



Spreading a Credit Card Bill

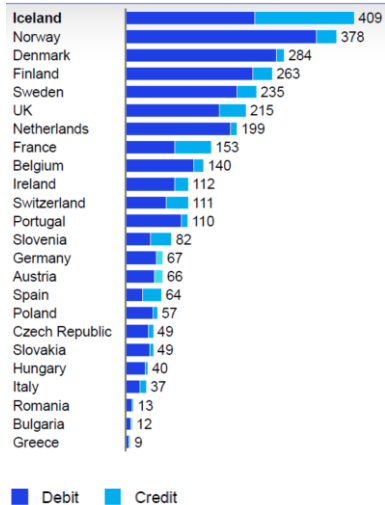
Extending the runway for retail customers

2018

White Paper

Cards & Overdrafts

Usage of cards – transactions per capita



Usage of cards for selected EU/EEA countries. Source: McKinsey & Company



Amount in billions ISK of total credit card debt and overdrafts of Icelandic households 1999-2017. Source: Central Bank of Iceland. Exchange rate EUR/ISK ~120

Spreading a credit card bill

Increased flexibility is more convenient and better banking service

In 2016, Arion Bank established its Digital Future Accelerator as a means to deliver digital products to its customer base and respond to current and future competition from banks and FinTech companies. In essence, the accelerator is a 16 weeks project, where employees with the relevant expertise are co-located and their responsibility is to re-engineer a single customer journey. The team of 10-15 people are committed to this single project only during the 16 weeks and return to their daily jobs afterwards. [See in Further reading: Arion Bank Digital Future Accelerator]. Lending in the form of credit cards, overdraft limits and freezing a credit card were highly prioritized and the projects that were delivered through the Bank's Digital Future Accelerator. One other prioritized project was Spreading a credit card bill.

Credit cards and Overdrafts are the most common lending forms in Iceland

Unsecured loans in the form of credit cards and rolling credit lines (overdrafts) are the most common lending forms in developed economies. The Icelandic economy is no exception. The average household in Iceland has, at the end of 2017, debt in the form of credit card and/or overdraft amounting to ISK ~600,000 (EUR ~4,900). Rolling credit card debt is relatively uncommon in Iceland compared to e.g. the US market while overdrafts are commonly used.

Spreading a Credit card bill

Despite credit card and overdraft's existence, many customers still need more flexibility to make ends meet. Circumstances may change overnight with

unexpected costs. Spreading a high credit card bill is often the easiest solution, sometimes in combination with a rolling overdraft. On average, if requested, customers spread their credit card bills over three months.

Saving time in the privacy of the home

Contacting the Bank via email or phone takes time for the customer. For the Bank, servicing a customer with a limit change request may take 5-10 minutes on average. For many customers, discussing their financials, whatever their financial health is, may be a discomfort. Standardizing the process with intuitive customer self-service in mind is therefore important for both the customer and the Bank.

What the re-engineering process entailed

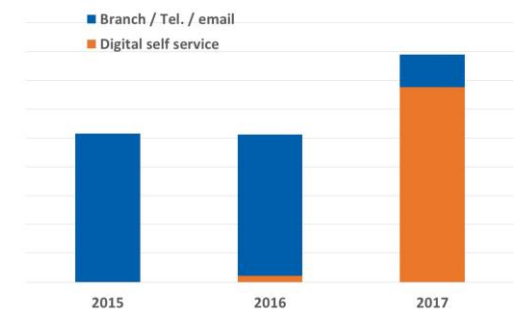
The simplest thing was to design the user interface. The customer selects her credit card in the Bank's app / online bank, clicks on a "Spread bill" button and selects over how many months she would like to spread the bill, all in an intuitive interface. Standardizing the process, total lending exposure and financial health, writing the algorithm and simplifying the terms and conditions was the most time consuming. Both internal and external APIs (Application Programming Interface) are used to calculate a "Yes" or a "No" decision for each customer.

Time savings and efficiency

Spreading a credit card bill digitally in self-service is both a time saving factor, more private and

„Flexibility is convenient banking“
Höskuldur H. Ólafsson – CEO

convenient for customers. Offering an end-to-end digital process also strongly signals to customers the path the Bank is on and shifts customers' expectations on future communications with the Bank. Some of these expectations may be transferred to other banks in Iceland. For Arion Bank, allowing customers to spread their personal credit card bill has given more room for engaging conversations with the Bank's customers if and when they contact the Bank. The privacy factor should also not be underestimated. Being able to have control over financial flexibility in a private space without having to share financial worries to a Bank's employee is without doubt more convenient banking.

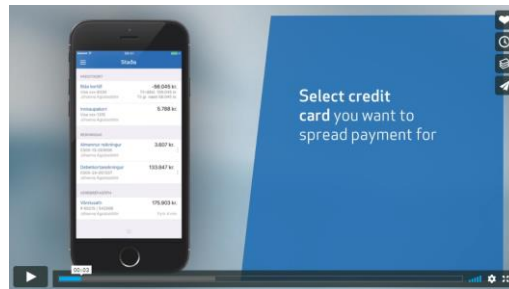


Development of credit card spreads via manual and digital service 2015-2017. Scale is intentionally not shown.

„Over 80% of customers who need to spread their credit card bill decide to do so themselves in the app or online bank“

Bernhard Bernhardsson – Head of Product Development, Retail Banking

Short demo of user interface in Arion Bank's app



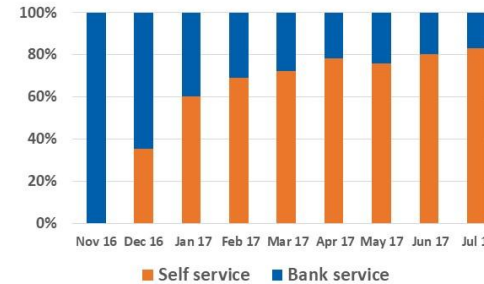
Click Ctrl + picture to watch video. User interface of spreading a credit card bill in Arion Bank's app.

In the short video above, the process can be seen in Arion Bank's mobile app.

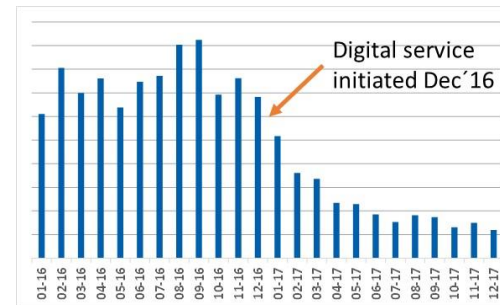
Fast customer adoption

Arion Bank's customers responded to this increased flexibility option with embrace. In just six months, over 80% of all credit bill spreads were performed of customers instead of contacting their branch or call

center.



Ratio of bank service vs. digital self-served credit card spreads since inception in December 2016



Number of phone calls to call center regarding credit card spreads

Accordingly, number of phone calls to the Bank's call center have dramatically decreased, making room for the Bank's representatives to answer other customer needs and reducing the cost for the particular service.

Such noticeable change in customer behavior is a strong confirmation of convenient banking. Arion Bank will continue to develop and implement more digital offerings intended to serve its customers better and lower operational costs in the future. As banks will presumably be under stronger pressure to decrease costs in the years to come, Arion Bank has emphasized a combination of better customer experience, intuitive design, decreased cost and new sources of revenue, where applicable. Going forward, shaping a more open banking design with internal and external APIs on top of building expertise in product design such as spreading a credit card bill and others, with an end-to-end approach in terms of documentation, is a viable strategy in an ever more competitive environment.

See also description and changes in customer behavior of other Arion Bank's digital product offerings in the Further reading section below.

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About Arion Bank

Arion Bank is a leading Icelandic bank offering universal financial services to companies, institutional investors and individuals. These services include corporate and retail banking, investment banking, capital markets services, treasury services, asset management and comprehensive wealth management for private banking clients.

Arion Bank's balance sheet was more than 1,100 ISK billion (€8.9 billion) in 2017. Arion Bank only has operations in Iceland.

[Read more](#) about Arion Bank.



Arion Bank's HQ in Reykjavik



Arion Bank's HQ in Reykjavik



Arion Bank's branch in Kopavogur

About Iceland

Situated in the North Atlantic Ocean between Europe and the United States, Iceland is a European country with 330,000 inhabitants. The capital and largest city is Reykjavik. Two thirds of the country's population live in the Greater Reykjavik area. Iceland, as other Nordic countries, ranks high in economic, political and social stability and equality.

Icelandic citizens are early adopters when it comes to technology and technical infrastructure is good where 97% of residential have access to internet.

Iceland ranked number six globally in terms of [GDP per capita in 2016](#) according the International Monetary Fund.

About Iceland on [Iceland.is](#)

Further reading

Arion Bank Digital Future Accelerator [blog](#) [pdf version](#)

Credit Card and Overdraft Limits [blog](#) [pdf version](#)

Customer onboarding [blog](#) [pdf version](#)