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EXECUTIVE SUMMARY

Equifax Task Force Report – Executive Summary

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While financial institutions (FIs) are making progress in the realm of legal and ethical data acquisition and analytics, challenges remain. That is the key message coming out of a Task Force survey of FIs that explored privacy and personalization and the ethical and safe use of client data to enhance the customer experience.

The report examined:

- their approach to leveraging events in the customer life cycle
- their use of data and analytics for prospecting, targeting and segmenting
- how legislative and regulatory requirements impact their approaches
- how companies are using data to increase their share of wallet; and
- how they use customer information to grow target audiences and personalize offers

LEVERAGING EVENTS IN THE CUSTOMER LIFE CYCLE

Major life events provide opportunities for contact with a customer or prospect. However, the value and approach to identifying and leveraging these events varies among the respondents.

Credit unions focus on community involvement and face-to-face contact and rely heavily on in-branch conversations to uncover information such as life events. This is important, especially for smaller CUs, because they may not have the budget to acquire sophisticated data and analytics systems. However, according to the CMO of a smaller CU, despite best efforts in hiring and training front-line employees, these valuable in-branch opportunities are sometimes missed.

A major challenge for community-focused institutions is that increasingly customers, especially younger ones, are not setting foot in the branches. One participant said they could not even get members through the door when they were literally giving money away via a direct mail campaign. This is a real problem when you consider the life-time value of acquiring a customer when they are young and the share-of-wallet opportunities associated with frequently sitting down with them.

The AVP of an insurance arm of a major bank indicated that they gather customer information from a variety of channels and rely heavily on data acquisition and analytics. However, unearthing a life event is difficult for them given their lack of face-to-face interaction. Recently, they partnered with a firm more connected to one particular life event in order to be introduced to that firm's customers. He believes this type of association is a trend.

Importantly, there was a general acceptance among respondents that the customer life cycle has changed. Events do not always occur in the same order or within the same age range as they once did, and some events, such as getting married, increasingly do not occur at all. Sun Life Financial (not interviewed) has a TV commercial airing currently that addresses this trend. It depicts individuals first experiencing life events in the traditional order of yester-year and then again as they might occur today.

As the CU CMO indicated, while the life event is important, the approach today has to be about "…really getting to know our individual customer/member and finding out where they're at because it's not the same for everybody. It's not simply about an age category any more, it's personalized."

The EVP of a larger CU interviewed acknowledged the life event as a business opportunity but placed far less importance on it than the smaller CU. She referred to her organization's holistic approach to identifying customer needs. She also asserted that a life event "doesn't speak as loudly as it did 20 years ago."

Clearly, in today's hyper-personalized world, a focus on life events alone is not enough.

HOW FIS USE DATA AND ANALYTICS FOR PROSPECTING, TARGETING, AND SEGMENTING

A key area of exploration in this area was the use of personas which have a new importance as automation and electronic delivery channels continue to impede personal contact.

The larger FIs, with their large electronic delivery channels, sizeable budgets and human resources, have fully embraced personas. Mid-sized FIs are engaging external experts given the considerable skills required, and smaller institutions are doing what they can with limited tools.

In terms of data analysis, the "as a service" model is the preferred route for one mid-size participant. A vendor software program enables them to analyse and integrate data and run some analytics in-house. Smaller CUs have rather limited options, largely due to budget constraints, but group purchasing via Credit Union Central provides such things as a CU member relationship tool kit, akin to a CRM program.

However, these are all blunt-edged instruments compared to what the larger institutions have at their disposal. They can afford a team of in-house data scientists to develop the customer segmentation model and other sophisticated predictive models required to determine such things as long-term customer profitability, based on certain factors. Clearly, they have the advantage.

When it comes to merging internal and external data, it can be fraught with difficulty. A mid-sized credit union has been able to find an affordable package to do this work but is struggling with integration because systems don't talk to each other. Another organization also discussed challenges, but, perhaps reflective of their more modest aspirations, given their size, noted that "it all comes together" with the vendor they have selected.

Not surprisingly, larger organizations are better positioned here too, as they have their own IT departments with the capacity, skill and sophistication to merge external market data from a variety of sources.

Social Media (SM) is not used by any of the organizations we talked to for gathering and merging customer data, but for engaging current and potential customers. Larger FIs take a more sophisticated approach and breakout SM activities into what is paid, owned and earned. The primary platforms used by all participants are Facebook and Twitter.

To conclude, all the financial institutions contacted want to make improvements in the realm of gathering and analysing customer data. The large institutions have an abundance of data and are struggling to harness the intelligence behind it. The smaller institutions, at the other end of the spectrum, struggle with the basics of trying to ensure their data is complete, up to date and accessible.

THE IMPACT OF LEGISLATIVE AND REGULATORY REQUIREMENTS

The introduction of the Canadian Anti-Spam Legislation (CASL) in 2014 has sent a chill among the larger FIs. They know their size makes them targets for penalties which can run into the millions. With the collapsing effectiveness of direct mail, many institutions had been flirting with email as a low-cost and potentially highly targeted medium, but this has been scaled back significantly.

As one participant put it "Regulation has reduced the size of our list and in some cases, we've stopped marketing with some of our partners until they got CASL-compliant." And it is not just CASL they must contend with, but the Do Not Call list, too.

Large institutions have been forced to consider different channels to reach people in order to confirm that they can communicate. Generally, there is now a greater focus on digital marketing and social presence as these are exempt from CASL regulation vs. traditional direct mail and email and while it is still relatively early days, they do seem to be having some success.

Smaller institutions have not been as affected by CASL, primarily because they are not as advanced at email marketing. Now, in the post-CASL world, they are struggling to adapt to the new regulations. Some are “starting to go digital” but cautiously — mostly “piggy backing” on the mailings they are required to send. CUs we talked to are continuing to place a good deal of importance and funds on more traditional approaches, such as sponsoring community events. Other CUs are focusing more on traditional media. One also reported trying advertising on bus shelters and bill boards, and even a radio contest which worked well as it drove winners to the branch, which is where they have most success acquiring new customers and selling their offerings.

Bottom line? While CASL and other regulations appear to impact larger FIs more than smaller ones, all of the organizations we spoke to are trying new ways to reach customers and experiencing some degree of success.

USING DATA TO INCREASE SHARE OF WALLET

Share of wallet was a sensitive topic among our participants who were careful to not disclose competitive information. However, it is no secret that the more business a customer does with a firm, the less likely they are to leave it so, not surprisingly, all respondents are taking steps to grow share of wallet.

Steps include:

- bundling offers to incent the purchase of two product lines (e.g. home and auto insurance)
- purchasing external data to pre-populate and personalize approaches making even unsolicited offers easier to accept (i.e. less customer effort required as the application form is already mostly complete)
- breaking down “artificial walls” within organizations to increase collaboration and cross selling
- gathering data about where else the customer does business, via outside sources such as credit bureaus
- reaching out to customers proactively prior to products maturing or coming due (mortgages, GICs etc.) to discuss renewal or offer new options
- conducting customer surveys to better understand their banking behaviour and preferences.

Despite these efforts, challenges remain. Department “silos” still exist, perpetuated as much by culture as by structure or regulation. As a result, for many, the sought after 360° view of the customer has yet to be attained. Data is difficult to obtain, as customers sometimes stop doing business with their FI without explanation. Or in other cases, valuable customer data is acquired but not stored or used because the FI is unclear about privacy requirements.

Not surprisingly, all respondents realize the importance of knowing more about their customers to grow share of wallet. As such, acquiring external data remains highly desirable but challenging to use effectively. As one participant asserted, it can also be distracting: “A lot of FIs don’t spend enough time mining their own data and then go buy more, then it can just complicate the situation.”

Despite this, the larger FIs want to do more. As one noted, more data about the customer has become almost an end in itself and “most companies are pursuing that Holy Grail. We’ve got data about customers in various places that we haven’t pulled together. There’s data we don’t collect that we should collect. Data we do collect that we don’t do anything with. Our data warehouses, analytics capabilities and tools are not quite there yet. Our data scientists could do more if we had a better data foundation.”

While the smaller FIs do have certain advantages over the larger FIs, such as being able to address their customer/members by name — they know it is not enough because the new world presents new challenges. “We provide a much more personal experience,” says the CMO of a smaller CU we spoke to. “But the world is changing. People don’t care about that as much anymore.”

USING CUSTOMER INFORMATION TO GROW TARGET AUDIENCES AND PERSONALIZE OFFERS

Using customer data to personalize offers remains a challenge – even for the larger FIs However, it is a priority and one that requires a combination of internal and external data, which is why FIs are starting to form partnerships with third-parties to help them. And, although they recognize they are still in the early stages of using data in this manner, one of the participants from a large institution was clear “the more relevant your conversation or offer is, the more likely you’ll have uptake.”

Small and mid-sized companies, too, despite their limitations, struggle to make the offer as personal and relevant as possible — and they do develop offerings if they see a common need among their customers. However, as previously mentioned the challenge remains of getting customers/members into the branches and to get uptake on these novel approaches — particularly difficult with millennials but also reflected in other groups.

Big or small, the use of data to personalize is powerful. It enhances the customer experience because, as pointed out by one participant, it makes the customer feel the institution is looking out for them in suggesting the best offering for them — and not just trying to make money.

Data analytics and personalized service are critical to this challenge, regardless of the size of the institution. As one mid-sized company said: “It’s not that one-size-fits-all approach. It lets us get more specific in our conversations with members, so we’re not sending them a student loan mailing in case there’s a young person living at home.”

Of course, when it comes to customer information and analytics, there is always the key issue of privacy. Large institutions have invested heavily in analytics, initially for fraud prevention, but their capabilities in the marketing area are increasing. As one interviewee noted, there is a worry that sometimes you might “spook” customers if they feel you know too much about them. Even if using that information to make their life better, it can make them hesitant to deal with you. And of course, institutions of all sizes have to be extremely careful to avoid mishandling or revealing customer information, especially with the potential threats for scams, fraud, identity theft and other risks.

These concerns apply to institutions of all sizes. When asked what their privacy concerns are with regard to analytics, one said: “everything.” And they meant “everything”. “Are we doing the right thing? Where are we getting the info? Do we have the right to use it? Ensuring the info doesn’t compromise member’s privacy. Everything about privacy is top of mind.”

Clearly, financial institutions of all sizes have come a long way in terms of their use of data to customize offerings in order to win and retain customers in a hyper-competitive world. A world where lifetime loyalty — or even long-term loyalty — to a single institution, is no longer the norm. As they struggle to implement the tools they have, some commonalities with other “retail” companies, such as size and ability to invest in technology, are critical.

But financial institutions face a number of other challenges that are distinctly non-technical which impede their progress. Regulation, workplace culture and changing consumer behaviours and attitudes present them with additional obstacles. However, the rewards for moving forward are great and the penalty for not moving forward is extreme. As a result, FIs will continue to pursue the “holy grail” of more data and greater analytics — leveraging internal capabilities and increasingly, external partnerships and offerings, to do so.