Mitigating Risk with Card Transaction Data 101

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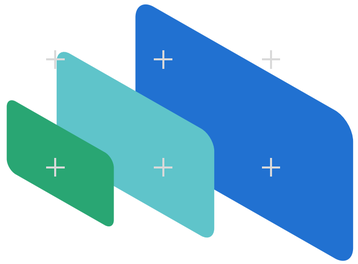


Data about debit and credit card transactions can be a powerful tool for understanding trends in spending. Eight in 10 Americans report they have at least one credit card, and there were more than 511 million active consumer credit cards in the United States in Q1 2020.

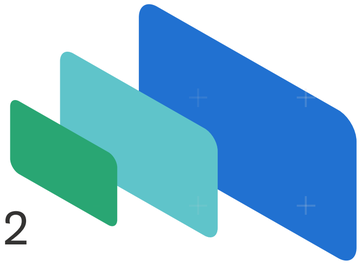
The pandemic accelerated movement away from cash: according to McKinsey, by the end of 2020, U.S. consumers used cash for just 28% of transactions, compared to 51% a decade prior.

For risk leaders, this increasing adoption of cards – and the data and intelligence they generate – unlocks new opportunities for mitigating risk and monitoring growth in your small business portfolio.

What is card transaction data?

“Card transaction data” typically refers to data generated when a credit card is used to purchase goods or services from a business. To protect privacy, individual card holders are anonymized and transactions are aggregated.

But card transaction data can include more than just consumer credit cards. The data can be derived from all kinds of cards, including debit cards, small business cards, corporate cards, government benefit cards, and charge cards. The data can also include digital transactions, also known as “card not present” transactions.

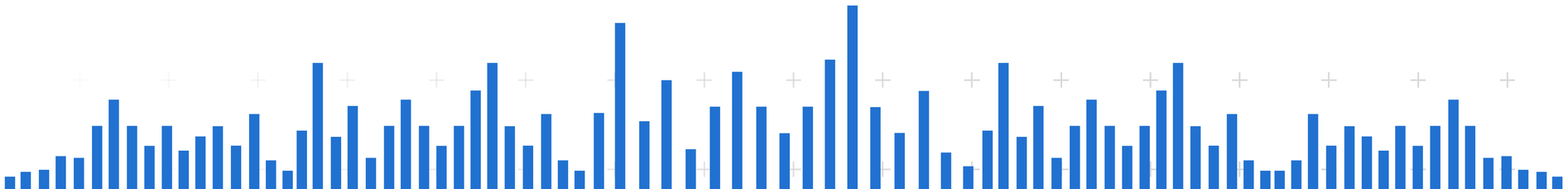


Where does card transaction data come from?

Transaction data provided by data companies can come from a variety of sources. Data may come from a bank integration. Data can also be aggregated by a card issuer, a credit card network, or a payment processor.

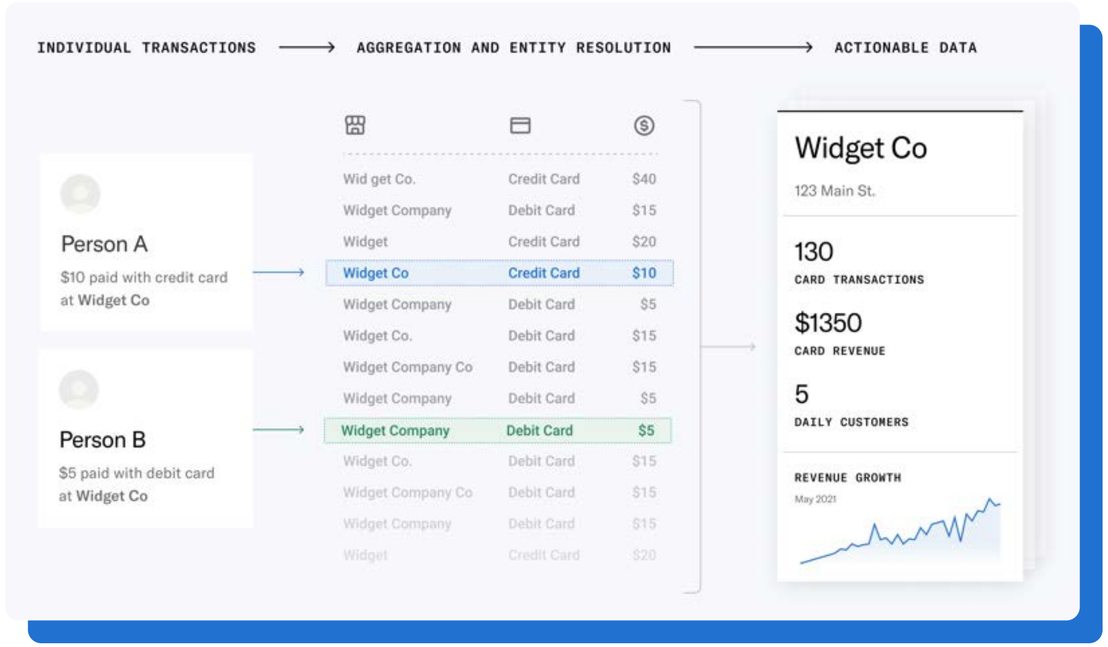
When working with transaction data, it's crucial to understand what kind of source it comes from. Many sources may skew towards certain groups of consumers, geographic areas, or types of transactions. Knowing the size of the sample and any biases in the data source enables you to better understand how to derive trustworthy insights from the data.

Raw transaction data is notoriously difficult to analyze. The challenge: in its raw form, the data is messy, inconsistent, and sometimes duplicative, requiring organization and cleanup at scale before it's ready to tap for insights.



Here's an example: on the left, see the raw transaction data, in blue, for the Bodhi Leaf coffee shop in Orange, California. Different payment processors refer to the same business as “Bodhi L,” “Bodhi Leaf Coffee,” “Bodhi Leaf Coffee Traders,” “Bodhi Leaf Trading Company,” and “Bodhi Leaf Tradi.”

1	BODHI L	428 KATELLA AVE ORANGE CA 92867
2	BODHI LEAF CAF	428 KATELLA AVE ORANGE CA 92867
3	BODHI LEAF COFFEE	428 KATELLA AVE ORANGE CA 92867
4	BODHI LEAF COFFEE TRADERS	428 KATELLA AVE ORANGE CA 92867
5	BODHI LEAF TRADI	428 KATELLA AVE ORANGE CA 92867
6	BODHI LEAF TRADING COMPANY	428 KATELLA AVE ORANGE CA 92867
7	BODHI LEAF F	428 KATELLA AVE ORANGE CA 92867
8	GOLD LEAF AUTOS	1920 KATELLA AVE T ORANGE CA 92867



Uniting this data into a holistic view of transactions at a business level requires sophisticated algorithms and entity resolution techniques to clean and match the data. See diagram, above right.

How you can use card transaction data to mitigate risk

Historically, card transaction data has been used as a bellwether for consumer trends. When aggregated at the cardholder level, this data helps financial institutions and government agencies understand buyer preferences and macro economic trends.

Recently, however, it's been recognized that card transaction data can also provide valuable insights about the health of a business. Looking at trends in card revenues, transaction volumes, and customer concentrations can reveal whether a business is growing or declining. When aggregated by business, this data is often referred to as "merchant transaction data."

Card revenue does not reflect all of a business's revenue, but COVID-19 has accelerated the trend of consumers using cards over cash.

Merchant transaction data is especially helpful for businesses operating in industries where a high proportion of transactions are made by card—for example retail shops, restaurants, and service providers.

Risk teams can use revenue and transaction data in a variety of ways.

- **Accelerate the underwriting process:** Timely data on business revenue removes friction from underwriting — you can ask for less paperwork and have more confidence in signals of business health that are built from actual card transactions. This type of data has allowed organizations to increase underwriting approvals without increasing risk.

- **Set, monitor, and adjust credit limits:** When you can monitor portfolios and proactively identify customer accounts that are eligible for more credit, you can increase credit lines to drive higher spending per account. And being able to identify higher-risk accounts earlier means you can pinpoint when to decrease credit lines and dial back risk.

- **Streamline the pre-approval process:** Get a look at monthly revenues and transactions without asking (and waiting) for bank statements or application forms.

What to consider when selecting a transaction data source

When evaluating a card transaction dataset, asking the right questions can help you compare the options and understand which dataset best suits your needs.

- **What is the latency?**
  - How fresh is the data? How frequently is it updated?
- **What is the coverage?**
  - How many cards are included in the panel? Is it just credit cards or debit cards as well? How many businesses are covered in the dataset?
- **What is the bias of the credit card panel?**
  - What is the scope of the panel? Is it just Visa or just Mastercard? Is it skewed to certain geographies or income classes?
- **How can I use it?**
  - Some data providers may require you to get permission from a business before accessing its transaction trends. Others, like Enigma, have already integrated privacy protection into their system so that you can immediately access data about any business.

Whether we’re headed into a challenging market or it’s clear skies ahead, monitoring your portfolio to reduce costs (and find growth opportunities) are business imperatives. Risk teams that ground decisions in timely, accurate small business intelligence will be best positioned to protect and expand their small business portfolios.

Sound like card transaction data insights could help your team?

Our dataset gives you insights built on transactions from more than 750 million cards —across types like general purpose credit cards, consumer and small business debit, small business credit, health savings and flexible spending accounts, gift cards, and more— giving you diverse coverage of U.S. card transactions. And it's getting better all the time.

Find more details about our data in the appendix. Want to see this data in action? Get in touch for a test drive.

Real-time Data for Better Risk Decisions

Enigma's card transaction data, Merchant Transaction Signals, helps risk teams get early visibility into whether a business is struggling or thriving. Get views into a business's average monthly revenue, transaction volumes, customer counts, growth trends, and more.

Merchant Transaction Signals are derived from a panel of more than 750 million anonymized credit and debit cards. Using proprietary entity resolution techniques, we aggregate and match the raw transactions to more than 10 million U.S. businesses, providing leading indicators of growth and risk.

How risk teams are using this data:

- Underwriting
- Setting initial loan amounts
- Credit limit adjustments
- Streamlining pre-approvals

High Coverage
More than 10M businesses

Accurate
Derived from card transactions

Up-To-Date
Refreshed monthly

DATA	DESCRIPTION	KEY FIELDS
Card Revenues	Monthly revenue a business receives from credit and debit card transactions.	Card revenue (average monthly card revenue) for the previous month, the previous three months, and the previous twelve months.
Card Revenue Growth	How card revenue is trending at a business over time.	Card revenue growth rate for the last twelve months compared to the previous twelve months, card revenue growth rate for the previous three months (seasonally adjusted and nonseasonally adjusted).
Card Transactions	Monthly number of credit and debit card transactions at a business.	Number of days transactions were present, number of weeks transactions were present, number of months transactions were present. Available over one month, three month, and twelve month time periods.
Card Transactions Stability	Distribution of card transactions at a business over time. View how many days, weeks, or months saw purchases at a business within a given time period.	Number of days transactions were present, number of weeks transactions were present, number of months transactions were present. Available over one month, three month, and twelve month time periods.
Customer Counts	Average number of daily customers a business has, based on credit and debit card transactions. Customer counts are provided for 1 month, 3 month, and 12 month periods.	Average daily count (average number of daily card customers) for the previous month, the previous three months, and the previous twelve months.
Refunds	The refunds a business issued to credit or debit cards.	Total refunds issued and the ratio of refunds issued to total card revenues for the previous month, the previous three months, and the previous twelve months.

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