Maximize Customer Value and Minimize Risk

IBM SPSS predictive analytics solutions can help financial services institutions deal with both the old certainties and the new uncertainties. In particular, predictive analytics can provide a cost-effective, efficient way to:

- Assess risk and manage compliance with new legislation and regulations
- Acquire new customers
- Reduce churn and retain the best customers
- Up-sell and cross-sell more products and services
- Segment customers more accurately

Despite the turmoil resulting from the global financial crisis, a few certainties remain. Financial service institutions still need to acquire new customers as cost-effectively as possible, retain their most profitable customers and sell additional services to both groups.

One other consideration has become even more important: accurate risk assessment. When banks are unsure of the risks they are taking – even in lending to another bank – the flow of credit is interrupted, causing strain throughout the economy. So a return to "normal" lending conditions requires even more stringent models and methods for assessing risk and restoring confidence between lenders and borrowers.

On the other side of the balance sheet, there are extensive gray areas: while Basel II has been strengthened and the EU's Solvency II initiative will give the insurance industry a similar regulatory framework, governments around the world are still debating potentially far-reaching changes at national and international levels.

IBM SPSS predictive analytics solutions can maximize customer value and minimize risk by transforming data into applied customer insight. Predictive analytics makes it possible to leverage the distinctive multichannel nature of the financial services business.

Increasingly, financial service companies analyze data from every channel – ATM transactions, Web data, even textual data such as notes from call centers and applications – in a closed loop that generates results to improve interactions, often in real time. This capability enables a shift from product portfolio management to managing customer portfolios, using analytics to focus on the financial needs of each customer segment while at the same time balancing opportunities against risks.

Minimize risk in everyday customer interactions

IBM SPSS predictive analytics for risk management are helping financial services companies:

- Determine good and bad credit risks with predictive credit modeling
- Improve Basel II credit and operational risk compliance
- Detect and prevent fraudulent activity – from credit card to ATM fraud
- Prevent money laundering by detecting suspicious patterns

Financial services institutions are exposed to more risk than ever. Undetected fraudulent activity, as well as unnecessary credit exposure, puts them at great financial and legal risk. Yet in a 2009 study by IBM only 21 percent of respondents believe that their firms are proficient at managing systemic risk, and only 18 percent that their firms are proficient at managing the risks associated with new products or markets, even though 52 percent and 43 percent, respectively, place a high premium on such risk.[1]

IBM SPSS risk management solutions help financial services firms increase capital efficiency and compliance by continually minimizing fraud, credit and money laundering risk. Unlike many other risk management solutions, which rely on largely static business rules, IBM SPSS predictive risk management provides a more open, adaptive system that includes unique domain expertise in the analysis process.

One large credit union, which is also one of the top five financial cooperatives in the United States, wanted to provide its members with immediate access to more of their funds, and raise ATM and Point of Sale withdrawal limits without increasing its risk. Using IBM SPSS technology, the credit union developed a risk scoring model to determine which members were able to gain greater access to their money. Subsequently, it scored higher in customer satisfaction surveys because its customers appreciated the ability to withdraw more money more quickly.

A major European bank has deployed IBM SPSS predictive analytics to construct an innovative early warning system that detects potential failures among its business customers. It also models the relationships and economic dependencies among them. This allows the bank to predict the impact on the bank (and its other customers) of a business failure by a major client, taking into account the "domino effect" in which one failure may trigger others. It provides an effective safety net by allowing the bank to calculate the maximum risk from a major business failure.

Acquire the right customers cost effectively

Successful customer acquisition campaigns depend on precise, timely targeting that delivers compelling offers to prospects and keeps costs low. To cut through the clutter of a competitive marketplace, financial

1 IBM Institute for Business Value. Toward transparency and sustainability: building a new financial order. (April 2009).

The largest credit union in the world introduced a five-year plan to reverse declining member satisfaction trends. Two years later, after placing even more emphasis on its use of IBM SPSS predictive analytics technology, members' satisfaction levels had increased dramatically. And with greater insight into its members' needs, the credit union could respond quickly with more appropriate offers and responses targeted to specific geographic regions. As a result, it realized a 1,531 percent return on its investment in IBM SPSS technology, and an average annual benefit of almost $1.5 million*

Figures compiled by independent analyst firm Nucleus Research.

services industry leaders are building analytics into their acquisition processes, enabling them to target the right customers with the right financial products at the right rates, and at the right time.

IBM SPSS customer acquisition solutions help financial services firms focus marketing programs on the prospects most likely to respond and become profitable customers. It minimizes acquisition costs by predicting which marketing programs will generate the highest responses – avoiding investing limited marketing budgets on the wrong targets.

One of the world's leading mutual financial services companies, located in the United Kingdom, turned to IBM SPSS predictive analytics to win the right customers for its new mortgage product. As a result, it secured £33 million (approximately US $47 million) worth of mortgage revenue.

Retain the right customers longer

Customer attrition is a costly problem in the financial services business. With customer churn in the banking sector averaging ten to twenty percent annually – and replacement costs ranging from $200 to as high as $3,500 per customer – keeping high-value customers happy is essential.

IBM SPSS predictive analytics solutions for customer retention help financial services firms first identify their high-value customers and then keep them longer. The customers most likely to defect are identified – before they end their relationships – and customer contact staff are provided with recommended actions to take to keep those customers.

Seize sales opportunities in real time

Cross-selling and up-selling opportunities occur constantly through various channels. Leading financial services firms are capitalizing on those points of interaction, from their branch offices to their call centers, using predictive analytics.

Segment customers more accurately

Effective customer segmentation processes are critical for financial services firms. Many have realized that their most valuable customer segments account for the overwhelming majority of total customer profitability, while many other segments not only contribute very little profit, but may represent a loss.

Automated customer segmentation solutions from IBM SPSS help financial services companies differentiate the value of their customers more accurately using their data and their business expertise. Understanding customer value segments is the first step in any strategy for winning profitable customers, growing relationships and keeping customers longer.

A banking cooperative in the Netherlands turned to IBM SPSS technology to segment its customers into specific target groups and to increase the return on its marketing campaigns. As a result, campaign response rates jumped from four to 12 percent, and marketing campaign ROI increased by between 10 and 20 percent through reduced costs and extra profit.

About SPSS, an IBM Company

SPSS, an IBM Company, is a leading global provider of predictive analytics software and solutions. The company's complete portfolio of products - data collection, statistics, modeling and deployment - captures people's attitudes and opinions, predicts outcomes of future customer interactions, and then acts on these insights by embedding analytics into business processes. IBM SPSS solutions address interconnected business objectives across an entire organization by focusing on the convergence of analytics, IT architecture and business process. Commercial, government and academic customers worldwide rely on IBM SPSS technology as a competitive advantage in attracting, retaining and growing customers, while reducing fraud and mitigating risk. SPSS was acquired by IBM in October 2009. For further information, or to reach a representative, visit www.spss.com.

SPSS Inc., an IBM Company Headquarters,
233 S. Wacker Drive, 11th floor
Chicago, Illinois 60606

SPSS
AN IBM® COMPANY

IMS14128-USEN-00