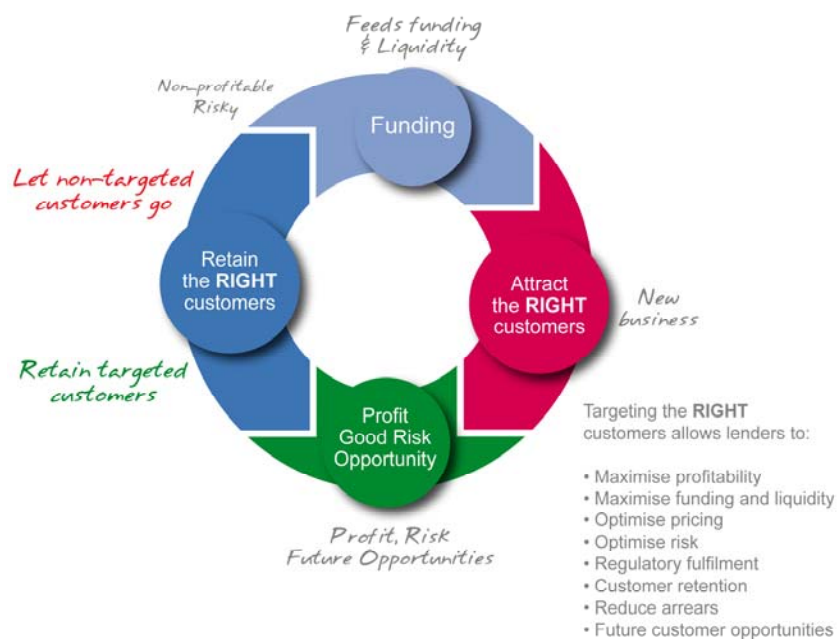


Attracting and retaining the right customers

Andrew Levers at N4 takes a look at lenders today and their strategies for attracting and retaining the right customers

In unprecedented market conditions balancing risk and reward is becoming critical. Lenders' attraction and retention strategies are being scrutinised by a multitude of stakeholders including the Bank of England, the Treasury and the FSA as well as ordinary investors and indeed the public at large. It is, therefore, essential that attraction and retention is optimised so as to maximise profitability, optimise operational costs and minimise risk, whilst carefully utilising resources and capital funding; all of course within the backdrop of TCF.

Attracting and retaining the right customers are inextricably linked because establishing the right method of attracting customers will lead to solid customer retention. In the chart below the perpetual circle shows how a long-term strategy of attracting and retaining the right customer can have a positive impact on many factors and, ultimately, will result in a more profitable mortgage book.



The use of data and technology

Until recently, attracting customers has not been a difficult task for any lender in terms of business volume. However, apart from risk assessments (which are, of course, essential) all customers had virtually been treated to the same service, processes, sales channels, products and more or less the same pricing. Recent events have, however, caused most lenders to ask whether they had been targeting the right customers?

We have all heard much about pricing for risk but what about 'price-for-good-risk' or 'right customer, right price'? Up until now many lenders have largely failed to build into their customer attraction strategies factors such as customer profitability, future potential and cross-sale propensity.

One of the reasons why this has been so difficult to achieve in the past is the availability of accurate and timely data. Available information has often been historic and out of date and has, therefore, not been current enough to make real-time decisions.

Advances in data collection and manipulation models have been significant in recent times, and modern technology systems now allow for this data to be brought easily into the sales process in real-time. Not only does this help assess the right risk and detect fraud, but it also helps with more accurate pricing (down to individual customer level), the maximising of every opportunity and the ability to increase cross-sales significantly. Thus the customer receives not only a better and more relevant product offering, but it can be achieved using a single application process, which is both cheaper for the lender and more user-friendly for the customer.

Take, for example, cross-selling and a potential solution; your point-of-sale system uses the appropriate data model to identify that the 'right' customer is going through the sales process. The data model identifies that a number of cross-sale opportunities exist for other credit-related products and related protection products. The point-of-sale system uses this data and the data captured during the mortgage application process to present the customer with pre-approved options and a pricing 'bundle' – using an approach similar to that of Amazon books. In the background, the system has populated all relevant application forms and all that is required from the customer is an acceptance.

In summary, it is a matter of using data and technology to identify the customer type, in real-time, present the relevant cross-sale, which has been priced and pre-approved, and reuse all the data to make the buying and application process as quick and as simple as possible.

It is also important to note that, in current market conditions, this can be achieved without the need for a large IT spend and protracted delivery timescales. For example, modern point-of-sale platforms are able to bolt on to lenders' existing components and systems without the need for a costly re-platforming of the whole technology infrastructure.

So what about retaining the right customers? At this unprecedented time of decimated mortgage lending and declining house prices, it may seem somewhat optimistic to be discussing borrower retention. However, those of us who have experienced other challenging times in the market will know that, at some point, a corner will be turned. When recovery does begin, it is likely that the mortgage market will improve before the housing market and this is certainly where competition will appear first, with lenders attempting to cherry-pick each other's back book. Once again, retention strategies will be important as lenders will have to ensure that they are protecting their best borrowers while retaining margin as much as possible.

In order to identify and to help retain the right customers, Experian has developed a suite of solutions focussing on the mortgage market; these utilise the breadth of Experian's data assets, including credit bureau data and the consumer dynamics data resource.

One element of this is a revolutionary tool which uses a series of scores, generated from real-time consumers' credit behaviours and activity, including external databases that monitor indebtedness, affordability, property indexing, profit forecasting and future opportunity modelling. The result is a tool that provides an effective mechanism to help lenders identify customers who present an attrition risk and take necessary retention activity if they have been identified as the right customer.

Moving forward, a combination of data and technology will not only be essential for attracting and retaining, it will also play a key role in deciding how best to service customers to optimise profitability and operational efficiency. Multi-channel distribution will become as much lender as customer driven. As with the investment industry, clients will be serviced differently depending on their complexity and profitability. For this reason brokers will always be a part of the industry, but equally, more savvy clients may choose to move online because of pricing differentiation or convenience. This presents both a challenge for lenders, but also an opportunity, as consumer direct channels allow lenders to be more in control of the customer sales process, in particular allowing lenders to control pricing, cross-selling and the use and re-use of data more easily. It could be a very exciting time ahead for the industry.

When attracting the right customers, lenders may ask:

“How do I secure more profitable customers - at a decent price and for the right risk?”

The answer: individual product pricing; better use of consumer data; product differentiation; holistic cross-selling capability, and channel operational optimisation.

Or

“How do I make the most out of every sale?”

The answer: make the initial/primary sale as efficient as possible; present relevant other product offerings; re-use data; one application process, and price bundling.

When retaining the right customers, lenders may ask:

“How do I know which customers not to retain?”

The answer: use external data, for example, indebtedness, affordability, property indexing, profit forecasting, and future opportunity.

Or

“How do I retain customers more cost effectively?”

The answer: process automation; a self-service retention channel; customer segmentation, and effective use of appropriate resources and channel.

In summary, the combination of data and technology can provide a powerful weapon in the quest for retaining and attracting the right customers and ensuring that lenders meet the tighter regulatory and investor requirements that are guaranteed to be a result of the current and unprecedented happenings in the mortgage market.