

Building a Business Card Program in Today's Digital-First Landscape



The State of Today's Business Card Landscape

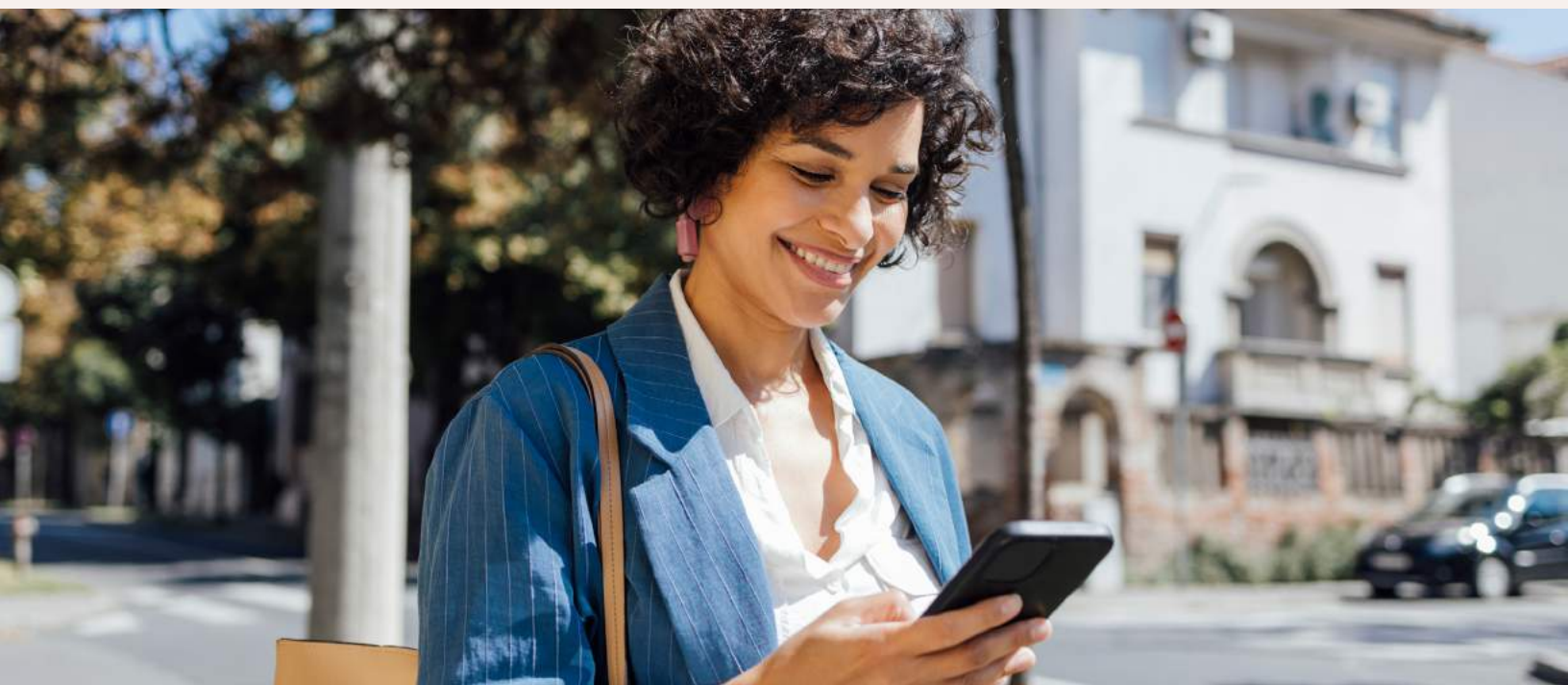
Digital transformation has become the buzz of the financial services industry ever since COVID-19 came on the scene. A landscape that had begun bubbling with potential quickly hit a boil when even digital naysayers were required to leverage the technology for standard monthly transactions. For many financial institutions (FIs), that rapid transformation to a digital-first mentality greatly impacted technology prioritization and business objectives.

That impact lives on today and continues to influence FI plans, particularly when it relates to how they attract and retain customers. In fact, 18% of global institutions report having already deployed digital transformation solutions at scale, and another 61% indicate they are partially deployed.¹

At the very least, FIs have completed their planning for digital technology and are ready to launch new initiatives. Cornerstone Advisors indicates that for 2023, 76% of banks and 87% of credit unions have launched a digital transformation strategy or initiative.²

Business Customer Impacts

For small to medium-sized businesses (SMBs), this digital acceleration has had an even more profound effect. Not only impacting their customers but their business models, these shifts mean they need to rethink their payment processes. While they turn to FIs to help support their efforts, they are looking for efficient, flexible options to meet their burgeoning needs.





90%

Of small business owners without business credit believe a business credit card would impact their business in a positive way.

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This increased pressure has FIs prioritizing their ability to respond. In fact, the FIs who cited a focus on small business deposits grew more than 30% in 2023, compared with 2022 (72% versus 41%).³

The good news? As emphasis on SMBs climbs, card programs can be a conduit to continued customer/member loyalty and growth for an FI. Historically, the Federal Reserve has pointed to 83% of small businesses using credit cards to pay for business expenses, and projections indicate these payments will exceed \$700 billion by year end.^{4,5} In addition, recent research shows that 90% of small business owners without business credit believe a business credit card would impact

their business in a positive way.⁶ An FI that provides a strong card program will have a better competitive advantage.

In addition, the unique combination of services that FIs offer make them an attractive financial services choice for multi-tasking business leaders. With analysts predicting that by 2026, 339 million cards will be serviced by a non-traditional issuer, having a full suite of services, including a card program, will enable FIs to create an efficient package or one-stop-shop for ever-growing business needs.⁷



Bridging the Digital Divide

FIs have a significant opportunity to capture SMB customers/members through targeted, thoughtful card programs. For example, focusing on the combination of customer service and digital solutions will help them in attracting businesses who are also attempting to grow and scale with today's customer expectations. A majority of SMBs expect their business to shift to relying exclusively on digital payments in the future: 64% report plans to achieve that level in less than 10 years, 41% say it could be within the next two years—and 18% are cashless already.⁸

That's why digital-first solutions are a critical differentiator for an attractive SMB credit

card package. Yet, digital solutions are more than a physical card deployed in a virtual environment. According to Aite-Novarica Group, "Cardholders expect digital everything and have little patience for manual processes or interactions."⁹



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With that in mind, FIs planning to introduce or evolve a digital card program should consider three key points in selecting one to meet emerging SMB requirements:

1. **Cloud-native, mobile-first platforms are key to simplifying the onboarding process.** Solutions like sophisticated fraud filters, configurable underwriting decisioning, and real-time identity verification work in the background to ensure cards are available for secure use right away.
2. **Instant issuance creates immediate gratification.** FIs who enable technological support like single sign-on and/or API calls can get an SMB customer up and running on their platform quickly. Employees will be

instantly issued digital cards after approval and acceptance, creating a superior application and activation experience.

3. **Push provisioning stops the need for manual input of information, removing a step from the process.** Deploying a product that allows users to push their card to mobile wallets directly from the FI's app both keeps them connected to the FI and creates a seamless way to start using their card.

A program that addresses these instant gratification criteria will increase the likelihood of card use. To gain transactional usage, FIs will need to consider the benefits of their product to the SMB for the longer term.



The Four Attributes SMBs Seek in Card Solutions

Beyond simplicity and ease in the onboarding journey, SMBs want robust digital-first card programs that help them to grow and scale their business. From expense management to dashboard controls, SMBs want the flexibility to track and monitor card use, while having peace of mind that their transactions are secure. Specifically, they are looking for:

1. **A straightforward, mobile-first platform.**

SMBs wear multiple hats, often juggling multiple lines of business. When cards are deployed for employee expense management, for example, SMBs need a streamlined way to monitor those spends and stay on top of receipts. They also are looking for data security and privacy, simplified cardholder controls and self-service tools, and a personalized experience.

That's why, according to Aite-Novarica Group, SMBs should "seek solutions that offer state-of-the-art capabilities, such as a cloud-based platform, wide API capabilities, and delivery of new functionality like digital card issuance, push provisioning, and carbon impact tracking tools."¹⁰

2. **Simple, yet robust, reporting tools.**

FIIs should offer reporting solutions that allow SMBs to have greater line of sight into their payments. For example, enabling them to track employee expenses in real-time gives them greater transparency into their financial situation. SMBs expect to be able to integrate all data seamlessly into accounting software for centralized reporting.

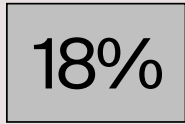
Statistics show that FIIs have much to gain by deploying these dashboard-based solutions. For example, JD Power reports that when card issuers introduce technology that supports small businesses, like customized reporting, "Customers perceive more value from their cards by paying their balance every month..."¹¹



in less than
10 years



within the
next 2 years



already
cashless

SMBs expecting business to shift to all digital payments

- 3. Cards for employees, with controls.** SMBs want the flexibility to provide spend cards to their employees and contractors, but are very wary of expense fraud. A seamless way to issue cards, with controls on when, where and how much can be spent, with real time alerts and ability to capture receipts is critical for SMBs.
- 4. Strategic rewards programs.** SMBs are also looking for rewards programs that speak to their needs. Card programs that leverage multiple reward currencies and apply spending behavior to drive usage not only support an FI's objectives but anticipate SMB needs. What's more, easy and flexible redemptions with statement credits, ACH transfers, loan repayments, and other customized options speak directly to an SMB and its preferences.

Overall, SMBs who have access to rewards programs that truly benefit their bottom line are more satisfied with their programs, particularly in today's inflationary economic environment: Nearly two-thirds (65%) of small business owners say inflation has had a severe or major effect on their business.¹² Rewards programs that bring resources back in house—cash back toward statement credits, transfer to external accounts, or integration with a third-party rewards systems— offer a better customer experience and more useable rewards.

Thankfully, FIs can structure programs to speak directly to these issues and opportunities, creating a scenario that returns value to the SMB customer and increases their satisfaction in the process.

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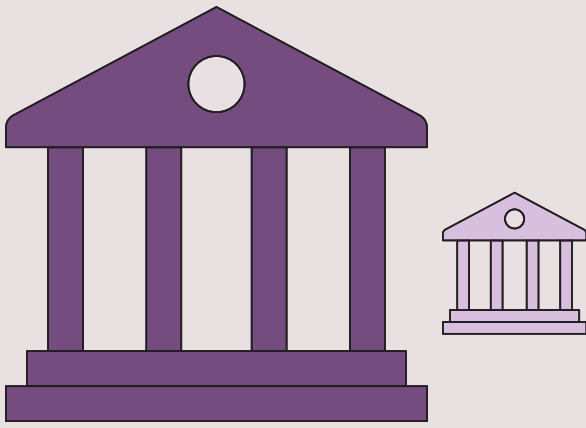
Partnering for the Win: Addressing SMB Needs Together

Once an FI has established the desire to either augment an existing card program or build a new one, the age-old question emerges, “Build or buy?” In today’s landscape, the answer comes down to a better solution: partner. In fact, nearly 70% of financial institutions said partnerships will be important to their business strategies for the upcoming year.¹³

That may be because the investment necessary to build a card program in-house outweighs its benefits. For instance, McKinsey & Company estimates that only 15% of an FI’s IT spend aligns with transformative change, indicating institutions have limited resources to launch new programs.¹⁴ In addition, the same study found that only 10% of engineers who are handling technological development at financial institutions have achieved “expert”

status, making any product development a more costly and time-consuming initiative than outsourcing to a trusted partner. These reasons limit the viability of in-house program development as an option in today’s quick-moving market.

Think of a card program not only as a product journey but as a technology project. From that lens, consistently, the greatest efficiency and cost-savings stem from having a strategic partner who can execute an end-to-end process and provide ongoing enhancements and support. It can decrease the number of vendor relationships required for a card program from five plus to simply one.¹⁵



70%

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That efficiency then parlays itself into a host of other benefits. For one, partnering with a strong provider will enable an efficient go-to-market strategy and decreased costs. Partnering with a strong provider that is flexible allows you to launch a card program faster than with legacy providers. Plus, modular solutions designed to fit the needs of individual FI's allow you to choose the components you need. They also offer a better revenue opportunity than agent-bank programs, which often amount to an allocation of only 20% of the net profit.^{15,16}

In addition, having the right partner will help FIs ensure added layers of security and compliance. With business models focusing on this SMB card program, partners will not only maintain PCI/SOC2 certifications and BSA/AML compliance, they also will be constantly updating security protocols to stay ahead of the curve—something an FI's internal team may not have the expertise and/or wherewithal to do on an ongoing basis.

In all, choosing a strategic partner requires an FI to identify a provider who functions not as a software or technology enabler but as an ally with shared values. That partnership will ensure that SMBs receive the experience they expect from the FI, and for its part, the FI will as well.



Four Steps to Enhance or Launch an SMB Card Program

While every FI has a different experience, enhancing or launching a credit card program takes strategic alignment with business objectives. Ensuring the FI identifies the right partner to bolster those goals starts with carefully articulating core attributes of a program. Taking the following steps can help in identifying how a card program needs to be structured and creates criteria for technology partner evaluation.

1. Make a checklist of must-have attributes for the program. Prioritize market-required deliverables like mobile-first development, advanced underwriting tools, instant provisioning, fraud prevention, customizable rewards, account management tools, superior cardholder experience, and dispute resolution and collections.
2. From that checklist, research new and emerging opportunities in the credit card space. Explore companies with digital-first offerings and emphasize partnership over software. Don't assume traditional market players and providers offer the best solutions as new and emerging companies have SMB card programs tailored to today's unique needs.



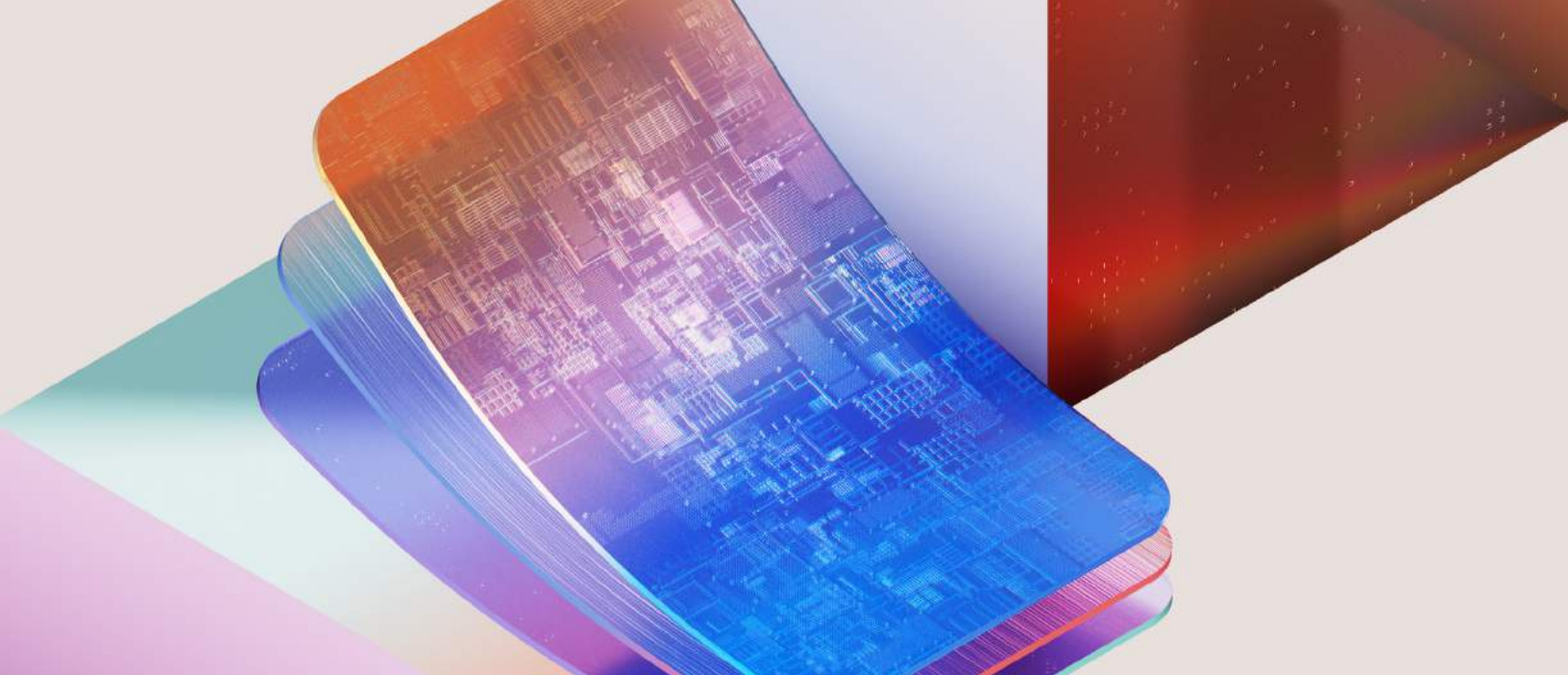
“Great things in business are never done by one person; they’re done by a team of people.”

– Steve Jobs

3. Explore each company’s background and case studies and speak with peers and colleagues about their experiences. Ask companies for demos and request references for FIs who have launched or elevated their SMB card programs.
4. Seek out a partner who aligns with the FI’s culture, understands its business, and provides the experience that will ‘wow’ current and future SMB customers.

only can provide mobile-first solutions in an efficient and turn-key manner but also grow and evolve offerings for the FI will be critical in maintaining relevance with SMB customers as the market continues to advance.

As digital transformation continues to shift SMB expectations and payment offerings, FIs who work now to establish advanced card capabilities will have a leg up on the competition. Identifying a partner who not



About Deserve

Deserve Inc. is a leading mobile-first credit card platform built on a cloud-native and API-enabled architecture, which allows partners to offer superior personalized experiences for cardholders. We partner with financial institutions, fintechs, lenders, and merchant co-brands.

For more information on how Deserve can support your SMB card program, visit www.deserve.com.

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