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- A European bank boosted outbound sales by 180%. Call centers handle four times as many customers
- A U.S. bank increased its marketing response rate by 3.1% while cutting marketing costs by 20%
- A bank in Latin America increased revenue from existing clients by 40%

Keys to operationalize customer lifetime value analytics

- Redesigning/Building upon traditional databases
- Utilizing big data methodologies to analyse customers' digital channel data
- Agile and scalable IT infrastructure
- Greater collaboration between marketing and analytics

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Customer Lifetime Value Analytics in Retail Banking

Using New Tools and Technologies to Operationalize Models Helping To Understand Evolving Customer Needs

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Traditional retail banking products are losing money. Checking accounts are estimated to have gone from contributing US\$12.59 (1992) to losing US\$196.46 (2012)¹. Debit card revenue loss is estimated at nearly US\$8 billion in the United States.²

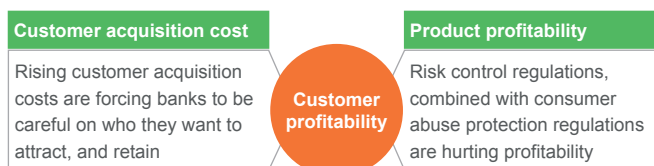
Acquiring and retaining “profitable” customers is also more challenging than ever in today’s hyper-competitive financial services market. Advancements in technology are reducing time to market, thereby eroding product differentiation and customer loyalty.

The 2008 economic crisis also increased consumer protectionism and regulatory oversight. The introduction of Basel III and new regulations in the industry (such as the Dodd-Frank Act, Credit Card Accountability, Responsibility, and Disclosure Act, Durbin Amendment amongst others) have increased the cost of service.

Customer demographics, buying behavior, and needs are also changing and evolving. Banks need a 360-degree view of each customer to target the right products, cross-sell and up-sell, and adapt to customers’ changing needs.

These challenges are pushing banks to understand Customer Lifetime Value (CLV) at an individual customer level across all their financial products (deposits, cards, loans, trading, asset management, wealth management, and others). Banks today need a Profit & Loss (P&L) statement for each customer to acquire, retain, and expand profitable relationships (see Figure below).

Business pressures resulting in increasing focus on customer profitability



Impact of customer profitability analytics

Customer Lifetime Value (CLV) is a simple concept (current revenue – cost to serve, projected over the entire customer lifecycle) but is really difficult to measure in today’s complex business context.

¹ https://www.strunklp.com/site/page?view=value_checking

² Debit-Fee ‘Flop’ Leaves Banks Seeking US\$8 Billion in Revenue <http://www.bloomberg.com/news/2011-11-02/debit-fee-flop-leaves-u-s-banks-looking-for-8-billion-in-lost-revenue.html>

“

By providing our staff with a 360-degree view of our customers, along with analytics tools to better understand their demands, we have been able to better serve our customers while driving new revenue.

– CIO of European Bank

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We wanted to increase customer satisfaction and life-time value while maximizing bank profitability through the analysis and execution of optimal cross-selling and acquisition strategies.

– COO of LATAM bank

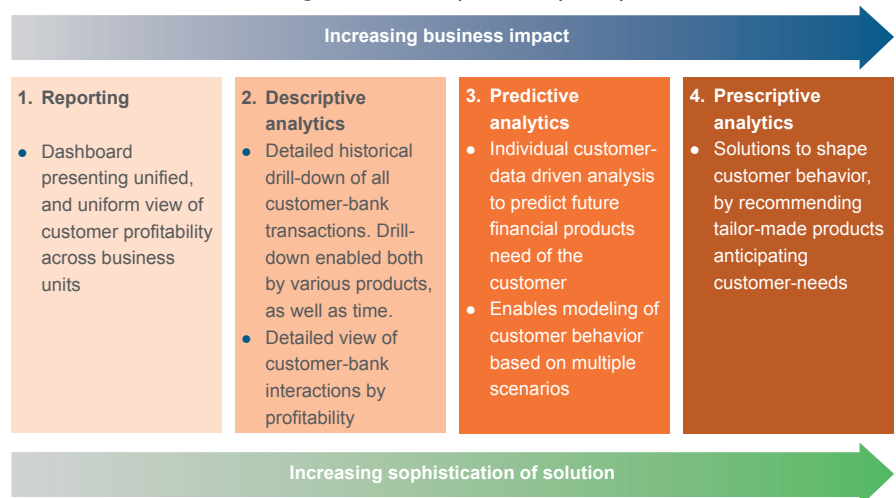
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- Banks have multiple product lines spread across the globe but they typically operate as functional silos. M&A activity further adds to the complexity
- Beyond the customer master data, sophisticated CLV calculations also require inputs from other banking systems such as contact centers
- Gaining knowledge and insight about the customer’s lifestyle, family, and social preferences is as important as knowing his financial records to be able to meet his future needs and requirements

A range of advanced and sophisticated analytics is now available that helps banks overcome these challenges (see Figure below). Customer profitability analytics can help inform banks about potential near-term gains for individual customers as well as probabilities of future opportunities over an extended time-horizon. Key benefits reported:

- Identify profitable customers by CLV segmentation
- Expand wallet share with profitable customers by identifying relevant cross-sell and up-sell opportunities
- Migrate customers from less profitable relationships to more profitable ones
- Acquire new profitable customers by targeted marketing campaigns
- Launch new product offerings that are in line with customer expectations

Range of customer profitability analytics



“

We know customers have a variety of financial needs. So we don’t want to offer our customers—especially new customers—just one product at a time. We offer them packages of products that save them time and money.

– Wells Fargo

”

Successfully operationalizing CLV analytics in retail banking

Initiatives to develop predictive and prescriptive analytics for estimating customer lifetime value, typically hit the following major operational challenges:

1. **Functional and system silos:** Banks today offer a variety of products and services (retail banking, cards, lending, asset management, and wealth management) but are poorly integrated internally from an organization and systems perspective. Effective CLV analytics requires inputs from multiple systems (financial data sources – such as accounting, transaction, and contact center, amongst others) but it is hard in an environment with disparate systems. The problem is made even more pronounced by the non-uniform level of granularity across various systems, and inconsistent definitions

2. **Lack of quality and standardized data:** In the utopian world, a unique customer identifier can be used to track all customer information across all the systems that a bank has, and enable creating a single-view of customer's history and interactions with the bank. However, the underlying systems' fragmentation makes it hard to get a common customer definition. Moreover, banks need to track online behavior, social media habits etc. to build a forward-looking assessment of CLV, which is challenging
3. **Lack of ongoing feedback mechanisms:** CLV analytics need to be fluid and dynamic, as customer profitability calculations are not one-time exercises and need ongoing updates and refinements. In order for the bank to maintain reliable accuracy of these CLV models, a continuous feedback mechanism is required from frontline systems, which is hard to implement
4. **Determining "cost to serve" per channel:** "Cost to serve" is normally a "one size fits all" average number that is used. However, there are segments of customers who appear profitable based on usage, but when actual cost incurred in servicing is overlaid, they turn hugely unprofitable. The banks therefore need to track customer interaction data across channels and attribute a "cost to serve" for each interaction, which flows into the Profitability calculation. Channel preference, frequency of interaction and stage of lifecycle are huge drivers of cost to serve and can throw dramatically different results, from what might appear on first glance!

“It's all about helping clients make sense out of the petabytes of data that flow through our systems annually.
– Provider of technology solutions to banks”

Emerging best practices to successfully operationalise customer lifetime value analytics:

- **Redesigning/Building upon traditional databases:** Banks' have a wealth of data on their customers in traditional databases that can be of immense value when utilized well. This is being addressed by either redesigning the existing databases, or building upon them or a combination of both the approaches to lend them for ease of doing customer analysis
- **Utilizing big data methodologies to analyze customers' digital channel data:** Digital channel (website interaction, chats, and social network activity) data analysis can be considered analogous to a big-data problem in terms of volume (multiple data points at individual customer level), variety (data across multiple internal and external systems), and velocity (multiple transactions by each customer across different products). As a result, traditional analytics methodologies are not applicable (a relational database is not useful for customer data warehouse). Automated data feeds into the profitability model are required to reduce the time and effort needed to create up-to-date analyses
- **Agile and scalable IT infrastructure:** Customer profitability analytics needs to process millions (in some cases billions) of transactions from core banking account processing, person-to-person payments, mobile payments, electronic fund transfers, and e-bill payments, and apply predictive models and analytics to determine what a consumer is likely to need next. The amount of data also increases exponentially. This requires an agile and scalable IT infrastructure. Server virtualization and other cloud solutions are

increasingly leveraged

- **Greater collaboration between marketing and analytics:** Marketing experts across different product lines and analytics SMEs need to collaborate to ensure that analytics insights are taken to action and the insights themselves are actionable

Conclusion

Banks need a P&L statement at an individual customer level to succeed in customer acquisition and retention in both short and long term. Customer profitability analysis is emerging as a helpful tool for banks to stay competitive and profitable. Operationalizing analytics would help banks achieve these twin objectives.

“ In today’s banking world, it is the balance—between creativity and discipline, between art and science—that we need to strike.
— CMO of U.S. bank ”

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About Everest Group

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