

WHITE PAPER

# Realizing the Value of Customer Information: Lessons from Consumer Banking Success Stories

Business-to-consumer (B2C) companies have tried for decades to achieve a complete and unified view of the customer so that they can make the best possible decisions driven by analytics. CGI's banking clients have produced standout results by taking an ambitious yet practical approach.

In this paper, we examine what made these initiatives successful and what lessons can be drawn from them. We'll start with examples of the practical actions the banks took to drive business value, and then we'll look at the change management strategies and technology decisions.

Finally, we'll discuss the next wave of improvements, with the added component of social media data.

**Bottom line:** Like consumer banks, B2C companies can harness the power of customer data and analytics to significantly improve how they operate, how they connect and serve customers, and how they compete in today's business environment.

## INTRODUCTION

Like many large, complex organizations, banks who serve retail customers are faced with a conundrum; they have oceans of customer data, but find it difficult to put that data to work to improve the quality of customer relationships. Both the opportunities and the challenges in leveraging customer data have increased in recent years with the advent of new big data sources such as social media.

The opportunities have increased because these new data sources create the potential for even greater value based on a deeper understanding of customer attitudes and behaviors. The challenges, however, have also increased because the organizational, business and technical issues involved are often complex to begin with, and big data adds a new layer of complexity.

Many companies, including banks, have made great strides in harnessing the power of customer data in recent years. CGI has found that the lessons learned by successful consumer banks are particularly applicable, across finance as well as other industries.

Several institutions have worked with CGI to achieve the best possible use of their extensive customer data. In each case, we addressed how to use this data to optimize the customer experience and improve results in the areas of cross-selling, customer retention, risk management and overall profitability, while keeping the processes involved as simple and straightforward as possible.

## MAKING THE CASE

The case for investing in the tools to leverage customer data rests on the ability to make better, ultimately more profitable, decisions that affect customer relationships. While it's possible that analysis could lead to more effective customer treatment decisions that apply across all customers, in nearly all situations the results of customer data analysis will lead to better segmentation and to better decisions about how to treat customers in each segment.

In most industries, cross selling and retention are at the top of the list of important customer results—companies want their customers to stay with them and buy more. Consumer banks are no different and, in addition, bankers need to consider credit risk and how the products are used when looking at the big picture of customer behavior and profitability.

Building a return on investment (ROI) case for systems and processes to harness customer data in consumer banking then requires estimating benefits from those sources: cross selling, retention, risk and product usage (e.g., credit line utilization).

For a bank that starts with a basic capability to use customer information in treatment decisions, the potential ROI-driving benefits in each of these areas are as follows:

- Factor of 2–4 times increase in cross-sale marketing offer response rates
- 10 percent reduction in attrition in targeted segments (e.g., highly profitable customers)
- Improved risk/return choices for credit decisions
- 5–10 percent increase in overall customer profitability

The lesson from our clients' experience is that the best business cases are both achievable and simple—the fewer pieces the better. A solid, straightforward ROI case has the additional advantage of giving needed focus to the implementation effort.

## THE VALUE OF SIMPLICITY

The idea to use a comprehensive view of customer information to better understand and serve customers is not new. However, many organizations fall short in transitioning from theory to practice. The banks we've seen be most effective in realizing the benefits of customer data integration, analytics and treatment decisions have done so by combining

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*ambitious goals with pragmatic plans* that keep the goals front and center throughout all phases of the change process.

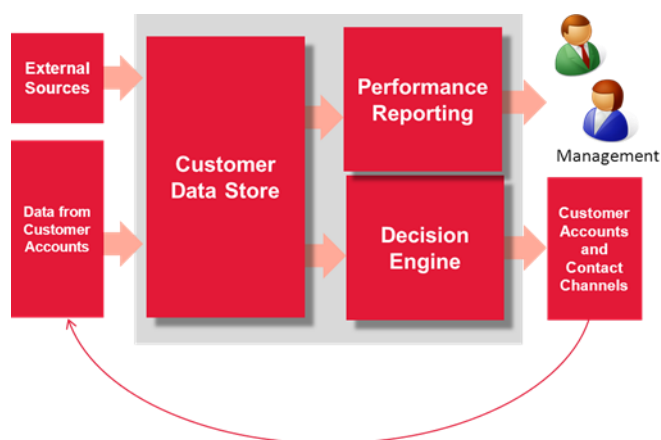
In one example, CGI and the bank’s executive vice president of consumer banking, who was the executive sponsor of the initiative, first collaborated on defining the vision and how to best implement it. Based on the overall vision, the initiative was named the “Customer Information and Experience Initiative” and a simple yet challenging goal was stated:

“Materially improve the quality of our consumer banking customer relationships, measured by share-of-wallet depth, risk, longevity and profitability, using *all available information* to make customer treatment decisions. This applies to consumer credit, real estate, deposit and investment account relationships—the *full set of banking products* that an individual consumer or household may hold with us.”

In a similar fashion, the following high-level tenets were established to minimize risks and guide the initiative to success:

- All products and channels will use a common decision engine and customer information database as the central hub for information, models, strategies and performance reporting.
- The timeline will be planned to give early and frequent releases of new business functions, as opposed to a “big bang” implementation.
- We will make maximum use of predictive models to get the most value from the customer data.
- All design decisions will be made with a bias toward simplicity.
- Although overall profitability will be measured from the bank’s shareholders’ perspective, individual product groups will retain the independence to set their own strategies, with full accountability for their results.

This final point calls for some explanation because it may seem to run counter to the goal of overall profitability improvement. Introducing and mandating common optimization strategies across product groups would have added organizational change management complexities that could have threatened the initiative’s success in the judgment of the bank’s executive team and CGI. Although having one department miss its financial targets for the greater good of the bank might have been a viable option, they chose to avoid this approach. In addition, while each product group has access to the customer information of other groups and can use it to improve their own results, one group can’t dictate the business decisions of others.



As a result of the vision, tenets and plan, as well as the teamwork between the bank and CGI, the bank and its customers have been able to benefit from the value of customer information in highly tangible ways using manageable and practical systems. This success stands in contrast to massive data-driven projects that lose their way amidst complexity, and half-hearted attempts that leave the vast majority of the value unrealized.

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## DEEPENING RELATIONSHIPS THROUGH CROSS-SELLING

Cross-selling provides a great example of how banks that have been successful putting customer information to work focus on a few high-value application areas and then build on them. For companies with multiple product lines, cross selling promises to be far more effective than marketing to new customers. Besides the fact that it's five times more expensive to sell to a new customer than a current customer, there's also a relative lack of information—for new customers, the only information you have is what's available in the public domain, plus what can be obtained through purchased lists. Current customers though provide a wealth of information about their characteristics, preferences and behavior that is of great value in segmenting and making marketing decisions.

Using predictive models that identify each customer's propensity to buy specific banking products at specific times, CGI's consumer banking clients design campaigns that put product offers in front of customers via each marketing channel. For example, a home loan refinance offer can be presented when a customer visits the bank's website to pay bills.

Because customers are pre-selected based on a high propensity to buy the specific product offered, response rates are higher than average for these targeted campaigns—often two to four times higher than with campaigns based on demographic characteristics alone.

And, because propensity scores are recalculated frequently, these banks have the option to make offers on a nearly continuous basis, targeting customers as soon as their scores fall within the right range. With this approach, offers are made at the right time for each customer, rather than through a mass campaign.

For example, Alex Jones has a credit card and a basic checking account with the bank. When his propensity-to-buy scores are recalculated, the score for money market checking increases to a level that indicates Alex has a five percent chance of adding this type of account to his relationship, making this product the *best next offer* for Alex. This higher score is a result of the increasing balance in his current checking account.

In addition, a specific marketing offer recently tested by the bank promises to increase Alex's propensity to buy from 5–10 percent. Because Alex's preferred way to interact with the bank is through its website, the next time he visits the site he sees and takes the offer to open a money market checking account.

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While the scores accurately measure how likely a customer is to buy, they don't yet show what offer or channel will give the best results. Fine-tuning is done using a "test and learn" approach called Rapid Strategy Evolution™. RSE is CGI's proprietary methodology for quickly optimizing decision strategy results using random test cells and control groups.

The same general approach is used to improve results in the areas of customer retention, risk management and overall profitability. Based on predictive models, specific actions are taken at specific customer touch points and continuous improvements are guided by Rapid Strategy Evolution. The actual results have been rewarding for both customers and shareholders of these banks in line with the original business cases.

The decision strategies in each area often reinforce each other. For example, cross selling deepens customer relationships, which, in turn, increase retention and profitability. Sharper risk management tools, using customer information, create opportunities to cross sell while also advancing retention and profitability. It all adds up to more effective customer treatment and better results across the board for banks who take maximum advantage of customer information.

## THE FUTURE

Once you have the foundation of systems and business processes for using customer data in place, new data sources can be added and leveraged as they become available. For example, all B2C companies today are looking at how to best take advantage of information from social media, an important subset of Big Data.

The types of data, how they're obtained and how they're managed are all different, but the principles are the same—use all available customer information to make decisions and take actions to improve the customer relationship, relying on predictive models to the greatest extent possible. Social media information also presents an opportunity to make near real-time decisions because it streams in continually.

The potential applications of social media data for banks are limitless and include gauging sentiment to make retention decisions, as well as identifying when customers go through life events that can guide cross-selling. Even risk management decisions may benefit from social data, when used appropriately.

Adding social media data to customer data has been compared to looking at a scene with both eyes that you had seen with only one eye open before. Yes, there are a few more facts, but the real value is in the added depth you now can see.

Like the banks discussed in this paper, a wide variety of organizations have the opportunity to combine well-proven methods and technologies with new sources of data, and then use them together to strengthen customer relationships, outplay competitors and improve returns to their shareholders.

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**To discuss in more detail the topics addressed in this white paper, please contact CGI's global business intelligence group at [info@cgi.com](mailto:info@cgi.com).**