Visa Consulting & Analytics (VCA)

Holding on to your best customers using behavioral banking

A strategic approach to boosting customer retention

Introduction – from demographics to behaviors

There are several reasons why customer relationships come to an end (location changes, lifestyle changes, or poor experiences, for example). Retaining the right customers involves understanding the needs of high-value customers and ensuring they regard the company as a partner in fulfilling those needs.

Demographic data like age and income are not sufficient to design products and services to meet customers' individual needs. For example, a new graduate, an expat professional, and a recent divorcee may all need products that help them settle into a new apartment, though their age and incomes may be different, their product needs may in fact overlap. Customer lives are longer, more diverse, less predictable and typically cover multiple overlapping stages.

By looking at behavioral attributes like spend information, payments players can inform more actionable retention strategies, anticipating and guiding customers to the right services to address their evolving needs.
Primarily, behavioral banking aims to strengthen customer relationships by delivering personalized products and services that evolve with the customer's needs and choices. This improves customer satisfaction and loyalty, ultimately resulting in greater customer retention and enhanced lifetime customer value.

In this paper, Visa Consulting & Analytics (VCA) explores the concept of behavioral banking, investigates the impact on customer retention, offers some best practice examples from around the world, and provides a proven, three-step approach for banks to follow.

Understanding behavioral banking

We define behavioral banking as the use of data to understand customer life stages and lifestyles and proactively offer them tailored products and services. This approach to banking recognizes that, as people embark on new life stages, their financial needs evolve, and they seek out relevant banking products that are appropriate not only to their age and income level, but also to their lifestyle and personal aspirations.

Additionally, key to providing personalized services to cardholders is transparency and building consumer trust in how their data is used. Obtaining affirmative, express consent and overseeing these services with strong data governance are also important considerations for banks.

By proactively anticipating these needs and offering up relevant products and services to consumers who have opted into behavioral banking, banks can deepen relationships and boost retention.

Digging into life stage + lifestyle

Previously, the course of people's lives was relatively predictable. Brands tended to think of customer life stages as a linear three-stage process encompassing **education**, **work** and **retirement**. Today, people's lives are longer, more diverse, less predictable and typically cover multiple, over-lapping stages. And people of similar ages with similar incomes can have very different financial needs and expectations.

Today's world is characterised by unpredictable lives, with multiple, over-lapping life events

The three stage model	The multi-stage life
EDUCATION	• UNDERGRADUATE EDUCATION • VOCATIONAL EDUCATION • APPRENTICESHIP • DOCTORATE-LEVEL STUDIES • MASTERS EDUCATION • ACADEMIC RESEARCH
WORK	• WORK DURING TRAVEL • TIME OUT TO TRAVEL • EMPLOYMENT IN AN ORGANIZATION • SELF EMPLOYMENT • GIG ECONOMY WORK • ESTABLISHING A START-UP • PORTFOLIO WORK • FREELANCE CONTRACTS
RETIREMENT	• SEMI-RETIREMENT • RETIREMENT

Lives diverge – and so do financial needs

Two people of the same age, who come from the same neighbourhood, and have similar incomes, may not have much else in common. In fact, they are likely to be in different life stages, follow different lifestyles, and have different financial needs. Let's consider a fictitious example involving two childhood friends, Michael and Sachin, who lived on the same street, and went to the same school, but took very different life paths.

Michael's story		Sachin's story
	THE PATHS THEY TAKE	
Takes an engineering apprenticeship with a local firm, marries young, buys a suburban house, has three children, moves to a bigger house and, after spending his entire career with the same firm, retires to the country.		Goes away to university, travels the world, returns to academia, rents a downtown apartment, chooses not to have children, starts consulting for a portfolio of clients, settles down to a leisurely life of semi-retirement.
	THE LIVES THEY LIVE	
Nurtures his family, enjoys outdoor pursuits, has a home-centred life, drives a minivan.		An avid traveller, who eats out regularly, enjoys cultural pursuits, drives an electric vehicle.
	THE TYPE OF FINANCIAL NEEDS THEY HAVE ALONG THE WAY	
• Car finance • Starter mortgage • Saving for children's education • Retirement planning • Equity release on his house		• Student account and education loan • Travel & lifestyle benefits • Premium card account • Investment advice • Business-related insurance

Behavior beats demographics

Given this diversity and unpredictability, traditional age-based and wealth-based segmentations are less meaningful. And, in all sectors, marketers are shifting to more nuanced ways to segment consumers based on their life events, habits and behaviors.

So, let's consider the levels of diversity to be expected among seemingly similar people – or the level of similarity among seemingly diverse people:

Same demographic – different lifestyle

Lisa Female, 24	**Nadia** Female, 24	**Jennifer** Female, 24
Working on her masters, shares an apartment. Loves Starbucks, Shake Shack and Rakuten	Home from studying overseas and living with her parents while job hunting. Loves Chipotle and watching Succession	Recently married, expecting her first child and looking for a bigger home. Loves Vinted, Etsy and Poshmark

Different demographic – same life event

Rita Female, 32	**Frank** Male, 43	**Stuart** Male, 45
Originally from the USA, she has landed a lucrative three-year contract in Singapore and **just bought a new apartment**	Has always lived and worked in London. Divorced and **just bought a new apartment**	Recently returned to Dubai after studying and working aboard. Excited to be back in Dubai, and **just bought a new home**

In theory at least, banks are in a privileged position. Through their payment data, they have a line-of-sight to where and how their customers are spending their money. And this, in turn, can deliver insights into people's habits, attitudes, life stage and lifestyles. So, instead of offering a monotone suite of standard products, banks have the capability to orchestrate a dynamic symphony of tailored services – perfectly in tune with each customer's individual financial melody.

Using their existing data assets and relationships, banks are able to discern the rhythm and the key events in their customers' lives, extrapolate their likely needs, and develop products and services accordingly:

Finding inspiration in banking and financial services

Several banks and financial services providers around the world are already zeroing in on customer circumstances, by constructing and promoting products and services that are specifically intended to help customers navigate new life stages.

Example #1
Launching a career

A leading U.S bank focuses on the transition from college life, teaching fresh graduates how to choose a credit card, how to budget and track their spending, and how to pay off their student loans. It also provides financial-related tips and resources for job hunting, preparing for job interviews, and starting a new job.[1]

Example #2
Managing a growing family

Another leading U.S. bank has a special department focused on personalized investment advice to help customers adapt to new life stages. As well as standard topics like marriage and having children, the banking app provides a section on investments and real estate, and how to teach your children financial literacy.[2]

Example #3
Becoming self-employed

A UK bank provides advice and guidance to customers on how best to create and run a small business and manage its finances. It also gives recommendations on its further management, security, choice of payroll system, performance assessment tools, forms of labor relations, employee motivation, and building strong relationships with clients.[3]

1. US Bank, Make the transition from student life: https://www.usbank.com/financialiq/manage-your-household/life-events/graduating-from-college.html
2. Wells Fargo, New Baby - How should you prepare financially for little ones joining the family: https://www.wellsfargo.com/financial-health/life-events/budgeting-for-a-baby/
3. Lloyds Bank, Resource Centre: https://www.lloydsbank.com/business/resource-centre/home.html

A three-step approach to behavioral banking

Although the principles and disciplines of behavioral banking may be new to many institutions, a simple and standardized three-step methodology can be used to unlock its benefits.

STEP 1

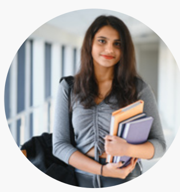
SEGMENTATION

Customer data is analyzed to categorize customers into different segments based on their age, income, lifestyle, and banking habits.

The customer lifecycle is typically segmented into six life stages, each with its own unique banking needs and objectives:

Youth

Younger people are more likely to be comfortable with mobile and digital technology, and use it to access almost everything. Meanwhile, they may have less experience in managing money, setting budgets, or planning for the future. So, they may expect digital-only ways to handle their money and learn how best to manage it.

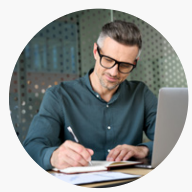


Students

University or college students are more likely to have fairly complex financial lives, and may have tight budgets. Their courses may be financed via loans, they may need to find ways to balance their finances, they often expect to deal with everything digitally, and price could be a concern.

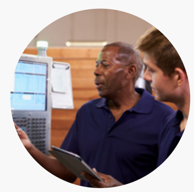
Early career

At this this stage, customers may be going through a series of big life events, like getting married, having children, moving house,and acquiring a new car, and their financial needs could be equally significant.



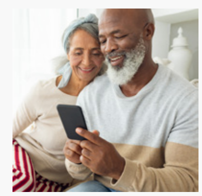
Mid-career

For these customers, the focus may shift. Those with children may think about how to finance their education and get them better established in life. Often, they may take a different career path, such as freelancing or portfolio working. And those who have built up their wealth may want to consolidate it.



Pre-retirement

As customers come towards the end of their careers, they may think more about planning for retirement, typically focusing on maximizing their savings and investments. With their children away from home, they may want to travel more extensively. And they may also get more concerned about their general health and wellbeing.



Retirement

After retirement, people may be concerned about how best to manage and drawdown on the wealth they have built up during their working lives. They may also be thinking about their estate, and how best to pass it over to their beneficiaries.

By combining these life stages with peoples' lifestyles, an extra layer of specificity is added, which addresses not just a customer's age and potential financial needs, but also their habits, preferences, and personal circumstances.

Understand customer lifestyles

The term lifestyle refers to the way a person lives, which includes their attitudes, tastes, moral standards, economic activity, and personal beliefs. Banks have access to massive amounts of customer data that can help them understand these factors. Use this data to identify patterns and lifestyle attributes.

Conduct lifestyle segmentation

Segment customers based on lifestyle attributes and financial needs at different life stages.

For example, a young professional who prioritizes travel is likely to need different services from one who is saving for a home down payment.

Machine learning techniques can help to sort people from specific life stages into distinct groups with varying lifestyle preferences.

For example, the **early career** segment could be structured into three further sub-segments:

Early career

Living on my own

- ages 20-29
- without children
- least likely to own a house

Advancing in my career

- ages 24-39
- without children
- least likely to own a car

Raising my family

- ages 24-39
- with at least one child
- most likely to own a car and be looking to move to a new home

Clearly, each of these sub-segments will have very different financial needs and merchant preferences, and would be attracted by relevant propositions and benefits.

STEP 2

PRODUCT DESIGN AND DEVELOPMENT

Drawing on the data analysis, and supplementing it with deep client research, a suite of tailor-made products and services are designed to meet the needs of each segment.

Using the analysis and insights from the segmentation step, banks can plan and develop personalized products and services. For example, in addition to student loans for the student life stage, a bank could choose to offer international travel insurance for students studying abroad and/or a cross-border funds transfer facility for their parents to use.

Typically, banks can deploy many of their existing products and services and combine them with newly developed ones. But it pays to be measured, disciplined and pragmatic. Before embarking on product and service design, all assumptions should be checked and validated through prototyping, testing and deep client research (among both existing and potential clients). In this way a prioritized list of the most promising and attainable new products and services could be developed and worked through.

Banks should also be clear about the type of services they wish to offer. The propositions could range from banking-only solutions to a broad set of lifestyle services. The route taken is likely to depend on the appetite of the bank to enter new areas and/or its willingness to solve via partnerships.

Having a tailored offering for each segment and sub-segment then enables a bank to test its selected value propositions, even when some products/services only exist as early minimum viable propositions (MVPs).
Examples could include:

Parent professional

In their early- to mid-career life stage, this customer is both a working professional and a parent to young children. They may have a demanding job, a busy homelife, and also need to plan for their family's future. To cope with this busyness they may be looking for online, self-serve convenience, and the ability to automate their everyday money management.

Start-up entrepreneur

A member of the younger, early career generation, this customer is also an aspiring entrepreneur. They may have a big idea for a business – perhaps a lifestyle business, perhaps something more scalable – and want to be able to make it a reality, perhaps with the the right set of financial products, plus access to informed mentoring.

Retired traveler

Not all retirees are content to stay at home. This customer has a wanderlust lifestyle in their retirement life stage and they may want some help and encouragement. That could include rewards for their travel-related spending, low-cost ways to manage their money while traveling overseas, and the reassurance that, if something does go wrong, they're covered financially.

STEP 3

COMMUNICATION AND ENGAGEMENT

Pre-existing marketing channels are deployed to communicate the tailored offerings to the target segments, and the sales operation is prepared for support and onboarding.

Banks should leverage a range of engagement channels to communicate their tailored offerings to the target segments. The aim is to deliver a highly targeted message to a distinct sub-segment, with as little wastage as possible. So, identifying the right customers, the preferred channels of communication and crafting effective marketing strategies forms an integral part of behavioral banking's success. Priority considerations for this step include:

Identifying the right channels

Each customer segment has unique preferences for receiving communication. While the younger generation may prefer digital communications, including social media, email, or mobile apps, the older generation might be more inclined towards traditional forms such as direct mail, phone calls, or branch visits. Therefore, as part of their engagement strategy, banks need to identify the unique mix of channels that cater to each segment most effectively.

Crafting the right messages

Customizing the offerings isn't enough. Banks should also tailor their communication to their respective audience. It is important to ensure that the right message is delivered using the tone, language, visuals, and values that are most likely to connect with that specific audience. For example, messages targeting young adults should be more dynamic, using youthful language and visuals, whereas messaging for seniors should offer a sense of security and detail the benefits explicitly.

Deploying the right mix of channels

Banks should aim to efficiently and effectively utilize the full range of available channels, including online (websites, social media platforms, emails), mobile (apps, SMS), affiliates, and offline methods (direct marketing, branch promotions) to ensure their tailored offerings reach the targeted customer segments. Also, a multichannel strategy can enable a seamless customer experience, thereby improving overall engagement.

Sales strategy

The frontline team is likely to play a key role in the success, especially among any sub-segments that like to engage with actual people. The customer service teams should therefore be trained to understand the value propositions of the various life stage products, so they can effectively communicate and sell these to the customers who belong to respective stages. Staff training, webinars, seminars, and expert consultation should be organized regularly to ensure a proper understanding of these life stage products and the value they can create – for the customers and the bank alike.

Staying focused on the ultimate goal

It's easy to get side-tracked by the details of behavioral banking and lose sight of the goal – which is all about happier clients, who are proactively offered more relevant products and services, and establish deeper and longer relationships.

The enablers of behavioral banking

1 Enhanced engagement

Increase customization and relevance of propositions, channels and messaging

2 Enhanced retention

A product suite, and a style of communication that evolves in-step with a customer's changing needs

The ultimate goal

Primarily, behavioral banking aims to strengthen customer-bank relationships by delivering personalized products and services that evolve with the customer's needs. This improves customer satisfaction and loyalty, ultimately resulting in greater customer retention and enhanced lifetime customer value.

At VCA, we believe it is becoming essential for banks to continuously analyze customer data, devise tailor-made offerings, and use effective communication channels to reach their target audience. In today's banking landscape, a one-size-fits-all approach is no longer viable. Service personalization and customization are the keys to staying relevant and competitive.

Five key learnings

Our analysis of behavioral banking can be boiled down to five main learnings:

Learning #1 **Lives diverge**	Today, more than ever before, different people take very different life trajectories. Someone's background is not an accurate predictor of the type of career they will pursue or the way they will end up leading their lives – or what they will need from a bank as they enter different life stages.
Learning #2 **Behavior beats demographics**	Traditional age-based, wealth-based, and gender-based segmentations have lost their potency. To understand and predict what customers may truly want from them, it's necessary for banks to discern both their life stage (which is often quite easy to do) and their lifestyle (which tends to be more complex).
Learning #3 **Banks benefit from privileged insights**	Through their payment and transaction data, banks have a direct line of sight to the way people are actually living their lives. By analyzing purchasing behaviors and applying smart analytic techniques, it becomes possible to segment customers according to their life stages, their lifestyles, and their related behaviors.
Learning #4 **Relevance is key to retention**	By personalizing propositions and campaigns, and aligning them with people's actual behaviors, banks can build more lasting relationships – by proactively reaching out with suggestions and solutions that are directly relevant to a customer's life stage and lifestyle.
Learning #5 **Banks can apply a three-step approach**	Developing a behavioral banking approach is not as complex as it may sound. Banks can apply a well-proven three-step approach that encompasses segmentation, product design and development, and communication and engagement.

About Visa Consulting & Analytics

We are a global team of 1300+ of payments consultants, digital marketing specialists, data scientists, and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital, and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

VCA has worked on a range of related strategic planning, solution design, and market entry strategies for behavioral banking, globally.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com or visit us at Visa.com/VCA

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