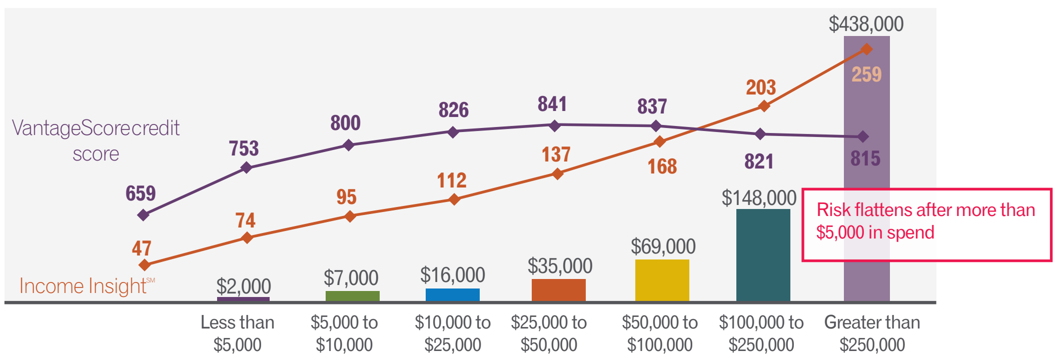
For too long, spend and rewards have been tied to risk score, yet scores alone are not optimal for line assignment or reward strategies and do not effectively identify spenders. Figure 8 shows how spend can add a new dimension in targeting the most profitable groups of consumers. Spend is orthogonal to risk — when spend levels exceed $5,000 annually, average risk scores flatten.

Figure 8: Why is spend important?

To identify high spending prospects, more than just a risk score is required. All low risk populations don't necessarily spend. While income is correlated to discretionary spend, it's also inclusive of low spenders.

National view of spend



Spend data should be a key metric in line assignment strategies in order to maximize return. As shown in figures 9a and 9b, profits are flat across spend segments when credit lines are undifferentiated. Low risk, low spending segments generate only minimal revenue. However, as spend increases, interchange revenue increases as well. Thus, knowing spend allows lenders to optimize line for expected return more efficiently, adding a new dimension in underwriting and complementing risk-based line assignment strategies.

These charts also reveal that low-spend populations (<$5,000 annually) are generating 30 percent to 40 percent less profit than other segments, regardless of risk or line, and therefore, targeting them is an ill-advised use of marketing dollars and creates unnecessary contingent liability. Simply segmenting the population by spend delivers significant value over existing strategies.