

Finally: Customer Analytics for Banks



That 360-degree view of the customer you've been talking about? Now analytics brings it within reach for banks.

How well do you know your customers? Ask that question of leaders at most banks, and they'll likely answer "pretty well, thanks." But is that enough? Not these days — at least not for banks looking to stay a step ahead of the competition. Customer behavior and preferences are changing at a more rapid clip than at any moment in recent history propelled by changes in technology and the economic environment. Banks that have built their organizations with a product-oriented focus ("if we build it, they will come") should consider shifting to a more customer-centric footing in order to stay competitive. One way to effectively make that transition is to cultivate the seemingly mythical 360-degree view of the customer — one that accounts for their current value as well as their potential lifetime value.

The truth is, banks often have deep insights into their customers — in fact, compared with many other industries they are generally ahead of the curve. The issue lies in the fact that these insights are often not shared across the organization. While regulatory requirements can constrain the widespread sharing of customer data, there is still much that can be done to pull customer information up and out of silos to begin creating a more

broad, centralized, enterprise-level view of customers.

Finding and sharing the required data at the relevant levels is only the start. The question then becomes: How can you use the data to discover customer insights? The systems and processes in place throughout most banks are generating more data than ever before, and it's only growing. There's a very good chance that after pulling together these different strands of data, the organization won't know how to effectively use it. At least not by using the same old data and information management approaches.

After years of investing heavily in business intelligence, it's fair for many banks to wonder if there's really a difference between real business analytics and the capabilities they've developed as part of their business intelligence (BI) investments. The good news is that BI still has an important foundational role to play in analytics — in simple terms, it's great for slicing and dicing data to understand what happened in the past and monitor key performance indicators. Core platform implementations, back-office consolidations, transaction pricing assessments — these are prime examples of BI applications. The limitation is they stop short of anticipating what may be just around the corner.

If BI is about hindsight, analytics is about foresight — predicting and improving to

generate more effective future results. Predictive modeling and performance management are just two examples of the types of activities that companies undertake with an analytics approach. So where does it come into play in creating that 360-degree view of the customer?

Customer analytics: Four key areas

Theoretically, analytics can be applied to uncover deeper insights anywhere a bank has been collecting data. This does not mean discovering each analytical insight is efficient — in fact, one of the most significant dangers of analytics is spending valuable time and resources pursuing the wrong insights. In our experience, there are four areas that are prime targets for an analytics approach.

Customer acquisition

It's one thing to uncover facts about your customers long after they've already signed up for your services. But think of how powerful it could be to develop real-time insights into individual prospects to more effectively inform the organization's interactions with them as they make their way through the sales process. Better yet, consider the powerful effect of using these types of insights to generate interest in your products and services on a customer-by-customer basis.

To develop and implement an effective customer-acquisition strategy, banks should have data and analytical experience as well as marketing and measurement capabilities. Together, these capabilities can help clients acquire customers, automate processing and decision making, manage customer accounts, and reduce customer acquisition costs and risks.

Banks should target their prospects more effectively by identifying potential customers and matching their business objectives using market research, market surveys, psychographic profiles and analytics tools to segment the customer pool. With more targeted, relevant messaging for offers, banks can improve their customer acquisition ability.

They should also determine the most effective offer available to those prospects by

setting the most effective lending terms using scoring and segmentation tools. And they should determine which consumers will be profitable in the long run while presenting the least amount of risk. From there, banks should consider originating offers to the customer groups they identified.

Here are some questions banks need to consider in order to effectively execute these steps:

- **Perform historical prospect economics:** Has the bank analyzed historical performance of new customers based on initial balances, utilization, profitability, and more?
- **Segment prospect:** Has the bank identified groups of prospects that are internally similar and externally different from other groups of prospects?
- **Measure prospect campaign effectiveness:** Has the bank evaluated the effectiveness of actual prospect marketing campaigns relative to expectations?
- **Estimate prospect potential:** Has the bank estimated the potential value of each prospect to assist in prioritizing prospects?
- **Project prospect fraud likelihood:** Has the bank estimated the likelihood that prospective customers and accounts are fraudulent?
- **Estimate prospect price sensitivity:** Has the bank estimated the prospect price elasticity?
- **Estimate prospect offer response rate:** Has the bank estimated the likelihood of prospect response based on offer characteristics?
- **Improve prospect acquisition offer:** Has the bank identified prospects for action and determined the most appropriate offers — including product, pricing, channel, marketing message, and timing—to improve management's volume and profit objectives?

Service

Once customers are acquired, many banks face the challenge of servicing them. Today's customers are far more sophisticated than ever, forcing banks to answer critical questions such as:

- How often should a bank contact a particular customer?
- Through which channels should I service this customer?

To further complicate this relationship, new restrictions on fee income and interest rates make it even more important to understand the economics of each customer and find ways to gain wallet share in the more profitable segments.

To win, banks should rethink how they segment and target their customers to achieve a bigger share of wallet, leveraging social analytics and unstructured data to come up with sophisticated models for sales and servicing. Tactics like window pop-ups that appear when customers complete a transaction, or merchandise receipt campaigns offering discounts, can allow banks to tailor their offerings to the changing demands of the customer base.

There are plenty of analytics tools that can help banks determine the required level of service to extend to their customers as individuals or groups. Here are a few to consider:

- **Customer profitability:** Has the bank assessed the customer's current economic value as well as critical drivers of that value?
- **Customer segmentation:** Has the bank identified groups of customers that are internally similar and externally different from other groups?
- **Service channel preference:** Has the bank determined the preferred service channel by activity for each customer?
- **Loss mitigation effectiveness:** Has the bank determined the historical effectiveness of tactics and variation by types of account/customer?
- **Default likelihood & severity:** Has the bank estimated the likelihood of a customer defaulting on a loan product in a defined time period (e.g., 12 months) and the loss given default?
- **Transaction fraud likelihood:** Has the bank estimated the likelihood that a particular transaction is fraudulent?
- **Service channel optimization:** Has the bank identified tactics for each customer to effectively align service channel usage with customer and bank preferences?
- **Default management optimization:** Has the bank determined which default management tactics — including line modification, collections, loan modification, an asset disposition — will be most effective at which point in time to help improve loan performance for each customer?

Relationship development

Developing an in-depth relationship with customers is a natural —and important— step in the customer lifecycle. That's when casual relationships begin to solidify, transforming your clients into loyal banking customers. Just as in everyday personal interactions, banks start building in-depth relationships when they demonstrate that they know enough about a person to offer the required things at the desired times — in this case, products and services. Just as important, knowing when and what to offer a customer is a less expensive proposition for banks when compared to less targeted tactics. They can use any cost savings to fund privilege offers that the competition may be unable to match. Plus, customers will likely show loyalty for factors other than price if they feel they're receiving personalized service.

The level of relationship a bank develops with a given customer may be different from what it does with another similar customer. To determine the proper relationships, banks should examine characteristics that can indicate the value individual customers bring to the bank. These characteristics include:

- **Estimated wallet share:** Has the bank estimated its share of the customer's estimated total financial services wallet?
- **Customer campaign effectiveness:** Has the bank evaluated the effectiveness of actual relationship development marketing campaigns relative to expectations?
- **Cross-sell win/loss analytics:** Has the bank analyzed the effectiveness of cross-sell campaigns based on win/loss data to project acceptance rates for future cross-selling initiatives?
- **Customer lifetime value:** Has the bank estimated the lifetime value of a customer over a defined time period and the relative importance of factors driving value (e.g., balances, products, attrition, risk)?
- **New account fraud likelihood:** Has the bank estimated the likelihood that a new account is based on fraudulent information?
- **Customer price sensitivity:** Has the bank estimated the customer price elasticity?
- **Customer offer response rate estimation:** Has the bank estimated the likelihood of response based on offer characteristics?

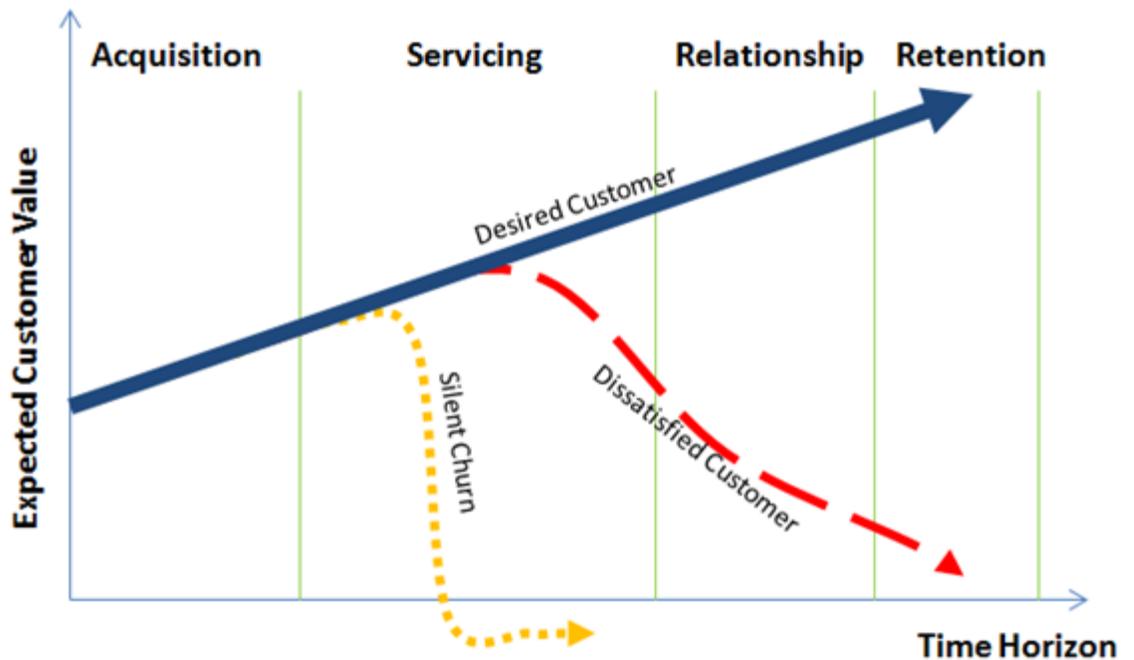
- **Customer relationship development optimization:** Has the bank identified customers for action and determined the most appropriate offers — including product, pricing, channel, marketing message and timing-to improve management's volume and profit objectives?

Customer retention

Creating and implementing customer retention strategies should be at or near the top of the to-do list for most bank executives today. According to a leading consulting firm, the cost of acquiring new customers versus the cost of retaining and extracting values from existing customers can be multiple times higher. In this looming economic downturn, you might think there is little that banks can do with their existing client bases. Think again. It's about understanding your clients' needs, and meeting or exceeding their expectations.

A leading customer retention strategy is to classify each type of customer (silent attrition, desired and dissatisfied) and create appropriate initiatives to change their behavior.

- **Analyze voice of customer:** Has the bank undertaken broad customer feedback through the points of interaction and leveraged the information to drive positive change and satisfaction? The use of technology, especially social media and mobile devices, has allowed banks to get almost immediate customer feedback on the quality of service, product effectiveness, price changes, new products, and specific promotions.
- **Analyze historical attrition:** Has the bank determined historical attrition levels and critical drivers of differences in attrition rates by customers & accounts?
- **Analyze customer retention campaign effectiveness:** Has the bank evaluated the effectiveness of actual retention campaigns relative to expectations?
- **Forecast customer attrition likelihood:** Has the bank estimated the likelihood of a product and/or customer relationship terminating or substantially shrinking over a defined time period?
- **Estimate customer value-at-risk:** Has the bank assessed the expected value at risk from potential customer loss by combining estimates of customer profitability & lifetime value and attrition likelihood.



Here are a few questions banks should be prepared to ask as part of any customer retention strategy:

- **Estimate retention tactic response rate:** Has the bank estimated the likelihood of customer response based on offer characteristics?

Figure 1: Shows different types of customers contribute to the business at different parts of the lifecycle. (Source Deloitte Research)

- **Improve customer retention tactic:** Has the bank identified customers for action and determine most appropriate offers — including pricing action, outbound contact, new service offer, doing nothing — for each customer?

Making it real

It's one thing to talk about analytics in theory. After all, it's hard to argue against using analytics to become more customer-centric. But as a practical matter, many bank leaders are hesitant on this point. It's easy to see a host of obstacles standing in the way. But it's not as hard as it may first appear to be. In fact, we've done it recently at one of the top fifty global banks.

A typical analytics effort begins like any big initiative — identifying a clear business problem in need of solving, establishing a vision of an end state, and confirming that a proposed approach fits in with broader organizational strategy. Just as important, metrics must be put in place for measuring the impact of the solutions and to demonstrate the ROI. All of which takes an ability to understand the business environment in its full complexity, in addition to understanding how to deploy the required technology effectively.

But it's worth it. Using insights generated by analytics, banks can develop the ability to integrate leads delivery across multiple distribution channels, making it easier to decide which customers to attract, how most effectively to service them, and which relationship model will help confirm that the bank can hold on to customers over the long haul. These are the outcomes banks should seek to achieve today as your competitors are already looking to gain ground by putting customer analytics to work.

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