Are Your Customers "Missing in Action?"

How to Identify Who is In the Market for Your Loan Products

HARLAND CLARKE® | MARKETING SERVICES

INTRODUCTION

Today's financial services marketers are facing a period of unprecedented change and opportunity. According to The Financial Brand's 2012 Bank & Credit Union Marketing Survey, bank & credit union marketing executives say that their number one priority is to ***deepen existing relationships through increased cross-selling initiatives.*** *Ironically, retention marketing was ranked tenth in importance, falling behind other initiatives such as strengthening the brand (#4), attracting a younger audience (#6), and offering more profitable products and services (#8).*

A recent J.D. Power & Associates study on the topic of retention reported that in 2011, nearly one in ten banking customers switched banks[1]. During that same time period, less than one percent of all credit union members switched to another institution. Though retention remains an ever-present concern in the industry, the drive to cross-sell existing customers has taken center stage. It's a matter of simple math: the value of a customer holding one asset (i.e., basic checking) is not nearly as high as multiservice customers who are more likely to remain engaged over time, and generate greater revenue over the long term.

Loan products are a logical product for cross-sell. The question is: How do you go about identifying those customers who are in the market for various loan products — throughout the customer lifecycle? In this white paper, we will examine leading-edge marketing techniques that can help you facilitate the identification of exclusive cross-selling opportunities.

"ONE SIZE FITS ALL" RETENTION & CROSS-SELL PROGRAMS

Financial marketers rely on a wide variety of programs to drive brand awareness and educate customers about new products and services. Marketing "touchpoints" such as newsletters or e-blasts can help to fill the gap between key customer interactions. The "one-size-fits-all" approach, while limited in its ability to drive cross-sell/loan originations, still serves a valuable purpose to connect with customers on a periodic basis. But when it comes to the identification of up-sell and cross-sell opportunities, more sophisticated methods tend to yield greater returns, because these methods are driven by data. Data that identifies historical or current customer behavior allows for analytic modeling that can help predict the exact timing a customer will be shopping for a product or service.

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INCREASE YOUR CROSS-SELL LIFT

Understanding that there is a high correlation between multi-product customers and customer tenure, many financial institutions have rallied their efforts around making offers to their customer base throughout the course of the relationship. Quite simply, the more products and services a customer has with you, the less likely they are to leave. Keeping them engaged and responding to highly targeted offers (well beyond initial onboarding), is critically important. In a perfect world, financial marketers would know when their customers are ready to shop for another product or service, enabling them to ultimately increase their "cross-sell lift" for more profitable products such as auto loans and mortgages. While this behavior can be identified through predictive modeling tools, there are other tools that can help identify customers entering the market.

THE CUSTOMER LIFECYCLE: IT'S ALL ABOUT RELATIONSHIPS

To generate sustainable loan growth, marketers must consider the best way to communicate with their customers during each stage along the customer continuum. We refer to this as Customer Lifecycle Marketing. From onboarding to managing the existing relationship, it's imperative to increase the "stickiness" of an existing account. And with good reason, as it is eight to 10 times less expensive to cross-sell an existing customer than it is to attract a new one[2].

It's critical to view the account from this Lifecycle Marketing perspective and not just on an individual account basis. Today a customer might receive two offers within a short time span (i.e., one that recommends consolidating their debt into a home equity loan, and another that offers a loan balance transfer rate for their credit card). An auto loan being paid off early reduces the number of accounts, but if it is paid off by a new home equity loan relationship, it is not attrition. Bottom line, the way to improve margins and overall customer lifetime value is to make every relationship count, while improving marketing program effectiveness across the relationship continuum.

SHOPPING ALERT PROGRAMS

Cross-sell initiatives that go well beyond the old "one-size-fits-all" yield optimal ROI, and shopping alert programs do just that. Imagine being able to identify those account holders who are actively seeking loan products and then make a special offer to them for the right loan — at the right time.

... make a special offer to your account holders for the right loan – ***at the right time.***

HOW IT WORKS

When an account holder applies for a loan, an inquiry is posted to their credit report. The financial institution is able to select the type of inquiries they wish to track against their account holder base, monitoring account holders who are seeking a mortgage, auto loan or credit card, for example. On a daily basis, the financial institution's account holder base is cross-referenced against loan inquiries. As their database is cross-referenced, an "alert" is triggered any time one of the inquiry codes appears on an account holder's credit file. These alerts are then prescreened against qualification criteria that the financial institution pre-establishes (e.g. credit score, payment history, etc.). The financial institution can then send the account holder a message — by mail, email or phone, or all three! Regulations allow financial organizations to target their members based on this inquiry information so long as they are extending a firm offer of credit.[3]

CONCLUSION

Many financial institutions are already using data mining and predictive modeling to drive their marketing programs. Targeted data analytics tools and models can assist banks and credit unions in evaluating their existing customer base and determining things such as the most profitable segments, customers at risk of attriting, and next-most-likely products. Credit inquiry alert programs, however, represent a new and largely untapped opportunity in the financial services industry. This type of proactive approach to cross-selling existing customers will generate superior and sustainable revenue over time, by delivering the right product at the right time.

[1] 2012 JD Powers, *US Retail Banking Study*

[2] Datamyx internal data

[3] Mandated by Fair Credit Reporting Act (FCRA)

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and its data-driven solutions,
including its loan acquisition program, Shopper Alert™,
call **1.800.351.3843**, email us at
contacthc@harlandclarke.com or visit
www.harlandclarke.com/ShopperAlert.