UNEARTHING HIDDEN TREASURE

How community financial institutions can get more value from data they already have
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION: HOW TO MAKE THE BEST USE OF DATA</td>
<td>01</td>
</tr>
<tr>
<td>KNOW YOUR CUSTOMER</td>
<td>02</td>
</tr>
<tr>
<td>ANALYZE THIS</td>
<td>03</td>
</tr>
<tr>
<td>GO DEEP</td>
<td>04</td>
</tr>
<tr>
<td>USE IT WELL</td>
<td>05</td>
</tr>
<tr>
<td>STAY FOCUSED</td>
<td>06</td>
</tr>
<tr>
<td>TAKE STEPS</td>
<td>07</td>
</tr>
<tr>
<td>DON'T LOSE OUT</td>
<td>08</td>
</tr>
<tr>
<td>CONCLUSION: DIG IT UP, WEIGH IT WELL, REALIZE THE RESULTS</td>
<td>08</td>
</tr>
</tbody>
</table>
INTRODUCTION: HOW TO MAKE THE BEST USE OF DATA

For community financial institutions (CFIs), trendy ideas like “big data” may seem to belong to a faraway realm, accessible only to the fabled giants of the banking world. But CFIs may be overlooking some true treasure: buried in their core banking systems is a wealth of information that they can access and analyze fairly easily. Most CFIs, in fact, aren’t necessarily making the best use of this data, which could prove to be a goldmine for improving marketing strategies, increasing non-interest income, and generally boosting the bottom line.

To reap these rewards, however, CFIs do need to put in place the right resources—by either investing in internal capabilities or outsourcing to external providers. This eBook will examine types of data CFIs can better use, types of analysis they can conduct, how CFIs can best leverage their data and analysis and practical steps they can take to ensure they do.
KNOW YOUR CUSTOMER

The most important nugget embedded in the banking core is, of course, the customer account data. This includes information on the customers themselves, the products and services they use, and the value that the institution derives from them.

The most basic information would include the age and gender of each account holder, cardholder, or loan recipient, which allows for division of the client base into demographic groups. In addition, the core has individual and household income and credit rating data, which can contribute to further groupings.

Another way to look at customers is by the products and services they use, including checking and savings accounts, loans, and credit or debit cards, plus the balances and interest rates paid or received for each. A more detailed breakdown of credit and debit card usage could include total and monthly average number of swipes and their value, where and when the cardholder uses them, balances, and enrollment in and usage of loyalty programs.

Finally, there is the account value, including annual non-interest income and the total revenue the institution derives from that customer’s deposit accounts, loans, and services, minus associated costs.

Another way to look at customers is by the products and services they use...
With the right analytical methods, CFIs can slice up the rich banquet of data they have available in any number of useful ways. These include product adoption and profitability, lifetime value of customers, card usage, loyalty program engagement, and cross-selling effectiveness—all broken out by demographic group, geographic distribution and other factors.

Analysis of individual product lines can be very detailed. For example, a CFI might segment its auto loan portfolio by age group, looking at which group buys the most cars, and in what price range. Does the institution make more return from a customer 45 years old who buys a $50,000 car, or from a 25-year-old customer who buys a $20,000 car? The older client may have taken out a larger loan, but because her credit rating is better, she pays a lower interest rate.

Other elements of the analysis might look at whether the loan recipient was an existing account holder, with a standing balance, or whether he just became a customer when he took out the loan. It could also show the efficacy of the CFI’s efforts at cross-selling other products to these new customers—broken out by demographic and financial profiles, by branch, or even by individual employee.

Similarly, the CFI can break out its debit card or checking account products by age groups, considering non-interest income and activity level. For customers under 18, for example, 85% will likely have a free checking account, and a high average number of card swipes per month—but chiefly for very small amounts. While free checking most likely has the largest customer base, analysis could prove it to be a more valuable product than premier checking, which attracts 30-45-year-old customers who spend a great deal more through their debit cards—although with fewer monthly transactions.
A more in-depth analysis of debit and credit card usage could also include geographic distribution of transactions, whether those card swipes take place near the customer’s home or workplace, which specific neighborhoods attract spending from particular age groups, and which merchants, bars, and restaurants customers with particular demographic or financial profiles patronize.

If the institution has a card loyalty rewards program, the data it produces can yield a useful analysis of its effectiveness. This could include enrollment by demographic groups, and point accumulations or redemptions by age groups, neighborhoods, and individual businesses. Likewise, the data will show how well different customer groups respond to promotions and which businesses they favor.

Perhaps the most sophisticated analysis that CFIs can do using their customer data is estimating a “lifetime value” for customers, both individually and by demographic groups. This value would encompass a number of variables, including interest and non-interest income, loan profitability, deposits and ancillary products, such as safe deposit boxes. It can also show the inactive rate for customers and calculate missed revenues because they are not engaged.

Considering the breadth of products each customer uses can yield an estimate of the customer’s “stickiness.” Generally, the more products and services a client takes up, the “stickier” they are, as it becomes very inconvenient for them to switch to a rival institution.

A more in-depth analysis of debit and credit card usage could also include geographic distribution of transactions...

... the data will show how well different customer groups respond to promotions and which businesses they favor.
However sophisticated or “deep dive” the data analysis, it won’t yield the riches that CFIs hope for if they don’t use it properly. Ultimately, the right analysis can help CFIs incentivize desired customer behaviors, make decisions about product lines, create and focus marketing plans, cross-sell products and services, place branches and ATMs and choose local business partners.

Analysis of customers’ spending patterns or those of clients with similar demographic profiles can help in tailoring incentives—such as rewards points for a favorite spending category. Many institutions want customers to switch to paperless electronic statements, for instance, which can save them considerable costs. Offering additional rewards or account benefits for enrolling in e-statements would represent one simple way for a CFI to incentivize more profitable behavior.

CFIs can use these types of tactics to encourage other desired behaviors, such as enrollment and engagement in a loyalty rewards program, increasing use of debit cards to boost non-interest income or direct deposit enrollment. It can also be helpful in incentivizing inactive account holders to do more, by pushing out promotions keyed to the activity of those with a similar profile.

Likewise, customer profile information is valuable for cross-selling and up-selling. Staff members can use demographic and individual customer profiles to target and customize sales efforts and direct in-branch conversations.

For example, analysis might show that a customer over the age of 45, who has a standard balance of $10,000 and has had an auto loan for two years, may be in the market for a new auto loan. CFIs might also use the analysis to identify customers who have not taken up certain products popular with clients fitting a similar profile, and target product or service offerings to them.

Knowing which products are more profitable and why may help CFIs boost the bottom line. Since supporting too wide a product range can be costly, it might be lucrative for institutions to cut back on less profitable, less popular and outdated lines. Customer profile information could be useful in finding ways to shift older groups into newer products with similar features.

Ultimately, the right analysis can help CFIs incentivize desired customer behaviors, make decisions about product lines, create and focus marketing plans, cross-sell products and services, place branches and ATMs and choose local business partners.
STAY FOCUSED

One of the most valuable uses for customer data analysis is in developing highly focused marketing plans. These can target particular demographic groups or neighborhoods—placing signs and billboards near places that certain customer groups frequent, for instance, or customizing promotions for each group. This kind of analysis can also drive promotions tied to particular local businesses and help CFIs to choose the most valuable ones as partners.

This is particularly pertinent for card loyalty rewards programs that emphasize supporting small business. These programs can incentivize point accumulation and redemption at merchants, bars, restaurants and other businesses popular with the institution’s customer base, or with demographic groups within it.

Some institutions have even used their customer spending and loyalty rewards program data analysis to open doors for new commercial accounts from local business partners. For example, an institution can approach merchants with a high level of loyalty point redemption from its customers and offer marketing and other support, which may lead to commercial account growth down the line.

Detailed breakdowns of spending patterns can also help CFIs choose where to place new branches and ATMs. Putting a branch or machine inside the grocery store where its most valuable customer groups shop would be an obvious example. Understanding whether the institution’s customers shop near home or work can further refine branch placement and promotion.
CFIs looking to make the most of their data should consider taking a few basic steps. First of all, they need to figure out exactly what types of data their core banking systems can provide and whether they can easily access that data.

Second, they should decide exactly what they would like to accomplish with the effort. Goals might include increasing non-interest income, driving loan or ancillary product profitability, boosting customer engagement and “stickiness” or perhaps growing the customer base.

Next, they need to find and allocate the resources to do the needed research and analysis. This might involve recruiting or training skilled personnel and acquiring specialized software. Some institutions might be reluctant to do the work in-house or feel they lack the expertise; those may wish to contract out the data mining and analytical tasks to a third-party provider.

Most important, however, is actually consulting the final analysis when making business and marketing decisions. For some institutions, looking at this kind of data may not come naturally when devising strategy—but if they have the information, and have gone to the trouble to analyze it, it shouldn’t go to waste. If needed, CFIs should order custom reports to support a key effort.
DON’T LOSE OUT

CFIs that don't make the most of their information can end up losing a great deal. It’s crucial for institutions to understand their customer base, especially which clients and groups are making or costing them money.

It’s also difficult for an institution to know the way forward if it can’t measure the success of programs it implements. The costs can be considerable, either in actual wasted resources or missed opportunities, since the lack of analysis may lead to strategic missteps—and because competitors may be doing a better job with their own data.

CONCLUSION

If CFIs want to benefit from the treasure at their disposal, they must do the necessary spadework to dig it up, weigh it well, and find the best ways to realize its value. The results should prove well worth the effort.