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Trends in AI personalization in financial services

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Introduction

The COVID pandemic and its aftermath have disrupted every aspect of our lives, and our relationships with our financial services providers have been no exception. These changes have reshaped how consumers think about financial products, from credit cards to car insurance to retirement accounts. These changes create a challenge for marketers as they try to deepen relationships with customers and build trust in turbulent times.

Consumers have not emerged from the pandemic with a sense of brand loyalty — Price Waterhouse Cooper found that 39 percent of Gen Z and 35 percent of Millennials will switch financial organizations in the coming year. More than half of consumers are switching credit cards for incentives more aligned with their spending habits. According to LexisNexis, 41 percent of insured households shopped for new policies in 2023, lowering retention rates across the industry. And 76% of consumers are likely to switch banks if they find another one that better fits their needs. Clearly, retention marketing is more critical than ever.

In this climate comes the promise — some might say the hype — of artificial intelligence. AI is a buzzword, but AI tools have become table stakes for many marketing tasks. The customer journeys which form the backbone of lifecycle marketing campaigns — such as onboarding, digital engagement, retention, cross-sell, and upsell — now typically incorporate AI.

This white paper looks at the economic trends consumers are facing, and explains how marketers can increase trust and deepen customer relationships through individualized digital experiences. We'll see how AI has informed these customer journeys in the past, and how AI will drive 1:1 personalized customer journeys in the future. AI can help financial institutions make 1:1 decisions that increase customer lifetime value and build more lasting loyalty.

Economic uncertainty and marketing opportunity

According to J.D Power, more than half of card customers are financially unhealthy, with the total card debt surpassing $1.4 trillion in 2024. Bank of America reports that small businesses especially are relying on cards for every day payments even as interest rates increase. Meanwhile, refinancing and home equity line of credit (HELOC) loans continue to soften — home equity is at its highest levels since the 1950s, but equity loans are underutilized or used to pay down debt.

The insurance market has also seen changes. J.D. Power reports that 33 percent of car insurance consumers have seen a rate hike in the past year. This turbulence has caused trust to break down across the insurance industry, with Deloitte noting that insurers "first need to rebuild good will among stakeholders to help support" their campaigns to broaden and deepen customer relationships.

This pattern of lack of trust has permeated the industry. The Financial Brand found that 79 percent of consumers believed their financial institution did not prepare them for economic uncertainty. Only 11 percent of consumers agree that their financial provider cares about their financial well-being, and only 7 percent turned to banks for information on money and investments. Of course, clumsy attempts at personalization will only make the problem worse.

This climate presents tremendous opportunity for marketers willing to invest in retention and loyalty. The financial institutions that are able to build trust and establish strong relationships with their customers will thrive. In the remainder of this paper, we'll look at typical customer journeys marketers are employing, and how new developments in AI impact the execution of these journeys.

Customer journeys that build trust

The turbulent times of the pandemic are receding. Inflation has largely balanced out and the unemployment rate sits at a low 4.2 percent. As consumers start to feel more stability, they will need financial institutions' help choosing the right cards, insurance products, and savings accounts to manage their future. Yet as many consumers are prepared to switch financial institutions, marketers need strategies that will build trust, engage, and retain customers.

Digital onboarding and engagement

According to Deloitte, 79 percent of brands have a positive view of their online customer experience, but only 46 percent of customers agree. Consumers don't have the time and attention for unsophisticated digital experience. They want simple, easy processes that will give them an online experience personalized to their unique needs. More than half of consumers switch banks for a better online and mobile experience, while nearly 40 percent switch because the online customer experience left them feeling underwhelmed.

In some sense, a customer's digital journey begins with the zero-party data they provide in their first brand interaction. This might be a request for an insurance or refi quote, or an application for a credit card. Marketers who can create a true multichannel digital experience from the first touchpoint will be at a significant advantage — customers will have the coherent experience they crave, and marketers will have the zero party data they need to effectively personalize. The more information an organization has on customers, the more marketers can personalize every touchpoint to that customer's specific needs.

That personal relationship starts with an engaging, interactive onboarding experience. This goes beyond getting customers to sign up for paperless billing — customers need a reason to keep coming back. Credit cards could create in-email surveys to help them understand the main priorities of their customer.

"Marketers who can create a true multichannel digital experience from the first touchpoint will be at a significant advantage."

These surveys can then deep link to content on maximizing rewards or transferring balances. Customers might receive omnichannel alerts that gamify the onboarding experience — texts and emails that alert customers when they've made their first credit or debit card purchase, their first balance transfer, or set up autopay or direct deposit. A wealth management brand could gamify onboarding by creating a "next action" checklist that shows when a customer makes their first stock trade or reinvests their first dividend, while a credit card company might help track spend to qualify for a welcome bonus.

As AI enables deeper, individualized relationships, zero- and first-party data can add vital input to create personalized and engaging onboarding experiences. Collecting that data and encouraging maximum digital engagement are the building blocks for more 1:1 journeys and impressing every customer, every time.

Evergreen engagement and retention

Onboarding journeys naturally give way to evergreen retention and loyalty campaigns. Credit card companies aim to build wallet share, encourage revolving balance, and ensure that customers are making use of available rewards. Health insurance providers want to ensure customers are engaging in regular preventative care, which brings better health outcomes to the customer and savings for the business. Wealth management firms will prompt consumers to make a detailed plan for retirement. While the needs of each business are different, they have a common goal — building lasting relationships with the customer.

> "Financial services with truly personalized experiences see 10 to 30 percent reduction in churn and a 10 percent annual revenue lift."

Of course, these relationships require personalization. Where it was once considered "personalized" to include a first name in an email, consumers now expect every interaction with a brand touchpoint to be tailored to their specific data, decision-making, and preferences. More than 70 percent of financial customers rated personalization as highly important in today's marketing ecosystem, and 76 percent expect an omnichannel experience from their bank, broker, or insurance provider. Personalization pays off for marketers. Financial services with truly personalized experiences see a ten to 30 percent reduction in churn and a 10 percent annual revenue lift.

With the ever-growing need to personalize communications, marketers need to leverage new solutions like artificial intelligence, qualitative information on customers, and quantitative data, to ensure that every consideration of every customer is built into digital journeys. Once marketers understand the motivations at every step of the customer journey, they can incorporate real-time, first- and zero-party data to understand exactly how customers interact online. AI now allows marketers to move beyond simple segmentation — and the manual testing and re-testing it takes to find the most effective messaging. This means consumers receive attention from brands that are specific to their exact needs. They are no longer segments, they are individuals.

When customers feel cared for, they show high levels of satisfaction and loyalty. Gallup reported, "when customers strongly agree [that institutions care for their well-being], 77 percent are engaged." Engagement has tangible results for an organization's bottom line, with engaged customers linked to 37 percent higher revenue.

Cross-sell to the specific needs of customers

According to The Financial Brand, "most consumers hold two to three products at any institution" but "households typically use about ten products." Marketers have tremendous potential to help their customers consolidate their finances in one place. A Gallup survey found "about 83 percent of consumers polled said they would consider their [current] institution for their next product or service when they are both satisfied and fully engaged."

With the right data and a proactive understanding of each customer's journey, marketers can build 1:1 cross-sell and upsell opportunities at every step of the lifecycle. New credit card offers can be gamified with limited-time offers informed by the customer's spend by category. If a customer has a travel rewards card but could benefit from a new cash back card based on preferences and spending habits, marketers can send limited time offers that create a sense of urgency.

Banks can send "invitation-only" mobile alerts to customers expressing interest in a home mortgage loan that deep link to personalized product pages with discounts on closing credits and real-time interest rates. If the customer isn't ready to commit, marketers can send a follow up email helping customers schedule a virtual appointment with a product expert who can help them better understand the home buying and loan process.

When marketers lead with 1:1 personalization, they show customers that they've invested in the individual relationship. Using zero- and first-party data to provide unique financial advice, healthy spending tips, and cross-sell opportunities transforms generic digital touchpoints into opportunities to show customers that their financial institution has their back.

Every step of the digital customer journey is an opportunity for marketers to better understand their customers. Creating a personalized journey helps organizations optimize their entire lifecycle. By combining personalized content with meaningful upsell opportunities, marketers can increase revenue while satisfying the unique needs of each individual.

"Marketers have tremendous potential to help their customers consolidate their finances in one place."

Personalizing customer journeys 1:1 with AI Decisioning

As financial service brands work to monetize the full customer lifecycle, personalizing customer journeys like the onboarding, retention and cross-sell journeys we've discussed, they face an inevitable question: how should we leverage new AI capabilities? AI and machine learning (ML) have rapidly evolved as essential tools in a marketer's arsenal. One common method of using AI models to personalize are called next best action (NBA) models. On its face, it's a simple idea — a next best action model should tell you the best action to take next with each customer. In practice, NBA models combine predictive models and business rules to predict the product to offer or action to suggest to a customer. To validate that their rules are working, marketers run A/B or multivariate tests.

Here's how that might work in practice. Suppose an NBA model says that a particular credit card, account, or loan is the "best" next product for a particular customer. In this case, the NBA model is predicting that this card is the product the customer is most likely to apply and be approved for next. But what the marketer needs to know is what action to take to maximize the metrics that matter to the marketer — in this case, perhaps the predicted NPV of the new account.

Why are these two things different? Suppose a bank has an NBA model to recommend products to their customers. This model might predict that a given customer is most likely to apply for a particular credit card. Is it a good idea to send that customer offers for the card? Unfortunately, the NBA model doesn't answer that question. Any of these situations is possible:

- The customer would apply for that credit card without any prompting, so it would have been more valuable to email the customer about something else.
- The customer is most likely to apply for that card if the marketer takes no action, but would also be responsive to offers for some higher margin product such as a premium credit card.
- Marketing communications will increase customer engagement, but won't end up influencing the purchasing decision at all.

"The NBA model is making a prediction about customer behavior, rather than identifying the best decision for the marketer."

Marketers need AI models that can distinguish between all these scenarios. A "next best offer" prediction that a customer is likely to buy a given product doesn't necessarily mean that offering that product, or indeed taking any particular action towards that customer at all, is the action most likely to maximize the metrics which matter most to the business. The problem is that the NBA is making a *prediction* about customer behavior, rather than identifying the best decision for the marketer.

As financial services companies begin to recognize the limits of traditional NBA, a new application of ML called AI Decisioning has begun to emerge. AI Decisioning relies on a different type of ML, reinforcement learning, which is best-fit for making 1:1 decisions. An AI Decisioning agent chooses the best action to take for each individual, and then autonomously experiments and continuously learns from future customer actions.

AI Decisioning offers a number of advantages over the older NBA approach:

- AI Decisioning agents maximize the metrics that matter to the marketer. There is no need for manual A/B tests or multivariate tests to see if the model is impacting the marketer's KPIs.
- AI Decisioning agents continuously learn and adapt. They are flexible as markets or customer behavior changes — the model updates automatically.
- AI Decisioning is much easier to set up and maintain than traditional NBA models — a single model, which continuously learns and adapts, can replace an intricate system of models, rules, and manual testing.
- AI Decisioning agents can use all zero- and first-party data about every customer characteristic to make 1:1 decisions about individuals, not segments. They are not constrained to only consider a few data points or the outputs of a few models.
- AI Decisioning optimizes across multiple dimensions simultaneously, finding the right choice of product, message, timing, day etc. even when these choices depend on each other.

These new methods, which are built natively for decisioning rather than prediction, are rapidly becoming "state of the art" for optimizing 1:1 customer journeys in financial services.

Conclusion

Effectively personalizing a cohesive customer journey can build trust and deepen relationships with financial institutions at a time when so many customers are searching for important answers for themselves, their families, and their businesses. The "return on trust" can be considerable, but that potential comes with expectations that the experience will be tailored to the individual needs of every customer. Marketers need tools that can take first- and zero-party data and target every consumer with the right message, making the right offer, at the right time, through the right channel, and with the right frequency of communication.

As institutions build relationships with their customers, they will naturally find opportunities to engage, retain, and cross-sell as part of a cohesive customer journey. The marketers that thrive in the coming years will be the ones with the strategy — and the right AI tools — to personalize every interaction with every customer.

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