Visa Consulting & Analytics

Investing in Cardholder Retention

Proactively identifying and contacting hard won customers who are likely to leave makes sound business sense

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Retention management drives business value

Customers are the lifeblood of any financial services provider, determining its success through the products they buy, how often they use them and their level of advocacy. Acquiring the best customers who are engaged and loyal to your brand is your ultimate aim, but successfully retaining those customers coveted by others can be a tough nut to crack in today's world.

The banking and payments world, like so many other industries, is evolving at an ever-increasing pace driven by technological advancements. Customers in every market now have a wide choice of providers with differentiated products to choose from, meaning that long gone are the days when a customer would look to their bank to service all their financial needs throughout their lifetime.

In today's competitive market, custom needs to be continually earnt. Customers who feel that their needs are not being met are quick to move to a competitor who provides what they are looking for. The dynamic nature of this scenario multiplies when you consider those products that are the easiest to switch, such as credit cards. Your quality credit card customers are likely to be bombarded with targeted offers from your competitors and, therefore, it is important that you stay ahead of the game in terms of understanding what your best customers want.

The importance of retention is brought into sharp focus when you consider extensive research that has been done on the future value to an organization of their best customers. "**Increasing customer retention rates by 5% increases profits by 25% to 95%."** – Research by Bain & Co.[1] Failing to safeguard this valuable group of customers will not only significantly impact your revenue line but also result in a notable rise in acquisition costs as you look to replenish your customer book.

Against this backdrop of increasing competition, easier switching, and the value of existing customers, the implementation of an effective retention management strategy has become increasingly important. For many financial services institutions it is a key pillar in their drive for portfolio growth.

In the remainder of this paper, we look at:

- How card spend behavior and balance trends can be early indicators of attrition and inform an effective proactive retention strategy,
- The range of treatment strategies and the applicability of retention management to the digital domain,
- How retention strategies can be identified for those customers not likely to leave in the short term, and
- How card issuers across the Middle East and North Africa region have benefitted from customized retention management modelling.

1. https://hbswk.hbs.edu/archive/the-economics-of-e-loyalty

Addressing a customer's concerns before they decide to leave is the ideal

Whether your customer is a credit card or debit card holder there are two different ways that they can display their desire to leave:

1. **Gradual disengagement,** with this apparent through decreasing spend or outstanding balances. Identifying at an early stage that the customer is dissatisfied in some way gives you a window of opportunity to re-engage with them and address their concerns.

   Adopting a **Proactive Strategy** to identify your customers that are likely to leave gives you a much better chance of retaining their business. A simple 3-step process allows you to identify your "at risk" customers and the treatment strategy that you should adopt for each one.

   i) **Create an early indicator of attrition** based on customer behavior to identify primary signs of disengagement.

   ii) **Use the indicator to create a predictive framework** to "tag" high risk customer segments.

   iii) **Overlay additional appropriate parameters,** such as customer value, product features or customer complaints data, to determine final implementable actions.

2. **Closure of their account,** either their credit card or current account. This is a more definite and immediate action and there can be a variety of reasons for leaving. From relocating to a different country (common in expatriate heavy countries such as the United Arab Emirates), to experiencing a service issue, or the proposition no longer matching the customer's needs. However, unearthing the true reason through contacting the customer is imperative to decide on the right course of action.

   A **Reactive Strategy** aims to "save" customers at the time of requesting to close their account, with the retention offer dependent on factors such as customer value and closure reason. Given that the customer has already decided to take action and leave, getting them to have a change of mind can be difficult to achieve.

   For customers who have already left a **Win-Back Strategy** can be implemented, but due to the difficulty of getting customers to return to your brand, this tends to be reserved for customers who were highly profitable. Through identifying the behavioral traits of these customers, you can re-engage with them through providing highly customized and appealing offers.

While Reactive and Win-Back strategies have their merits, they are post event actions where the card issuer is on the back foot. **Adopting a Proactive strategy aims to ensure that the card issuer is one step ahead by placing the emphasis on identifying and preventing the attrition event from happening.**

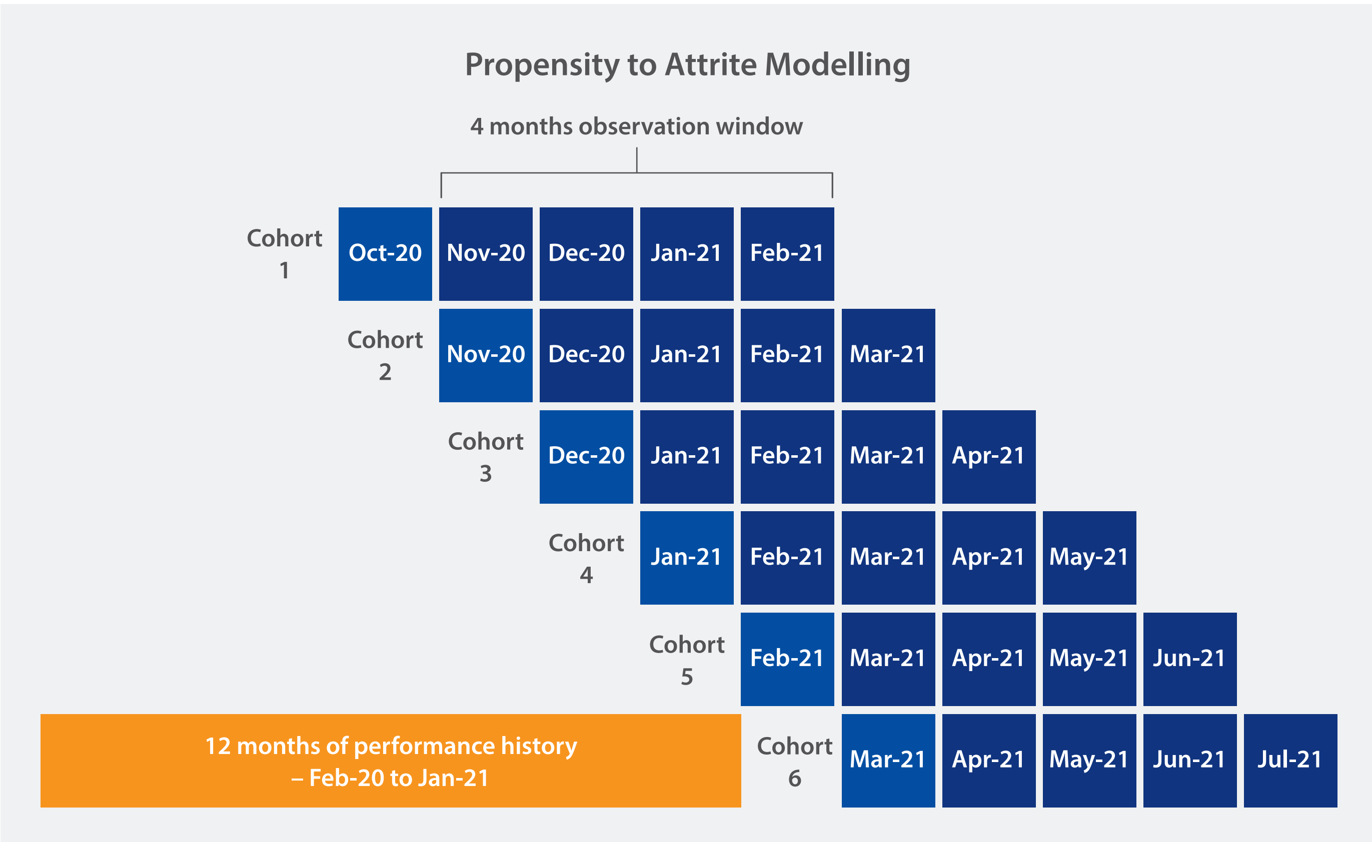
Card usage and account balance changes can be rich attrition indicators

Through analyzing customer behavior, it is possible to develop a predictive framework that identifies any signs of potential disengagement early on, allowing you to target your "at risk" customers with appropriate retention initiatives before they take the decision to leave.

When assessing the likelihood of a credit card customer leaving, **the amalgamation of Visa and card issuer data allows spend behavior and outstanding balances trends to be analyzed in minute detail to identify hidden signs of disengagement**. For debit cards, the same valuable insights can be uncovered by studying spend attributes and transaction frequency.

For either product, the starting point is to analyze historical groups of customers (cohorts) to identify the characteristics that are different for customers that leave, compared to those that remain with you.

Several cohorts are created; each selecting group of active customers for a different month. In the example below, there are 6 cohorts selected in March 2021 as an example, the behavior of this cohort during April 2021 to July 2021 is observed to identify customers who are leaving/'attrited' customers. Performance history over the 12 months prior to selection of the cohort (February 2020 to January 2021) is then examined to identify the different characteristics exhibited by those leaving your organization, compared to those who remain with you.



In this example you have 6 cohorts which can give you a rich insight into the predictors of disengagement based on past spend and balance behavior. Machine Learning algorithms are applied to these learnings to determine accurate attrition indicators.

Once you know what behaviors indicate a likelihood to attrite, an actionable proactive retention strategy can be put in place to address areas of dissatisfaction before they cause the customer to decide to leave.

Attrition indicators are based on a deep analysis of behavior patterns

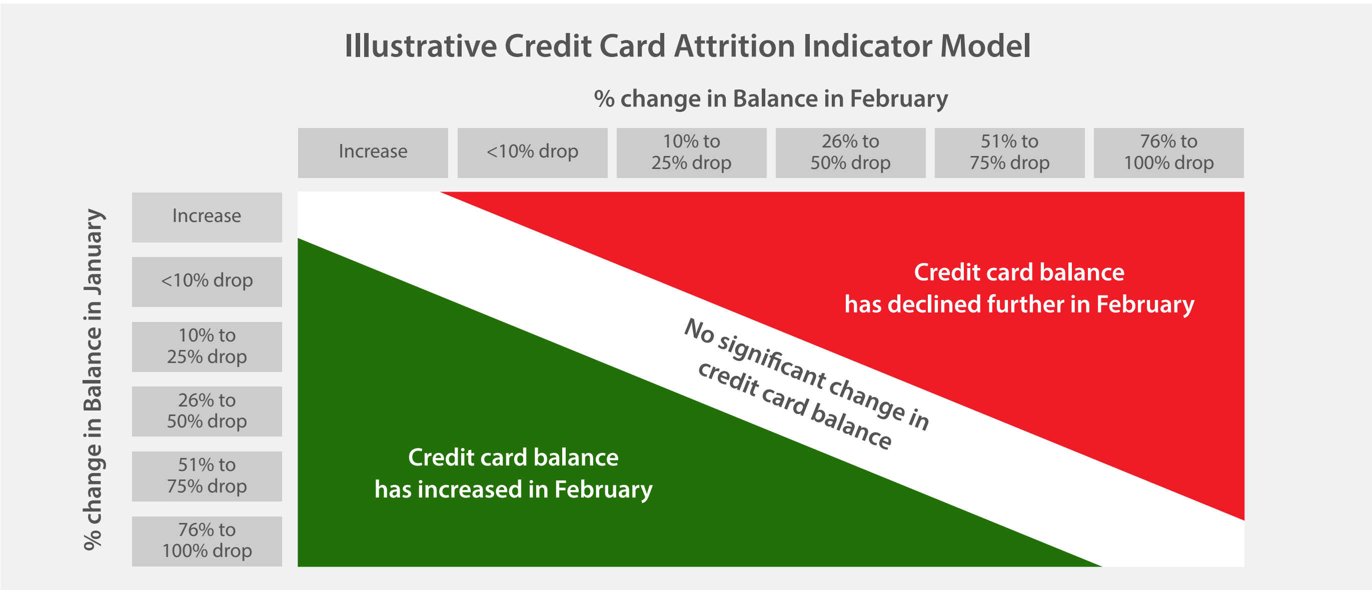
For each cohort of customers analyzed, there are three considerations that determine an attrition indicator based on trends in balance and/or spend behavior.

1. The month-on-month drop in account balance (credit card only) and/or spend.

2. The rate of the incremental drop over time, and

3. The flow forward and flow back rates. An account "flows forward" when the balance or spend is dropping and it "flows back" when the balance or spend is increasing.

The example below is an illustrative credit card attrition indicator model taking outstanding balances at the end of December, and then viewing the balance again at the end of January and February. The area shaded red includes accounts where the credit card balance has reduced further in the second period compared to the first period. The more severe the drop the greater the risk of attrition.



The time window over which the attrition indicator is determined is based on a month-on-month analysis of how attrition rates change over time, and when determining the severity of your likely to attrite definition it is important to track the proportion of the customer base impacted.

Transforming data science modelling into appropriate treatment strategies

By applying the propensity to attrite model to the total customer base, together with average card spend over the last 3 months, high, medium, and low priority target segments can be identified.

Illustrative Decision Matrix for Retention Management

Average card spend in last 3 months

Propensity to attrite	High (>US$6.5k)	Medium (>US$1k -6.5k)	Low (>US$0.1k -1k)	Very Low (US$0.1k or less)
High	High Priority	High Priority	Medium Priority	Low Priority
Medium	Medium Priority	Medium Priority	Low Priority	Low Priority
Low	Medium Priority	Low Priority	No Action	No Action

This segmentation can be further refined by overlaying the customer's overall value to the card issuer to determine final priority segments.

Target segments can then be chosen, and treatment strategies determined based on the customer behaviors witnessed through the propensity to attrite modelling. There is an underlying reason why the customer is thought likely to leave, and it is that which your offer needs to address.

Through working in partnership with card issuers, the best action to take to address the model findings can be determined. Here are just a few of the more popular actions that have been implemented.

Best Customer Recognition Initiatives

- **Product Upgrade** to reward the customer and/or address a specific behavioral need e.g. regular traveler.
- **Credit Limit Enhancement** to reflect the needs and/or quality of the customer.
- **Exclusive Offers** that show you value their custom/understand their needs.
- **Best Customer Pricing,** in terms of interest or product fee, that reflects account activity.

Relationship Development Initiatives

- **Customer Care Call** to address any service issue and/or ascertain the needs of the customer.
- **Loyalty Offers** that provide financial benefit, such as cashback based on purchase volumes.
- **Spend and Get Promotions** to encourage moderately engaged customers to reach their full potential.
- **Next Best Merchant Segment Offers** based on the customer's existing purchase footprint e.g. free coffee offer to change habit from cash to contactless.

Retention management principles are just as applicable to the digital domain

Consumer behavior and preferred interactions have changed forever due to the COVID-19 pandemic, with goods and services previously bought in-store now being purchased online, and video calls keeping us in touch with friends and family.

Everyone's engagement with digital services has increased and digital payments will undoubtedly play a center-stage role moving forward. A survey from McKinsey[2] found that 75 percent of people that used digital channels for the first time during the pandemic indicated that they would continue to use them when things returned to normal.

It is the convenience that strikes a chord with consumers, and of course businesses severely threatened by the pandemic have risen to the occasion to deliver what the consumer needed during challenging times.

The increase in digital payment is borne out by the numbers. **As of Mar'21 – YoY growth in digital volumes across MENA region is approx. 55% accompanied with significant growth in digital transaction activity.[3]**

New age digital merchants like STC Pay, Telco giants like Etisalat and Govt services offered via digital medium have seen significant activity growth in the past year.

Observations of digital activity in the region show greater engagement on the part of cardholders, indicating greater reliance and trust in their card issuer. **It is fair to say that a digitally active card is likely to be the customer's "Top of Wallet" card.**

The framework for creating a robust indicator of digital disengagement before the customer decides to stop using their card online remains the same. **Analyzing digital spend and/or transaction frequency to identify attrition indicators, will highlight those customers most at risk and the digital treatment strategies that are likely to prove attractive.**

Promotional offers relating to popular online retailers, and product propositions that increase the security of online usage, are likely to be key tools in any card issuer's digital retention toolkit.

2. McKinsey Digital: The COVID-19 Recovery Will Be Digital, May 2020, [The COVID-19 recovery will be digital: A plan for the first 90 days (mckinsey.com)]
3. Source: VisaNet data

VISA

Enhance your retention management capability by using survival analysis modelling

To date our retention management solution framework addresses the problem by focusing on a customer base at a point in time and then predicts likely signs of disengagement over subsequent definite time periods. It allows you to identify those customers most at risk of leaving in the short term and take the appropriate action to try and retain their business.

Applying survival analysis modelling extends this framework by asking the following question.

"If the customer is not likely to leave in the next x number of months, then when will they leave?"

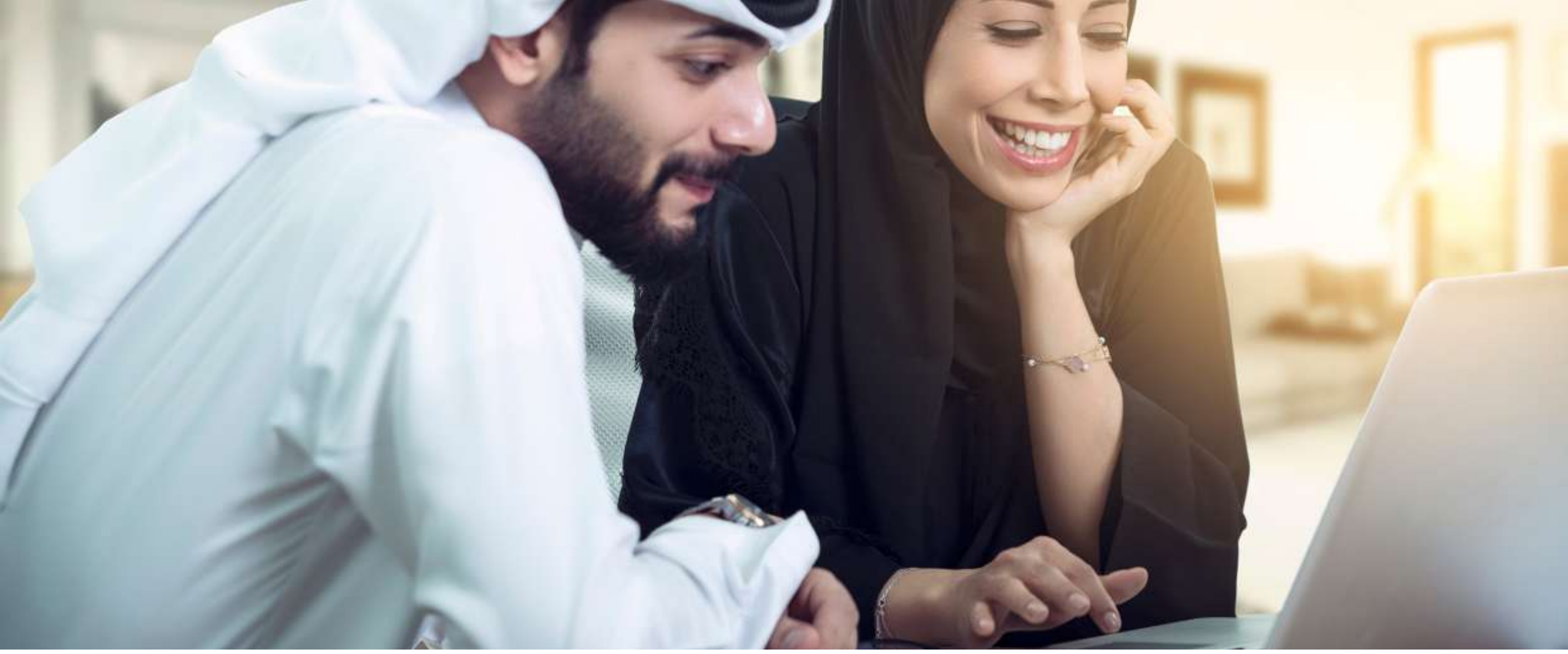
Survival analysis is a time to event model, rather than predicting the probability of an event occuring at a point in time, and it relies on a long observation window where the whole tenure is observable for a customer set.

It puts forward a mechanism to model for customer traits that have not been observed within the specified time window, and the primary assumption is that just because the event has not occurred in the chosen period does not guarantee that it will not occur at all.

By understanding the journey and characteristics of customers who have already left your organization, these can be applied to the rest of your active customer book to identify when the customer is likely to leave.

The beauty of incorporating survival analysis modelling into your retention management approach lies in the fact that the model allows you to develop a relevant strategy for those customers who are currently not displaying any signs of being likely to leave.

It ensures that you have a more thought through retention approach for those who you have identified currently have a medium or low propensity to attrite.



Issuers across MENA are benefitting from customized retention management modelling

At Visa Consulting & Analytics we have collaborated with some of the top card issuers across the MENA region to devise and enable customized retention management frameworks bespoke to their business and its challenges.

Through leveraging Visa and card issuer data, insightful propensity to attrite modelling has allowed priority segments to be identified and effective treatment strategies to be developed. Here are just 2 examples of where working in partnership has made a difference.

Objective: To create an actionable credit card retention management strategy for an issuer in the Kingdom of Saudi Arabia.

Two elements were required. A reactive strategy for dormant customers and a proactive strategy to identify customers likely to attrite.

Output: A prioritization framework was created to reach out to dormant customers with a regular tracking and review process in place to ensure reactivation was sustained.

For customers likely to attrite, a Machine Learning model combined extensive issuer information with proprietary VisaNet data to create an attrition model based on their balance build behavior. This was overlaid with an indicative customer value, resulting in every credit card customer being classified as a high, medium or low priority. The framework proved to be extremely accurate when comparing actual versus predicted attrition rates.

Objective: To create propensity to attrite models for a top 3 issuer in the United Arab Emirates for both their credit and debit portfolios, and develop insight based retention campaigns.

Output: The framework for both Machine Learning models incorporated both Issuer and VisaNet data, to identify those customers likely to leave based on their account balance trends. The prioritization of customers was further informed by applying each customer's overall value to the card issuer to the framework.

The customer behaviors witnessed through the propensity to attrite modelling informed the proposed retention activity, which consisted of a variety of best customer recognition and relationship development campaigns.

Retaining your best customers is increasingly important in today's world

With the continued evolution of banking and payments, greater levels of competition, and the increasing ease in which you can change card provider, keeping your best credit and debit card customers has never been more difficult to do. Typically, acquiring each card customer can cost hundreds of dollars and having made that investment you cannot afford to see business simply slip away.

Maintaining customer loyalty should sit at the very center of a successful card issuer's strategy and to build and maintain this loyalty requires a continual two-step process:

1. **Effective Retention Management** through monitoring and identifying any signs that a customer may be likely to leave before they do so.

   This proactive data-based approach gives you the best opportunity to identify the issue causing dissatisfaction and address it before it results in the customer taking their business elsewhere.

2. **Enhancing Proposition Value** by harvesting the insight that propensity to attrite modelling provides to deliver what your customer wants.

   Once the signs of disengagement have been spotted it is vital to quickly provide what the customer is looking for to re-establish the relationship and place it back on a much firmer footing.

At Visa, our algorithmists and narrative builders are experts at helping you to find unseen nuances and insights from our best-in-class consumer behavioral data. **And by combining this market leading data-based intelligence with proven best practices from around the globe, we can help to extensively inform and shape your retention activity and customer engagement.**

To find out more on how to enhance your assessment of marketing performance contact your Visa Consulting & Analytics representatives directly via e-mail

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About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists and economists across six continents:

- Our consultants are experts in strategy, product portfolio management, digital, risk and more, with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence, and our breadth of data, allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to **VCA@Visa.com**. You can also visit us at **Visa.com/VCA**.

