



## Credit Card and Overdraft Limits

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Customer self service via app and online bank

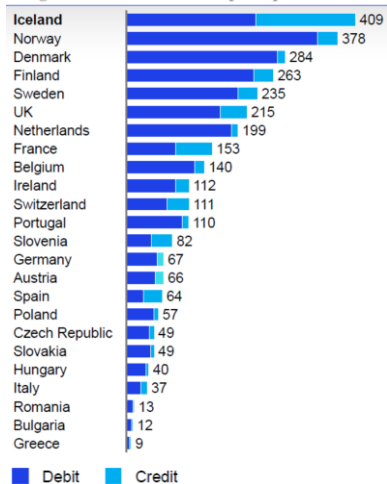
2018

White Paper

 **Arion Bank**  
- for the future

## Card & 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

## Adjusting your own credit limit

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. 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 are projects that were delivered through the Bank's Digital Future Accelerator.

### Credit cards and Overdrafts are the most common short-term 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.

### Contacting a bank on a monthly basis?

Any given retail bank is familiar with the load on the Service center and even in the branch network in the last three days before salaries are paid out and the three days following. Customers need be ascertained they can make ends meet if their

circumstances unexpectedly change. Rolling overdrafts in combination with credit cards are the most accessible lending formats for banking retail customers.

### 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 private 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.

Another common request to a call center or contacting a branch's employee directly is to freeze a credit card that the customer may have lost, fully or temporarily. The distress associated with a lost credit card is known to most with such a card, particularly outside of traditional banking hours. Re-engineering these processes in the Bank's app and online bank would prove to be a win-win situation for the customer and the Bank.

### What the re-engineering process entailed

The simplest thing in the process was to design the user interface. The customer selects a current account or credit card in his app / online bank, clicks on a "Change limit" button and selects the new amount, all in an intuitive interface. Standardizing the process, the limits based on each customer's credit score 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 fetch a credit score with the customer's

*„Freezing your credit card or changing your credit limit on the go is convenient banking.“*

*Höskuldur H. Ólafsson – CEO*

consent and calculating the total lending limit.

The standardization process has improved the quality of all lending decision. The algorithm not only takes into consideration any single lending request based on their credit score but is also connected and related to the whole portfolio of unsecured lending to individuals. Going forward, such an arrangement can give rise to any adjustment of the risk appetite based on wherever the economy is in the economic cycle. This was the first step to utilize Artificial Intelligence decision model in the Bank's lending process. Once fully developed, those models need be trained and replace the older rule based models.

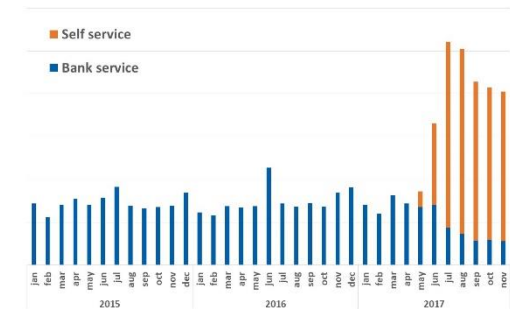
### Time savings and efficiency

Changing a credit card or an overdraft limit in self service is both a time saving factor, more private and 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 adjust their own lending limits has given more room for engaging conversations

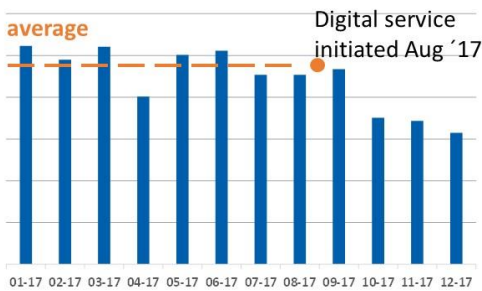
with the Bank's customers if and when they contact the Bank. The privacy factor should also not be underestimated. Being able to adjust one's personal lending limit in a private space without having to share financial worries to a Bank's employee is without doubt more convenient banking.

### Customers respond quickly

Since the initiation of the services, customers have quickly learned and chosen in an increasing manner to use the digital self-service. It can be interpreted as a strong change in their behavior once given the chance to change the limit themselves.



Development of actual changes in credit card limits of retail bank customers 2015-2017



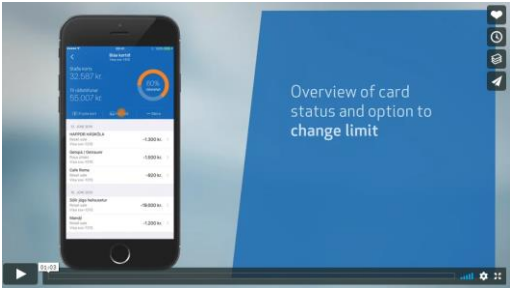
Number of phone calls to call center regarding changes on overdraft limits

### Standardizing lending protocols reduces risk for the bank

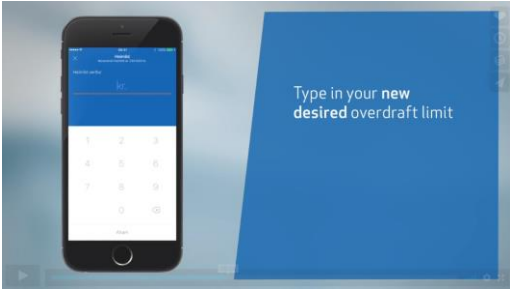
Allowing customers to adjust their own lending limits may at first seem too risky for the Bank. Would defaults increase as a result? Would the Bank's exposure on reckless financial behavior be too high? As a result of Arion Bank's new offering, the contrary has proved to be the case. The re-engineering process gave the Bank an opportunity to adjust its lending frame and rules of engagement. Rewriting the terms and conditions also have given the bank a choice to lower unused overdraft limits and therefore save the Bank tied-up capital to meet its future obligations.

### Short demos of user interface in Arion Bank's app

In the short videos below, each process can be seen in Aron Bank's mobile app.



Press Ctrl and click on picture for video. Demo of changing credit card limit



Press Ctrl and click on picture for video. Demo of changing overdraft limit

### Fast customer adoption

Given the chance to adjust one's credit card limit, customers responded instantly with high usage. In the first three months after introducing the service, the number of changes in credit card limits increased 140% compared to the monthly average of the two previous years. Such noticeable change in customer behavior is a decent confirmation of convenient banking.

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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 residents 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](http://Iceland.is)

## Further reading

Arion Bank Digital Future Accelerator

[blog](#)

[pdf version](#)