

## Behavioral Segmentation Ramping Up the Banking Customer Segmentation Approach

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The world of banking was changing rapidly even before the pandemic hit. Customers wanted a different banking experience and fintechs were ready with their tech powered innovative offerings. Despite, the trust enjoyed by traditional banks, customers, especially the younger ones, were increasingly willing to try different and unique financial services that offered them choice, control, and hyper personalized services. And as the pandemic unfolded across the world, banking changed even more. Bad loans increased, loan applications reduced, and customer behavior changed. As social distancing became the norm, online banking went mainstream and early research indicates that this trend may be here to stay. Under these circumstances, traditional banks must reinvent their strategies and operational models to continue acquiring and retaining customers.

The foundation of a new banking strategy must be based on customer centric relationship models – understanding what the customer wants, their holistic engagement across the bank, and offering relevant and value-added offerings. This is key to customer loyalty, retention, and long-term growth. Banks now must delve deeper into their customer psyche to improve their offerings and deeper behavioral segmentation is key.

### Expanding Segmentation Strategies to Include Customer Behavior

Customer segmentation is not a new phenomenon. For decades, banks have been classifying customers based on some broad demographic factors such as age, gender, location, income, and the kind of account they hold with the bank. They then used this information to craft loyalty programs, or service offerings such as special deals for women account holders. This worked in an era when competition was low, innovation was limited, and banking followed predictable operational models. Today, competition for customer share of wallet is fierce and customer loyalty on the wane. Retaining customers and growing existing business is critical. If customers feel there is value delivered in their engagement with their bank, they are 82 percent more likely to repurchase or renew with the same bank.<sup>1</sup> They are 86 percent more likely to increase spends at the same bank and 97 percent more likely to share positive word of mouth reviews, which may help to bring in more customers.

To thrive in the digital era, financial organizations need more insights into customer behavior and preferences. This includes a holistic view of their engagement with the bank across products and departments. A customer can have a savings account with the bank and be a health insurance customer. It would help the bank to know the value of their health insurance cover, whether their premiums are paid on time, the places where they spend money from their savings account and more. This would help create a more comprehensive picture of the customer's activities, preferences, goals, aspirations and even their reliability or credit worthiness. With this information in hand, the bank can then tailor relevant offers and interactions and personalize their experience.



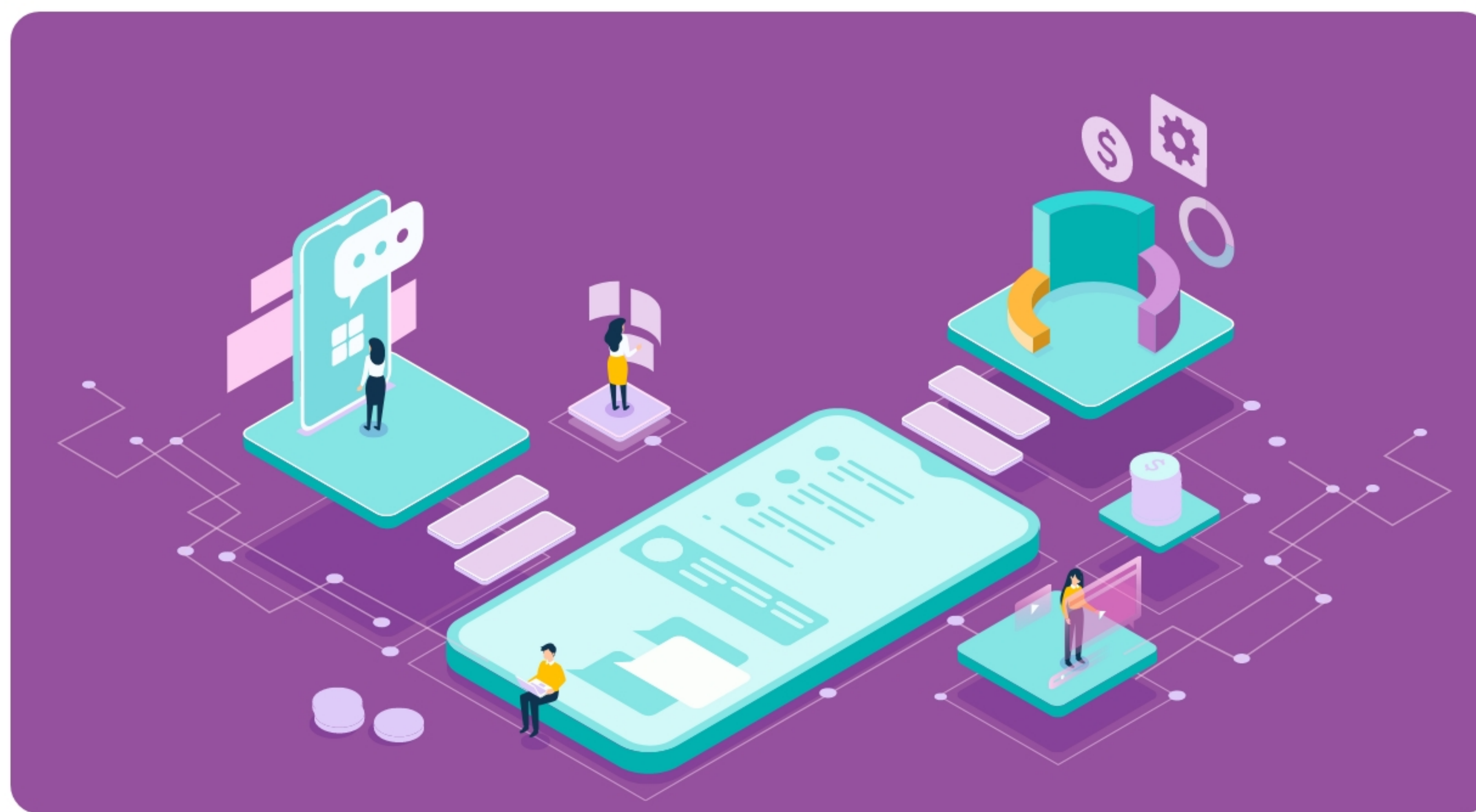
### The Principles of Behavioral Segmentation

The first step in a behavioral segmentation strategy/ tiering strategy is to of course break down organizational silos, access comprehensive data on the customer's engagement with the bank and analyze it. Data can be categorized into demographics and socio-economic factors, geographical data, and behavioral data. Behavioral data can include but is not limited to factors such as spending, saving and investment trends, risk, credit scores, custom score, etc. Based on this comprehensive data, customers are segregated into various behavioral segments/ tiers.

This segmentation can help the service providers give personalized and preferential treatment to the respective segments. They can be used to vary the rewards and benefits, transaction charges, fee waivers, discounts, free services, and even personalized offers based on the tier the customer is in. For example, a customer who does not have a large portfolio with the bank or has minimal savings would likely be in Tier 1. They would perhaps get movie tickets to a recently released blockbuster by way of rewards. But another customer with substantial share of wallet would likely belong in Tier 5 or the highest segment and be rewarded with movie tickets, valet parking, health club membership, airport transfers and more, based on their financial behavior and lifestyle choices.

The tiering system can also be used to encourage certain behavior by offering to move a customer up the tiers depending on their activity. For example – a customer with just a small savings account is in Tier 1 but the organization would like them to also become an insurance customer. They can offer points to the customer if they open a life insurance account that would help them get into the next Tier. If they buy insurance and also increase the amount of their savings account deposits, then they could get more points that could help them leapfrog into Tier 3 and avail of all the associated benefits. This would not only reward customers for desirable behavior, but also keep them engaged in a value driven relationship for longer.

Of course, it is equally important to monitor and evaluate the segments regularly. A customer who made it to a particular level may not be eligible to remain there forever. Some may exhibit behavior that merits an upgrade while others may reduce their spending and consequently need to be moved to a lower tier. These moves, especially downgrades needn't always happen. Customer engagement can be monitored over a period and if basic criteria for that tier is not met during that time, they are moved to the lower one. Continuous assessment is critical for a successful behavioral segmentation strategy simply because change is the most basic trait of human behavior.



### Building the Tech Foundation

To achieve behavioral segmentation, banks need a state-of-the-art technology platform that can provide an integrated data landscape to build comprehensive rules and supports the advanced analytics of this and draw insights from customer behavior. Legacy banking cores are not capable of this and overhauling them completely is a risky process.

Partnering with fintechs for a mutually beneficial operational model is one option before banks. And the other is to work with a third-party vendor who can install middle layer to sit on top of the core and host analytics and other digital technology solutions.

The banking sector has irrevocably changed. The future may see the traditional banking establishment being replaced with newer models where banks become orchestrators of a customer centric ecosystem of financial and non-financial services. Understanding customer behavior and effective segmentation based on their behavior will be crucial for the success of such business models. In fact, customer behavior will be the basis of almost every banking innovation in the years to come. And now is a good time for banks to ramp up their behavioral segmentation game and prepare for the digital future.