been a growth in innovative loyalty programs as financial services institutions realize the need to differentiate in a saturated loyalty market. In 2005, Citibank® launched its ThankYou® free rewards program which integrates card and banking rewards. Barclays launched its Freedom reward program in 2010, a cash back program which directly earns reward money for customers.

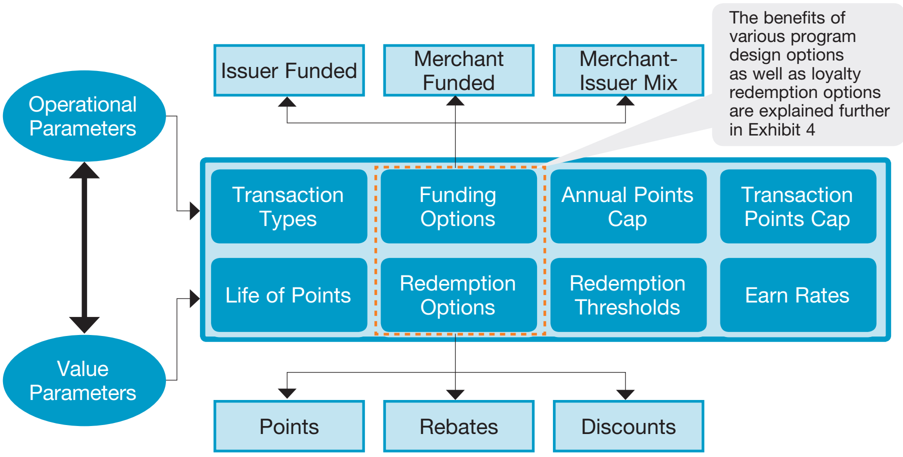
[2] Source; "The Future of Credit Card Rewards Programs", Fischer Jordan, 2006-07
[3] Cardweb.com, 2009
[4] Colloquy, 2009

3 Loyalty Program Design

A typical loyalty management system is comprised of various operational parameters—such as transaction types, program design, and funding options. It also includes value parameters such as redemption options, redemption thresholds, and earn rates.

A Loyalty Management System needs to evolve the right mix of program funding options and redemption options in order to become not only self-sustaining but also profitable.

Exhibit 3: Composition of Typical Loyalty Management System

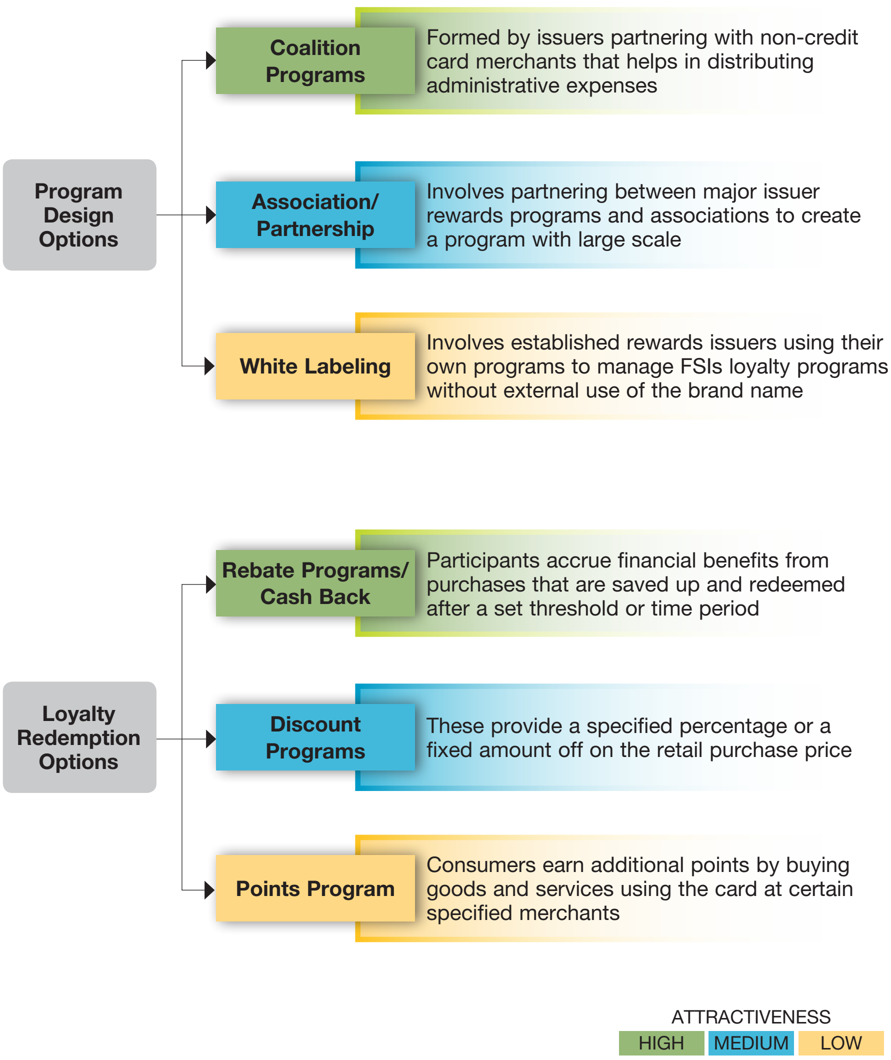


Source: Capgemini Analysis, 2011

Loyalty programs use a variety of program design and funding options, such as a mix of issuer and merchant-funded options, in order to reduce and distribute their loyalty costs among various participants (Exhibit 4). The three most commonly adopted program design options are coalitions, partnerships, and white labeling. Of all the three program design options, coalition programs are the most attractive for financial services institutions as it helps them distribute the costs of running the loyalty program among the various coalition partners.

Similarly, loyalty programs use a variety of redemption options in the form of points, rebates, cash back, and discounts, or a combination of these elements. The cash-back option is gaining currency these days with some top loyalty programs, including Discover® Card and Barclaycard, introducing them in order to provide instant gratification to the consumer.

Exhibit 4: Loyalty Program Design and Redemption Options



Source: Capgemini Analysis, 2011; "The Future of Credit Card Rewards Programs", FischerJordan, 2007; www.crmtrends.com, 2011

4 Key Operational Challenges in Loyalty Management: Improvement Opportunities

Loyalty management systems form the core of a loyalty program. These systems need to be systematically updated to keep pace with the emerging business and operational trends and challenges in the loyalty industry around program administration, cost efficiency, customer acquisition, and customer retention.

4.1. Operational Trends in Loyalty Program Offerings

Loyalty programs look for growth by expanding coverage to everyday consumer purchases

Loyalty programs now provide an opportunity to earn points on everyday transactions such as banking, grocery shopping, dining, and fuel purchasing. They provide customers with an easy way to keep track of their reward money through an online, dedicated rewards-tracking website. They also offer information to customers about the local retailers where they can earn or redeem their reward points.

Programs introduce innovative rewards to increase response rates

Loyalty programs are now introducing experiential rewards that emphasize event-based or lifestyle offers instead of the traditional discount-driven approach. These experiential rewards carry a higher perceived value for the cardholder and help increase response rates to rewards program. Card loyalty programs may also allow points earned on purchases to be gifted to someone, used as entry to special events, or redeemed as points for music download.

Financial services institutions put an enhanced focus on the customer to improve retention

Loyalty programs have begun to take a more holistic view of customers by focusing more on customer service and broadening the range of awards and recognitions. Loyalty programs have become more segmented by targeting different life stages, life styles, and interests.

Financial services institutions focus on coalition building to bring down loyalty costs

A collaborative approach to rewards is increasingly being followed, where two or more companies come together to share branding, operational costs, marketing expenses, and data ownership of a common loyalty currency.

Coalitions allow consumers to earn and redeem a branded currency across a network of merchants. Niche interest-based coalitions are growing which bring like-minded participants together with a common currency that can be earned and redeemed within a specific category of businesses.

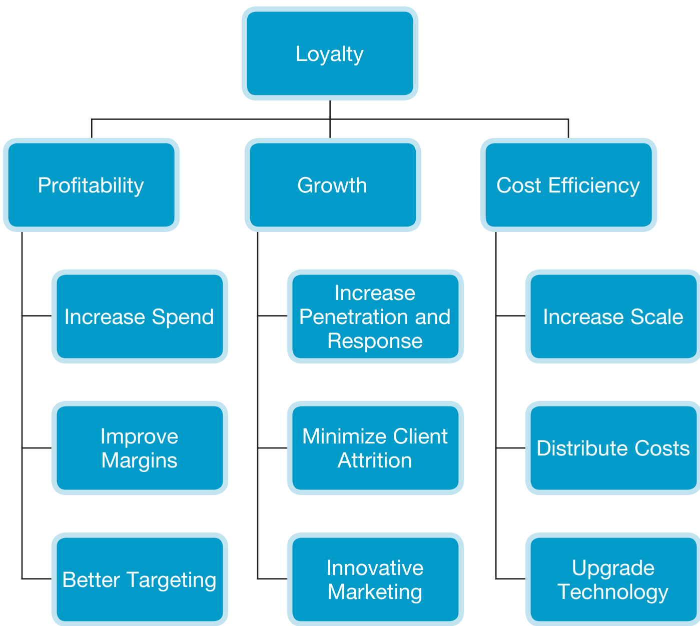
Regional coalitions are in development, which encourage participants to patronize local businesses and earn points on everyday purchases toward merchandise rewards or discounts. For instance, the Nectar coalition is now the largest loyalty program in U.K. where American Express is the issuer and coalition partners include Sainsbury' s (grocery chain), BP (gas retailer), and Debenhams (departmental store).

4.2. Key Operational Challenges and Recommendations

The main operational drivers of a loyalty program are improving profitability, increasing growth, and improving program cost efficiency.

Higher profitability is achieved when loyalty programs improve the incremental revenue spend and motivate the customer to spend on products with better margins. The growth of a loyalty program is tied to marketing efforts which should be targeted and innovative in order to connect with customers in an increasingly saturated market. Cost efficiency is achieved with the help of analytics and technology outsourcing.

Exhibit 5: Key Operational Drivers of Loyalty for FSIs



Source: Capgemini Analysis, 2011

Challenge #1: Programs need to target profitable customer behavior

Loyalty programs need to be properly targeted in order to derive maximum benefit. Loyalty customers are usually grouped into three tiers. Tier 1 consists of the most profitable customers who engage in high-value spend. Tier 2 consists of break-even customers, while Tier 3, which lies at the bottom, mainly consists of unprofitable customers and 'Free Riders' (customers who enjoy benefits without increasing spending) constituting up to 50% of the total customer base.

Recommendation #1: Use marketing analytics to identify profitable customer behaviour and build targeted programs

Card issuers should use analytics to focus on the most loyal customers and build loyalty programs around profitable customer behavior, while phasing out card programs that do not deliver the right value.

Challenge #2: Firms need to improve customer acquisition and retention

To encourage consumers to use loyalty cards, the rewards have to have significant value for the consumer. In order to help cardholders understand the value of such programs, issuers need to engage in innovative marketing and ongoing communication with the customer.

Traditionally, rewards program have been used as a strategy by card companies to improve customer acquisition and retention. However, due to a proliferation of rewards program in the market as well as increasing program commoditization, the customer response rates to reward card offers has been declining. The issuers are thus faced with the problem of competing in a mature market where it is becoming difficult to further increase the card customer base.

Recommendation #2: Reach out to the customer through new channels, such as mobile and social media

Online social and mobile channels make it easier for issuers to connect with loyalty program members and their social networks of friends and followers to help to increase the customer base and card usage.

Challenge #3: Firms need to improve cost efficiency

Financial institutions need to optimize program costs in order to break even and generate profits. Generally larger issuers have greater economies of scale. A low scale program presents a cost challenge in managing administration and redemption expenses. Program administration costs have also increased along with the rise in complexity of loyalty programs.

Program administration costs range anywhere between 10-20% of the overall loyalty costs, and come down to 2-5% with an increase in the customer base and loyalty program spend due to the advantages of economies of scale[5]. Issuers adopt various business models in order to distribute program costs among various participants.

Recommendation #3: Focus on loyalty management to improve administrative efficiency

In order to improve administrative efficiency, issuers need to focus on loyalty program design and management to minimize administration costs by using coalitions and partnerships, customer analytics, technology, and outsourcing of loyalty management solutions.

[5] Capgemini Analysis, 2011

5 Recent Market Trends and Regulations: Impact on Loyalty Economics

The impact of the financial crisis has been significant on the card industry. A number of debit and credit card regulations governing banks, payments, and card programs will have an impact on the bottom line of rewards programs.

5.1. Market Trends Affecting Card Loyalty Programs

New market regulations are likely to force banks to restructure their rewards program portfolio and push consumers to credit cards. Two of the recent regulations impacting the card industry are the **Credit CARD Act of 2009** and the **2010 Durbin Amendment**.

Recent debit card regulations will reduce the profitability of debit transactions by negatively impacting interchange fees

In the U.S., the debit card market has seen two new regulations in 2010 that are likely to have an impact on the economics of rewards programs. The first regulation, **Reg E**, has mandated an opt-in approach to overdraft coverage, and has stated that a bank can no longer provide and charge the customer for the overdraft of non-recurring debit card transactions without opt-in authorization. The second regulation, the **Durbin amendment**, will significantly limit the revenue that banks generate through interchange fees from debit card transactions[6].

Larger banks will therefore be forced to phase out traditional debit-based rewards programs and move from interchange-funded debit programs to merchant-funded rewards. As an example, JPMorgan Chase has announced this year in March that it will terminate its debit rewards program in July to reduce losses from the proposed cap on interchange fees.

Recent credit card regulations have imposed additional consumer safeguards

The **Credit CARD (Accountability Responsibility and Disclosure) Act of 2009** in the U.S. has led to extensive reforms in credit cards and gift cards, and seeks to protect the interests of the cardholders from excessive fees, misleading terms, and arbitrary interest rate increases. As card regulations become tighter, there will be an operational and regulatory impact on credit-card based rewards program. The law may lead to the return of annual fees on credit cards.

Before the act came into force, credit card companies could change rates, rewards programs, and other terms of the card agreement at any time without giving any reason or prior notice. The new law requires that credit card companies give a 45-day notice before making such changes. Hence card holders now get 45 days in which to use their reward points, instead of having their accrued reward points being reduced or forfeited completely.

Changes in Merchant Service Charges (MSC) in Europe will impact bundling of card reward programs and interchange fees for issuer banks.

Merchant Service Charge (MSC) is a fee that retailers or merchants pay to their acquiring banks for processing VISA/MasterCard transactions. However, from January 2011, all European acquirers now have to offer unbundled merchant

[6] Aite Group, 2011

service charges (MSC) due to a 2009 agreement forced by European Commission between VISA and MasterCard. European acquirer banks would no longer be able to combine all debit and/or credit products and must specify the merchant service charges according to each card scheme and card program. Combined with the recent lowering in the debit card interchange rates by MasterCard and Visa Europe, unbundling will lead to a further lowering of merchant service charges. However, merchants may still end up paying more for acquirer services. Since interchange fees for the issuer bank comprises mainly of the merchant service charges, it is also likely to get affected.

5.2. Key Market Challenges and Recommendations

Loyalty programs now have to deal with various emerging market challenges. In mature economies, penetration rates for cards have come down while the new business and regulatory environment has negatively impacted the economics of the card industry.

Exhibit 6: Loyalty Market Penetrations in Different Global Regions

Region	Penetration
North America	▪ The American loyalty market has become mature due to many existing card loyalty programs and high penetration levels with the average adopter holding two credit cards earning rewards ▪ The recently passed Credit CARD Act and Durbin Amendment have put additional pressure on banks to push for new and innovative loyalty card programs
Europe	▪ The European card market is not fully mature with the exception of the U.K. where consumer penetration of loyalty programs has reached 85% ▪ Recent regulations like RDR in U.K. and debit card interchange regulations in Europe will impact card programs through increasing regulations and reduction in interchange fees for both acquiring and issuing banks
Latin America	▪ Card transactions have grown consistently over the past three years in Latin America, particularly in developing economies such as Brazil and Mexico ▪ Latin America offers unique opportunities for online stores to establish collaborative incentive programs backed by deep-pocketed off-line players pursuing online consumers
Asia-Pacific	▪ The region is experiencing high growth rates in card transactions, particularly in countries such as China, India, and Japan ▪ The growth in card transactions has been fuelled by lifestyle shopping due to increasing middle-class incomes, presenting significant growth potential for loyalty programs

Source: Capgemini Analysis, 2011

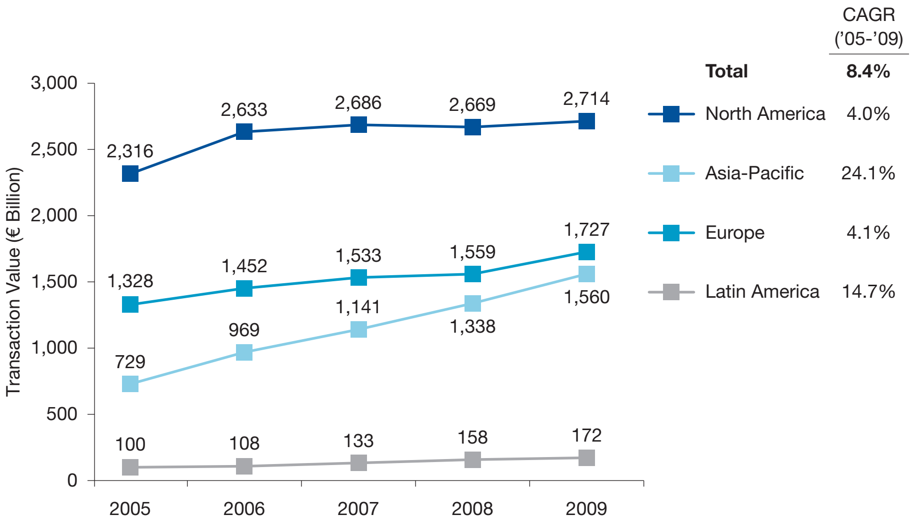
Challenge # 4: Loyalty programs are becoming commoditized in mature markets

There has been a proliferation in loyalty programs since 2001, with banks trying to lure customers in the face of a maturing cards market. Loyalty scheme penetration rates in mature markets have begun to taper off due to the commoditization of loyalty programs. Companies are now forced to look for new ways to differentiate their loyalty programs from competing card programs.

Recommendation #4: Expand to new regional markets and newer channels, such as online and mobile

Loyalty programs need to expand the customer base by focusing on emerging markets such as Asia-Pacific where card adoption is still rising and customer spend is increasing. Adoption of newer channels such as online and mobile will also expand the customer base.

Exhibit 7: Global Regional Cards Market - Transaction Value (€ Billion), 2005-2009



Source: Capgemini Analysis, 2011; *World Payments Report, 2011*, Capgemini

Challenge #5: Perceived value of rewards programs is on the decline

For a consumer, the perceived value of traditional rewards programs has been on a decline. Loyalty programs have become over-saturated in mature markets, which have led to lower acquisition response rates to rewards card offers. Since most of the rewards programs offer similar value propositions, attracting and retaining customers has become harder. In an increasingly over-saturated and competitive market, card programs may become more focused on differentiation and innovation rather than rewards.

Recommendation #5: Use alternative channels such as social media to reach out to the younger generation

Using social media, points earned via social networking (social currency) can be gifted to friends and family within the network, engendering customer loyalty and enhancing customer satisfaction with the loyalty program.

Challenge #6: Credit card usage in terms of purchase volume has come down due to the impact of the financial crisis

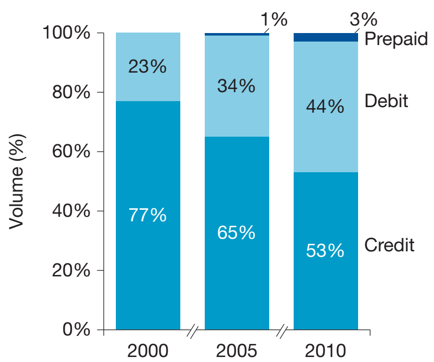
Due to elevated personal debt levels in mature markets, customers are now decreasing their credit card usage. As a result, card issuers are grappling with customer attrition and retention issues. Developed markets are seeing a change in consumer attitude in terms of cards usage post crisis, with debit card usage rising in comparison to credit cards.

Recommendation #6: Introduce innovative and relationship based rewards programs to enhance credit card usage

Innovative reward card features such as cash-back rewards, flexibility in redemption options, and experiential rewards can provide incentives to consumers to adopt loyalty cards, and use these cards for purchase as compared to cash and other non-cash transactions.

Introduce relationship-based card rewards program that would reward the cardholder for utilizing a variety of banking products and services.

Exhibit 8: Purchase Volume at Merchants on U.S. General Purpose Cards (%), 2000, 2005, and 2010



Source: Capgemini Analysis, 2011; The Nilson Report, May-July 2011

Challenge #7: The number of credit and debit card regulations continue to grow

The recently passed Durbin amendment and the Credit CARD Act of 2009 would have an adverse impact on the ability of issuers to extend rewards on both debt and credit card offers. The Credit CARD Act in U.S. and the RDR in U.K. impose stringent checks and regulations on credit card operations, including card selling through financial advisors.

The Durbin Amendment will put additional pressure on U.S. banks as financial services institutions will see a reduction in their interchange fee and a consequent impact on their margins. Similarly, the BASEL II/III regulations will significantly push up the funding cost for banks and thus impact the margins on card transactions for banks.

Recommendation #7: Design rewards programs for higher margin debit and credit cards and introduce membership fees

Financial services institutions need to introduce rewards programs that would provide incentives to the consumer for using higher margin debit and credit cards. They can also charge a certain upfront membership fee or an annual fee from the card holder for availing of reward benefits. While rewarding the customers, firms also need to push cross-selling for their banking products.

6 Emerging Technology Trends: Implications for Financial Services Institutions

Financial firms need to revamp their business models based on emerging technologies and shifting customer preferences towards redemption options, including real-time redemption through the online channel, mobile channel, and social media.

6.1. Technology Trends Driving Changes in Loyalty Programs

Real-time technology is leading to the growth of mobile rewards

The growth of wireless-enabled devices has enabled loyalty card programs to deliver offers and coupons directly to the consumer in real-time in the form of mobile coupons. This has been made possible by the use of online and real-time technologies such as radio frequency identification (RFID), near field communication (NFC), and real-time point-of-sale (POS). NFC technology allows for simplified transactions, data exchange, and wireless communications between two devices in close proximity. These real-time technologies use smartphone devices embedded with NFC chips to engage with the consumer through direct mobile-based applications or location-based services.

Programs are leveraging mobile and contactless payments

Contactless mobile payments have been rising as adoption of smartphones based on NFC and microSD card technology, and smartphone applications such as Google Wallet[7], increasingly gains acceptance in the marketplace. Loyalty programs should be built around the growing acceptance and usage of mobile payments as they can be used to deliver coupons over the network, assisted by GPS.

Dual interface EMV cards are on the rise

Dual interface EMV[8] cards provide customers with the convenience to use the card at any merchant outlet, as it can handle both contact as well as contactless chip transactions. The use of a chip-card reader or a magstripe reader provides for universal acceptance of cards and provides enhanced convenience to card holders and merchants alike.

U.S. Bank has become one of the first major banks in the United States to use an EMV card when it announced that it would issue 20,000 Visa-branded EMV credit cards that would cater to its Flexiperks® Travel Rewards card.[9]

Loyalty programs are expanding their presence in online social networks to increase brand awareness

With the growth in online social networking sites, loyalty programs are increasingly using online social channels to increase brand awareness. Social channels provide easy access to existing loyalty program members and to their online networks.

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[7] Google Wallet is an Android app that stores virtual versions of the credit cards for use at checkout
[8] EMV stands for Europay, MasterCard and Visa, a global standard for authenticating debit and credit card transactions
[9] NFC Times, June 10, 2011

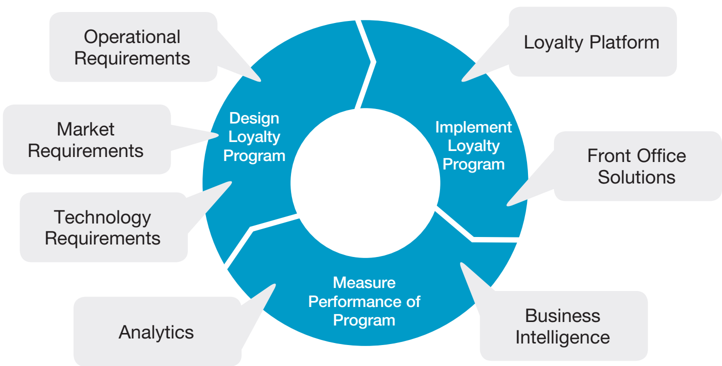
Card issuers reward program members by giving them points and discounts to interact with their brands by "liking" them on Facebook, "following" them on Twitter, watching exclusive videos on YouTube, and making product recommendations to their friends. Companies such as Social Rewards leverage loyalty program members who have social media tendencies for tweeting, sharing, and liking special deals.

In another example, American Express Membership Rewards® encourages its members to join American Express on Facebook to get the latest updates on offers and events, follow them on Twitter, and watch exclusive program videos on YouTube.

6.2. Key Technological Challenges and Recommendations

Loyalty programs now have to deal with emerging technologies in mobile and online channels which have increased the complexity of loyalty program administration, implementation, and measurement across the loyalty management lifecycle.

Exhibit 9: Loyalty Program Lifecycle and Impact Areas on Loyalty Management



Source: Capgemini Analysis, 2011

Challenge # 8: Redemption through various payment channels is taking place
Loyalty programs allow their members to be rewarded instantly using real-time POS at merchant outlets for discounts, merchandise, or services. The online channel allows customers to redeem reward points using a variety of travel, lifestyle, and leisure options. Mobile channel payments allow redemptions based on contactless transactions and various mobile-based applications.

Payment providers such as PayPal™ and Google Wallet are providing loyalty programs to attract customers to use their payment systems. Financial services institutions therefore need to introduce flexible ways to redeem reward points by integrating various redemption channel options—such as online, merchant outlets, and mobile phones—into their rewards programs.

Recommendation #8: Invest in emerging technology and technology upgrades
As mobile payments see significant growth, loyalty programs will have to expand their technology systems to incorporate NFC technology, smart cards, RFID, and emerging payment applications such as PayPal and Google Wallet, into their overall program platform.

Challenge #9: Online Rewards Management is becoming increasingly sophisticated
Loyalty programs increasingly allow consumers to manage their card accounts online, redeem or transfer reward points, and select between various reward options across a variety of new lifestyle options such as music and online social games. Through the online channel, members can also share reward points or gift them to their friends and family who are also members of the program. A host of customer-driven features have thus enhanced the complexity of the customer interface and have put additional technology demands on managing the loyalty system.

Recommendation #9: Outsource program implementation to IT vendors
With an increasing focus on emerging customer and technology requirements, issuers must invest in online technology or outsource their loyalty management platforms to vendors to help in bringing down the go-to-market time and keep online services up to date.

Challenge #10: Social and mobile rewards are growing

Mobile coupons and rewards are gaining popularity as new smartphone applications evolve to manage multiple loyalty programs. Loyalty programs must therefore be able to deliver offers and coupons directly to the consumer in real-time through wireless-enabled devices using various mobile based applications such as Google Wallet and Foursquare. Foursquare is a web and mobile application that allows registered users to connect to friends and update their location.

Recommendation #10: Integrate various channels on a single platform to get a unified customer view in real-time

Issuers need to run rewards program on a single platform which will incorporate social, mobile, online, and location-based GPS technology in their overall program architecture.

Challenge #11: Loyalty measurement is becoming increasingly complex

Consumers share large amounts of quantitative and qualitative data with financial services institutions while enrolling in a loyalty program and while making purchases and redemption. Measurement is essential to understanding the impact of new channels or technology, and needs continuous refinement in metrics and measurement techniques. It is becoming increasingly complex to measure the impact of new channels such as online, mobile, and social, on incremental customer spend and customer satisfaction improvement.

Recommendation #11: Use marketing analytics and business intelligence to measure loyalty program parameters

Analytics and CRM solutions provide insights into customer behavior and use tools of business intelligence, such as data mining, to identify trends that feed into targeted loyalty campaigns and innovative future program offerings.

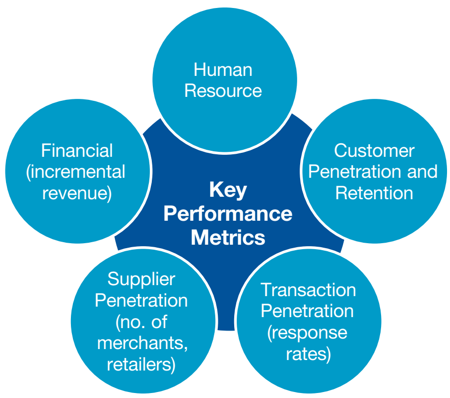
7 Loyalty Management Solutions for Financial Services Institutions

A holistic loyalty management system needs to incorporate the program design, management, and measurement aspects into its overall solution architecture.

Financial firms would have to effectively manage customer data, customer intelligence, and measurement in order to derive the maximum benefit from their loyalty programs. The measurement of key performance metrics helps the issuer to analyze the success or failure of their programs and helps in designing better programs.

Use of effective point-of-sale (POS) solutions such as offer management and rich customer interface, and back office solutions including business intelligence and data management can improve overall loyalty management. Use of industry packages and outsourcing can help in reducing program development and maintenance costs and free firms to focus more on designing the loyalty program.

Exhibit 10: Key Metrics for Loyalty Measurement



Source: Capgemini Analysis, 2011

7.1. Point-of-Sale Solutions

FSIs would have to incorporate emerging technologies and consumer requirements into their loyalty program design and solutions. This includes constant upgrading of the offer management system and the customer interface.

Offer Management

Issuers would have to put in place innovative financial relationship-based rewards schemes which have high-perceived value for the customer and target them with the relevant offers. Rich segmentation based on customer analytics will help in identifying and targeting those customers who can be taken to the next level of spending. Furthermore, predictive models can be used to identify the right offers for each member and target members with individualized offers.

Customer Interface
The growth in payment and redemption channels has caused loyalty management systems to incorporate a multi-media platform to send and receive messages via web, email, phone, SMS, or MMS.

With the growth in online management of rewards programs, web hosting would have to incorporate various services such as online rewards tracking and various redemption options, transfer and sharing of reward points, and payment of a mix of reward points and cash.

7.2. Back Office Solutions

By using business intelligence and data management, issuers can obtain insights into their loyalty programs which will help improve program economics and offerings. Analytics also helps to improve customer segmentation, target profitable customers, and tailor program offerings to meet the end consumer needs.

Business Intelligence
Business intelligence uses data mining tools such as clustering and association[10] to transform raw data and provide valuable insights into customer spend behavior—leading to better targeting of loyalty programs. Business intelligence helps to identify customers based on spend behavior and customer segmentation. This knowledge is essential to target the right customers with appropriate, individualized program offerings.

Data Management
Issuers generate a large quantity of customer data from their loyalty programs. This data is a mix of transactional, historical or demographic, as well as qualitative and quantitative. Such a large amount of varied data needs to be stored in an integrated data warehouse, and easily accessible to data mining and analytics applications. Data management therefore becomes central to improve the relevance and timeliness of the various program offerings.

[10] Clustering makes use of meaningful or useful cluster of objects that have similar characteristic. In association, a pattern is discovered based on a relationship of a particular item on other items in the same transaction

8 Conclusion

Financial services institutions would have to continuously evolve and improve their loyalty programs to keep pace with rapidly evolving business, market and technology requirements.

Loyalty management systems have become essential to driving the profitability of a loyalty program. In the present environment which is characterized by changing consumer preference, new regulatory demands, and increasing technological sophistication, loyalty management is turning out to be crucial in terms of managing various types of loyalty programs. For an issuer, effective management of its portfolio of loyalty programs has become a key differentiator in a market that is characterized by saturation, competition, and increasing regulations.

Financial services institutions would have to continuously evolve and improve their loyalty programs to keep pace with rapidly evolving operational, market, and technology requirements. The next-generation loyalty management systems would also be more flexible, adaptable, and state-of-the-art so that they can deliver loyalty programs in a real-time and self-service mode to customers. Our analysis has identified 11 key recommendations that issuers can consider in order to drive more value from their current or proposed loyalty programs.

In the present challenging times, when consumer confidence is at a low, innovative loyalty programs can be an effective means by which financial services institutions can win back client trust and enhance customer satisfaction.

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About the Author

Rishi Yadav is a Senior Consultant in Capgemini's Strategic Analysis Group within the Global Financial Services Market Intelligence team. He has more than eight years of experience in strategy, business, and technology consulting for financial services clients across banking, insurance, and capital markets.

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Present in 40 countries, Capgemini reported 2011 global revenues of EUR 9.7 billion and employs around 120,000 people worldwide.

Capgemini's Global Financial Services Business Unit brings deep industry experience, innovative service offerings and next generation global delivery to serve the financial services industry.

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