Recommending Client Selection to **Regency Bank**

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Case **Summary**

Regency bank acquired Continental bank a portfolio of 2,000 clients and looked at 210 clients in **professional card** to see if they are

Profitable?

Secure?

Factors to consider:

Complexity Level

Level 1	Level 2	Level 3

- Did not require any special attention
- Expected to be satisfied with Regency Bank

- Required expanded reporting tools
- Expected to need some additional guidance in account handling to remain satisfied with Regency Bank

- Required special reporting needs, card specialization, and a high level of client interaction

Accept Default Risk Rating below 5

DEFAULT RATES

ACCOUNT LEVEL COSTS - Annual Default Risk		
Rating	Risk of Default	Balance (# months)
7	10%	6
6	5%	4
5	3%	3
4	2%	3
3	1%	3
2	0.5%	3
1	0.1%	3

Source: Analysts Estimates at the Regency Bank.

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Methodology

Identify Migrated Clients:

1. Exclude Clients with complexity level = 6 & 7

2. Calculate several variables:

- Total Charge = 1%*Annual Spend Volume+$5000

- Migration Cost = $2000 (Complexity Level = 1), $5000(+$3000) (Complexity Level = 2), $7000(+$5000) (Complexity Level = 3)

- Operating Cost = $1500 (Complexity Level = 1), $2000(+$500) (Complexity Level = 2), $3000(+$150) (Complexity Level = 3)

- Issue Card Fee = # of New Issued Cards * $40 (No Issued Card Fee in Year 0)

- Service Card Fee = # of Cards * $45

- Account Level Cost = (Annual Spend Volume/12)*0.1%*3 (Risk=1); (Annual Spend Volume/12)*0.5%*3 (Risk=2); (Annual Spend Volume/12)*1%*3 (Risk=3); (Annual Spend Volume/12)*2%*3 (Risk=4); (Annual Spend Volume/12)*3%*3 (Risk=5)

3. Build a model for calculating the Profit in year 0: Profit = Total Charge – Migration Cost – Operating Cost – Service Card Fee – Account Level Cost

4. Find the group of clients that has annual profit > 0 *MIGRATED THEM!*

Simulate Profits for the next 2 years:

1. Simulate the increasing rates for annual spend volume & number of cards for Year 1 and Year 2 by using NORM.INV(RAND(), μ, σ)

2. Applying the same formula Profit = Total Charge – Migration Cost – Operating Cost – Issue Card Fee - Service Card Fee – Account Level Cost
to calculate the profit for next 2 years

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Migrate or not?

Clients that have a positive profit value should be migrated over because we know that they will generate a profit for the bank.

Profit = Revenue – Costs.

Expected Profit
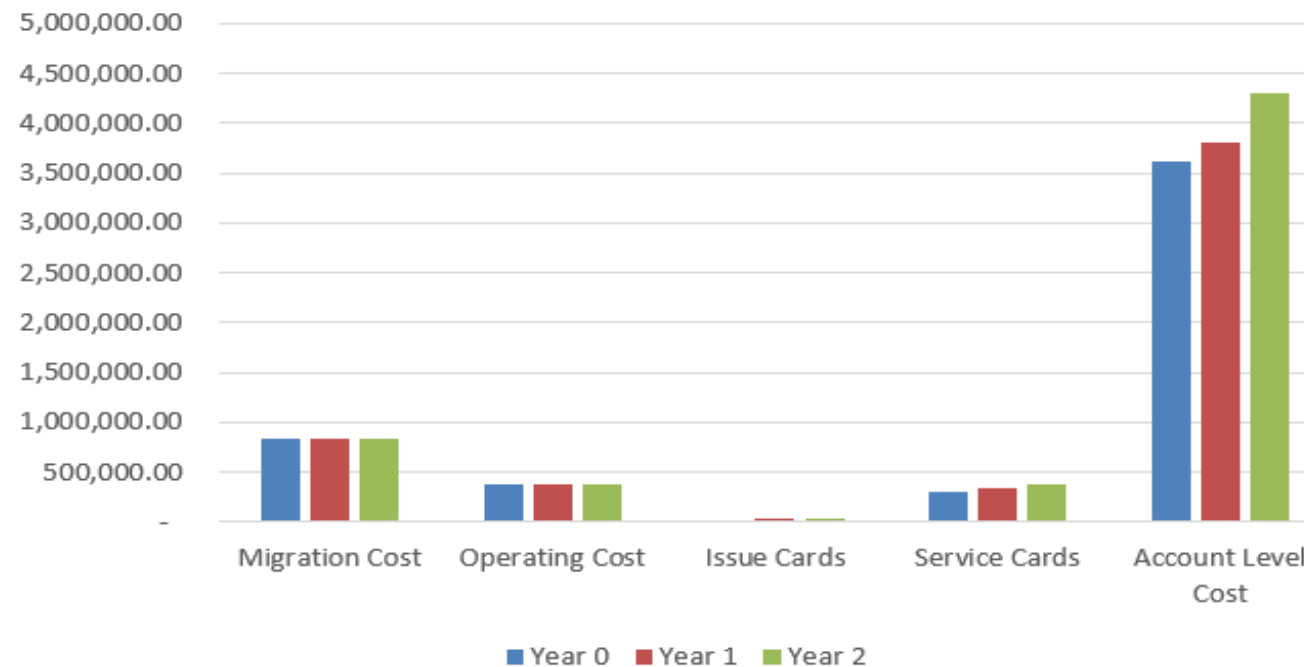
$12.5 Million

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Fixed Costs VS Variable Costs

	Migration Cost	Operating Cost	Issue Cards	Service Cards	Account Level Cost
Year 0	829,000.00	384,500.00	-	311,560.00	3,623,381.57
Year 1	829,000.00	384,500.00	39,645.00	346,800.00	3,813,552.55
Year 2	829,000.00	384,500.00	36,720.00	379,960.00	4,294,047.41

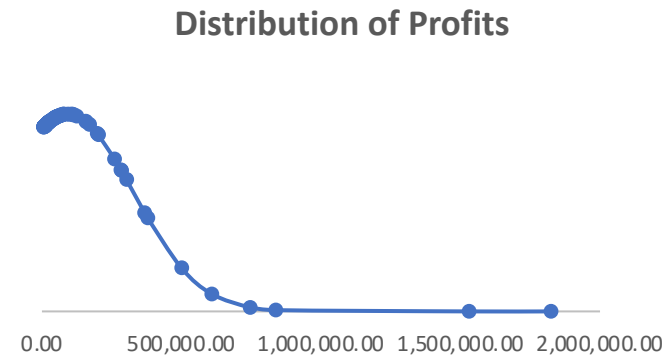Comparing Costs Throughout The 3 Years

Client **Insights**

Complexity	Count of Complexity	Sum of Total Profits	Average Profit by Count of Complexity
1	60	1,793,440.70	29,890.68
2	48	5,680,617.42	118,346.20
3	27	4,973,416.67	184,200.62
Grand Total	**135**	**12,447,474.78**	

Risk Rating	Count of Risk Rating	Sum of Total Profits	Average Profit by Count of Risk Rating
1	1	1,805,139.61	1,805,139.61
2	3	853,183.75	284,394.58
3	19	3,950,786.37	207,936.12
4	44	3,764,747.63	85,562.45
5	68	2,073,617.43	30,494.37
Grand Total	**135**	**12,447,474.78**	

Profit is expected to be driven by **Clients with Level 3 complexity** who would require *special reporting needs, card specialization* and *a high level of client interaction* to retain customer satisfaction with Regency Bank.

Profit is expected to be driven by **Clients with a risk rating of 1** (International Society of Lopta with $1.8M) and **a risk rating of 2** (totaled at $853.2k).

Distribution of Profits

0.00   500,000.00   1,000,000.00   1,500,000.00   2,000,000.00

Distribution of profit is **heavily skewed to the right**, justified by the outliers presented by clients with risk rating of 1 & 2.

97% of the clients have a risk rating of 3 to 5 with 1% - 3% annual default risk. This customer portfolio must be ensured of smooth transition in order to remain satisfied with Regency Bank. The bank should develop **a strict mitigation plan** to ensure timely payments and increase interest rates to avoid default.

Regency Bank should also maintain a good relationship with risk 1 & 2 clients to maximize the profits.

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