Customer Lifecycle Management Best Practices

Insights and tools to help financial institutions increase customer satisfaction and profitability across the customer lifecycle

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Financial institutions are more focused than ever on retaining their best customers, but many are having little success. Key challenges include poor metrics on attrition, and the lack of an enterprise-wide unified view of customer wallet share. Most banks and credit unions are reactively trying to hold on to customers, versus taking a more proactive approach before the decision to leave has been made. By thinking more strategically about customer lifecycle management – from targeting to acquisition, to servicing and developing – and making smarter use of more advanced data, analytics and technology, financial institutions can vastly improve the customer experience and reduce attrition rates for their organizations.

Read more to gain a better understanding of customer lifecycle management best practices that keep customers happy and profitable.

Priming the New Account Pump

Panning for Gold in the Underbanked and Bottom Score Band

Remember the days when many banks offered cash bonuses to anyone who opened a checking account, knowing they could more than offset the acquisition costs and losses with fees? Regulatory changes crimping fee income have put a stop to that practice, dampening demand for checking accounts. The weak economy has also been a drain, making Americans less likely to move and less apt to shop around their DDA relationships.

The reduced demand for checking accounts adds up to more pressure for banks seeking to turn potential customers into lasting profitable relationships. "Banks need to make the most of every interaction because those interactions are becoming more and more precious," said Brad Jones, Retail Banking Leader at Equifax.

With today's margin for error so much narrower, banks need to better understand potential customers during account openings. Crucial to the process is data. Not only do banks need to be able to say yes or no with greater confidence to new accounts, they need a better sense of which other products might help solidify the relationship, particularly during the critical 90-day on-boarding process. "It's not about opening as many accounts as possible and simply avoiding the worst of the worst," Jones said. "It's about opening the right accounts and engaging households immediately. And that means having more and better data available immediately."

More and better data would also help banks that have responded to the reduced demand for checking accounts by seeking out relationships within the ranks of the estimated 60 million people in the United States that either do not have a bank account or maintain only minimal ties with a bank. Many of these consumers lack in-depth credit histories, but around 47 million of these consumers have good payment histories for non-credit related bills.

To better evaluate these underbanked customers, as well as optimize their relationships with traditional ones, banks are turning to alternative data. This data expands upon traditional credit files by offering a precise view into how consumers manage their finances. Specifically, it culls customer payment histories in the cable TV, cell phone and utilities industries. Combined with proprietary credit sources, the alternative data is a powerful indicator of both the risk and potential of consumer demand deposit accounts. Equifax's new **Insight Score for Retail Banking** has been successful in rank ordering demand deposit account risk for most consumers. The score helps identify applicants that might typically be turned down, but who exhibit very low risk based on their alternative payment history. With 47 million good payers in the underbanked population, there are lots of profitable customers to better evaluate in this market segment.

By combining the Insight Score with new fraud solutions, banks can go well beyond assessing the viability of new customers and begin tackling growing fraud issues, such as account takeovers and bust-outs (in which seemingly good customers max out all available credit before disappearing). Equifax's new Suspicious ID solution identifies

Acquisition risk has never been so weighty. Banks have always faced the risk that new customers would walk away from an account, leaving a negative balance. Typically, 11% of new accounts are charged off in the first 12 months, for an average amount of $278 per account. But charge-offs were not so much of a problem back when banks could rely on fee income to help make up for the losses.

New account openings have become risker. Identity theft, which opens the door to fraudulent new accounts, increased by 13% in 2011 and victimized 11.6 million U.S. adults, according to Javelin Strategy & Research. The crime is expected to continue to grow, as consumers increasingly engage in behavior associated with a higher incidence of fraud, such as using smart phones and social media.

While Know Your Customer and other rules relevant to account openings have largely remained the same over the years, scrutiny by regulators is on the rise. For many banks, compliance is becoming increasingly labor-intensive, since doing the minimum is often not enough to thwart major transgressions such as money laundering.

fraud patterns that are in play across many institutions and industries, and delivers that information in real time to banks. One bank using Suspicious ID reduced its false-positive rate by 72% while also capturing additional fraud, putting it on track to save $700,000 a year. **Read more now**

To handle the compliance portion of new account openings, banks can turn to the Equifax Compliance Data Center Portfolio Monitoring system. This outsourced solution alleviates the strain on costly internal resources, while improving the detection of risks. One institution saved more than $200,000 a year by outsourcing compliance monitoring, achieving a 1,000% return on investment. **Read more now**

Perhaps the best news related to the availability of all these account-opening solutions is that banks need not be experts in data integration to use them. A single platform, InterConnect, supports all the relevant functionality, including credit risk decisioning, cross-selling, segmentation, fraud mitigation, regulatory compliance, exception handling and more. One top-ten bank is on track to increase its annual incremental revenue by $14 million by using InterConnect. **Read more now**

Banks may never again be able to open as many accounts as freely as they did in the days before regulatory changes curbed fee income that subsidized charge-offs. But at least today tools are available to help them decrease fraudulent accounts and maximize profitable ones.

Getting on the Good Side of Your Most Fickle Customers

On-boarding with Confidence

New customers are nearly three times more likely to show attrition during the first ninety days of opening a new account. These facts are well supported in the finding by J.D. Power & Associates in its annual survey of retail-banking customer satisfaction that new customers are the least satisfied and the most likely to leave. Satisfaction is significantly lower among new customers than those who have been with the bank two years or more.

Banks can develop a more strategic approach to their new account opening process by implementing fresh on-boarding tactics that turn potentially fickle customers into profitable households.

The trick to winning over new customers is to deliver a superior customer experience and be particularly attentive during the first 90 days of the relationship. Fifth Third Bank, with 1,300 branches in 12 states, reaches out to customers three times within the first 90 days of a relationship — at two days, two weeks and two months. At two days it thanks the customer, at two weeks it makes sure the relationship has been fully activated, and at two months it begins cross-selling. At this phase, Fifth Third relies heavily on Equifax's IXI Services. IXI Services' WealthComplete lets institutions easily identify customers who have a high potential for expanding the relationship. Read more now "IXI really helps us to better segment customers to truly understand what their needs may be," said Jennifer Daugherty, retail national sales process leader at Fifth Third.

An on-boarding program, featuring a regular schedule of reaching out to customers to make sure service levels are satisfactory and offer relevant new products and services, is a proven way to put skittish customers at ease and create life-long relationships. "Client satisfaction levels are consistently higher when recently on-boarded customers feel like the bank recognizes them as new," said Alvin Green, Vice President of Finance and Banking Services at Equifax's IXI Services. "Banks need to make sure they demonstrate to new clients that they are excited to have them on board." Through its network of retail banks, credit unions, brokerage firms and insurance companies IXI Services regularly gathers anonymous wealth information from more than 95 financial institutions, providing direct measurement of 43% of U.S. investable assets. This information is used to project the full wallet of consumer households, across a broad spectrum of financial products and services. IXI Services' case studies show banks can use the insights to better identify high potential customers and within two years expect to increase their balance amounts more than 200% compared to low potential customers, as well as grow assets under management by about $50 million for every 1,000 new customers. Read more now

Another challenge of on-boarding is to offer the right products at the right price, via the right channel to new customers, especially on a real-time basis. Financial institutions lack insight on their new customers and should leverage third party data and technology to better optimize cross-sell, expand the relationship and improve profitability. One of the world's largest banks solved this problem with Equifax's Interconnect software, enabling optimal product offerings to be made in real time. Read more now

Such solutions, leveraging internal and external customer data, and offering a single solution for delivering product offerings across the enterprise, should be scalable down to the smallest banks. "What banks are really looking for are tightly integrated, flexible solutions that can be seamlessly delivered via their core processors and sales and service platform providers," said John G. Schramel, Vice President, Strategic Alliances and Business Development in Equifax's Technology and Analytical Services division.

New customers can still be nettlesome. But the data available to banks today offers a tremendous amount of insight. Plus, it can be integrated into the point of sale to support better offer management. "That's a huge change from the way banks have communicated in the past," Green said. "It also helps banks make new customers feel valuable."

Think You Know Your Customers? Time to Think Again, Research Suggests

Using Data to Deepen Customer Relationships

It is common knowledge that acquiring a new customer costs more than keeping an existing one. Most banks would love to expand existing relationships with customers, but many don't have the proper analytic tools to do it effectively. Indeed, a recent SourceMedia study found that only 29% of respondents currently have a customer analytics solution in place and only 20% are planning to acquire one.

Traditionally, most banks start and end their cross-sell campaigns by identifying their most profitable customers and offering them additional products and services. That approach doesn't take into account relationships that have the potential to be profitable, but are not quite there yet. "There's a lot of hidden value in the middle," said Alvin Green, Vice President of Finance and Banking Services at IXI Services, a division of Equifax. The problem is banks don't always have the insights they need to properly pursue these relationships.[1]

That's where the data comes in. With the right data and corresponding analytics, banks can pinpoint the customers who have the most potential to be profitable and focus their time on pursuing them. There are of course numerous benefits to gathering sophisticated data about your customers. Among other things, relevant customer data can improve the impact of a bank's marketing efforts, identify opportunities to increase wallet share, enhance underwriting and reduce loan loss rates, according to the SourceMedia study.

Yet many banks incorrectly believe they know all they need to know about customers from the data they collect internally. However, research shows that third-party data is essential to achieving the full view of customers that is so vital for effective marketing. Internally gathered product, transactional and behavioral data provides a customer view that is only about 75% complete, according to Capgemini, the research and consulting firm. "Integrating external data produces the 360-degree single customer view," Capgemini noted in its 2012 report, "Customer Cross-Sell."

Equifax has developed a suite of tools designed to help banks better understand their customers. It's not enough to have the data—you have to have the right analytic tools to gain insight from the data. WealthComplete, for example, helps banks identify households likely to have significant wealth, enabling them to better focus their marketing efforts on these high-net worth clients and prospects. Having easy access to this critical data gives branch personnel instant knowledge about a customer, even before a conversation takes place. "We can provide a very robust view of the consumer without the banker having to ask a single question," said Brad Jones, Retail Banking Leader at Equifax.

Many banks aren't aware of the cross-selling opportunities that exist. For example, it might surprise them to know that up to 21% of consumer accounts in an institution's portfolio may actually be small business owners or principals, according to Jones. Banks are rarely aware of this dual identity because they don't have the proper analytics in place.

Equifax's new EFX Link product, however, uses patented data-linking and keying technology to identify these potential small business owners, giving banks the opportunity to cross-sell commercial products and services to them. "That's a key growth opportunity," Jones said.
Many banks are also missing out on an opportunity to reach the unbanked because they don't have access to good information about them. By tapping alternative data, such as payment histories for cell phones and cable TV, banks can potentially turn these unbanked or underbanked individuals into demand deposit account (DDA) customers. "The DDA is the cornerstone of the household relationship, so no matter where you start, that's where you want to end up," Jones said.

The more data banks have about their customers, the better off they are. Seventy-eight percent of respondents to the SourceMedia study said deposit product lines benefit from having an effective customer analytics solution in place; 53% of respondents named mortgage lending as a line of business that is helped, and 45% pointed to consumer lending as an area that benefits. Wealth management, credit cards and other payments businesses were also advanced by having an effective customer analytics solution.

When it comes to understanding customers and prospects, there is no such thing as too much data. The more banks know, the better equipped they will be to cross-sell to existing customers and new ones. According to Martha Dunn, Senior Vice President, Credit Marketing Services at Equifax, every piece of information should be seen as a way to "pinpoint other product opportunities."

[1] SourceMedia Survey of the American Banker Executive Forum, September 2012

Helping Banks Solve Data Analytics Problems At the Point of Sale

Imagine two seemingly similar customers walk into a bank, each with $2,000 to open an account. In reality, one of these clients has less than $100,000 in assets, while the other has more than $1 million in assets. Three years later, Customer A has only $6,000 in his account, while Customer B has $16,000. Clearly customer B offers more revenue opportunities for the bank. Yet, when he walked in the door years earlier, he was lumped into the same category as Customer A. He was placed in the same type of account and not offered any number of relevant cross-sell opportunities. It's a story Brad Jones, Retail Banking executive at Equifax Financial Services, is intimately familiar with—the failure of banks to use data and analytics at the time an account is opened in order to foster cross-sell opportunities later on.

Banks' ability to keep more products in-house could greatly be improved if they had employed better customer analytics at the point of sale, according to Jones. Yet many banks don't even realize they aren't collecting and analyzing customer data in the best possible way. As a result, they have no idea how much potential fee income they are leaving on the table.

"The costs of doing that wrong are grossly understated," said Jones who throughout his years in the financial services industry has used many customer analytics solutions and learned first-hand how valuable good data is to banks. His extensive industry experience includes segment management, product development and revenue enhancement at large regional financial institutions. The bottom line, according to Jones, is that bank customers likely have a lot more money than it might appear on the surface. Without an in-depth analysis at the point of sale, banks risk missing out on a substantial amount of customer assets. And make no mistake: competitors are aggressively pursuing the same assets and will be more than happy to absorb them. "It's a wake-up call," Jones said.

Read more now

Equifax Today

A global leader in information solutions, Equifax leverages one of the largest sources of consumer and commercial data, along with advanced analytics and proprietary technology, to create customized insights that enrich both the performance of businesses and the lives of consumers.

With a heritage dating back 114 years, customers have trusted Equifax to deliver innovative solutions with the highest level of integrity and reliability. Organizations of all sizes rely on us for consumer and business credit intelligence, portfolio management, fraud detection, decisioning technology, marketing tools and much more.

For more info visit www.equifax.com

Empowering Financial Institutions

In today's ever-changing consumer landscape, financial institutions need to more precisely measure risk and capture opportunity in order to grow profitable households and achieve organic growth.

Equifax leverages unmatched data, analytics and technology that empower financial institutions to acquire, expand and retain profitable households. Only Equifax has the tools to optimize household growth across all product types and at every stage of the household life cycle.

Our Retail Banking Solutions help financial institutions cross-sell additional products and services, increase wallet share, combat application and transaction fraud and lower the cost of operations.

For more info visit www.equifaxretailbanking.com
or call 1.800.879.1025.

EQUIFAX

EQUIFAX

Retail bankers—this is your **big opportunity.**

Embrace unique alternative data **NOW** to grow your DDA accounts in 2013.

The roughly 60 million underbanked people with little to no credit represent a big growth opportunity in retail banking.

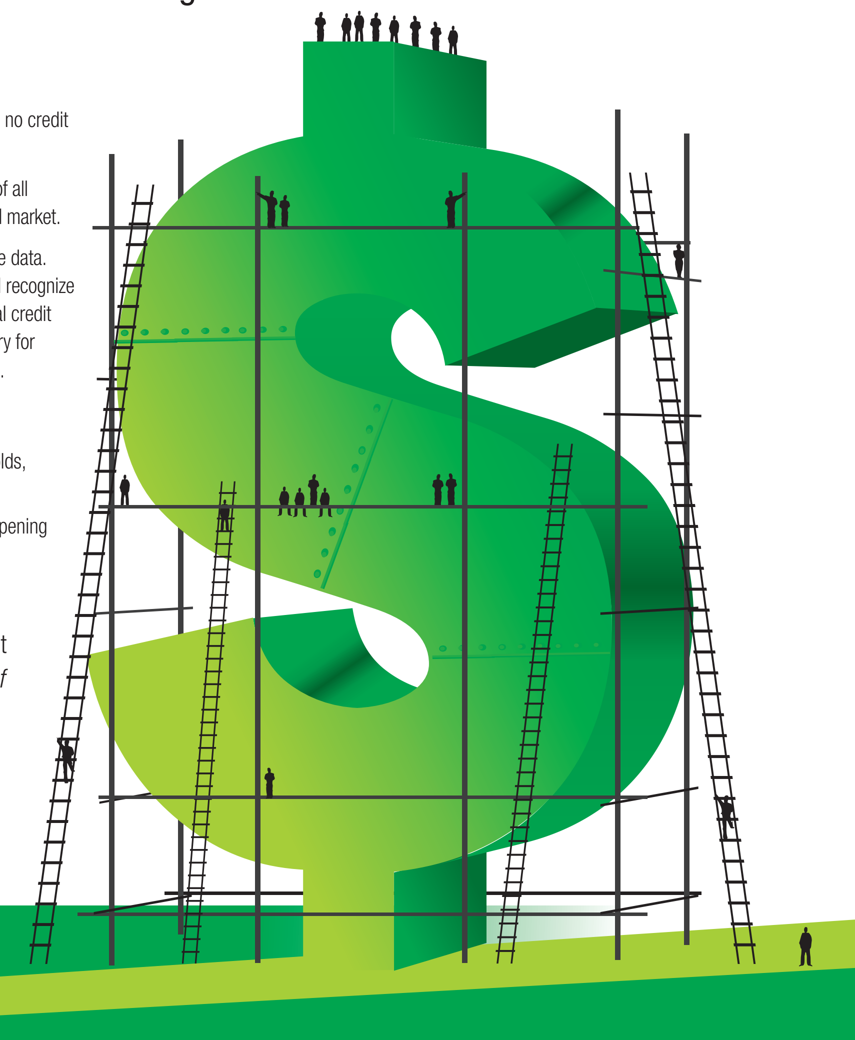
Profit potential is so immense and promising that banks of all sizes are scurrying for fresh insight into this under-served market.

At Equifax, we recommend you consider using alternative data. It helps you put minor credit inadequacies in context and recognize the true potential of an account by augmenting traditional credit data with alternative data, which includes payment history for non-credit related bills such as cable, phone and utilities.

It's the expanded insight you need to:

- Identify and serve more potentially profitable households, including thin-file and no-file consumers
- Maximize account decisions in real-time at account opening and throughout the account lifecycle

Learn more about alternative data and other innovative ways to grow your household account by downloading our white paper – *The Future of Demand Deposit Accounts* – at **www.equifaxretailbanking.com**.



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