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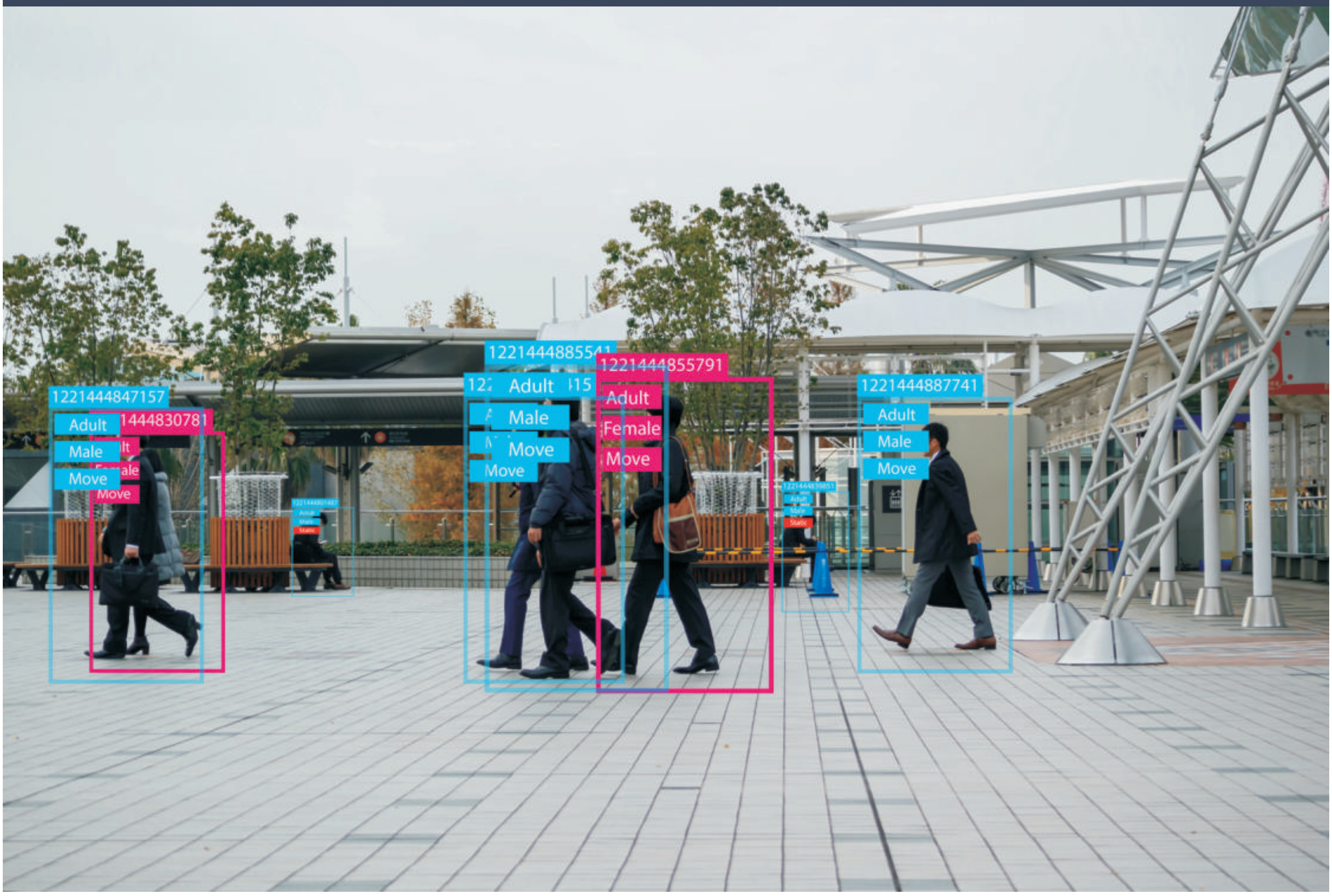
How Predictive Analytics is changing the banking demography?



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How Predictive Analytics is changing the banking demography?

Majority of organizations are slowly but steadily establishing analytics as an important business discipline and banking institutions are increasingly joining the bandwagon. If real-time examples are to be looked at, a well-established European bank resorted to machine learning strategies and predictive analytical models for determining the presence of active customers and prospective campaigns. This immediately resulted in increased profitability and reduced churn rates.

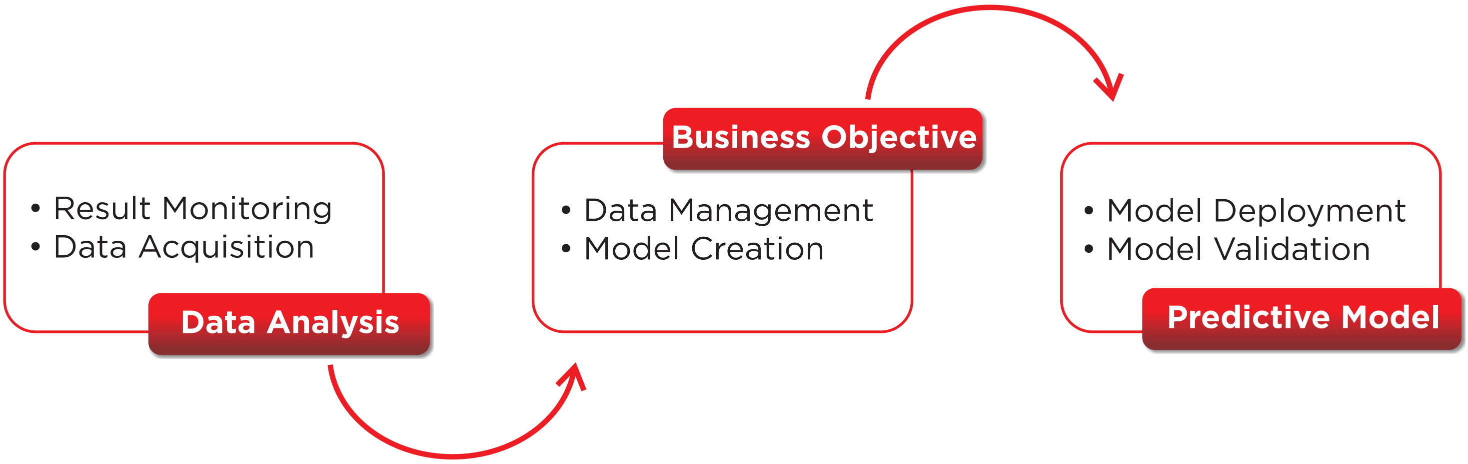
In addition to that, several banking organizations in the United States have already started emphasizing on predictive analytics tools for establishing better relationships with the clients. Therefore, it wouldn't be wrong to assume that predictive analytics have actually transformed the banking demography with organizations increasingly relying more on patterns and less on the conventional aspects of marketing. Put simply, the entire global banking sector has been witnessing steady growth for the past few months, courtesy the involvement of analytical tools.

Apart from that, several Asia-specific consumer banks have also deployed predictive analytics tools for exploring customer demographics, card statements, online purchases and other key aspects which are of strategic importance. Moreover, it is important to note that having a predictive model on-board allows a company to look at more than 15,000 micro-segments or more— pertaining to the customer base. This, in turn, increases the purchase likelihood by 300 percent.

Let's Analyze the Flipsides

While we have already enlisted some of the positive aspects of predictive analytics before even starting with a detailed conversation, it is also important to meander over the existing loopholes, in order to attain an unbiased point of view regarding its implementation within the banking sector. Firstly, it becomes difficult for the banks to scale up the ROI with predictive analytics at the core of the business processes. In addition to that, majority of organizations feel that predictive analytics, courtesy it's convoluted nature can only be used as a secondary tool for handling payments, online transactions and other financial investments.

How Predictive Analytics can contribute towards Better Banking Decisions?



As mentioned previously, Predictive analytics can easily optimize the process of targeting while facilitating exceptional levels of customer segmentation. With a right tool in place, it would become easier for the banking organizations to expand their customer base. Additionally, according to reliable survey reports, majority of banks with predictive analytics in place have witnesses a minimum of 10 percent growth, in terms of customer opportunities and retention. In the subsequent sections we shall look at specific areas where predictive analytics can contribute when it comes to refurbishing the banking demography.

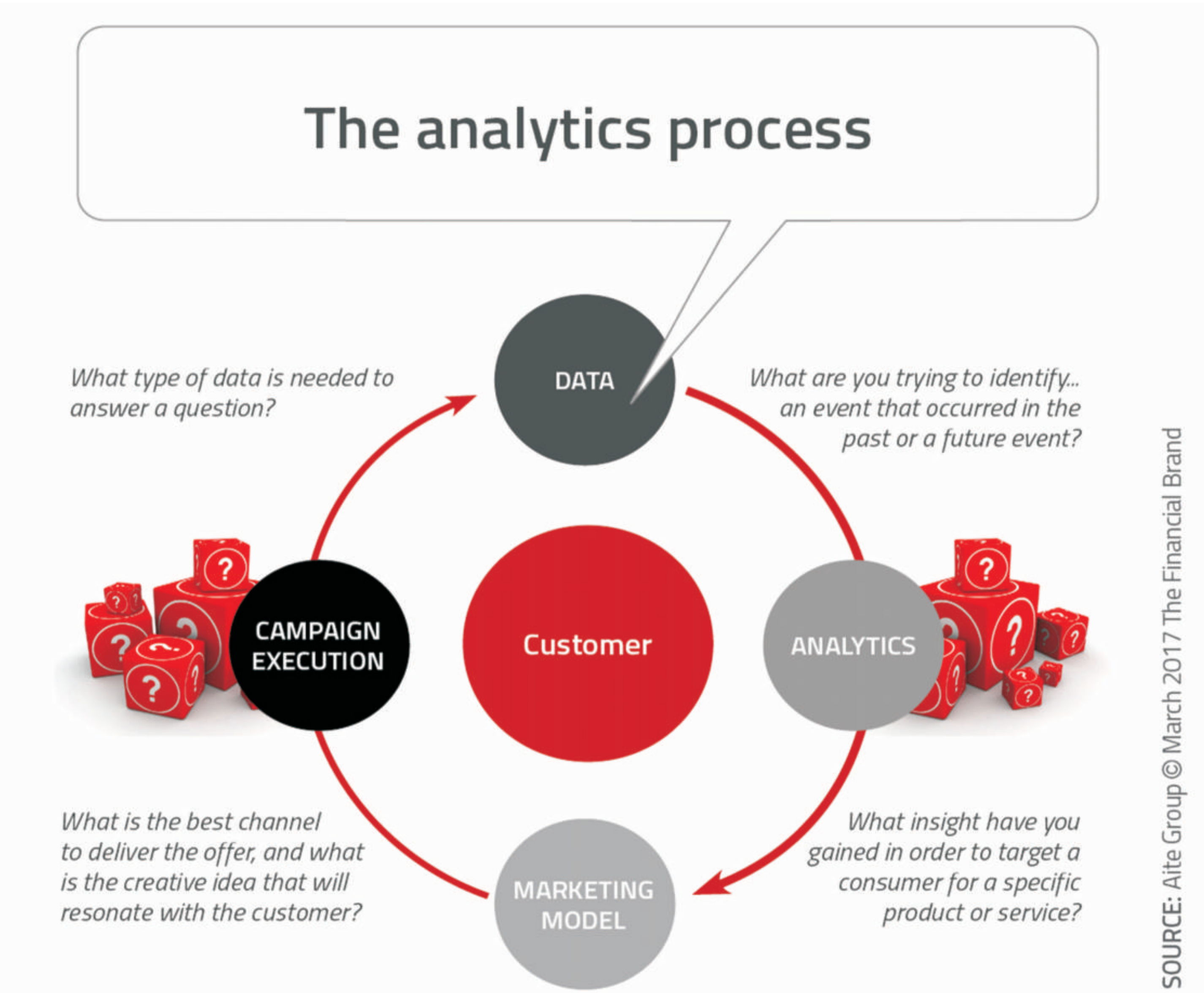
Minimizing Fraud Detection

Frauds are the banking commonplaces which every customer is worried about. Although the entire BFSI sector has experienced frauds in some way or the other, the ripples are extensively felt by the banking organizations courtesy the involvement of digitization. With majority of functions shifted to online premises, banks usually come across as havens for cyber criminals and hackers. The only way to prevent the proliferation of the same is to apply intelligent, preventive measures. Machine learning and predictive analytics are the most sought after solutions when it comes to detecting and mitigating instances of fraud. The entire fraud detection and mitigation hierarchy works perfectly when predictive analytics tools work in cohesion with supervised machine learning principles and data integration techniques.

Excellent Application Screening

Banking organizations usually deal with massive proportions of data and humongous volumes of practical applications. Conventional techniques which were previously used for tracking the banking essentials often failed to include the necessary variables associated with the data and applications. However, predictive analytics works differently and renders a sense of steadiness and regularity to the banking affairs. This, in turn, results in authentic and accurate results. Therefore, majority of companies are increasingly relying on predictive analytics instead of working with traditional screening techniques.

Understanding Customer Habits Better



Analytics can help banking organizations identify the right product and even the usage patterns associated with the same. It all starts with a predictive model which is then used for segregating customers according to the market potential. Once the customer bases are segmented, a predictive analytical model can send out highly customized and personalized messages to the select audience base; thereby improving overall response rates. With the right message reaching out to the right people, it becomes easier for the organizations to send across the intended product. Put simply, predictive analytics allows banks to gauge the buying patterns of users and then pushes forth the right product to each one of them.

Improving Cross-Selling

Once again, it all comes down to extrapolated customer behaviors and the buying patterns associated with the same. Banking scenarios with cross-selling options usually involve instances where products are sold on the basis of transactional outcomes. While this improves profitability and strengthens customer relationships, predictive analytics has an important role to play when it comes to popularizing this concept. The latter takes the current purchase habits into account and draws a premise of products which might interest the concerned user base. The analytical tool examines spending, usage and every metric that might facilitate cross-selling in the best possible manner.

Encouraging Retention and Acquisition

With optimized targeting being an option, predictive analytics plays a pivotal role when it comes to improving customer retention and customer acquisition levels. The concerned tools, if applied properly, can help identify customers that are likely to end relationship with the organization. In addition to that, the acquired insights can be applied for keeping the loyal customers interested for a longer period of time. The data offered by a predictive model can readily help discover the best strategies for a business while identifying the existing churn patterns. More often than not, banking organizations fail to concentrate on specific customers as they have massive data sets to work with. A predictive model, however, interprets specific customer habits and examines the efficacy of past services, service performance and other aspects which contribute towards higher levels of customer retention.

Addressing Banking Collections

Defaulters are common when it comes to a banking organization. Having predictive analytics on-board allows the banks to keep a track of the collections while helping them zero in on the defaulters. Moreover, the predictive model also analyses the productivity of the collection process by marking customers who pay early. This, eventually, streamlines the entire process of collection.

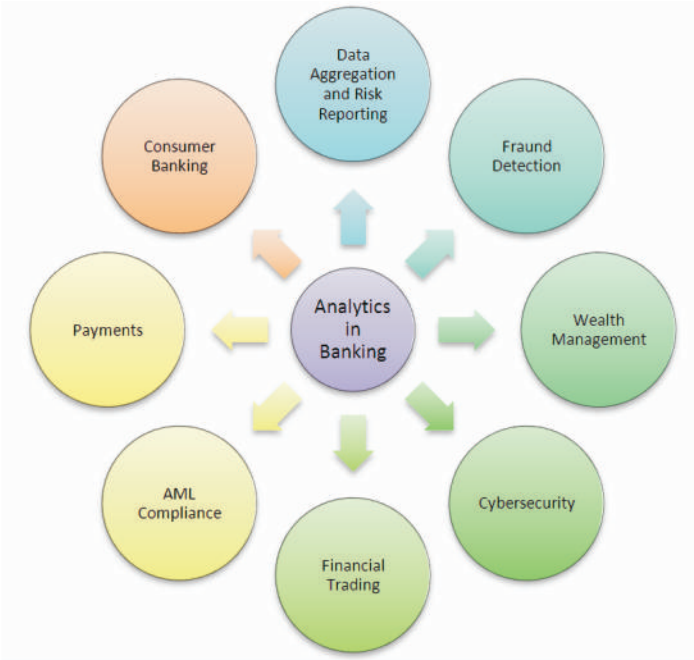
Assisting with Marketing Optimization

Even banking organizations need to work with optimized campaigns, customized campaigns and diverse programs for keeping the clientele interested. Predictive analytics helps the institutions formulate certain strategies based on extrapolated inferences. The existing tools offer insights into customer behavior and attitude while empowering the marketing team to deliver the right message.

Facilitating Better Liquidity Planning

When it comes to banks, there has to be a synergy between the in and out payments. Be it the cash flow in the form of deposits or ATM-specific transactions, having a predictive model at the helm allows banks to track the existing usage patterns. Apart from that, predictive analytics also facilitate optimal financial management which eventually results in extra income and increased profitability. Any changes in the investment figures and liquidity strategies can also be predicted beforehand with predictive analytics.

Supporting Feedback Management



Before we understand how predictive analytics impacts feedback management, it would be appropriate to analyze the latter from a financial point of view. The importance of feedback management in the context of banking cannot be undermined as it helps organizations reverse map customer preferences with the preferred product sets. Predictive analytics, therefore, works alongside different industry verticals while allowing businesses to grow in an unhindered manner.

Assessing Customer Lifetime Value

Here is one aspect of financial management which is best represented with predictive analytics on-board. However, the actual concept of LTV aims at retaining the loyal customers while identifying the ones which can turn into lucrative prospects, in days to come. This is where predictive analytics comes to the fore as it allows banking organizations to win over some of the more skeptical customers and convert them into a loyal base. Moreover, analytics also zeros in on the perfect customer engagement strategies, depending on the existing functionalities. Lastly, predictive analytics also works perfectly when it comes to understanding the effectiveness of certain promotional strategies and messages and how customers would respond to the same.

The 'Future' of Financial Management and Marketing?

Needless to say, the entire BFSI sector needs to rely on advanced analytics for meeting the never-ending expectations of the customer base. However, the trick is to analyze the internal reports and pair them up with futuristic tools and modeling trends.

Based on a report released by the Alite Group, majority of banking organizations are deploying data sources and advanced analytical techniques for retaining customers in the long run. *source*

The future of financial management basically thrives on a few select marketing trends which eventually determine the efficacy of an analytical model. Banking firms usually resort to analytical model for:

1. Generating higher levels of relationship revenue
2. Gauging and tapping customer expectations
3. Focusing on operational efficiency and improved organizational performances
4. Making use of digital engagement with competitive differentiation on-board

Data Differentiation: A Case Study

Banking organizations are increasingly opting for data differentiation when it comes to pulling customers in. This approach works perfectly when the predictive model is used to analyze multiple channels for extracting different versions of customer data. Put simply, this approach is more like looking into the future of marketing, as proposed earlier by some of the leading firms like Apple, Google and Facebook.

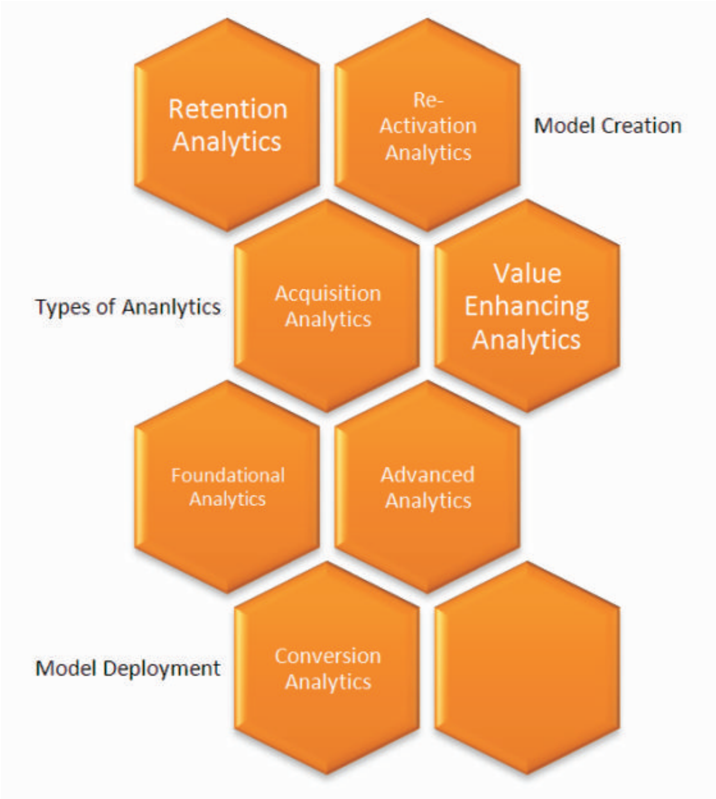
According to reports released by the PACE index, 56 percent of users anticipate at least one financial implication in less than three years and this figure goes up to 76 percent with predictive analytics at the helm. *source*

Converting Data into Functional Insights

Before a banking organization starts using predictive analytics for changing the demography, it is important to answer a few pertinent questions associated with data analysis. Firstly, the organization needs to ascertain the data type and try to identify the same on the basis of past events. Additionally, a predictive analytical model works best when the concerned organization understands the nature of insights and can also identify the best channel for procuring the same. When it comes to segregating the data sources, it's all about looking at the channel preferences, social media insights, bill payment options, mobile data and other available insights which can and should make a difference to the existing banking demography.

Types of Analytics

Although we are restricting our discussion to predictive analytics, majority of banking organizations make use of foundational analytics and advanced analytics in addition to a predictive model. These include a healthy combination of metrics for measuring operational reporting, marketing performance and customer portfolio performance. Then again, even a predictive analytical model leverages other types of analytics for reaching out better to the customers.



Inference

In a nutshell, predictive analytics can easily be considered as the future of financial marketing. While it offers a real-time experience to the clients, in terms of financial solutions, it has advanced forms that can work with diverse organizations, regardless of their size. Having predictive analytics at the helm renders better advisory positioning to the banking firms while improving their relationship with customers and prospective leads.