

Competitive Intelligence Update

February 13, 2018

What's in this issue?

Predictive analytics strategies at Interior Savings and Servus

- The Servus data team is working on predictive models on cross-sell and upsell that will assess product and service propensity and RRSP models that either identify which members are likely to purchase different types of registered products or predict the likelihood a member transferring out of their Servus RRSP.

Please participate in credit union system mortgage stress testing survey

- The final report will help credit unions understand how their colleagues are responding to the recent introduction of B-20. Further, this report will also help credit unions and CCJA mount an effective response to the developing media narrative around B-20.

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Predictive analytics strategies at Interior Savings and Servus

Predictive analytics at Interior Savings Credit Union

Every month, Interior Savings Credit Union receives a list of 1,000 members that it prioritizes for contact to say thank you – no pressured sales or special offers, just a simple phone call to thank them for being a member. The list is based on a predictive-attribution model using the credit union's historical data, identifying the members with the highest probability of leaving the credit union. It's one of several predictive models from Interior Savings' analytics partner, **Satori**, that the credit union uses regularly to focus marketing efforts and strengthen relationships with its members.

During the three years that Satori has been providing this monthly report to Interior Savings, the credit union has managed to contact 77 per cent of members on the list. While it is difficult to isolate the cause and effect of these efforts, over the three-year period, Interior Savings has seen the Funds Under Administration (FUA) of those "high risk" members who were contacted increase by \$10 million. Over the same period, FUA of the 23 per cent of "high risk" members who were not contacted declined by \$4 million. This is just one example of how predictive analytics is creating value for Interior Savings.

Both Satori and the services it has provided to Interior Savings have gone through several evolutions during the 13 years the two organizations have been working together. Today, Interior Savings relies on Satori for multiple predictive models which the credit union uses to focus its marketing efforts and understand the needs of its members more effectively, right down to the individual level. In addition to the predictive attrition score mentioned above, there are several other probability indicators provided by Satori that Interior Savings monitors regularly:

- Product propensity score;

- Next best product; and,
- Service usage target (next best service).

The **Product Propensity Score** is based on a predictive algorithm that analyzes each member's data estimating, on a scale from one to 10 (one being the highest and 10 being the lowest), the propensity of each member towards particular products. Interior Savings currently receives a separate score for eight different products for each member, including TFSAs, RRSPs, loans, and mortgages. The Interior Savings team then uses this score to personalize recommendations for members and allocate scarce marketing capacity by targeting specific product campaigns at members with higher propensities for the product.

Based on product propensity scores, Satori identifies each member's **Next Best Product**, providing both the member's predicted "next best upsell" (based on what the member already has) and "next best new product" (based on what the member does not have). This indicator has not yet been fully utilized within the organization; however, the team is currently developing a process to leverage "next best product" indicators to empower front-line staff with more personalized insight for each member in order to strengthen the member relationship. This will include a comprehensive communication strategy, utilizing Interior Savings' CRM platform to ensure members are contacted by the right person, at the right time, through the right channel, with the right message.

The **Service Usage Target** provides recommendations about what services (i.e. online bill payments, mobile banking, etc.) each member is likely to begin using or to use more frequently. Like the Next Best Product indicators, the Service Usage Target allows staff to quickly and easily identify recommendations to improve each member's banking experience.

In total, Satori provides Interior Savings with 134 different data points for each member. Some, such as predicted satisfaction (estimates each member's satisfaction and referral score based on how members with a similar profile have scored in past surveys) and current engagement score (measures engagement with the credit union relative to peers in similar financial standing), are not currently used for any specific purpose by the team, but help paint a clearer picture for understanding each member and the general make-up of the entire member base.

Predictive analytics are not a crystal ball

While Interior Savings sees real value in using predictive analytics to help guide marketing efforts, the team responsible for analytics is constantly communicating to other staff that the predictive models are mere probabilities and not a crystal ball. When drawing insights from the data, it is important that decisions are made with a correct understanding of what the data are saying and what the member is saying.

Predictive analytics at Servus Credit Union

Much like Interior Savings, Servus Credit Union views predictive analytics as a valuable investment that will enable the credit union to attract and retain members more effectively. In 2016, Servus restructured its marketing department, forming, for the first time, a group dedicated to developing the credit union's advanced analytics capabilities. As part of this restructuring, Servus hired two data scientists who, under the leadership of Stephen Kaiser, Director of Member and Market Insights at Servus, began developing predictive models using internal member data. Kaiser, who himself has a background in predictive modeling, believes that while there are certainly challenges with building this type of expertise and capacity in-house, it will be more cost effective in the long run and it will position the credit union to be a market leader in this area.

In addition to its internal team, Servus recently announced a five-year, \$1.6 million partnership with the University of Alberta Faculty of Science. The \$1.6 million commitment will go towards funding joint research projects in data science, artificial intelligence, machine learning, natural language processing, and related areas. Already, the data analytics team has benefited from this partnership.

Last September, the team was able to bring in a student from the machine learning department to help develop a member retention model. The model, which is still in development, uses an algorithm to predict when a member is likely to go dormant or actively close their account. After these members are identified, the second stage of the model will determine what type of proactive activity and/or offer would be necessary to retain that member. Once the model is fully operational, Servus hopes they will be able to improve member retention by reaching out to members likely to attrite before they do.

The member retention model is just one of the predictive models the Servus data team is currently developing. The team is also working on predictive models for cross-selling and upselling that will assess product and service propensity as well as RRSP models that either identify which members are likely to purchase different types of registered products or predict the likelihood a member transferring out of their Servus RRSP.

Servus believes that investments in predictive analytics and other advanced analytics are a necessity to continue to compete with the Big Five and ATB Financial, both of which are making strategic investments in this area.

Lessons for credit unions seeking to integrate predictive analytics

While the Servus team is still in the early stages of integrating predictive analytics into its operations, the team has already learned some key lessons:

1. **Executive level buy-in is important.** Integrating predictive analytics into an organization's operations takes time and resources, especially when building the expertise and capacity internally. It's important to have an executive team that understands the vision, is patient, and is willing to commit resources to the efforts.
2. **Align analytics integration strategy with organization's overarching mission.** Servus' mission of "shaping member financial fitness" has given focus to the credit union's advanced analytics initiatives. These initiatives are seen as a way to help serve members better and improve their well-being.
3. **Finding and retaining top talent is difficult.** Shortly after Servus launched its new data team, the credit union's two data scientists were recruited away by high-paying firms in Toronto and Silicon Valley. Servus was able to find new talent to replace them, but retaining experts in data analytics is difficult in today's context. Advanced analytics talent is in high demand across many industries.

Credit unions should consider how predictive analytics might improve service to members

Predictive analytics is a growing field that is only set to increase as consumer data becomes more prevalent and technologies such as machine learning become more advanced. The field holds tremendous potential for service personalization and improving marketing efficiency and effectiveness. Credit unions not currently utilizing predictive analytics should consider the opportunities and value that investments in analytics can create for members and their institution.

Please participate in credit union system mortgage stress testing benchmarking survey

We encourage credit unions across Canada to participate in the [Mortgage Stress Testing benchmarking survey](#) that opened today and will close February 27. The Central 1 research team designed this survey in response to credit union requests. The survey includes questions provided by credit unions and the Canadian Credit Union Association (CCUA) government relations team.

B-20 primer

In October, OSFI announced new rules for federally regulated banks that mean even borrowers with a down payment of 20 per cent or more will now face a stress test. The new rules complement an existing--but different-- stress test for applicants with smaller down payments, so-called 'high-ratio' borrowers, who require mortgage insurance.

The NEW stress test means that federally regulated financial institutions vet mortgage applications by using a minimum qualifying rate equal to the greater of the Bank of Canada's five-year benchmark rate or their contractual rate plus two percentage points.

These new rules do not apply to provincially regulated financial institutions.

The final report will be very useful in positioning for the future and advocating locally and nationally

The final report will help credit unions understand how their colleagues are responding to B-20. Further, this report will also help credit unions and CCUA mount an effective response to the developing media narrative around the recent introduction of B-20. This report will also help the credit union system head off the potential policy response to this narrative by federal and provincial policymakers.

Media coverage

As a result of the new B-20 stress test, there has been considerable media speculation that borrowers who are unable to meet the test at the banks could migrate to credit unions. While several provinces have said they have no interest in imposing the stress test on their credit unions, the federal government is monitoring the situation and said it is considering options if it sees a large shift of affected borrowers moving to credit unions.

CCUA's response to these media narratives and its advocacy can only be effective if there is a strong response rate to this survey.

Confidential, as always

Crucially, the survey results will be strictly confidential. Any credit union that purchases the aggregated survey results may only use the information for its own business purposes and may not share the survey results outside the organization. The results will not be shared with regulators or other financial institutions.

Diane Dunn, Senior Research Analyst at Central 1, will be the only person to have access to individual credit union information. Your credit union will not be identified in the final report, but please provide your name and contact so Diane may follow up, if necessary, to clarify your responses.

Deadline: February 27, 2018

*A quick turnaround is essential to get ahead of this story. Please participate in **this survey!***

Ontario and B.C. credit unions: Free webinar Ease of Use

How easy is it for members to do business with credit unions?

What are the pain points?

How can your credit union make the member's purchase journey easier?

Central 1 contracted Filene to conduct research in 2017 to help answer some of these critical questions. The full research report was shared with all Ontario and B.C. credit unions on February 6.

Filene will also be hosting a webinar to present the results on February 14, 2018 at 2pm EST. A link to register for this webinar was sent to Competitive Intelligence Update readers in Ontario and B.C. on February 1. If you did not receive the link but do wish to participate in the webinar, please contact research@central1.com.

Recent Forrester reports

Credit unions subscribing to Forrester with a Marketing and Strategy subscription can access the following reports directly. If you have a 2018 Marketing and Strategy subscription, remember you can have 10 courtesy views for the year. That means you can access up to 10 different reports from research focus areas other than Marketing and Strategy. Some credit unions purchased 2018 subscriptions for both Marketing and Strategy, *and* Business Technology reports. These credit unions will have 20 courtesy views for reports in other areas.

Credit unions without a subscription can choose to purchase individual reports from the [Forrester site](#).

Extend the Customer Experience to the Employee Experience

October 3, 2017 - by Tom Champion

Organizations are increasingly aware of the need to improve the employee experience as a means of creating an exceptional customer/member experience. Organizations that have already invested in employee experience have seen significant increases in revenue and customer satisfaction.

Report writer Tom Champion wrote, “Effective employee experience programs need to link to business outcomes and have a clearly identified audience. To measure these outcomes, companies should embrace analytics and quantify the impact of the employee experience.”

Forrester found some common steps that customer experience leaders take in implementing effective employee experience programs. They are:

Step 1: Link employee experience to customer experience and revenue. Leaders establish and measure the connections between profitability, customer loyalty, employee satisfaction and employee retention.

Step 2: Adopt the customer’s point of view on who your employees are. For a credit union, this means not only front-line in-branch employees but also your lenders, call centre employees, financial advisers, and individuals answering queries about online and mobile banking issues.

Step 3: Embrace analytics. Some employers go to the lengths of tracking how active employees are, what the tone of their conversation is, and how much time employees spend talking to customers versus listening to them. One employer combines this with data on personality traits, management behaviours, and employee profiles to find out what correlates to high customer satisfaction. While this technique is advanced, it represents the level of commitment that’s emerging in industries outside financial services. Forrester points out that any organization can loop in employee data when assessing member experience quality.

Step 4. Quantify the impacts. Forrester’s Customer Experience Index (The Canada Customer Experience Index, 2017. Forrester – August 28, 2017) has shown that drivers relating to employee

autonomy and mastery have a strong correlation with revenue-generating customer experiences in several industries.

Blockchain in Banking: Success Depends on Technology and Market Maturity

December 14, 2017 - By Jost Hoppermann, Martha Bennett

Blockchain-based solutions remain highly immature. The technology itself is nascent, and nobody has yet developed the governance models that form the foundation for a functioning ecosystem. Nevertheless, many bank executives show a degree of enthusiasm that leads to inflated expectations and high investments that may not create sufficient value. This report helps application development and delivery professionals to determine the risk and the time to value of blockchain use cases and provides guidance on whether an organization should embark on its blockchain journey now.

If your credit unions has a Marketing and Strategy subscription with Forrester, you do not have access to **this report** but you can use one of the 10 Courtesy Views Forrester permits with each year's subscription.

Plan for Digital Banking Engagement Platforms, Not Mobile Banking Solutions

August 30, 2017 – By Jost Hoppermann

Forrester's survey data highlights how banks' focus is shifting away from mobile-only, and even more online-only, solutions toward omnichannel banking solutions. This report explains why this is happening and how a bank's application development and delivery teams should react to help deliver great customer experience.

If your credit unions has a Marketing and Strategy subscription with Forrester, you do not have access to **this report** but you can use one of the 10 Courtesy Views Forrester permits with each year's subscription.

More will be highlighted in next week's issue of Competitive Intelligence Update.

Sources: Forrester Research Inc., Interior Savings Credit Union, Servus Credit Union

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Suggestions for Competitive Intelligence Update articles and MarketSmarts topics much appreciated.

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