White Paper

Enhancing Authorization Performance

How to use reactive customer communications to enhance your authorization strategy enabling you to rescue declined transactions, reassure customers, and unlock significant payment volumes

VISA

Executive Summary

Transaction declines are an inevitable part of the payments business. This is a crucial check which every transaction should pass through thereby giving the issuer a large degree of control over transactions. They are, however, a huge market irritant in the payments industry. Studies by Visa have shown that in addition to the lost transactions an issuer loses much more. There is a spend attrition (i.e. slowdown in spend and, of course, attrition where the cardholder stops using the card), and a large portion of the declined transactions (other than insufficient funds) have a very good fraud transaction score. The study done by Visa for the Australian market shows that 70% of the "do not honor" declines had a very low fraud transaction score. The impact is much more severe in premium cards and cross border declines[1].

Tackling declines

Everyone hates it when a payment card transaction is declined. The cardholder loses face, the card issuer loses the transaction and, all too often, the merchant loses the sale.

The issue is that, in many instances, these declines are the result of somewhat arbitrary authorization decisions. For example, the cardholder may have inadvertently ended-up on the wrong side of an authorization parameter (perhaps because, after a sudden spate of spending, they failed a velocity check); they may have forgotten to inform their issuer that they are traveling overseas (and stumbled into a geographical block); or, they may have reached the upper end of their credit limit (even though they have plenty of money sitting in their savings account).

So how could these declines be addressed and the transactions rescued?

No matter how effective an issuer's authorization strategy may be, a certain proportion of declines will always be generated. But, by using their existing messaging and alerts platforms, there is much that issuers can do to make cardholders aware of the underlying reasons for a decline and suggest an immediate solution.

The vast majority of declined transactions have nothing to do with fraud. Usually, they have a good risk score, but get turned down because of much more basic checks and balances. Visa's Global Declines Transaction Analysis in 2016 has shown that more than 76% of all global transaction volumes that Visa issuers declined are tagged either as 'insufficient funds' or 'do not honor'. In addition, some US$8 billion in card not present declines are due to 'expired card'[2].

Visa Global Declines Transaction Analysis

76%
insufficient funds & do not honor (volume)

US$8 billion
expired card declines in card not present channel

Source: VisaNet data, January – December 2016

Post Decline Attrition Impact

54%
less likely to use their card in future

48%
would consider switching their issuer

Source: Finsphere Card Fraud Research, PSB, 2013

2. Visa Global Transaction Declines Analysis, VisaNet, January - December 2016

Huge irritants, resulting in silent attrition

These declines are huge market irritants. Everyone suffers. Visa's Post Declines Transaction Analysis suggests that, from a customer satisfaction perspective, declines can be even more of an issue than fraud itself. This is particularly the case when the customer is in a local shop (which can be particularly embarrassing) or when they are traveling overseas (which can be particularly inconvenient and often quite frightening)[3].

Research from mobile geo-location specialists, Finsphere, tells a similar story. If a transaction is declined, 54% of cardholders say they would be less likely to use their card in future, and 48% say they would consider switching their issuer[4].

Often, the result is so-called "silent attrition". The cardholder simply reverts to another payment method, and the issuer's card forfeits its coveted top-of-wallet position. Visa's Post Decline Attrition Analysis transaction data reinforces and quantifies the impact of declines on cardholder behavior. It also shows that subsequent card abandonment rates tend to be highest of all among premium cardholders who spend more lavishly and maintain higher balances.

The impact of declines on card abandonment rates

Source: VisaNet data, Jan – Dec 2016
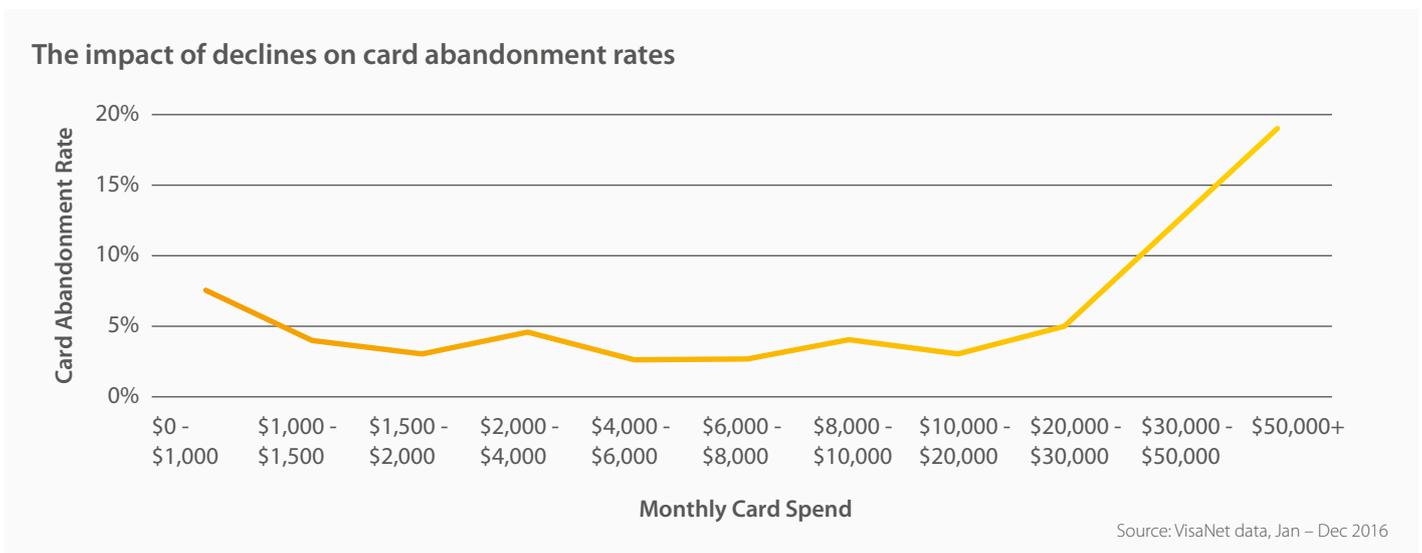
3. Finsphere Card Fraud Research, PSB, 2013
4. A program of quantitative and qualitative research, commissioned by Visa in Europe and conducted in 2012 by The Value Engineers

The question is, what can be done to address these damaging declines?

Most issuers will tell you that they have good, sound business reasons behind all of their authorization parameters. The idea is to limit credit and/or fraud risk. From a risk management perspective, the decisions they make are correct, so a certain proportion of declines is both inevitable and desirable. And, across the industry, issuer risk teams are likely to stick adamantly to this mind-set.

Making better use of existing messaging platforms

One promising solution is for issuers to make better use of their existing cardholder messaging engines. Because they are already used to generating real-time or near-real-time transaction alerts, these messaging platforms are already plumbed-in to many issuer authorization systems. So, operationally, it is a small step to use cardholder messaging to resolve or at least relieve the declines dilemma.

An approach taken by some issuers is to forewarn cardholders. Having begun to make some basic behavioral predictions, these issuers have started to send out proactive communications that nudge their cardholders in the right direction.

So, for example, if a cardholder makes an international flight booking or reserves a hotel, there is a strong probability that they will soon be traveling overseas. This can then trigger an email or SMS, reminding the cardholder to update their issuer of their travel plans (who can then lift any geographic blocks), and ensure that they have enough of a credit limit (thereby avoiding the risk of the dreaded Reason Code 51 of 'insufficient funds').

Similarly, if a cardholder has used up 80% of their credit limit, another type of message may be triggered. Do they want to transfer funds from another account? Or take advantage of a temporary credit limit increase? Or apply for a permanent credit limit increase?

Traveling overseas

Receive email and SMS reminders

An emerging approach with significant promise

An emerging approach, and one that promises to deliver even more significant benefits, is to send messages out reactively, whenever a decline is generated.

If nothing else, this can help to satisfy the cardholder's curiosity because a big proportion of inbound calls come from cardholders who simply want to know the reason for a decline. By giving them the inside track on your decisions, it can also help to alleviate the antagonism that declines can cause. And, with some smart thinking and smarter alerts, you can go one step further and use real-time or near-real-time messaging to actually rescue the transaction.

Let's consider a couple of specific scenarios:

1 Say a customer has an ATM transaction declined because they have exceeded their daily cash withdrawal limit, yet their available spending limit (or open to buy) is plentiful. Why not send them a message, explaining the rationale for daily cash withdrawal limits, and suggesting that they either pay by card or try withdrawing cash the following day?

2 Say a customer has a purchase transaction declined because they have exhausted their credit limit, yet they have a good balance in their savings account or current account. Why not send them a message updating them on the situation, and suggesting that they either transfer some funds into their credit card account, or authorize a temporary increase to their credit limit?

With crisp, effective communication, delivered in real or near-real time, a large proportion of these declined transactions could be resurrected. And, perhaps more important, an otherwise disgruntled customer could see your brand in a new and far more favorable light.

An emerging approach with significant promise

Below are some illustrative examples of the type of messaging that could be deployed.

Decline Reason (determined by an Issuer's authorization rules)	SMS / Mail Alerts (illustrative)
Activation (Restricted Card) – Customer did not activate his card on receipt	"Your transaction for $XX was declined because your card has not yet been activated. Please call 800 111 111 to activate your card – and you'll be all set to start spending"
Daily limit exceeded	"Your transaction for $XX was declined because your daily spending limit of $XX was exceeded. Please call 800 111 111 to increase your daily limit – alternatively you can use your card tomorrow, when your daily limit will be re-set"
Daily ATM limit exceeded	"Your cash withdrawal was declined because your daily cash withdrawal limit of $XX was exceeded. Please call 800 111 111 to increase your daily withdrawal cash limit – alternatively you can try again tomorrow, when your daily cash withdrawal limit will be re-set"
Daily count exceeded	"Your transaction for $XX was declined because the total number of transactions you can complete in one day is limited to XX. Pleases call 800 111 111 to increase this daily limit – alternatively you can try again tomorrow, when the daily limit will be re-set"
Wrong PIN	"Your transaction for $XX was declined because the wrong PIN was entered. Please call 800 111 111 to reset your PIN"
Insufficient funds – Transfer from other a/c (1)	"Your transaction for $XX was declined because you have insufficient funds. Please call 800 111 111 if you would like us to transfer funds from one of your other accounts – that way, you can carry on using your card"
Insufficient funds – Temporary credit limit (2)	"Your transaction for $XX was declined as you have insufficient funds. To allow you to continue to use your card we may be able to arrange an immediate temporary credit increase. Please call 800 111 111 and we'll see what we can do for you"
Insufficient funds – Credit limit increase (3)	"Your transaction for $XX was declined as you have insufficient funds. To allow you to continue to use your card we may be able to increase your credit limit. Please call 800 111 111 and we'll see what we can do for you"
Insufficient funds – Prepaid card to fund (3)	"Your transaction for $XX was declined as you have insufficient funds. To continue to use your card, please deposit additional funds into your prepaid account. Alternatively, please call 800 111 111 is you would like us to transfer funds from one of your other accounts"
Fallback transactions	"Your transaction for $XX was declined because it looked as though it may have been fraudulent. If it was a genuine transaction, please call 800 111 111 – and we will then be able to approve subsequent transactions"

Decline Reason (determined by an Issuer's authorization rules)	SMS / Mail Alerts (illustrative)
Decline for expired card	"Your transaction for $XX was declined because the card has expired. If you have not already done so, please pick up your new card from your bank branch"
Updating new expiry date (and PAN)	"You now have new card with a new expiry date [and number]. If any regular recurring transactions are linked to this card account, or if the card details are used by any online retailers, please update your payment details – otherwise, transactions may be declined"
Activation for cross border transactions	"Your transaction for $XX in [country name] was declined. This is because your card has not been activated for international use. Please call 800 111 111 to activate your card – and you'll be all set to start spending"
Travel to risky countries	"Your transaction for $XX was declined because it looked as though it may have been fraudulent. If it was a genuine transaction, please call 800 111 111 – and we will then be able to approve subsequent transactions"
Delinquency related declines	"Your transaction for $XX was declined because your latest repayment has not reached us. Please pay a minimum of $XX into your account to continue using your card – and call 800 111 111 if you would like any assistance"
Blocked MCC's for regulatory reasons	"Your transaction for $XX was declined because this type of transaction is not permitted under [country] regulations. You can continue using your card for other transactions"
Cash limit exceeded on credit card	"Your cash withdrawal was declined because total withdrawal limit of $XX was exceeded. You can continue to use your card for purchases"
STIP declines	"Sorry, but your transaction for $XX was declined due to a temporary issue with our transaction processing systems. This has been rectified and you can now use your card. Our apologies for any inconvenience that may have been caused"
Pick up your renewed/upgraded card	"Your new card is now available at your branch. Please visit your branch to pick up the card – or call us on 800 111 111 for any additional information"
Recurring transaction declined for expired card	"A transaction for $XX was declined because it used your expired card details. To prevent further declines, please update your payment details with your online merchants"

Sizing-up the opportunity and thinking through the implementation requirements

This use of real-time messaging can re-define the way that issuers engage with cardholders, and has the potential to change the dynamics of authorization management. It does, however, go hand-in-hand with a wider and more disciplined approach to customer lifecycle management, which has to begin at the customer onboarding stage.

For any issuer, it becomes increasingly important to capture a full range of customer contact data at this early stage. Today, mailing addresses and landline numbers can be complemented not just by mobile numbers and email addresses, but also social media profiles (WhatsApp, for example, or Facebook Messenger). And, because this data is the key to effective customer engagement, it is important for it to be captured as completely and correctly as possible. For example, some issuers will incentivize their sales staff to collect the validated details. They can also be treated as mandatory fields for data entry with the added precaution of dual-entry to weed out any keying errors.

Thought should also be given to the most effective form of messaging. For example, during international travel, some cardholders may not have a roaming service, or may choose to disable it. Consequently, besides an SMS, some issuers will routinely send the customer an email. Similarly, depending on the scale of the opportunity and also their customer service ethos, some issuers will provide cardholders with international toll-free contact numbers.

Another consideration is the complexity of the related implementation and IT integration requirements

In some cases, an existing messaging or alerts platform could be simply enhanced with new rules. But, in general terms, the more personalized and responsive the messaging, the more complex the back-end integration; for example, when an issuer makes a check on a customer's savings account balance before suggesting a funds transfer, or evaluates their credit rating before offering an increased credit limit. As ever, thoughtful analytics can help to drive the decision-making process to prioritize which rule to be implemented. This way, the prevalent decline reason codes can be identified, and the opportunity can be sized. Also, the complexity of the implementation can be evaluated. Generally, an issuer will choose to implement the quickest, easiest wins, and evaluate their impact. They may also use some split tests on different messaging formats and wordings to assess and optimize their respective impact. Then, based on these learnings, the more complex tasks can be prioritized and phased accordingly. Each time Visa conduct an Authorization Performance Review, they expect to unlock significant lost revenues, which typically runs into millions of dollars worth of incremental payment volume.

Of course... issuers may also decide to call on their local Visa client service and support representatives and enlist the services of the Visa Performance Solutions teams. Visa can then work with them to assess and benchmark their authorizations performance and advise on best practice.

Marginal gains that add up to a massive difference

In a tougher business climate, characterized by increased competition, more stringent regulation and tighter margins, payment card issuers globally are looking at ways to further professionalize their operations, satisfy their customers, and squeeze out performance improvements.

With decades of experience in the payments industry, VPS has developed a comprehensive authorization review program. The subject matter experts will provide you with data insights, global best practices and proven strategies to enhance your authorization performance. The program will identify and help capture any incremental opportunity. Partnering with VPS will help deliver an improved cardholder experience.

Food for thought...

Additional services being offered to the cardholder in these situations also offer the issuer an opportunity to earn some revenue. An issuer could charge a fee for some of the services rendered (e.g. to extend a temporary credit or to transfer funds from the checking account to release the open to buy).

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For more information, please contact your Visa Account Executive or email Visa Performance Solutions at **vps@visa.com**. You can visit us at **Visa.com/VPS** or on **YouTube**.

Visa Performance Solutions is a global team of industry experts in strategy, marketing, operations, risk and economics consulting, with decades of experience in the payments industry. Using analytics from the payment network with the most purchase transactions worldwide, our team of subject matter experts can provide you with proven strategies and data-driven insights that support your business objectives.