

# Banks - Reward Your Customers Incrementally, based on their Profitability



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*Financial Institutions (FI) are on the verge of a strategic make-over. The market conditions imply an increased need to generate revenues and customer profitability, to ensure sustainability and future business success. In order to achieve these objectives, the FIs need to devise strategies that leverage customer relationships in a way that has never been done before.*

*Now, this is a known rule – probably as old as selling itself. It is easier and much more economical to sell to your existing customer base than acquiring new customers.*

*But how do you do it? How do you get your existing customer to buy more? In the worst case, how do you retain them?*

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## The Need for Incremental Rewards

As the current market conditions urge FIs to generate revenues and customer profitability by leveraging customer relationships, they are trying to sell more to the existing customer base, and thus retain them.

However, there are some obvious and some not too obvious challenges in retaining customers, especially the highly profitable ones – the ones that fall into the 20% bracket and rake in 80% of the profits.

We talked about the bank's view in the introduction of this white paper. Now, looking at the same paradigm from the customer's perspective – given a choice, customers don't like shopping around for their financial needs, says Gartner. They would rather spend their entire wallet with a single bank if the bank is able to provide them with all that they need, valuing their multiple touch points within the framework of their 'relationship'.

Debates continue in the industry on how to make a customer loyal. Several methods have so far been suggested on these grounds. Whatever the suggested method, they all agree on one point – customers will be loyal, only if they receive tangible benefits for their loyalty. While this holds true, many of the existing means of doing the same lacks vision and a view of the big picture as they are centered around a single product, usually credit or debit cards to reward customers and drive retention.

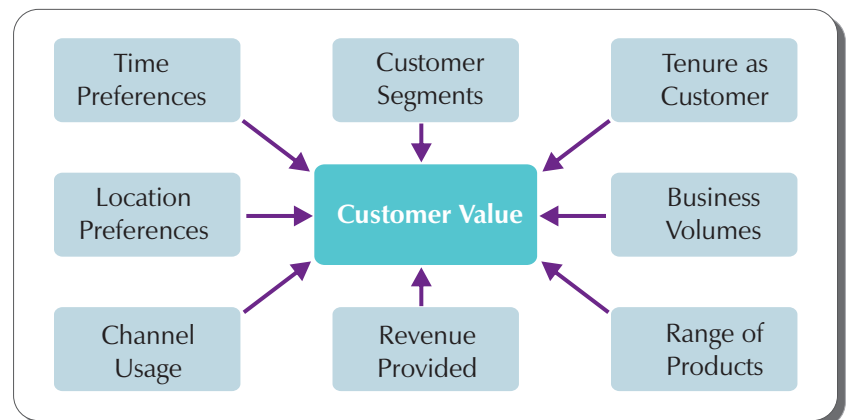
## Myopic Vision in Customer Rewards Schemes

Fis realize the impact of customer retention on market dynamics – that rewarding customers for continued loyalty and their individual value offering is integral for sustaining profitable relationships. This is driving them to increasingly focus on delivering an innovative customer experience – one that targets unique segments and emphasizes convenience, service and value. While this is good, it is not good enough.

Some product-centric loyalty programs simply encourage customers to stick to a particular brand by providing them rewards. Others encourage customers to throw more business a company's way by establishing tiers that offer greater rewards for increased levels of spending or volumes. For this, the FIs most often introduce tiered pricing.

Tiered pricing is the simplest way of rewarding customers, who provide a high volume of business. The customers, who provide more volume of business for specific products, can be rewarded with incremental discounts. But, does just giving high volume of business in one product line make the customer valuable? Does creating loyalty on just one product line help in creating higher customer profitability?

The value of a customer needs to be assessed based on various factors. The volume of business that the customer offers across all divisions and product lines is just one among them.



Other factors include channel usage, location preferences, and several others as depicted above.



## Driving profitable customer behavior - how best to do that?

A customer becomes profitable only when there are incremental business volumes, which contribute to customer profitability. Thus, when a FI needs to retain its profitable customers by rewarding them, there needs to be a consideration, which is more than just a product-centric volume assessment.

Today, industry pundits are unequivocal on the fact that this is best done by incrementally acknowledging the incremental value customers bring in as measured across various parameters across the FI's product line.

So, how can the institution consider the numerous factors and reward customers accordingly? The best possible method is to have a comprehensive analysis at the transaction level. There needs to be a consolidation of the transactions, based on various parameters that contribute towards customer profitability.

## Get the Facts Right – Possibilities are Endless

There is no doubt that customer behavior can be swayed by rewarding or penalizing. Having more products does not make the customer profitable unless the products are used. For instance, a customer, who has an account, but does not maintain any balance, is not profitable. A customer, who has subscribed to online bill payment, but never pays bills online, is not beneficial.

Rewarding customers for maintaining higher balances, rewarding only when they pay bills online and charging a fee when they use other channels, are means of influencing customer behavior positively and profitably.

The case in point can be, if a FI wants to promote Internet banking as a channel, it can consolidate all 'Internet Banking Transactions' and offer very attractive tiered pricing. This will force the customers to do more transactions through Internet banking to avail the benefit for incremental rewards.

In order to make it more interesting, the Internet banking transaction volumes can be consolidated across multiple product types for non-peak hours for a corporate customer across its locations of operation to offer adequate price advantages or discounts.

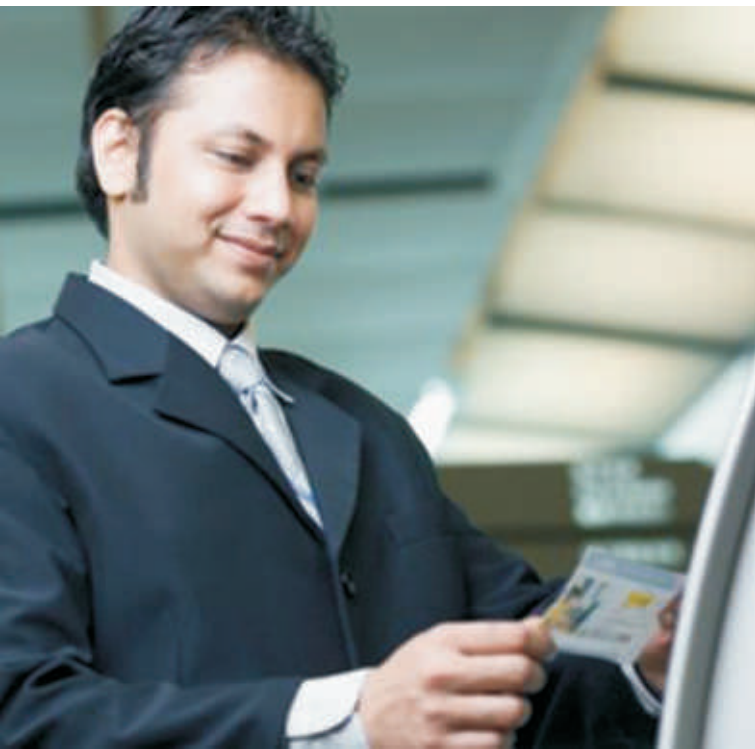
These are just some dimensions to the endless possibilities that can arise if transaction level data can be harnessed with accuracy, consistency and continuity. Advantages can include pushing more profitable products, encouraging repeat purchases and seasonal sales (example: higher rewards for festival seasons), accentuating high business volumes (example: higher rewards after a particular volume), and increasing customer tenure -- loyalty (example: higher rewards for long-term customers).

Thus, this level of consolidation of transaction can be key for any FI in their future business; more so, to encourage and bring out the right profitable behavior from the customers.

## Not easy as it sounds!

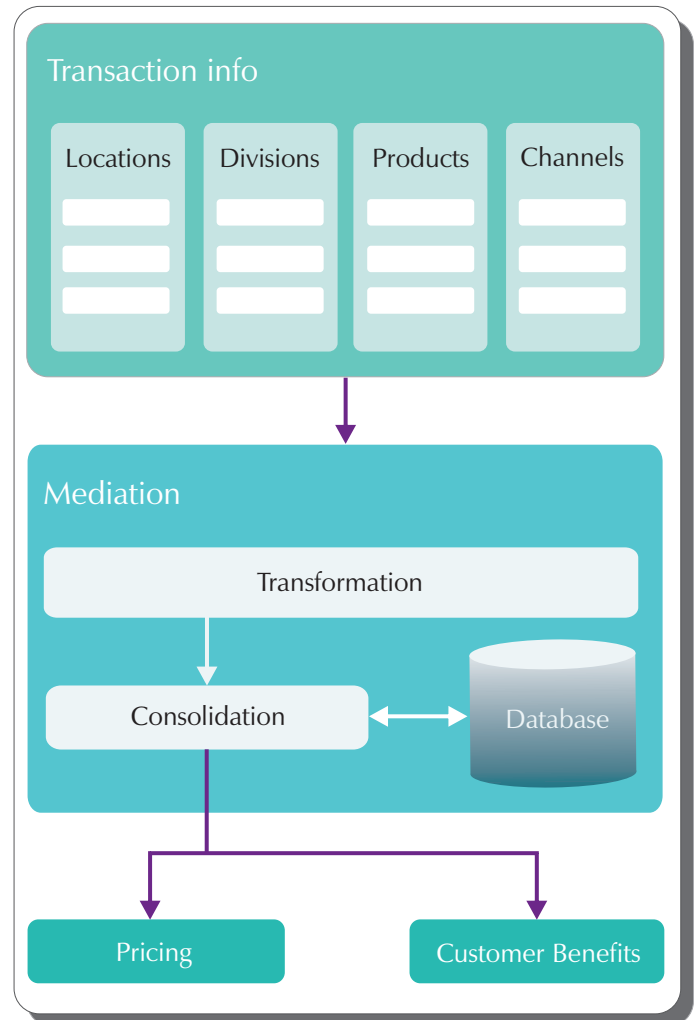
But consolidation at the transaction level has some obvious challenges. In order to provide the right intelligence to give incremental benefits to the customers, the capabilities to interface with a number of systems at different levels and to handle data of varied formats, and transform and load the same into a single system with single format based on various types of parameters are imperative.

In the process, the consolidation system will need to handle challenges of duplication, missing and erred transactions. This is to ensure accuracy of the whole process. This will also prevent a counter-effect to profitability that might happen – if the customer complains for not being rewarded for all the transactions he made with the FI, in cases where the missed and erred transactions are unaccounted for, or by rewarding the duplicate transactions and losing on the FI's bottom line. On top of this, the system also needs to have the capability to accommodate any variations in the scale of operations seamlessly.



## The Comprehensive Solution - Mediation

This innovation can be made possible for the FIs with an enhanced engine for **Mediation or Transaction Integration**. The following shows how a mediation environment works on the raw transactions to consolidate them by introducing parameterization.



The amount of parameterization the FI can build in a consolidation criterion is the key to a flexible consolidation process. The consolidation criterion is the definition of a rule and the parameters, using which transactions are consolidated. Multiple consolidation criteria can be defined for the same transaction type as the FI may choose to price or discount for the transactions differently, depending on the customer value.

In order to drive and influence customer behavior positively, (in a manner that is beneficial to both the bank and customers) Optimal Segmentation is imperative. Different segments of customers may require different types of parameterization. The consolidation parameters for a retail banking customer may be the service used, tenure with FI, category of customer (Youth, Non-resident, Pensioners), income level, etc. At the same time, for an SME customer, the parameters may be business volumes, channel preferences, etc.

Not all customers are equal, or have similar needs. So a broad and generic segmentation is not optimal. The right strategy is to align benefits with customer value, depth of the relationship and preferences. Just to illustrate, students are in need of education loans. Consumers in the higher age group look for mortgages or auto loans. Consumers with families are looking at savings and investment options. Rewarding different customer segments as per their needs is a win-win strategy for both the FI and the customer.

Similarly, the redemption schemes should also vary by segment and should fit the lifestyle of the target audience. Banks should have multiple options for redeeming points to satisfy every customer's needs or desires like cash rebates for paying school / university fees, repayments on home loan, reduced loan interest rates, new product discounts, donations to charities, exclusive gifts like vacation packages, cruises, skydiving sessions, tickets to a popular show, etc.

The mediation engine, after it consolidates transactions, also stores the same as consolidated data records with the consolidated transaction parameters. Such data storage has its advantages, since the transactions are not duplicated in multiple places, and also traceability to the original transactions can be established for audit purposes.

The consolidated data can be used for pricing, where tiered rates can be applied against different parameters, so that the customer benefits for the value they provide to the FI. This gives the FI the ability to encourage business volumes in a particular product category with special volume-based prices for that particular product line, to provide loyalty rewards to the customers, based on the overall value the customer brings, to encourage a particular channel usage for a particular product category by special loyalty rewards for that particular segment of usage, etc.

SunTec's **TBMS Mediate** interfaces seamlessly with heterogeneous service platforms, and extracts, transforms, validates and consolidates the data from multiple systems into a single platform. It enables identification of erred, duplicate and missed transactions and also allows the transactions to be sent for reprocessing, enabling corrections to be made wherever necessary. The system has the flexibility to accommodate multiple levels of parameters and offers scalability to accommodate high-volume processing capabilities of transactions. Moreover, TBMS Mediate enables incorporation of different consolidation criteria for the different segments of customers, making it possible to incrementally provide benefits based on customers/customer segments and their profitability.



## Conclusion

Rewarding the customers based on their incremental value or profitability is essential in today's business. Financial Institutions need to explore powerful mediation systems, which can consolidate the usage information based on various parameters, which in turn, determines the customer profitability. The ability to parameterize the usage records and consolidate them differently for different customers is the hallmark of a modern financial institution.

The crisis in the financial services domain has caused considerable consumer distrust, but banks that invest in robust customer value initiatives will excel at product and pricing, service, channel management, marketing, and retention.

## About SunTec

SunTec is a leading provider of Relationship-based Pricing and Centralized Billing solutions for Banking, Financial Services & Insurance (BFSI), convergent transaction pricing and billing solutions for Communication, Media & Entertainment (CME), advanced meter-data management and billing solutions for Utilities, centralized and personalized pricing, billing and settlement solutions for Fleet Management & Operational Leasing, and streamlined pricing, billing and settlement solutions for Port Operations industries.

We conceptualized and created our core pricing and billing platform, horizontal in nature and flexible enough to address the pricing and billing requirements of any transaction-based vertical. Operating within the overall architectural vision of our product, we leverage our decade-long experience and expertise in transaction pricing and billing across diverse verticals to deliver cost-effective solutions for our customers. We offer customers the best practices imbibed from multiple industries. Our product offerings, the TBMS-F suite for BFSI, the TBMS-T suite for CME, and the TBMS-U for Utilities verticals provide comprehensive solutions to our customers for measuring and monitoring transaction value, enabling tighter control on profitability. We leverage our extensive domain experience to successfully define, design and deliver cost-effective solutions for our clients across the globe.

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