

# Analytics: Moving up the scorecard

The Financial Express, July 31, 2005

**RK REDDY:** Sophisticated customer analytics has finally come of age in the banking industry in India.

The analytics is helping banks in reducing their risk exposure, cutting down on customer acquisition costs and extracting better profitability from the existing customers. One sure sign of the fact that analytics is here to stay is the fact that many banks are now setting integral customer analytics cells. And it is not just restricted to MNC banks like Citibank and Standard Chartered who are emulating the best practices of their parents abroad but also homegrown banks like ICICI Bank. The latest bank to jump on the analytics bandwagon has been HDFC Bank, which set up its own customer intelligence unit.

One of the oldest area in which banks have been using analytics to great results is credit scoring. Statistical credit score-cards serve up as a better alternative to the traditional judgmental methods of risk appraisal when a bank is making a decision whether to lend to a customer or give him a credit card or not. Traditionally, the bank would invest heavily in hiring credit appraisers who will go through each loan application and the supporting documents thoroughly and appraise its creditworthiness. Risk Scorecards combine historical loan default data with the demographic and transaction details to arrive at a risk score for an applicant.

Statistical techniques are applied to data on existing customers to generate equations that can accurately distinguish good customers (customers who repay on time) from bad customers (customers who don't repay on time or don't repay at all). This equation or scorecard is used to score new applicants

Statistical scorecards lend themselves to automation. From the consumer's point of view this ensures quick turnaround time in the evaluation process as well as total consistency, eliminating any bias, which may be present in a human analyst.

One reason propelling this sea-change is the computerization of banks databases and the way they are organizing their data. Most major banks have made crucial investments in data warehouse, which marks a shift away from the traditional way of storing information in data-silos. Another instance of analytics in banking and where results are apparent almost instantaneously is cross-selling. Banks are leveraging their existing databases of customers more judiciously to rope in customers for lending products like credit cards and loans. Since banks are sitting on wealth of information like liability transaction which sets the base for response models predicting their response to another marketing offer. The statistical techniques throw up interesting triggers about the customer setting the stage for life-cycle based marketing or event based marketing. Already, close to 70% of credit cards portfolios of most banks are sourced through cross-sell from their own bank account customers.

Unlike west, where the banks have the advantage of working with credit bureau data, Indian banks are handicapped by the lack of such bureaus in India and have to rely solely on their own proprietary data. Another hindrance to some cutting edge work in India is the lack of analytical manpower and expertise within banks. Most banks that have only lately joined the bandwagon realize the importance of analytics but are constrained by lack of any repository of knowledge within the bank. Independent consultants who have built in vast expertise in this sphere with their work on international clients step in to bridge this gap.

One crucial fallout of analytics based marketing campaigns is the tremendous cost savings accomplished by the bank by restricting its soliciting efforts to the customers who are predicted to be active rather than widening its efforts onto the entire customer base and incurring huge costs there. This departure from carpet bombing also brings to table a hit rate which is at times 50% better than a randomly generated contact base. Roughly translated, it means a bank can get 1.5 times more eventual customers to a particular offer while actually contacting a much narrower customer base.

Nowhere else the effect of analytics based marketing is more apparent than in the credit cards companies where analytics have become a way of life. In a fiercely competed battle for wallet share where an average credit card holder holds 3 to 4 credit cards and free credit cards have become the norm, getting a credit card customer to spend on your credit card and ensuring that he sticks to your credit card when the dreaded renewal date approaches becomes the daunting prospect for every Credit Card Marketing Manager. Analytical solutions step in here for almost every stage in the customer's life cycle choosing the right guys for such specialized products as Balance Transfer, installment based repayments and cash based products.

Segmentation strategies which help a portfolio manager to know smaller cohesive groups sitting within his larger customer base, understanding their transaction patterns and hence preempting his requirements goes a long way towards customizing campaigns, offers linked to campaigns and even the tone of the communication directed towards the customers. Banks are increasingly tailor-making campaigns and communication material for segments within the customer base.

*The author is vice president, Fractal Analytics*