Customer level decision making

In his speech announcing the USA's intention to place a man on the lunar surface, John F Kennedy famously said, "We choose to go to the moon in this decade and do the other things, not because they are easy, but because they are hard."

This is a phrase that has resonance when considering the question of whether a financial services organisation should be introducing a true customer view into its decision assessment and lending processes.

Embarking upon the path to true customer level risk management and decision-making is a step not to be taken lightly, but the benefits in terms of decision quality, improved customer service and bottom-line contribution have been recognised by many organisations, and many are embarking on this path.

Why do you want customer level decisioning?

The proliferation of financial service products offered by retail banks, and the fundamental strategic objective to widen and deepen the number of product relationships with the customer, has thrown the limitations of product-based decision management strategies into sharp relief.

Banking organisations have tended to develop on a "silo" or product-level basis, with risk (and other) managers within each silo being responsible for decision-making, scoring and strategies for their silo alone.

Whilst this gives clear line of sight to roles, responsibilities and objectives at the product level, it has often led to a confusion of approaches to decision-making for customers when looking across silos. Inconsistent decisions, mis-communication with the customer and mixed messages are an all too frequent result of this approach.

By taking a view of the customer, restricted to a single account and its performance, account level risk management has the advantage of clarity and focus for the Risk Manager. However, one man's "focus" is another man's "failure to see the bigger picture" of the customer relationship as a whole.

The fact is that a customer's performance on their current account gives the organisation meaningful insights into the customer's likely performance on their credit card or their personal loan, and vice versa. And yet, how many organisations take the full customer view into consideration when making credit risk and other decisions and interacting with their customers?

Do I need customer level decisioning?

- Do you have three or more product lines?
- Does your organisation have a "silo" approach to Risk Management?
- Do customers frequently receive mixed messages or inconsistent decisions from your product marketers and risk decision processes?
- Do you have many sources of customer data but do not have a single customer level view of the entire relationship?
- Do you want to take more consistent, more optimised customer level decisions? ✦

The principle behind customer level decision-making involves the adoption of an holistic view of the customer, derived by looking across trading performance on all product relationships, and to transform these insights into actionable decisions across all the organisation's customer touchpoints.

This will deliver consistent treatments to the customer, and offers a range of benefits: the ability to cross-sell/up-sell new products and relationships to customers based on the strength of their overall existing relationship, and the ability to rein in lending on those customers running into difficulties on any of their existing relationships.

Less tangible benefits from the customer level view are almost as important as the bottom line impact: a reduction in bad or inconsistent decisions, improved customer service, and an enterprise wide view of the performance of each individual customer.

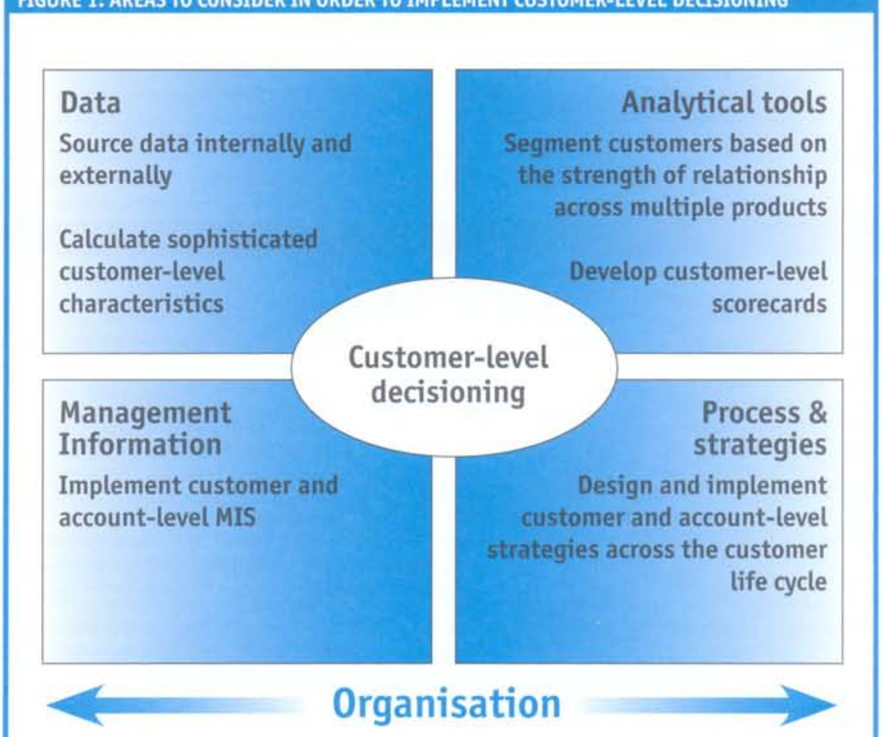
In a competitive market with increasingly sophisticated and demanding consumers, the organisation which takes a rounded view of their customer, based upon all of their behaviour will have a clear advantage over organisations which have an incomplete or partial view of the customer which lacks consistency across the product base.

Starting with the Basics

Customer level decision-making is not for everyone: businesses with limited product lines will receive diminished returns, purely because the number of multiple product relationships in their portfolio is small. Even in these situations however, there is the potential to enhance the customer view by reference to external data sources such as credit bureau data.

In some cases the organisation may have limited product lines but allow multiple instances of the product per customer

FIGURE 1: AREAS TO CONSIDER IN ORDER TO IMPLEMENT CUSTOMER-LEVEL DECISIONING



– for example multi-brand credit cards or mail order accounts in the retail sector. In these instances there are clear advantages to be gained by taking a customer view in scoring and strategy setting, but some cognisance has to be taken of the penetration of multiple accounts in the portfolio under consideration, before deciding whether the introduction of customer level decisions would be cost effective.

In general terms the key components of a customer level decision-making development can be summarised as follows:

- Setting objectives
- Obtaining management sponsorship and project resource
- Data/IT strategy
- Tools and analytics
- Processes
- Organisational considerations
- Roll-out strategy

Setting Objectives

The implications of a customer level view and of customer level decision-making can be felt across the organisation, and the typical objectives would include:

- Creating a view of performance at the individual customer level across the enterprise
- Creating a common view of customer level risk, by the introduction of customer scores and segments
- Using the customer view to drive or influence automated decision systems; for example, POS cross-sell/up-sell decisions; limit management decisions; Pay/No-Pay decisions; customer communications
- Centralised decision strategy control (generally developed and controlled by Credit Risk, with direct involvement of Marketing, Product, Operational management)
- Introducing consistency and stability into the view of the customer and by doing so take holistic decisions which minimise inconsistent actions across the product silos

In reality, a customer level decision-making process is unlikely to gain purchase within an organisation without the active sponsorship of senior management. This needs to be accompanied by a clear "Vision Statement" and a thorough evaluation process incorporating feasibility study elements; tools evaluation; process re-engineering and a clearly defined IT and data strategy.

The operational impacts of the development, organisational structures and HR implications of the development also require thorough evaluation.

Executive sponsorship and project resource

Senior management involvement is crucial to the successful introduction of a customer level decision strategy. The responsibilities of the Project Sponsor can be broadly defined as follows:

- Defining the "Vision" for the development
- Obtaining business sign-off for the investment spend
- Aligning resource for the development as a whole, and ensuring there is adequate and appropriate representation of the relevant areas of the business in the project team
- Sign-off responsibilities
- Acting as a point of escalation
- Communication – internal and external (3rd party suppliers)

With regards to project staffing, this will vary according to the structure of the organisation but would typically include representatives from the following areas of the business:

- Project sponsor
- Project management team
- IT/systems team
- Risk Management team
- Product representatives (Marketing/Product Managers etc)
- Scorecard development team (if appropriate)
- Operational systems representatives, including representatives from branch networks/training when rolling out systems changes to POS networks

Data/IT

Customer level decision-making frequently requires new thinking with regards to data structures and operational systems within the organisation. Organisations with a legacy product structure may have disparate platforms and data storage processes, and it will be necessary to draw all of these disparate sources of data together to create the customer level view for use in scoring and strategies.

This could be done with the construction of a specific datamart to create the extract file for the decision engine execution processes, or via specific match/merge processes which draw data together before final submission to the decision strategies defined by the organisation.

Most organisations look to decision engines directly controlled by their Risk Management teams via a GUI interface, to control sophisticated scoring, segmentation and strategy execution policies.

The outputs of the customer level decision-making process may be new introductions under the development (such as newly defined customer classification variables) or may replace outputs from existing decision systems and strategies, and in either case these outputs will need to be incorporated within existing operational processes. This will require additional IT development resource.

Tools – decision engines

It is unlikely that the business will wish to develop internally a fully-fledged customer level decision engine (for the execution of scores and strategies) when specific tools are available from established vendors. However, the enterprise will certainly wish to carry out system feasibility studies and a gap analysis to feed into established vendor evaluation processes before making the choice of the decision engine appropriate for their requirements.

Figure 2 (*see page 12*) shows a high level overview of the customer management decision process under discussion, which shows all its main components:

- Legacy systems as sources of data at product and customer level (management systems/warehouses/Customer Information Systems/ bureau data)
- Construction of the extract/linkage for submission to the decision engine (in this case via an intermediate datamart)
- A decision engine, which executes scores and strategies, with some illustrations of the types of decisions which are typically under the control of the decision engine
- GUI interface where risk and other analysts pro-actively manage scores and strategies (with minimised IT involvement whenever changes are made)
- Returned information from the decision engine – scores and action codes returned to operational systems; to internal datamarts and newly constructed decision datamarts
- Management Information and analytics connect to operational systems and associated datamarts, together with decision datamarts introduced under the development

Analytics- customer risk scoring

Another consequence of the organic development of multiple product lines has been the tendency of credit risk scores to →

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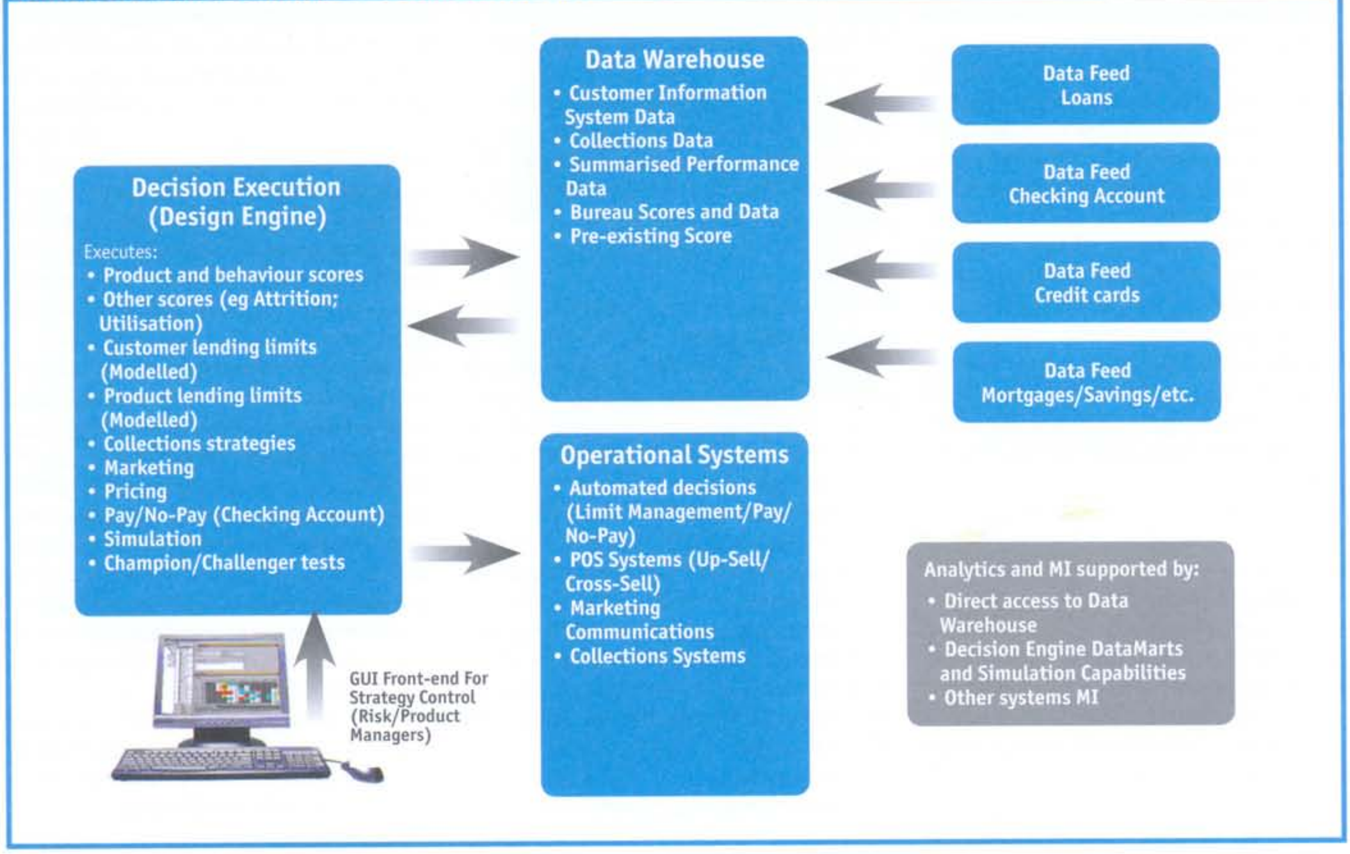
FIGURE 2: OVERVIEW OF CUSTOMER MANAGEMENT ARCHITECTURE



develop along product lines, with product level objectives.

The development of a customer level view of risk typically involves the construction of a new suite of customer level scorecards, which look across the product range. In practise many lenders re-develop product level scorecards at the same time as they develop first generation customer level scorecards, as this can provide an opportune moment to update their models.

The decision of whether to develop customer level risk scorecards and, if so, what their development variables and subsequent usage should be, will also depend on the organisation's current product mix and the state of play of its current scorecard capabilities. Figure 3 (*see page 13*) indicates the potential paths to a final decision on scorecard development.

Processes

Most customer level projects will involve some re-engineering of ancillary or dependent systems such as POS systems and automated decision processes, and it will be necessary to co-ordinate resource across the different IT areas involved to ensure all changes are properly specified and managed to the overall timelines for the project.

Organisational

Customer level decision-making works across product boundaries and it can influence, or indeed dictate, what the view of a customer may be as it relates to management of existing product decisions, and the decision on what product it would be preferable to promote to the customer next.

This may introduce some level of tension and "competitiveness" across different product silos, and care should be taken to involve product and marketing managers in the initial scoping and eventual implementation of the project, in its initial decision strategies and in subsequent strategy developments post-live. This applies equally when collections processes or branch networks are affected by the new development.

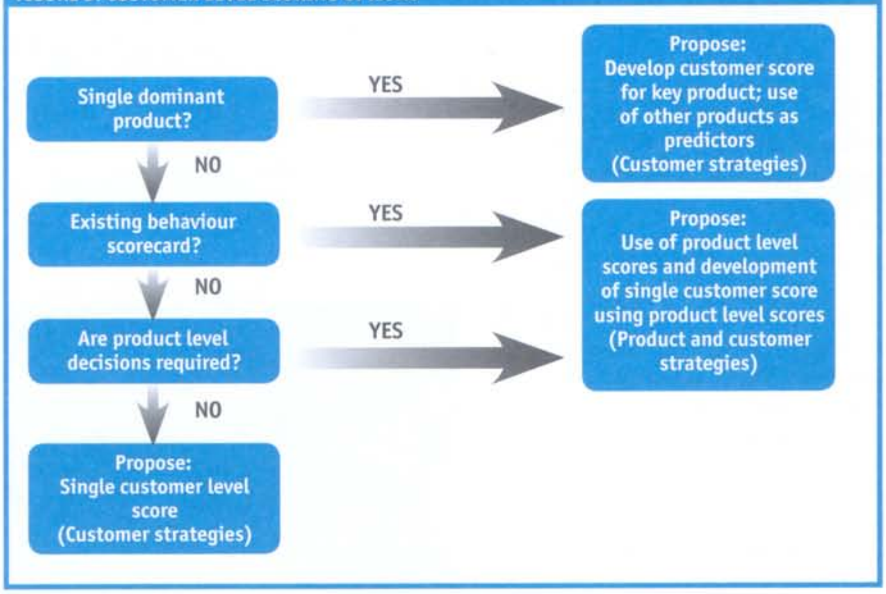
The Credit Risk team may have functional responsibility for the day-to-day development and management of decision-making strategies, but they need to ensure they obtain the co-operation of product and operational management. Equally important is the requirement for an internal sign-off process for all strategy changes before they are implemented.

The complexity of customer level decision-making and its attendant MI and analytics also dictates that the enterprise must recruit people with the appropriate experience and technical skill-sets necessary to manage the MI, analytics and strategy development processes.

Roll-out strategy

In the Retail Banking sector, a customer level view and its associated strategic actions, such as cross-sell/up-sell decisions, can have a significant impact on the world of customer-facing staff in terms of the processes and systems they use; in terms of decision and sales aids, and, indeed, in terms of the volume of work they can expect to see on a daily basis. All of these issues may require up-front understanding at the strategy definition stage: they are equally likely to mean that training and HR issues are involved and that a certain amount of thought needs to go into how a new decision strategy can be rolled out

FIGURE 3: CUSTOMER LEVEL SCORING OPTIONS



across a branch network. This may involve pilot schemes, "train-the-trainer" processes, and feedback loops, where branch staff are asked to feed back to the project team their views on strengths and weaknesses of the new processes, for further adjustments before roll-out.

In any event, any system change which involves more than superficial changes to branch working practises should be subject to a thorough evaluation, consultation and communication process before roll-out is attempted.

Customer level decision engines can be designed to control upwards of 10-15 different types of decision, and a prudent approach is to roll out each decision type according to a pre-determined implementation plan, rather than trying to roll out many strategies at once. A phased approach will give both greater control and minimise business risk.

SUMMARY

Customer level decision-making has gained something of a "Holy Grail" character over the years, in the sense that businesses recognise that it is a desirable objective which may ultimately be unobtainable because of the organisational and structural obstacles which have to be surmounted.

It is true that developing a customer level decision strategy requires a considerable amount of planning and effort if it is to be carried out successfully; however a successful development will carry with it many benefits for the enterprise concerned. ✦

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CASE STUDY

Customer level decision development

A large banking organisation, with 10 million personal and commercial customers, recognised the limitations of their current product based organisational and business structure.

It undertook a significant project to create a customer level view of behaviour and performance. This would enable the introduction of customer-centric risk management and lending decisions as well as providing an enhanced service to customers.

The bank engaged with an external supplier for consulting, analytics and the design and implementation of the decisioning tools, recognising that the experience and expertise of this specialist organisation would significantly contribute to the success of such a large and complex project.

The new system incorporates data aggregation, customer-level scorecards and multiple decisioning points across all portfolios. Automated risk assessment and decision-making processes were streamlined and enhanced.

To support the decisioning process relevant data is aggregated from multiple account level sources by interfacing with the banks datamart, account management system and external credit bureaux. Customer level systems and scorecards have been developed and are implemented across the different product areas by the central decision engine.

The customer level scorecards maximise the power of the data available and generate an individual profile for each customer. This profile incorporates risk, value and relationship indicators and is used to determine strategies and limits that reflect the complete relationship of the customer with the bank. The decision engine deploys the customer strategies consistently across the organisation.

The system is used for decisions at every stage of the customer life cycle, to proactively manage the customer relationship. For example:

- In marketing and communications for effective campaigns and increased response and take-up rates
- In evaluating existing customers for additional lending, enabling an increase in overall lending of 10% in the first year while controlling risk and bad debt
- In debt management to identify high risk customers and take appropriate action before they become delinquent
- In collections to determine the most effective strategy for recovery resulting in a reduction of write off losses of 12%

Overall the bank is able to make better and more consistent lending and management decisions as well as delivering a high standard of customer service, because decisions are made based on the relationship the bank has with the individual customer, not the account. ✦

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