

# Incentives, rewards and loyalty

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## Banks throughout Europe are increasingly looking towards incentive, reward and loyalty (IR&L) schemes as the propositional remedy to help drive business performance, customer engagement and usage levels.

This is hardly surprising given their success across a variety of industries, which show these schemes are indeed capable of driving growth, retention and loyalty.

However, in our experience of working with and talking to clients across the region, IR&L schemes can all too easily become expensive and fail to deliver the benefits intended. When this happens, we have noticed some common themes and patterns emerging from the deployment of IR&L programmes; one of the most common is how (for example) a single

Three examples of typical incentive scheme constructs....

- 1) Opening incentives – today start at around £100, either paid as cash into the account or in the form of vouchers (commonly used in current account acquisition)
- 2) Fee waivers – can also be a great way to attract customers to higher value services (commonly used in premier services and credit cards)

While these are tangible and meaningful ‘cash’ offers, their value risks being lost unless they also drive a call to action for the next customer behaviour – customer usage.

- 3) Bonus points – e.g. for using a card within the first months can not only attract customers to an account, but also ensures that customers move from account opening to usage.

A winning approach to incentives is one that links the initial behaviour to the next, ensuring the incentive achieves its primary objective (e.g. account opening) but also sets up the next key outcome (e.g. regular meaningful usage).

Once an account is opened, the value challenge shifts. It is now about ensuring the customer actively uses it as their ‘main account’, day to day. But value-driving behaviour is not one off activity – so incentives are less effective in achieving this. A different mechanism is required, something that rewards sustained, value-driving behaviour and usage.

## IR&L schemes can all too easily become expensive and fail to deliver the benefits intended.

reward or a loyalty scheme is used to deliver all the benefits of a full IR&L programme, rather than develop a full programme of closely aligned incentive, reward and loyalty initiatives...

### So what’s the difference?

Although subtle, there is a clear and distinct difference between an incentive, a reward and a loyalty offer – getting these wrong can be both very expensive and counter-productive.

### Incentives

Incentives are typically a ‘one-off benefit’, used to encourage and motivate a particular behaviour. They are specific and are given upon achievement of specific outcomes.

Historically in banking, incentives have mainly been used to motivate initial account opening. Indeed, account-opening incentives have proved very successful and they are one of the main reasons why more than 7 million (estimated) new current accounts are being opened in the UK each year.

The basis for a successful incentive is that it must:

- 1) Be sufficiently meaningful to motivate the targeted customer behaviour
- 2) Act as a ‘stepping-stone’ into the next stage of building the relationship

### Rewards

Used as a ‘thank you’ to customers for achieving a certain (target) level of sustained activity or behaviour.

In a banking context, this ‘thank you’ could (for example) be a reward for ‘main usage’ behaviour, or a certain level of card usage, overseas spending and/or other product holdings; or for maintaining a certain balance threshold.

The best reward schemes are used to motivate and build stronger, profitable customer relationships. The customer will be clear what they need to do to qualify and the value given will be proportional to the value earned. To work therefore, the reward scheme must:

- 1) Be relevant to and achievable by all target customers
- 2) Clearly state the target behaviour
- 3) Offer appropriate and meaningful value to the customer
- 4) Be easy and simple to redeem



## The best reward schemes are used to motivate and build stronger, profitable customer relationships

Three examples of typical reward scheme constructs:

- 1) Points tied to spending level/frequency – a strong way to attract users to use their account regularly, offering value linked to how frequently the card/product is used (possibly requires merchant partnership deals to make attractive)
- 2) Personalised rewards – particularly valuable for ensuring a customer recognises the value they are receiving – relies on prior knowledge of the customer's preferences (e.g. tickets to a specific event, vouchers in a particular store, room upgrades at a particular hotel)
- 3) Tiered programme benefits – providing clear benefit levels determined by the level of customer usage, usually with the level reset every year – ensuring continued engagement levels

As a reward scheme usually runs over a period of time, typically a year, it is important to keep customers informed of progress and where they are. Digital applications are proving very successful, and the best schemes allow customers digital access to further improve engagement and to ensure maximum redemption.

Reward schemes can drive spending and behavioural traits in the long-term to increase the size of the “ideal” customer segment.

**NB.** *An optimal reward scheme will provide the platform for an effective loyalty scheme. For example, a loyalty scheme can comfortably sit on top of a tiered reward programme and make it easier for customers to qualify in future years – BA does this particularly well*

## Loyalty

Targeting your best customers only, demonstrating that you value them and want to make them feel special not because of how much money they have, but because of their sustained loyalty to you.

Whereas reward schemes are focused on all customers and are about establishing ideal behaviour, loyalty schemes are targeted at best customers only and are about keeping them. A well thought through and positioned loyalty scheme will ensure competitors are less able to tempt your best customers away with their offers.

The benefits start with all the features of the reward programme and then go beyond them, with service offers, easier qualification rules etc. Collectively, they provide the compelling reason to remain a customer, a reason that stretches beyond the standard product and proposition features, offering something special that the customer wouldn't readily get elsewhere. In this regard, loyalty schemes play a critical role in retaining your best customers and in ensuring lifetime value is realised.

In a banking context, loyalty schemes should be targeted at primary customers, differentiating their individual banking experience and proposition and giving them every reason to consolidate their banking behaviour with you (and not share it with a competitor).

The better loyalty propositions therefore, centre on:

- 1) The targeting of best customers only, rather than all customers
- 2) Providing value based on customer lifetime value, including preferential pricing
- 3) Further personalisation of the customer proposition (e.g. privilege service lines, easier qualification rules, exclusive access)

Three examples of typical 'loyalty' scheme constructs and what they include:

- 1) Preferential terms, pricing and easy qualification – the provision of preferential interest rates and pricing, double points, easier 'top tier' qualification etc, making best customers feel special
- 2) Personalised features and priority servicing – providing best customers with a bespoke product design (eg gold or platinum card at now extra price), queue jumping, red carpet servicing
- 3) Exclusive priority offers and 'money can't buy' opportunities – providing access to offers, tickets, events and promotions that only your best customers can enjoy plus 'it's on us' offers, lounge access, concierge offers and travel upgrades

The best loyalty schemes build from a great reward programme, but as mentioned above, are exclusive to the best customers – showing them you value their loyalty and relationship.

## Identifying the target customer behaviour you want to create to establish primary customers is the key first step.

### A single, optimal strategy

Understanding the differences between these schemes and how they work together is key to crafting an optimal IR&L strategy:

- Incentives are best used to encourage a specific (one off) behaviour, such as account opening or first usage
- Rewards are an incentive, but they go further:
  - Targeting repeated, sustained (ideal) behaviour
  - But different to incentives, qualification is harder as they require behaviour over a longer period of time
  - As such, reward scheme take-up rates are often lower
- Incentive and reward strategies work well together, for example targeting the initial 'get go' behaviour and then encouraging repeated 'desired' behaviour

**NB.** *Where schemes fail (e.g. high redemption rates but poor levels of primary usage are observed) then this is usually because the scheme itself is not targeting the ideal outcome*

- Loyalty schemes layer on top of reward schemes and focus on your best customers, thanking them for being your best, giving them something they couldn't easily get elsewhere and thereby making them immune to offers from your competitors

**NB.** *It is important to remember that competitors will rarely be interested in your worst customers, they really want your best customers – this is why targeted loyalty and retention schemes are key*

The best strategies obviously use a combination of the three schemes, encouraging optimal behaviour across the entire customer journey. The need for structured, joined-up thinking is imperative to get the most out of your campaigns and to ensure stand out success in a heavily saturated IR&L market.

### What does this mean for you?

Identifying the target customer behaviour you want to create to establish primary customers is the key first step. Then it is about monitoring whether this behaviour is happening, especially on those customer accounts where redemption rates are highest.

And this raises one final point. Many banks confuse the definition of primary customer behaviour. If you get this definition wrong, then it's no fault of your IR&L scheme that business targets are not being achieved.

If you feel that any of your existing schemes could be optimised, or you would like to develop something afresh, simply drop us an email and say hello – we'd love to discuss the challenges you are facing and explore how we could help you achieve your goals.

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