




Background context

Banks have a large customer base with varying behavioral characteristics in terms of spend behavior, revolving behavior, age, disposal income, etc. Most banks focus predominantly on booking clients with a low probability of defaulting, rightful so given the risk involved in borrowing money. However, the primary purpose of banks lending money is to make a profit and there are only a handful of banks looking into whether the clients they are booking are likely to be profitable. Banks often add end up with low-risk clients who do not generate profits as they are do not actively use their credit cards. Customer Lifetime Value (CLTV) is a metric that represents the total amount of money a customer is expected to spend in a business/ bank during the lifetime of the card. It's a crucial measure that helps businesses in strategizing their marketing efforts, resource allocation and product development.

Problem statement

CLTV should be taken into consideration when assessing potential customer applications and not only the probability of defaulting and affordability. Profit scoring can be used as a measure of CLTV. That way banks do not only book low risk clients, but clients who are likely to utilize the card and contribute to profitability.

Project Landscape

	 Data	 Information	 Knowledge
Customer Lifetime Value (CLTV) measure	What is the current measure used to quantify a clients CLTV ?	What information can be used from our data to derive the customers CLTV ?	What measure do other banks use to quantify CLTV ?
Expected profitability	Does the data have the necessary fields required to compute profitability ? Does it have utilisation, spend, cost and risk data ?	Can we compute profitability from whatever data available ? Can we account for risk in the profitability computation?	Credit card profitability is an intricate computation, will a proxy be sufficient to quantify profitability ?
Profit score threshold	What are the current techniques used to determine profit scores? Does not have to be in the banking industry.	How do we convert profitability values to probabilities that depict profit scores?	Is there an existing profit score threshold, to convert profitability likelihood to a binary category? i.e. 0 – low profitability and 1 – high profitability