Abstract

With retail banks realizing the value of adopting a targeted (or precision) marketing approach, the traditional “blanket” marketing technique is no longer the preferred option. Targeted marketing enables consumers to be categorized and classified into distinctive groups based on their demographic and behavioral characteristics. This segregation can go a long way in helping banks fine-tune their marketing strategies to achieve success. Going forward, precision marketing will be the key to retaining, up-selling and cross-selling to an existing customer.
To be a successful bank, you need to stay one step ahead of the customer. Always.

Satisfying customer expectations in today’s highly competitive retail banking space is one of the biggest challenges for retail banks, yet the most necessary. Driven by the rise in the variety and penetration of multiple communication devices, technologies and channels, customer expectations have experienced a significant shift towards individualization, personalization and continuous, on-the-go access. With banks being forced to keep up (or be left behind), the recent past has seen a sharp rise in the personalization and segmentation of banking products so as to provide precise and targeted offerings.

The underlying premise behind predictive analytics is simple – your bank can analyze a customer’s past behavior to predict future actions. Predictive analytics can provide your bank with valuable insights into constantly changing consumer preferences and needs throughout the customer lifecycle, thereby equipping you to evolve and modify marketing strategies accordingly. The following pages will throw light on how predictive analytics can be leveraged to understand the needs of existing customers and derive tangible benefits through effective, precision marketing:

Delivering optimized marketing campaigns with predictive analytics

When it comes to marketing, most banks usually follow the traditional, straight marketing approach of launching around 15 to 20 “time-bound” marketing campaigns every year. This kind of marketing strategy basically focuses on internal procedures rather than on the desires and preferences of consumers. For example, a bank launching 5-6 Facebook marketing campaigns in a month without even considering whether its online customers are viewing it or not and how they perceive it. Predictive targeted marketing campaigns, on the other hand, focus on consumer needs and choices that produce high response rates. Retail banks need to be able to answer a few vital questions in order to ensure result-oriented marketing. The use of predictive analytics requires banks to determine 4 key data points necessary for effective marketing:

- **Customers to be contacted (C)**

  Predictive analytics can help your bank identify the profitable segment of customers to target. This considerably narrows down the number of customers to be contacted, resulting in quantifiable cost reductions while sustaining—and even raising—the response rates.

- **Channels to be used (C)**

  Predictive analytics can help your bank determine the most appropriate channel through which to contact a targeted customer. Making use of a customer’s preferred channel can help greatly improve response rates to the marketing campaign. As a result, predictive analytics empowers banks to optimize their outbound marketing campaigns across channels. This level of personalization, to the extent of interacting with a customer through a channel of his preference, can go a long way in improving customer loyalty.

- **Timing of the offer (T)**

  When making a marketing offer, timing is everything. Predictive analytics solutions can help you track consumer databases to determine major life events (positive and negative), thereby enabling you to trigger the right offer at the right time. Predictive analytics also takes into consideration contact limitations, such as not contacting the same customer more than once in three months, in order to determine the appropriate time to make the offer.

- **Offers to be made (O)**

  Predictive analytics can help you assess all available offers provided by your bank and choose one (or even design a new one) that balances, in the best possible way, the customer’s preferences with the potential profit to be realized from the marketing offer. This technique can also help your bank undertake need-based selling among its existing clients.

This is a significant step in moving towards effective precision marketing.

**In other words, banks need to follow the “CCOT” (read “caught”) approach of predictive marketing to attract the revenue generating customers!**

**Figure 1: The CCOT approach**

This is a significant step in moving towards effective precision marketing.
To attract customers, the banks usually follow an optimized methodology that is very simple and effective. The implementation of predictive analytics will require the following steps throughout the marketing lifecycle:

<table>
<thead>
<tr>
<th>Steps</th>
<th>Details</th>
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<tbody>
<tr>
<td>Analytics center</td>
<td>This step leverages predictive models to determine suitable customers to be contacted, banking products or offers relevant to them, appropriate timing and channel preference</td>
</tr>
<tr>
<td>Information center</td>
<td>Banks can supplement the data derived from the analytics center with business information like customer contact constraints, marketing budget limitations, etc.</td>
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<tr>
<td>Campaign design center</td>
<td>With all actual, derived, analytical information in hand, banks can design and create a definitive, optimal precision marketing plan for each identified customer</td>
</tr>
<tr>
<td>Review center</td>
<td>Before executing an optimized marketing campaign, the bank reviews the expected scope and cost for each customer, response rates, profits that each customer is likely to produce for the bank in return, etc.</td>
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<tr>
<td>Campaign execution center</td>
<td>The bank executes the appropriate marketing campaign for the identified customer.</td>
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<tr>
<td>Analytical follow-up center</td>
<td>Once the precision marketing campaign has been executed, the bank uses predictive analytics to identify gaps by comparing actual revenue and results from the campaign to the forecasts, and integrates this information to ensure improved effectiveness of the campaign in the future.</td>
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</table>

**Usage of predictive analytics in precision marketing across the customer lifecycle**

*Figure 2: Predictive analytics*

By using predictive analytics, your bank can target and provide consumers with the right offers at the right time by having the desired information required to meet customer expectations. The basic essence of predictive analytics lies in understanding relationships between past descriptive customer actions and non-descriptive actions and using them to foresee the future actions and behaviors of customers. The end result is extra-effective customer relationship management schemes, promotion and marketing campaigns, consumer reward programs, etc.

1. **Customer screening**

   In recent times, there has been a drastic need for retail banks to address certain issues like ensuring loyalty from high value customers, attracting varied new customers. To understand customer needs and behavior, banks have continuously invested in various analytics tools. Most of these tools, however, provide only an approximation of the desired information and not the exact details the bank required to ensure effective targeting. Thanks to the latest analytical apps, a bank now is able to screen customers based on specific parameters (like the credit worthiness of the customer, loan portfolio, etc.).

   The monthly spend of the customer can also be tracked by the bank to understand how a customer is paying back his loans. If the customer is a defaulter, the bank can pressurize him/her rigorously to ensure timely recovery of the due amount, thereby minimizing the risk of default.

   Hence, the information attained from the customer screening can become a valuable input for predictive analytics. For example, by using predictive analytical tools, your bank can keep track of unusual cash withdrawals through credit cards, late payments, etc., and come up with a model that can predict if the customer will default.

*Figure 3: Use of predictive analytics for precision marketing across the customer lifecycle*
To increase business, the same information can help your bank predict the future requirements of the consumer and accordingly promote suitable products to the customer, ensuring more effective selling opportunities.

2. Relationship management

Analyzing customer behavior over the web by collating the data from different social media sources and applying predictive analytics can help your bank understand the following about existing customers:

- **Customer buying habits**
  Like retailers, banks, too, are trying to study customer usage patterns to target them with suitable products. By deploying predictive analytics, banks will be able to easily isolate various customer segments and bring change into the usual buying patterns with individualized and tailored messages for each customer. This approach is likely to produce higher response rates and can help your bank pitch the most suitable product to the right customer. For example, your bank can pitch high-end retail banking products to customers who bought similar products in the past. This method will also help your bank analyze the requirements of customers and consequently bring out products that are of utmost interest to the customers.

- **Need-based selling**
  In the current scenario, where acquiring a profitable customer is difficult and banks are still working on creating the right strategies for precision marketing, the application of predictive analytics for effective cross-selling to an existing customer can be of significant help. Selling to an existing customer can also help lower acquisition costs by improving loyalty and retention.
  
  In order to sell only need-based products to existing customers instead of trying to cross sell several other products, banks will have to understand and analyze current customer behaviors using predictive analytic techniques. Using predictive analytics, banks can build models that can determine a customer’s inclination towards specific products, which eventually will improve the efficiency of need-based sales and help build a better relationship with the customer.

3. Customer retention

Needless to say, better customer retention equals lower customer attrition. Reducing customer attrition requires banks to take a proactive approach with the customer, before it’s too late.

- **Reduce customer attrition**
  Having a large customer base or a rapid increase in the customer base can result in the bank losing track of its existing customers.
  
  By inspecting a customer’s past transactions, spending patterns, usage patterns etc., a bank can determine the probability of him shifting to another bank, and the possible reasons behind that shift. Your bank’s involvement at this stage to offer relevant remedies to the customer’s issue can help you more effectively retain the customer.

- **Retention of High Net Worth (HNW) Individuals**
  Finally, by using predictive analytics, your bank can effectively engage those small but important segments of customers who can truly help grow your business. With growing competition, the retention of HNW individuals has become more critical than ever. Predictive analytics helps deriving patterns out of specific demands, needs, and behaviors of the HNW individuals and accordingly tailor their marketing strategies to retain these customers.
How can predictive analytics benefit your bank?

Predictive analytics helps retail banks gain a multitude of insights – potential reasons as to why a customer will attrite, customers who can be retained, a customer’s buying patterns, etc. This information can, in turn, help your bank understand the customer better and deploy the right marketing techniques to retain him, particularly if he is deemed likely to shift to a competitor in a short span of time.

<table>
<thead>
<tr>
<th>Determine customer preference for a product</th>
<th>Identify customer buying habit</th>
<th>Maximize revenue</th>
<th>Strengthen customer relationships</th>
<th>Price optimization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predictive analytics helps determine a customer’s preference to buy a product based on his needs and desires</td>
<td>By using predictive analytics banks can conduct a performance analysis on the banking products and services that the consumers have been purchasing over a certain historical time period. This will help banks determine consumer buying habits</td>
<td>Through predictive analytics, banks can focus on the right offer to be made to the right customer, through the right channel at the right time, thus eventually maximizing their revenue and profits</td>
<td>With predictive analytics, banks are able to identify and channelize their focus on the value driving customers which, in turn, helps banks to strengthen their relationships with customers</td>
<td>Predictive analytics helps banks understand and design new customer offerings at an optimized price to ensure customers get the best priced product mix of loans, cards, deposits, etc.</td>
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Figure 4: Key benefits of precision-based marketing using predictive analytics

Use cases of predictive analytics in precision marketing

Many banks are now deploying several marketing techniques and predictive analytics tools to understand the customer’s requirement of financial products based on recent purchase patterns.

“Institutions have figured out that if a customer has a savings account and an auto loan, they’ll most likely want a credit card next, but the institution has no idea when they’ll want it,” says Jim Craig, director of Geezeo Interactive in Williamsburg, Va. “Now they are using transactional data and we’re finally getting to the point where institutions can present precise and targeted offers that are highly relevant.”

For instance, if a bank offers Geezeo’s Personal Financial Management tool to its customers, it can conveniently analyze day-to-day customer operations and customer investments, deposits and loan account(s) information, including those with competitor banks and other financial institutions as well.

Even credit card transaction data from a customer’s Visa, MasterCard and Amex accounts can be obtained. The mixture of all this information allows the bank to make precise offers, like credit for home equity to a customer who made more than a certain number of purchases at home development stores within a specified time period.
San Francisco Federal Credit Union is in the starting stages of executing Geezeo’s product. The implementation team planned to use a predictive analytics tool to accomplish tasks to find customers who frequently transfer the amount to brokers to inform them about the credit union’s money market rates and also to identify customers who make frequent mortgage payments and offer them the credit union’s refinancing product.

The Firstmark Credit Union in Texas, is implementing Geezeo’s solution, in collaboration with SAS Analytics to provide more refined analysis. Predictive analytics tools need good amount of data, without which they fail to provide sensible output. Hence, at least three quarters of data is required to get a quality result.

Pitney Bowes Software has implemented a new solution called Portrait Explorer that enables marketers to view consumer data as clear as a digital photo album. After running a query on few attributes, consumer profiles are graphically arranged into different card formats that can be compared and experimented by running few queries to understand how different segments are sorted amongst themselves. Instead of predicting the customer’s possibility of buying the product, it predicts the increase or decrease in the marketing interaction and customer’s chances of buying the product based on particular marketing techniques. Banks can use Pitney Bowes’ WinSITE solution and apply predictive analytics methods to understand the positioning of the branches and to forecast their performance. By analyzing different types of data these solutions determines the inclination of customers towards usage of bank branches, mobility solutions or use of online banking channels. These data types consists of customer behavior, market data, demographics, social media information, etc.

FICO Action Manager empowers banks to provide extremely relevant cross-sell deals and merchant provided deals in the credit card reward programs. This tool defines the suitable timing of the offers using a few analytical calculations for banks to target customers. For instance, a bank partnering with a rent-a-car service would like to offer US$10 off for renting a car in its credit card rewards program. Predictive analytics can help determine which consumers are most likely to avail the offer.

Based on the data obtained from different channels of the bank, SAP Americas in Pennsylvania provides a predictive modeling technique called real time offer management. If the consumer has refused to take home equity in one channel, the bank may opt not to offer the same through other channel to the same customer. It helps in easy decision making. Hence, these predictive modeling techniques help banks drive sales, to sell the right product to the right customer at the right time through the right channel.
Conclusion

Banks face numerous challenges, some of which are no different from those in the past. The main objective has always been to covert prospects into clients, retain existing high value customers and increase profits.

The application of predictive analytics in marketing cuts through the complexity of customer targeting by enhancing your bank’s understanding of its customers, enabling you to make specific offers. Using predictive analytics enables your bank to create an effective precision marketing solution to improve sales (particularly up-sell/cross-sell) of additional products, foster long-term customer loyalty, achieve cost reductions and increase profits.

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