

Driving Debit Card Volume

*Associated Bank Boosts Debit Card Activation 22%
Using CardWizard® Software*

Instant Issuance Case Study



November 2014

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The Challenge

Driving Debit Card Volume

Founded in 1861, Associated Banc-Corp is the largest Wisconsin-based bank. With headquarters located in Green Bay, Associated Bank (associatedbank.com) has \$26 billion in assets and is one of the top 50 publicly-traded bank holding companies in the U.S. (NASDAQ: ASBC). The bank serves individuals and businesses from over 200 bank branches, as well as commercial offices in seven midwestern states. Associated Bank has lines of business for retail banking, commercial banking and real estate lending, private banking and wealth management.

In early 2011, the bank investigated a way to mitigate the impact of the new debit interchange regulation. As a non-exempt debit issuer under the Durbin Amendment, the bank was concerned about how new limits on debit interchange would impact bank profitability. Associated Bank decided to focus on strategies to maximize debit card usage, and getting cards into customers' hands sooner was a way to improve card activation, resulting in increased transaction volumes and additional debit interchange.

A core part of the bank's values is "personal service." By providing personalized debit cards immediately in the branch for new customers, instant issuance could enhance the bank's onboarding process and customer satisfaction, and deliver a new level of personal service by not making new customers wait to receive their cards in the mail.

"After Durbin, we had to rely more on customers using their debit cards. Top of wallet was the goal. We wanted to capitalize on the customer experience and get customers to start using their debit cards faster."- Brian Strigel, Director of Payments Delivery / Associated Bank.

The Solution

Associated Bank had followed the increasing adoption and acceptance of “unembossed” (or flat card) instant issuance technology for several years, and in April of 2011 it began building the internal business case for deploying instant issuance card technology in its branches. The instant issuance business case was driven by three primary objectives:

- 1. Create a “lift” or increase in debit card activation.**
- 2. Exceed customer expectations by removing the waiting period for receiving a new debit card in the mail.**
- 3. Realize operational cost savings by replacing mailed debit cards with instantly issued debit cards for both new cards and lost/stolen cards.**

In addition to its retail and business debit card offerings, Associated Bank had several affinity debit card products that it needed to instantly issue in its banking centers. Having the ability to instantly issue multiple card types of very high quality using one card printer would be a priority.

Datacard® CardWizard® Issuance Software and Hardware

As part of the decision making process, the bank required demonstrations and formal presentations from several instant issuance vendors. Datacard Group demonstrated its flagship Datacard® CardWizard® issuance software and instant issuance hardware that prints high quality customized background designs on demand, along with the cardholder's personalization information, using white card stock carrying the Visa or MasterCard brand.

The bank selected Datacard Group as its technology partner for several reasons:

1. The Datacard® instant issuance printer that offered state of the art card printing technology could produce all of the unembossed cards required to make the program a success, including the ability to support EMV smart card personalization in the future.
2. Datacard Group's reputation and experience as an industry leader in card technology.
3. The CardWizard software offered the best security features.
4. The CardWizard software was easy to implement and could be integrated with the bank's card management infrastructure.
5. Datacard Group offered a complete support plan to provide resources for a 145 branch rollout, including training and technical assistance.

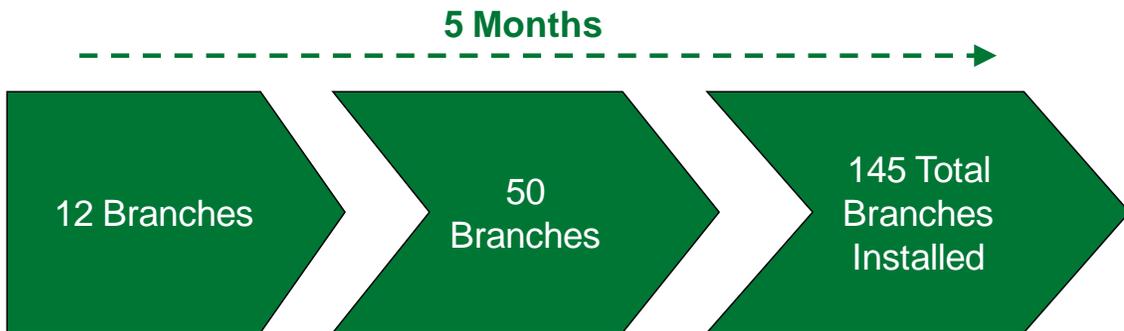
The CardWizard software could be seamlessly integrated with the bank's debit processor so that each new cardholder could leave the banking center with a fully functioning debit card that worked immediately for both PIN and signature-based debit transactions.

Implementation

The initial business case for instant issuance was developed in April 2011. In order to decide which branches would be part of the initial launch, the bank decided to look at those branches with the greatest number of new debit card accounts in a five month period.

Between July and November 2011, the bank collaborated with Datacard Group to develop an implementation roadmap that included installation support and training of branch personnel, as well as information technology support. Datacard Group worked closely with the bank to ensure all critical operational issues were addressed, including MasterCard's instant issuance security guidelines.

By November 2011, the bank completed its implementation planning and began rolling out instant issuance. Three branches went live on November 21, 2011, followed by nine more branches in December, and then 38 more in January 2012, bringing the total to 50 installed locations over three months. By March 2012, the bank had deployed instant issuance at 145 of its branches.

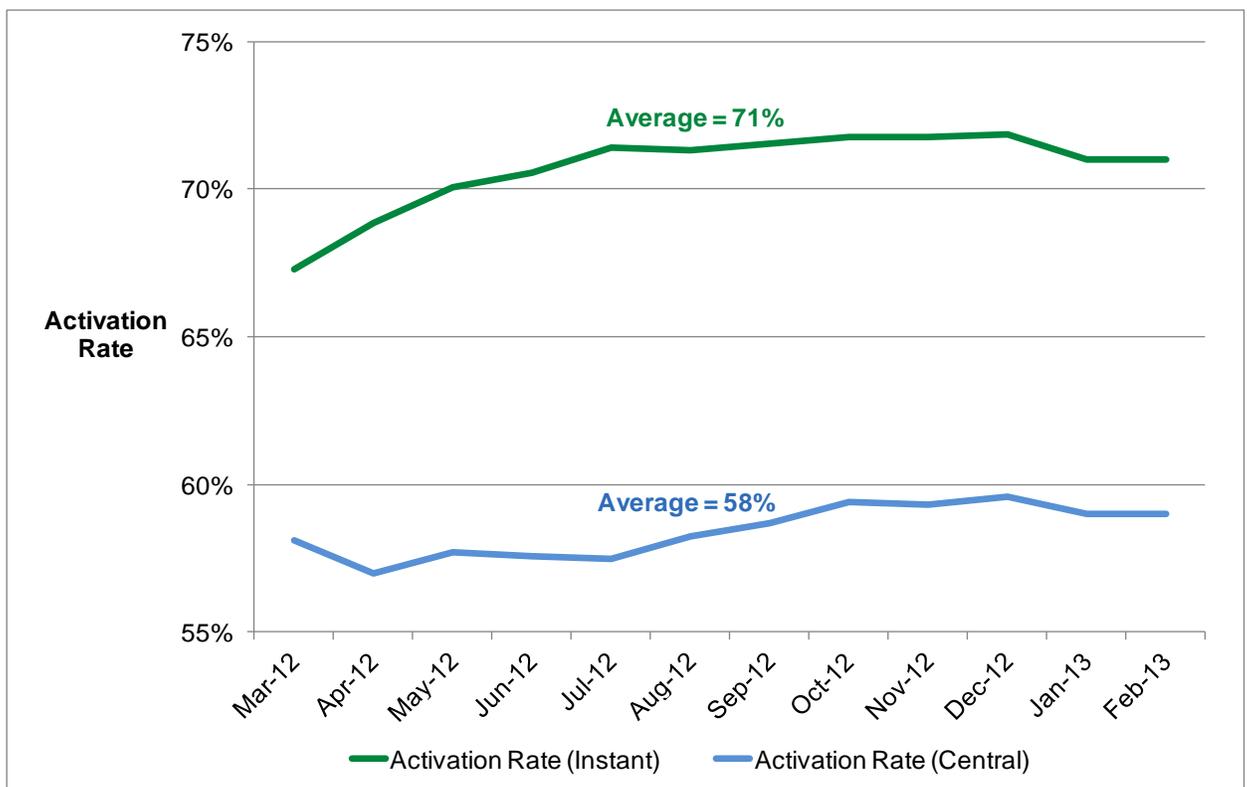


The Benefits of Instant Issuance

1. Instant Issuance Drives Higher Card Activation

Associated Bank noticed a significant increase in debit card activation levels from instantly issued cards. The activation rate data (e.g. the debit card was used for at least one debit transaction during the month) in *Figure 1* below was measured between March 2012 and February 2013. Over this 12 month period, Associated Bank tracked card activation of instantly issued debit cards and compared it to card activation of centrally issued (mailed) debit cards.

Figure 1: Activation Rate Comparison (Instant Versus Central Issuance)



The instantly issued cards saw an average activation rate of 71% over the 12 month time period, a 22% increase over the centrally issued activation rate of 58%.

2. The Effect of Higher Card Activation on Transactions and Interchange Income

To appreciate the impact of higher card activation upon interchange income and profitability on a midsize, regional bank, a dynamic model was created that incorporates increased activation rates, as well as industry averages for debit card usage and debit interchange rates. The model then compares the performance of a sample instant issuance card portfolio against a sample centrally issued card portfolio, assuming all

cards are issued either instantly or centrally by a financial institution with 250 branches. A 5% annual attrition rate is applied as a monthly attrition factor to the active debit card portfolio. Finally, a four-year time horizon is used to coincide with the four-year depreciation and amortization schedule typically utilized for the instant issuance equipment investment. This allows for a simple net income comparison between the instant and central card portfolios.

Table 1: Model Assumptions: Instant and Central Card Portfolios

	Instant	Central	# Increase / (Decrease)	% Increase / (Decrease)
Activation Rate	71%	58%	13.0%	22%
New Active Cards per Month Before Attrition	6,400	5,200	1,200	
Debit Transactions per Active Card per Month	20	20	-	
Interchange Revenue per Debit Transaction	\$ 0.24	\$ 0.24	\$ -	

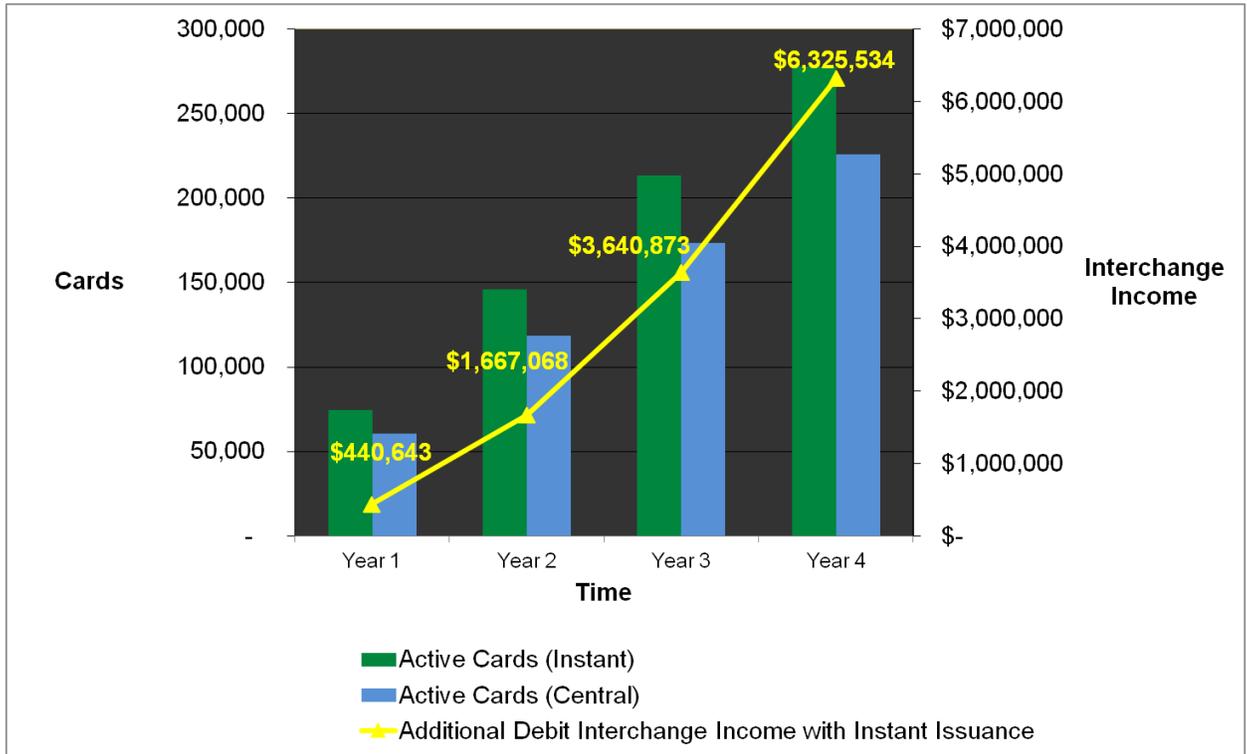
Table 2: Active Debit Cards and Debit Transactions (Cumulative)

	Month 1		Month 12		Month 24		Month 36		Month 48		Difference
	Instant	Central	Instant	Central	Instant	Central	Instant	Central	Instant	Central	
Branches	250	250	250	250	250	250	250	250	250	250	
Debit Cards Opened per Month per Branch	36	36	36	36	36	36	36	36	36	36	
Cumulative Cards Opened	9,000	9,000	108,000	108,000	216,000	216,000	324,000	324,000	432,000	432,000	
Portfolio of Active Cards at Beginning of Month	6,400	5,200	75,100	61,000	146,500	119,000	214,400	174,200	279,000	226,700	
Annual Attrition Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Monthly Attrition Factor (=1/12 of Annual Attrition Rate)	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%	
Cards Closed During Month Due to Attrition	27	22	313	254	610	496	893	726	1,162	944	
Active Cards During Month	6,373	5,178	74,751	60,736	145,850	118,503	213,474	173,447	277,793	225,706	52,086
Cumulative Debit Transactions	127,467	103,567	9,792,073	7,956,059	37,045,955	30,099,839	80,908,290	65,737,986	140,567,424	114,211,032	26,356,392

Table 2 above shows that after four years, instant issuance has resulted in approximately 52,000 additional active cards, performing over 26 million additional debit transactions compared to central issuance.

These additional debit cards and debit transactions due to instant issuance translate into over \$6.3 million of additional, incremental debit interchange income for the issuer (Figure 2 below)¹.

Figure 2: Active Cards and Additional Interchange Income (Cumulative)



3. Instant Issuance Saves Money on Card Consumables

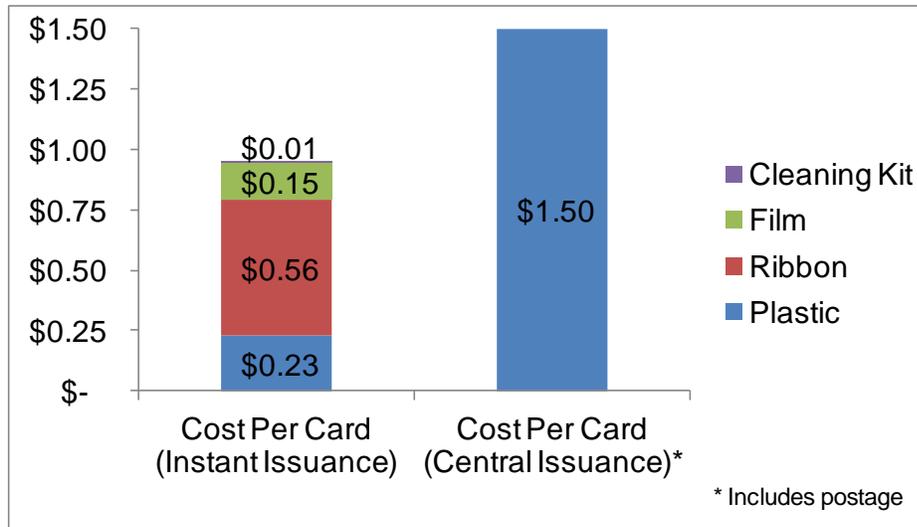
Instant issuance of unembossed cards can be accomplished by personalizing pre-printed lithographic cards, or by using the card printer to apply both graphics and personalization data to blank white cardstock fabricated with a preprinted Visa or MasterCard logo.

The Datacard® card printer can also print “over edge” card graphics with personalization on blank white cardstock, enabling the bank to print each of its different debit cards, quickly and securely, using one card printer. The printer technology utilizes film and ribbon consumables, and a cleaning kit is used to periodically clean the card printer, ensuring the best quality card prints.

¹ The Transaction, Interchange Income and Net Income metrics referenced in this case study are driven by the Model assumptions; they are not Associated Bank’s actual metrics.

Figure 3 below identifies estimated consumables cost savings of \$0.55 per card with instant issuance. The instant issuance expense per card includes the cost of white plastic, film, ribbon and the cleaning kit. The central issuance cost-per-card includes the typical charges imposed by a third party service bureau to create and mail a personalized debit plastic card.

Figure 3: Consumables Cost Savings Based on Industry Averages (Instant Versus Central Issuance)



4. Instant Issuance Drives Significant Net Income After Expenses

It is important to net out the cost of the card printers and other operating expenses associated with instant issuance in order to get a complete picture of the instant issuance business case. It must be noted that issuers may have different needs, based upon the type(s) of card being instantly issued, the amount of hardware and software being purchased, and the desired level of integration with the legacy card management system infrastructure.

Table 3 below lists the typical components that are part of an instant issuance system for producing debit cards.

Table 3: Typical Instant Issuance System Components

Hardware
Datacard® Instant Issuance Card Printer
Encrypting PIN Pad
Software
CardWizard® Instant Issuance Server Software
CardWizard® Instant Issuance Client Software
Integration / Interfaces
Services
Installation and One-Time Setup
Training
Annual Hardware and Software Support

Volume pricing can result in comparatively lower unit costs. For purposes of modeling the four year instant issuance investment for a 250 branch deployment, a total cost per branch of \$7,980 was used. The following table illustrates the fully loaded investment in instant issuance over four years, including consumables and capital investment itemized in *Table 3*, and compares it to the total cost of central issuance over the same time period.

Table 4: Total Instant Issuance Investment

	Month 1		Month 12		Month 24		Month 36		Month 48		Difference
	Instant	Central	Instant	Central	Instant	Central	Instant	Central	Instant	Central	
Consumables Cost	\$ (8,568)	\$ (13,500)	\$ (102,816)	\$ (162,000)	\$ (205,632)	\$ (324,000)	\$ (308,448)	\$ (486,000)	\$ (411,264)	\$ (648,000)	\$ 236,736
Capital Cost	\$ (41,563)	\$ -	\$ (498,750)	\$ -	\$ (997,500)	\$ -	\$ (1,496,250)	\$ -	\$ (1,995,000)	\$ -	\$ (1,995,000)
Total Investment	\$ (50,131)	\$ (13,500)	\$ (601,566)	\$ (162,000)	\$ (1,203,132)	\$ (324,000)	\$ (1,804,698)	\$ (486,000)	\$ (2,406,264)	\$ (648,000)	\$ (1,758,264)

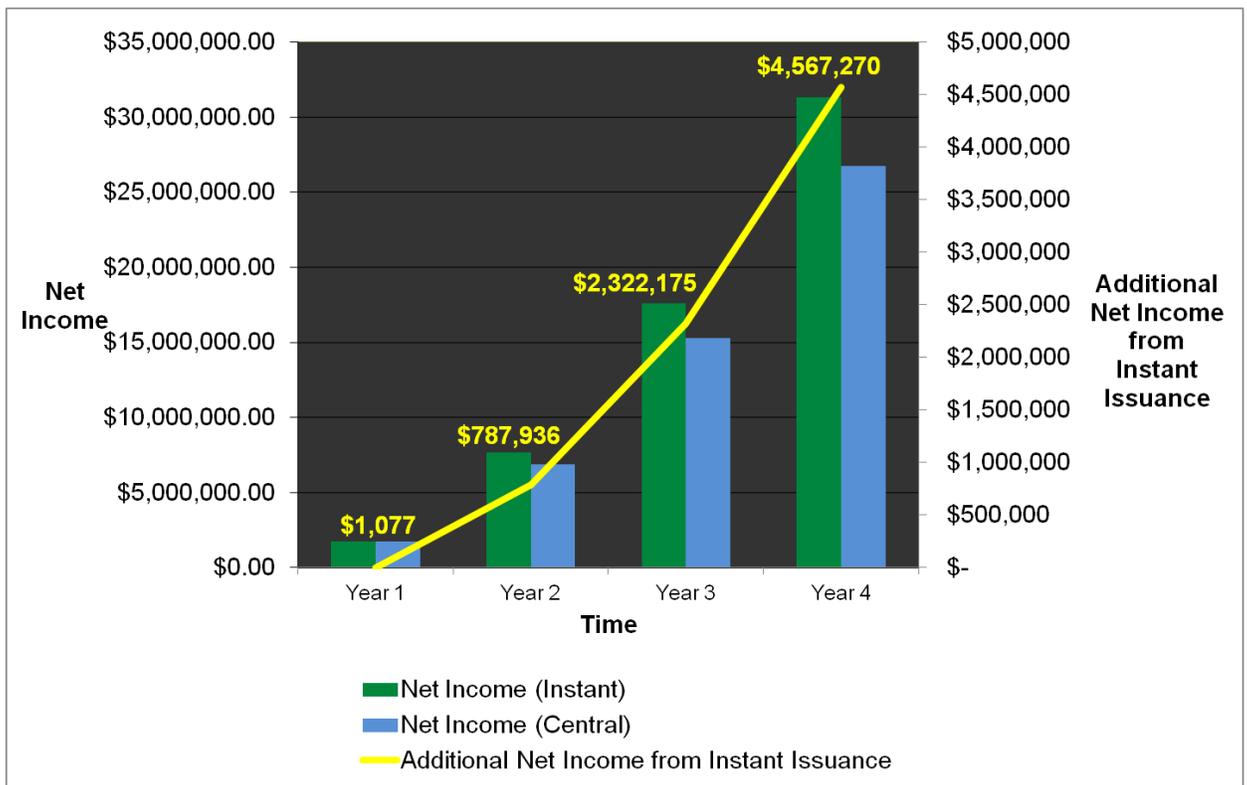
From *Table 4* above, one can see that for a 250 branch instant issuance program, the total capital cost of \$1,995,000 is offset by \$236,736 in consumables cost savings, resulting in a total “net” instant issuance cost of \$1,758,264.

Subtracting this cost from the \$6,325,534 of additional interchange income yields \$4,567,270 of additional net income with instant issuance, compared to central issuance after four years (*Table 5 and Figure 4 below*)².

Table 5: Instant Issuance Net Income

Additional Debit Interchange Income	\$ 6,325,534
Plus: Consumables Cost Savings	\$ 236,736
Less: Capital Cost	\$(1,995,000)
= Net Income	\$ 4,567,270

Figure 4: Net Income (Cumulative)



² The Transaction, Interchange Income and Net Income metrics referenced in this case study are driven by the Model assumptions; they are not Associated Bank's actual metrics.

Conclusion

The strong partnership between Associated Bank and Datacard Group is producing significant benefits for the bank and its customers. All of Associated Bank's de novo branches are equipped with instant issuance technology. The bank has established robust operational risk controls for managing card stock and system access, including periodic audit inspections. The CardWizard software's intuitive design and Datacard Group's experience in launching instant issuance programs have resulted in a secure, reliable instant issuance solution. The bank is currently planning to deploy instant issuance at additional branches. Additional opportunities such as EMV compliant card issuance and emergency card replacement are also being reviewed.

The lift in card activation, incremental interchange revenue, expense savings and enhanced customer satisfaction are the driving forces behind the continued success of Associated Bank's instant issuance program.

“With all the changes that are happening in today’s market, it’s important for financial institutions to strategically structure their debit card business so that they can stay profitable and successful. Instant issuance fits perfectly into our overall business strategy because it increases customer service levels and maximizes convenience. And, with immediate issuance and activation, it ultimately increases usage and transaction levels, which helps offset the change in interchange revenue we are all experiencing as a result of the Durbin Amendment.”- Brian Strigel, Director of Payments Delivery / Associated Bank.