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Analytics Are Becoming Increasingly Important Tools in Banks' Customer Retention Strategies

Predictive analytics tools are helping banks understand customers' behavior and meet their unique needs with tailored products and services, improving customer retention as a result.

The ability to predict when a customer may jump ship for a competitor's offerings would be gold to banks, allowing them to focus efforts on retaining that customer. While they can't look into the future or read customers' minds just yet, banks increasingly are realizing the benefits of analytics tools in retaining existing patrons.

Charlotte-based Wachovia ($782.9 billion in assets), for example, looks to analytics to anticipate customer events, according to Dan Thorpe, SVP, director, of the bank's statistics and modeling group. The bank, he says, builds attrition models to predict if an individual or household might defect. "We want to anticipate and understand the needs of the customers so we can reach out to them before the need arises," he explains. "We want to understand this across all channels as appropriate."

Insiders agree that the prospects for organic growth in banking are starting to slim. As a result, banks' customer-retention efforts are more important than ever.

"This is becoming an increasingly important problem," says Alenka Grealish, managing director of the banking group with Boston-based Celent. "These are challenging times. [Mergers and acquisitions] will continue and banks will continue to acquire new customers. But organic growth is hard to come by and will get more difficult with the economy, so they're going to go for the higher-hanging fruit by using customer predictive analytics."

Adding to the problem, banks' marketing departments will find it more difficult to advertise their messages to both prospective and existing clients due to some of the consumer privacy regulations enacted recently, claims Charles Nicholls, founder and CEO of SeeWhy (Windsor, U.K./San Francisco), a provider of real-time event intelligence. "The proportion of people banks can market to is shrinking with all the spam rules and opt-out programs," he states. "You may have a million customers, but the addressable pool is only half that. So retention through superior service becomes more vital."

Robert Phillips, founder, chief science officer and VP, research and development, with Nomis Solutions, a San Bruno, Calif.-based maker of price optimization systems, agrees that banks face challenging times ahead in finding and keeping customers. "Organic growth is not great in the developed economies, and there is only so much M&A you can do. So banks are starting to look to the customers they already have to see how they can make them more loyal," says Phillips. "Technology, the economy and competition are all contributing to banks' greater focus on analytics."

Kate Stackhouse, SVP and director of sales integration at Columbia, S.C.-based First Citizens Bank ($16 billion in assets), believes that analytics are increasing in importance in the industry today for understanding the behavior not just of individual customers, but of markets as well. "You want to look at the competitive landscape and how your individual branches are keeping pace with consumers' needs. Understanding this helps shape marketing plans unique to each market," she explains. "There's so much conversation around predictive analytics for individual customers -- yes, that is important, but you need to understand the needs of the broader market, too."

Harnessing Data

For years, analysts and other industry observers have criticized banks for concentrating more on acquiring customers than on retaining those they already have. They usually cite the fact that although banks have truckloads of data on their clients, they just don't seem to know what to do with all that information.

Celent's Grealish says that the technology to enable banks to look in-depth at their customers has always been there. What they lack, she adds, is the ability to use that data. "Banks' organizational capabilities to harness that technology isn't there," Grealish asserts. "The ability to structure a credible ROI and get a piece of the pie that they seek is missing. They have quite a bit of data, but it's hard for them to harness it."

Grealish notes that most of the leading retail banks use analytics to some degree. However, "Where predictive analytics gets challenging is around the infrastructure required to first formulate what they want to predict and the ability to let them act on that," she says.

One notable exception is in the credit card area. Grealish and other experts point out that the use of predictive analytics in this space is actually quite mature.

According to Laurent Desmangles, a principal with New York-based Oliver Wyman, predictive analytics have worked best in the card industry to identify customers who are at risk for leaving. "The credit card is a transactional product with a good data trail," Desmangles explains. "Other bank products don't quite have the same kind of data trail as cards. Tools for identifying 'churners' and for launching retention tactics have had a mixed record and haven't traveled well out of the consumer finance realm."

The road to employing predictive analytics to their fullest capabilities likely will be long and bumpy. But banks understand that they must start somewhere. According to Michael Nicastro, chief marketing officer with Glastonbury, Conn.-based core systems provider Open Solutions, a good place for banks to begin is in changing how they operate.

"Banks have to think differently to use predictive analytics," he says. "They have to stop marginalizing and commoditizing their core systems. Legacy systems are great transaction collection systems, but they don't tell you anything about the data -- it's unfiltered data. The fundamental problem is the base information about your clients."

The basics need to be hammered out first, agrees Dinesh Sheth, CEO of uMonitor, a Memphis-based provider of solutions for customer acquisition and retention. "Are banks ready to use predictive analytics?" Sheth poses. "If they still have trouble with their basic systems -- such as running an inefficient system that makes new-account opening take an hour to perform -- it doesn't make sense to use predictive analytics yet. They need to get the basics right and then look at how they can improve customer retention."

Open Solutions' Nicastro, however, sees the movement by many banks, especially on the international front, to implement new core systems as an impetus to employing more analytics. "As we see a global shift to implementing new core systems, analytics will become more of a reality," he explains. "Retention is about knowing how to play against your biggest competitors. Our bank clients are competing with PayPal now. PayPal analyzes every transaction in real time, and they know exactly what to say the next time they deal with a customer. Their core information is good. Getting this information is the key before a bank can even start to use the analytics."

Still, many banks are taking the first steps to better anticipate their customers' needs and intercept any churn before it happens. Although most aren't using analytics throughout the entire organization, they are taking a measured approach so that they can see what works and what needs improvement.

Improving the Entire Customer Experience

For Cincinnati-based Fifth Third Bank ($111 billion in assets), retention boils down to providing an overall positive customer experience at the bank, relates Mike Menyhart, SVP and director of customer experience. To better understand "the voice of the customer," he says, the bank partnered with Washington, D.C.-based The Gallup Organization, tapping the firm's CE11 tool to gauge customer engagement levels and financial performance. Gallup's approach combines methods for assessing employee-customer encounters with a process for improving customer engagements.

According to Menyhart, Fifth Third also recognized just how instrumental working with the technology side of the bank would be to its customer service efforts. "Partnering with technology brings that customer experience to life," he explains, noting that the bank's key technology investments to keep its customers happy were in the areas of problem resolution and management escalation for first-contact resolution.

Part of banks' problems in satisfying customers, adds Menyhart, originates from the institutions' siloed infrastructures, which prevent systems and lines of business from talking with one another. The close collaboration among Fifth Third's business and technology leaders helped break down many of the bank's silos to provide a more consistent customer experience, he points out.

One of the key enablers of Fifth Third's strategy to improve the overall customer experience, and thus customer retention, is the bank's enterprise customer information file (CIF) project, Menyhart notes. "We did some major work from an infrastructure perspective that's paying huge dividends, such as our enterprise CIF project," he says. "We are bringing all of our customer information to one spot and making it accessible to different channels. All this data makes us better predictors [of customer attrition and needs]."

Raymond Dury, Fifth Third's EVP and CIO, adds that the infrastructure work is ongoing. "We built the foundation and now we're finding ways to take advantage of it," he says. "We're becoming more of a customer anticipatory organization this way."

Yet this infrastructure foundation is just part of the equation. Predictive analytics still are required to turn data into actionable information. "We're in an alternative-delivery world," says Menyhart. "We used to see the customer in the branch monthly. Now it might just be yearly. We want to be sure the experience they have with us is worthwhile."

To enhance that experience, Menyhart continues, Fifth Third set out to customize it for each individual customer. "We created a tool that can provide predictive, targeted best offers when the customer comes to us -- when appropriate," he says. "We'll either follow up on a problem to see if it was resolved, or we'll make a relevant product offering." Menyhart declines to name the vendors with which Fifth Third worked to develop the predictive analytics tool, but he notes that some of the work was done in-house.

The appropriateness and consistency of targeted messages always are top of mind for the bank, adds Dury. "The offers have to be relevant, otherwise it can become a negative experience because the customers will feel the bank knows nothing about their relationships with us," he explains.

Seeking Foresight

Like Fifth Third, Wachovia also sees the implementation of a predictive analytics approach to customer service as an ongoing process. According to Wachovia's Thorpe, however, the bank's new head of insight and innovation (which is part of the marketing division), Ramin Eivaz, who comes from the consumer packaged goods industry and oversees the statistics and modeling group, has challenged Thorpe and his team to look for best practices in analytics and retention from other industries.

"Our [retention] strategy now can best be described as having three tiers," Thorpe explains. "At the bottom is 'hindsight.' In the middle is 'insight.' At the top is 'foresight.' We're in the 'insight' phase right now. We have a very large data warehouse and many legacy systems that we're reorganizing to get the information more quickly and model more broadly."

The ultimate goal, Thorpe continues, is to achieve foresight so the bank can predict attrition before it happens. "We've always been good at attrition analysis," he says. "Now we're building life models -- how the customers evolve over the lifetime of their relationships with us -- to anticipate their needs and make product recommendations that are more relevant so we don't see the attrition." Thorpe notes that Wachovia takes a hybrid approach to building its analytics capabilities -- part in-house and part vendor-built -- but he declines to name the vendors with which the bank is working.

Toronto-based Royal Bank of Canada (US$605 billion in assets) is taking a more targeted approach to analytics, deploying the technology specifically in its lending business, another area, in addition to cards, where analytics are more widely deployed across the industry. According to Neil McLaughlin, the bank's vice president of personal lending, analyzing the right price points for its customers is one way to keep them from leaving.

"By using analytics tools to dovetail our pricing and personal marketing strategies, we were able to tackle problems we had around our relationship strategy," McLaughlin explains, adding that although RBC built its own predictive models, the bank is employing price optimization software from Nomis Solutions.

Bringing the Nomis solution on board involved a very large, cross-functional effort to bring together the data and feed it into the Nomis product, McLaughlin notes. "We rolled it out for originations initially," he says. "We tested it geographically and did a pre/post analysis to look at the spreads within those geographies. We saw positive results from selecting a better price for loans. We were able to go underneath and understand where the customer sees value in the product."

McLaughlin stresses that the bank gives employees discretion in terms of augmenting the suggested pricing models based on their own market knowledge. "Understanding the price of convenience and rate sensitivity to customers is important, especially as rates on personal loans increase," he says. "There are many benefits to pricing the loan right in the first place."

Listening to What Customers Have to Say

Large banks, such as Wachovia, Fifth Third and RBC, aren't the only financial institutions that can benefit from predictive analytics. Vectra Bank Colorado ($2.6 billion in assets) is a Denver-based subsidiary of Zions Bancorporation (Salt Lake City; $50.8 billion in assets). Erica McIntire, Vectra's SVP and director of marketing communications, says the community bank also seeks to use analytics to prevent customer defection and boost retention. To improve retention and service, however, Vectra looks beyond what customers do; it also listens to what customers tell the bank, McIntire relates.

Key in Vectra's analytics arsenal is the suite of enterprise feedback management solutions offered by South Jordan, Utah-based Allegiance. Vectra uses the Allegiance Engage platform to capture customer feedback garnered with the vendor's CustomerPulse survey tool. "This tool measures customer engagement and allows us to learn how they feel about our company and the extent to which they are engaged with our company rather than just satisfied with what we're providing," explains McIntire.

"CustomerPulse provides aggregate totals and trend data, which allows us to pinpoint the areas where we're the weakest and where we could put our time, energy and dollars to get maximum improvement," McIntire continues. She notes that the bank is able to drop in "business markers" to measure changes in customer feedback that may result from changes made by the bank.

CustomerPulse, along with CustomerVoice, a feedback tool, are both Web-based and integrate with the bank's existing Web infrastructure, according to McIntire. The CustomerVoice system uses a case management approach to monitoring feedback so customer compliments, concerns or questions are tracked and escalated until a satisfactory result has been achieved, she says, adding that results from CustomerPulse surveys help Vectra identify key drivers that affect customer actions while helping to sort customers by demographics.

Rather than focus on individual customer behavior, First Citizens Bank uses analytics to examine the broader market. According to First Citizens' Stackhouse, the bank uses technology from MapInfo, a Troy, N.Y.-based company that provides location intelligence solutions, to help determine in which of its markets the bank should focus on retention and in which it should focus on acquisition.

Setting Goals

First Citizens has been using the Perform portion of the MapInfo solution since 2006 in its goal-setting process, Stackhouse relates. "Previously, our goal-setting methodology was very labor intensive, internally and historically focused," she explains. "It didn't help us understand the differences in our markets or establish goals our individual branches could achieve."

Once First Citizens began using MapInfo's solutions, Stackhouse adds, the bank was able to drill down further into its branch segmentation efforts. "We bucketed the branches and used the goal-setting methodology similarly," she comments. "That's why we decided to change. Our branches were growing more sophisticated and diverse -- they didn't like to be lumped into one group or another by the old system. Now we can have as many segments as we have branches. It also went from a two-month-long process to a one-week process."

Stackhouse says the bank is able to arrive at a starting point more quickly, leaving more time to discuss the goals with individual branch managers. "The branches can focus their activity planning more quickly than they once did," she relates. "They see whether opportunities are inside- or outside-sales focused and mine the existing database or find new customers according to their goals."

The results of this change in branch goal setting have been quite favorable, Stackhouse claims. With a clearer segmentation and more focused service goals, the bank has moved from making cold sales calls to calls that are more service/courtesy oriented. "We are seeing ROI on this technology -- we have better retention of healthy balances among those customers we reach out to," Stackhouse asserts.

According to Stackhouse, First Citizens' retention/analytics efforts primarily are focused on the branch and, to some extent, the call center. But other banks, including Fifth Third, are taking a more multichannel approach to analytics. Fifth Third's Dury says the bank rolled out a consistent retention strategy on the Web, on its newer ATMs and at its branches.

Wachovia also is taking a multichannel approach to retention-related analytics efforts. "We already have a central point of contact for all our channels, so we're not siloed," says the bank's Thorpe. "All the channels are our universe for implementing [predictive analytics]."

RBC employs a "channel agnostic" retention strategy, according to the bank's McLaughlin. He points out that RBC uses an architecture in which the pricing is centralized across all channels.

What is most important to remember, says Open Solutions' Nicastro, however, is that no matter which channel is used in a bank's retention strategy, the institution must follow through to the end. "Cross-selling is good, but you can't just be good at the teller line and then let it go," he says. "You need to do follow-up, and that's where these efforts often fall apart. You need follow up in the system."