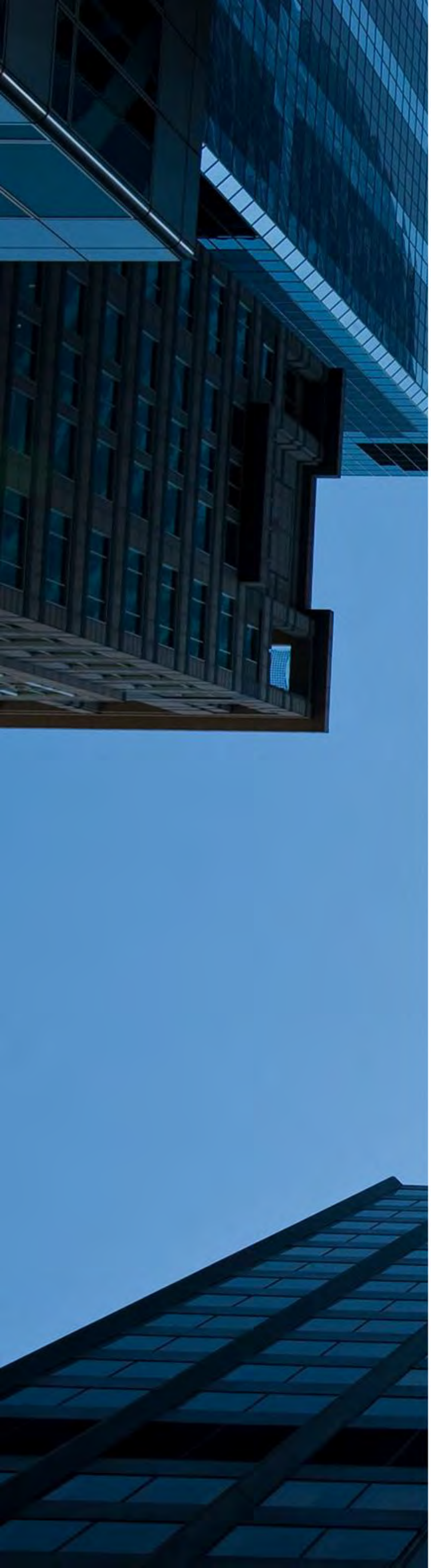


Aite Novarica

JULY 2022

THE MODERN CARD PLATFORM

THE KEY TO ATTRACTING MILLENNIAL CARDHOLDERS

PREPARED FOR:

zeta

JANUARY 2022

THE MODERN CARD PLATFORM

The Key to Attracting Millennial Cardholders

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3
INTRODUCTION 4
METHODOLOGY 4
FINANCIAL INSTITUTIONS AND MILLENNIALS 5
COMPETING FOR THE MILLENNIAL CARDHOLDER 7
A MODERN CARD PLATFORM 7
CARDHOLDER BENEFITS PROVIDED BY A MODERN CARD PLATFORM 8
THE MODERN CARD PLATFORM 9
CLOUD-NATIVE PLATFORM 9
FLEXIBLE SOLUTION 10
EXCEPTIONAL USER EXPERIENCE 10
OPEN AND EMBEDDABLE-BANKING-READY 11
SUPPORT FOR CONTACTLESS PAYMENTS 11
TURNKEY IMPLEMENTATION 11
ASSESSING THE IMPACT OF DIGITAL-FIRST FEATURES 12
IMPLEMENTATION AND SYSTEM EXPENSE CONSIDERATIONS 15
CONCLUSION 16
ABOUT ZETA 17
ABOUT AITE-NOVARICA GROUP 18
CONTACT 18
AUTHOR INFORMATION 18

LIST OF FIGURES

FIGURE 1: ARE NEOBANKS AND CHALLENGER BANKS A THREAT TO YOUR BUSINESS? 7
FIGURE 2: BANKERS UNDERSTAND THE NEED TO ACCELERATE DIGITAL INITIATIVES 8
FIGURE 3: THE MODERN CARD PLATFORM SOLUTION 9

LIST OF TABLES

TABLE A: THE MARKET 5

TABLE B: POTENTIAL REVENUE IMPACTS OF INDIVIDUAL DIGITAL-FIRST FEATURES 12

TABLE C: POTENTIAL EXPENSE REDUCTIONS OF INDIVIDUAL DIGITAL-FIRST FEATURES 13

EXECUTIVE SUMMARY

The need for financial institutions to replace their legacy systems is not new. Remaining competitive against new bank and nonbank competitors requires faster digital transformation and greater agility than is possible with legacy platforms. More demanding, tech-savvy consumers with expanding product needs prefer features and functionality that are offered in a more seamless manner as well as an improved user experience. Such levels of integration necessitate the open architectures that are only found in modern card platforms. To thrive in this new digital era, financial institutions must have product offerings supported and powered by modern technology, especially for front-end platforms such as cards.

Aite-Novarica Group's study ***The Modern Card Platform****: The Key to Attracting Millennial Cardholders* describes why modern card platforms are needed and will become a growing trend in the financial services industry. This report helps issuers understand the importance of catering to millennials, what these consumers expect, and where the issuers' current card programs may be falling short, and details how issuers can create a card program to cater to this target audience.

Key takeaways from this study include the following:

- Providing an end-to-end digital-first experience is becoming an expectation and is critical to attract and retain millennial cardholders.
- Issuers and cardholders benefit from digital-first capabilities. Digital-first capabilities help issuers increase cardholder retention, improve cross-sell, reduce expenses, and more by implementing digital innovations. Cardholders appreciate the increased control, convenience, and security offered by digital-first functionality.
- Digital functionality can help traditional issuers stay competitive against neobanks and challenger banks.
- A modern card platform allows issuers to launch a digital-first card program that is necessary to satisfy the needs of millennial cardholders.

INTRODUCTION

Today's consumers, especially millennial consumers, are demanding. Meeting their expectations requires financial institutions to manage the various internal processes necessary to help consumers effectively manage their finances: transaction and account execution speed, real-time data consolidation and reconciliation, interoperability with internal and external systems, data-driven automation and insights, and personalized tools and services. Unfortunately, most legacy card issuance and processing platforms used today are not robust and flexible, meaning that they will not help financial institutions meet the demands of today's consumers.

Competition in the card issuance space is more vital than ever before. Card programs built on a modern card platform can offer more features and functionalities and provide a better cardholder experience than those built on many legacy card platforms. For this reason, financial institutions that want to compete and offer a card program that meets cardholder expectations should consider converting their portfolio to, or launching new card products on, a modern card platform.

METHODOLOGY

This research leverages the deep industry knowledge of the authors as well as Aite-Novarica Group's vast library of studies. Specific findings from Aite-Novarica Group's recent consumer studies are included.

FINANCIAL INSTITUTIONS AND MILLENNIALS

The digital transformation has created a new paradigm for how consumers expect to interact with their financial institutions. Consumers have become used to accessing their information in real time, 24/7, and through any device or channel. Many banks, large and small, struggle to offer the experience that customers expect, including millennials. Driven by the global pandemic, digital transactions grew 250% across financial institutions in 2020, transforming millions of traditional customers into first-time digital customers. Digital banking adoption and usage were already outpacing branch volume, but with branch closures, customers' reluctance to visit branches due to the COVID-19 pandemic, and overburdened call centers, many customers are embracing digital-first banking as a new way of life. As a result, all digital banking capabilities (including card-related) will have an increasing influence on consumers' willingness to do business with a financial institution, driving customers to modern digital banks. This means that financial institutions that are lagging in their digital transformation are at risk of losing client relationships, especially with millennials (Table A).

TABLE A: THE MARKET

MARKET TRENDS	MARKET IMPLICATIONS
Smartphone ownership is growing.	Smartphones allow cardholders to unlock digital-first capabilities, and smartphone ownership is growing, with approximately 85% of U.S. adults stating that they own a smartphone.[1]
Instant everything is an expectation.	Cardholders today expect instant everything: instant account approval, instant digital card issuance, and instant alerts.
Customer experience is a priority.	There is an international focus on customer experience. Companies worldwide are evaluating every aspect of their products, websites, apps, support, delivery, and more for ways to provide the best experience for their customers. Over 90% of millennials cite easy-to-use online banking

1 "Mobile Fact Sheet," Pew Research Center, accessed August 27, 2021, https://www.pewresearch.org/internet/fact-sheet/mobile/.

MARKET TRENDS	MARKET IMPLICATIONS
	capabilities as important or very important when considering a new banking relationship.[2]
The shift to digital banking is accelerating.	The COVID-19 pandemic has strengthened consumer demand for digital banking solutions. Digital banking capabilities will have an increasing influence on consumers' willingness to do business with a financial institution and their willingness to stay with their existing financial services provider.[3]
Large tech companies are launching digital-first cards with an integrated digital experience.	Apple, Google, and Samsung have launched, or are planning to launch, card products that are fully integrated into the mobile wallet. Incumbent banks and credit unions must upgrade their card programs or risk losing consumers to new players.

Source: Aite-Novarica Group

2 See Aite-Novarica Group's report Attracting and Retaining the Digital-First Customer, June 2020.

3 "COVID-19 Boosts Digitalisation of Retail Banking," Deloitte, accessed July 2, 2021, https://www2.deloitte.com/ch/en/pages/financial-services/articles/corona-krise-digitalisierungsschub-im-retailbanking.html.

COMPETING FOR THE MILLENNIAL CARDHOLDER

Neobanks and challenger banks are becoming niche players that cater to the millennial cardholder. Not only do they promote and offer card programs with more innovative features and functionality compared to legacy players, but they often promote lower fees, greater functionality, financial management tools, and other benefits that can be attractive to millennial cardholders. Feedback from card executives is mixed on whether neobanks and challenger banks threaten their card business in the near-term. However, all respondents acknowledged that these new competitors pose a real long-term threat to their business (Figure 1).

FIGURE 1: ARE NEOBANKS AND CHALLENGER BANKS A THREAT TO YOUR BUSINESS?

Q. Are neobanks and challenger banks are a threat to your business?

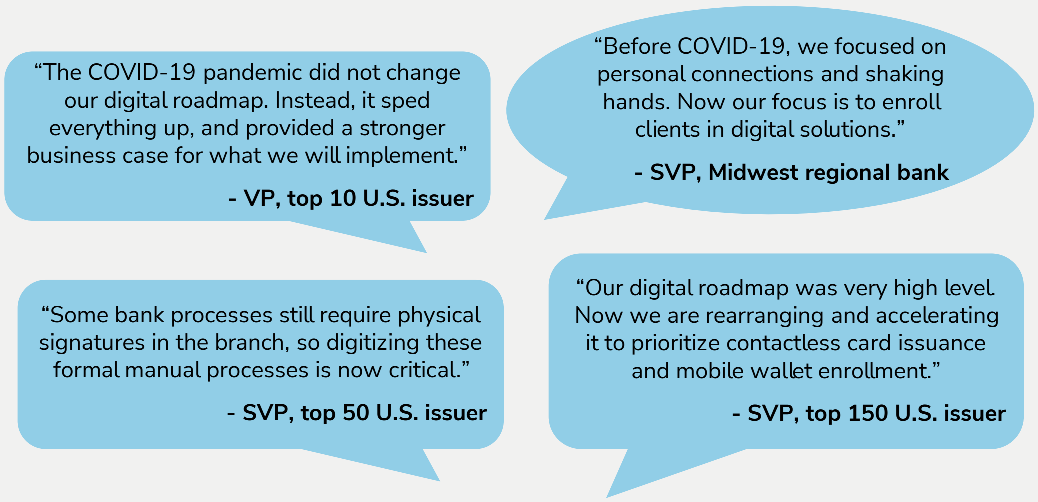
Source: Aite-Novarica Group interviews of 22 card services executives at issuers in the U.S., June and July 2020

A MODERN CARD PLATFORM

Issuers that hope to attract the millennial cardholder and compete with more innovative companies entering the market will benefit by upgrading to a modern card platform that allows them to offer features, performance, and capabilities that today's consumers demand. As evidenced by feedback from multiple bankers in the U.S. (Figure 2), issuers understand that they must enhance their card programs and implement digital innovations sooner rather than later.

FIGURE 2: BANKERS UNDERSTAND THE NEED TO ACCELERATE DIGITAL INITIATIVES

Bankers Accelerate Digital Initiatives



Source: Aite-Novarica Group interviews of 22 card services executives at issuers in the U.S., June and July 2020

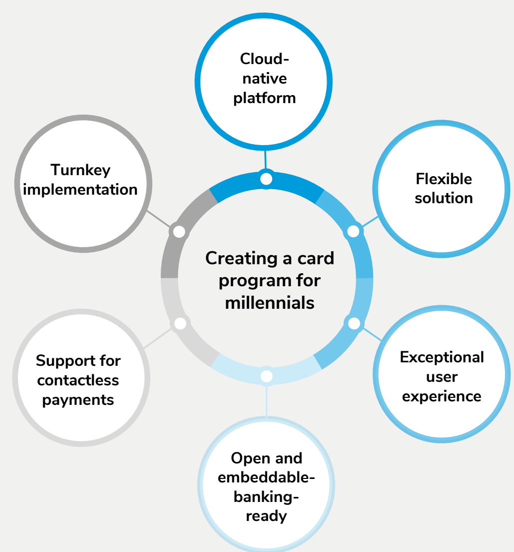
CARDHOLDER BENEFITS PROVIDED BY A MODERN CARD PLATFORM

- **Control:** Digital functionality (e.g., card controls, digital disputes, and PIN selection) through online or mobile banking provides the millennial cardholder with more control of their account.
- **Convenience:** Digital features and servicing allow the millennial cardholder to self-service or choose their preferred way to interact with the card issuer where, how, and when they want, while providing fast access to the payment device.
- **Mobility:** Digital card issuance allows the millennial cardholder to travel without concern of losing their card and having no access to their funds because digital cards can be issued to a mobile wallet at any time.
- **Security:** The ability to turn a card on and off, report a lost/stolen card, receive account alerts, and other similar card-control functionality makes these cardholders feel that their money and account are secure.

THE MODERN CARD PLATFORM

Financial institutions have much to gain from modern card platforms and the benefits they deliver (Figure 3).

FIGURE 3: THE MODERN CARD PLATFORM SOLUTION



Source: Aite-Novarica Group

CLOUD-NATIVE PLATFORM

The need for greater agility, scalability, speed to market, and cost efficiency, coupled with tremendous investments in security by cloud providers, has helped financial institutions slowly grow more comfortable with adopting cloud technology.

The proven cloud implementations in the market are leading more financial institutions to engage in conversations with their technology providers about cloud delivery. A cloud implementation or the shift of existing banking functions to the cloud saves significant time, money, and resources. The shift toward cloud-native solutions has largely been driven by a desire to reduce the overall IT footprint, lower the total cost of ownership, accelerate deployment/speed to market, reduce staffing burden, and spend more time focusing on banking activities. The technology focus is shifting from infrastructure back to providing value to customers and differentiating the customer experience, thereby lowering regulatory burden and providing higher levels of business continuity.

Ultimately, financial institutions will not have to maintain their own backup data centers and won't need all the hardware and resources they once did, freeing up time and allowing IT staff to focus on revenue-generating initiatives instead. Cloud technology enables financial institutions to run a more cost-efficient operating model while providing the agility and modernity that legacy on-premises models lack. Speed to market and cost savings are mentioned most often by banks as advantages that cloud-native banking can bring to an organization.

FLEXIBLE SOLUTION

With the exception of some of the largest global banks, many financial institutions have long focused on outsourcing banking capabilities to third parties. This has largely been to provide as much flexibility as possible to their clients while minimizing overhead costs. But as technology needs evolve, driven by factors such as shifting customer expectations, financial institutions are reassessing their capabilities. They need greater control to quickly configure products and operating models to respond to new market needs and to offer the personalized and differentiated experiences that today's customers expect. Modern card platforms are highly configurable to enable the creation of unique capabilities and workflows that better align with each cardholder persona. Legacy systems, and even some newer ones, lack that flexibility and force financial institutions to settle for a one-size-fits-all approach.

EXCEPTIONAL USER EXPERIENCE

Financial institution customers don't think in silos; therefore, their digital banking and card experiences shouldn't be siloed either. Fortunately, modern card platforms enable a more customer-centric rather than a product-centric approach. Whereas legacy platforms are often closed and require multiple system logins for multiproduct views, modern card platforms offer a seamless experience.

Open platforms enable tighter integration across different product areas, enabling a superior, more consolidated experience for end users that better aligns with how they manage their money and want to interact with their financial institution. As one credit union executive stated, "the moment a cardholder experiences a better way to manage their card or account, they will not want to lose it."[4]

[4] Aite Group interviews of 22 card services executives at issuers in the U.S., June and July 2020.

OPEN AND EMBEDDABLE-BANKING-READY

Combining disparate systems and solutions can be challenging for issuers because individual systems are not always designed with external systems in mind. Because of their flexibility, modern card platforms can integrate APIs or support connections faster and more easily than legacy systems, which require hard-coded changes. While legacy systems can be difficult to integrate, a simple set of APIs available through a modern card platform can enable integration in a matter of days, rather than years.

APIs are increasingly being viewed as a way to help financial institutions enhance their technical architectures and align themselves with more innovative capabilities and technology partners. Financial institutions face growing pressure to change the way they are perceived in the market, from dated, monolithic institutions that run their products in a closed environment to corporate partners running flexible and open systems. Financial institutions have the opportunity to leverage APIs to enhance their customers' experiences, including the cardholder experience.

SUPPORT FOR CONTACTLESS PAYMENTS

Supporting contactless payments means issuing contactless physical cards and also supporting mobile wallet payments. Although mobile payments helped cardholders without a contactless card to avoid contact during the COVID-19 pandemic, the adoption of this form of payment is likely to see continued growth as a convenient, streamlined method of payment. Therefore, attracting and retaining millennial cardholders requires issuers to prioritize digital card issuance and push provisioning to a mobile wallet or risk losing mobile wallet volume to another issuer's card platform.

TURNKEY IMPLEMENTATION

In the past, implementing a new card processing system or vendor solution was a large project that easily took six months to complete. The flexibility that comes with a modern card platform helps to shorten this timeline because it can work in parallel with existing ***core banking*** and card processing systems instead of requiring full integration into them. Therefore, issuers will likely find the implementation of, or conversion to, a modern card platform to be simpler than may have been possible in the past.

ASSESSING THE IMPACT OF DIGITAL-FIRST FEATURES

Each digital-first enhancement has its own benefits that must be considered when developing a digital card program roadmap. For example, features that encourage balance growth may be less critical if an issuer's strategy is to grow new accounts. Table B helps break down the individual income benefits of digital-first card features.

TABLE B: POTENTIAL REVENUE IMPACTS OF INDIVIDUAL DIGITAL-FIRST FEATURES

FEATURE	ACCOUNT GROWTH	ACCOUNT RETENTION	CARD ACTIVATION	CARD USAGE	FEES	INTEREST INCOME	TOTAL BALANCES
Account alerts		✓		✓			
Account updater		✓	✓	✓			
Balance transfers	✓	✓			✓	✓	✓
Card activation			✓	✓			
Card controls	✓	✓	✓	✓			
Manage card-on-file records		✓	✓	✓			
Digital issuance	✓	✓	✓	✓			
Digital disputes		✓					

FEATURE	ACCOUNT GROWTH	ACCOUNT RETENTION	CARD ACTIVATION	CARD USAGE	FEES	INTEREST INCOME	TOTAL BALANCES
Limit increase requests		✓		✓		✓	✓
Payments and payoff		✓					
PIN selection		✓	✓	✓			
Purchase alerts		✓		✓			
Lost/stolen card report		✓					
Travel notifications		✓		✓			

Source: Aite-Novarica Group

Cost reductions are also realized from various functionalities. Table C highlights the potential cost savings associated with major digital-first card program innovations.

TABLE C: POTENTIAL EXPENSE REDUCTIONS OF INDIVIDUAL DIGITAL-FIRST FEATURES

FEATURE	REDUCE BACK-OFFICE EXPENSES	REDUCE FRAUD AND DISPUTE LOSSES	REDUCE CUSTOMER SUPPORT EXPENSES	REDUCE CARD REISSUE EXPENSES
Account alerts	✓	✓	✓	
Account updater			✓	

FEATURE	REDUCE BACK-OFFICE EXPENSES	REDUCE FRAUD AND DISPUTE LOSSES	REDUCE CUSTOMER SUPPORT EXPENSES	REDUCE CARD REISSUE EXPENSES
Balance transfers	✓		✓	
Card activation			✓	
Card controls		✓	✓	✓
Manage card-on-file records			✓	
Digital issuance	✓		✓	✓
Digital disputes	✓		✓	
Limit increase requests	✓		✓	
Payments and payoff	✓		✓	
PIN selection			✓	
Plastic optional		✓		✓
Purchase alerts		✓	✓	
Lost/stolen card report	✓	✓	✓	

FEATURE	REDUCE BACK-OFFICE EXPENSES	REDUCE FRAUD AND DISPUTE LOSSES	REDUCE CUSTOMER SUPPORT EXPENSES	REDUCE CARD REISSUE EXPENSES
Travel notifications	✓		✓	

Source: Aite-Novarica Group

IMPLEMENTATION AND SYSTEM EXPENSE CONSIDERATIONS

Project expenses vary by organization and can be influenced by the number of systems and providers impacted by the project. Issuers with a single service provider for multiple systems (e.g., core system, card processing, mobile banking, and online banking) may have a more straightforward and less expensive implementation than issuers with numerous service providers. A variety of expenses may exist for each project:

- **System expenses:** Legacy systems can be challenging to upgrade, and technical projects take time. Additionally, issuers may have to pay vendors to prioritize a request over those already on the service provider roadmap.
- **Back-office expenses:** Ideally, customer-facing digital enhancements will include back-office enhancements, but that is not always the case. Issuers should consider the resource impacts of functionality that could increase demand on the back office.
- **Integration expenses:** Digital card issuance is an example of a digital-first innovation that may impact multiple platforms (e.g., online banking, mobile banking, card issuance, card processing, core systems, card activation, and fraud), all of which might be managed by separate vendors. Each platform and vendor may have unique charges that will impact the overall cost of the service.
- **Recurring expenses:** Vendor contracts can be complicated, so it is worthwhile to make sure there is no recurring fee or other expense that will suddenly appear or increase once the project is complete.

CONCLUSION

Card issuers that want to grow their debit, credit, or prepaid card portfolio must not only offer the features and functionalities that cardholders today demand but also be agile enough to implement future innovations quickly and seamlessly. Offering a card that can make transactions as well as a mobile banking app is no longer sufficient to obtain and retain today's millennial and tech-savvy consumers. Issuers must evaluate their existing legacy card issuance and processing platforms and ask if they will provide everything needed to meet the demands of cardholders now and in the future.

Implications for financial institutions:

- Card issuers must offer a digital-first experience at every customer touch point from the moment of account application and throughout the life of the account.
- Large technology companies are launching digital-first card programs that are more robust than legacy card programs. Issuers must move to a modern card issuing and processing platform or risk losing cardholders.
- A modern card platform offers various cardholder benefits that will help to ensure a positive customer experience. Additionally, card issuers can experience increased cardholder retention, greater revenue, and cost savings from the digital-first capabilities that modern card platforms provide.
- Moving to a modern card platform allows issuers to provide the most current card program features and functionalities, and enables them to implement future innovations faster and more efficiently than legacy platforms.

ABOUT ZETA

Zeta is a ***banking tech company*** providing a modern omni stack solution comprising modern credit and debit processing, lending, core banking, and mobile experiences. Zeta provides its products to financial institutions and fintechs globally.

Co-founded in April 2015 by Bhavin Turakhia (CEO) and Ramki Gaddipati (CTO), the company currently has over 850 employees across its offices in the US, UK, Middle East, and Asia.

10+	6	10 million	60 million	300+ million
Banks powered	Countries	Cards issued	Customers contracted	Transactions/year

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ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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