Use Data to Slow Customer Attrition

Banks need to proactively identify customers likely to leave long before they actually depart. These customers are more likely to remain loyal if they are targeted with individualized retention offers.

BY LUC BURGELMAN

THE DAYS OF THE NEIGHBORHOOD BANK ARE OVER. In the movie "It's a Wonderful Life," you may be struck by the idea that George Bailey approved Ernie Bishop, a cab driver, for a loan for the simple reason that he could vouch for the man's character.

To many in today's banking industry, this may seem more far-fetched than other occurrences in the movie, which involve time travel, guardian angels and parallel dimensions. That level of personal knowledge of customers—and the loyalty it inspires—simply doesn't exist in the same way today.

There may have been a time when a banker with a sharp suit, a firm handshake and a few questions about your family could curry favor with the local customers, but those days are long gone. In the increasingly data-driven and digital world of banking, many customers go months or even years without even stepping into their local branch.

In other words, the George Baileys of the world are few and far between, and there are very few chances to interact with them in today's hurried world. At the same time, globalization has given customers options beyond the branch down the block. For years now, many customers have viewed retail banking as a commoditized market. When rates are similar across the industry, there's only so much that banks can offer to distinguish themselves from their competition. Free checking and a toaster when you sign up may have helped banks attract and hold onto customers in the past, but that's no longer the case. Not everyone wants a toaster, and in many cases, making the same offer to thousands of dissimilar customers is akin to shoving a square peg in a round hole. Quite simply, that approach is no longer good enough. Instead, customers want to know that their bank understands them as individuals, and that the customer service will reflect that knowledge.

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Competition to attract and retain customers is at an all-time high. Banks across the globe are beefing up their technological war chests to develop a deeper understanding of customers and to present them with more relevant and timely offers—and to do so faster than the competition. Competition is also starting to creep in from new places, including technology companies such as Google, Apple and Amazon that are jumping in with their advanced technology that puts the customer at the center of their picture. These companies, all of which are becoming more involved in how customers pay and interact with money, have ushered in an age of customer-centricity that consumers have grown to expect from service providers, including their financial institutions. Failure for any bank to do the same can result in attrition and devastate the bottom line.

Banks are at a crossroads. Without adapting to the customer-centric model, it's easy to see banks stepping into the role of a mere payment gateway for other types of services. To avoid that, banks need to rethink their customer strategies and define partnerships with services such as auto sales, lending, housing, etc. This is just one more reason for banks to completely rethink data strategies and put customers at the center.

Understanding attrition

Gaining a better understanding of and preventing customer attrition is a critical issue for banks in the face of these new adversaries. When customers have a tough time distinguishing any real difference between banks, those banks must focus on the customer relationship and increase engagement with the appropriate messages, products and services that customers expect in a data-driven world. Happy customers tend to be loyal customers, and a data-driven approach to improving the customer experience can help banks reduce attrition.

There are different types of attrition. However, the main type to address is voluntary attrition—when a customer makes a conscious and deliberate choice to stop doing business with a bank. And, most importantly, focusing on the problem of attrition as it relates to your highest-value customers will be the most fruitful.

Why they leave—and how to keep them

Banking customers leave for a variety of reasons. Maybe the fees and costs have gotten too high, perhaps they're simply unsatisfied with the quality of service, or they may get a better offer from a competitor. Each of these reasons in and of themselves could be enough to spur attrition among most customers. The bank's approach to losing a customer has gotten predictable and is almost always the same—a reactive approach from the bank toward managing the customer relationship. The bank then offers the customer incentives—a rebate, lower rate, etc.—to stay.

Banks can either have a reactive approach to attrition management or they can adopt a proactive approach. With a reactive approach, the bank will most likely not know that a customer wants to leave until well after it is possible to turn them around with a relevant, timely offer. In most banks, reports are pulled and reviewed according to the bank's schedule—monthly, perhaps—rather than on the customers' schedules. If complaints or changes in deposits or withdrawals take place shortly after a report is run—and long before the next one is run—that's critical, valuable time that could be spent trying to make the customer happier. In this case, the bank doesn't truly understand the behaviors of customers at the individual level and lacks the system to put their insights into action.

Banks adopting a proactive approach, on the other hand, look to identify customers likely to leave long before they actually depart and target them with retention offers that are targeted to the individual in order to prevent attrition. Immediacy of action—the ability to start retention programs for customers demonstrating a propensity to churn—is critical. Proactive attrition management offers not only a lower incentive cost (because incentives may not have to be as high as when a customer has to be "bribed" not to leave), but a better long-term outlook for high-value customers, whose loyalty is bolstered when attractive offers appear "out of the blue."

A data-driven approach

With every interaction across every channel tracked in an increasingly digital world, customers are generating more data than ever before. This data deluge presents opportuni-

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ties for banks to gather, analyze and act on information that can inform intelligent decision-making—to understand their customers at the individual, DNA level, allowing them to more effectively predict when attrition might occur and enabling them to present more timely and relevant offers. But there are challenges in doing so. Traditionally, information on customers has been locked within functional and application silos that make it extremely difficult to detect early warning signs and take action to course correct in real-time. As a result, banks end up strategizing and operating on only the most basic slices of incomplete information from each individual silo, making themselves vulnerable to attrition.

Only by connecting all data sources—from ATMs, point of sale, branch, call center, interactive voice response, mobile, machine to machine, payment systems, Web, mobile apps, social media, etc.—in real time can banks leverage big data to better understand customers and ultimately reduce attrition. This better, more nuanced understanding fuels the benefits of a data-driven approach, including increased revenues, reduced corporate risk and, most importantly, greater customer loyalty.

The decline of the neighborhood bank and the high stakes of competition have made holding onto customers a critical priority for banks. At the same time, banks are experiencing a deluge of customer data in their systems that can be put to good use. The number of channels, the types of data and the volume of data are only going to increase as time passes, and banks need to harness and make sense of that data. All the free toasters in the world are not a substitute for developing a real understanding of customers and serving them in the way they deserve—and have come to expect—to be treated. As customers continue to evaluate their banks, it's the data-driven organizations that understand and cater to individuals and not broad market segments that are going to come out on top. ■

ABOUT THE AUTHOR

LUC BURGELMAN is CEO of NGDATA, a customer experience management solutions company that enables enterprises to improve the effectiveness of their marketing campaigns, increase up-sell and reduce churn. The company has its headquartered in Ghent, Belgium, with offices in New York City and San Francisco. Website: www.ngdata.com.