SEGMENTS OF ONE: CUSTOMER INSIGHTS IN DIGITAL BANKING

EASY-TO-IMPLEMENT USE CASES FOR PERSONALISED MARKETING AND SALES

CONTENT

> *Financial institutions are moving to hyper-personalisation and the segment of one concept to better serve individual needs.*

INTRODUCTION

Personalisation has never been more important for banks as customer expectations for financial services are driven by the meticulously customised services of digital-native banks, tech giants and the champions of the sharing economy.

It's official: traditional demographic and geographic targeting methods don't do the trick anymore. More and more financial institutions are moving from classic customer segmentation methods to hyper-personalisation and the segment of one concept to better serve individual needs. Data solutions, including artificial intelligence tools such as algorithms and advanced analytics, have revolutionised marketing activities, allowing banks to create insight-driven campaigns.

But how to even begin to use such insights? First of all, developing customer insights doesn't have to be long, complex and pricey. There are several low-hanging fruits that you can implement pain-free and without breaking the bank. The key here is data-centric thinking: start implementing personalisation with the data you already have. This can bring quick and effective solutions without the need to jump right into building complex capabilities in analytics (which can be a next step)[1].

Most banks know that they have access to a wealth of data, but only a few know what data they need to leverage to increase revenues. These might include payment transactions history, channel preferences, social media information, mobile data, location data or even weather updates. This data helps financial institutions figure out how to engage with customers based on spending habits, everyday needs, life stages or aspirations[2].

[1] Personalization at scale: First steps in a profitable journey to growth, McKinsey, 2018

[2] Predictive analytics: The future of financial marketing, The Financial Brand, 2017

In this white paper, we take a closer look at the different strategies banks can follow to collect information about their customers, how traditional methods have evolved with changing customer demands, and whether the tools banks have been using for decades to target customers can still deliver results.

We will show you both simple and more complex customer insights, all highlighting the fact that banks can start using these solutions to create value with a relatively small effort and eventually go on to explore even more exciting opportunities. Our main goal is to help banks tap into the benefits of using data-based customer insights, an area that is often overlooked or neglected by financial institutions. We offer an outlook on future opportunities, show use cases for insight-driven marketing campaigns, explain how customer insights work and give detailed descriptions of specific insights with relevant use cases for banks.

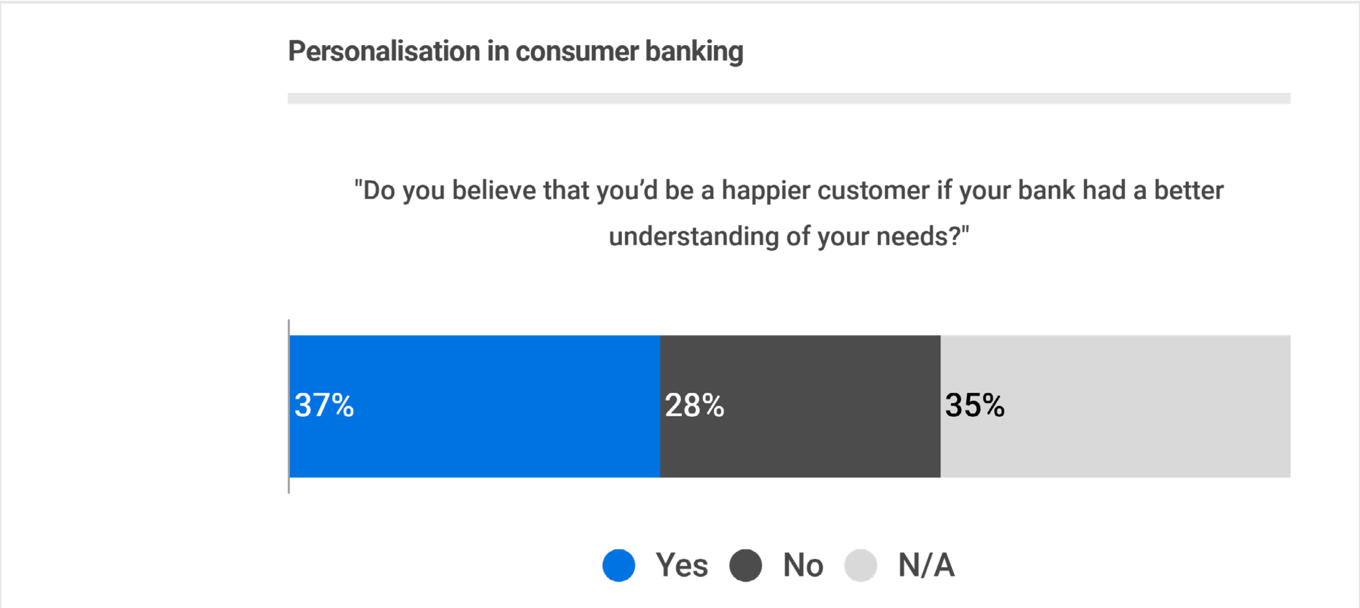
To make the most of insight-driven marketing campaigns, banks must run well-functioning mobile and online channels so they can send out messages or offers. They should also digitalise end-to-end in processes to achieve the best results with more complex insights and profiles. As a general rule, financial institutions must have simple, fast and seamless digital processes in place to cash in on the customer insights described in this white paper.

But what's all the fuss about customer insights, you might wonder. Up to $50 million in daily revenues: this is how much a retail bank with $100 billion in assets can generate by personalising pricing and product offers alone, BCG has calculated in a report[3]. So it's time to step up your game or continue losing money, and customers.

[3] The power of personalization, BCG, 2018

KNOW YOUR CUSTOMERS: MORE ATTENTION, PLEASE

Mass marketing campaigns keep generating disappointing returns and conversions in banking, as customers tend to tune out campaigns that don't come with relevant messages[4]. Less than 30% of customers think that offers from their banks are customised to their individual needs, according to a survey by data platform company NGDATA[5]. The results show that customers want individual attention, something that traditional customer segmentation methods simply cannot deliver.



Most banks have been traditionally segmenting customers by geographic location and demographic factors, including gender, age, occupation and financial parameters, like asset levels, credit rating or liabilities. But this limited segmentation is far from enough to develop detailed insights needed to better understand customers, according to EY[6]. In most cases, this basic information has little to no correlation with the actual needs of customers, who "are much more than the sum of their banking deposits and loans, and do not align neatly to basic or broad demographic characteristics".

[4] The power of personalized content, Piwik Pro/ABA Bank Marketing, 2017

[5] Research brief: NGDATA 2016 consumer banking survey

[6] How well do you know your customers? EY Global Consumer Banking Survey 2017

A more sophisticated segmentation method is psychographics, which helps define why customers do what they do based on their personalities, lifestyles and social classes[7,8]. Collecting psychographics data through surveys, interviews, focus groups or social media allows banks to get a better understanding of what their customers value in life, what pain points they come across throughout their lives and what misgivings they have about a specific product or service. This category of data also includes variables on the customer's opinions and attitude, interests and activities.

Main bases of customer segmentation

	Geographic	Demographic	Psychographic	Behavioural
Example	Customers within ten miles of the M25	A-level & university students	Customers wanting a value for money impulse buy	Customers who prefer to buy organic food
Characteristics	Customer location, region, urban/rural	Age, gender, socio-economic group	Usage rate, benefits sought, loyalty status, readiness to buy	Personality, lifestyle, attitude, class

Source: Fieldboom

Social media companies, like Facebook, publish highly targeted ads based on users' likes, relationships, activities and other personal information they share. Some financial institutions have followed suit: Leaders Credit Union in the US, for example, analyses spending habits based on past purchases by credit and debit cards, and uses third-party market intelligence and segmentation tools to integrate psychographic data with census information to narrow its focus[9].

[7] Psychographic segmentation – definition, examples & benefits, Fieldboom

[8] Four methods of segmentation, Marquis/ABA Bank Marketing, 2016

[9] Psychographics vs. demographics: do financial marketers need a new model?, The Financial Brand, 2014

BEHAVIOURAL DATA HELP BANKS DIG DEEPER

While geographic, demographic and psychographic data can still be important for targeted marketing campaigns, banks and financial institutions should also look at behavioural variables to develop more advanced segmentation that better caters to customer needs. This method focuses on learning about customers' purchasing and spending habits, credit card transactions, what banking channels they use or how often they interact with their banks.

Behavioural segmentation lets banks differentiate customers who are categorised in the same segment based on demographic or other traditional aspects. MasterCard Advisors provided a great example for this, having examined segmentation by payments behaviour[10]. They studied two customers (A and B), who first seem similar, because both fall into the mid-income bracket, have mid-sized account balances and are in the same age cohort. But their payments behaviour shows that they actually need completely different marketing treatments: Customer A uses ATMs more often, which signals a greater preference for cash, while Customer B is more dedicated to debit.

Customer segmentation by payments behaviour

Customer	Household income	Account balances	Age	ATM $	ATM #	POS $	POS #
A	$45,000	$3,100	48	$630	5	$1,600	35
B	$50,000	$3,300	47	$120	2	$1,900	42

Note: balances and transactional data are shown on a monthly basis.

Source: MasterCard Advisors

A traditional debit-spend campaign would assign both of them to the same channels, incentives and offers, but banks using behavioural segmentation would see the difference and only target Customer A. The bank would choose a cash-usage reduction message for Customer A and would cut costs by not mailing Customer B. For customer B, the bank may decide if it wants to go for further debit stimulation through spend category expansion or if it wants to prioritise cross-selling.

[10] Next generation segmentation: A behavior driven approach, MasterCard Advisors

The behavioural approach also delivers some major customer revenue contribution. In another example, Customer D has an average account balance of $8,500, about $5,500 more than Customer C. Looking only at the net-interest margin, Customer D appears to make higher contribution to revenue. But this picture flips once behaviour is factored in, as Customer C carries out more transactions, mostly in debit, generating higher interchange and overdraft fees. To boost Customer D's transactions, the bank can stimulate debit use or cross-sell a credit card, MasterCard Advisors suggested.

FINDING THE RIGHT SEGMENT MIX IS KEY

Analysing multiple segments at the same time, or cross-tabbing, helps banks fine-tune their targeting efforts and gain a more detailed view of the customer that may reveal new dimensions of a customer relationship.

MasterCard Advisors found, for example, that bigger financial institutions cross-tabbing segmentation with payments behaviour may realise that while the mass-market segment has strong overall revenue contribution, mass-market debit lovers are far behind them. Banks had better choose to cross-sell credit cards to these accounts to increase revenue contribution via higher interchange, they warned.

In an example of how overlaying financial behaviours results in a sharply differentiated segmentation, McKinsey has developed five distinct customer groups in the credit card market[11]. They found, for example, that selling credit cards to individuals in the Prosperous and content group should involve offering rewards, while acquiring and keeping Deal chasers requires a balancing act, as they see themselves pitted against issuers in a win-or-lose game.

[11] New frontiers in credit card segmentation: Tapping unmet consumer needs, McKinsey, 2014

Profitability indicators in credit card customer segments

	Prosperous and content	Deal chasers	Financially stressed	Recovering credit users	Self-aware avoiders
Median annual household income	$85,000	$65,000	$45,000	$45,000	$55,000
Mean credit card revolving balance per household	$890	$3,802	$7,453	$1,726	$1,969
Most used instrument for POS payments	Credit	Debit	Debit	Debit	Cash
Share of credit card in POS spending	59%	24%	20%	11%	19%

Source: McKinsey

Adding further elements to a segmentation can significantly enhance analysis. In an individual model specifically developed for Czech HelloBank!, a unit of France's BNP Paribas Group, W.UP has included several segmentation options. We have combined more traditional methods (differentiating between customer groups based on usage patterns) with behavioural segmentation, such as product ownership and recency, frequency, monetary (RFM) segments for cash use and purchases. Our model also included a segmentation layer on instalment payments and card usage time and variety.

Adjusting existing segmentation strategies by dividing customers into new buckets can bring visible improvement. One of the top 10 car financing banks in the US, for example, managed to increase its auto loan profits by 17%, producing $35 million of incremental revenue after they had brought in a third-party firm to rework their pricing practices[12]. The company segmented the customer population by risk and loan terms, and used this data to develop a dynamic price optimisation model for originating more auto loans.

In another example, Turkish lender Akbank increased approved personal loan applications through its mobile app to 30% from 10% within one short month, and improved unit price of sales by 60% with Facebook advertising after launching new campaigns based on a deeper segmentation of customers[13]. They used a tool developed by a third-party provider to introduce an extra layer of segmentation to target new app downloads that could not be included in earlier campaigns. "For the first time in the bank's history, we're outperforming the physical branches," Akbank said.

[12] Top 25 bank increases auto loan profits by 17% with Equifax price optimization, 2011

[13] Increasing conversions with Audience Builder, Adjust, 2017

Micro-segments allow sharper targeting

The emergence of digital data solutions, including artificial intelligence tools such as algorithms and advanced analytics, has allowed financial institutions to go one step further in personalising marketing campaigns and introduce micro-segmentation.
Micro-segments are the smallest group of customers with uniform demographics and social behaviours[14].

Credit card customers, for example, can be grouped based on their preferences for shopping time, resulting in segments such as weekend or late-night shoppers. A second model can examine lifestyle and identify other specific segments, like fashionistas or tech-savvy shoppers. When cross-tabbed with each other, these two models deliver a wealth of details on customer behaviour and provide unparalleled targeting opportunities. For instance, targeting fashionistas who are also weekend shoppers can work perfectly during a weekend fashion show[15].

Micro-segmentation can also support cross-selling goals. A leading universal bank in India has hired a third-party advisor to help them target existing salary account holders to increase car loans and generate leads by cross-selling home loans. The firm carried out detailed analysis to create micro-segments of customers with the highest affinity to buy.
These buckets made designing target-specific offers easier. As a result of enhanced targeting, lead generation and conversion ratios for car loans were well above the industry standard during the campaign period[16].

[14] Accelerating growth and optimizing costs in distribution and marketing, Accenture, 2016

[15] Case studies: India’s leading bank, Customer Centria

[16] The segment of one, NGDATA, 2018

SEGMENTS OF ONE: THE DAWN OF A NEW ERA

Marketing strategies are moving towards hyper-personalisation and the segment-of-one concept which can be defined as delivering the right offer at the right time to the right customer[17]. To reach the ultimate goal of building a segment of one for each and every customer, companies should leverage insight-driven personalisation and use predictive or prescriptive approaches to understand the needs and desires of customers[18].

As Balázs Vinnai, W.UP's president, has put it[19], banking is no longer about products, like credit cards or mortgages, but more about understanding the individual needs of individual customers. He added that providing financial services today is all about personalisation and the segments of one – and this is where personalised digital sales tools come in handy for banks.

One-to-one marketing solutions aim to deliver individualised content via data collection and analysis, creating contextual content and engaging prospects by communicating with them individually. Tech, e-commerce and social media giants are true pioneers in one-to-one marketing. Amazon, for example, notices what a customer is buying or viewing real-time and dynamically changes the page to feature items that are relevant based on the customer's behaviour.

Does this all mean that traditional customer segmentation for marketing purposes will sooner or later disappear altogether? Not for the time being, according to Capgemini[20]. Hyper-personalisation is not a substitute for traditional segmentation, as "it is just not about obtaining segments made up of single individuals, which would essentially tantamount to only focusing on the pixels and not being able to see a consistent picture on the whole".

But still, banks must understand why people want personalisation[21]. Giving consumers the impression that they are not receiving some generic sales message makes them feel in control, which, in turn, makes them happier. Banks can create this impression by sending offers based on past behaviours that help predict future activity. Also, personalisation makes consumers think they are receiving less of an information overload. Not to mention that a bank that knows its customers well can also help them make the right choices.

[17] The segment of one, NGDATA, 2018

[18] Creating a segment of one, Capgemini, 2018

[19] "Welcome to the segment-of-one age" – Interview with Balázs Vinnai, W.UP, 2018

[20] Hyper-personalization vs. segmentation: has big data made segmentation redundant?, Capgemini, 2016

[21] The psychology of personalization in banking, The Financial Brand, 2018

THE POWER OF INSIGHTS: SEND THE RIGHT MESSAGE

Customers increasingly want more personalised, relevant and timely services, prompting financial institutions to move toward insight-driven marketing. Banks are sitting on a tremendous amount of traditional customer data, which can be combined with non-traditional data, like digital behavioural patterns, social media activities, geolocation or even weather updates, to develop and carry out insight-driven campaigns.

Banks can identify past changes or foresee future shifts in the customer's behavioural patterns. Some of these changes or trigger events are relatively easy to detect or predict with transactional systems, while others may require the use of more sophisticated detection engines[22].

Potential banking messages for customer life events

Thinking of buying a home?

- Here are some tips on calculating what you can afford.
- What documents will you need?
- Need to protect your new home or your family?
- Improving your new home? Explore our rewards and cashback offers that can save you money!

Thinking of buying a car?

- Here are some options for financing your new car.
- Our personal loan offers can be more cost-effective than dealer finance options.
- Need cover for your new car?

[22] Segmentation and data management, SAS, 2012

Lenders can recognise when customers are thinking of purchasing a home or a new car, for example, and offer them assistance. This can include providing an affordability calculator or insights into the local property market with average house prices. Relevant offers may include mortgages or consumer loans to finance home improvements as well as car repair costs and home or car insurance.

Potential banking messages after high-value purchases

Purchased something expensive?

- Your new sports gear cost €1,200.
- You can spread the cost of this purchase over 12 months to avoid being overdrawn next month!
- €1,200 for 12 months at €105/month.
- Total amount payable: €1,260, APR: 9.5%.

Spent a little too much this month?

- Total expenses: €2,745, €945 over budget.
- Spread the amount of extra spending over 12 months so it doesn't affect your plans next month!
- €1,000 for 12 months at €87.82/month.
- Total amount payable: €1,050, APR: 9.5%.

To get the right message to the right customer, sometimes all banks need to do is consider what tasks the customer is facing in a particular situation. For example, when an emerging market bank was seeking to enter the market of cross-border mortgages for expatriates buying holiday homes, they first looked at tweaking existing products – like selling a mortgage with a currency hedge. But these ideas didn't address the key tasks lying ahead of the customers. The bank's advisors consulted customers, real estate brokers and wealth advisors, and came up with plans for a product that included the currency hedges but also legal and translation services, home security and home repair. This unique mortgage offering was priced at a significant premium but customers received it very well[23].

[23] Banking customer insights: 28 experts on how to gather valuable customer information, NGDATA, 2018

Other life-stage events that could trigger potential actions from banks include getting a new job. Banks can detect possible income changes and offer new hires a savings account or a help-to-buy account. Financial institutions may also provide advice on setting up spending budgets, dealing with credit scores, planning holidays or even on how to get the most rewards when spending at retailers.

Offering third-party merchant discounts and cashback on purchases at baby stores can work well for customers planning to start a family or already expecting a baby. These offers could be particularly helpful for young families that tend to have one of the highest debt levels among life-stage groups[24].

Lenders can analyse customer accounts to identify situations when repaying existing debt is difficult and other loan products could be more cost-effective. Banks can also detect payments to third-party financial institutions, which are probably loan repayments or instalments. This provides opportunities to offer customer debt consolidation and a better way of paying off their debt.

If the customer has bought a high-value product or service that may result in exceeding their monthly budget or affecting near-term cash flow, banks can reach out to them and offer an affordable short-term loan to spread costs over a certain period. It is important to give the customer detailed information on how much they exceeded their budget and what conditions the newly offered loan carries.

[24] Customizing your financial services marketing to customer life stages, GYK Antler, 2018

"Banks can benefit even from simpler insights"

INSIGHTS IN DETAIL: BUILD ON SOLID FOUNDATIONS

We define customer insights as actionable insights that trigger marketing actions. Developing well-targeted marketing campaigns also require identifying different easy-to-grasp customer segments (for example, customers who do one big grocery shop each month) and complementing profiles that describe customers in more detail (average amounts spent on groceries or the frequency and recency of shopping). Drawing up such profiles is a way of describing your customers based on their preferences, product use, lifestyle or other variables, which then can be identified and segmented for marketing purposes.

Real-time insight-driven marketing action relies on well-defined customer insights, which are derived from various types of data often processed by artificial intelligence and advanced analytics tools. Ultimately, these insights can help you predict what products or services customers are likely to buy.

Banks can benefit even from simpler insights and there can be multiple use cases for a single customer insight. Use cases are the practical applications of customer insights that largely depend on the current needs of the customer in a specific situation.
In this chapter, we describe several customer insights and profiles, and provide related use-cases banks may want to use in the future. We start with six relatively simple insights to show how financial institutions can reach low-hanging fruits with relatively little effort and then move on to three more complex customer insights or profiles at the end of our list to demonstrate what other opportunities banks could explore.

1. SIMPLE INSIGHTS

1.1. DIGITAL USE

The digital use insight helps financial institutions analyse how individual customers use their online and mobile banking channels, what digital products or services they might be interested in, as well as what problems they have faced during product applications or when using other functions.

This is a real-time insight that tracks recurring events during the customer's sessions. It can reveal the number of log-ins in the mobile banking app in a week, how many transfers the customer makes in a month, how often they abandon digital transactions or if the customer clicks on a specific function multiple times over a particular period.

Running on aggregated channel analytics data, the insight allows financial institutions to define individual results about specific digital functions or get a wider picture of the customer's engagement, for example, by examining all their digital transfers, regardless of the channel. This insight is particularly useful for providing assistance or advisory to banking clients and thus boosting engagement and loyalty. Let's see some use cases.

- Peter used to bank at the local branch near his home, but has recently switched to online banking to save time and avoid the long queues at the branch. He transfers child maintenance every month to his ex-wife and makes recurring payments to utility companies. His bank detects these repeating transactions, and offers him a standing order and a direct debit for payments.

- Andrew regularly tops up his son's prepaid mobile account, typically once a month, to help him make ends meet. Having identified the recurring partner's name and the phone number used, the system automatically selects the mobile company for Andrew during the next transaction, improving his banking experiences.

- Mr. Jakubczyk has moved to Oslo for a new job and wants to send some money home to his family in Poland. He receives his salary in euros to his local bank account and would convert some of it to zlotys before transferring it to his wife's Polish account. But he often encounters technical problems, which results in failed transactions. His local bank detects these failures and instructs customer service to provide support to him over the phone and find out what went wrong. Customer service can also offer him a foreign currency account or a standing order.

- Joan has recently inherited a significant amount of money from her grandfather but can't figure out how to invest it. She normally uses her bank's mobile app, which has a savings function offering various types of investment and saving options. Joan has clicked on it several times over the past week to explore the opportunities but is yet to make up her mind about what the right product is for her. Her bank has been tracking her clicks in the app and sends her a push message with an offer of mutual fund investment with an attractive yield.

1.2. RELEVANT LOCATION

This general location insight uses real-time information about the customer's current whereabouts. The customer's mobile device sends location data to the bank through the mobile banking app after the client gives permission to use this information. The insight can differentiate between various types of frequently visited locations, and can also detect where the customer lives and works. The bank can also set up relevant locations (with GPS and radius data) based on its preferences.

This solution works best for identifying the customer's location with a radius of 50-100 metres, which can help target clients when they are at a shopping centre, a super-market or even at an open-air concert. The insight offers multiple opportunities for banks to cross-sell or upsell products to existing clients and transmit third-party offers to generate additional revenues. Let's see some examples of how it works:

- Mary, who has been looking to buy a new electric car, arrives at a car dealership to check out current offers. The bank detects her whereabouts based on its pre-determined setup of relevant locations and sends a real-time push message to her mobile with details of a suitable auto loan. The financial institution can also send third-party information about car insurance or the availability of e-charging stations from contracted partners after the deal has been done.

- Joe enters a supermarket to do grocery shopping. As he is wandering through the aisles, he receives a message from his bank on his mobile about a credit card he could use for future purchases. He can be also notified of a current deal at the supermarket as part of third-party information his bank transmits in agreement with the partner.

- Margaret passes by a local outlet of her preferred nationwide pharmacy chain, which has a partnership or merchant agreement with her bank. The bank discovers her location based on GPS data it pre-set for the retail networks of its partners. The financial institution can send Margaret a message that the pharmacy accepts her special payment card linked to her voluntary health insurance fund.

- Michael and Jodie, both avid festival goers and customers of the same commercial bank, are visiting a music festival in Budapest. Once they enter the main stage area, their bank alerts them to pay cashless with the smart wristbands distributed at the event to become eligible for cashback on purchases or special discounts at certain retailers present at the festival.

1.3. TRAVELLING ABROAD

Location and transaction data can be combined to track customers' travels abroad. This complex insight is a package of multiple insights, which are built around four phases of travelling: planning the trip, spending time at the airport, arriving at the destination and returning home.

Banks can either monitor debit transactions or use location data from mobile devices. Combining these two types of data can be a future step to enhance effectiveness. Using these inputs may also help financial institutions build an overall travel profile of the customer, which includes data on the frequency of travels, most visited destinations, amounts and categories of purchases abroad, or if the customer actually lives abroad.

Use cases for this package of insights include possible bank offers for credit cards, foreign currency accounts and travel insurance. Financial institutions may also use these insights to give advice on credit card settings or integrate third-party offers on car rental or booking accommodation. Here are a few examples:

- Mrs Stevenson and her two kids are travelling to visit Aunt June in Berlin. They are queuing to check in their luggage at Heathrow when Mrs Stevenson's bank detects her location and sends an advisory message to set credit card limits and take out full-coverage travel insurance before the trip. This comes in handy for her as the kids' game consoles are not covered and she can quickly buy insurance on her mobile with just a few clicks while waiting.

- John works for a multinational accounting firm in Paris and has recently been seconded to the company's branch office in Prague for a project, which means he frequently travels between the two cities. When his bank discovers that he has used his credit card to book flight tickets to Prague three times in the past two months, it sends him a message to offer a foreign currency account, making it possible for him to receive future payments from the branch office in Czech korunas.

- Maria and Alina, two friends living in Sofia, often travel to Vienna together on shopping trips, but sometimes they lose track of their spending while in Austria. Maria's bank identifies her transactions carried out abroad and sends her a summary of her travel expenses once she returns home (that is, when the bank registers her first domestic transaction). This summary aggregates transaction data and provides information on the number of purchases or the average sums spent. This insight helps Maria plan better for her next trip.

1.4. BUDGET LIMITS

This insight helps banks automatically calculate recommended monthly budgets for customers based on past purchases and monitor current spending against this budget. Separate smaller budgets may be pre-defined for different transaction categories and customers may also set up budgets if they want. Transactions are compared with the variables of the customer's overall spending profile and the real-time insight is triggered if spending reaches a pre-set percentage of the budget. Any transaction can trigger the insight, but transactions must be categorised. The budget limits insight has several potential use cases, including the following:

- Nicholas and Eve love all things Japanese, especially sushi, but their favourite maki restaurant is quite pricey. Based on her past purchases, Eve's bank knows when she is likely to eat out and can send alerts if she is predicted to reach her monthly budget for restaurants. Sometimes it sends her a message to recommend spending cuts in her shopping budget, a separate transaction category pre-set for retail purchases, to have more funds available in the category of meals. Nicholas receives similar alerts for grocery spending.

- Banks can challenge the customer not to spend more than a certain amount at a restaurant or a retailer. Clients may also receive cheer-up notifications if their spending is predicted to remain below the pre-defined limit. Or take the example of Gary, who usually runs out of money after Christmas because of extensive gift shopping. But his bank may alert him to start saving up for Christmas presents months ahead to avoid the need to raise a consumer credit in December.

1.5. SPENDING TRENDS

Banks can continuously follow the current spending trends of individual customers by collecting data on what clients typically spend on, where and how much they usually spend, which brands they prefer or what their typical spending is on their regular shopping days if they have any. This insight helps banks detect significant changes in spending patterns or trends and take marketing action, when applicable. The model allows banks to put together spending reports or summaries on the customer's top spending categories or locations in the past month.

- Banks can send information to customers with a breakdown of their expenditure, average weekly or monthly spending or even new trends in their purchases. For example, Tom may receive a quick summary highlighting that he spends significantly more money on Fridays or if he started to spend more on sports. Based on this change, his bank can transmit a third-party offer from a sport equipment retailer.

- Juliet, a 34-year-old single personal assistant living in the suburbs of a big city, receives peer comparison reports from her bank, which compares her spending habits at specific retailers or in general to a group of other customers with similar characteristics. This comparison provides a useful money management tool for Juliet, allowing her to make smart decisions about her regular spending or help her decide if she needs to start saving or cutting back on certain types of expenditure.

2. COMPLEX INSIGHTS AND PROFILES

2.1. BUDGET CONTROL

This insight allows banks to predict whether the customer will face operative financial difficulties in the short term, and even identify how many days the customer can sustain their current spending levels before their account balance drops to a dangerous level or slips into a negative territory. This solution uses machine learning algorithms to come up with predictions based on a huge set of strong and weak variables. The insight is triggered by a high probability of a ‘zero-balance event’ in the near future and the bank can attach meaningful actions (campaigns) to it. Solutions could be an overdraft offer, some advice etc. depending on the financial context.

The use of this actionable customer insight can be assisted by specific customer segmentations, which might include segments based on various types and regularity of income and on bank account usage. The latter segments differentiate customers by the relative amount of POS transactions, ATM withdrawals, bill payments and other transaction types.

- Alex has recently bought a new flat and has started spending heavily on new furniture, consumer electronics and home appliances in the past three months from his savings accumulated in his regular bank account. With his income levels unchanged, increased spending has become a new trend in his finances and has affected his account balance significantly. Alex receives information from his bank that his balance is predicted to drop to dangerous levels if he continues spending at current levels. The bank also offers him a credit card or as an alternative, a short-term credit to provide liquidity for the following two weeks until his next salary arrives.

- Grace, a valuable customer to her bank, has a regular monthly income, but is not very careful when it comes to spending and budgeting. She sometimes cleans out her bank account and does not pay her bills on time. She is not a risky customer at all but her bank still sends her helpful messages to alert her of possible operative financial problems and may also offer an overdraft to her if necessary.

2.2. SIMILAR PROFILES

This is actually a targeting tool, rather than an actionable customer insight, although it can be considered a method to come up with multiple new customer insights. It allows banks to expand customer segments for marketing campaigns by adding new similar customers to existing segments – based not only on demographic or other static data, but also using information on behavioural and spending patterns and geo-location. New members that can be included in current customer segments are identified by machine learning applications analysing several hundreds of variables.

A comparable mechanism is used for Google's AdWords service, which helps find new potential customers and simplify targeting people who are similar to existing visitors of an advertiser's website. Facebook's Lookalike Audience also relies on a similar method to identify the common qualities of potential new users that can be added to the source audience previously selected by the advertiser.

- Many banks already offer various new products to existing premium customers with 'good finances' who generate significant revenues for the bank. There may be other clients with spending behaviours similar to that of premium customers, who can be upgraded based on the analysis of more in-depth variables – such as outlier transactions, investment practices and relatively high spending on foreign travels or eating out.

- Lookalike profiles can help banks find new customers similar to those who buy premium Tommy Hilfiger clothes frequently or often eat out at Nobu restaurants when abroad. After these customers are identified, the bank can target them in a campaign with offers linked to credit cards.

2.3. EMERGING NEW SEGMENTS

With the help of unsupervised machine learning techniques detecting new lifestyle segments, data scientists can come up with new customer groups for banks to target, based on variables that have not been used or even considered before. Mapping new customer patterns can determine new, previously unknown segments. They can be triggered by life events or other changes in a customer's behaviour that moves the individual into a new group of potential customers.

- One example of new customer segments is the group of clients with flexible income or freelancer income. People in this category have been using services like Airbnb, Etsy or Ebay, and pay for Facebook advertising campaigns. They normally have foreign exchange transactions, which gives the bank a good opportunity to offer them savings products. The new segments profile can help banks predict future income trends in this category of customers, using external sources of data, and come up with new campaigns offering credit or savings to freelancers in a special programme tailored to their needs.

- Analysing existing segments in detail can also uncover new customer groups. For example, dividing customers into different segments based on how much and how frequently they normally spend on eating out can reveal significant differences between certain groups at a later stage of analysis. This data can help identify clients who prefer high-end restaurants, pubs, cafés, fast-food restaurants or even ordering food online. Banks can differentiate between well-to-do urban customers who like eating out at high-end restaurants and those with less disposable income and a preference for fast-food places.

2.4. TARGETED MERCHANT PROGRAMMES

Many banks operate merchant programmes for retailer partners to better target banking customers. But more often than not these programmes are not accurate enough, causing frustration both for the merchant partners and for the financial institutions.

Well-targeted merchant programmes can put an end to these frustrations and bring more satisfactory results. They provide information on when the customer is likely to be at a merchant location and how much time they spend near this location. It can also show how far the customer is currently located from a merchant and what the right place, the right time and the right channel is for contacting them.

Based on the shopping habits and other behavioural patterns of customers, the programme allows for laser-sharp targeting and boosts conversion rates. This tool can satisfy the bank's merchant partners and improve banking customer experience at the same time, thanks to tailor-made and relevant offers from retailers and other partners of the bank.

In addition, targeted merchant programme can also examine when, how and through what channel the customer responded to a campaign. Plus, it provides AI-based target audience recommendations, predicting the probability of purchases and also what the client is likely to buy. The following two examples show how such offers work from the customer's perspective:

- Based on location and mobile activity data, John's bank detects that he is a cycling enthusiast, and often takes certain cycling routes at weekends and usually bikes to work. After analysing device activity, speed and frequency, the bank can target John with third-party sports insurance or merchant offers from cycling shops he frequently passes by. These shops, in turn, can be selected from the bank's existing portfolio of small and medium-sized corporate clients.

- Lucy just loves coffee and likes to have her favourite latte at a small café two blocks away from her home. On her birthday, her bank can send her a gift voucher to use at this café or any other cafés she frequently visits in the city. The voucher or offer can even include her favourite coffee brand, as this information is also readily available to her bank.

SUMMARY

Customer insights are essential elements of current and future marketing strategies in banking, as they provide invaluable help for financial institutions to get a deeper understanding of behavioural patterns and individual needs. Insight-driven campaigns can rely on various in-depth profiles of the customer, should it be concerning spending habits, location, travelling abroad or digital engagement.

Insights are getting more and more important as banks are shifting from traditional demographic and geographic segmentation methods to hyper-personalisation to target customers. This brand new world requires real-time marketing action and response in the matter of seconds. Digital data solutions, including artificial intelligence and analytics tools, help banks achieve better results.

Customer insights work best, and high conversion rates can only be achieved if banks have well-designed mobile and online channels for sending out messages or offers. Also, more complex insights and profiles will not bring the desired results if banks fail to go digital end to end in customer journeys. Just imagine how effective these methods are if the customer still needs to visit a branch to apply for a mortgage. Financial institutions must have simple, fast and seamless digital processes in place to benefit from insight-driven campaigns.

The more complex a customer insight, the more use cases it can offer to banks. Besides approaching customers with their own offers, financial institutions should also look into involving third-party promotions in insight-driven campaigns to open up alternative revenue streams. Messages and offers must be relevant and personalised in all cases, and complete with advice and recommendations.

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