# Customer Churn – Notes

Gone are the days of strong customer loyalty towards banks. For one, the information age has ushered in the rise of consumer comparison websites, giving consumers access to tools that enable more informed decisions when choosing where to bank. Combine this with the ease of applying for products online, it’s not surprising that the customer landscape within banks have seen change.

Customer churn is a metric used to quantify the rate at which customers are leaving the business, and would be a metric that a bank

more availability to information in making informed decisions as to where they bank.

Customer loyalty towards banks, is a feature that has lost it’s power in this transition to

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***Using customer data, can we accurately predict whether they will terminate their services with us?***

***Can we achieve a more successful marketing strategy by targeting customers we predict will churn?***

***Can we reduce customer churn by successfully identifying and targeting these customers?***

Customer churn is an issue more apparent in markets that are crowded, as the greater number of options for consumers, increases the likelihood of churn. The cost of acquiring new customers is estimated to be 1/5th the cost of keeping existing ones, so it makes sense for a business to focus attention on reducing their customer churn rate.

A successful reduction in the customer churn rate will reduce costs for the business and increase revenue streams as customers continue to be a source of revenue, as well as the increased likelihood of a customer taking on more products with that business.

This problem can be addressed using Machine Learning algorithms that are developed to predict whether a current customer is expected to churn or not. Using these predictions, the business can work on targeted marking strategies that aim to retain the customer and minimise their likelihood of churning. These may be special discounts, or promotions that increase customer satisfaction.

The rise of digital and ‘neo-banks’ in the Australian banking space, has resulted in a renewed focus on customer churn within banks, as customers are presented with more options as to who they bank with. Coupled with the ease of online research and applications, switching banks has never been easier for customers. It makes sense given the costs of customer churn, that banks divert resources and attention into analysing their customers behaviour and employing Machine Learning algorithms to successfully predict those that’ll churn.

* Increased availability of data in banks. Increased processing power. Makes these methods of analysis more achievable.
* **The rise of alternative financing platforms, digital disruption and remote operations has made the acquisition of new customers difficult for most global financial institutions.**

***Retention Strategy Example***

1. Know your customers by leveraging smart insights
2. Create a data-driven churn management framework
3. Implement strategy effectively through clear communication & KPI monitoring

***Retention Actions***

Once identification has occurred, a bank may even take different actions depending on which segment the customer falls into. A targeted strategy like this may see a reduction in customer churn, increased customer satisfaction and overall increased revenue and reduced costs.

* Young People 🡪 Competitive interest rates
* Settled Families 🡪 Enhance customer experience
* Retirees 🡪 Assign relationship manager

**References**

<https://www.acuitykp.com/blog/a-data-driven-approach-to-reduce-churn-in-financial-institutions/>