



Know Your Customers with Predictive Analytics

The environment around credit cards has changed drastically. In the past, the only thing a company needed to do was book accounts with a few simple customer management strategies in place and just sit back and wait for the accounts to cash flow. Most of those strategies were based solely on some standard business knowledge and what seemed the most logical without much research.

However, in today's market, you need to know more about your customers. You need to know what behaviors indicate the customer is moving in a good direction and what behaviors indicate the customer is moving toward more risky outcomes. You also must have more sophisticated strategies that react to these changes to be sure you are doing everything you can to keep the good customers and limit risk with the poor customers. In order to do this, you can no longer rely on just what you know. You have to let the customer tell you what you need to do. You need to be able to decipher account-level and transaction-level information in order to give you likely outcomes from certain behaviors. Many businesses have turned to predictive analytics to give them the insight necessary to make good decisions involving customer management. The companies that turn to predictive analytics are staying ahead of the curve maintaining profit margins and limiting risks.

Predictive analytics is a catch all term referring to the process of applying mathematical and statistical models used to business problems in order to predict customer behavior. Business knowledge used to be enough to create strategies, but many times, personal bias tends to sway decisions and take away from the effectiveness of a strategy. Statistical knowledge is important, but without any business knowledge, many strategies can wind up not making sense and can also lose effectiveness. A good balance of both knowledge of the market and statistical knowledge will lead to a more effective strategy.

The predictive analytics process is a phased approach, beginning with identifying the business problem, understanding and exploring the data available, preparing the data, then building, evaluating and deploying models.

For card products alone, predictive analytics can be used in acquisition strategies, underwriting, credit line assignment, account retention, risk reduction and debt collection-- just to name a few.

Building an effective retention model requires defining the risk level of a customer calling in to close their account. Data mining tools are essential to break down all of the credit scores, behavior scores and transaction-level detail, such as payments and recent purchases, to determine which scores and behaviors indicate risk. Then customers can be segmented by risk profile to determine which offer they would qualify for. Based on the likely risk and income available from that cardholder, offers can be tailored so that the best accounts get the best offers and the most risky accounts are allowed to close. This method will add to the bottom line and also help extend the life and increase the value of your card portfolio.