Customer Mobility in Banking
and
Investment Relationships

A tactical approach to metrics and targeting using the Empirics predictive segmentations:

- Propensity to Use Multiple Financial Relationships
- Propensity to Switch Primary Financial Relationship

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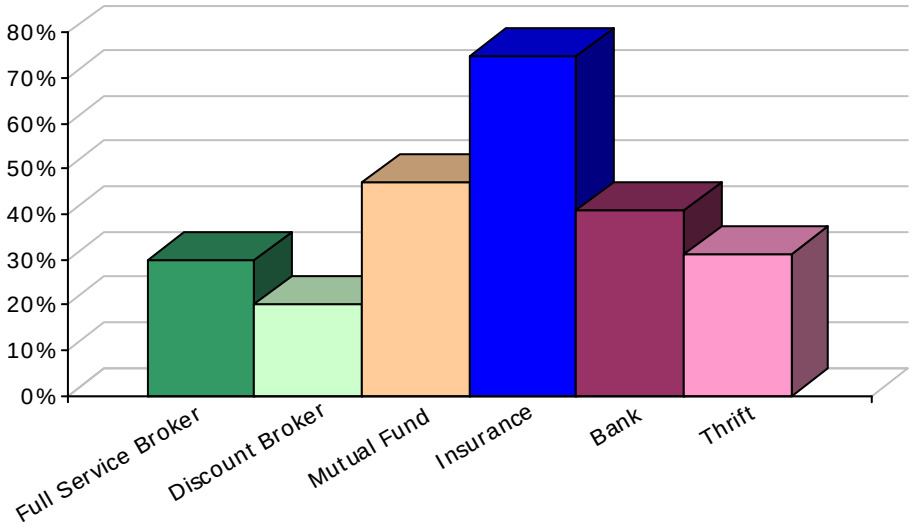
Loyalty and Cross Selling: An Incomplete Competitive Advantage in Managing Customer Mobility

Relying only on customer transaction data to drive direct marketing can limit revenue opportunities and erode competitive advantage

Mining customer data to target offers and treatments is both productive and profitable. Yet it provides a partial view of the opportunities and exposures associated with each customer. Throughout the financial services industry, acquisition, loyalty, and cross-selling programs do not take place in a vacuum. Consumers exhibit mobility by responding to their needs, interests, and offers in the marketplace, often alternating between anxiety and "gaming" the system in response to their own changing perceptions of value.

Consumer Loyalty to Financial Firms Is Not a Universal Attribute



Percent of households using more than one financial institution by type
Consumer Financial Decisions 2004 MacroMonitor

Setting insurance firms aside, if 20 to nearly 50% of households are using more than one of any of the five categories of financial service firms in the above graphic, how much "loyalty" is there in the marketplace? Higher asset households have more options and are more likely to move among multiple financial relationships. Certainly, the most attractive customers are likely to be the object of the loyalty programs of a number of competitors. None of the competitors have the complete picture of the customer.

No CRM solution or personal sales relationship can provide complete knowledge beyond the known transactions, buying behavior, and data reported to the institution. Profitably marketing financial services requires more forward-looking intelligence about current customers and prospects. This intelligence must be market-based and free from any internally-generated bias.

About Us

Information Asset Partners is an analytic product development, marketing, and consulting firm. We specialize in the development and application of precision targeting and decision support products that focus on customer value.

Managing Customer Disloyalty and Targeting Opportunity

Empirics is a series of 20 predictive segmentations that differentiate U.S. households based on their propensity to:

- **Buy specific financial products and services**
- **Have financial intents and affinities that represent unique and valuable marketing opportunities**
- **Spend or invest at specific levels**

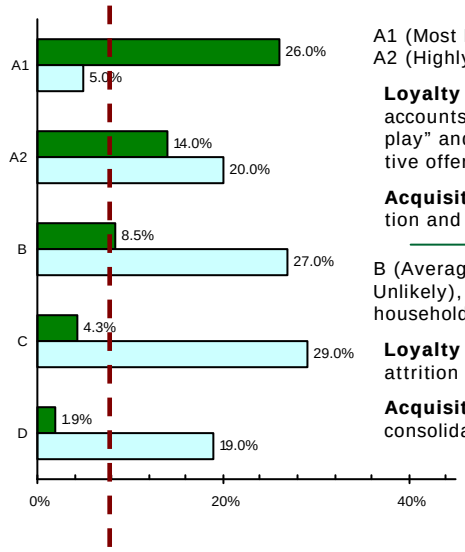
If loyalty to banks and investment firms is not a universal consumer trait, and the extent of the use of multiple financial relationships determined, how can marketers manage their customer base exposures and marketing opportunities amid increasing customer mobility?

Information Asset Partners' Empirics, the predictive segmentation for financial services marketing, provides a segmentation that is designed to identify and prioritize these exposures and opportunities.

Empirics: Use Multiple Financial Relationships

Households using multiple financial relationships to address their needs are more likely to be concentrated in 25% of households that Empirics scores Most Likely and Highly Likely

The A1 (Most Likely) households are over 3 times more likely to use more than one bank AND more than one investment firm



A1 (Most Likely) and A2 (Highly Likely) households:

Loyalty / Cross sell: At risk accounts most likely to be "in play" and target of competitive offers

Acquisition: Best consolidation and roll-over opportunities

B (Average), C (Highly Unlikely), & D (Highly Unlikely) households:

Loyalty / Cross sell: Lower attrition risk

Acquisition: Lower account consolidation appeal

Use Multiple Financial Relationships

% U.S. Households

Average Propensity: 8%

The Empirics *Use Multiple Financial Relationships* segmentation identifies and prioritizes households according to this single behavioral dimension that is not readily discoverable through internal data.

Eight percent of households overall use at least two banks and two investment relationships. For these approximately 5 million households that are Most Likely (A1) rated, this propensity is threefold higher than average. To develop programs to improve marketing performance:

Given High Propensity to Use Multiple Financial Relationships

Marketing Objective	High Customer Value	Low Customer Value
Grow the customer base	Frequent touches with higher incentives for consolidating accounts	Do not target
Increase customer value		Increase rates and fees

The Empirics product-specific segmentations provide a means of determining customer and prospect value, and targeting the campaigns to improve marketing performance.

Identifying and Managing the Propensity to Switch Primary Financial Relationship

The Empirics Switch Primary Financial Relationship and Use Multiple Financial Relationships segmentations can be used in:

- Loyalty
- Cross-selling
- Acquisition
- Market analysis

Financial marketers regularly target customer and prospect life events. What is more difficult is identifying all other instances where customers are more likely to be actively contemplating switching their primary financial relationship.

Billions of dollars are spent annually on all types of media to build brand awareness, inform the target audience, and prepare household decision makers and influencers for the transactional offer, such as a direct mail piece. Empirics provides a way to target households based on the profile of households that self-identify as currently seeking to change their primary relationship, or as frequently evaluating all their financial services providers and competitors. As financial relationship evaluators, they are likely to be significantly more mobile and paying attention.

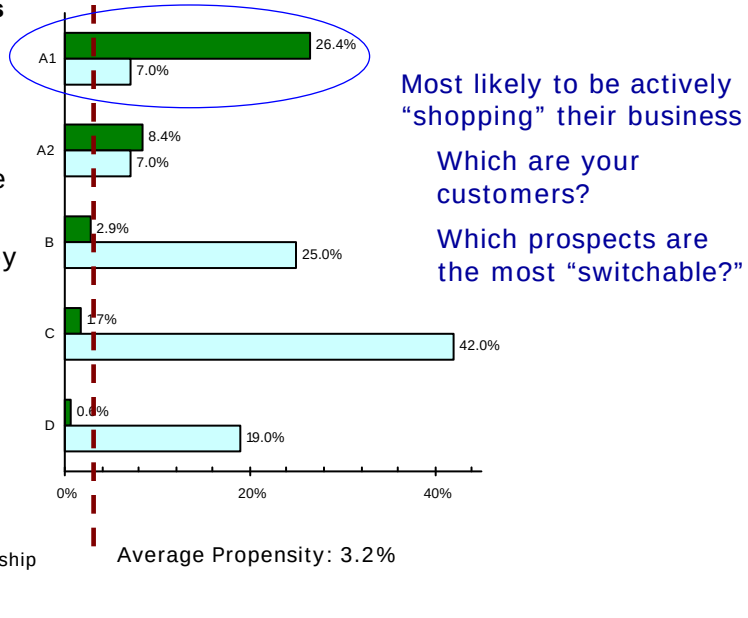
Switch Primary Financial Relationship

Marketing opportunity is concentrated:

Households represented in Empirics A1 (Most Likely) are over 8 times more likely than average to "move their money"

These most likely "money movers" are only 7% of US households

86% of households are near or well below average propensity to change their primary financial relationship



The Empirics *Switch Primary Financial Relationship* segmentation identifies "money moving" households that are eight times more likely than average to be mobile. Over time, these households will exhibit significantly higher mobility than others. Some ways to address these dynamics among these 5.3 million households include:

Given High Propensity Switch Primary Financial Relationship

Marketing Objective	High Customer Value	Low Customer Value
Grow the customer base	Frequent touches with higher incentives for becoming a new customer and for customers who more quickly buy additional products	Target only for high margin offers and products
Increase customer value		Increase rates and fees

Financial Relationship Switching and Using Multiple Financial Relationships: The Big Picture

A cross tabulation of the *Use Multiple Financial Relationships* and *Switch Primary Financial Relationship* Empirics segmentations shows that "money moving / multiple relationship" households (blue cells on the left) are outnumbered by the more loyal households (tan cells on the right) by 9 to 1.

% total U.S. households	Switch Primary Financial Relationships					
Use Multiple Financial Relationships	Most Likely	Highly Likely	Likely	Some-what Likely	Unlikely	Column Total
Most Likely	**0.5%**	**0.6%**	1.4%	1.7%	0.6%	4.8%
Highly Likely	**1.3%**	**1.6%**	4.8%	8.0%	4.4%	20.1%
Likely	1.2%	1.6%	5.5%	10.4%	6.9%	25.6%
Somewhat Likely	1.1%	1.5%	5.2%	**11.4%**	**10.4%**	29.6%
Unlikely	1.1%	1.1%	3.4%	**7.0%**	**7.3%**	19.9%
Row Total	5.1%	6.4%	20.2%	38.5%	29.7%	100.0%

If you have a more affluent customer base, you will likely have a higher percentage of your customers who score in the blue cells. If you seek to acquire new customers, you will likely acquire a higher percentage of customers from or near the blue cells. For any new, more mobile customers that you acquire, the task will then be to quickly induce them to behave like the more loyal households in the tan cells.

About Empirics: Empirics is the predictive segmentation for financial services marketing. Because the segmentations represent universal behavioral dynamics observed in the market, no customer data is required. Privacy is fully assured. Visit IAP's Web site for further information.

Empirics provides:

- **Improved campaign response**
- **Direct financial product buying behavior metrics**
- **Larger, more productive campaigns**

Contact Information Asset Partners for further information and case studies

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