# Predictive Perspectives 2011

IBM

# Predictive Marketing for Banking and Financial Services

**Business Analytics**

www.spss.com/perspectives

# Introduction

- Need for a New Business Model

- The Importance of Customer Insight

- Potential of Predictive Analytics

- How Predictive Analytics Fuels Marketing Optimization

- Wrap-Up

# Reasons to be optimistic
# There is an extraordinary opportunity !

## 5.8% CAGR

Growth in world GDP[1] from 2010 thru 2025 will put the current crisis in context.

## 2.5 billion

Half the world is unbanked. Just over half of world's adult population do not use formal financial services to save or borrow.[2]

## $1,264 trillion

The value of global assets[3] will quadruple by 2025 – calling on a vibrant global financial system to intermediate and manage.

1 - Nominal
2 - http://financialaccess.org/sites/default/files/110109%20HalfUnbanked_0.pdf
3 - Assets = deposits, equity and fixed income

3

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# Growth requires smart institutions to think and act in new ways

**Rethink the business model**

Drive a simplified and streamlined agile enterprise that balances growth, efficiency and business resiliency

**Develop new intelligence**

Develop enterprise wide capabilities to enable informed judgment, client- centricity and profitable growth
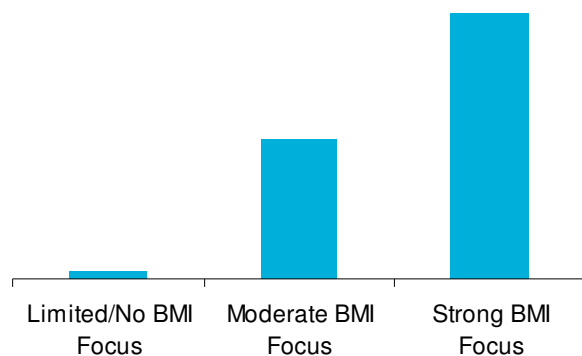
**Integrate risk management**

Achieve compliance objectives while mitigating operational risk, fighting crime and optimizing financial returns

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# Rethink the business model
## Financial institutions must re-orient their business models to win in the 'new normal' economy

**Two thirds of FI CEOs have a Business Model Innovation focus**



Limited/No BMI Focus | Moderate BMI Focus | Strong BMI Focus

**Efficiency / Streamlining Areas of Investment**



Flexible architecture
Knowledge sharing
Optimize resources globally
Centralize activities
Alliances
Diverse mgmt. team
Other
Governance
Wage arbitrage

0%   10%   20%   30%   40%

*(Percentage of Survey Respondents)*
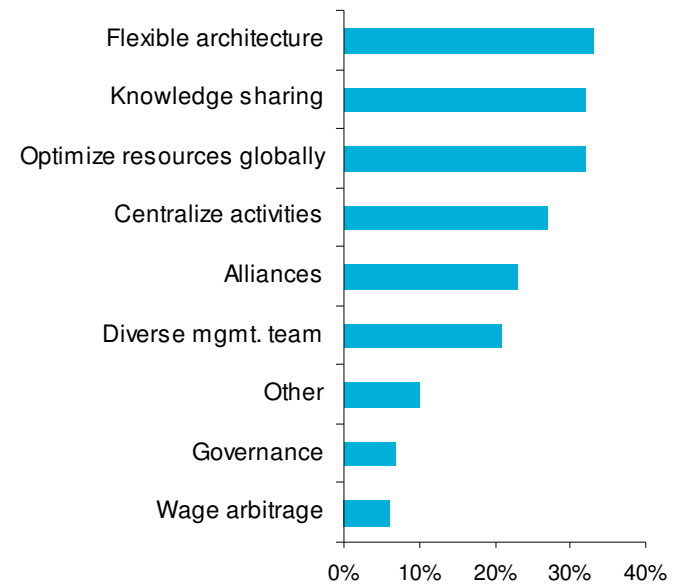
Diagram 1 - Source: IBM Global CEO Study 2008; n (financial institutions) = 105
Question: What type(s) of business model innovation will you implement over the next 3 years?
Question: For the type you rated highest in the previous question, what key initiatives will you implement over the next 3 years?
Diagram 2 - Source: IBM Institute for Business Value analysis, n=550
Question: Over the next three years what are your top strategic priorities as it relates to creating efficiencies.
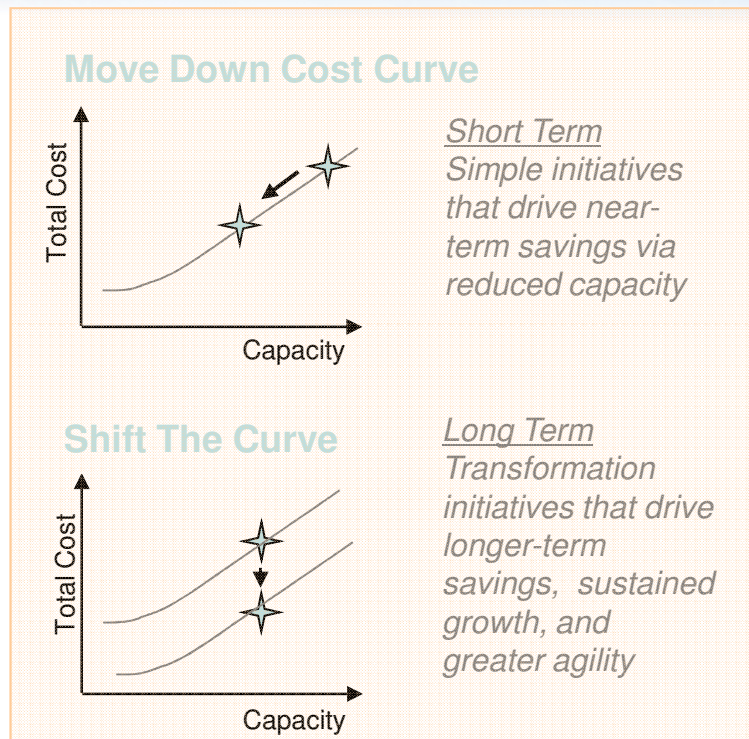
# Specialization remains a winning theme within the ecosystem

| Traditional Banking | Risk & Capital Market Specialists[1] | Customer Intimacy | Operational Excellence |
|---|---|---|---|
| ▪ Revenues **+ 9%** <br> CAGR 2003-08 <br><br> ▪ Pre-tax profits **- 9%** <br> CAGR 2003-08 <br><br> ▪ Universal banks: <br> Profits **- 194%** <br><br> ▪ Government has facilitated mergers of major banks and have funded many others to maintain solvency | ▪ Capital market firms have become banks and are now supervised by the bank regulator <br><br> ▪ Many US and Europe based risk (mortgage) specialists have been nationalized | ▪ Revenues **+ 10%** <br> CAGR 2003-08 <br><br> ▪ Pre-tax profits **- 1%** <br> CAGR 2003-08 | ▪ Revenues **+ 13%** <br> CAGR 2003-08 <br><br> ▪ Pre-tax profits **+ 12%** <br> CAGR 2003-08 |

- Specialists firms in the Customer Intimacy and Operational Excellence domains continue to succeed, thanks to their insights (specialization)

- Opaque products and disconnects with the client have resulted in failures and nationalization of many risk specialists[2]

- Traditional banking and capital market domains are witness to loss of capitalization, and government intervention to provide liquidity

Note: 1,2: Risk & Capital Management is discussed in "Toward Transparency and Stability: A New Financial order" IBM IBV paper. Q2 2009

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# While smart cost management will reduce complexity, future growth is contingent on understanding the client
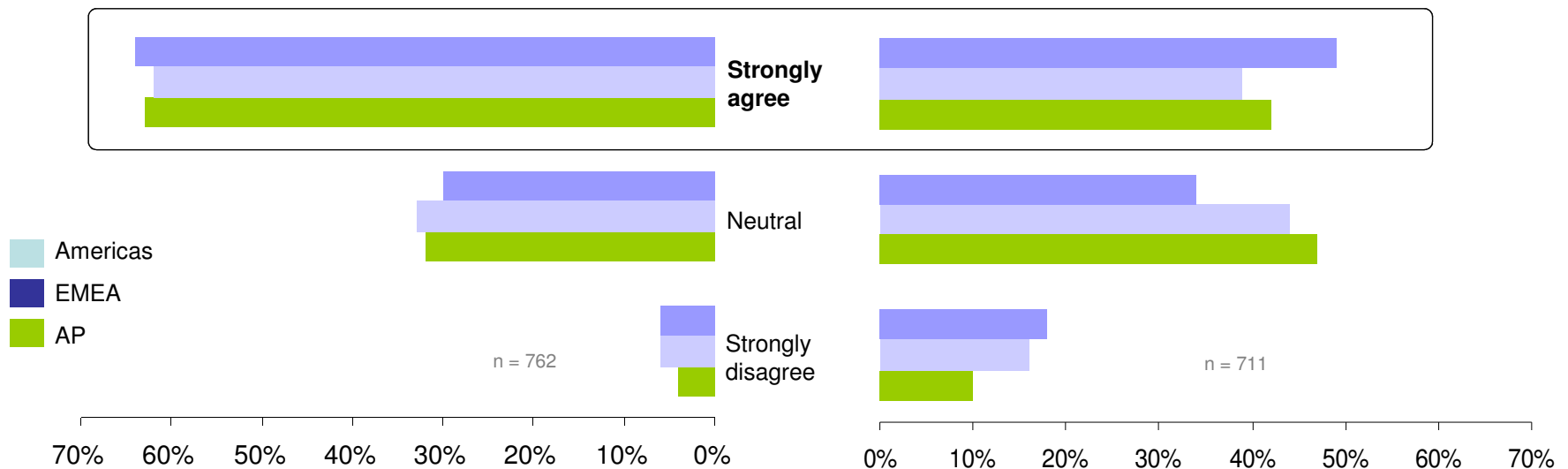
**Move Down Cost Curve**

*[Graph: Total Cost vs Capacity with two stars connected by an arrow moving down the curve]*

*Short Term*
Simple initiatives that drive near-term savings via reduced capacity

**Shift The Curve**

*[Graph: Total Cost vs Capacity with two curves, stars connected by a downward arrow]*

*Long Term*
Transformation initiatives that drive longer-term savings, sustained growth, and greater agility

**Understanding the Client**

C2 Retail
Banking  |
Document
ID Prep

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# Clients do not trust banks to offer products and services that are in clients' best interests

## Trust Gap

**Client Opinion: Providers offer products in the *firm's best interest***
(Percentage of Survey Respondents[1])

**Provider Opinion: Providers offer products in the *firm's best interest***
(Percentage of Survey Respondents[1])

Legend:
- Americas
- EMEA
- AP

Categories (top to bottom): Strongly agree, Neutral, Strongly disagree

Left chart: n = 762
Right chart: n = 711

Left axis: 70% 60% 50% 40% 30% 20% 10% 0%
Right axis: 0% 10% 20% 30% 40% 50% 60% 70%

Note: [1]Question asked: To what extent do you agree / disagree with the following statements about trust, Please rank on a scale of 1-6 where 1=strongly disagree and 6=strongly agree, Investment firms are likely to offer products & services in the investment firm's own best interest
IBM / CFA Survey 2008; IBM Institute for Business Value analysis

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# Banks have overlooked their customers' values and behaviors

## Disconnects: Client Vs. Provider Perceived Value and Premiums
*(Percentage of Survey Respondents)*

"Size" of disconnects



Customization / Tailored Products

Client Service excell. / Unbiased advice

Best in Class Product

Convenience

Reputation / Integrity

Modularity

One Stop Shop

Green / CSR

Transparency

N=7454

Pay Premium

Value
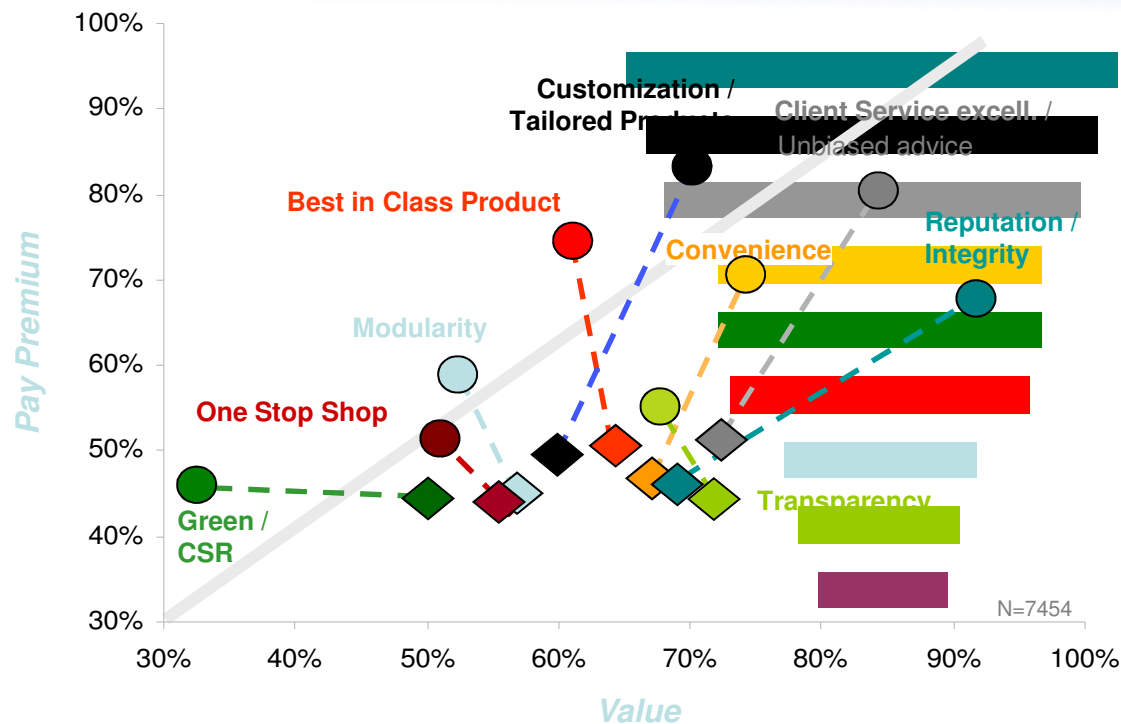
◇ Client Rankings      ◯ Provider Rankings      - - - - - Disconnects

Note: Question asked: Which financial services capabilities become more/less important to you in the next 3-5 years?  Rank 1-6. How much would your clients be willing to pay over existing rates to ensure that you deliver on specific factors, Select 0%, 5%, 10%, 15% or more, don't know.  IBV/Economist Intelligence Unit Banking Survey 2008; IBM Institute for Business Value analysis

# Lack of information and current pace of business forces organizations to be overly dependent on intuition

**Do you have sufficient information to do your job?**
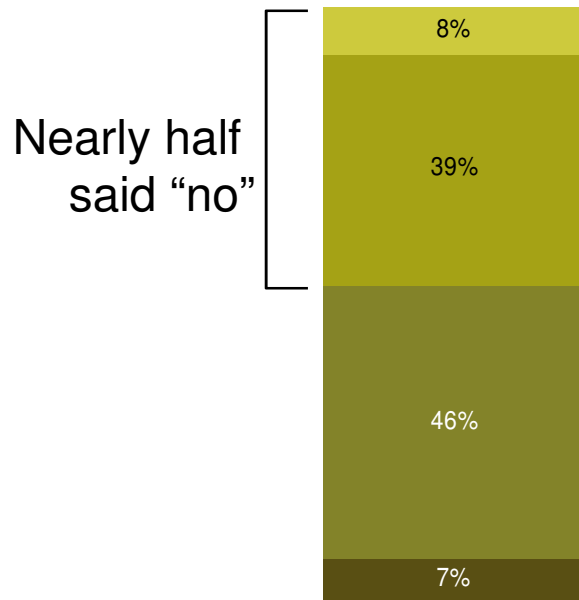
**How do you make business decisions?**

| Personal experience and intuition | Analytically derived | Collective Experience |
|---|---|---|

Nearly half said "no"

8%

39%

46%

7%

Less extent

Large extent

Intuition dominates

5%

15%

54%

25%

9%

28%

43%

19%

14%

35%

43%

9%
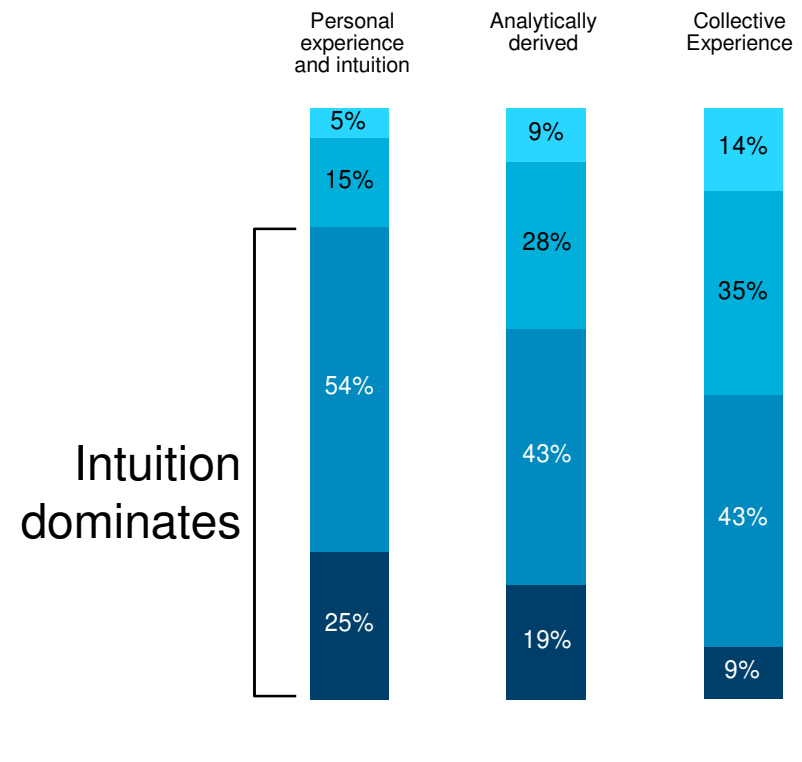
"Guestimation" has worked up to a point (arguably we've passed it)

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# Analytics Critical for Driving Competitive Advantage

*"At a time when companies in many industries offer similar products and use comparable technology, high-performance business processes are among the last remaining points of differentiation."*

Tom Davenport, "Competing on Analytics"
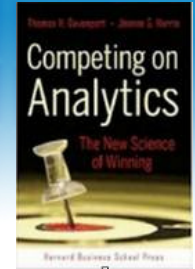
**Ten Most Important Visionary Plan Elements**
*Interviewed CIOs could select as many as they wanted*

| Plan Element | High growth | Low growth |
|---|---|---|
| Business Intelligence and Analytics | 86% | 80% |
| Virtualization | 77% | 76% |
| Risk Management and Compliance | 73% | 70% |
| Mobility Solutions | 71% | 66% |
| Customer and Partner Collaboration | 73% | 64% |
| Self-Service Portals | 71% | 63% |
| Application Harmonization | 67% | 62% |
| Business Process Management | 70% | 61% |
| SOA/Web Services | 68% | 55% |
| Unified Communication | 63% | 57% |

*BI/Analytics #1 investment to improve competitiveness*

*IBM Global CIO Study 2009*

- Low growth
- High growth

Source: IBM Global CIO Study 2009; n = 2345

# Banking Campaign Insight & Optimization

- Enhance your existing customer relationships via cross selling and targeting the right customers and prospects with both the right products and services.

  – Increase lead generation
  – Enhance Banking revenue
  – Reduce campaign costs

# Precisely target your marketing offers by

**Using all relevant data to understand your customer's behavior in all it's facets**

**Apply predictive models to identify what the most appropriate offer is for each individual customer**
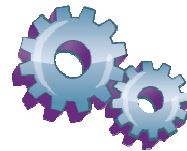
**Deploy that intelligence to your outbound marketing processes and systems**

**Campaign Data**
- Contact history
- Response/purchases
- Test campaigns

**Customer Data**
- Demographics
- Account Activity
- Product Holdings
- Channel Activity
- Information Requests
- Complaints

**Analyses**
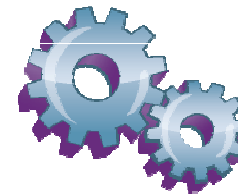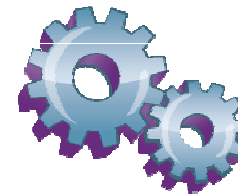Predict who is likely to respond, based on their customer profile *when receiving the campaign*

**Outbound marketing and advisors**

**Capture** → **Predict** → **Act**

# First Tennessee Bank

*Increases marketing campaign efficiency and zeroes in on the right customer*

## Challenge

- Increase cross-sell ROI
    - Identify profitable customer segments
    - Predict which marketing programs generate highest responses
    - Match the right program to the right customer segment

## Solution

- **Used predictive analytics to model campaign effectiveness**
- **Created propensity models to identify target customer segments**
- **Monthly marketing campaigns targeted at the right segment**

### Results
- **Tailored marketing programs to segmented customers.**
- **Increased efficiency of direct marketing campaigns.**
- **Decrease costs of direct response campaigns.**
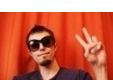
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**Customer Contacts**
Plenty of customers to contact, but what would be the best offer (if any) for each one?

# Business Scenario: Growing Your Customer's Value through Cross-Sell
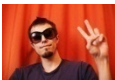


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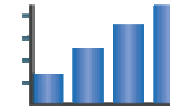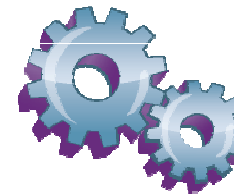# Business Scenario: Growing Your Customer's Value through Cross-Sell
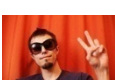
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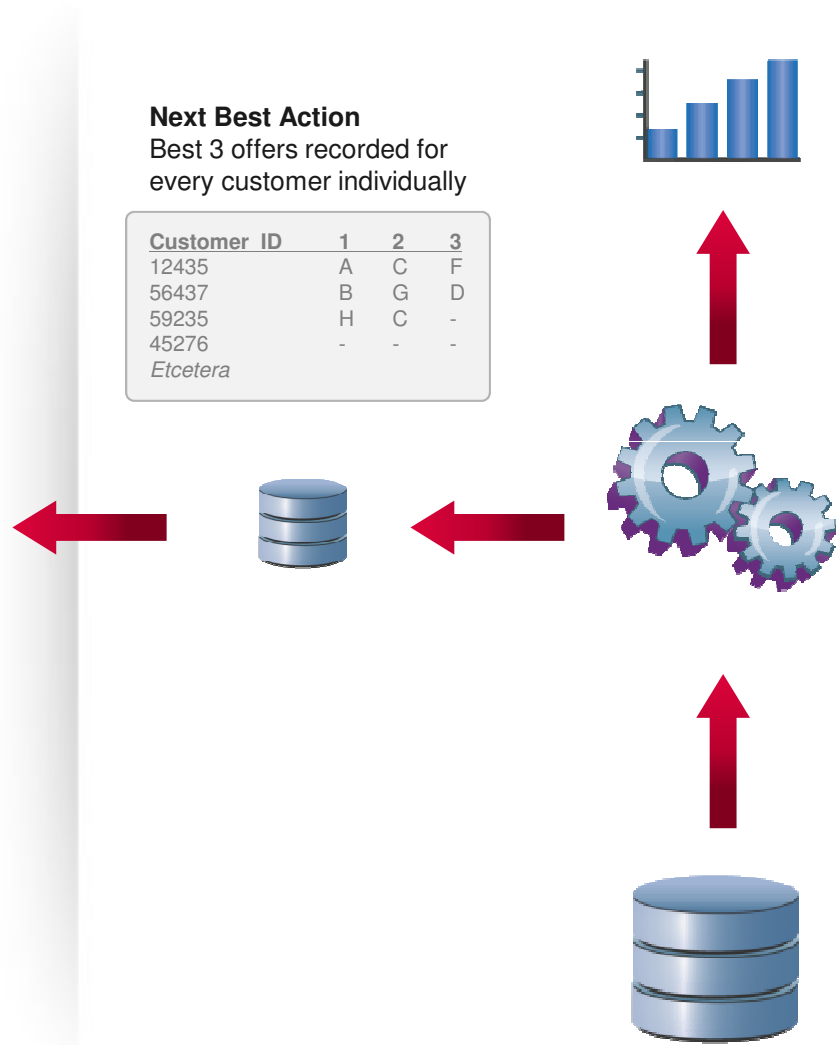
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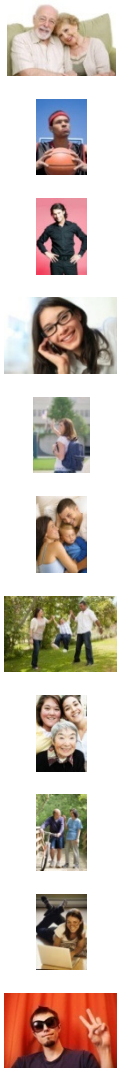
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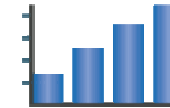- Information Requests
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# Business Scenario: Growing Your Customer's Value through Cross-Sell

**Next Best Action**
Best 3 offers recorded for every customer individually

| Customer ID | 1 | 2 | 3 |
|---|---|---|---|
| 12435 | A | C | F |
| 56437 | B | G | D |
| 59235 | H | C | - |
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| *Etcetera* | | | |

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# Business Scenario: Cross-selling in Retail Banking

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**Key Performance Predictors and Campaign Results**

**Predictive Models**
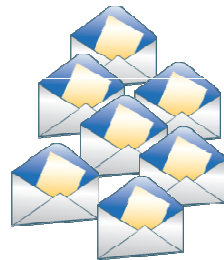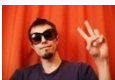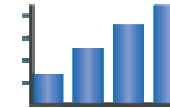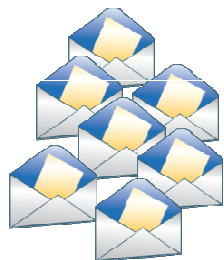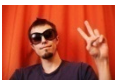Likelihood to respond to each of the current marketing offers

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**Automated Updates**
To accommodate new offers and to apply customer contact rules

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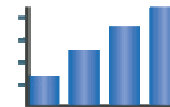- Channel Activity
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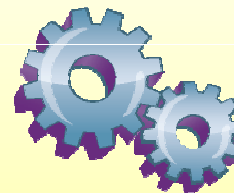**Next Best Action**
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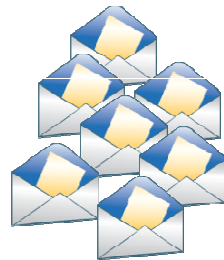Likelihood to respond to
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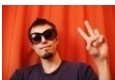Marketing offers are
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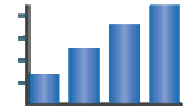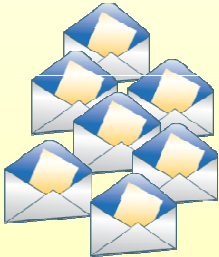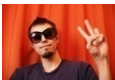- Channel Activity
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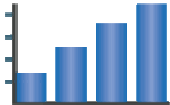- Channel Activity
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**Decision Optimization**

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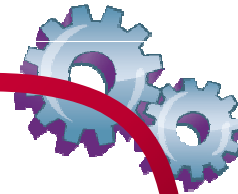
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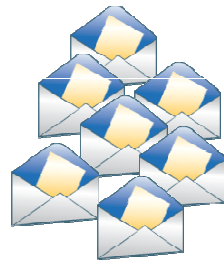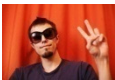To accommodate new offers and to apply customer contact rules

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Likelihood to respond to each of the current marketing offers

**Customer Contacts**
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**Integration with operational processes and systems**

**Automated Updates**
To accommodate new offers and to apply customer contact rules

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**Analysis, reporting and KPPs**

**Key Performance Predictors and Campaign Results**

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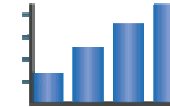**Next Best Action**
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**Analytical Asset & Process Management**

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# Grow customer value

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**Key Performance Predictors and Campaign Results**

**Predictive Models**
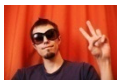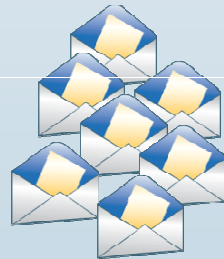Likelihood to respond to each of the current marketing offers

**Customer Contacts**
Marketing offers are personalized based on Best Next Actions and mailed to customers

**Automated Updates**
To accommodate new offers and to apply customer contact rules
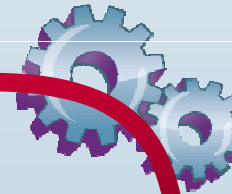
**Customer Data**
- Demographics
- Account Activity
- Product Holdings
- Channel Activity
- Information Requests
- Complaints

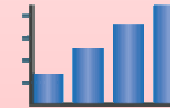## "Marketing"

**Next Best Action**
Best 3 offers recorded for every customer individually

| Customer ID | 1 | 2 | 3 |
|---|---|---|---|
| 12435 | A | C | F |
| 56437 | B | G | D |
| 59235 | H | C | - |
| 45276 | - | - | - |
| *Etcetera* | | | |

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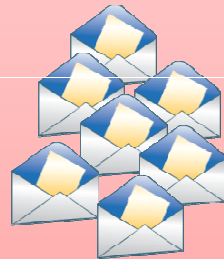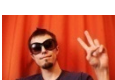- Channel Activity
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Analytical
Process

**Campaign Data**
- Contact history
- Response/purchases
- Test campaigns

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**Capture** ⟶ **Predict** ⟶ **Act**

IBM.

Analytical Process

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**Analyses**
Predict who is likely to respond, based on their customer profile *when receiving the campaign*

**Capture** → **Predict** → **Act**
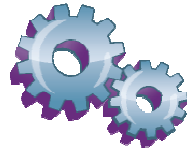
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**Scoring**

**Marketing campaign process**

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Analytical Process

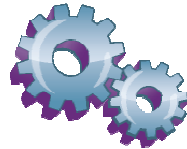**Key Performance Predictors and Campaign Results**

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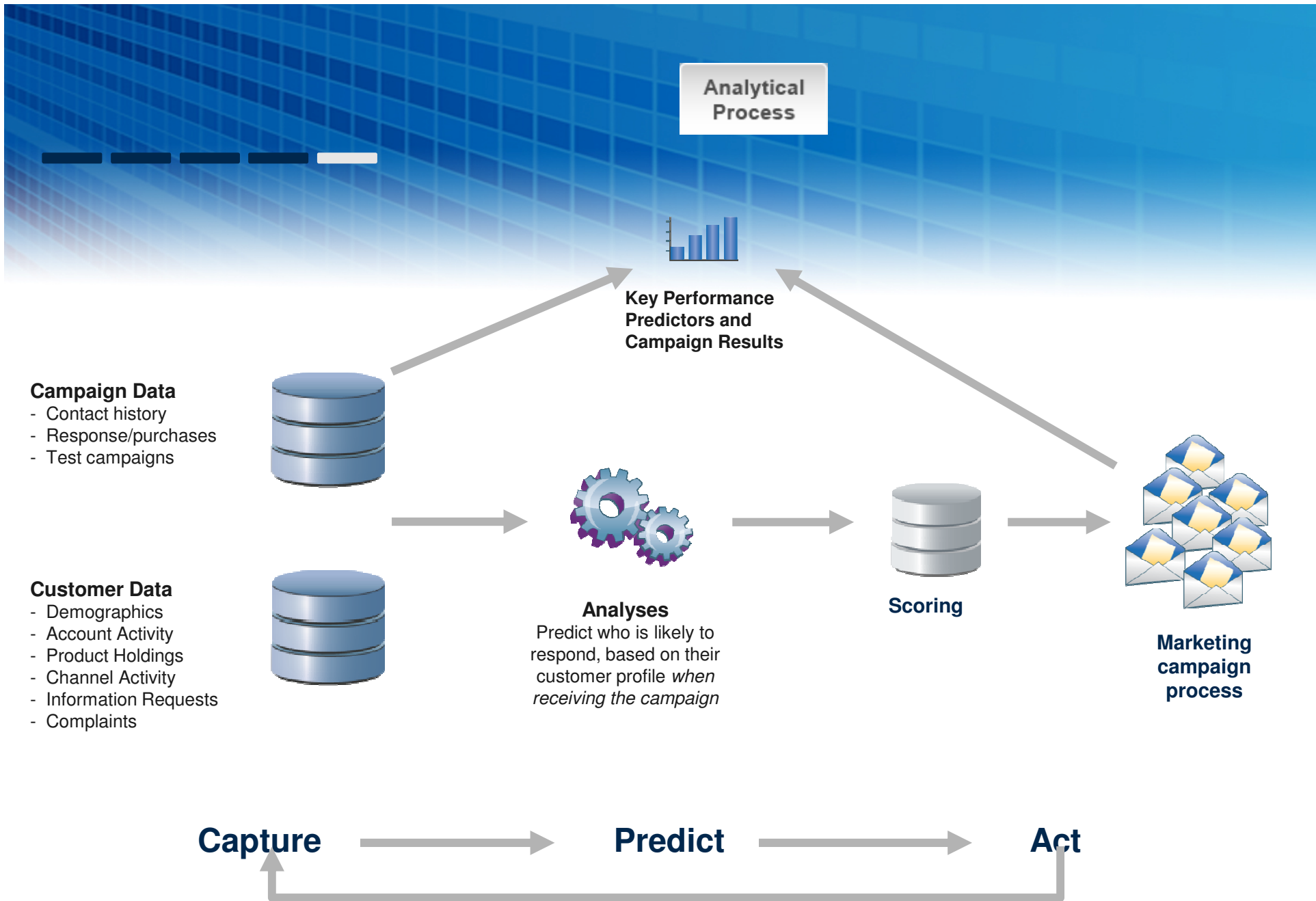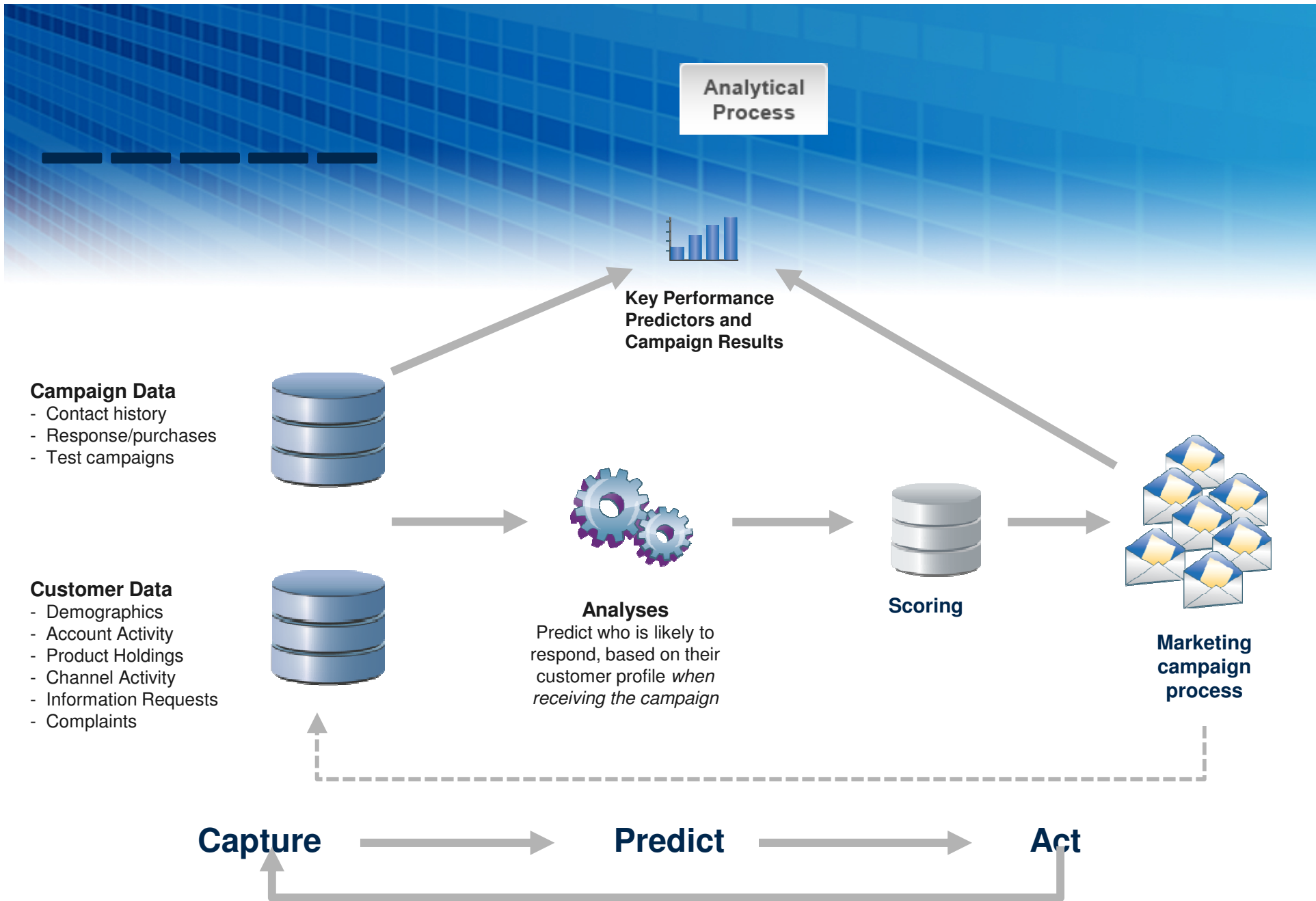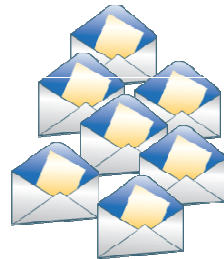
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Predictive Perspectives 2011

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ERROR: stackunderflow
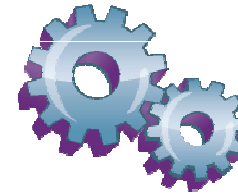OFFENDING COMMAND: ~

STACK: