A refresh on some well-developed concepts, and some ways forward for the data-marketeer.
Redux | Data-driven Relationships in Financial Services

In this article:
• The increasing feasibility of data-driven 1:1 customer relationship development
• The classic barriers to this approach in FSI
• A quick refresh and revamp of some well-developed marketing concepts
• Examples of current day analytic approaches in-play
• Some ways forward based around Positioning, People, and Practicality

Deep customer insight is a highly valued destination – ultimately it drives great service, loyalty, and shareholder returns.

The service-delivery possibilities, and indeed, greater profit opportunities, have been a “holy grail” for those working in data-driven marketing for at least the last 15 years.

Regardless of sector, customer acquisition costs remain high, and the returns to those that succeed in achieving greater customer loyalty can be significant.

The exhibit below highlights just some of these benefits across Banking, Insurance, and Superannuation.

Building a deeper and more insightful customer relationship, based on data, is more feasible than ever before

Through the ubiquity of media and data connection points, and its voracious consumption and utilisation, we drown daily in a sea of data-based indicators of customer wants and needs.

In addition, government data sources continue to move to an open environment, with customers putting up their hand for a digital relationship which is not only more convenient, but which rewards them, through greater service, for sharing their data.

The processing power available for database design and the technologies available to process and interrogate data are more accessible, and less linked to major capital decisions around hardware and/or infrastructure upgrades.

Finally, the skills needed to deal with large scale data problems are developing rapidly. Although the skills are still rare, courses (including Masters in Analytics) are emerging to fill the shortfall. Artificial Intelligence and robotic learning are not far behind in providing efficient solutions to continue to capture, process, and utilise this ever expanding dataset of customer behaviour.

Exhibit 1
Benefits of greater customer loyalty in Financial Services

<table>
<thead>
<tr>
<th>Banking</th>
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<tbody>
<tr>
<td>• Attacking 4 to 5% churn</td>
</tr>
<tr>
<td>• E.g. for a Major Bank worth approx. 50k customers x $2000 per customer = $100m p.a.</td>
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<table>
<thead>
<tr>
<th>Insurance</th>
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<tr>
<td>• Reducing the reliance on aggregators can lead to substantial savings</td>
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<tr>
<td>• E.g. at $1200 per customer acquired, up to $10m p.a. saved for midsized insurance co</td>
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<tr>
<th>Superannuation</th>
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<tr>
<td>• Increased retention during shift to pension phase as members consider shifting to SMSF</td>
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Exhibit 2
Explosion in analytic opportunity

Sources of data
Barriers in FSI are progressively being overcome – but there is more work to do.

Although there are still hurdles to overcome, barriers to taking a data-driven approach to customer relationship development in FSI are being addressed.

- **Privacy** – As data-driven marketing departments build their skill base, and Governments establish one-stop-shops for customer details, well-founded approaches to privacy have been established with some positive impact on risk reduction.

- **Trust** – Always a battlefield for FSI’s, enhancements in existing service offers such as more detailed online statements, advice events, and even in-house comparison engines are building greater trust with Customers. Recent events in insurance and advice counteract this progress somewhat.

- **Security** – Most FSI’s have strong security measures in place although greater emphasis could be placed on the role of the Chief Security Officer (CSO) in shaping the customer value proposition.

- **Clarity around role of the FSI as infomediary** – Hagel and Singer’s* work highlighted the role of the infomediary as the central protector, aggregator, and shared value-creator from customer data. FSI’s have a natural role to play here, but there is more work to be done to clarify this role, both internally and with the customer.

- **Acute cases of the innovators dilemma** – Most FSI’s fear disrupting a happy relationship with Customers by introducing a new conversation which has not been asked for, and in turn, disrupting healthy and lower-risk cash flows. Yet standing back and not starting to take a controlled risk could leave organisations on the back foot as more nimble, customer focused niche players move in on the customer.

As these barriers to action reduce over time – where should the data-driven marketing team focus? Traditional marketing wisdom, with a refresh, can provide a great starting point for new data-driven initiatives.

Many of the areas of greatest opportunity for FSIs, are based on management thinking that has been around for a long time. The following three are but a few of the areas that are worth a re-visit.

1. **Revisit the Customer Life-stage through data**
   The information available from big-data analytics puts a new perspective on life-stage analysis, a traditional area of strength for many FSI’s. If combined with real-time behaviour, this approach can lead to greater confidence in the quality and timeliness of outbound offers.

2. **Get to know your customer’s micro-interests**
   Micro or detailed personal interests can lead to “money cannot buy” rewards that might be negotiated or even arranged by the FSI. A Micro interest might include a customer hobby, or even a specific favoured event. Sometimes these can provide very simple opportunities to start a quality conversation.

3. **Refresh your segmentation approach with “new data” as a starting point**
   Customer segments are still a way to working quickly and effectively in complex environments. Individual information can feed straight back into segmentation models and can enhance the way in which a segment is deployed and managed.

*Net Worth – Shaping Markets When Customers Make The Rules, Hagel and Singer, 1999*
Case studies highlight innovations in the market today that are based heavily on customer data-analytics.

A number of specific case studies highlight the ways in which FS organisations today are using data to build powerful 1:1 relationships and enhance the value proposition for customers.

These cases highlight themes worth observing for anyone building customer-focused analytics capability:

- **Partner data players** are building infrastructure and tools for FS organisations to utilise in capturing customer data, and interrogating that data – E.g. Kyckr
- **Existing or volunteered customer data** is still the most valuable resource and can drive differentiated pricing
- **Customer experience** can be shifted dramatically by blending customer insights back into the service delivery process

<table>
<thead>
<tr>
<th>Company</th>
<th>Data Analytics Application</th>
<th>Customer Insight</th>
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<tbody>
<tr>
<td>Kyckr</td>
<td>Facilitate real-time event monitoring of customers and retains an up-to-date, accurate customer book for their FS clients</td>
<td>Deep insights into customer behaviour and application veracity for the FSI. Enhanced customer experience which reduces the on-boarding process as a result</td>
</tr>
<tr>
<td>Xero</td>
<td>Xero’s “financial web” provides a two-way data exchange between SMEs’ and Banks, helping Financial Institutions to collate an aggregate view of existing clients</td>
<td>Deep insight into credit issues for the Customer. Allows for risk based pricing to customer, driving preferential rates to businesses with lower risks.</td>
</tr>
<tr>
<td>R-Insurance</td>
<td>Tailors insurance products to customers with specific behaviours and usage patterns. Behaviours and patterns are tracked by telematics devices in cars or telematics applications on smartphones.</td>
<td>Ongoing “real time” assessment of whether products and services offered align with customer needs. Leads to usage-based insurance products based on driver behavior.</td>
</tr>
<tr>
<td>Youi</td>
<td>Insurance products tailored to customer behaviour and usage patterns. Based on direct information provided by the customer.</td>
<td>Deeper understanding for the FSI of customer risk. Competitive pricing of products based on customer’s usage preference and behavior.</td>
</tr>
<tr>
<td>Sunsuper</td>
<td>Facebook is also often used as the default customer service tool as members gravitate to the social media platform as a preferred mode of communication</td>
<td>Data gathered supports product design, based on customer segment understanding. Enhanced relationships with customers are likely to result (Sunsuper has a high “like” rating).</td>
</tr>
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With these examples in mind – what are some of the key ingredients for a playbook to shape up data-driven marketing capability?
We see 3 at least key components to a successful attack on greater customer relationship development through improved data analytics.

1. **Positioning** | What focus areas, IP, and philosophies around approach to customers will you take? What are your principles of operation? What position will you take with the program?

2. **People** | How will you govern a program of work, and retain and grow skills and talents?

3. **Practicality** | How will you avoid pitfalls from a technology perspective?

**Exhibit 4**
The playbook for moving on improved relationship development using Data Analytics

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<tr>
<th>Component</th>
<th>Strategic Approach</th>
<th>Tactical Approach</th>
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| **Positioning** | • Agree core principles that guide how you will operate  
• Focus initially on solving a very specific problem or problem theme - e.g. retention | • Consider carefully how you will interact with customers – most likely following an agreed set of principles  
• Build an agreed map of points of interaction with customers that can guide campaigns and 1:1 conversations |
| **People** | • Establish a governance structure that will be there to support the program for the long haul | • Identify and bring in data-analytics talent over time but accept there is ongoing competition for these resources  
• Grow and nurture the team as a specific function that has a clear service delivery mandate back to the organisation working closely in tandem with Marketing and Strategy |
| **Practicality** | • Constantly re-scope to keep objectives small  
• Hit the intersection of lower cost, lower complexity, and high customer value | • Utilise the sandpit  
• Don’t overdo the initial data sources despite the temptation to do so  
• Stay technology agnostic |

Organisations can take a significant step forward by refreshing their approach to data-driven marketing.

As highlighted earlier in this article, Financial Services organisations have a great opportunity to utilise data-analytics to grow customer relationships. As the technology becomes even more pervasive, customers will not just accept FSI’s in the role of infomediary, they will come to expect it.

**FSI’s that are willing to take up this mantle, will benefit significantly in the short to medium term.**
About SPP

We are a general management consultant firm focussed on ensuring our clients and partner organisations gain the benefit of a structured, tailored, and evidence-based approach to solving complex business problems.

Established in 2005, SPP has delivered successful outcomes for a broad range of commercial and government sector clients. As a result, we have strong relationships with many businesses, from Top 50 listed companies through to small enterprises.

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Our work in Data

SPP has a specialist practice in the development of data analytics capabilities for our Clients.

These activities span a number of engagement types including:

- Developing data strategy;
- Program management of capability build;
- Data-driven retention strategy;
- Data-driven costing and pricing reviews;
- Business intelligence system reviews and implementation

SPP, through partnerships, can deliver Data Analytics outcomes for our Clients on either a fee for service basis, or as an independent partner delivering these services to the organisation on an outsourced basis.

Please contact us on the details below if you would like more information.
Appendix | Data Analytics Maturity Matrix

To help FSI’s improve their approach in developing analytics capability, SPP has developed a Data Analytics Maturity Matrix

The vertical axis, ability to collect and manipulate data, considers whether the organisation has the technical capabilities and talent, collects and manipulates data quickly and competently, and adapts quickly based on experience and feedback.

The horizontal axis, ability to turn insights into value, is based on whether the organisation can clearly identify what they are solving for, and allocates resources efficiently to solve for them, as well as being able to act upon ‘insights’ to inform strategic decision making.

Leaders are strong on both axes, but few are in this category.

This idea will be developed further in future articles.