Customer Relationship Management in Banking

Key Challenges Facing Banking Executives

The Power to Know™

A SAS White Paper

Table of Contents

The Primary Content Provider for *Customer Relationship Management in Banking* was Ellen Joyner in SAS' Cary, North Carolina, offices.

Executive Summary

Bankers can no longer view the customer from the perspective of specific products or a snapshot in time. To maximize lifetime profitability from valued customers, banks must abandon the traditional silo mindset, which tends to:

- Reward product-level success even as it cannibalizes other products or undermines enterprise-wide profitability.

- Alienate customers by revealing the bank's lack of knowledge about their complete relationship.

Banks are recognizing that it's time for a more holistic approach. It is time for *customer relationship management (CRM)*, and banks are making the investments necessary to implement this customer-centric vision.

From a strategic standpoint, CRM mobilizes resources around customer relationships rather than product groups and fosters activities that maximize the value of lifetime relationships.

From an operational standpoint, CRM links business processes across the supply chain from back-office functions through all customer contact channels ("touch points"), enabling continuity and consistency across a customer relationship.

From an analytical standpoint, CRM provides a host of resources that enable banks to fully understand customer segments, assess and maximize lifetime value of each customer, model "what-if" scenarios, predict customer behaviors, and design and track effective marketing campaigns.

Introduction

In simpler days, it was easy to select your bank. You chose the local bank, where the teller was your neighbor's sister-in-law, the branch manager knew you by name, and your family had conducted business for years.

All else being equal, customers chose an institution because it was convenient and personal. Banks earned customers' loyalty on the basis of personal relationships, trading on history and mutual loyalty, and on face-to-face interactions and long-term knowledge of the customer as a person, not just an account number.

Technology, commoditization, deregulation and globalization forever changed the face of banking. The model of the personal neighborhood bank is a quaint memory, replaced by national and multi-national service providers, ATMs, Internet banking, automated call systems and a proliferation of product choices, none of them fettered by traditional ties of geography and familiarity.

For consumers, this competitive scene has brought a wealth of choices, yet it has eliminated the personalized nature of traditional banking. No matter, say consumers, who have traded loyalty for the ability to pick and choose from the latest deals-of-the-day that appear, pre-approved, in the mailbox.

For banks and other financial institutions, this competition makes it difficult or impossible to show competitive differentiation, and harder than ever to show profit. A typical financial institution has thousands of local, regional, national and global competitors. In this increasingly fragmented industry, most players hold a relatively small and unreliable market share. Customers stick around until enticed by the latest short-term interest rate or direct mail offer.

This new order calls for a new mindset. Retail bankers have to behave more like retail merchants, focusing on ways to gain customers, keep them and maximize profitability from each — all while streamlining product costs and customer contact channels.

Banks have been doing that all along, right? They spend large advertising budgets on television and print ads to lure new customers. They wage ambitious campaigns to cross-sell services to existing customers. They constantly monitor and seek to increase sales in each product line. So what's the problem?

The problem is that these measures fall short of the potential to truly maximize value from existing customers, and can even be self-defeating. Banks need to reconsider their traditional focus on product lines. It's time to adopt a comprehensive view of the customer as part of a continuum, not just a sale, and to manage the *life cycle* of the relationship, not just a series of transactions.

These old-school examples might sound familiar:

> A major national financial institution produces and executes a successful credit card direct mail campaign, resulting in numerous applications for new credit cards. The very next week, the company's home equity department sends appeals to the same customers, urging them to cut up their credit cards and consolidate their debt with a home equity loan.

Couldn't happen? Without an integrated customer relationship management focus, it did happen.

> The credit card division of another bank decided to charge a user fee to its unprofitable customers to increase the profitability of its credit card portfolio. Not surprisingly, the notification of this new fee resulted in many of these unprofitable customers closing their credit cards.
>
> Initially, this sales strategy was deemed a success because the unprofitable customers either paid the fee or left the bank. However, imagine the bank's distress when it realized that the unprofitable credit card customers who left the bank were actually the bank's most profitable customers. They were the ones with large mortgages, savings and stock portfolios who paid off their credit card balances each month.

Where financial institutions are product-focused with their marketing efforts and sales initiatives, the customer frequently receives mixed marketing messages. Departmental silos, as they are known, are concerned primarily with how a single product or agent's sales contribute to the bottom line.

> A struggling graduate student appeals to her "personal banker" to finance a computer system, essential for class work and freelancing. She offers a modest investment portfolio and 5-year-old car as collateral. The "personal banker" is anything but personal, and finally approves the loan on condescending, deceptive terms, with an interest rate as punitive as the worst credit cards.
>
> Tired of being a little fish in a big pond, the graduate student closes all her accounts at the bank and transfers her business to a little local pond. Fifteen years later, the little local bank has evolved through mergers into a notable regional presence, and the former grad student's business includes substantial IRA and investment accounts, a profitable gold card, and a $400,000 mortgage.

The first bank forfeited a lucrative customer by considering the student's value as a snapshot in time, not in light of the total lifetime value of her business. The second bank profited by focusing on the long-term, overall customer relationship.

Customer Relationship Management in Banking

Banks and financial institutions are recognizing that they can no longer look at a consumer from a specific product or snapshot perspective but must encompass the entire customer relationship to fully understand a client's profitability.

From a strategic standpoint, CRM mobilizes resources around customer relationships rather than product groups and fosters activities that maximize the value of lifetime relationships.

From an operational standpoint, CRM links business processes across the supply chain from back-office functions through all touch points, enabling continuity and consistency across a customer relationship.

From an analytical standpoint, CRM is a host of analytical data tools that enable banks to fully understand customer segments, assess and maximize lifetime value of each customer, model "what-if" scenarios, predict customer behaviors, and design and track effective marketing campaigns.

According to Meridien Research, retail financial services institutions are expected to spend some $6.8 billion on CRM in 2001. Those investments will pay off for banks by:

- Restoring the personal-service connotation that previously removed.
- Fostering greater long-term loyalty through relationship building.
- Maximizing lifetime value of each customer through cross-selling.
- Enabling immediate action to retain the most valuable customers.
- Identifying high-risk customers and adjusting service accordingly.
- Enabling the bank to fulfill customer needs at the right time with the right offer.
- Increasing the rate of return on marketing initiatives.

"Without a doubt, to be successful in the future, the game is CRM," says George Awad, Senior VP of CRM for GE Capital. "If you are successful at the CRM game you are able to acquire more customers and convert them on other products. Success in CRM is the only game in town moving forward."

Six Business Imperatives for a Successful CRM Strategy

Any financial institution seeking to adopt a customer relationship model should consider six key business requirements.

Create a Customer-Focused Organization and Infrastructure

Internal cultural barriers can inhibit communication and coordination among divisions and defeat corporate-level marketing objectives. Management must align sales and service behaviors around customer relationships rather than around groups or products. To help dissolve departmental silos, executive management needs to keep a view toward overall customer profitability rather than in discrete segments of the business.

On the analytical side, it is critical to have a single, enterprise-wide view of the customer, spanning all touch points and systems.

Customer data must be assembled from every contact point — call centers, mail, person-to-person, fax, the Web and beyond — to construct an accurate, consistent view of customers across all available channels. That means data and key metrics from diverse departments must be aligned, shared and integrated in a common arena. Information about customers, which now exists in various databases across the enterprise, must be combined and compatible before meaningful analysis can take place.

Gain an Accurate Picture of Your Customer Categories

To have effective target marketing, you have to have a target. To anticipate customer needs, improve customer retention and identify opportunities to cross-sell and up-sell, you have to understand the unique characteristics of each market segment in an increasingly fragmented marketplace.

Market segmentation in the banking industry has been a “soft” art based on intuition and experience, looking at characteristics generally believed to predict buying patterns. To pinpoint the best opportunities for marketing, sales and service, financial institutions must adopt a much more rigorous analytical framework.

Accurately Assess the Lifetime Value of Your Customers

In a research report commissioned by SAS, bankers expressed the need to gauge lifetime customer profitability, not just present value. Customers just starting out from school might be marginally profitable right now but very profitable later when they are established in their careers. Without understanding lifetime value, banks face the potential to take short-sighted actions that unwittingly drive away customers along with their potential value.

According to research conducted by Gartner Inc., about one in five small banks and about half of large banks already work to estimate lifetime value.[1] However, the accuracy of their analysis is often hampered by missing inputs and variables. For instance, the bank may have data on customer deposit, loan and credit accounts, but not on investment and insurance relationships and third-party products. Or they might rely on industry-average information to compensate for data they don't collect in their own systems. In short, despite their best efforts, many banks still do not have an accurate picture of customer profitability.

Maximize the Profitability of Each Customer Relationship

As competition and churn reach new heights in the banking industry, banks are looking more than ever toward increasing profitability from existing customers, rather than expecting new customers to account for growth. Retaining existing customers is easier and less costly than attracting new ones.

Naturally, that means banks are keenly interested in cross-selling a variety of financial products and services to existing customers. Cross-selling can substantially increase customer profitability, especially if a bank targets valuable customers who are likely to purchase multiple financial products. But how does a bank identify those prospects? How can a bank effectively cross-sell without cannibalizing other product lines?

Understand How to Attract and Keep Your Best Customers

The maturing financial services industry is being reshaped by deregulation. Organizations can now offer complete ranges of products in new geographic areas and by the Internet. Customers and prospects have point-and-click access to a stunning array of competing offers. Together, these industry changes make it easier than ever for customers to jump ship, and they're doing so in record numbers.

Acquiring a customer can cost from $200 to $600. But if you retain that customer, the investment will be repaid tenfold or more. Given the cost of acquiring customers, banks can't expect to grow the business simply by attracting more customers. They must retain their business longer and build the customer base by looking more closely at the other end of the customer lifecycle — attrition.

Airlines understood this early on, and created programs that rewarded loyalty with flight credits and premium levels of service. Banks have partially adopted this concept by offering tiered levels of service based on account balances. This is a start, but it's important to get a tighter rein on attrition. Who leaves, and why?

In a multi-product environment, it's hard to measure attrition. Is this a customer who cancels a single product but still possesses other products, or is this a customer who ends the entire relationship? It's harder still to predict and prevent attrition, which is influenced by a combination of qualitative and quantitative factors. Why do some customers leave? Why do others stay? What do they value? How can you change their minds?

1 Kimberly Collins, Senior Research Analyst, Gartner, Inc.

A successful CRM approach enables customer service organizations to create the knowledge they need to implement the right retention strategies and minimize defection of valuable customers.

Maximize Rate of Return on Marketing Campaigns

To increase rate of return on marketing campaigns, market strategies must be based on an accurate and comprehensive understanding of the bank's customers across all functional areas and contact channels. The CRM model of campaign management calls for:

- Incorporating customer information from all touch points to generate a single customer view.
- Creating "smart" campaigns that are tightly targeted to the highest-value customers or the customers most likely to respond, for the most relevant opportunity, through the desired channel, at the most appropriate time.
- Coordinating systems and processes so market programs can be generated more quickly, and so feedback from previous campaigns can be used to fine-tune future activities.

Each of these key business requirements is an integral part of a CRM value chain. Once a bank understands its customer base, it can segment those customers into groups to which it targets tailored service and marketing activities. Using analytics, the bank can quantify shifts in behavior, predict long-term value, and identify prime cross-sell and up-sell opportunities. This type of information forms a basis for creating highly targeted market campaigns and offers. Information from market campaigns is then cycled back into the CRM system to fine-tune its effectiveness.

The Implications of These Six Imperatives

Legacy banking systems reflect a traditional process- and product-oriented view of the business. The architecture uses a host of independent systems on different platforms, which share information in a limited way. As mergers and acquisitions reshape information networks, it's common to see multiple, incompatible platforms even within a single functional area.

The key business requirements of a CRM strategy necessitate a different infrastructure, one that supports a unified, relationship-based view of the customer.

Does that mean that the bank's investment in traditional transaction-based systems is obsolete? No. Those systems just need to be able to share their information through a data warehousing and analytic structure that brings the parts into a unified whole.

The glue that binds functions and processes together into true CRM is a *decision support system* (DSS). Unlike transaction-oriented computer systems, decision support systems offer an integrated set of warehousing, analytics and campaign planning and execution modules that address relationships, rather than product-oriented views.

Technology Component of a Total CRM Strategy

The technology component of CRM offers banks a comprehensive understanding of its customers through data analysis and predictive modeling, to support sales and marketing strategies.

Single customer view. A managed and integrated view of the customer, drawn from all contact points and product purchases, enables financial institutions to better understand customers and therefore serve them more effectively.

Predictions for profit. Banks can accurately predict which products and services will appeal to an existing customer, and which they are most likely to purchase.

Customer lifetime value. Banks can calculate the probable profitability of a customer over their lifetime, ensuring that they don't alienate low-value customers with high-value potential.

Personalized services. Businesses can segment the market into specific target groups by demographics or purchase types. With a closer understanding of customers by small segments, banks can adopt individual marketing approaches rather than relatively ineffective mass marketing.

Establish a Data Architecture that Supports a Single View of the Customer

In a complete CRM solution, the bank integrates customer information from across the entire organization, as well as from partners and other external sources, to develop one comprehensive view of customer behavior. Only with a unified view can the bank accurately identify and differentiate customer needs, define strategies to enhance relationships based on those needs, and thereby maximize customer lifetime value.

"We have data literally scattered throughout the companies in multiple systems, multiple legacy platforms," said Alan Satterlee, VP of Customer Segmentation for AXA Financial, which has implemented a CRM solution. "Being able to access all of our different data through a single source . . . has shown a tremendous productivity increase."

The core of a successful CRM decision support system is a multidimensional data warehouse that:

- Integrates raw input from multiple sources and platforms, such as credit card, mortgage, insurance and savings account systems.
- Integrates input from multiple contact point systems, such as ATMs, branch visits, Internet and call center transactions.
- Integrates with popular back-office systems (financial transaction processing, for example) and front-office systems (such as sales force automation).
- Transforms this raw data into cleansed, validated and structured information.

- Enables a comprehensive, 360-degree view of customers across touch points, products and functional areas.

- Supports meaningful analysis to turn data into actionable intelligence.

An open architecture is critical as mergers and acquisitions continue and customers expect capabilities such as email alerts, wireless access and Internet banking. The solution also has to cut across a broad base of service-specific systems, such as asset management, leverage management, risk management and tax management, to provide an integrated profile of all customer data.

Standard Chartered Bank uses a central data warehouse to manage CRM banking information for nine Asian countries, each with distinct computing platforms and requirements. Power users carry out in-depth analyses, and hundreds of business managers around the region use the system to access data marts (subsets of the data warehouse for different departments, such as marketing and finance) for more basic information.

Managers can perform analyses at their desktops using a Web browser. A set of standard reports helps users quickly obtain the most important information. They can also create their own basic ad hoc reports and drill down into the data through an easy-to-use front end, without the need for specialized programming skills. The bank can view a multidimensional view of its data through advanced online analytical processing (OLAP), whereby users can slice and dice the data according to different dimensions, such as country, time period or product.

Implement Analytics that Support Customer Segmentation and Profiling

Advanced analytics enable you to “mine” the data warehouse to transform masses of data into meaningful market segments on a formal or ad hoc basis. Armed with this information, banks can create highly tailored marketing campaigns and identify high-value individuals who could benefit from one-to-one advice.

With more than four million customers in three million households, AXA Financial uses a CRM decision support system to segment customers into target market groups. “With limited distribution capabilities and marketing budget, you certainly can’t focus on or talk to three million or four million policyholders in a month or year,” says Satterlee, VP of Customer Segmentation. “Segmentation is really helping us to prioritize.”

In less than a year, AXA collected data for all four million customers, performed analysis and modeling, and assigned scores for each account around profitability, cross-selling and retention metrics. “The models have been very predictive,” Satterlee notes. AXA Financial can easily perform “what if analysis” on various models to investigate the impact of changing any variable, and share this data with partner groups in other countries.

What are the demographics of customers most likely to open this type of account? Are they Internet-savvy? What characteristics reveal good candidates for portfolio reassessment? Segmentation analysis helps financial institutions figure out how to focus their energies.

By better understanding customer segments, a financial institution can maximize revenue opportunities and optimize the use of resources throughout the company by focusing on actions and customers that are likely to generate value for both sides of the relationship.

Analytic Capabilities in a CRM Decision Support System

Advanced analytic techniques enable analysts, with or without statistical backgrounds, to better understand and anticipate customer behavior and thereby build relationship value. A comprehensive CRM decision support system would include the following typical analytics.

Customer value modeling. Calculate the total value of keeping customers throughout their lifetimes.

Customer risk analysis. Calculate the risks associated with a given customer, in terms of paying, leaving and so on.

Market basket analysis. Analyze the mix of products that a given customer purchases, with a view to understanding what other products to sell them.

Cross-selling predictions. Predict which products to sell to an existing customer next.

Customer channel analysis. Analyze and predict the most suitable and efficient channels for cross-selling activity.

Cross-selling campaign analysis. Identify how to best target customers for future campaigns and other activities.

Implement Modules to Analyze and Predict Risk and Profitability

Data mining in a CRM decision support system returns tremendous bottom-line impact as it turns data into information, information into knowledge and knowledge into greater business value. This is particularly true when you need to understand not only what is, but what is likely. With forward-looking analytics, banks can better understand the true value of customer, not just present account values, but future account values and referral potential. Here are some sample analytics that support that function:

- **Customer profitability analysis** derives figures on profitability and predicts lifetime value, enabling more profitable marketing, sales and service initiatives.

- **Predictive modeling techniques** such as logistic regression, decision trees and “neural networks” forecast likely product purchases, customers most likely to buy and customers most likely to leave the institution.

- **What-if analysis** determines how certain marketing, sales and service strategies will impact customer profitability.

- **Credit scoring** identifies credit-worthiness of customers to help minimize risk.

Implement Modules that Maximize Cross-Sell and Up-Sell Initiatives

Selling to an existing customer is 8 to 10 times easier and more profitable that acquiring a new prospect. So, it makes good economic sense to identify likely opportunities to cross-sell and up-sell new services to existing customers. Nonetheless, that activity must be as cost-advantageous as possible. Cross-selling analysis helps banks to understand which products and services customers have bought, and to accurately predict which products and services they are most likely to purchase in the future.

"It's extremely expensive to try to acquire or cross-sell customers without the information that allows us to make intelligent decisions," said Shaun Coyne, chief technology officer of GE Capital Real Estate, and formerly a senior member of the IT team in GE Capital Global Consumer Finance. "We needed an automated and systematic way to capture customer behavior and try to target the products that would best help to deepen our relationship.

GE Capital's CRM decision support system uses its own internal data along with behavioral and other third-party data to make sure the company is cross-selling the right products to the right people. In the process, they've reduced the time it takes to execute a campaign from 12 weeks to 2 weeks.

"We realized that we had a lot of revenue opportunities within our own customer base and a lot of opportunities to do a better job cross-selling," said Satterlee of AXA Financial, which now uses a CRM decision support system. "We've got a lot of value in customers that may have other financial services needs we could meet. We're doing a better job of that than when we were more of a product-focused company."

Implement Customer Retention Modules in Your DSS

While technology once removed the "corner store" level of intimacy and personal service from the banking experience, technology can now be used to restore it.

An effective CRM decision support system increases the quality of customer relationships, thereby increasing retention in several ways:

- It supports predictive modeling to help banks identify who is likely to leave, and why, and what to do about it.
- It enables a new level of personalization in service offers and marketing approaches, which in turn fosters loyalty.
- It brings greater richness to customer interaction, thereby increasing customer satisfaction, because consistent information is shared across all customer touch points.

For example, SAS integrated its CRM solution with BroadVision's e-commerce applications. Together, the BroadVision and SAS software creates a closed-loop system that "learns" from every customer interaction and shares that learning with other touch points. Banks can combine information from all customer communication channels — brick or click — and enrich that information with demographic, attitudinal and other non-transactional information to fill in the missing pieces of the customer puzzle.

This information can be applied to increase the value of every customer relationship, providing them with the optimal offer, service or guidance, in the right place, at the right time, online or offline.

Implement an Integrated Campaign Management System

An effective campaign management system uses analytics to develop, execute, manage and measure marketing campaigns across multiple touch points. A typical campaign management system provides:

- The ability to manage every facet of multi-channel campaigns and easily track all responses, for hundreds of thousands to hundreds of millions of customers, for conventional channels or e-media.
- Dynamic response handling to automatically update customer contact history, response tracking and analytical processes.
- Coordination and optimization of inbound and outbound communications over multiple channels.
- The ability to create, deliver and track high-volume, opt-in, personalized email messages.

In addition to automating these campaign functions, an effective campaign management system also draws on valuable information from other modules in the CRM decision support system. For example:

- The data warehouse provides information from all touch-points (online and offline) to generate a comprehensive view of customers.
- Segmentation and profiling modules identify the most valuable/profitable customers, as well as customers who may leave, to help define appropriate target marketing programs.
- Cross-selling and up-selling modules identify when the time is ripe to make an offer, and the optimal content and contact channel of the offer.

“Our marketing offers are now much more targeted,” said Steven Parker of Standard Chartered Bank, which adopted a CRM system. “We are now able to carry out hundreds of highly targeted small campaigns instead of huge scatter-marketing campaigns. This means that our customers are not deluged with irrelevant offers and that we get a better return on our marketing dollars.”

Summary

The banking industry is much further along than other industries in recognizing the value of customer relationship management and implementing decision support systems to support it, according to Gartner, Inc., research.[2] Most banks have focused on tactical point solutions though; they're ready for a transition toward strategic, enterprise-wide CRM initiatives that cross major business lines.

An effective decision support system for CRM enables you to collect data about your customer from every touch point, consolidate this information into a single view of the customer, and use this information for customer profiling, segmentation, cross-selling, up-selling and retention efforts.

It's no surprise that investment in CRM systems is expected to grow at a compound rate of nearly 38 percent per year in Europe, 40 percent in North America and 17 percent in Asia-Pacific, according to Meridien Research (2001).

The adoption of Internet and wireless technologies will only accelerate interest in CRM solutions, as banks continue to seek a unified understanding of customer relationships across diverse channels.

2 Kimberly Collins, Senior Research Analyst, Gartner, Inc.

World Headquarters
and SAS Americas
SAS Campus Drive
Cary, NC 27513 USA
Tel: (919) 677 8000
Fax: (919) 677 4444
U.S. & Canada sales:
(800) 727 0025

SAS International
PO Box 10 53 40
Neuenheimer Landstr. 28-30
D-69043 Heidelberg, Germany
Tel: (49) 6221 4160
Fax: (49) 6221 474850

www.sas.com

45582US.0901