Predicting Retail Banking Consumer Behaviour Through Statistics - Druga provera

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"Predicting Retail Banking Consumer Behaviour Through Statistics"

Submitted

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Abstract: The purpose of every economic based activity is the creation of needs. As the financial activities cannot be an exception to the rule, the understanding of clients' necessities and their subsequent satisfaction is always at the epicentre of all financial institutions. Knowing the exact details that form the clients' behaviour and the processes that lead to the particular clients' decisions becomes an advantage for the financial insitutions that invested resources in it. At the end, it will not only pay off by satisfying the clients' needs, but it will also secure long standing loyalty and relations with them. As all relationships, that between a client and a bank requires support and mutual understanding.

The paper investigates the retail banking consumers' behaviour when it comes to two major retail banking operations, e.g. customers' acquisition and anti-attrition. The relative analysis and interpretation of data coming from a wide statistical sample, aim at proving that existing customers follow pre-determined behavioural patterns when it comes to new product propositions or, anti-attrition counter offers. The business cases results are commented by using the statistical findings indicating the x or y anticipated customers' reactions in the future, and also by identifying paradoxes or contradictions to "common logic".

Therefore, many interesting conclusions will be derived from the analysis for both the propensity of clients to accept particular products offering related to consumer financing, as well as their determination to "finish" the application process once this was initiated. The tendency of existing credit holders to increase their credit exposure will be substantiated by figures that go "against" the common understanding claiming that human beings will seek in minimising their dues at any given opportunity. The same is to be the case when it comes to the acceptance of counter offers during the clients' anti-attrition process. Customers surprisingly may be retained, not at the cost of reducing the bank's profitability, decreasing current credit's interest rate or fees, but by offering more credit, even if this is to be "covered" under the umbrella of reduced interest or extra cash. Finally, for the clients segments examined for anti-attrition reasons, the particular over representation of high net worth value clients seeking to end their relationship with the bank is to be proved.

1. Introduction

In these days of economic fall-outs and market dips, every other industry is trying to build up 'cope-up' mechanisms, and novel strategies of sustenance. The banking industry is no exception particularly when it has a larger scope for consumer touch-points; therefore there is a major necessity to evolve and execute effective retention and expansion strategies.

The industry faces intense competition and frequent shifting of customer base continues to be a primary concern and focused customer segmentation for cross-sell and up-sell of products and services has become a necessity. Given the fierce competition and high customer attrition rate, banking today requires efficient tools and means to promote products and services to existing customers and prospects, increase revenue, improve customer loyalty and thus strengthen customer base.

Decision makers today believe that getting a clear view of customer preferences and customer behaviour with effective Predictive Analytics and Data Mining tools is imperative for accurate and better customer segmentation. This paper tackles the use of Predictive Analytics to identify the customers with the highest propensity to buy new products and services and develop focused marketing campaigns. The embedded case studies highlight customer experience attributes as a significant influencing factor for augmenting customer's propensity to buy.

Every bank's rule is:

"Retain good clients and keep them satisfied".

When it comes to the traditional way of marketing, all financial institutions have to rely on "Above the Line" activities as most of the supporting agencies prove that they enjoy the highest reach x frequency.

Is it always though worth relying on non-personalised communication in order to achieve sales?

Is it always worth relying on the bank's reputation in order to counter offer the best option to disappointed customers in order for them to stay?

Is it always worth anticipating the overdue time to come in order to shape a bank's collections policy or even better to assume that all overdue debtors will meet their due payments on time?

1.1 Importance of the investigation

The banking sector spends annually billions of Euros aiming to achieve awareness and sales. Also, it invests probably the same amount of money in order to support customer intelligence and relationship management.

Provided that a system which statistically predicts the sales behaviour of the prospects/clients exists, each institution may benefit immensely by allocating the available resources for "Above the Line Activities" to other actions.

Also, it could reallocate similar resources planned to build brand awareness; such is the case of an Anti-attrition policy - knowing the dynamics that shape future behaviour can shape the model of each counter offer.

Hence, any model that sets either predictive modelling for delinquency or "promise to pay" accurate data, will not only result in less marketing costs but also in a great benefit to risk calculations, as the real risk cost will be manageable and therefore easy to include in any new or current product cost analysis sheet.

Above all, predicting the way in which your customer will react cannot be seen only as a cost reduction tool. This is because knowing in advance the accurate potential to sell into a client universe as well to retain and satisfy existing clientele drives profits.

Most businesses, including banks operate on the principle that it is less expensive to enhance your existing customer base and sell more services to them than it is to find new customers.

The same is the case for new acquisitions, as the models that identify the profile of future customers depict a world which is rarely unknown to us, provided that the right sample was used and data existed in order to offer the requested product or service.

To conclude, predictive or corrective models for "Overdue amounts collections" can identify not only the exact risk cost but also the different strategy to be followed for each particular client segment.

1.2 Research and social goal of the analysis

The analysis will be based on data which represent actual events/campaigns occurred in Serbia from 2012-14. The subject results could be used for taking right strategic decisions for:

- Resources allocations
- Retail Product Development
- Media Mix Selection
- Campaigns Scheduling
- Profitability Expectations

The final aim is to contribute to the knowledge of relationship management by setting the guidelines which will assist each manager in taking the appropriate decisions in a difficult and competitive environment where knowing your clients matters the most[1]

1.3 Hypothesis

The assumptions consider a standard banking environment where the objective of each Retail Manager is to maximize profit at minimum cost.

Therefore, the below steps associated with retail banking products will be considered, i.e.

Customer Acquisition: from the available prospects data, up to the final disbursement/issuing of the product.

[1] Source: http://customerinnovations.wordpress.com

Customer Anti-attrition: from the first incoming communication that defines the willingness of the customer to end his/her relationship with the bank, up to the final acceptance/rejection of the counter offer.

The Hypothesis allow different parameters to be used in order to reach the same outcome i.e. succeed in selling a pre-set number of retail products and retain a certain percentage of customers that intend to leave the bank.

All different parameters therefore consider:

- Propensity of the client to buy/defect.
- All different operational stages (mediating from the time that a personalised communication with a client commences up to point that a product is sold/client defects.
- The pre selection phase or ability of the client to be considered credit worthy either for applying for a new credit product or be the subject of cross selling for anti-attrition reasons.

The order of applying the above parameters is not the same for new sales and anti-attrition. Obviously the, new sales procedure requires them to be applied in the following order:

a. Credit worthiness
b. Propensity to buy
c. Operational Execution (from communication initiation to final disbursement),

While the anti-attrition one:

a. Propensity to buy
b. Operational Execution (from communication initiation to final disbursement),
c. Credit worthiness

The main reason for such difference being that in the first place the initiative belongs to the financial institution while in the latter it is the client that approaches the bank in order to declare his/her definite willingness to end the so far existing business relation.

As Credit Policy Manuals are subject to evaluation of data originated from different origins, see Credit Bureau, Scorecards, Cadastres etc., it is logical that credit assessments to define credit worthiness are subject to continuous change and cannot be executed in advance for the entire clients' portfolio in the case of anti-attrition policies.

1.4 Methodology

A large volume of data is to be examined using primarily the "over-underrepresentation" theory that intends to identify the propensity of clients to react positively to a bank's offer. Using data that segment the same customers' universe before and after the particular product offerings, we identified the likelihood of customers to either reply positively to a new product offering or, reply positively to a counter offer aiming to retain potential defectors.

The first step considered all prospects being analysed primarily for their credit worthiness, and subject to their eligibility, for their willingness to apply for another product. The ability of a financial institution to penetrate the whole of a particular market is not to be overlooked. The credit worthiness eligibility of the entire Serbian population is indicatively used in order to identify the credit potentials of the whole market before entering into a behavioural analysis.

The "propensity to buy/defect" approach is also be supported by the full operational analysis of the product/service offer effort, as we do not stay only at the willingness level of the clients, but we sought via a mathematical model to identify the efficiency of all steps mediating from the positive answer of clients up to the final credit disbursement/client retention.

The business case focuses on particular products of a retail banking environment, i.e. credit cards, personal loans, debts consolidation loans and overdrafts.

Last, but not least the paper seeks to understand all different international theories touching on the same subject identifying common grounds or concerns. Not all potential banks-customers relationships are examined rather than the debtor and creditor one.

2. Banks and Customers

A bank can be defined as a financial institution which is an owner of a licence allowing it to receive deposits. Banks may be commercial specializing in retail, or investments ones. The central bank is a regulator setting the general operating framework as well as in most of the times the monetary policy.

When dealing primarily with deposits and supporting individuals with short term loans, a bank may also be characterised as commercial. The same is the case when granting the same facilities to micro companies or entrepreneurs. Individuals will be customers of commercial banks not only after using the credits or deposits but also other services such as payments, foreign currency purchase or selling, etc.

As all services are available to all individuals living in a country, banks will seek to acquire as many clients possible. The use of the bank's services or the purchase of credits is the ultimate business objective, provided that the clients will pay for the services provided or the credit granted to them. The banks will seek to get a competitive advantage by attracting more clients using multiple ways as offers and advertising. However, the end result is not measured by the final credit or services applicants as it is absolutely certain that not all applicants will either have their credit approved or service paid after its initiation.

As in all other industries dealing with clients, banks will seek to keep clients pleased as happy clients have more possibilities to be "repeaters" and contribute therefore to the profitability of the bank also in the future. Millions of Euros are to be spent each year in customer surveys aiming to enlighten banks on the clients' perceptions and needs. All new products and services definitely are grounded in a study that preceded their market launch.

On the contrary, investment banks are based on trading. Performing trading on behalf of its clients or sometimes of its own, a trading bank will sell and buy different financial instruments as bonds and securities. Clients will seek to gain value out of the activities performed through trade, aiming at the incremental income originated by them. It becomes obvious that the clients of investment banks can be either individuals of high net worth value or institutions. The level of expertise for performing such transactions are very high, requiring an absolute knowledge of the

financial markets and heavy dependence on the analysis of the parameters that influence not only the local markets but also the internationals ones.

Although the most usual relationship between a bank and a customer is the one of a creditor and a debtor, many other relationships might exist. These are:

a) Pledger and Pledgee

It is very often that credits are granted to customers provided their promise to transfer the property of the collateral used for the credit approval if the credit cannot be repaid. A collateral can be a financial security tool, see bonds, shares, cash or even real estate property. The bank, which is the pledgee will activate its right over the collateral only if the customer (pledger) is unable to repay his/her loan. As long as the credit is not repaid all collaterised assets will belong to the bank.

b) Bailor and Bailee

At the epicentre of such a relationship is the element of bailment which defines the agreement of a bailee to safe keep the good(s) trusted to him for a known period of time and handed back to the bailor once the reason of safekeeping has successfully ended. The subject delivered to the bank, i.e. to the bailee is of high value to the bailor and the reason that makes him/her deliver the worthy good to the bank is mostly related to the high security measures applied now days by all commercial banks.

c) Advisor and Client

The banks provide different kind of advices to all of their clients. When the advices relate to the investment in bonds, shares and securities, the bank is an advisor. The relations of such kind are very strictly regulated and audited by the regulatory bodies of each market

d) Creditor and Debtor

When a financial institution grants a credit to an individual it means that it instantly becomes a creditor and the individual a debtor. The client has the obligation to repay in full its obligation according to the terms agreed and presented in the written contract signed.

Until the credit is fully repaid the individual can only be characterised as debtor. The opposite exists when the individual deposits money to a bank under the form of a current account, or

savings accounts or term deposits. In this case the bank is a debtor and the individual a creditor. The relationship is characterised in this case by the obligation of the bank to pay to the individual the amount deposited and the interest agreed. As in the case of credits, the characterisation of a bank as debtor cannot end until it fully repays the amount agreed during the time that the money was deposited.

There are many ways for a bank to seek the repayment of credits. The most frequent ones are amortised loans with pre-set annuities; see fixed instalments on monthly basis, revolving credits like credit cards and overdrafts where individuals are allowed to repay according to the amount used out of the total one granted to them, and deferred payments setting the repayment in the future but not using annuities. The multiple approaches for having banks paid customers interest when it comes to deposits is also the case. Savings or current accounts paying interest on monthly or bi-annual base are not uncommon to all banks. At the same time, term deposits appear in all markets in different tenors and conditions as no penalties for early redemptions and accompanied by various other services as banc assurance products, e-banking, standing orders, etc.

e) Trustee and Beneficiary

A customer that decides for safety reasons to deposit valuables (bonds, securities etc.) to a bank becomes a beneficiary and the bank a trustee. The trustee will request a certain fee for its service as the income generated from the valuables still belong to the beneficiary.

f) Licensor and Licensee

Often retail oriented banks offer the service of safe deposit boxes. In such case the bank is the licensor and the individual who uses the safe deposit box the licensee. The contract to govern the relationship is usually very strict determining the exact usage criteria of the safe box and the identification process of the client. In case of a unilateral termination of the contract based on the client's unjustified absence, the Lincensor is obliged to request the support of the local juridical authorities.

g) Agent and Principal

When clients request banks to act on their behalf in order to perform financial transactions, see issue letters of guarantee, collect dividends, transact in Stock exchange market etc., the relationship is the one of and agent and principal. The bank is obliged to accomplish all request defined in detail by the bilateral agreement with its clients.

h) Other

- Banks' exclusive right to proceed in forced collection of amounts due if the credit agreement rules are not respected by the client.
- Bank's obligation not to share with any other individual or unauthorised body the personal data of the client.
- Bank's obligation to allow full access (withdrawal) to client's deposits as long as the accounts are of sufficient balance.

3. Banking services and the mix of promotion

In their effort to make their products or services known to the market, organisations are forced to communicate with their clients. Should the communication be direct, then according to Brassington & Pettitt (2000), it can be characterised as promotion. Within the financial services industry, promotion is used in many different ways[2]. The promotional tools may vary given the different markets and societies but they can be categorised into the following:

Advertising

Banks are among the industries to spend considerably in mass communication media across the world. The reason does not lie only in the convenience and the high "reach" offered by the mass media. The bankable population especially selected to meet the desired credit criteria of each bank can be reached in many ways, but if the message has no personalised touch, then above the line activities is the most preferred channel. In this category belong TV, radio, Outdoor, Internet ads etc. Should a financial institution aim at gaining fast trust and awareness, it will seek to penetrate the market with institutional advertising. In this kind of advertising, the message will be then based on the brand name's image and the bank's appearance as a whole. It is important in this phase to consider whether the goal of market penetration is a short or a long term one. The institutional advertising will seek to create the difference by building confidence and trust among the prospects. The repetition of the message and the capacity planning provided by the modern media houses cannot be overlooked.

On the contrary, the brand related advertising will seek to focus on the short run. Its main objective will be to communicate the exact product offerings characteristics or services differences to competition. The significance of both types of advertising need to be seen together with the on-going transformation of consumer behaviour and the relevant mistrust created towards the banks. In a world of increasing banking regulations, customers' ability to change bank at any time and continuous bombardment of ads, the role of institutional and brand related advertising becomes more and more important. It does not matter if the brand related advertising

[2] A. Meidan, Marketing Financial Services, 1996, p. 100-101

is more complex and selective. The use of affinity indexes among the banks marketing managers makes it easier to allocate the right resources to the right communication channels day by day. What is more important to remember is that both types of advertising go hand-in-hand as the overspending of one cannot replace the benefits of the other. A balanced approach is requested if banks are interested not only in selling particular products and services but also in building long term relationships.

The differentiation between above-the-line and below-the-line is also to be mentioned. While mass media rely on the high "reach", the personalised communication endorsed by the below-the-line media tools depend more on the sentimental bonding between the client and the bank. It is not strange therefore to observe that banks which invested in the development of Customer Relationship Management system intend to use more personalised communication, where the communicated message is tailor made to the exact needs of the prospect. The reason needs to be traced not only at the lower level of cost, or because of the secure delivery of message to the anticipated recipient. The below-the-line communication tools are capable of communicating as many personalised messages as the business intelligence system and product development capabilities allow to each bank.

Sales Promotion

The sales promotion refers to special activities aiming to strengthen the sales results during a specific time period. Being closer to the concept of brand advertising rather to the institutional one, it uses special tools to achieve its goals. It may be seen under the form of limited time promotions with preferential interest rates or maintenance fees. Usually, it appears as the opportunity of the client to get a deal that will not appear again shortly, or it will never be of the same quality to price ratio. Banks as all other corporate institutions need to be careful when using it as the extent to which they use it is bound to work against them in the long run.

A continuous appearance of such promotions is bound to decrease the level of clients' loyalty as it will question the level of quality offered for a reduced price. At the same time, the complexity of both IT support and products/services pricing might lead to the serious reconsideration about the frequency of promotional offers.

Often appearing under the form of special discount offers, member –get – member campaigns, anniversary promotions and "only for few hours" deals, they fail to answer the retention question for all clients acquired through the particular campaigns. Peatti & Peatti (1994) and Meidan (1996) point out the efficiency of running promotional offers and advertising campaigns at the same time as the marketing "call to action" is increased.

Finally, the primary objective of promotional offers is also to be considered primary to the campaigns launch. The banks seeking to increase the number of new clients or instant product market share will definitely use them. However, the creation of long standing clients relationships will need to seek somewhere else for its marketing tool.

Public Relations

The element of public relations has always been present in the corporate history. It refers to the management of the relationship between the bank and the public through different communication channels and methods. It aims at keeping good and qualitative terms and securing the best corporate image in public. The Corporate Social Responsibility actions are often part of it, as well as the frequent journalist's social events attendance to keep up with the good news. The participation of banks into magazines, newspapers specialised in the financial industry news can be seen as part of the public relations too. Although not able to reach the mass clients base secured only by mass media advertising, it aims to create trust among the professionals of the financial industry and promote the corporate image. The role of public relations becomes more important in times of social and financial crisis as banks are heavily linked to the negative side of any crisis part. The banks use often specialised agencies that seek continuously to strengthen the corporate image and find more opportunities for brand exposure.

Personal Selling

The personal selling is the most traditional promotional tool as it is linked to all consumers' conscience with all manned branches network operating banks. Being one of the communication ways that has not been fully replaced by technological solutions, it aims persuading the prospects at taking the right action. Provided that it takes two individuals to be initiated, the bank's representative and the prospect, it relies highly on the human selling characteristics and capacity.

The trust earned by the bank's relationship officer will be the starting point for building long lasting loyal relationship with the client. The inability to gain trust during the personal selling process will not only results in not having a client purchasing a product or service but in the long run the same client will seek advice in another bank, as the unhappy past experience will lead him/her into satisfying his/her needs in other human faces. Different positions within the branch network of any bank are obliged to know not only about the particular products that have been assigned during their budget allocation process, but also the wider variety of services and products offered by the same bank. If not, the bond of trust is bound to be broken with the first unanswered or incorrectly placed explanation about a product or service.

Although it can be supported by technological tools (Lee 2002), the importance of face-to-face communication remains high. The financial industry will depend on personal selling as long as branches network exist. Together banks will depend also on their reputation (Meidan 1996) as the banks' officers human inefficiencies and weakness to serve client will mirror to consumers mind the banks' respective ones.

Direct Marketing

Direct Marketing is a dynamic approach to clients' needs provided the existence of technological support and the existence of crucial information. In this way banks invest in clients' history aiming to build the necessary patterns of behaviour that will secure the anticipated responses from the clients. The development of direct marketing is strongly related to the technological solutions that supports it. The existence of sophisticated call centres software or, the respective ones of data mining are not less important nowadays to the retail banking products development or risk management. The ability to collect the necessary information from all communication achieved historically with clients is paramount to banks that serves a great number of customers[3]. Today, the use of databases is not limited only at the selling stages. The anti-attrition policies and the predictive model for services users depend on the same databases that intend to identify the higher "propensity to buy" ratio. Therefore, direct marketing as a

[3] Brassington, F and Pettitt, S, (2000), Principles of Marketing, Second Edition, Prentice Hall, Harlow, p.15-21

promotion tool becomes more important in banks that have envisaged a commercial strategy that depends less on the branch network human support. The banks operating in advanced markets intend to spend more on them provided the existence of data access and technological support. Its limitations are to be found mostly in the data integrity and not in the communication efficiency per se. Therefore, the development of data validation and normalisation rules are the biggest challenges of the direct marketing as a promotion tool.

3.1 Factors Influencing the Promotion Strategy

There are many factors that may influence the promotion strategy. We can identify the following:

The Product

Banks seek to satisfy their clients' needs by introducing new retail banking products on the market. A simple look at them will convince any client that products are rarely unique as they can easily be copied and placed fast in the market place after the first bank launched them. Therefore the strategy behind the products promotion needs to consider the outmost of the effective media use before the same message is also used by the competition. If the product launch was not performed by a market leader but a follower, things are easier. The disbelief of consumers towards banks will seek to find comfort faster in the copied product as the new one will always bear the handicap of the beginner's mistrust (Meidan 1996). Provided that banking products are designed to cover particular needs, see cash availability, cash transfers, consumer goods purchase, etc., it is important for the bank to invest in the products' functionality communication rather than corporate image when the anticipated result is expected to come fast Marquardt (1994). Although the loyalty of customers can also be built by satisfying only particular clients' needs, the use of a banking product is not a panacea for succeeding in a promotion strategy. The satisfaction arising altogether from the parallel use of services and correct advice provided to clients can also lead to the same loyalty results as of the one of a successful credit product purchase. At this stage the importance attributed to the overall image of the bank cannot be overlooked. The top of mind awareness surveys presenting the difference between actual banks' products users and the relative perception of who they consider the best

bank comes exactly at a point where the banks realise the need to be evaluated as a whole and not in pieces.

The Technology

The introduction of new technologies in the mid-eighties (Joseph et al. (1999) intensified the effort of banks to win the race of customers' satisfaction outside the traditional frame of branch network promotions and media advertising. In a world rapidly changing and generations that grew up in the world of internet, the intensity of technology in the banking industry is not a wonder. Banks invest more in technological based solutions using their IT and also ask for more support from their IT providers and processors. The current applications of e-wallets, mobile banking and e-services was likley unknown to us five years ago but not to the software companies that identified the need after the banks' surveys and needs for faster and cheaper services. Internet banking needs to be seen as a general consumer trend and not as a feature of the young generation (Flohr-Nielsen (2002). Marketing promotions will definitely adapt to the use of technologies as the clients' needs are no different than the ones of distant orders for consumable goods or purchase of food from the virtual shop of our neighbourhood's supermarket.

Banks will benefit from the lower cost transactions through the ATM as the higher interchange fees acquired through the transactions performed through web based transactions. The clients are happy to be rewarded for their dedication to technology as their wish for fast transactions is nowadays a reality. The banks marketers have already taken this seriously into consideration as especially designed web campaigns are executed not only through emails but also selected clients' profiles in web based social media as Facebook, Google, e-newspapers.

Local Culture

All products and services represent recognitions of well perceived social patterns (Cavusgil et al. (1993). No client is willing to apply for products or services that do not comply with the principles prevailing in the local society. The effort of Islamic banks to offer banking products complying with the religious Sariah laws is pure evidence that banking products cannot be separated from the overall society's perception of good-bad, ethical-not ethical.

As banks go international, the issue of culture becomes more important. The adaptation of successful stories originated from the headquarters country is no longer the case. The use of different language, history, social stereotypes requires that promotion be adopted accordingly.

The proposed marketing mix requires considering all above stated elements that form the social beliefs in a certain society. The aggressive e-media advertising may not be the right solution in societies where the human relationships are traditional. The adaptation of the advertising messages to the local belief is of primary importance if banks do not want it to be rejected. (Papavassiliou & Stathakopoulos (1997)

Country of Origin Image

International banks often realise the impact of their countries origin as clients link the image of the origin country with the one of the operating banks. Although customers coming from developed economies have favourable opinion about their own country products, services and companies, Root (1994) the same is not the case for consumers from emerging economies. The affiliation of a banking product to the characteristics of the people of the banks' country of origin becomes an advantage for the banks that are originated from the developed economies.

On the contrary, any affiliation to the problems announced in the country of origin can work against the clients' perception for the banking products. The example of Greek banks operating abroad and the relevant loss of individuals' deposits during the Greek crisis is a clear evidence of the negative media perception attributed to the country of origin during 2012-2015.

Macro Economy

When discussing about macroeconomic figures and their relation with the promotion strategies, the issue becomes more of an adaptation over standardisation of the promotion. Different societies provided their different economic development experience promotions aiming to influence consumers differently. The impact of income, unemployment, inflation, F/X rates, consumer index is different from country to country. Therefore each bank needs to consider if it will standardise its message for all operating subsidiaries or it will keep only the part that complies with the economic conditions shaping the culture in the country.

The decision is not an easy one. Brassington & Pettitt (2000) support the idea of adaptation as they believe that the cultural differences are always impossible to be bridged. The different stages of economic development mean also different levels of regulations and budget allowance.

On the contrary, a standardisation strategy relies on different arguments for justifying its correctness. According to De Mooij (1994), the cost reduction will always be higher, the quality and resources management easier, the brand image really international and uniformed and the maximum transfer of know-how and expertise will be achieved.

Infrastructure

The development level of advertising infrastructure can affect the promotion strategies. In this way, different media availability, equipment or even advertising personnel trained in particular techniques may be decisive for the selection of a promotion strategy over another. The availability of investment is also crucial as many of the above mentioned pathogenies can be corrected once a growing market can allocate financial resources to advertising (Arnold et al. (2001).

3.2 The concept of Bank Marketing

On the occasion of the fifth European Meeting of Financial Marketing, held in Geneva, Philip Kotler says that it can be considered that there are five successive stages of bank marketing and they are:

- "Marketing = Publicity, sales promoting". In the early 50's, marketing had not yet penetrated conservative banking community. Banks acting on a so-called "seller's market ". Customers needed basic financial services provided by banks without them having to do market research. In line with their conservative image, banks were constructed so as to inspire safety. Their interiors were impressive through austerity and workers from desks rarely smiled. In the late 50s competition for savings accounts has intensified and a number of banks have began to use advertising and sales promotion techniques. Soon other banks did the same and so the idea of marketing was born as "advertising and sales promotion."

- "Marketing = Courtesy and good service." In the fight for customers, banks have learned that it was easy to determine people to cross the threshold, but it was very hard to keep. Thus marketing has taken a new dimension - that of pleasing the customer. Workers counters began to smile and grids were removed. The interiors and exteriors of banks were redecorated to create a friendly atmosphere. Inevitably, friendly atmosphere has become a common feature of both expected and that lost a distinctive advantage and was not a reason in choosing the bank by the customer.
- "Marketing = Innovation". Looking at the banks universe, it is not surprising to see that most banks look the same; however a few of them recognised the need to differentiate themselves from the competition. As such, many banks started to launch new banking products - credit cards, lines of credit - and thus developed a host of different marketing tools.
- "Marketing = Good positioning". Inevitably, new banking products and services have become increasingly common, so again in the early 70s, there was a need for a competitive advantage. Banks began to no longer offer something for everyone, but only to address specific market segments. Some banks have set prices and have designed products and advertising so as to address particular market segment consists of people with high incomes. Some target segment consists of people aged between 25 and 45 years, while others have made efforts to attract older people.
- "Marketing = Analysis, Planning and Control". In support of this assertion, Philip Kotler gives the example of a large commercial bank whose loan officers used to propose an annual increase of 10% compared the results with those of previous year.Budgets were not accompanied by any plan and bank management was very pleased when it reached the figure proposed. Until one day, when a young loan officer who replaced the retired worker managed to achieve a 50% increase. The Bank has learned a painful lesson: that assessed the potential of different market segments, not requested marketing plans, not set quotas and not developed adequate motivation systems.

Today, in developed countries, many banks are in the third, fourth or the fifth stage, and the other only in the first. In Eastern Europe, the situation of banks in terms of the stage reached in the adoption of the marketing concept is differentiated and complex. Branches of foreign banks located in the same state in which the parent banks. Mixed banks benefit from the resources and

experience of foreign partners. Serbian banks are, in turn, in different phases. Some have some experience and have passed the initial stages, specific market penetration, when priority was to make the bank known to as many potential customers as possible. Other banks are still struggling to make themselves known, to attract customers, having the most times, a classic quote. In short, we can say that in Serbia the banks are in different relationships with the marketing concept. Both banks individually and the banking community as a whole, must reach the fifth stage if they want to succeed in a market that will be characterized by rapid exchange and particularly strong competition. Managers of banks should adopt a new way of thinking - a new philosophy - as did leaders from other fields. This new way of thinking is the concept of marketing.

By the mid- 60s, most of the banking institutions have completely ignored marketing. With increasing competition, some banks have started to believe that they are marketing when they launched very costly advertising campaigns. The first bank failures of campaigns have demonstrated that, on the one hand can ruin campaigns and, on the other hand that the main problem is not attracting new customers, but keeping them.

For a bank, marketing is the concept of implementation and achievement through the use of all available means of the development of coherent and satisfying market segments, determined and selected in advance .

The extension of the banking services aimed obviously profit, but on the other hand, sought to assist the client, relieving them access to useful and desirable services. Around the 70s', banks have developed programs to support business marketing on all sides, pledging its components: the establishment and organization of products offers/services that meet existing banks'needs; promotion and targeting products/services to meet customer requirements.

The bank, acting in a dynamic environment, the market and other factors (components of the political, social, legal, cultural, demographic) often raises problems, forcing it to further efforts or opportunities that should be exploited as well. Therefore, it needs to intergrate current actions, long-term goals, objectives determined in advance by marketing

policy. Adaptation of the banking business environment requires knowledge of its requirements, a continuous tracking of quantitative and qualitative changes.

Currently banking marketing, mostly the branch network related one, has quite clearly outlined its theory and economic practice.

The adoption of the marketing concept as a basis for strategic and tactical decision-assembly, which is adopted in the consumer and the existence of the banking institution, requires consideration of four elements:

Satisfying customers' wishes. This is a central aspect of the marketing concept, without which the bank's financial objectives could not be met.

- Profitability. Customer satisfaction cannot be achieved at any cost, but there must be a balance between the fulfillment of the wishes of customers and gain realized from the effort.
- Motivating employees. All employees must understand the importance of applying marketing rules in practice. This can be done by satisfying employees' needs, they must become aware of the importance of controlling costs and maximizing revenue.
- Social responsibility. The bank must be aware and sensitive to the community and environment in which it operates. The banking institution holds a very important role in society and therefore must behave responsibly.

It can be argued that a policy-oriented marketing within a corporation requires the following[4]:

- ✓ to study the needs of different categories of customers ;
- ✓ to identify those environmental needs of the bank is able to satisfy its own resources;
- ✓ to seek the most efficient way to meet these demands in terms of cost and profit maximization ;
- ✓ anticipate and react appropriately to environmental changes.

It should be noted that both colloquially and specialists frequently uses the term "market orientation", with the following meaning for a banking organization:

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[4] Cetina, I., Financiar-banking Marketing, Economic Publishing,, 2005, p.36

1. The bank comes successfully to meet the financial needs of the client, for example:

- ✓ identify new customer needs;
- ✓ remodels products or services;
- ✓ create new products or services;
- ✓ launches on the market the products and services requested.

2. The Bank has a flexible organizational structure and function, which enables continuous readjustment of the financial needs of clients, which are in constant evolution.In order to achieve successful marketing process, banks should:

- ✓ identify markets that are most profitable for them;
- ✓ analyze their customers' needs, both now and for the future;
- ✓ draw up action plans to satisfy those needs.

In a concise formulation, it can be stated that bank marketing is a set of processes that lead to meeting the financial needs of customers in a profitable manner for the bank.[5]

Attrition

Consolidation within the banking industry has been steadily increasing for the last several years and the recent financial crisis has accelerated this trend. With a merger or acquisition comes the opportunity to grow and expand the business while capturing efficiencies through economies of scale. While the latter is a widely achievable outcome, banks often experience customer attrition after undergoing a consolidation. One of the key reasons for this may be that banks primarily focus on cost savings and place too little emphasis on efforts to retain customers.

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[5] Răduţ, R., Management and bank marketing, 2006, p. 50

Inadequately investing in customer retention can set the stage for lost value because of lower revenues and profits. Given the challenge and cost to acquire new customers, the primary objective needs to be the way of integrating customers into the bank's clientele data base.

To assess the risk of customer attrition during an acquisition and identify key factors driving it, the Deloitte Center (Banking Solutions) and Harris Interactive conducted a survey of more than 800 U.S. consumers who had lived through this experience. The survey found that 17 percent of respondents had transfered their current accounts to another bank at least once after their bank was acquired, while an additional 31 percent said they were at least somewhat likely to switch over the next year. But the potential loss of revenues may be even greater than these figures suggest because respondents who had switched had more financial products and more investable assets than those who had not.

Rather than one significant event, a number of experiences have led respondents to change banks. Emotional factors, such as feeling that their bank no longer valued them as it did before or the belief that it no longer looked out for their best interests, were most often cited as important reasons why respondents decided to switch banks.

In addition to emotional factors, other reasons cited frequently were having received a competitive offer from another bank, problems with account service, and higher fees.

These results suggest that rather than being able to focus only on one aspect of the customer relationship in their effort to reduce customer attrition after an acquisition, an acquiring bank may want to address a variety of customer events. Further, it would be wise to consider moving quickly to integrate new customers. Nearly two-thirds of the survey participants who had transferred their account to other bank proceded in doing so within the first month after the purchase of the new bank was concluded.

To increase customer retention, we believe banks should consider using a standard pattern of rules which will define the way to improve customer satisfaction and invest in future relationships.

Even before a specific acquisition is being considered, banks have the opportunity to agree on the pattern of managing the customer experience throughout the life cycle of the integration. This pattern should identify the "moments of truth" in the integration — high-impact events that can determine enduring customer attitudes, trust, and loyalty. For each moment of truth, the acquiring bank should consider detailing the target customer experiences that it seeks to deliver, together with the supporting employee behaviors required. The result of this analysis is a standard customer integration playbook that describes the specific actions to be taken in each phase of the acquisition in order to provide the desired customer experience.

Ensuring that a bank places sufficient emphasis on monitoring and analysing the customer satisfaction during the acquisition period, will also support the customer base which is the basic value of the financial institution. Besides just increasing retention rates, the bank also has the opportunity to look forward to additional income by building on the good impression by communicating the bunk's brand and value proposition, and starting the process of building customer loyalty.

The distinction between the value of the recently acquired customer and the existing one is difficult to be made in terms of customers' loyalty. The focus on both customers' type needs to be within the bank's culture that will try to impose to all different managerial or not level the importance of monitoring and improving the customer satisfaction and loyalty. After all, this is the only way to get profit from clients either in the long or short run.

Why customers look elsewhere

Due to the financial system crisis that began in 2008, banks were obliged to change considerably not only related to their regulatory framework but also towards their mindset when it comes to customers' attrition. Coming closer to Fast Moving Consumer Goods patterns, the banks clients tend to be less loyal seeking to switch banks for marginal added value reasons. The implementation of CRM systems helped into understanding that the issue is here to stay and should banks decide to seek long term relationships with their clients, their respective concern about the clients' needs must materialise in specific actions and strategies.

The relational study between clients and banks indicates that the ten percent of the clients who switched their main banks, did so in the last two years, while an additional eleven percent intend to do so in the near future.[6] The latter proves that customers' attrition accelerates and the existence of numerous products in their current main bank is not a good indicator for predicting the possible switch.

Different countries present different "switching main bank" patterns provided their different culture, history, economy and financial systems' characteristics. Sixty three percent of the German survey participants switched from their main bank to another in the last 24 months. UK and Italian responders presented very similar results as almost fifty percent of the participants switched from their main bank to another in the last 24 months. The intention to switch from the main bank also in the future is also obvious. In the case of Spain, nearly twenty percent of the responders had intentions of doing so in the future. Belgium and France are the ones that appear less influenced by the overall accelerated trend of attrition.[7]

The potential of customers' attrition appears stronger after a bank's acquisition. Deloitte's survey concluded that seventeen percent of clients belonging to bank that were recently acquired switched to another bank partially or in whole. Additionally, thirty one percent expressed their intention to do so in the next year.

A customer attrition rate of 20 to 30 percent or more after a merger represents a major loss of potential value. However, the loss may be even greater because survey respondents who switch accounts tended to have more banking products and more assets. Switchers had an average of almost six financial products across all their banking relationships compared to four among those who had not switched any accounts. Also, switchers were much more likely to have investment and loan products in addition to checking and savings accounts. Further, 66 percent of survey respondents who had switched accounts had investable assets of more than $100,000, compared to just 28 percent for those who had not switched.

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[6] Deloitte Center for Banking Solutions survey, 2009, p 15

[7] "ibid", p 10

These findings underscore the potential value at risk in an acquisition. A large share of bank profits is usually generated by 10 to 20 percent of customers, that is, those with which the bank typically has a greater share of wallet. If these customers switch accounts after an acquisition, a significant portion of the expected value of a deal can be placed at risk.

Critical first month after an acquisition is announced

In minimizing customer attrition, it is particularly important to focus on events that occur soon after the acquisition is announced. In the survey, roughly two thirds of the respondents who had switched an account did so within the first month after the acquisition was announced, while 85 percent switched within the first three months. The first impressions that customers have regarding the acquisition and how it may affect them can create lasting attitudes that either build or undermine customer loyalty to the new bank.

A bank's initial communications with its new customers are important in this regard. But the direct interactions with customers that occur in the branch and in the call centers have even more impact. Subsequently, the acquiring bank may do well to consider moving quickly to convey its customer approach to the acquired employees, who are the face of the bank to the customer. The fact that most switching by the respondents occurs quickly after announcement highlights how important it can be to have a customer strategy and integration approach defined before the deal is announced. By having a standard customer integration protocol and processes in place before a deal is contemplated, a bank can then customize it to the unique characteristics of a particular acquisition under consideration.

What influences attrition

When banks start thinking about implementing anti-attrition strategies and before investing in the supporting IT tools and human resources training, it is crucial to understand the reason behind clients' attrition. According to Deloitte's study, thirty two percent of the clients did so because of the service levels, whereas twenty six percent did so because of the pricing levels for products and services. The clients identified with the intention to switch in the future had the relevant reasons more represented as service levels accounted for forty two percent and pricing for forty three percent of respondents. An alarming issue proved to be the finding that twenty

five percent of respondents justified their intention to change to another bank because of the absence of trust[8].

Deloitte's survey asked respondents whether they had experienced any of up to 46 negative events to assess which types of experiences led respondents to switch accounts after an acquisition. These events included problems with the level of service, access to services, competitive offers from other institutions, increased fees, and poor communications, among others.

Not surprisingly, respondents who had switched accounts were much more likely than non-switchers to report that they had experienced these negative events. But, in most cases, switchers had not experienced simply a single negative event, but instead reported several negative changes in their banking relationship. This suggests that the decision to switch is not usually driven by one event but results from the cumulative impact of a series of negative experiences.

Banks remain vulnerable to customer attrition even months after an acquisition. Clients will adopt a waiting attitude until their customer satisfaction expectations are proved right or wrong in the future. In the meanwhile, nothing will prevent the risk from checking other banks' offers and comparing when possible.

When respondents who switched banks were asked for the top two reasons they moved their account to another bank, the types of reasons cited most often were: emotional factors (the primary driver of switching); competitive offers from another institution; problems with account servicing; and concerns over fees. Driven by these factors to switch accounts, 68 percent of switchers said they liked their new bank more than their previous one. In developing an integration approach, it is important to understand each of these drivers and their implications for efforts to minimize customer attrition.

Emotional

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[8] Deloitte Center for Banking Solutions survey, 2009, p 17

By far the most common type of reason for moving accounts was emotional factors, cited in 36 percent of responses (versus 17 percent for competitive offers, the next most common reason). These high-impact events included losing trust and confidence in their new bank, concerns about the security of accounts, not feeling that their new bank valued them or looked out for their best interests as their old bank did, and the loss of a personal relationship with bank employees.

These negative experiences can result from a variety of interactions, but the role of employees in building strong customer relationships cannot be overstated. When employees of an acquired bank do not receive clear communications about the changes affecting their future with the new institution and feel they are not valued, this is a recipe for poor customer service or even having employees criticize the acquiring bank to customers. Employees who are beginning to live the acquiring institution's values and who interact effectively with customers are essential to increasing retention. Such engaged employees may help new customers fairly consider the acquiring bank and help build their loyalty.

Competitive offer

Another common reason for switching was receiving compelling competitive offers from other institutions. Specific experiences in this category included offers of more appealing products, improved returns on savings, loans with lower interest rates or more flexible lending terms, or services that made banking more convenient.

This receptivity to competitive offerings speaks to an absence of compelling reasons for customers to stay. Acquiring banks can go on the offensive and proactively communicate their strengths and the benefits of the acquisition for customers. These communications can remain positive and go beyond simply assuring customers that the changes will be minimal and that service will not be disrupted. The acquiring bank has the opportunity to emphasize its brand promise and how customers will benefit from the products and customer service offered. These communications can be even more effective when they are customized to specific customer segments.

Fees

Concerns about fees were another key driver in customer switching decisions (e.g., the experience of having to pay for services that they received for free before the acquisition). In some cases, particularly when buying a distressed institution, the rates offered on deposit accounts by the acquired bank are above the acquiring institution's rates, or the fees charged are below the purchaser's price structure, and may need to be adjusted. But careful consideration is warranted in determining the path for changing fees and rates. Alternate strategies include providing different rate/fee adjustments for different customer segments and phasing in new pricing in stages, rather than making an abrupt, one-time change.

Price sensitivity is not surprising. In other studies and from Deloitte's experience serving clients, pricing always has significance for customers. When it is the primary driver of a customer's decision to switch, however, it may be indicative of the weakness of ties the bank has with the customer. Proactive communications of the benefits of the acquisition for customers can help to ensure that fees, while always important, do not become the exclusive issue. Training employees will be important in this area as well. Employees need to have the information and skills to address customer concerns by answering questions on fees. It is helpful when they are equipped to move discussions from focusing simply on the absolute level of fees to the relationship between fees and the value provided, highlighting the benefits of product and service packages for the customer.

Account servicing

Problems with service were another reason for switching. This includes the perception of an overall decline in service quality, especially when telephoning the bank, and a feeling that meeting their needs required too much time and effort. Effective integration plans place a priority on minimizing disruption and maintaining service levels during the acquisition process, with the goal of avoiding any account errors during the transition that could erode customer trust.

However, effective planning and execution goes beyond addressing obvious disruptions. It involves ensuring strong communication that is consistent across channels and proactively

identifying opportunities to provide service that exceeds expectations. Given the central role of employees in interacting with customers, acquiring banks can benefit from investing early in training customer-facing staff, especially in call centers, on product offerings and expectations regarding customer service.

The rationale for placing a greater focus on customer retention during an acquisition is compelling. The loss of newly acquired customers who switch can seriously erode the value of the customer franchise being acquired. The loss may be even greater if those who leave represent the bank's more valuable customers. And, indeed, this survey indicated that those respondents who switched tended to have more banking products and more assets. In particular, among switchers, 66 percent reported having investable assets of more than $100,000, compared to just 28 percent for non-switchers, while 17 percent had more than $500,000 in investable assets.

Lost customers, especially profitable customers, cannot easily be replaced. The cost to a financial services institution of acquiring a new customer is a multiple of the cost of retaining an existing customer. For this reason, even modest improvements in customer retention rates can lead to substantial improvements in profits and shareholder value.

Beyond simply minimizing attrition, an acquisition provides a unique opportunity to forge a relationship with customers at a time when they fear the worst. If managed correctly, it can build satisfied, profitable customer relationships, which not only contribute directly to topline growth, but also can increase brand loyalty and trust for the bank.

Country by country comparison of why customers move

As previously noted, the different countries' characteristics of culture, economy, history, financial infrastructure and regulations result in different reasons of clients' attrition. Countries as United Kingdom and France seem less sensitive to pricing as sixteen percent of survey participants would switch to another bank because of the pricing levels. The same reason appears to rank higher in Germany and Italy scoring fifty five and fifty percent respectively.

In Belgium and the United Kingdom the most important attrition reason is lack of trust, whereas in France and Belgium the most important reason is the service dissatisfaction.

A crucial element of the research is the understanding of the relation between existing loyal clients who show a lot of years of service in their main bank and their respective intention to switch to another bank. It is proven that unlike what is widely believed, the profile of frequent switchers is not always the same as long lasting clients enjoy also probabilities of switching their main bank after years of successful service[9].

The relation between years of service and intention to switch the main bank is very interesting as looking across Europe, forty eight percent of clients that were with their primary bank for the last ten year intend to switch to another bank while the percentage for those that have been banking with their main bank for five years goes as high as seventy one percent. Of course results are not proportional to all countries as in the case of Belgium and France the customers seeking to switch to another bank after ten years of service reaches seventy five percent.

Certainly, there is a big difference between expressing the final will to leave a bank and the implementation of such an action. Many banks endorse the introduction of triggers events which will ignite the initiation of the anti-attrition policies. Such event can be the submission of written complaints to the regulator, the continuous request to decrease interest rates in credits, the request of an outstanding balance confirmation for supporting another bank's debts consolidation loan credit application, the serious service level dissatisfaction complaints, etc.

However, banks understand nowadays that the relations between acquiring a new customer, satisfying an existing one and retaining a future defector is not a simple one. A well prepared strategy to cater for all different stages of a client's lifespan need to be in place in all banks in order to secure the best customer experience and maximise profit. Even if clients' dissatisfaction is bound to increase over the service years, banks are obliged to invest in tools and customer culture in order to prevent competition from acquiring their most valuable asset, i.e. the clients.

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[9] Deloitte Center for Banking Solutions survey, 2009, p 19

Things to do - addressing loyalty

- Financial institutions need to invest on creating tools and strategies to serve dissatisfied customers and potential defectors. The contribution of the bank's personnel is essential as the clients will always be counting on human relations as a first step when expressing their complaints. Applying rewards schemes that aim at increasing customer satisfaction can be of equal importance as sales rallies and become of permanent nature to banks that understand the importance of clients' satisfaction.

- The contribution of the so called "business intelligence" function is crucial. The ability to understand the clients' data base means the ability to understand the clients' needs and allocate the right resources for their satisfaction.

- As the clients' needs have been identified, the counter offers and anti-attrition strategies need to be simple and tangible offering the opportunity to have all identified clientele understood the value proposition.

- The bonding of the client with the bank should not be seen only as the understanding of a special need that will keep the client in. The clients' loyalty is better enforced when it is bundled with more than one product or service. The added value created by the multi-level service of various products and services is difficult to lose when compared even with the best service of a single product. The loyalty can be built not only on high value offers but also on daily transactional services which repeatedly take a respectable part of every day's life of banks' clients

Things to do – preventing attrition

- Not all customers are the same. Banks need to segment their clients' portfolio and identify their value.

- Counter offers cannot be generic as not all clients intend to defect for the same reason, or enjoy the same lifetime value. The reason of defection needs to be identified and tested over the acceptance of different counter offers.

- A custom made programme that differentiates the customer relationship by offering personalised offers is a unique advantage that secures profitability and presents similar actions to be taken from competition.

- If weights are attributed in order to evaluate the lifetime value of clients and the relevant importance to the bank, then the aging of customers' acquisition needs to be treated with extra care allowing as higher importance as the other parameters, see interest income, commissions income, cross sell capabilities, delinquency status allows us to give.
- The monitoring of the potential defectors is ongoing and can be improved by the statistics of the data series.
- The targets allocation to the sales representatives needs to consider anti-attrition targets and rewards.

Banks that fail to place a sufficient emphasis on the customer experience during an acquisition run the risk of not achieving the value they anticipated when the transaction was originally conceived. All too often, however, acquisitions have focused principally on achieving cost reductions, while paying too little attention to customer retention.

The result has been that many of the customers, especially many valuable ones, which a bank believed it was acquiring quickly, move their accounts to other banks. The risk of customer attrition lingers for a significant period after the transaction is completed, as customers consider whether or not to remain with the new bank.

To achieve the potential value of an acquisition, banks can benefit from having an explicit plan designed to drive greater customer retention. Even before an acquisition is being considered, a bank should consider developing a standard customer integration protocol that identifies the target customer experiences that it seeks to deliver during integration. When a specific deal is being planned, this protocol can then be customized to reflect the special characteristics of the deal at hand.

An acquisition is a critical moment in the customer relationship. It is only natural that customers are concerned when they learn that their bank is being acquired by another institution. They are worried that their products, pricing, and service may deteriorate. The change can make them more aware of their banking relationship and more sensitive to any problems that may occur during the transition. If their worst fears are realized, and they experience problems during the integration or believe that the new bank has lower-quality

service or product offerings, our survey indicates that they are more likely to switch to a competitor.

But while any acquisition runs the risk of customer attrition, it also creates a unique window of opportunity. The first impressions that the acquiring bank makes on its new customers, especially when they are concerned about the acquisition, can have a lasting impact. Banks that can deliver a seamless integration, while providing quality customer service and good value in its product offerings, can acquire a new set of loyal, profitable customers and help maximize the long-term value of their acquisition.

4. Changing Consumer Behaviors and Retail Banking

4.1 Relationship marketing

The banking sector understood during the 1980's that many transactional actions between the clients and the bank included the relational element by nature. Therefore a new approach emerged, i.e. the one of relationship marketing contradicting the importance of transactions in the services industry. In a relationship marketing setting[10] the definition of relationship marketing calls for "the activities carried out by banks in order to attract, interact with, and retain more profitable or high net-worth customers." Going hand in hand with the profitability of the bank, it intends in increasing it by securing higher service levels to the clients. The same is also the case for the bank's overall performance where after numerous studies it was proved their direct association.[11] Within a banking context, Keltner (1995) proved that banks in Germany managed to safeguard their market position in the 1980's because of their relationship strategies and followed policies.

Relationship marketing seeks try to provide to customers incentives for building and maintaining strong relationships. As not all clients are the same and each of them is subject to a different desire to maintain and invest in his/her bank's relationship, relationship marketing emphasizes on benefits clarification[12]. Provided the great mistrust to bank, not all clients want to be part of a closer banking relationship, especially when certain banking practises shift them even further way from the banks, see call centre self-service practices.[13] As banks identified the obstacles arising from of the technologies used, they realised that a solution could be to use these

[10] Walsh et al, Electronic word-of-mouth VIA consumer-opinion platforms: what motivates consumers to articulate themselves on the internet?, 2004, p. 469

[11] Naidu et al., 1999; Palmatier and Gopalakrishna, 2005

[12] O'Malley and Tynan, Relationship marketing in consumer markets, 2000, p. 79

[13] O'Loughlin et al., Understanding (customer-based) brand equity in financial services, 2004, p. 243

technologies not as transactions providers, but as relationships enhancers[14] and tactically wise, intergrade them into customer relationship management[15].

Saxe and Weitz developed in 1982 the SOCO (Selling Orientation-Customer Orientation) scale in order to explain the customer orientation. The Selling Orientation-Customer Orientation is based on the assumption that the sales oriented activities were decreasing the possibility to build long term relationships with the clients. This is because those sales related forces intend to achieve their immediate sales target without considering the overall customers' needs and satisfaction in the long run. The question of the relationship between sales oriented firms and customer satisfaction continues to be even today important for all services providers. Bejou et al. (1998) proved that sales forces has less positive impact on future clients satisfaction compared to the service oriented employees.

So far there is no proof that relationship marketing has a different loyalty impact on clients with different lifetime value. Nevertheless, it is strongly evidenced that relationship marketing supported by the necessary technologies cannot be compared with any non-centralised or not statistically backed methodology of customers' handling.

In their effort to advance in their knowledge, both Marketing managers and scholars used different patterns and strategies. Although their primary concern was always to study and evaluate the value of the clients relationship, many times the tools used and the technical inefficiencies led them to totally different directions. It was not unusual that the retention strategies were counting saved defectors and not saved value and that the future anticipated results of such retained clients were forgotten intentionally or not

In most of the cases loyalty schemes build on the retention cost and assume that a client willing to defect will really take the next step. In practice, not always the retention cost is proven to be correct as the client might cancel other products relationships at any time, and the bank will never be sure if the defection intentions were really true and not driven by corporate knowledge

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[14] Sweeney and Morrison, A Strategic Framework for Customer Relationship Management, 2004, p. 35

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[15] Payne and Frow, Customer Relationship Management, 2005, p. 100-101

acquired by working in the services industry or just simply the mood of the client to bargain with the bank.

Many banks use the switching costs as part of their loyalty strategy and try to communicate either through the individual contracts or the general terms and conditions with the clients. So far the intention of the commercial banks regulators was to prevent banks from using such measures. It is true that in many countries the early prepayment or cards cancellation fees are prohibited. So the only pragmatic switch cost left to the clients is the potential loss of the service provided or subsequently the benefit arising from participating in a loyalty scheme, see points collected and not redeemed in a cards loyalty scheme, special benefits attributed to the particular client's category – affluent/private banking etc.

The use of databases in banking marketing is also common nowadays. This means that banks either through renting of external databases or their own try to get the best out of the clients' knowledge and future value. Having though a data base does not mean that the client will listen to your offer or even more important consider that the bank's offer is driven by good intentions. The personalised offers arising from the use of databases might work better in the direction of having a client feeling unique. And this is because it takes more than having the bank define the essence of the client-bank relationship. The contribution of the client in defining what a good relationship is cannot be ignored or replaced by a statistical model to predict behaviour. Clients need to be contacted cautiously and not be treated as a part of a quotation to temporarily drive high profits .

The element of the quality in this bilateral relationship needs to be identified taking in consideration all personal characteristics of the client and not only his/her lifetime value. The perceptions and stereotypes accepted by any society matter more compared to what a bank believes is fairly priced and creates value for the client.

4.2 A two way relationship

So far most of the studies conducted for the clients' relationship with the companies were performed on behalf of the corporations aiming to boost their customer based or centric

approach. This is the reason why the client's approach to companies' relationships has not been well documented and supported.

Therefore, it is the client who literally decides for the initiation and termination of any relationship with the bank. It is his/her perception that provides perspectives by continuing discussing his needs and not the bank's desire to increase profit. Therefore, it is absolutely necessary to have the analysis conducted from the individual side engaging all available tools coming from the social psychology and the relevant social sciences. As any other relationship, in order to continue developing or end, it first needs to be recognised as one that exists. If not, there is simply no subject for discussion. Hinde (1979) pointed out the importance of mutuality indicating that no relationship can be examined if both parties behaviour is considered. The frequency of contact is also at stake. The more frequent the contact, the more likely for a relationship to have solid ground for further development. In case of lack of contact, not only loyalty schemes will lack repeated information to confirm the behavioural patterns generic trends but also result in clients' mistrust and wonder when he/she will be communicated the bank's offer.

4.3 Quality in clients relationships and their dimensions

Berry (1995) stated that so far companies failed to invest too much in researching what contributed to the increase of quality in clients' relationships. Although the social sciences and especially social psychology deal with the subject intensively, many theories approached the quality of the relationship from different aspects. We can distinguish therefore the following parameters contributing to the clients' relationship quality:

Closeness

It is accepted that not all relationships enjoy the same closeness and it is much more possible for a close relationship to last. As clients are different and the bank perception on clients' value also changes from bank to bank, the definition of closeness varies enormously.

Clark and Reis (1988) stated that as a concept, closeness includes many different aspects. This is also the reason why there is not a standardised way of quantifying closeness yet, as many

different researchers approach the subject from their own perspective. Berscheid et al. (1989b) defined a way to measure closeness by focusing on three major parameters:

1. the self-assessment of the closeness by the individual;
2. the emotional tone of the relationship; and
3. the individual's satisfaction for the relationship.

Emotions and relationships

Berscheid et al. (1986b) observed that all relationships contain an emotional part. Without it, it is impossible for the relationship to exist. He also observed that the closer the relationship, the greater the impact of emotions. Having studied the connections of closeness to emotions, he used an index where he identified 27 different emotions.

Relationships' strength

Different academic studies tried to investigate the elements that define the possibility of a relationship to continue. Berscheid et al. (1989b), in his index mentioned above, measured also the strength concluding that strong and intense relationships have more possibilities to last in the future.

Retail financial services and relationship marketing

Like any other interpersonal relationships, the one between the bank and the client depends on certain parameters that define its creation and continuity. The marketing managers of the banks ought to consider the fundamentals of such relationship and study their perspectives by acknowledging that clients must have the intention to enter in such relationships as well as banks to be ready to analyse all positive and negative elements that shape the formation and management of such relationship. In most studies it becomes clear that clients' expressed clearly their intention to be part of the banks' clientele but it is questionable whether the bank was ready to receive them having a certain clear client's life path in mind. Therefore, we might conclude that most of the times the client's development depends on external factors which have been

initiated by him/her or competition and not certain client's milestones that have been pre-determined and scheduled by the bank.

Client's willingness to enter into financial services relationships

The competence of financial services providers to support the relationships with its clients was studied by many authors. A very solid conclusion is that the quality of such relationship depends heavily on the client's willingness to enter in such relationship (Ennew and Binks (1995). Nevertheless we must also consider the kind of complexity and different other options that the customer has before he finally decides.

In modern societies, it is practically impossible to perform financial transactions or manage your portfolio as individual without any kind of relationship with a financial institution. The simple opening of a payroll current account or the payment of utilities bills require the involvement of the banking sector in most of the developed and emerging economies. Practically, the consumer is left with no option than to start a relationship with a bank. The willingness at this stage is irrelevant because the decision to get paid through a bank or to use his current account in order to withdraw cash was taken by his/her employer or the regulator that imposed that no wages will be provided in cash.

Financial services contain a certain risk to clients; they are complicated and for sure are here to stay if clients consider that they will not be part of our society for a limited period of time. Naturally, at the initial stage where clients start their relationship with the banks, the risk is limited because of the current account nature, which is in most of the time the first step in a client-bank relationship. In time, the relationship will become more complicated as the bank will try to cross sell more products, either under the umbrella of providing convenience to the current account, see standing orders, e-banking, direct debit, debit cards, bancssurance policies or, even by creating more value to the client in the form of a simple credit. Both cases create a higher bond with the client, making it more difficult to disengage if the time comes.

Obviously, at the very beginning of the relationship neither the risk nor complexity element is considered by clients, as it appears more as a convenience option than the result of a very well thought action. In time, the relationship will be attributed the elements of habit, provided

repeated visits, the acquaintance with the branch network employees, the bank's IT systems and the proximity to the home/work place.

Customer relationship satisfaction

The evaluation of customers' satisfaction occurs often with different kinds of surveys within the banking marketing environment. Often mixed with the satisfaction provided on transactional level[16], it oughts to consider all elements that shape the overall relationship[17] and the quality provided not only at front office level. As the idea of having a positive relation between satisfaction and quality in the banking sector is not questioned, the banks' marketers need to define what the quality elements of their service that lead to the concrete satisfaction levels are.

Customer loyalty

Customer loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior."[18]

It is obvious that such a definition considers two dimensions of loyalty: the behavioural and the attitudinal one.[19] Therefore, clients that repeatedly proved loyal to a bank by purchasing more than once its services and products are bound to have positive attitude towards their main bank vs. others competitors. Of course, this does not mean that the same clients will also adapt a positive attitudal stand as there might be other factors that prevent clients from defecting a bank.

Although clients' loyalty is a good start for building clients' long standing relationships, it is not the only element to define it. As mentioned in the previous chapter, there are also loyal

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[16] Bitner and Hubbert, The determinants of service quality: satisfiers and dissatisfiers, 1994, p. 71

[17] Dabholkar, Customer Satisfaction And Service Quality, 1995, p. 20

[18] Oliver, Whence Consumer Loyalty?, 1999, p. 34

[19] Dick and Basu, Customer Loyalty Model, 1994, p. 17

customers that have spent more than ten years within the banks willing to defect at any time. The answer to that concern was the launch of loyalty schemes from the banks. Not necessarily targeting economic incentives, they depend mostly on the recognition of clients repeated purchases in order to reward them. The structure of such schemes differs from country to country but in most of the cases the driving vehicle is the payment cards (credit or debit). During the 00's bank realised the necessity to partner with the industries that face the same loyalty issues with their clients. The benefit of multi coalition schemes was recognised rapidly and nowadays it is common place to notice in the market loyalty schemes consisting of banks, super markets, mobile telephony companies, petroleum companies etc. With the use of payment or non-payment cards all industries try to increase loyal behavioural patterns and give the opportunity to the client to feel recognised and rewarded. The current status indicates that banks lost their prevailing position in such partnerships and they are no longer the one to drive things ahead based on the marginal number of clients' transactions vs, the other industries. It is exactly the grocery retailers and petroleum companies that appear nowadays equally important in the share of wallet and intention of clients to be rewarded for his/her loyalty. The examples of "Super Kartica", & "Pika" loyalty schemes in Serbia are clear examples of the loyalty approach described above.

Although the financial support for such programmes burdens heavily the supporting industries and the banks, marketers have not been able to replace them with a more cost efficient approach. They seem to work at least from the clients' perspective.

4.4 Profitability and loyalty

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So far, a number of studies tried to understand the relationship between profitability and loyalty.[20] The outcome was more or less expected, indicating that not all loyal customers are profitable[21]. Reinartz and Kumar (2002), conducted a study in four different industries (direct brokerage, postal service, high technology and retail food) and concluded that the relation

[20] Nordman, Which Human Capital Matters for Rich and Poor's Wages?, 2004, p. 83

[21] Storbacka, Journal of Marketing Management 1994, p. 222

between profitability and loyalty is questionable because recently acquired clients enjoy high profitability while very loyal long standing clients do not.

Nevertheless, their findings are not absolute. In this sense there is still a larger portion of loyal long standing clients that prove very profitable compared to the same one of the recently acquired clients. From the authors' perspective, the proportional relationship of loyalty and profitability still stands.

As noted by Anderson and Mittal (2000), customer relationship profitability arises through the acquisition and retention of "high quality" customers with low maintenance costs and high revenue. In the context of retail banking, Storbacka (1994) describes relationship costs as comprising direct variable costs, such as transaction related costs and costs related to specific services, in addition to overhead costs that may or may not be attributable to particular relationships. Relationship revenue, meanwhile, is split into volume-based revenue that is derived from interest margins, and fee-based revenue. Customers' patronage concentration[22], or share-of-wallet, and pricing policies are important aspects of relationship revenue in banking. Since a large part of banks' revenues are received from interest margins, customers' volume of business has a major impact on profitability. If relationship costs are minimized and relationship revenue is maximized over time, long-term customers should generate greater profitability than short-term customers.

Profitability segmentation in banks

The analysis of customer profitability and the relevant categorisation of loyal clients is among the most recent trends in the banking sector.[23] Having already concerned many other industries, it leads to different practices and strategies.[24]

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[22] Storbacka, Managing Customer Relationships for Profit, 1994, p. 100

[23] Storbacka, Managing Customer Relationships for Profit, 1994, p. 54

[24] Zeithaml et al., Service quality in the public service, 2001, p. 56-57

The studies aiming to conclude so far on the relationship between profitability and loyalty categorised clients in segments based on their contribution to profits. Therefore, loyalty was measured based on the clients' balances in credits or deposits and profitability based on the net income generated from interest, commissions and fees. Storbacka (1997) advised that banks should concentrate on clients whose income is higher. Although it seems logical, such an approach does not take into consideration that clients do not contribute to the expense side of the net income, provided they choose the service level agreement charges of the IT vendors or the operations cost for the transactions that they decide to perform. Therefore, although it looks logical for a bank to focus on the customers that deliver most of the income, it is not sure that these clients are the most loyal ones. Many banks introduced other weighted factors in their analysis, such as the number of products cross sold, the aging of the client, the number of family members that have current accounts or bank with the same bank, the potential delinquency cost, the usage/approved limit ratio for revolving type of credits etc. This approach is considered more pragmatic but it takes more IT support. Similar propositions are also found in other studies[25].

Finally, nobody disagrees with the statement that banks need to focus on the most profitable clients and try to increase their life span within the institution. The reason is simple as the longest a profitable client stays with the bank, the better for the bank. Nevertheless, not all loyal or profitable clients are detainable.

In the business case to follow, we will try to examine if the most profitable clients have more or less intentions to defect in comparison with the other clients segments. We will analyse what is that prevents them from defecting and certainly quantify to what extent they are "manageable" by convincing them to stay after having received a counter offer.

4.5 The trends in consumer banking behaviours

The Ernst & Young 2012 global survey of consumer banking customers revealed that people are twice as likely to switch banks as they were the previous year. Fewer than half of the survey

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[25] " Zeithaml et al., Service quality in the public service, 2001, p. 56-57

respondents said that the current financial institution that they work with, offers services and products to meet their excpectations.

While many people still consider it a hassle to uproot their accounts and change financial institutions, it is not an insurmountable act. In the UK, the Vickers Account Switching Legislation now provides consumers with a quicker and simpler way to defect—and many intend to do so. In fact, during the first nine days of the new scheme, 35,000 consumers switched their current account to a different bank.[26]

This intent is troubling for financial institutions that have traditionally found a huge amount of inertia in their customer base. Not only customers become disloyal, but the increasing number of banks provides an excellent opportunity for them as they will more actively seek for the best alternative option. Clients with only one bank have fallen from 41% to 31%, while those with three or more have increased from 21% to 32%.[27]

What are they looking for, these restless customers that are searching for something better? Lower fees and charges top the list, but that's not all they want. In short, banking customers want access to their accounts whenever they need it, wherever they are, and using whatever channel is most convenient at that moment. Therefore, banks that can predict their customers needs and offer the right products will benefit from a strengthened customer relationship and a propensity to adopt additional products.

Personalization and flexibility

Banking customers today expect their financial institutions to offer personalized service and meet their evolving needs quickly and efficiently. Although clients are willing to accept a deeper analysis of their personal data, they expect this to return in the form of better personalised offers from the bank.

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[26] Payments Council, Press Release, 26 September 2013

[27] Ernst & Young, "The consumer takes control," Global Consumer Banking Survey, 2012, p. 5-6

According to a survey report, personalization does not only mean products selection, but also channels. The clients are happy with a multi channels approach because they like convenience. Banks need to understand that and provide different access and cost options to their clients. [28]

Examples of this trend include:

- ATM: Favorite transaction. The ATM can learn a customer's typical transaction behavior and then let them enact it by touching one button after inserting the card and entering the PIN.
- Debit: Card Customization. The cardholder can upload a picture of their own to be printed onto their debit card.
- Online: Account Customization. The customer can choose to aggregate information from all of their accounts and customize the way it's presented to suit their needs.
- Mobility and 24/7 access

A UK study by YouGov and mobile app developer Antenna Software shows that people have a basic desire for banking via their mobile handset. They want to perform simple functions like checking their balances, transferring interaccount money, paying their bills, and transferring funds to third parties. Antenna CEO Jim Hemmer says, "The clients want to have their banks fitting to their lives and their lives fitting to the banks. The use of mobile banking allows them to do so."[29]

Customer surveys tell one part of the "what consumers want" story, but a more powerful revelation is what is happening in real life. Clearly, consumers want mobile banking (mBanking). When the Scandinavian bank Nordea launched an iPhone app, the number of mBanking logins went from 10,000 per month to 2.7 million logins per month in fewer than 10 months. It only took a few months for downloads of Nordea's apps for iPhone, Android,

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[28] Ernst & Young, "The consumer takes control," Global Consumer Banking Survey, 2012, p.5

[29] Tim Green, "25 per cent of mobile internet users do mobile banking," www.mobile-ent.

Windows Phone 7 and iPad to exceed the one million mark. The company's deputy head of banking says that Nordea customers are twice as active users of mobile Internet than the average customers of other banks in Latvia: 27% versus 13%, respectively.[30]

This uptake in mBanking can have numerous effects on the bank. Ed O'Brien, director of banking channels at Mercator Advisory Group, says that mobile apps build customer loyalty and allow banks to sell customers on other products and services, such as loans. "The point is to be so joined at the hip with the customer, they wouldn't think of leaving the bank," says O'Brien.[31]

This is certainly what has happened for U.S.-based Chase Bank, which has one of the highest rates of mobile banking usage among customers. Once customers turned to mobile channels, roughly half of them report they made fewer visits to a branch, and this has helped Chase reduce costs.

Moreover, the availability of sophisticated functionality via mobile banking has increased customer satisfaction scores and customer loyalty[32]

Social media

Social media should be considered another type of banking channel today. According to the Ernst & Young consumer banking survey[33], clients intend to listen more to the recommendations of their friends and other customers than to the banks. Globally, seventy one percent will seek advice for financial services related products from friends, family or colleagues, and sixty five

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[30] Nordea press releases and website

[31] Deirdre Fernandes, "Banks struggle to keep up with Mobile demand," The Boston Globe, 14 July 2013

[32] Bain & Company, "Customer Loyalty in Retail Banking: Global Edition, 2012, p. 34

[33] Ernst & Young, "The consumer takes control," Global Consumer Banking Survey, 2012, p.12

percent from internet. The importance of online discussion groups increases as well as the use of social media.[34]

A few banks are already making a foray into social commerce and social banking. In fact, Chris Skinner, chairman of the Financial Service Club in the UK, reports that the Polish traditional bank BRE Bank is completely rebranding itself as "mBank" and has "embedded Facebook and social commerce into its blood." mBank caters to the social lifestyle. For example, a customer can make a payment to any Facebook friend from within the social bank's Facebook app.

Banks that aren't quite ready to make themselves over as a social bank can still adopt social media as a channel for customer communications and marketing.

Social media is an important and intimate touch point that delivers an enhanced customer experience, and it can be used to engage customers to determine their preferences to develop products that meet their needs.

A small number of other issues needs to be considered as the social media and their connection with the financial sector and subsequently its clients[35].

- The banking sector offers a wide series of products that have been developed to serve different needs. The development of such products or services did not happen at one single point of time and the service refers to more than a single transaction which is the case when thinking about consumers' good.
- The banking transactions as compared with the consumer goods ones are characterised by an influence of the banking employee over the client that seeks in most of the time for expertise and specialised knowledge.
- The information provided to banking clients differs when seen compared the sales stage which is provided.

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[34] Ernst & Young, "The consumer takes control," Global Consumer Banking Survey, 2012, p. 29

[35] Jelev, Marketingul serviciilor, 2008, p. 89

- Banking clients are influenced to a great extent from the information provided by friends and their own experience.
- The level of service provided after the clients' acquisition is very important for his/her decision to stay with his/her main bank.

As also in the industry of fast moving consumer goods or services in general, studying the parameters that influence the decision making process and therefore the client's behaviour is very important. By doing so, the banks are not only able to plan accordingly and create their strategies for the future but also be ready to confront any possible client reaction.

Most of the studies on clients' behaviour so far were based exactly on a social psychology approach trying to identify the reasons that guide financial industry clients to take decisions.

As it is difficult to run a study for each particular client need, the studies try to create patterns based on the segments in which clients have been categorised. Afterwards, in order to understand the segment behaviour, the study will seek to identify repetitions of actions aiming to conclude in the habits that define the daily activity of the clients, as well as other influencing factors that might change the client's habits. In this category, we can observe the different marketing mixes, the society, the economy, the education, the overall demographics etc. The factors can be external imposed by elements that are not at the clients' power to change (at least at a personal level) or internal such as his perceptions and attitudes.[36]

The external factors often refer to what we call demographics. With the support of special software, see MOSAIC, the banks categorise clients according to the most detailed criteria referring to:

- Education
- Sex
- Profession
- Age

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[36] Stremtan & Bolog, Marketing turistic, 2006, p. 35

- Owner of property
- No of family members and dependants
- No of city inhabitants

The categorisation over the financial elements that have an impact on the decision making process and therefore at the client's behaviour will follow. It will not only try to get the basic info on individual level but also the ones of his/her family as if a credit applicant is a family's head, the financials are not to support only him/her but also his/her other family members or dependants.

Therefore, such elements can be:

- Client's income
- Family's income
- Consumer index
- Inflation rate
- GDP
- GDP/capita
- Unemployment rate
- Local currency circulation
- Official national currency circulation etc.

Both financial and demographic elements to influence the decision making of the clients are considered interconnected but independent. Each bank tries to identify the exact relation between them to predict the clients' future behaviour not only when it comes to the selling propositions but also to the credit behaviour.

As we will see below in the chapter of the business base, it is not enough for a bank to identify the best clients' segments with the highest inclination to buy. This is because many low income and worrying credit history clients would like to apply for a new credit, but unfortunately they would be rejected during the credit approval process. The same is also the case for the high net worth value clients, where their financial analysis secures a very promising result during a credit

assessment process, but unlike what is the case for the low income clients, they do not wish to apply for a new loan.

The marketing mix elements to influence the clients' behaviour are all the ones that the clients experience during their servicing with the bank. Therefore these can be:

- Financial products
- Financial services
- Advisory services
- Transactional services
- Bank's environment
- Employees behaviour to the clients
- Sales Alternative channels availability
- Communication alternatives
- Communication frequency for the new offers
- Ability to solve issues or answer to clients issues in due time

The situational or internal factors refer to "all those particular factors to a well-defined situation in time and space, factors that do not result by knowing the personal attributes (intra individual) and of those that characterize the stimulus (chosen variant), but that have a demonstrative and systematic effect over the actual behavior[37].

We can identify five different dimensions that define the internal factors. These are:

- The ambient that is made from the senses, the geographical bearings of the individuals and the way that a product is presented to him/her. All the above will influence the clients psychologically and therefore behaviourally when he/she will have to make a call for the offered product or service.
- The society which refers to the other people being present during the decision make process and who might influence his/her future decision

[37] Catoiu & Teodorescu, consumers behaviour, 2004, p. 87

- The time which defines the preference of the clients to perform their banking transactions or interrelate with the bank's staff. It is proven that clients are not in favour of hours after 12 pm or Fridays for their banking. Additionally, January is a month of very low transactions.
- The purpose that defines both the practical but also the social aspirations of clients. In this case, although the primary segmentation begins from the bank, see affluent, mass banking segments; it is not uncommon to find clients that are willing to apply for a high end product strictly for social recognition based reasons. In banking like in politics, the intention of a client (or voter otherwise) to present himself/herself as the user of an expensive or prestigious products cannot be overlooked.
- The former state which is a situation that has already existed and it is present during the decision making process. A client might be feeling tired, angry or willing to buy a product before he enters into a conversation with a bank's employee. Although not absolutely sure that this state will prevail when the decision will be ready to be taken, it will surely influence a great part of it. Valarie A. Zeithhalm, Leonard L. Berry, A. Parasuraman concluded this way to a pattern which defines the mechanism to lead to the perceived banking service[38 39 40].

The standard behavioural patterns to be used for banking will also consider the clients' expectations and tolerance. Marketers acknowledge the great importance of the personal impact of the seller during the decision making process, as well as the price and the environment.

The usual segmentation of clients within a retail banking environment is that of depositor and creditor. Although depositors are characterised by more rational elements in comparison to the creditors, subcategories and exceptions is also the case for both categories.

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[38] Mitran, coding for the Slepian-Wolf problem with turbo codes, 2005, p. 190

[39] Olteanu, Behavioural and Brain Sciences, 2003, p. 100-105

[40] Zeithaml, How consumer evaluation process differ between goods and services, 1981, p. 54

The depositors can be sub segmented into loyals, opportunists and investors. Loyals are the ones that hold an account for long period and their depositing attitude has not change throughout the different market conditions. Opportunists are the ones that are driven by the high interest rates and are expected to defect at any market's differentiation or inability of the bank to offer higher interest rates. Investors are the ones that combine the characteristics of both loyals and opportunists as they really look forward to maximise their profit but still, the relationship with the bank counts to the extent that it offers security and convenience.

The subcategories of creditors are the ones of Hedonists and rationalists. Hedonists are driven by sentiments, influenced by the marketing mix that promises speed in disbursing and everlasting freedom in consumption. They are not price sensitive and very rarely a question on the price is anticipated by them during the sales process. A greater number of credit cards and consumer/cash loans applicants belong in this category. On the contrary rationalists intend to be more careful and very price sensitive. The housing loans applicants belong to this category together with the debts consolidations loans and small business banking ones. The explanation for the housing loans applicant relies more on the very long tenor of the loan and the high debt to income ratio used for the loans service. Therefore, such applicants will seek the best solution for a decision that will govern their life for the next twenty five years. (Average housing loan tenor in Serbia). The debts consolidation loans applicants are those that applied previously in their clients' history for a credit card or consumer loan. Identifying later that different solution exist that might decrease the total credit exposure or serve better their monthly needs, they are willing to do so only after a careful search and comparison of the different banking market offers. Regarding the clients of the small business banking we can notice that also a very rational behavioural pattern is followed. According the Webster (1972), the decision making process of small companies is "the process to take decisions in order to buy goods and services necessary to an organization, as well as their evaluation and choice from the multitude of purveyors and trades"[41].

[41] Webster & Wind, Organizational buying behaviour, 1972, p. 23-25

An entrepreneur will thus seek to buy for the first time, repeat or modify a purchase. Should a financial product exists in the small business banking market, the decision maker is required to confirm the quality standards, the availability, the payment terms and probability of ancillary business with the same bank.[42].

In the case of small business banking clients, what might differentiate the process is that the decision is not taken by a single person. The expertise of specialised employees will contribute to the final decision attributing each one of them to the extent of his/her knowledge, persuading ability and position within the company. Unlike the case of the individuals, this is about a "decision centre" which relies on a balance of individuals' opinions and corporate governance tactics.

Of course many other parameters may influence the behaviour of the banking clients. These could be the proximity to the branch, the access to communication, the current work position and the anticipated perspectives or ambitions to move higher, the perception of risk, the economy's rhythm of change, the ability to follow international patterns, the politeness of the employees etc.

The most detailed analysis to examine the corporate decision making process are the ones of Sheth, Webster and Wind that tried to set behavioural patterns that govern the purchase process of companies.

Sheth distinguishes between decisions that are taken on an individual level as opposed to decisions that are taken on collective level. Usually, decisions that are taken collectively are of a higher risk. Mostly linked to the behaviour of organisation sciences, Sheth tries to group the factors that influence the decision making process of a company by dividing them in those refering to the market on one hand and to the organisational structure of the company on the other hand.

The patterns of Webster and Wind depend on four elements that influence the decision making process of the companies:

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[42] Anghel, Efficient communication strategies, 2004, p. 56

- Organisation
- Environment
- Collective decisions centres
- Individuals

Among them there is interdependence and a complex relationship as many times individuals have to take risks on a higher level (decision centres). What needs to be pointed out is that banks also do not always depend on the decision making process which is defined only by the employees who work in small companies. The involvement of investors is also important.[43]

Such clients can be found in capital markets and they can be mutual funds, assurance companies, personal investor, supranational or national institutions, or even organisations that administrate all the above.

If the client is an investor, more importance is to be paid by him to the investment decision (otherwise buy) in comparison to the sell decision. The analysis of the investment environment and the parameters that define is crucial for the decision making body that is about to place the investment of huge amounts.[44] Driven by the option that promises the highest gain, the investor will also consider risk which in most of the times will be expressed in the form of "stop loss" command to the bank.

When the investor is not sure about a possible investment, the fear about potential loss will prevail. Unlike the individuals' decisions where the impact of their choice is shown instantly, see deposits interest income, repayment options etc., the investor decision making process also needs to deal with the unknown impact of time. The way that time will impact his investment will be of significant importance for the decision to sell, reinvest or cancel his previously conducted investment.

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[43] Olteanu & Vlad, Marketing Magazine Online - Ideas – RePEc, 2007

[44] Gayle, The Thirtysomething Block Book, 2005, p. 33

The impact of economic integrations is not to be ignored. In a changing environment such as the European Union one, with banking regulations governed centrally by ECB and consumers' habit of communicating freely among all countries members, the economic and demographic factors can influence only up to a certain extent.[45]

Having as common cultural background the European history and besides the barriers set by the different languages, the European banking system clients face a standardised product offering subject more to the economic profile rather than the cultural one. Bank operating in Europe tend to standardise their product more than to adapt them in each case. (Cultural homogenisation).

Concluding, we can certainly say the relation types between clients and the banks will be a subject that it is very unlikely to lose its importance for the years to come. Regardless of the clients who might be individuals or corporate entities, the banks will keep trying to identify their needs and cater for solutions that will build long term relationships. The way that banks will present themselves to clients varies from one society to the other, but the necessity to have banks presented with professionalism and gain clients' trust based on their expertise is undeniable.

In a world in which technologies move fast and communication becomes unforcedly global, the tendency to use sophisticated software and mass communication tools to predict customer behaviour and communicate the right message will also continue. To what extent the use of technology and mathematical approach to each client can be replaced by the human factor remains to be seen. So far, the reliance of banks' clients on one-on-one physical meetings for seeking advice , guidance and support for their decision making process does not change the picture as the Customer Relationship Management tools can "convert" a presumably two physical persons conversation into a very well guided one, by having the client identified and segmented centrally.

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[45] Kotler P., Principles of Marketing, 1998, p. 254

5. Clients Loyalty

Evaluating only the clients' satisfaction level is not enough in order to assess a bank's efficiency or the quality level of the products or services provided, especially when the competing environment is intense. Therefore, although many financial institutions focus on their customers' satisfaction, the accomplishment and maintenance of clients' loyalty is their primary concern. Loyal customers buy more, they are willing to spend more, and they are more approachable by the bank and behave like the best advocates for the bank.

The customers' satisfaction can be seen as a prerequisite for their loyalty, but it is not the only one. The term "loyalty" describes the client's trend to choose a particular product, service or bank vs. others.

Liljander and Strandvik (1992) believe that the customer's satisfaction and the intention to re-buy are positively connected. Reichheld & Sasser (1990), Reichheld (1996) examined the relation of lifetime value and loyalty by studying the customers' complaints, trying to predict the consumer behaviour change and understand the reasons that lead to customers changing their vendors. The consumers were loyal because of the value received from their service. Keeping a client means keeping a live relation with him/her. (Naumann, 1994, Heskett et al., 1997).

Zeithaml et al. (1996), report that the quality and customers satisfaction influence positively the future customer behaviour. The clients that do not have problems with the services/products that they buy prove to have a higher loyalty level. Still, their intention to pay more for an anticipated higher quality level is not considerably higher in comparison to the intention of the clients that have problems that may be solved at a satisfactory level.

Therefore, the banks that wish to increase their products/services level above the current one, must definitely keep in mind that the danger of losing a certain number of clients exists, altogether with the respective income loss, at least from a short term perspective. Therefore, the adoption of such decisions requires intensive preparation and a very cautious approach to the targeted clients' population.

The financial institutions that aim to obtain their clients' loyalty need to adapt their offers continuously to satisfy most if not all of their consumers' individual. It is necessary to position the products and services offered at competitive levels. Satisfying a client might be expensive, but all companies seek to understand the value of their respective clients not only in the present but also in the future as it is bound that maintaining a client relation will pay off in the years to come. (Anderson & Mittal, 2000).

5.1 Clients' Loyalty Types

Theoretically, a client's loyalty is defined by his/her intention to continue buying services from the same vendor. In practical terms, his/her loyalty translates into repeated purchases to cover his/her needs. A question is raised when the client's intention to buy might not finally lead to a purchase, or when even the repeated purchases might not indicate his/her intention for an additional purchase. Oliver (1999) suggested four different consumer loyalty types in order to understand the above mentioned issue.

Cognitive Loyalty: It refers to the information received by the consumer for the particular product or service, therefore it deals with how well informed the consumer is about a product or service. The banks' practice to have on-going offers on loans, see no disbursement fees or gifts provided the current accounts opening can be an example, as clients may prefer to go to bank " "A" over bank "B" simply because they aware of the current bank's "A" offer.

Affective Loyalty: It refers to clients' preference and their positive attitude towards a product or service. In this phase the consumer is dedicated to the product or service based on his/her overall judgement and not only based on the information acquired for the particular product or service.

Conative Loyalty: It refers to a client's disposition or commitment to behave in a particular manner. It is directly related with his/her behaviour and his/her commitment towards a product or service.

Action Loyalty: It refers to a moment where consumers convert their intentions to purchase related actions. In this phase, consumers have the will to go over any potential obstacle and

proceed into a final purchase. Although this loyalty type is the ideal one for all banks, it is difficult to be measured. Therefore, most researchers measure the conative loyalty.

5.2 The relation between client satisfaction and loyalty.

According to (Friday & Cotts, 1995), clients' satisfaction means that the clients respective needs are covered, the respective products or services to satisfy the needs are considered satisfactory, and the customer experience is positive.

A client is satisfied only when his/her minimum expectations are fulfilled. Therefore, when a client states that he/she is satisfied with a product or service, it means that his/her overall purchase experience is either neutral or positive. It becomes clear that the customer satisfaction on its own is not an important indication for maintaining a client. The loyal client is one whose expectations are fulfilled, or even better, over fulfilled. This is the reason due to which a client will continue be served by a particular company. The nature of loyalty changes in time: nowadays it is based on the existence of mutual devotion originated from the continuous offering of high value products or services to the clients.

Kaplan & Norton (1996) state that the management of each company needs to have a clear picture about the customers to whom they address, and use all tools for evaluating their satisfaction, loyalty and their current and future profit. Based on various customers' satisfaction surveys, it has been verified that the relation between customer satisfaction and loyalty is not stable or reliable[46]. Aggressive competition pricing policies can influence clients with high loyalty level and have them switched to much cheaper vendors in order to satisfy their needs.[47]

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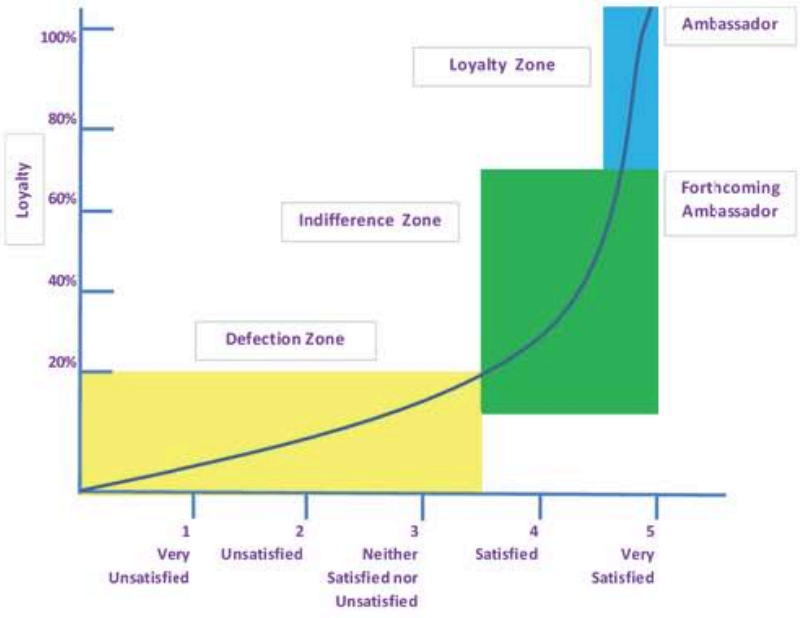
[46] Kaplan, Robert S. and Norton, David P. (1996), "The Balanced Scorecard: Translating Strategy into Action", *Harvard Business School Press*, Boston, Massachusetts, USA.

[47] Heskett, James L., Jones, Thomas O., Loveman, Gary W., Sasser, W. Earl Jr. and Schlesinger, Leonard A., (1994), "Putting the Service-Profit Chain to Work", *Harvard Business Review*, Mar-Apr, 1994, Vol. 72, No. 2, 164-174.

Diagram 1 depicts indicatively the relation between clients' satisfaction and their loyalty. Disappointed clients who evaluate their total satisfaction with 1, 2 or 3 (in a scale from 1 to 5) are in general ready to switch to competitive vendors (defection zone). This can also happen with a lower probability (indifference zone) to clients with medium or relative satisfaction, while only the very satisfied clients have a probability to be placed into the loyalty zone. The accurate relation between satisfaction and clients' loyalty is likely to be different among companies.

As an example, satisfied clients are likely to move to a competitor that appears due to its very high profile of innovation. In such cases, customer satisfaction is not enough to retain him/her by the existing service providers. On the contrary, we have many disappointed clients who are not able, against their general will, to switch providers because the cost and the risk of the change is considerable.

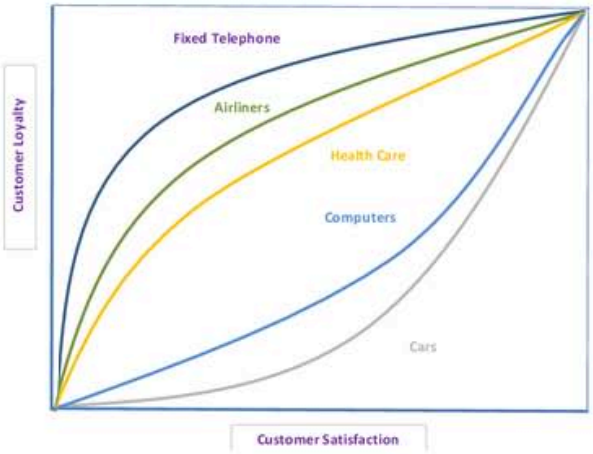
Diagram 1 – Relation between clients' satisfaction and loyalty



The relation between customer loyalty and financial result

From industry to industry the impact of customer satisfaction on customers' loyalty differs. Heskett et al. (1997) present this relation for different sectors using the following diagram 2:

Diagram 2 – customer satisfaction & customers' loyalty



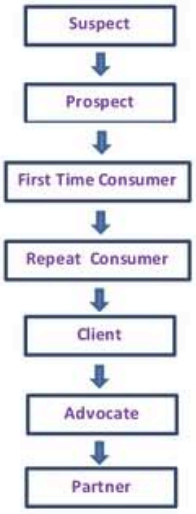
According to the above diagram, if a client has at his disposal a variety of options, a relative low cost of changing providers and a competitive environment, the relation between the customer satisfaction and his/her loyalty is simulated with the curve that relates to the customers of the car industry. If competition is not intense and the cost of changing providers not significantly high, then the relation of customer satisfaction to loyalty resembles the curve related to the clients from the fixed telephony industry. Most clients state that they are loyal to their service providers, but this is due to the absence of alternative options. Therefore, the clients that are more informed prefer companies that offer them a high service level. More specifically, in a business to business environment where the client is a company, the cost of changing providers might prevent an unsatisfied client from changing providers. (Jones and Sasser, 1995). In order for a company to be viable, the creation of a protection barrier is needed around the company and its products. The realisation of such a target requires the transformation of the company into an entity that reacts efficiently and fast to the market changes and creates the

necessary prerequisites for maintaining a close relationship with its clients.[48] If the environment in which a company operates is competitive and the defection costs are low, then the direct loss of clients is unavoidable. The companies that have not carefully chosen the customer groups which represent their primary targets often try to keep their entire customer base happy. However, this is impossible due to the limited volume of resources resulting in having continuously unsatisfied clients who are willing to act towards changing providers.

5.3 The phases of consumer loyalty

Figure 1 analyses the phases through which a suspect passes until he/she becomes a partner. In each of these phases, the company needs to adapt its strategy accordingly, which also needs to differ from phase to phase, as one strategy needs to be used for the attraction of the clients and another needs to be applied for maintaining them.

Figure 1 – The phases of consumer loyalty



[48] Wellington, Patricia, (1995), "*Kaizen Strategies for Customer Care*", Pitman Publishing, London, UK.

The characteristics of the different phases which also define the clients' profile are the following:

Suspects: this category refers to the overall population of buyers of a particular product or service. The suspects may be individuals who are not aware of the company/bank, or do not even have a predisposition to proceed with a purchase action.

Prospects: this category refers to the potential individuals who, although have already experienced and attracted to the company, have not yet proceed with purchasing actions of the respective products or services.

Customers: this category includes individuals who bought the products or services of the company more than once but do not present any indication of consumer loyalty

Clients: this category refers to the individuals who buy all the products or services of the particular company based on an existing customer need.

Defenders: this category refers to the particular clients who do not only buy all the products or services of the particular company, but also encourage other individuals to buy from the same company.

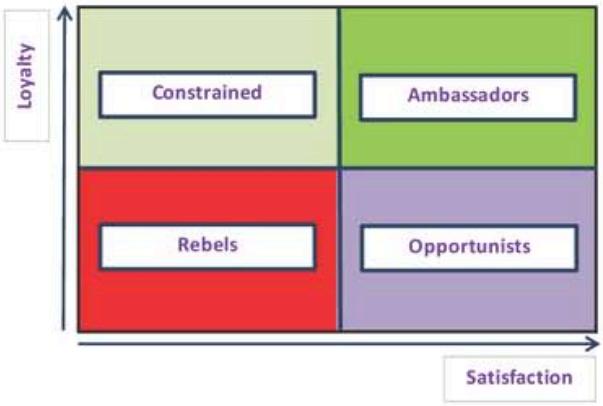
Partners: are the ones that display the strongest relation between the company and its clients, as is considered mutually beneficial by both parties.

Based on the relation between customers' satisfaction and customers' loyalty, we can categorise customers in four different segments, shown in the following diagram 3.[49]

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[49] Jones, Thomas O. and Sasser, W. Earl Jr., (1995), "Why Satisfied Customers Defect", *Harvard Business Review*, Jul-Aug, 1995, Vol. 73, No. 6, 88-99.

Diagram 3 – Consumers Categorisation based on Loyalty/Satisfaction



The characteristics of the clients that are part of these segments are the following:

a. Ambassadors are the clients that are loyal and recommend the products/services of a company to other individuals. The realisation of positive recommendation is a reliable indicator for measuring consumer loyalty as the particular client has no financial benefit from doing so. The clients coming with a positive recommendation for a product require less time to conclude the purchase process, have a higher probability to become loyal clients and decide more easily on the product purchase.

b. Opportunists are the clients who always look for the best price without considering any other element.

c. Restricted are the clients who are not loyal, but due to other reasons (see absence of alternative options, existing minimum tenure contract, high defection cost) do not change providers.

d. Rebels are the disappointed clients who have the defection possibility and also communicate their disappointment to other prospects or customers.

An effective investment strategy for clients' satisfaction needs to prioritise on ambassadors and rebels. Deactivating rebels delivers the best results for a company, thus reducing the effect of negative advertising created by the clients of this segment. The second group that will definitely bring good results if the company strategy is focused are the ambassadors. The ambassadors

represent a part of the sales department of each company and due to this their support justifies the implementation of marketing actions beyond the ordinary ones aiming to provide preference and satisfaction.

5.5 The economic value of the client

Not all clients have the same importance to the bank. Due to this, banks and companies have developed different models of clients' evaluation. For many years, products profitability was at the epicentre of concern without any special attention being paid to the overall clients' profitability. (Glynn, Perrin and Murphy, 1998). This oversight was treated partially with the introduction of activity-based costing and in more detail with the introduction of customer profitability analysis. Both methods do not only consider the net sales of customers but also add on the cost of service.

The introduction of these methods revealed that not all clients servicing is profitable (Glynn, Perrin and Murphy, 1998), proving the importance of clients profitability analysis.

The international theory contains two different approaches for the computation of the economic value of customer - EVC. The accounting one is in favour of the model that prevails, the *customer profitability analysis* - CPA, a cost based model based and the *activity-based costing* - ABC.

On the contrary, the marketing approach supports the *customer lifetime value* - CLV, a model that considers the future payments of clients' cash flows.

In order for a bank to define the profitability of each client, it needs information on the income generated from the products / services used by the client, and the relative cost created for their service. However, it is difficult to do so, because of the use of different accounting methods that focus on the product/service and not on the client. The same is also the case when it comes to the identification of cost which derives from the different products purchase, or services used. (Hill and Harland,1983).

Usually, the RFM (Recency, Frequency, Monetary amount) approach is used for estimating income. This uses the analysis of elements related to purchasing behaviour in order to set the current, or even the future client value. For defining the future client value, predicting modelling can also be used. (Ryals, 2003a).

When the analysis concerns important clients, it becomes obvious that the high amounts involved and their respective significance for the bank require a very accurate prediction. In that case, the client's income is defined by a product mix and their respective fees/commissions generated from the use of the respective products/services. As the products/services offered to important clients, see private banking, are to a great extend customised, banks follow often the value-based pricing.

5.5.1 Value-based pricing

The majority of companies price their products based on the production cost, adding a mark-up (Noble and Gruca, 1999), or simply considering their competitors pricing (Urbany,2001; Hunt, 2002). The value based pricing sets the prices in relation to the value of the products/services used by the clients. (Stedman, 2000). According to this theory, the price is considered a sacrifice of the clients and the anticipated value is the one created by the products characteristics excluding the price and the risk which decrease the value for the clients. [50]

When services are sold, there is always a value created for the clients who in their turn create a value by paying to the respective company /bank. The exact pricing reflects value exchange and not the production cost. The fact that companies price the products/services based on production cost and not based on value, means that they do not relate the value to the price which underlines that they might also price their services lower than the price should have been instead. (Hunt, 2002).

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[50] Naumann, Earl, (1994), "*Creating Customer Value: The Path to Sustainable Competitive Advantage*", Thomson Executive Press, Cincinnati, Ohio, USA.

Service Cost

The difficulties that companies face to define the offering pricing are smaller compared to the respective ones of service cost. The clients service cost can be direct, related to the products bought by the clients, but also indirect, related to the cost generated for his/her service, see labour cost, utilities, assets amortisation etc. (Shapiro et al., 1987, Bolen and Davis, 1997). The indirect cost is the one that appears at first sight as mostly undetectable. Many banks proceed in splitting that cost proportionally to the income generated by the products or services used. By doing so, they intentionally ignore that not all clients have equal service needs or demands. The proportional allocation of cost overestimates the profitability of clients with high demands while it will do the opposite for clients with low service demands. (Ryals, 2003b). Therefore, this method does not reveal any new element for the relative profitability among different clients' types.

5.5.2 Activity-based pricing

A partial answer to the above is the use of standard cost. This is the cost that is computed based on a certain activity as the process of an order for a client. This cost will be multiplied afterwards by the number of orders of the same client within the same year providing thus the cost of processing orders for the same client. The main motive behind the companies' efforts of computing their clients' profitability is the analysis of their important clients. However, the cost generated by the orders processing is not the element that will have a significant impact on the profitability of the most important clients. On the contrary, the main cost will derive form their maintenance. A tool supporting companies to differentiate the service cost of clients is the activity-based costing. This method was developed by accountants to split the products costs. When it was presented initially, the results were impressive. (Hope and Hope, 1997). Cooper and Kaplan (1991) found that in the Kanthal enterprise many of the most significant clients were the ones that were bringing most of the loss. This observation indicates the value of managing the clients' portfolio and the exposure of the enterprises to risks related to their clients' relations.

5.6 Customer lifetime value

Marketing theories consider a different way to evaluate the economic value of a client. For doing so, marketing theory depends on the lifetime value of the clients. [51]

This model depends on the theory of investment. The difference comes from the computation of the net present value of the cash flows which will occur from the same client during their entire lifetime as a client. Thus, clients are viewed like longstanding sources of income, whose values can be set historically and be used for the a priori control of marketing products efficiency. According to Andon, Baxter and Bradley (2003) there are 4 different phases of calculating the customer lifetime value.

The first is to identify the clients, secondly to evaluate their current profitability, thirdly to project their current profitability in the future in order to estimate the future cash flows and lastly, to early redeem the anticipated cash flows within the period that the company sets for its strategic planning in order to evaluate the net present value. The clients that will show a net present value are considered valuable for the company. A simple model of lifetime value follows:

$$Vr=\Sigma(Xt(\rho-\kappa)-Mt)/(1+r)t$$

Where as:

Vr: Present net value of future customer inflows

t: Period

Xt: Purchases during t

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[51] Reichheld, Frederick F., (1996), "Learning from Customer Defections", *Harvard Business Review*, Mar-Apr, 1996, Vol. 74, No. 2, 56-69.

ρ : Sales Price

κ: Unit Cost

Mt: Marketing expenses during t

r : discounted interest

Reichheld (1996) believes that there are two elements impacting the lifetime value: the clients' volume and the profit per client. The volume of clients indicates the importance of acquiring and maintaining clients. While increasing the clients' volume, there are more sales opportunities as the clientele base is enlarged and the clients' relation lifetime is prolonged. The customer lifetime value may be increased through the following means (Hughes,1994):

- Retention rate: The clients have the tendency to leave the enterprise. It is possible to develop strategies which will increase the clients' retention rates. This increase will help with generating lifetime value and increase the company's profits.
- Recommendation rate: The current clients may bring new clients through their personal communication and mouth to mouth advertising. A well planned marketing strategy can influence this function and increase the recommendation rate through a system of rewards and incentives.
- Sales volume: Loyal clients have the tendency to buy more. Marketing may influence the clients' purchasing pattern. The key is the right offer ➧ the right prospects ➧ the right time
- Marketing expenses: The customer lifetime value models lead to the decrease of marketing expenses for current clients and prospects. This is achieved through the use of targeted models and customer profile.

The profit per client characterises all factors that influence the size of customer lifetime value, acquisition cost, increase of income, operational cost, etc. Customer's lifetime value increases throughout the duration of the client relation.

Although the customer lifetime model is considered to be an integrated method of clients' profitability, it is likely that the profit arising from the information received via this method to be minor compared to the complexity of the computation.[52] For most companies, the computation based on the activity based costing is sufficiently satisfactory. According to SAS, the companies that have implemented this method prove that they can reliably evaluate their clients' profitability and improve their marketing strategies.

[52] Valoris A, The Heart of the Matter: The Challenge of Customer Lifetime Value,2000, CRM Forum Resources, p. 4-9

6. Markov Models

6.1 Bad Debt Modelling

Similarly to the way in which banks intend to study the consumer behaviour for predicting sales intentions or minimise defectors impact, they are also interested in knowing the repayment behaviours of their clients. The arrears management appears even more important during crisis as the increase of bad debts signifies the increase of impairment charges and the respective capital provisions. The study of any bad debt modelling aims clarifying:

- The future outstanding balances that will roll from credit accounts of current repayment status to accounts that clients owe money to the bank.
- The part of the above outstanding balances that will not be served by the clients
- The right time to take the right decision when it comes to forgiving interest, selling off portfolio or, writing off.

Usually the impact of the delinquent outstanding balances is translated in impaired amounts by multiplying the probability to default (PD) to the Loss Given Default (LGD) for each client account discovered in different stages of days past due (DPD). Normally, the impaired balances will be translated into provisions which represent a descent amount of capital expense for each commercial bank.

Future write offs are not to be considered in the provisions so the challenge of any predictive model is when and if a write off needs to take place. In the past, provisioning was governed by each bank's relative policy, making it difficult as the criteria were subjectively set according to the needs of each bank and the capital's competitive advantage enjoyed at the time of the computation.

During the years to follow 2008, banks realised that they need to invest more on a methodology that would consider also provisions during early "buckets" of delinquency. The reason was simple. The recently acquired clients were shifting fast to late buckets and this irrevocably different to what the banks had experienced before 2008.

The banks management was caught unprepared. Up to that point the generic approach to bad debts and provisioning was not a priority for a reason: It was too low and the business priority was to grow balances. Nevertheless, it proved that the low provisions would require rapidly more capital during crisis and their contribution to the banks P&L could at least be characterised as misleading.[53]

Practically there were not many alternatives. The only methodology available to predict the future repayment behaviour was the one depending on roll rates. As in most of the retail oriented banks the delinquency status of a client is defined by the "bucket" status, often representing a full calendar month of delinquency, the roll rate indicated the probability of a client to move from one "bucket" to the next one.

The prediction of the bad debt was based on the amount repaid within a particular period, not allowing the outstanding balance to move into later buckets of delinquency. In the non-performing loans business, this is called estimation based on the roll rate as it represents a good indicator of the intention and the capacity of the client to repay his/her debt.

Even though the model considers paramount how the clients move within the delinquency buckets, it fails to understand how minor repayments aiming to cover only the interest and penalty interest charges do not allow the client to repay his principle. Therefore, it is considered acceptable in environments that there is no spending, except for the one coming from the accounts that are current and days past due do not consider repayments dating back more than the most recent one.

Certain failures can also be observed because roll rate models do not consider the time to write off as a credit can stay at the same bucket for months.

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[53] Monopolies and Mergers Commission Report on Credit Card Services, Great Britain. Department of Trade and Industry, 1990, pp.186-191

6.2 The Idea

Retail risk management realised that the way that delinquency was followed was very vague.

In this sense, the follow up of a client using the "bucket" methodology implied that any partial payment was enough to have the client "returned" some buckets above, or stay on the same one for consecutive months. On the other hand if a client had his collateral denounced he would instantly go to legal type of management regardless the status of his current "bucket".

Banks came across the possibility to assign the same importance and respectively treatment to clients that officially were part of a particular "bucket", but practically their risk profile, past actions and outstanding balances were totally different.

As outstanding balances may vary for many reasons it is important to understand the particular origin which resulted in having a client in delinquency status. These can be the deterioration of income, the fees, the standard or penalty interest applied on the credit, new purchasing habits changing the repayment priorities, etc.

We notice that not all reasons are originated by the bank. The deterioration of income, or the change of purchasing habits depend totally on the client's profile and that is why roll type of models need to be considered critically.

6.3 The Model

A two phases model was conceived. The first phase was related to the creation of the data base and the second one of the monitoring, analysing and updating the system.

The prerequisite is the data's history to have at least a year's history, preferably even two years if possible. As any other statistical tool to be used, the longer the length of the statistical series used, the better for the accuracy and seasonality definition of the results.

Each client's account is requested to provide information of the following kind:

- Starting balance
- Total payments collected

- Sum of expenditure
- Debited interest;
- Ending balance;
- Other behavioural scoring available.

The information of other behavioural scoring differs from bank to bank. Today, the prevailing model is the credit application's scorecard or any other internal tool designed to monitor the repayment behaviour of the client after his acquisition. The possible information that can be collected through the behavioural scoring tools is:

- Delinquency status without transactions
- Behavioural score
- Possible blocks
- Historic delinquency
- Cash advance vs. Purchase ratio(credit cards)
- Turnover of account.

After having confirmed the data integrity, a large sample of data will be used. The bigger the data volume, the better the anticipated accuracy level is. Delinquent clients are segmented in statuses which are not necessarily the "bucket" status as during segmentation process; the clients were segmented based on their common characteristics of repayment and not their absolute delinquency status. It is common though that delinquent clients of the same "bucket" to have similar repayment characteristics. The model will use the already existing history in order to predict the future roll rates. A data validation will be needed in the future in order to confirm the roll rates predicated at each different point of time.

If after the prediction, major discontinuities or deviation exist it is probable that two things have happened:

- Deterioration of economic status of the clients, or
- The debt structure has changed; see Debt to Income reaching risky levels, over exposure to other banks supported with excessive cash advance etc.

The first case can be solved by identifying the cause that lead to the deterioration of the clients' income. It is not unusual that unexpected drops of basic macroeconomic figures see unemployment rate, GDP/ capita to contribute to it, and therefore the clients to be partially liable. On the other hand, overexposure depending on the clients' wills is to be considered, aiming initially to restructure the existing credit obligation. In practice, every year the statuses are re-examined and redefined if needed.

System Use

The clientele data base is updated once all data is available. By knowing the trend of the past repayments, see amounts, frequency, etc. we are able to estimate the clients' behaviour for the future to come. In this way the past roll rates are extrapolated in the future portfolio, also considering other external factors as the one described earlier related to the macroeconomic environment.

Everybody can understand that such a model has no limitation when it comes to the length of period to predict delinquency behaviours. Still, the most accurate predictions can be considered the shortest coming ones, as it is difficult to predict the impact of macroeconomic factors in the long run.

The roll rates models can be supported by mainframe servers used for core banking systems. It is not unlikely though for well-equipped PCs to provide equal reporting support.

7. Consumer Behaviour

The consumer behaviour study refers to a complicated process that does not only focus on the decision making part, but goes beyond it by analysing the consumers' activities after the purchase of the product/service. Therefore, actions like the products usage, evaluation or rejection are part of it. (Blackwell, Miniard & Engel, 2001).

Studying the consumer behaviour began in the mid-60s. Its initial motive was set by marketing managers who were interested in knowing how social sciences can contribute in finding the origins of the consumer actions and decisions. The profile of the modern consumer, especially in the western societies is created by the different demographic, social, cultural and economic trends and developments. In parallel, one of the key characteristics of modern consumers is the decreased loyalty to the brand, as well as the decrease of free time.

7.1 Consumer behaviour theories

Two different theories prevail in international bibliography when trying to analyse the consumer behaviour. These are: (Statt, 1997)

7.1.1 The Positivism theory

The positivism theory focuses on the consumers' actions origins and their respective impact under particular situations. It is a traditional theory that was used for a great number of surveys. The most important assumptions are:

- All consumer behaviours have objectively identified reasons and results that can be isolated, studied and quantified.
- When facing a problem, or we need to take a decision, we process all relevant information available.
- After processing all information, the consumer decides on the best possible action that can be taken at that point of time.

Although the positivism model has been used by different social sciences, there are still parameters of the consumer behaviour that are not studied.

As consumption is nowadays a global phenomenon, many researchers understand the consumer related human action as an overall human action and try to interpret it with the positivism model of approach. For example, the relation between a doctor and a patient can be studied on the basis of providing (from the doctor) and consuming (from the patient) health related services. In the same way, it could be characterised the relation between a teacher and a student, i.e. as the provision and consumption of educational services. Being a simplistic approach, (reductive view) of the two relations described above, it fails to understand the psychological factor of the relation as it never focuses on the mycological interrelations of the subjects of the analysis. (Statt, 1997).

7.1.2 Interpretism theory

It is very important to understand also the way that the consumer acts taking in consideration also the factor of human interrelations, as well as how this influences the purchase decisions of the consumers. This approach is supported by the so called interetivists who unlike the positivists depend on the following assumptions:

- The reason and the result cannot be isolated, as there is no an objective reality that everybody agrees on.
- The reality is the subjective experience of the individual; therefore the experience of the consumer is unique.
- Humans are not always processing logically information and they are not always logical decision makers. This assumption also considers the emotional element of humans (Statt, 1997).

This theory considers the purchase act as a small part of the consumer's actions which is interpreted on the basis of the overall consumer experiences of the individual and in parallel with all the experiences acquired in his life.

7.2 The characteristics of consumer behaviour

In order to study the consumer behaviour one needs to take into consideration the basic characteristics that influence the decision making. A great number of researchers expressed

different characteristics for analysing consumer behaviour. According to (Wilkie, 1994) the most important characteristics are:

7.2.1 Motives

The consumer behaviour is driven by the fulfilment of particular needs and wishes. In most cases, we buy and consume goods as tools for satisfying some of our needs - both material and sentimental. However, the consumers' motives are not always obvious to third people. One part of the consumer behaviour derives from the functional motives as in the example of an individual buying paint to paint their house, while another part of his behaviour is driven by self-expressive motives as in the example of an individual buying a gift to please a family member. (Wilkie, 1994)

Blackwell, Miniard & Engel (2001) contradicting the above position, consider that consumer needs should not be split into two main categories but in subcategories that contain and clarify all the different cases of need and wish of the consumer. Some of these are the physical needs, the health and security needs, love and companionship, financial needs, pleasure needs, creation of social image needs, property needs, and information access needs. Usually, during our consumer behaviour practice, we fulfil more than one target or need which results in identifying only one, but a group of motives. At the same time, as some motives may be obvious to consumers and third parties, some others may be more difficult to define such as when the decisions that need to be taken are more complicated and are closely related with the sentiments of the consumer himself.

7.2.2 Activities

To study consumer behaviour, the act of consumption does not need to be seen unilaterally. We need to take into considerations the thoughts, sentiments, plans, decisions, purchases and experiences that have been accumulated through the act of consumption. Important activities linked to the consumption act may be advertising, third parties' opinion, the collection of information, the evaluation of alternative options. These activities may be pre-determined or incidental. For example, the decision to buy a product may be characterised, most of the time, as a pre-determined behaviour.

However, it is not rare for a consumer to purchase a product without having planned it following a visit to a department store. This type of behaviour can be characterised as incidental or impulsive. This differentiation is extremely useful to the researchers of consumer behaviour as well as to marketers who try to understand the mechanism of behaviour more widely (Wilkie, 1994).

7.2.3 Procedure

Within this characteristic, are included the various phases of activities for the understanding of consumer behaviour. The first phase is regarding the activities preceding the purchase which could include all actions for the selection of the product; the second phase refers to the market activities, product purchase while the third includes post-purchase activities which contains actions such as the products' dismissal.

7.2.4 Differentiation

The consumer behaviour is differentiated based on two elements: time and complexity of decision making. The time refers to when the decision is taken and the duration of completing the procedure. The complexity refers to the number of activities that are involved in the decision making as well as the difficulty of the decision itself. The more complicated the decision, the more time is required for its completion. Therefore, the more complicated the decision, the more the activities of the pre-purchase related to the consumer. Often, to ensure the consumer does not lose time, he/she is lead to a non-beneficial purchase as he/she behaves not as analytically as he/she could do. In other words, he/she tries to simplify the purchase the process of decision making through the following ways. (Wilkie, 1997).

- The consumer does not always look for the best purchase but for a satisfactory one
- The consumer is guided by recommendation, advice and information from third parties
- The consumer trusts brand names and stores from where he/she bought in the past and with which he was satisfied

In some cases, the process of satisfying a need comes face to face with the simplification of the process of decision making, such as the example, during the purchase of a relatively cheap product, which is also of high quality.

7.2.5 Roles

During the decision making process, consumers might have more than one role, such as the one that influences the final decision, the buyer or the user. He/she can exercise these different roles at the same time as when he/she shops alone or for himself/herself. The purchasing roles of the consumer are the following:

- Information collector related to the decision
- Decision influencer by expressing his/her opinion
- Decider – the one who takes the final decision
- Buyer – the one who performs the purchase
- User – the one who uses the product

The possible roles combinations might be many depending on the consumer, his surroundings as well as his/her psyche. The roles also change through his/her life as a consumer. For example, a child can rarely influence the purchase decision making or be a buyer. The purchase of a young person often related to himself/herself, while in the case of a consumer with children, a great part of the purchases is for his/her family and certainly he is influenced by the needs of his/her family members.

7.2.6 External factors

Any consumer is influenced by his environment, meaning that his ability to choose is adapted to the different circumstances that he/she needs to fulfil. The influence of the external factors has an important impact on the consumer decision making process. The most important external factors influencing consumer behaviour are: (Wilkie, 1997).

Culture – it refers to the common beliefs, values and opinions that we share with the members of the society we live in. It influences the behaviour of an individual during his life setting limits in his perceptions related to what behaviours are acceptable or not.

Subculture – groups of people who are part of the wider frame of culture and share similar principles or behaviours. Examples include the principles shared by people of the same sex, religion, nationality, etc.

Social class – refers to the profession, income, and education level of an individual that influences the consumer behaviour

Family – most important factor of consumer related purchases and family members are by definition a benchmark with the highest influence. Humans are influenced as children by the consumer habits of their family that that will also follow as adults.

Social surroundings and benchmarking groups – we are influenced every day by our social surroundings and our discussions with friends and acquaintances. For example it is more likely for an individual to follow a healthy life style if he/she socialises with people who follow a healthy nutrition and work out.

External context – unemployment, economy which also define the amounts that be spent for the purchase of a product

Marketing environment – marketing influences all consumers. The marketing environment combined with media has acquired an extensive influencing power over the modern consumer. Each time, advertising aims to influence consumers towards a particular product or service.

Differentiation based on the different consumer personality

Each individual is unique, resulting in unique needs. The purchasing decisions are influenced by the personal characteristics of the consumer such as his age, profession, lifestyle, etc. Acknowledging this leads to making the work of marketers difficult in defining what products consumers will purchase. Therefore, they created consumer groups aiming to make clearer the reasons due to which humans adapt different behaviours.

8. International Theories of Decision making

In the present chapter different theories referring to the decision making process are presented. The theories can be categorised in the following two categories referring to the kind of decision which is exercised:

a. Rational/irrational
b. Optimal and satisfactory one.

While the rational theories consider that the maker uses logical elements having at his/her disposal all information, time and tools to make a decision, the irrational ones believe that the decision maker will always lack all necessary elements needed to take a decision, such as info or time. On the other hand, the optimal theories consider that the decision maker made the right choice as no other option could lead to better results. At the same time, the satisfactory theories support the idea of the first choice that might fulfil some client's needs but without considering any other option that could possible lead to a better result.

8.1 Rational/irrational decision making theories

8.1.2 The expected utility theory

The utility theory appeared in the middle of the 20th century under the shape of anticipated utility of von Neumann & Morgenstern (1947). Being an economic theory with strong statistical relations mostly in the field of probabilities, it tries to predict the probability of having an event occurring based on the frequency with which it already occurred in the past. When the event did not occur in the past, only assumptions are made.

In the theory of utility, the terms of "gain" and "value" have been moved from their economic context in order to be linked with the human effort to set targets and achieve their implementation. Yates (1990) supports the idea of two functions that help the bonding of subjective preferences with objective outcomes: the rational function and the utility one.

The term rational function means that the preference of an individual during the decision making process for an alternative solution increases proportionally with the increase of the anticipated results value.

The term utility function means that within a decision process, the preference of the individual for an alternative solution reflects both the anticipated results value, as well as the uncertainty of whether these results will really occur. This is why one of the initial problems of the utility theory was how to quantify both results and uncertainty.

In order for the decision maker to maximise the gain after its decision, the theory is based on the following principles:

- The individual is always capable of judging the alternative options and their respective potential outcome.
- Ability to transfer preference. If option A is better than option B and option B is better than option C, then option A is better than option C.
- Additivity. The preference of an overall solution is always bigger to the preference of each part of the solution, and therefore it is valid for each part of it.
- Hierarchy of choices. Before a decision is made, it is possible that the different preferences can be shorted based on their criteria or characteristics.
- Choice domination. If a final choice was finalised it means that it needs to be dominating over the others based on the criteria set.
- Stability of choice. The decision maker can choose among different options without being influenced by the order of the alternatives presented.

Von Neumann & Morgenstern proved that if the above principles are violated, the anticipated gain cannot be maximised (Roussos, 2007).

8.1.3 The prospect theory

The prospect theory was created by Kahneman & Tversky (1979) as an effort to develop further on the utility theory. It is value based and not based on the potential gain after a decision is made where value is determined by terms of profit-loss (Roussos 2007). The prospect theory

studies the overall risk and the probability to result in profit or loss of any alternative option. The element of risk according to this theory results in danger and further anticipated impact that the decision maker will try to avoid. An important part of the theory is the acknowledgment of danger, or the impact of it when the individual knows that his knowledge over the danger is not sufficient. The element of information is also important for it, as well as the way which is provided. It is obvious that a good decision prerequisites proper information that was delivered in proper manner.

The definition of profit and loss is subjective as all individuals' experience differently the respective terms according to the particular conditions and time that prevail when a decision is to be made. It is accepted that the human conscience when deciding on what is profit or not, uses always a benchmark which allows certain weighted attributes to be allocated to what is considered profit or loss. In such a way, the negative value of a potential loss might be more important compared to the positive value of a potential profit. This human attitude to interpret losses more intensively than profits is called "loss avoidance attitude" (Demetropoulos, 2003).

An important part of the decision making process is also the certainty level of the individual towards the final impact of a no-loss. In cases that instead of certainty exists semi certainty, it is stated that the humans will use it in order to decide as there was no doubt about the potential loss. According to Roussos (2007) humans over evaluate semi certainty in order to avoid loss and decide disproportionally over the certainty that might indicate very small probabilities of loss.

8.1.4 The rational decision making theory

The basic elements of the rational decision making theory were expressed by H. Simon (1945). According to Simon, a decision is logical when and if it results on a course that implies the most efficient implementation of the individual targets. The element of efficiency is directly linked to the general economy rule: a solution is efficient when it results in the same outcome with the most cost efficient way or secures that with the same cost it produces better results. This school of thought suggests a process through which individuals will be assisted in order to achieve the optimisation of decision making process and the implementation of targets. The basic

phases of the suggested process are:

1. Targets and targets values definition

2. Registering of alternative options

3. Selection of optimal solution

During this process the decision maker searches continuously to identify opportunities and problems, evaluates all information, identifies where the most important issue in the process is and selects the option that will optimise the gain. In the theory of rational decision making, the element of initiative is also included. Therefore, if the decision maker decides to use it, it is also included in the gains that might arise from the selection of the particular option.

The most important characteristics of this theory are the analytical procedure and the scientific methodology. Problems include the terms definition and the situations or values contradiction. Hence, nobody can guarantee that humans will always follow the proposed procedure in each and every case (Demetropoulos, 2003).

8.1.5 The incremental decision making theory

The incremental decision making theory belongs to the irrational theories as from the very beginning it questions the principles of the rational theories. These are the values stability, the efficiency of the rational process, the clarity of the alternative options, the clarity of the targets, the timelessness of data and elements to influence the decision making, the efficiency of individuals to handle multiple functions. According to Demetropoulos (2003), the weaknesses spotted in the rational theory are:

1. Human weakness to adapt. People are not always capable or ready to take to most rational decision.

2. Methodology objectivity. The proposed methodologies have not been completely reliable.

3. Difficulty to estimate the outcome of the alternative options.

4. The human logic is finite. Even if there are groups of individuals to influence the decision making, each person will be finally driven by his/her personal interests.

5. Alternative options awareness. It is very rare that decision makers are aware of all alternatives options when they have to decide. The same also stands for the characteristics of the alternative options that they know of.

For this reason, the theorists of the incremental decision making theory developed a model which is based on the plurality of options and the progressive decision making process. The most representative models are the ones of Lindblom and Connoly. The most important characteristics of the theory are:

1. The *targets universality*. It is not always that humans define clear targets and operational targets

2. The *indistinctness environments* between targets and tools to achieve them. It is always difficult to separate the ways to achieve the targets from the targets themselves even if the targets are well set.

3. The *role of history*. When a decision is made, it is impossible not to be influenced by the past ones.

4. The *short term perspective*. The perception that humans decide based on their understanding on the long run is questioned.

5. The *difficulty to implement the initial plan*. Even if the plan is well organised, it is proven that long terms decisions are hard to be followed.

6. The *expectations multiplicity*. The decisions are taken in most of the cases in environments where more than one person coexist. In such case, although the influence of groups is significant, the individual needs to balance between his/her personal needs and the influence of the groups.

8.1.6 The mixed scanning theory

The mixed scanning theory tries to combine the advantages of the rational theory with the ones of the incremental decision making process. Etzioni (1967) categorised the situations when the decisions to be made can be characterised as important/not important, urgent/not urgent, critical/not critical, routine/crisis etc.

Based on the above criteria Etzioni categorises decisions into the following two categories:

1. Decisions of fundamental importance that require respective scaling processes. This kind of decisions set the ground for the individual's basic strategies and policies, and they are to be implemented based on the combination of rational and incremental theories elements.

2. Decisions of smaller scale, which are based on the principles set by the ones of fundamental importance. Their aim is either to implement the big scale decisions or to prepare the ground for them.

The mixed scanning theory tries to reduce the severity of the rational theory but also uses the possibilities provided by the incremental theory. Therefore, it secures the best decision making analysis; given a mix of elements analysed for all parameters and the relevant environment that the human belongs to at the time the decision is to be made.

8.1.7 The moral theory

The moral theory tries to combine the rational with the incremental theory. It considers as elements the religion, ideologies, perceptions, values of humans which influence to a great extent the decision making process, and therefore cannot be ignored.

According to Etzioni (1993), when making decisions, humans are not machines and they are not isolated from their environment. On the contrary, they belong to groups that have common beliefs and perceptions during the decision making process. The moral theory defines the origins of influence in the following way:

1. *Utilitarian*, related to the anticipated gain that the individual will have after the

implementation of the decision

2. *Social*, related to the benchmark social group of the individual as well as the cultural values of the environment surrounding the individual. The socially originated influences are studied by sociology, social psychology and anthropology. The individuals' compliance with the rules set by the society is imposed and any potential violation, results in the social critism or rejection.

3. *Deontology* driven, covering the individual's ethics or religious principles. These influences are related to the internal rules and his/her sense of duty, responsibility and needs. The violation of the moral rules results in consciousness guilt.

Etzioni tried to provide answers to his questions on how deontology influence the decision making process. He started by placing three questions:

1. What exactly does the decision maker try to do?

The utilitarian answer would be to optimise gain or pleasure, the social answer would be to comply with social rules in order to avoid punishment and the deontological one would be to secure all the above ones under to scope of his internal moral rules.

2. How does the decision maker select his/her tools to achieve his/her target?

The utilitarian answer would be that provided the analysis to minimise cost and maximise gain the optimal solution will be selected, the social answer would be that after the analysis of the desires social behaviour was chosen to comply with the social rules, while the deontological one would be that the individual would choose the option to comply better with his/her internal rules and deontology code.

3. Who is the decision maker?

The utilitarian answer would be that this is every individual, the social answer would be the benchmark group, or the society, and the deontological one would be that this is the individual within the frame of the principles set by the society and the deontology code which also is

originated by the society.

8.1.8 The reasoned action theory (TRA)

The theory of reasoned action (TRA) originated by Ajzen & Fishbein (1975 and 1980) and derives from the social psychology. The two basic principles of the theory are:

1. The individuals are rational beings that make a systematic use of the information available when they are about to make a decision.[54]

2. The subject behaviour is entirely under the individual's control (the same person who is to take the decision).

The most important components of the TRA are: the intention, the attitude and the subjective norm. The TRA suggests that the behavioural intentions depend on two types of mental origins: the attitude towards the implementation of a specific behaviour and the perceptions of the socially placed rules to surround the same behaviour (Ajzen and Fishbein 1980). In short, if an individual has the intention to follow certain behaviour, he/she most probably takes the necessary action.

The same theory considers that the same precursor of a real behaviour is the intention of the individual which, in its turn represents a synthesis of obvious perceptions aiming to deliver an anticipated result.[55] Therefore, an individual is mostly driven to adopt a behaviour that will result in high appreciation. If somebody believes that the adoption of certain behaviour will not have a certain result, or that the result will not be appreciated, the individual tends to be driven less towards the adaption of the particular behaviour (Blue, 1995)

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[54] Ajzen I., Theory of Planned Behavior/ Reasoned Action, 1985, p. 45

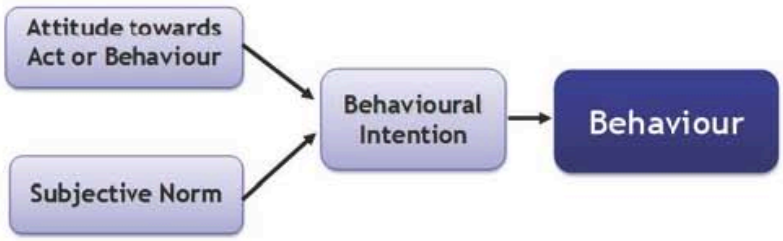
[55] Ajzen I. & Fishbein F. M., Theory of reasoned action, 1977, p. 121-127

The intention to adapt a certain behaviour, measures also the relative strength of the intention of a human to adapt the behaviour. According to Ajzen and Fishbein (1980), the attitude towards the behaviour is defined as a generic human sense of favouring (or not) towards the behaviour. The attitude is a combination of personal perceptions of a human, leading him/her to believe that the adaption of behaviour will lead to certain results.[56]

The subjective norm is defined as the understanding of an individual that most of the people who are important to him/her, believe that he/she should (or not) adapt the respective behaviour. (Aijen and Fishbein, 1980). The subjective norm is a combination of the rules and perceptions of the individual, and the motives to comply with the same rules.

The intentions related to behaviour remain stable in the short term. Although it is admitted that the intentions are more stable when observed in the overall frame of the target to be achieved, Ajzen and Fishbein(1980) stress the importance of having the chronological term between measuring the intention and the relative behaviour as short as possible.

Figure 2 – Schematics of the theory of reasoned action (TRA)



The TRA suggests that all real behaviours can be predicted with great success by the intentions if the decision maker is under volitional control. In this way, other parameters to influence the decision making, will do so only if they also influence the attitudes, the subjective

[56] Ajzen I & Fishbein F. M., Understanding attitudes and predicting social behavior, 1980, p. 140-166

norms, or both (Nabi, Southwell, Hornik, 2002). The validity of the results is not any more the case, when the subject behaviour was not totally under volitional control. According to Sheppard (1988), there might be two problems:

1. Predicting behaviour through intentions is problematic as there are many other parameters to contribute to the decision making process.

2. TRA does not predict the possibility to have an individual failing to adapt a certain behaviour or, the consequences on the intentions after the not predicted failure.

In 1985 Ajzen tried to solve the above mentioned problems. For this reason he added one more element, the perceived behavioural control intending to predict intentions on behaviour and behaviour. The result was the creation of the planned behaviour theory.

8.1.9 The planned behaviour theory (TPB)

The planned behaviour theory (TPB) is designed to predicted and explain the human behaviour within a certain framework. It was initiated in 1985 by Icek Ajzen as an extension of the reasoned action theory, due to its limitations, i.e. failing to explain behaviours on which humans had limited volitional control.

As in the initial reasoned action theory, the main element is the intention of human to adapt a certain behaviour[57]. The intentions are recognised as the steaming power influencing behaviour, and they are the best effort indicators for humans who are about to take seriously a "call to action". The adaptation of the majority of behaviours depends to a certain extent on the so called no generating factors which translates into the availability of opportunities and resources. These can be time, money, competences, cooperation with other etc. (Ajzen 1985). These parameters represent the real control of the human over the behaviour. If a human has the necessary opportunities and money, and intends to adapt behaviour, then he should succeed in doing so.

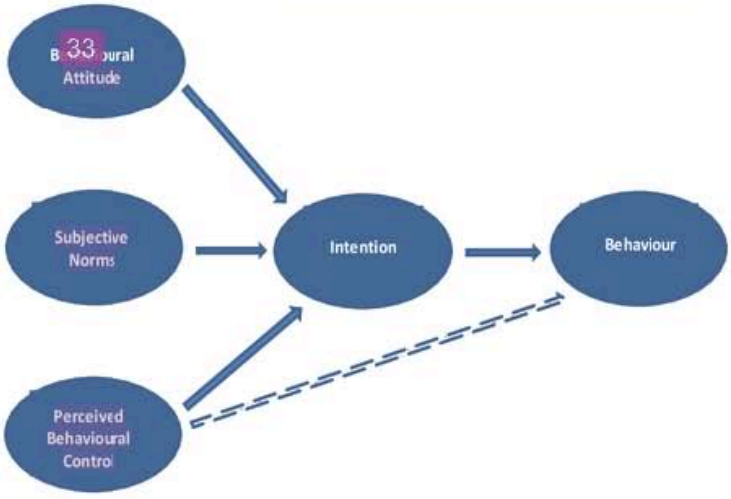
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[57] Ajzen I. & Madden G., The Theory of Planned Behavior, 1986, p. 120 - 169

The TPB sets as basics elements of the intentions three independent terms. The first is the attitude towards the behaviour, referring to the degree that a human considers positively or not the subject behaviour. The second characteristic is the subjective norm that refers to the perceived social pressure for the adaptation or not of a certain behaviour. The third characteristic is the level of the perceived behavioural control.

The perceived behavioural control is very important for TPB. In reality this is the only differentiation factor between TPB and TRA. The perceived behavioural control refers to the understanding of humans of the easiness or difficulty to adapt behaviour. The perceived behavioural control differs given different situations and environments[58]. Therefore, it might be the case for a human to believe that results are mostly depending on his/her personal behaviour, but at the same time the same individual to believe that the possibilities to adapt the anticipated behaviour are low (Ajzen 1991).

Figure 3 – Schematics of the theory of planned behaviour (TPB)



[58] Ajzen I., Prediction of leisure participation from behavioral, normative, and control beliefs: An application of the theory of planned behavior, 1988, p. 35

A generic rule applying in TPB is that the more favourable the attitude and the subjective norms to the behaviour, the higher the perceived control is, in which case the intention of the individual to adapt behaviour becomes very possible. According to the TPB, both the perceived control and the intentions can be used to predict directly the adaptation of behaviour. This is justified by two reasons:

1. The effort to lead into a successful adaptation of behaviour is more likely to increase when there is perceived control. For example, even if two individuals make an effort to achieve the same goal, it is more likely to have the invidual believing in his/her skills more, achieving the target than the other individual that doubts them.

2. The perceived control can be often used as a substitution of measuring the actual control. This depends on the accuracy of perceptions. The perceived control might not be realistic when an individual has less information, or the prerequisites and the resources have changed, or even there are new and not convenient elements that define the options available[59]. Under these conditions, measuring the perceived control will add few to the accuracy of predicting behaviour. (Ajzen 1987).

According to TPB, the adaptation of behaviour is a function that links intentions with the behavioural perceived control. For the accurate prediction of behaviour the following prerequisites need to be met:

1. The measurement of the intentions and the perceived control on the behaviour need to be compatible with the behaviour to be predicted. The behaviour we are interested in must be the epicentre of our analysis, as the evaluation of intentions and perceptions that generate the perceived control need not to consider other environments. For example, if the behaviour to be predicted is whether humans would donate to Unicef, then the intentions to be measured need to be "donations to Unicef" and not just "donations" or "help Unicef". The same stands also for

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[59] Ajzen I., Theory of Planned Behavior, 1987, p. 125 - 130

measuring the perceived control where the predicted behaviour needs to evaluate the perceptions that create control over the "perceived behavioural control" and not any other wording formation or situation.

2. The intentions and the perceived control on the behaviour remain stable for the entire duration between the computation and observation of the subject behaviour. If there are events that appeared in between, there might be changes either on the intentions, or the perceived control and therefore the initial measurements not to be accurate for predicting behaviour.

3. The accuracy of the behavioural prediction increases as the perceptions that create the perceived control represent a realistic control (Ajzen 1985).

The roles of perceptions in TPB are also important. For TPB, behaviour is a collection of information or perceptions related to the behaviour. These obvious perceptions are considered the most prevailing characteristics of the intentions and the actions of the humans. The obvious perceptions are categorised in: behavioural perceptions which influence the attitudes, model perceptions that are the base of subjective norms and, perceptions of control that is the base for the control understanding in behaviour.

A new element is also the role of the past behaviours. Past behaviour, according to the TPB has an impact on the behaviour which is independent to the impact of perceptions, attitudes, subjective norms and intentions. The most frequent assumption is that the repeated execution of behaviour results in attributing it as a habit. Therefore, the adaptation of behaviour in later chronological periods is partially due to the habit, without the intermediation of attitude, subjective norms, control perceptions, or intentions.

According to Ajzen, attention needs to be paid during measuring the role of past behaviour, because although it is possible for past behaviour to represent the impact of all factors creating the new behaviour, it cannot be considered as the primary one. Also, past behaviour cannot be considered as a way to measure habits, as it also represents the impact of many external and internal factors. Only when the habit is defined independently from the behaviour it can be added to the TPB as an indicative parameter.

8.1.10 The analytic hierarchy process (AHP)

The process of analytic hierarchy is a structured technique for analysing complicated decisions. It was developed in the 70's by Thomas L. Saaty and so far has been a very important tool for researchers. It is based on mathematics and psychology and it is one of the most widely used tools for taking decisions with multiple criteria.

The process of analytic hierarchy is a measurement theory, which after performing comparisons of pairs of elements, is based on the judgement of specialists to produce scales of priorities. It manages quantitative or/and unclear criteria and depends on the principle that in order to take decisions, the experience and the knowledge of people is equally valuable to the data that they use. The comparisons are performed by using a scale of numbers that indicate to what extent an element is dominant over another element, compared to the specific characteristic. The comparison process delivers a relative scale of measurement of the priorities or, in other words the weights of the elements. These weights, i.e. the values that are linked to each activity are finally summed up to find the final priorities.

The basic principles of the theory are the following:

- The *reversed comparison*: the decision maker must be in a position to make comparisons and justify his preferences. The preferences need to satisfy the following reversed comparison: if A is preferred x times more than B, then B is preferred 1/x times more than A.
- *Homogeny*: the preferences are presented via a limited scale.
- *Independence*: when preferences are set, the criteria are considered independent from the characteristics of the alternative options.
- *Expectations*: for decision making, the hierarchical structure is considered completed.

When the second principle is not met, this means that the elements to be compared are not homogenous and groups of elements must be created. The third principle indicates that the weights of the criteria must be independent from the alternative options. Finally, if the fourth principle is not met, the decision maker does not use all the criteria or all the alternative options that are necessary in order to reach the anticipated result and therefore the decision is considered

incomplete (Luis G. Vargas, 1989).

According to Saaty, in order to take a decision in an organized manner and therefore create priorities, one must decompose the decision into the following steps:

- Define the problem and the kind of knowledge we are looking for
- Structure the hierarchy of the decision and add the objective of the decision, followed by the objective goals, and through intermediate levels (the criteria of which are based subsequent elements) to conclude on the following level which is usually a group of alternative options.
- Constructions of a collection of comparison tables. Every element found on a higher level is used to compare to the elements one level below.
- We use the priorities that we have acquired from the comparisons to set the priorities to one level below. The process is repeated for all elements. For every element from a lower level we add the weights and therefore we have its overall priority. We repeat the same process of setting and adding until we reach the final priorities of the alternative options at the lower level.

This process is known as the principle of hierarchical synthesis. In order to make the comparisons, we need a scale of numbers which will indicate how many times more one element is more important or prevailing compared to another element.

8.1.11 The image theory

The image theory is a descriptive theory which was suggested by Beach in 1990 and it is one of the most recent ones appearing in international bibliography. Image is considered the reproduction of knowledge, criteria and experiences than an individual uses to decide what to do and how to do it. Alternative objectives and plans need to align with the criteria of the image, or else, they are rejected from the beginning. The ones that will finally be compatible can also be subject to modifications. During the process of implementing the plan of decision making, the progress towards objective implementation is checked in the same way.

The predominant position in the image theory has four elements, analysed below:

1. Images: every individual is the owner of knowledge and experiences, i.e. a sum of images which he/she will use in case it is needed to take a decision. The experience can be segmented in three different types of images: the value image, the trajectory image and the strategic image. Any of the three images contains the knowledge and the experience relative or non-relative to the decision, more specifically:

a. the value image contains a system of principles and the ethics of the decision maker. Therefore it contains the principles which will define the criteria that are relative to how things need to be, and what is the attitude relative to the decision.

b. the trajectory image contains the objectives and the goals of the individual, the trajectory that the individual needs to set to reach the anticipated end. Some of the targets are defined by the personal principles of the individual while others by the particular situation or decision.

2. Personal frame: this is part of the experiences that every individual carries with him/her and use for decision making. In the image theory the personal frame contains all three images, i.e. principles, targets and action plans. The framing is the process during which the individual, by using information relative to the decision, tries to bring from his memories similar elements. If he manages to find such elements, then we can say that the current situation has been identified. The identification serves two objectives: first, through the identification of the images, elements are relative to the current decision and secondly, it secures information relative to similar objectives and plans that have been accomplished in similar situations.

3. Decisions: according to the image theory, there are two kinds of decisions – the adoption and progress decisions.

a. the adoption decisions are related to whether we should add new objectives to the trajectory image, new action plans to the strategic image, or more rarely principles to the principle image. The basic criteria to decide whether we will adopt new objectives, action plans or principles results from the personal frame and is defined by the compatibility of new targets with the three elements that make up the frame. The decisions are made with the process of evaluating the alternative options, which is based on the three elements mentioned above and the isolation of the ones that are incompatible. If, after the evaluation, there are two or more

solutions, then the selection of the best one is done using the same criteria.

b. the progress decisions: are related to the progress of procedures that support the implementation of the decision making plan. They are based on scenarios to make possible the prediction of the result. If the prediction is positive, then the procedure moves on; otherwise the action plan is rejected or modified.

4. Decisions mechanisms: in the image theory there are two mechanisms for the realisation of decisions.

a. the compatibility test is used to evaluate the alternative options in the decision making and is a qualitative control. The criteria used for the control are related to the quality of the alternative options, i.e. their compatibility with the elements of the three images. The bigger the deviation, the bigger the incompatibility and thus the smaller the possibility to adopt a decision.

b. the profitability test is used to evaluate decisions and can be a sum of controls. The criteria of the control are related to the quantity of the anticipated results and therefore it is a quantitative control. The effort to optimise the gain is dominant and therefore, a number of mechanisms can be used either combined or individually. The mechanism to be used by each individual depends on the situation, the environmental frame within the decision to be taken, as the personal characteristics of the decision makers.

8.2 Theories of optimal and satisfactory decisions

8.2.1 The differentiation and consolidation theory

In the differentiation and consolidation theory that was presented by Svenson (1992), it is stated that the decision making process is easy to be segmented in two phases: one before and one after the selection is made.

The entire process began by understanding the need to take a decision. During the phase before the selection is made, while the individual sets targets and tries to take a decision, he also tries to differentiate progressively each alternative option until one of them appears as the most appealing. There are three basic differentiation types: the total, the procedural and the structural

one.

The total differentiation is a first rough differentiation which is occurring intuitively after having performed the first hierarchy of the alternative options. It is mostly based on experiences and knowledge of the individual and sometimes is enough to support the final selection. However, it is an introductory statement which is used as a benchmark for the next steps of the procedure.

The procedural differentiation is based on further information and alternative options process. The process is based on the utilisation and implementation of decision rules that include the criteria based on which the selection is made. Therefore, the selection of rules is also a differentiation of the decision rules. Based on the implementation of the rules and criteria, the level of superiority or inferiority is decided for each alternative option and subsequently if it will be used or not.

The structural differentiation refers to the restructuring of the representation during the decision making process. It can be achieved infour ways: restructuring of the alternative options appeal, importance of the alternative options characteristics, the definition of the events related to the decision, and the nature of the problem.

The second phase, i.e. the consolidation, begins at the point where the selection becomes stable and it is considered certain that the individual will insist on it. The stronger the differentiation in the first phase, the more possible to stabilise and consolidate in the second phase. The consolidation may appear in different phases through which it ensures that once it is completed, it will be irreversible.

8.2.2 The conflict theory

According to Janis & Mann (1977), each individual that is about to take a decision is in front of an internal conflict, which stimulates stress and uncertainty as he/she feels, that he/she is under threat. In principle, the conflict theory is a stress theory in relation with the decisions. The more a person is involved in a decision, the more he/she experiences the conflict and the stress.

The procedure of decision making begins with a trigger event which ignites a series of questions. Each of the questions outcomes depends on the answer to be provided. If the answer is positive, then the trigger event for the next question is initiated. If the answer is negative then the decision making process is terminated. In the conflict theory, a predominant position enjoys the term of "stress" and five points related to the stress status. These are (Janis & Mann 1977):

- The level of stress is related to the objectives of the decision which the decision maker is afraid that will be not fulfilled. The more the objectives are, the more the related needs, and therefore the stress.
- When an individual is in front of a new threat or opportunity, the level of stress is proportional to the level of attachment to the current situation.
- When the decision implies serious conflict because the alternatives options contain serious risks, the loss of hope for a better solution drives the decision maker to a defensive attitude.
- In case of a decision that implies serious conflict where the threats are visible and the decision maker runs out of time, the stress levels remains high (hypervigilance)
- A medium level of stress leads to a vigilant effort through which, the individual is capable to identify the most suitable solution.

The conflict theory indicates five different behaviour types, i.e. five different models of conflict.

- Unconflicted inertia, where the individual sets a behavioural pattern and continues with it ignoring risks and dangers, as long as conflicts are not foreseen.
- Unconflicted change, where the individual sets new behavioural patterns each time without intensive analysis, as long as conflicts are not foreseen.
- Defensive avoidance, where the individual avoids or postpones a decision. This is the most usual unwanted type of behaviour and difficult to be corrected.
- Hypervigilance, where the individual seeks desperately for a decision and decides on the first one to appear and offer the greater relief.
- Vigilance, where the individual seeks thoroughly and calmly for a decision after cautious evaluation.

The first four models lead to unsuccessful decisions. (Janis & Mann) state that the procedure of vigilance is the one that may lead mostly to a good decision as the person starts collecting and processing information for alternative options, or what they call vigilant information processing.

8.2.3 The recognition theory

The term "recognition" refers to the function that describes the situation occurring when an individual is in a problematic situation. During this situation the individual will seek to recognise characteristics or properties that are already known to him/her.

The decision maker needs to take into the consideration the entire framework of parameters, as he needs to depend on his knowledge and experience. Only in this way he will be able to process the current situation based on his existing knowledge and experience. It will be impossible to take decisions each time based on the new data, without using the existing experience and knowledge.

The most well-known recognition model was presented by Klein et.al (1993). It is a descriptive model referred to as the recognition primed decision model. In crisis situations it is not possible to implement analytical procedures which in most of the cases are time consuming. The time pressure obliges the individual to recognise the status of the decision and seek the answer in similar situations from the past. The basic elements of the model are:

- recognition of the situation
- understanding of the situation which is performed in comparison with other similar situations the individual has faced in the past
- evaluation of the situation in comparison with the actions taken in similar past situations
- mental simulation of the current situation to evaluate imaginary if the alternative options lead to other outcomes

8.2.4 Heuristics

According to Kahneman & Tversky (1973) the procedures followed by people during the decision making process are not rational but to a great extent heuristic. These procedures represent general rules used for quick decision making. Heuristics have many characteristics in common with the theory of recognition because both of them depend on experience. Heuristics can be strategies that use information which is easily accessible and apply to a great number of problems or decisions. Although most of the analysis referring to heuristics is done by Kahneman & Tversky, the initial idea was presented by H. Simon. Sometimes heuristics guide us to good decisions with the minimum cost, but often they also lead to wrong decisions. The characteristics of heuristics are:

- availability: the available knowledge defines heuristics to be used for the decision making process
- lack of flexibility: the initial assumptions can rarely change when we take decisions based on heuristics. It is observed that heuristics change only after trial and error.
- representativeness: an object/person belongs to a category as long as it matches a stereotype of the same category
- motives: are important for the decision making process and influence the entire procedure

Some of the advantages of using heuristics are the ease of understanding and adoption. They require less time and less spiritual effort and they can reproduce many solutions. We can use them when the information is minimal and it is not possible to increase, or when we face problems with lower risk and we have previous experience, or when the decision making can be improved in time but requires an initial decision with low risk.

9. Are the banks Gatekeepers or Gateways?

In the banking industry model to precede the 00's, banks were operating mostly as guidance to clients, "driving" them out of the options that either they could not be approved for, or were restricted for regulatory reasons. In a new model, banks are required to change habits in order to survive. Nowadays, clients are able to contact many banks at the same time and really be the ruler of the "game".

The changing IT and communications environment brought changes to banks which were unheard of less than fifteen years ago. The introduction of mass segmentation tools and CRM (Customer Relationship Management) and the ability of the clients to communicate or transact with the bank in multiple ways, changed not only the customers' behaviour but also the strategic orientation of the banks.

Banks understood that clients can no longer be dependant on banks products, as their needs are not limited to products. A new generation of loyalty schemes and bank services emerged ever since. Their introduction obliged the bank to operate like gateways[60] to a wide range of services which are not necessarily originating from them. The idea of a customer centric approach was literally considered for the first time together with other industries; see Fast Moving Consumer, Goods, Mobile Telephony, Retails Grocery, Petroleum Companies, that had the same concerns about consumers.

The introduction of bundled bancassurance products, e-commerce platforms, multi coalition loyalty schemes intended to understand clients starting from a wider perspective, which this time was not only based on his/her behaviour as a client.

The ability of other industries to introduce the traditional type of banking also obliged banks to think differently about their role and position in the international market consumers' behaviour map. The initiation of financial institutions originated by automobile companies offering car

[60] Kalakota and Whinston, A Manager's Guide, 1997, p. 156

loans, or respective full banking spectre services from mobile telephony companies did not happen without checking the market potentials and the consumers' needs.

The Japanese electronics company SONY proceeded in offering financial services through games consoles.[61].

The contribution of IT and CRM is significant. Without them we would not be able to know the overall customer experience [62] and subsequently we would not be able to analyse and predict his/her future behaviour[63]. The success of the multi coalition loyalty schemes is based exactly on the ability of all participating partner companies to monitor the clients' behaviour not only when it comes to their industry, but also during their overall transactional behaviour. For banks the history of super markets related transactions is equally important to the current account history of transactions as they can confirm similarities or exemptions to the spending patterns of clients

Usually the IT support of such systems is centrally located, often outside of the narrow national borders. All collaborating partners have access to the system data, but it requires time and effort to come to the right conclusions. Above all, it requires a change in culture, as many banks need to shift from the products based client approach to the customer centric one. The transition is not an easy one as banks need to invest in new systems, people but above all mind set.

Although traditional banks still refer to the branch network as their point of reference for the clients'' handling, the overall trend provides evidence that through the support of technology and the change of generations, this will not be the case in the future. The use of alternative channels of acquiring clients and the facilitation of communication through different channels can guarantee that in the future it is more likely to talk about transactional clients that no one will have ever seen their face within the branch network environment.

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[61] Kunii, 1999; Nakamae and Abrahams, 1999, p. 49

[62] Seybold, Customers.com

[63] Butler and Peppard, Consumer purchasing on the Internet, 1998, p. 100

It is also very possible that banks will use their distribution channels to sell not only financial products as already the case for mobile telephony subscriptions. In Greece, multi coalition loyalty schemes based on non-payments cards (see "bonus" programme) already is the case.

10. Defining the problem-Business Case

10.1 Sales: Credit Worthiness and selection of pre-approved clients.

Detecting the possibilities to "enter" the overall market is paramount. An analysis which assesses the credit worthiness of the entire population of a country, characterising it as "bankable" or not, is essential for understanding the market perspectives but also for positioning retail banking products using different priorities set (table 1). The criteria used for assessing the eligibility of the prospects are: Employment Status-Age-Income-Availability of Fixed phone number-Credit Bureau historic and current delays-Debt to Income Ratio-Pool Scorecard and Internal Grading. Our following analysis applied on the entire Serbian population in August 2014.

Table 1 – Serbian Population Credit Worthniness

Segments and steps:	Bankable Population - Results										
			Belgrade	Vojvodina	Central & Western Serbia	Southern & Eastern Serbia	Total		Share	Criteria	Isolated effect
	Total population		1,660,156	1,917,325	2,013,322	1,590,702	7,181,505		100%		
A.	Employed population		564,702	446,184	403,358	305,756	**1,720,000**		24.0%		
B.	Pensioners		402,476	437,235	465,312	383,037	**1,688,060**		23.5%		
	Total bankable population - employed + pensioners:		277,000	263,500	197,000	170,500	908,000				
							% of Total population:		12.6%		
							% of Employed + Pensioners:		**26.6%**		
A.	*Employed*								%		
step 1:	No of employed people		564,702	446,184	403,358	305,756	1,720,000		100%		
	ABS clients - employed		4%	3%	3%	6%	-72,438		4.2%	ABS Clients	-4.2%
Step2:	Employed / **new clients:**		539,574	431,004	389,414	287,570	1,647,562		95.8%		
	% of employed - aged 20-67:		88%	88%	88%	88%	-197,086		11.5%	Age	-11.5%
step 3:	Employed / new clients / **age 20-67**		475,029	379,446	342,831	253,170	1,450,476		84.3%		
	% of population with fixed phone:		92%	92%	92%	92%	-116,038		6.7%	Phone	-6.7%
step 4:	Employed / new clients / age 20-67 / **fixed phone**		437,026	349,090	315,405	232,916	1,334,438		77.6%		
	% of employed - aged 20-67 - with salary 20k+:		88%	84%	78%	76%	-231,613		13.5%	Salary	-13.5%
step 5:	Employed / new clients / age 20-67 / fixed phone/ **salary 20k+**		386,505	292,944	246,882	176,494	1,102,825		64.1%		
	% of employed - aged 20-67 - salary 20k+ with CB ok		66%	73%	64%	73%	-347,037		20.2%	CB	-36.5%
step 6:	Employed / new clients / age 20-67/ fixed phone/ salary 20k+ / **CB ok**		255,093	213,849	158,004	128,841	755,787		43.9%		
	% of (employed & aged 20-67 & salary 20k+ & CB ok) **with (DTI & Score)**	%						*acceptable*			
	out of which will apply for All In One	25%	63,773	53,462	39,501	32,210	188,947	67%	13%	DTI and Score	-29%
	out of which will apply for Car Loans	2%	5,102	4,277	3,160	2,577	15,116	90%			
	out of which will apply for Cash Loans	60%	153,056	128,309	94,803	77,305	453,472	70%			
	out of which will apply for Consumer Loans	3%	7,653	6,415	4,740	3,865	22,674	80%			
	out of which will apply for Credit Cards	10%	25,509	21,385	15,800	12,884	75,579	75%			
step 7:	Bankable population - employees	100%	179,500	150,500	111,000	90,500	531,500		30.9%		
B.	*Pensioners*								%		
step 1:	No of pensioners		402,475	437,235	465,312	383,038	1,688,060		100%		
	% of pensioners - aged lower than 20 and higher than 57:				N/A		1,227,263		72.7%	Age	-27.3%
Step2:	% of pensioners - **aged 20-67:**		292,610	317,881	338,294	278,478	1,227,263		72.7%		
	ABS clients - pensioners		2%	1%	1%	2%	-19,051		1.1%	ABS Clients	-1.1%
step 3:	Pensioners / age 20-67 / **new clients:**		287,217	314,916	333,703	272,376	1,208,212		71.6%		
	% of population with fixed phone:		92%	92%	92%	92%	-96,657		5.7%	Phone	-5.7%
step 4:	Pensioners / new clients / age 20-67/ **fixed phone**		264,239	289,723	307,007	250,586	1,111,555		65.8%		
	% of pensioners - pension 20k+:		62%	60%	50%	51%	-492,288		29.2%	Salary	-29.2%
step 5:	Pensioners / new clients / age 20-67/ fixed phone/ **income 20k+**		163,417	173,066	154,050	128,734	619,267		36.7%		
	% of population with CB delay		75%	82%	70%	78%	-146,542		-8.7%	CB	-26.0%
step 6:	Pensioners / new clients / age 20-67 / fixed phone/ income 20k+/ **CB ok**		122,562	141,914	107,835	100,412	472,724		28.0%		
	% of (pensioners & aged 20-67 & income 20k+ & CB) **with (DTI & Score)**	%:						*acceptable*			
	out of which will apply for All In One	25%	30,641	35,479	26,959	25,103	118,181	74%	6%	DTI and Score	-22%
	out of which will apply for Car Loans	2%	2,451	2,838	2,157	2,008	9,454	95%			
	out of which will apply for Cash Loans	60%	73,537	85,149	64,701	60,247	283,634	83%			
	out of which will apply for Consumer Loans	3%	3,677	4,257	3,235	3,012	14,182	84%			
	out of which will apply for Credit Cards	10%	12,256	14,191	10,784	10,041	47,272	71%			
step 7:	Bankable population - pensioners	100%	97,500	113,000	86,000	80,000	376,500		22.3%		

The results proved that after using the credit criteria following a reverse engineering model, i.e. applying exception rules on the data provided by different instructions and pubic sources (see statistical agency, ministry of labour), only a certain percentage will be eligible for a product offering, in a particular society, at a certain moment in time.

It is though depicted that in a certain population of 7.181.505 inhabitants, 908.000 are the ones to make up the potential "bankable population". The exception criteria used are twofold. The so called regulatory one being the age – no credit allowed to minors- can be considered universal as it applies in the same way to all financial institutions aiming to run business in Serbia.

On the contrary, criteria such as employed/pensioners, existence of fixed phone, Credit Bureau historic/current delinquencies, Debt to Income ratio or Scorecard cut off scores, depend entirely on the "Credit Risk appetite" of the lender. It is possible to interpret them differently, setting the expectations high or low for each criterion based on the competitive advantage enjoyed by each different organisation. It is therefore not unusual business practice to approach different segments not because of their absolute marketing value but due to their "relative" value, arising from the characteristics behind the operational model of each bank.

Examples of the following focus areas can be easily identified in each retail banking market:

- Pensioners not because of their high income or propensity to buy status, but because of the wide geographical branch network coverage.
- Post-paid mobile number holders not because of the highest credit worthiness of the applicant, but because of the data access to a wider population already gained by the transformation of mobile telephone companies to financial institutions.
- Less demanding credit scorecard cut off scores or even confirmation of employment status, not because of the highest credit worthiness of the applicant, but because of the adequate capital reserves of the financial institution that allows categorisation of individual credit holder to higher risk-regulatory categories.
- Lower than average individuals' income, not because of the highest credit worthiness of the applicant, but because of the existing positioning of a branches network to more rural than urban areas.

- Higher than average individuals' income not because of the positioning of a branches network in mostly urban areas, but because of the existing support solutions, see e-banking, mobile banking, private banking, being specialised and developed by particular retail oriented banks.

The most noticeable results of the above table can be divided in two groups, the employed and the pensioners' prospects. For the former, the exclusion criteria with the higher percentages are credit bureau delays (36.5%), DTI/Scoring (29%), employment (24%) , income(13.5%) and age (11.5%).

The higher exclusion criteria for the latter are income (29.2%), age (27.3), credit bureau delays (26%) and DTI/Scoring (22%).

An in-depth one-on-one comparison between employed individuals and pensioners needs to rely on many aspects among which the structure of the economy, the historic evolution of public vs. private sector, the compensations' strategy of the country, the infrastructure etc. What is relevant is not to explain why such differences occur but rather to quantify their impact on a standard retail banking environment. A snapshot approach could definitely observe that pensioners tend to be relatively more credit worthy based on criteria that they can really influence, see credit bureau delays and DTI/Scoring. Unlike these personal characteristics that indicate particular consumer behaviour towards credit repayments and social profile, both income and age criteria are "out of reach" not subject to behavioural changes.

Conversely, employed individuals who doubtlessly have both more possibilities to differentiate their income in a short/long time perspective and higher salaries, prove to be more inclined to behavioural "defaults" such as repayment delays and low social profile (scorecard). The penetration of fixed phone in both categories is also to be commented. Enjoying approximately the same percentage as an exclusion criterion (5.7% pensioners vs. 6.7% employed individuals) it proves a high penetration to both potential prospects segments regardless the recent technological "boom" of the mobile telephony. Unlike pensioners, employed individuals, of a younger age than pensioners would have been more attracted by modern technologies, foregoing traditional ways of communication to the benefit of more modern ones.

Apart from any conclusions that may arise from comparing the percentages of the exclusion criteria of the employed / pensioners' categories, two important notes need to be made concerning the practical use of such criteria and their respective implementation.

Firstly, those criteria are applied always in the order appearing in table 1, aiming to produce comparable conclusions for both categories. Any other way would harm the initial objective, which is not only to see how many prospects make our "bankable population", but also what the impact of each particular criterion in the stage of approval process is. As the criteria are applied following the "or" condition, the principle is if any of the conditions is met then a prospect is to be rejected. We are to expect therefore, a substantial percentage of criteria overlapping as a potential credit applicant could not meet more than one of the regulatory or "credit risk appetite" conditions. Secondly, that we are not to expect that all pre-selected customers may apply for all product categories. Before proceeding into the propensity analysis, a good way of getting a first-hand insight of the retail banking products potential is to apply the current split of products in the market to the bankable population derived from the above analysis. By doing so, we may conclude on a very basic level on what could the population to which we would address our product offering message be, should our institution be a monopoly and only our credit criteria be found in the market. A deeper understanding may also be possible after applying the "success" or "response" rate approach.

The column "acceptable" represents the number of CIFs to be excluded after applying DTI and credit risk scorecard criteria.

Applying the same logic to the subject financial institution portfolio, we come to similar conclusions reaching though higher "penetration" or eligibility as the customers have already been assessed in the past at the time of their first credit granting (table 2).

Table: 2 - Subject Portfolio Credit Worthiness

Data Origin	Number of CIFs	Eligible No of Clients per origin									
		Consumer Finance			Housing Loans	Credit Cards					
		Overdraft	Cash Loans	All in One	Standard	Dina	V. Classic	V. Benefit	V. Gold	MC Affinity	MC Standard
Payroll Clients Database	93,413	4,869	13,726	4,177	7,676	12,859	12,093	14,402	861	10,653	14,177
Overdraft Database	19,219	/	7,979	2,178	4,598	7,834	7,190	8,338	369	6,027	8,285
Consumer Loans Database	46,724	/	8,135	4,218	4,807	8,344	8,056	8,792	490	6,855	8,691
Housing Loans Database	6,535	/	983	776	/	1,016	984	1,027	344	838	1,027
Credit Cards Database	31,454	/	8,315	2,499	4,843	7,074	6,178	8,621	519	4,309	8,319
Total Unique Clients	133,060	4,869	16,635	6,877	9,263	17,695					

Eligible one product	4,039	109	0	2,950	169	811
Eligible for multiple products	16,903	4,760	16,635	3,927	9,094	16,884

Eligible for 2 products	5,067	46	4,812	200	28	5,048
Eligible for 3 products	6,820	1,377	6,807	1,047	4,409	6,820
Eligible for 4 products	4,374	2,695	4,374	2,038	4,015	4,374
Eligible for 5 products	642	642	642	642	642	642

		Overlapping Analysis				
Product	Total	Overdraft	Cash Loans	All in One	HL Standard	Credit Cards
Overdraft	4,869	4,869	4,713	1,002	2,891	4,757
Cash Loans	16,635	4,713	16,635	3,714	9,054	16,635
All in One	6,877	1,002	3,714	6,877	2,349	3,911
HL Standard	9,263	2,891	9,054	2,349	9,263	9,075
Credit Cards	17,695	4,757	16,635	3,911	9,075	17,695

Cross Sell Ratio %		3.7%	12.5%	5.2%	7.0%	13.3%

Key Performance Indicators	Overdraft	Cash Loans	All in One	HL Standard	Credit Cards
Response Rate	12%	9%	10%	17%	14%
Retrieval Rate	45%	34%	30%	1%	16%
Approval Rate	87%	85%	88%	90%	80%

Potential disbursement					
Clients eligible for one product only	5	0	78	0	15
* Overlapping clients	221	433	98	14	293
Total	**227**	**433**	**176**	**14**	**313**

As "bankable" population in this case, one may consider all existing clients that meet the credit criteria, who would be offered at least one additional retail banking credit product. The purpose of this analysis is to identify all potentially credit worthy prospects in order to maximise the approval rate as possible after the offer is made. The paramount concern at this point is to use resources in a manner that does not allow wasting or repetition of effort.

Therefore, the total number of unique prospects identified, will define also the number of employees to be allocated for achieving the product offering. From time to time, as organisation changes result in transforming banks from traditional branch network operators, to alternative sales channels ones (e-banking, guerrilla sales teams, telemarketing), the importance of such considerations increases. Any manager is interested in knowing the exact number of pre-selected customers to whom he/she can address the products' offers as the selection of the right communication tool is essential. The availability of branch network employees, representing an unavoidable overheads cost for the financial institution has to be taken into account. Transforming a wide branch network into a virtual contact centre would be ideal in a world that outsourcing becomes more expensive.

Still, the sales effectiveness should not to be considered only in terms of cost. The technological advances of particular sales channels as telemarketing and e-banking can overcome the issue of cost because the intensity of contacts depends on advanced technologies and CRM logic that can hardly compete with the traditional one-on-one promotion in a bank's branch network environment.

The specialisation factor should also not be overlooked. Assigning product pre-selected offerings to customer relationship employees at branch network level, means accepting a priori that a certain representative will have to split his/her daily working time for all products that he is meant to support.

On the contrary, supporting the same product on going can definitely deliver higher sales expertise and build more customer related experience.

However, after having identified the number of unique prospects, it is rare to assign the most promising ones (in terms of product profitability) to the most specialised teams, compromising

the least promising ones after assigning them to less specialised or technologically supported sales channels.

The inclination of the client to buy or not is not at stake at this stage. We can easily identify though that there are certain product categories that show different dynamics compared to others.

Product	Overdraft	Cash Loans	All in One	HL Standard	Credit Cards
Cross Sell Ratio %	3.7%	12.5%	5.2%	7.0%	13.3%

The cross sell ratio that is derived from the division of total pre-selected prospects to the total unique customers considered for the analysis, shows that that credit cards and cash loans have the greatest potentials to be sold to the existing analysed portfolio, while overdraft enjoys a lower one. The percentage proximity of cash loans and credit cards can be attributed to the similar credit criteria applied for assessing the prospects. The almost similar ones of housing and debts consolidation loans can also be explained by the stricter credit criteria applied, justified by the fact that a housing loan applicant is assessed for a decision to accompany him for the next 25 years (average loan tenor), whilst the one willing to consolidate current debts, has already proved to be "not disciplined" in his/her financial decisions. The low cross sell percentage of overdraft should be considered a surprise as well.

As all unique clients used for the above analysis needed to have already proved their income status, we may conclude that the monthly salary used for that reason was also the trigger event leading to them being offered an overdraft at the time their professional career commenced. So, there are only a few employed clients that could be considered prospects for a future overdraft, given they have already initiated its use.

It is noticeable that such an analysis can be valid only for a limited period of time as the parameters used are time sensitive, see income, exposure traced by credit bureau, macroeconomic input related to employment rates etc. Therefore, it is suggested to be used as soon as possible after its elaboration and indicatively ever after.

The ability of an organisation to have constant access to customer data is what will, in the future, differentiate potential customers' winners from losers. If the so far indicated analyses are absolute musts for defining commercial priorities and assessing resources / costs, then the one to

embody such process in its commercial genes is bound to gain a competitive advantage over its peers. Accurate and constant data means fewer expenses for human or IT resources and more satisfied customers. Above all though, it means the creation of a culture that is willing to offer to its clients only the products for which they are credit worthy. And if this is not enough for sustaining profitability, then only two options exist: either decrease operational expenses or increase credit appetite to reach the anticipated profit and loss result.

10.2 Sales: Methodology for proportional representation

Given the above hypothesis, the methodology will be based on the over/under representation principle[64] in order to prove that different client categories do not only have a higher propensity to buy" (see inclination to reply positively to a product's offer), but also deliver the best final results compared to the resources used.

The methodology considers the percentage split of sub segments between two similar micro societies. A simple example can be the professions or educational levels which make up the existing portfolio of any clientele's data base.

Should the percentage representing the profession "Teachers" remain the same between the clientele's data base used for the selection of the prospects and the final disbursed credits list of clients, then we may come to the conclusion that "Teachers" are not influenced by the subject product offering. If the segment "Teachers" is overrepresented in the final disbursed credits list of clients we conclude that the reason for their non-proportional representation could only be what mediated from their initial selection, and their final "call to action" which was the *product's offering.*

An opposite reason leads to a particular segment not existing or being under represented in the final clients' list. Their "indifference" is explained by their negative answer to the product

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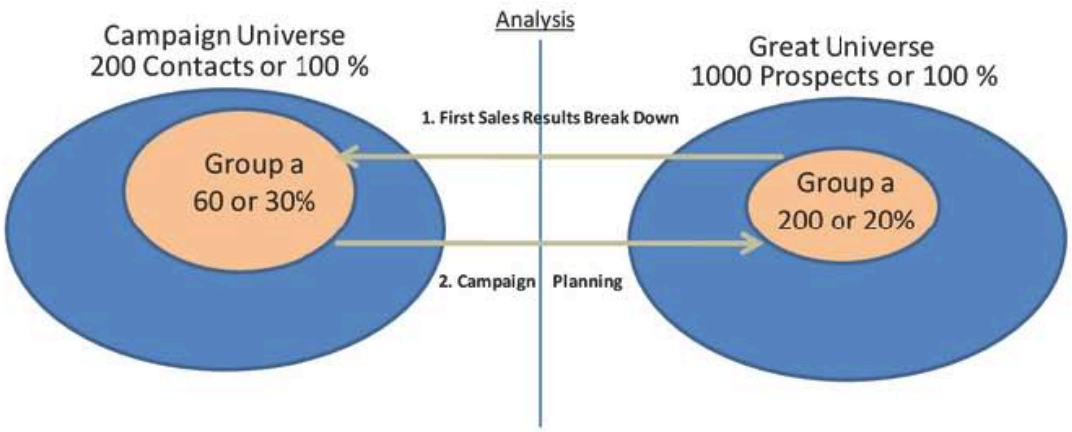
64 "to represent in numbers that are greater, or in a proportion that is greater, than is statistically expected or warranted",http://www.yourdictionary.com/overrepresent

offering that will result in having no representation of the particular segment in the final list of clients.

Part of the same exercise is the "fuelling" part, or otherwise consumption or records. Segments will definitely respond differently to products offering, but also prove to have different absolute number of records to "feed" the communication channels. It is therefore not unusual to observe that high potential segments owing too much of their appreciation to their extremely elevated "propensity" ratio, fail when it comes to the actual number of prospects as this does not results in sufficient fuel to support the desired campaign.

Figure 4 depicts the above described methodology:

Figure 4 – Propensity to buy



Propensity to Buy : 30% / 20% = 1.50
Group a is overrepresented (>1) and therefore shows higher acceptance of communicated message.

Fuelling : 60 / 200 = 30%
Group a has already used 30% of its potential clientele, therefore a decision to allocated resources accordingly is anticipated.

Cross sell analysis and products representation among other products.

One step after the pre-selection of prospects by applying "reverse engineering" on the credit policy criteria and one step before the operational execution of any campaign is the identification of "propensity to buy" per product. This part of the clients' segmentation will aim to identify the

prospects that have the highest likelihood to answer positively to our product offering. The methodology of over/underrepresentation is to be used as it was described before.

Ideally, the comparison of the two sub segments before and after the pilot campaign ends would need to be based on data that was retrieved just before the campaign started and only after it ended.

Should this not be feasible, we run the risk of reaching biased conclusions as the client's behaviour might have changed by having given up or added one more product to his/her pallet.

Practically, identifying how many products are owned by each customer each time, just before a campaign runs is difficult and requires a dedicated software, personnel and access to updated data. Processing data that might consider more than one hundred thousand records with all relevant product info and the relevant historic transactions becomes a task that few organisations can handle on a daily and weekly basis considering that "Below the Line" campaigns are due to happen on going and data can change at any point.

A good way of creating a roadmap to identifying the customers that have the highest propensity to buy can come through an overall analysis of the products portfolio (table 3). Although not based on a customer based approach, it may reveal instantly the product categories (and therefore the subject clients) that have the highest cross sell ratios over other products. By excluding the client for which the high cross sell ratio is justified irrespective of their will, as opposed to a system's functionality, see service accounts connected to credits/cards, or service easiness, see debit cards connected to approximately all products and services like direct debit-standing order connected to savings/term deposits, we may easily spot two teams of high cross sell ratios among the following products:

a. Debts Consolidation-Cash loans-Credit Cards (high cross sell ratio)
b. Consumer loans-Cash Loans-Credit Cards (moderate cross sell ratio)
c. Housing Loans-Credit Cards (moderate cross sell ratio)

Table 3 – Products portfolio Cross sell analysis

#CIF per product/ Cross-sell analysis	All in 1	Car	Cash	CC	Consumer	Active curr.acc	Direct debit	Housing	Overdraft	Savings account	Standing order	Term deposit	Debit Card	Active e-bank
All in 1	26,664	47	9,748	8,534	450	16,346	13	288	3,418	1,646	10	264	12,034	1,201
Car	47	1,706	107	249	19	1,048	1	27	133	194	3	91	614	136
Cash	9,748	107	40,452	10,041	629	29,485	16	693	5,986	3,184	19	1,985	18,624	1,955
CC	8,534	249	10,041	47,340	933	8,164	100	1,289	5,749	4,741	37	1,702	23,997	3,575
Consumer	450	19	629	933	4,116	2,760	8	103	548	406	7	192	1,742	302
Active curr.acc	16,346	1,049	29,485	26,196	2,760	210,356	632	5,748	13,772	24,378	65	18,694	75,313	7,346
Direct debit	13	1	27	100	8	632	645	20	34	171	8	103	356	114
Housing	288	27	693	1,289	103	5,748	20	6,317	645	922	22	418	4,548	1,882
Overdraft	3,418	133	5,986	5,749	548	13,772	34	645	13,874	1,765	12	522	12,109	1,252
Savings account	1,646	195	3,184	4,741	406	24,378	171	922	1,765	122,027	53	17,482	11,155	2,132
Standing order	10	3	19	37	7	65	8	22	12	53	92	14	61	42
Term deposit	265	91	1,985	1,702	192	18,694	103	418	522	17,942	14	32,495	4,559	935
Debit Card	12,034	614	18,624	23,997	1,742	75,313	356	4,548	12,109	11,155	61	4,559	98,908	7,885
Active e-bank	1,201	136	1,955	3,575	302	7,346	114	1,882	1,252	2,132	42	935	7,885	8,944

#CIF per product/ Cross-sell analysis	All in 1	Car	Cash	CC	Consumer	Active curr.acc	Direct debit	Housing	Overdraft	Savings account	Standing order	Term deposit	Debit Card	Active e-bank
All in 1	100.00%	0.18%	36.56%	32.01%	1.69%	61.30%	0.05%	1.08%	12.82%	6.17%	0.04%	0.99%	45.13%	4.50%
Car	2.75%	100.00%	6.27%	14.60%	1.11%	61.43%	0.06%	1.58%	7.80%	11.37%	0.18%	5.33%	35.99%	7.97%
Cash	24.10%	0.26%	100.00%	24.82%	1.55%	72.89%	0.04%	1.71%	14.80%	7.87%	0.05%	4.91%	46.04%	4.83%
CC	18.03%	0.53%	21.21%	100.00%	1.97%	17.25%	0.21%	2.72%	12.14%	10.01%	0.08%	3.60%	50.69%	7.55%
Consumer	10.93%	0.46%	15.28%	22.67%	100.00%	67.06%	0.19%	2.50%	13.31%	9.86%	0.17%	4.66%	42.32%	7.34%
Active curr.acc	7.77%	0.50%	14.02%	12.45%	1.31%	100.00%	0.30%	2.73%	6.55%	11.59%	0.03%	8.89%	35.80%	3.49%
Direct debit	2.02%	0.16%	4.19%	15.50%	1.24%	97.98%	100.00%	3.10%	5.27%	26.51%	1.24%	15.97%	55.19%	17.67%
Housing	4.56%	0.43%	10.97%	20.41%	1.63%	90.99%	0.32%	100.00%	10.21%	14.60%	0.35%	6.62%	72.00%	29.79%
Overdraft	24.64%	0.96%	43.15%	41.44%	3.95%	99.26%	0.25%	4.65%	100.00%	12.72%	0.09%	3.76%	87.28%	9.02%
Savings account	1.35%	0.16%	2.61%	3.89%	0.33%	19.98%	0.14%	0.76%	1.45%	100.00%	0.04%	14.33%	9.14%	1.75%
Standing order	10.87%	3.26%	20.65%	40.22%	7.61%	70.65%	8.70%	23.91%	13.04%	57.61%	100.00%	15.22%	66.30%	45.65%
Term deposit	0.82%	0.28%	6.11%	5.24%	0.59%	57.53%	0.32%	1.29%	1.61%	55.21%	0.04%	100.00%	14.03%	2.88%
Debit Card	12.17%	0.62%	18.83%	24.26%	1.76%	76.14%	0.36%	4.60%	12.24%	11.28%	0.06%	4.61%	100.00%	7.97%
Active e-bank	13.43%	1.52%	21.86%	39.97%	3.38%	82.13%	1.27%	21.04%	14.00%	23.84%	0.47%	10.45%	88.16%	100.00%

The size of the sample may guarantee that the outcome of our analysis leads us to realistic conclusions. An intense debate which is based on the fact that perhaps not all customers have been exposed to all products offerings in the past, or whether they were acquainted with their existence can be overlooked for the time being because of the following arguments:

a. All existing clients are subject to continuous exposure to all competitive banks messages for all products categories. It is highly unlikely for a client to not be aware of the major products categories' (Cash loans, Credit Cards, Housing Loans) existence given the current media "war".

b. Even if the existence of the major products categories is not communicated by other channels used by other competitive banks, we may assume that at least each client came across the promotional material of each product category at the branch network level once.

c. If the "call to action" i.e. having a client expressing his willingness to find out more about a product, was not the outcome following his exposure to the branch network promotional material, this could have happened following the different contacts unilaterally initiated by his/her main bank given all communication channels. Indeed, banks use all tools at their disposal to contact all clients at least once per three months. As examples one can mention ATMs messages, e-banking, SMS, monthly credit cards statements, direct mails, Below the Line personalised campaigns, telemarketing, etc.

d. The results of an overall cross sell analysis of an entire clients' portfolio should be used indicatively to identify key concentrations of cross sell ratios between product categories.

We asses that the final conclusions of over/under representation can only be accurate if measured by comparing the mix of products owned by the selected prospects just before and only after the campaigns has ended.

Due to this, our sample is based on 33.021 records uploaded for the creation of 24 different Below the Line Campaigns aiming to support Debts Consolidation loans, Cash loans, Credit Cards and Overdraft sales.

All presented campaigns have been prepared for offering the above mentioned products through one-on-one communication having the advantage that the subject financial institution was already aware of the clients' contacts details. Clients that have failed in establishing

communication in the past were excluded. Similarly, all those that had declared that they did not wish to be contacted for any promotion in the future were excluded. The operational part was conducted for all product offerings in the same way, with clients receiving the relative documentations needed for the credit application by courier, as well as using courier services for picking credit application documents up once they were ready to be delivered for credit assessment. All clients were requested to visit the branch of their choice once the application was approved in order to sign the necessary contract in person.

The variations that might have existed refer only to the different scripts supporting the sales effort of the different product. As such, it is logical to claim that all products used the maximum of their consumer temptations/advantages in order to attract attention and succeed in receiving a positive answer from the clients.

For the sake of the analysis, campaigns that were part of special promotions or pricing were not included as their effect could not have been compared with the standard pricing of the campaigns of our analysis. All campaigns were pre-selected using the latest data available originating either from the credit bureau or the most recent info provided by the relevant clients after having applied for the most recent product.

The analyses depicted the product mix and the relevant representation in percentage among the clients that were "uploaded" in the Below the Line campaigns and the ones that were finally approved for the proposed product after the campaign ended.

Unlike the overall analysis of the portfolio which was presented above, the following analyses are based on customer level. The product mix presented is the one that allows us to know exactly how many more products all clients selected for the purpose of the campaign before it commenced.

Two tables are presented for each stage, i.e. before (tables 4 & 5) and after the campaigns ended (tables 6 & 7). The first table is always based on a numeric approach that will support the understanding of exactly how many clients were used in each campaign and the respective number of other products that they already had before the product offering started. The same approach will also be used for examining the data after the campaigns ended.

The main products participating in the analyses are the ones that were offered in the relevant campaigns, traced in the initial overall clients' portfolio analysis and having the highest cross sell ratios.

Tables 4 & 5 - Before the campaigns commence analysis (numeric % percentage)

Campaign no	Product Type	Uploaded % in campaign	Product mix before BTL						
			Debts Con.	Car	Cash	Consumer	Housing	Overdraft	CC
	Debts Consolidation	100.00%	28.63%	1.06%	44.69%	3.90%	11.02%	31.08%	44.93%
1	BTL Debts Cons. J13	100%	7.22%	1.38%	35.37%	3.44%	37.43%	27.29%	51.83%
2	BTL Debts Cons. M14	100%	25.39%	1.17%	52.04%	3.57%	2.04%	26.74%	40.52%
3	BTL Debts Cons. Ap14	100%	100.00%	0.10%	45.72%	4.57%	1.65%	49.42%	40.95%
4	BTL Debts Cons. J14	100%	12.96%	1.06%	21.89%	1.70%	3.19%	42.61%	51.75%
5	BTL Debts Cons. S14	100%	28.00%	1.06%	56.33%	5.41%	0.00%	26.06%	41.13%
	Cash	100%	14.25%	0.98%	53.47%	7.80%	2.79%	31.02%	41.75%
6	Alpha Cash GS	100%	28.78%	1.90%	50.59%	3.92%	6.83%	49.67%	65.62%
7	BTL Kes 1	100%	6.28%	0.81%	88.73%	7.73%	2.58%	33.82%	35.59%
8	BTL Kes 2	100%	7.52%	0.38%	88.91%	8.46%	0.75%	24.25%	28.20%
9	BTL Kes 3	100%	8.84%	0.34%	88.78%	7.37%	1.13%	27.89%	28.00%
10	BTL Kes 4	100%	12.71%	0.62%	89.77%	6.20%	0.62%	28.37%	30.39%
11	BTL Kes 5	100%	11.30%	0.53%	88.16%	7.18%	1.06%	39.23%	30.59%
12	BTL Kes 6	100%	19.01%	1.65%	73.55%	16.53%	2.48%	40.50%	28.93%
13	BTL Kes 8	100%	12.70%	1.12%	35.12%	8.72%	2.37%	34.50%	35.24%
14	BTL Kes 9	100%	14.77%	1.20%	37.33%	18.96%	1.80%	23.75%	19.56%
15	BTL Cash	100%	9.69%	0.00%	58.11%	7.75%	0.73%	31.48%	27.12%
16	BTL Keš 10	100%	9.06%	0.85%	29.11%	8.33%	2.17%	22.58%	26.57%
17	BTL Keš 12	100%	12.14%	0.34%	42.66%	20.57%	2.36%	24.45%	18.89%
18	BTL Keš 13	100%	9.60%	0.83%	23.09%	6.26%	1.25%	25.73%	40.19%
19	BTL Vacations Cash	100%	7.80%	1.00%	0.60%	1.80%	2.70%	0.80%	80.80%
	Overdraft	100%	7.88%	1.46%	19.24%	2.10%	0.09%	2.59%	36.15%
20	BTL Overdraft M13	100%	13.47%	2.44%	33.30%	3.60%	0.08%	4.50%	62.78%
21	BTL Overdraft A14	100%	0.52%	0.17%	0.77%	0.14%	0.10%	0.07%	1.15%
	CC	100%	7.36%	0.61%	25.99%	2.15%	1.63%	32.19%	28.83%
22	BTL CC Dina M14	100%	5.13%	0.33%	17.27%	1.27%	0.20%	22.87%	14.27%
23	BTL CC Dina S14	100%	8.01%	0.66%	28.79%	3.18%	0.51%	27.43%	28.84%
24	BTL CC Visa Classic	100%	7.99%	0.72%	28.31%	1.87%	3.11%	40.10%	35.98%

Campaign no	Product Type	Uploaded No in campaign	Product mix before BTL						
			Debts Con.	Car	Cash	Consumer	Housing	Overdraft	CC
	Debts Consolidation	8760	2508	93	3915	342	965	2723	3936
1	BTL Debts Cons. J13	2327	168	32	823	80	871	635	1206
2	BTL Debts Cons. M14	2300	584	27	1197	82	47	615	932
3	BTL Debts Cons. Ap14	1028	1028	1	470	47	17	508	421
4	BTL Debts Cons. J14	941	122	10	206	16	30	401	487
5	BTL Debts Cons. S14	2164	606	23	1219	117	0	564	890
	Cash	10921	1556	107	5839	852	305	3388	4560
6	Alpha Cash GS	2269	653	43	1148	89	155	1127	1489
7	BTL Kes 1	621	39	5	551	48	16	210	221
8	BTL Kes 2	532	40	2	473	45	4	129	150
9	BTL Kes 3	882	78	3	783	65	10	246	247
10	BTL Kes 4	645	82	4	579	40	4	183	196
11	BTL Kes 5	752	85	4	663	54	8	295	230
12	BTL Kes 6	363	69	6	267	60	9	147	105
13	BTL Kes 8	803	102	9	282	70	19	277	283
14	BTL Kes 9	501	74	6	187	95	9	119	98
15	BTL Cash	413	40	0	240	32	3	130	112
16	BTL Keš 10	828	75	7	241	69	18	187	220
17	BTL Keš 12	593	72	2	253	122	14	145	112
18	BTL Keš 13	719	69	6	166	45	9	185	289
19	BTL Vacations Cash	1000	78	10	6	18	27	8	808
	Overdraft	6652	524	97	1280	140	6	172	2405
20	BTL Overdraft M13	3778	509	92	1258	136	3	170	2372
21	BTL Overdraft A14	2874	15	5	22	4	3	2	33
	CC	6688	492	41	1738	144	109	2153	1928
22	BTL CC Dina M14	1500	77	5	259	19	3	343	214
23	BTL CC Dina S14	2136	171	14	615	68	11	586	616
24	BTL CC Visa Classic	3052	244	22	864	57	95	1224	1098

Tables 6 & 7 - After the campaigns commence analysis (numeric and percentage)

Campaign no	Product Type	Approved No n campaign	Product mix after BTL (approved)						
			Debts Con.	Car	Cash	Consumer	Housing	Overdraft	CC
	Debts Consolidation	313	313	0	77	8	11	202	173
1	BTL Debts Cons. J13	50	50	0	19	2	7	24	24
2	BTL Debts Cons. M14	23	23	0	3	0	0	13	17
3	BTL Debts Cons. Ap14	149	149	0	29	3	1	111	82
4	BTL Debts Cons. J14	37	37	0	7	1	3	26	19
5	BTL Debts Cons. S14	54	54	0	19	2	0	28	31
	Cash	761	138	5	761	24	8	426	362
6	Alpha Cash GS	100	34	3	100	5	3	65	62
7	BTL Kes 1	63	18	1	63	2	0	43	29
8	BTL Kes 2	68	10	0	68	0	1	26	29
9	BTL Kes 3	131	26	0	131	1	1	70	56
10	BTL Kes 4	51	5	1	51	3	0	25	22
11	BTL Kes 5	63	11	0	63	2	1	40	25
12	BTL Kes 6	38	8	0	38	2	1	20	10
13	BTL Kes 8	30	3	0	30	2	0	17	18
14	BTL Kes 9	20	0	0	20	0	0	8	7
15	BTL Cash	47	10	0	47	0	0	29	17
16	BTL Keš 10	50	3	0	50	2	0	31	29
17	BTL Keš 12	30	4	0	30	2	0	18	11
18	BTL Keš 13	43	3	0	43	3	1	26	23
19	BTL Vacations Cash	27	3	0	27	0	0	8	24
	Overdraft	198	21	2	60	3	0	198	103
20	BTL Overdraft M13	142	21	2	47	3	0	142	87
21	BTL Overdraft A14	56	0	0	13	0	0	56	16
	CC	333	48	1	93	15	6	209	333
22	BTL CC Dina M14	68	7	0	20	2	0	34	68
23	BTL CC Dina S14	207	21	1	47	10	1	128	207
24	BTL CC Visa Classic	58	20	0	26	3	5	47	58

Campaign no		Approved % n campaign	Product mix after BTL (approved)						
			Debts Con.	Car	Cash	Consumer	Housing	Overdraft	CC
	Debts Consolidation	100.00%	100.00%	0.00%	24.60%	2.56%	3.51%	64.54%	55.27%
1	BTL Debts Cons. J13	100.00%	100.00%	0.00%	38.00%	4.00%	14.00%	48.00%	48.00%
2	BTL Debts Cons. M14	100.00%	100.00%	0.00%	13.04%	0.00%	0.00%	56.52%	73.91%
3	BTL Debts Cons. Ap14	100.00%	100.00%	0.00%	19.46%	2.01%	0.67%	74.50%	55.03%
4	BTL Debts Cons. J14	100.00%	100.00%	0.00%	18.92%	2.70%	8.11%	70.27%	51.35%
5	BTL Debts Cons. S14	100.00%	100.00%	0.00%	35.19%	3.70%	0.00%	51.85%	57.41%
	Cash	100.00%	18.13%	0.66%	100.00%	3.15%	1.05%	55.98%	47.57%
6	Alpha Cash GS	100.00%	34.00%	3.00%	100.00%	5.00%	3.00%	65.00%	62.00%
7	BTL Kes 1	100.00%	28.57%	1.59%	100.00%	3.17%	0.00%	68.25%	46.03%
8	BTL Kes 2	100.00%	14.71%	0.00%	100.00%	0.00%	1.47%	38.24%	42.65%
9	BTL Kes 3	100.00%	19.85%	0.00%	100.00%	0.76%	0.76%	53.44%	42.75%
10	BTL Kes 4	100.00%	9.80%	1.96%	100.00%	5.88%	0.00%	49.02%	43.14%
11	BTL Kes 5	100.00%	17.46%	0.00%	100.00%	3.17%	1.59%	63.49%	39.68%
12	BTL Kes 6	100.00%	21.05%	0.00%	100.00%	5.26%	2.63%	52.63%	26.32%
13	BTL Kes 8	100.00%	10.00%	0.00%	100.00%	6.67%	0.00%	56.67%	60.00%
14	BTL Kes 9	100.00%	0.00%	0.00%	100.00%	0.00%	0.00%	40.00%	35.00%
15	BTL Cash	100.00%	21.28%	0.00%	100.00%	0.00%	0.00%	61.70%	36.17%
16	BTL Keš 10	100.00%	6.00%	0.00%	100.00%	4.00%	0.00%	62.00%	58.00%
17	BTL Keš 12	100.00%	13.33%	0.00%	100.00%	6.67%	0.00%	60.00%	36.67%
18	BTL Keš 13	100.00%	6.98%	0.00%	100.00%	6.98%	2.33%	60.47%	53.49%
19	BTL Vacations Cash	100.00%	11.11%	0.00%	100.00%	0.00%	0.00%	29.63%	88.89%
	Overdraft	100.00%	10.61%	1.01%	30.30%	1.52%	0.00%	100.00%	52.02%
20	BTL Overdraft M13	100.00%	14.79%	1.41%	33.10%	2.11%	0.00%	100.00%	61.27%
21	BTL Overdraft A14	100.00%	0.00%	0.00%	23.21%	0.00%	0.00%	100.00%	28.57%
	CC	100.00%	14.41%	0.30%	27.93%	4.50%	1.80%	62.76%	100.00%
22	BTL CC Dina M14	100.00%	10.29%	0.00%	29.41%	2.94%	0.00%	50.00%	100.00%
23	BTL CC Dina S14	100.00%	10.14%	0.48%	22.71%	4.83%	0.48%	61.84%	100.00%
24	BTL CC Visa Classic	100.00%	34.48%	0.00%	44.83%	5.17%	8.62%	81.03%	100.00%

The grey shaded cells in the above table 7 indicate the product categories in which over representation occurred over the standard mix of product observed for the same sub segment before the campaign started.

The outcome is defined by dividing the relevant percentage enjoyed by the particular product among the same clients group, to the one appeared after the completion of the campaign. As a leading example we could use the overdraft representation before and after the execution of debts consolidation campaign. Out of 8760 pre-selected prospects, 31.08% were overdraft holders at the time of campaign creation. At the end of the campaign, out of 313 clients that had just their debt consolidation loan disbursed, the representation of overdraft increased to 64.54%.

It is logical to conclude that overdraft holders are more prompt to answer positively to debts consolidation offer compared to other product categories.

Trying to summarise the findings of the over-representation analysis we can come to the following conclusions:

1. Overdraft holders appear more prompted to answer positively to another credit proposal than any other product category. Their promptness is proven for all product categories that participated in the analysis i.e. Debt consolidation loans, Cash Loans and Credit Cards.
2. Equally high over-representation show also Credit cards holders for all other products categories with the exception of just one campaign for overdraft (no 21).
3. Existing debts consolidation loans holders surprisingly show a relatively high promptness also for cash loans, overdraft and credit cards regardless their previous experience of high credit burden.
4. For two product categories (overdraft and credit cards), the existing cash loans holders are prompted to increase their credit exposure not only to higher volumes but also interest rates bearing in mind that both the overdraft and credit card offer had higher interest rates at the time that the study occurred. The revolving nature of the overdraft and the respective inability not to pay an equal annuity also is not considered as an obstacle.
5. Lastly, both consumer and housing loans holders present a relative high promptness only to credit cards offering. Regarding the housing loans holders the explanation lies on the new

needs created after the property purchase and the relatively low DTI ratio (debt to income) burden of credit cards to credit bureau. It is acceptable though from such clients' category to serve their needs even at a higher cost as their already used DTI does not allow for further exposure to standard amortized products. The consumer loans holders' present a behaviour similar to the cash loans holders and overdraft/credit cards. For them, extending the credit burden at a higher level, both interest rate wise and product's nature wise (see revolving vs. standard amortised one) does not seem to be a preventing factor.

Overall learnings and conclusions at this stage cannot be grounded on the basis of higher / cheaper credits, or generic product characteristics. If the hypothesis that credit cards/overdraft holders respond positively to debts consolidation offer because of the lower interest rate can be sustained, the same does not hold for Cash loans as the interest rates are significantly higher than the debts consolidation ones.

The same is the case for consumer loans holders prompting for credit cards.

Due to the massive attraction towards all products categories, credit card holders have created a category of their own. Having experienced already a low product DTI burden with a limited credit card limit approved at a high cost, they are willing to accept any other credit product that differentiates its offer at all levels.

Finally, regarding the reason for the major over-representation of overdraft holders although it cannot be rationally explained only due to its higher interest rate, must be sought in other directions not necessarily involving the interest rate or the revolving/standard amortization nature of the retail banking credit products. Usually, an overdraft is the entry level product of all recently employed customers. As such, their exposure to other products at the time of overdraft granting is zero, simply because of the fact that no credit product could have ever been approved as, prior to their employment, there was no evidence of income. Therefore, the decision concerning the overdraft is not fully depending on the applicant but rather on the banks that provided its very secure credit nature; (see 100% liable to a monthly salary) offer it as any other commodity in the consumers market.

10.3 Sales: Operational Execution

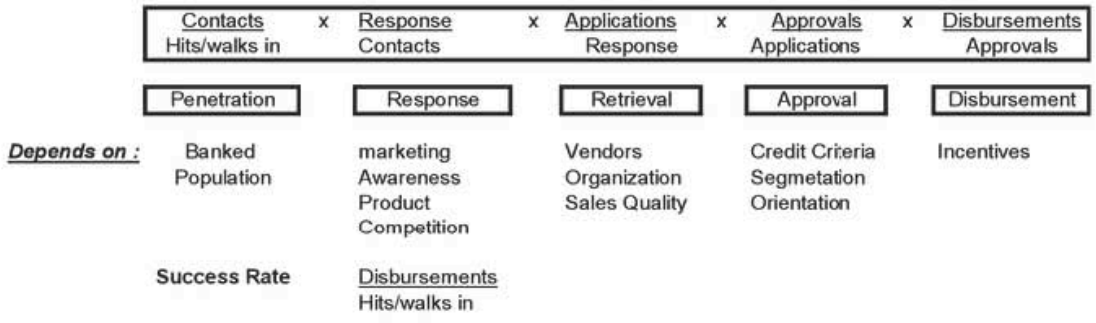
At the final stage, after having "secured" both the credit worthiness and the propensity to buy of the prospects, it is important to secure the operational execution by reaching conclusions for each step of the product sales circle.

The following steps represent a standard retail banking procedure for credit related products. They refer to a branch network dominated type of banking, but variations may differ depending on different:

- Communication channels i.e. telemarketing, e-banking, credit brokers etc.
- Work flow processes, i.e. standard credit application via branch network or e-application via web based software
- Access to data, i.e. own clientele portfolio data base vs. public accessed data bases
- Methodologies of credit applications reception and follow up i.e.e specialised agencies vs. branch network employees, specialised software with certain validation rules that do not allow non-validated fields vs. "four eyes principle" followed by credit assessment units' personnel.

A simple snapshot of the following picture proves that the process can also be depicted as a mathematic formula (figure 5). The final result of any data driven campaign is the result of the multiplication of the ratios deriving from each particular step of the sales process.

Figure 5 – Products sales circle



Each and every step is an un-avoidable part of a process that intends to use as much as possible the merits of each of the elements that participate, aiming to sell as many products as possible with fewer resources. As each step depends on different aspects, the best coordination and prediction of behaviour based on historic data is the ideal objective of every business manager.

Penetration Rate:

Defined as the result of Contacts achieved / Hits (or records uploaded), it aims to achieve the highest percentage of individuals contacted, out of those defined as having been successfully "pre-selected". The pre-selection process depends on the previous mentioned credit worthiness and propensity to buy eligibility characteristics.

A significant element of the success of the step relies on the data quality. Data bases that respect the classic normalisation and standardisation architecture, apply validation rules and communicate with all peripherals as in Credit Bureau, Post office info on addresses, Public telecommunication companies info on fixed/mobile numbers are highly unlikely to deliver low penetration rates. Equally important is the tool used, so specialised Telemarketing agencies operating on pre-dialling modes allow for more successful contacts supported also by the flexibility provided by the different personnel shifts.

The penetration rate is dominated by technical aspects and the anticipated results can hardly change if not for a major re-allocation of supporting technologies or data origin.

Response Rate:

Defined as the result of Positive answers / Contacts achieved, it aims to achieve the highest percentage of positive behaviour-answer after a credit product offer.

Campaigns which have already proven to have high "propensity to buy" indexes, will achieve high response rate as this step incorporates the greatest majority of elements that are subject to human behaviour influence unlike technical or operational driven ones.

In this sense, the most critical elements to define success are marketing awareness, product characteristics, competition positioning and sales triggers as special promotions-gifts-limited time offers etc.

Retrieval Rate:

Defined as the result of Credit applications received /Positive answers, it aims to achieve the highest percentage of fully documented credit applications ready to be assessed.

Heavily depending on the back office support, the retrieval rate is one of the most important steps as it confirms the commitment of the prospects to carry on with his/her promise. The follow up tools and the efficiency of the agents to remind the initial provided promise to the client are the prevailing success parameters for the retrieval rate. It is common that many banks decide to invest mostly in that part of the sales process than in above the line communication or Branch network personnel. Operational effectiveness and speed in collecting documents, even from the own premises of the prospect, matter the most.

Some essays indicated that the social profile and the profession may also define the success of the retrieval rate. Therefore, professions of high social responsibility like medical doctors, nurses, juridical drudges and social servants tend to deliver better their promises (submit full applications), compared to free lancers and civil engineers.

A qualitative approach to sales impacts also the results at that level. A product's offering which will intentionally "hide" key elements of the credit proposal is not bound to experience a collected application as the prospect will realise the reality post sales, feeling anger and disappointment, followed by the obvious action of cancelling her/his credit application dispatch.

Still, the retrieval rate is considered a synonym to operational excellence, which unlike the nature of the response one, is not subject to many variations and experiments.

Approval Rate:

Defined as the result of credits approval /credit applications received, it aims to achieve the highest percentage of credit applications approved.

It is the credit criteria of each financial institution that will define the result of this step. The major ones that are found across the majority of retail oriented banks are the same as previously described in the credit worthiness process i.e.: Employment Status /Age /Income /Availability of Fixed phone number /Credit Bureau Historic and current credit(s) repayment delays / Debt to Income Ratio/ Pool Scorecard / Internal Grading.

Theoretically, the approval rate assumed during the previous process of pre-credit worthiness assessment needs to be the same as the final one, emerged after the final credit application submission. Nevertheless, as the above criteria are dynamic, it is possible to observe differences that are not subject to any prediction, the reasons being simply:

a. Credit scorecards and internal grading models depend on multiple regression analysis models that predict the relation of one prospect's attributes to all the others considered. As such, the slightest change in one attribute, i.e. applicant's age might have an unpredictable impact on the final cut off score.

b. The interim period to mediate between the pre-credit worthiness assessment and the final one, (when a prospect delivers full documentation) is subject to any exposure or repayment behaviour change that cannot be predicted. It is possible for the client to apply for a credit in another financial institution or prove delinquent in her/his repayment obligations in between assessment times, facts that will definitely change the assessment's final verdict vs. the initially assumed one.

Disbursement Rate:

Defined as the result of Credits Disbursed / credits approved, it aims to achieve the highest percentage of credit disbursements.

This is the final step which reaches the highest percentages as both the credit applicant and the financial institution have so far repeatedly proved their commitment to proceed and there are no more obstacles that cannot be over passed. A prospect that has reached that level and subsequently been announced that her/his credit is approved will practically denounce his options hardly. It is possible though that a long waiting period may influence negatively the decision making of an applicant by cancelling unilaterally the application process.

Higher cancellation rates appear in this step for "hedonist" kind of prospects fraternised in banking culture with Cash/Consumer loans and Credit Cards applicants. It is exactly the same finding that urges retail banks to promote mostly the "instant" option in these product categories rather than the interest rate or convenience benefit.

Success Rate:

Defined as the result of Disbursments / Hits (or records uploaded), it aims to achieve the highest percentage of disbursements compared to the total number of selected prospects.

Observing the multiplication of fractions that define that Products Sales Circle, we notice that the final result is the success rate after deleting the nominator/denominator values that precedes and follows after each particular fraction.

$$\frac{\text{Contacts}}{\text{Hits/walks in}} \times \frac{\text{Response}}{\text{Contacts}} \times \frac{\text{Applications}}{\text{Response}} \times \frac{\text{Approvals}}{\text{Applications}} \times \frac{\text{Disbursements}}{\text{Approvals}}$$

It becomes clear that an increased rate for any of the different steps is insignificant if the overall result seen as the outcome of the division disbursements/hits does not justify the effort.

Many corporate cultures fail to see the overall significance of personalised campaign, as a cluster approach to business prohibits different participating units to understand that partial success means nothing in retail banking if not considered holistically from the time that records were selected for communication up to that for which we have fully credit disbursement.

It is a common habit to measure marketing success by measuring communication success of media by GRPs (Gross Rate Points, measure the total of all Rating Points during an advertising campaign. A Rating Point is one percent of the potential audience) by failing to see if the contacted universe accepted or not our offer.

Subsequently, we are happy to observe high response rates, feeling uncomfortable when credit applications are rejected. Isn't it logical for people with low incomes to respond positively to credit proposals while their applications will definitely be rejected afterwards? Or are we happy to see high approval rates for a small population that we hardly convinced, to apply for a credit as their high income was the indication for a rejected offer?

The fine tuning of all the sales steps is the required objective for any financial institution that aims to optimise resources and customer experience. All personalised and above the line campaigns that can measure branch network walk inners need to consider before their initiation, the historic data series prior to coming to a final decision.

At the same time, the findings of the different sales circle steps are the ones defininig the use of the corresponding communication tools. A segment that proves an excellent success rate might be insignificant when it comes to the number of records/prospects identified. Therefore, a different segment with a lower success rate is bound to be equally promising when allocated to mass communication tools like telemarketing, where the loss of quality ratios is counter balanced by the speed of reach and the mass approach.

A common practise is to allocate "high propensity to buy" segments to specialised sales teams, often hired as own employees, while outsourcing the remaining ones to mass reach agencies like direct marketing agencies or contact centres.

The analysis was performed using the ratios from penetration to approval follows (table 8). For practical reasons, we also considered that the disbursement rate is 100% (see all approved loans/cards were finally disbursed/issued), while we also added a step before the penetration rate which is characterised as "coverage" rate. The specific rate intends to evaluate the ability of the communication channel to complete the assigned task in terms of workload. As all subject campaigns used as communication channel the branch network and the campaigns completeness is by definition high, it was considered adequate to be included, as the results also depend on the completion or not of the communication effort. It is important to clarify that it refers to the number of calls/efforts performed and not the contacts achieved which are shown in the "penetration" rate.

Table 8 – Operational ratios

Campaign no	Product Category	No of uploaded records	No of approved credits	Operational Rates					
				Coverage	Penetration	Response	Retrieval	Approval	Success
	Debts Consolidation	8760	313						
1	BTL Debts Cons. J13	2327	50	99.36%	90.14%	9.26%	36.79%	77.48%	**2.15%**
2	BTL Debts Cons. M14	2300	23	99.52%	86.46%	14.81%	10.92%	75.40%	**1.00%**
3	BTL Debts Cons. Ap14	1028	149	99.81%	92.50%	29.82%	61.13%	86.30%	**14.49%**
4	BTL Debts Cons. J14	941	37	98.09%	89.92%	17.47%	35.17%	84.50%	**3.93%**
5	BTL Debts Cons. S14	2164	54	99.45%	88.80%	12.61%	29.05%	87.50%	**2.50%**
	Cash	10921	761						
6	Alpha keš GS	2269	100	96.65%	90.88%	16.16%	40.99%	85.65%	**4.41%**
7	BTL Kes 1	621	63	91.14%	86.75%	20.98%	72.82%	94.90%	**10.14%**
8	BTL Kes 2	532	68	99.81%	87.19%	22.89%	67.92%	94.50%	**12.78%**
9	BTL Kes 3	882	131	100.00%	89.80%	26.64%	69.19%	96.60%	**14.85%**
10	BTL Kes 4	645	51	100.00%	95.35%	20.16%	45.16%	100.00%	**7.91%**
11	BTL Kes 5	752	63	98.94%	94.35%	19.23%	52.59%	95.90%	**8.38%**
12	BTL Kes 6	363	38	99.72%	96.41%	23.50%	51.22%	90.48%	**10.47%**
13	BTL Kes 8	803	30	100.00%	88.79%	17.53%	32.00%	80.00%	**3.74%**
14	BTL Kes 9	501	20	99.60%	88.58%	17.42%	31.17%	91.90%	**3.99%**
15	BTL Kes krediti	413	47	92.74%	89.82%	27.91%	61.46%	92.00%	**11.38%**
16	BTL Keš 10	828	50	98.55%	92.28%	20.05%	39.07%	90.00%	**6.04%**
17	BTL Keš 12	593	30	93.09%	89.86%	18.75%	38.71%	91.80%	**5.06%**
18	BTL Keš 13	719	43	100.00%	88.46%	19.03%	42.98%	100.00%	**5.98%**
19	BTL Holidays kes	1000	27	99.80%	91.78%	11.46%	30.48%	84.90%	**2.70%**
	Overdraft	6652	198						
20	BTL Overdraft	3778	142	95.47%	79.43%	12.46%	45.38%	81.70%	**3.76%**
21	BTL Overdraft april	2874	56	99.13%	86.80%	11.16%	22.83%	90.80%	**1.95%**
	CC	6688	333						
22	BTL Kartice Dina March 2014	1500	68	93.87%	83.45%	19.49%	32.75%	92.10%	4.53%
23	BTL Kartice Dina September 201	2136	207	97.24%	88.40%	22.33%	58.05%	89.55%	9.69%
24	BTL Kartice Visa Classic	3052	58	96.53%	91.92%	11.41%	22.01%	94.30%	1.90%

As all campaigns have already been filtered using the reverse engineering methodology for the credit criteria and the "propensity to buy" figures for predicting the promptness of prospects to the product proposal, our aim at this stage would be to compare the overall differences occurring among the different ratios monitored for each product category.

Provided that it is not our intention to judge neither the quality of data nor the effort dedicated to achieve contact with the prospects, we will focus on the rates for which the individuals really proved their "call to action", either by accepting an offer or delivering the necessary documentation for initiating the approval process.

The "approval" rate will also not be subject to analysis as our initial objective was to achieve 100% and the only unforeseen reason that mediated between our objectives and the actual figures that vary from 74%-100%, was the aging of data (see how long ago credit bureau data was retrieved). In an ideal world where all financial institutions can have unlimited and absolute current access to creditors data, the approval rate of all pre-selected campaigns would be 100% as all necessary info for credit assessment would be provided. Still, the financial element

preventing banks from requesting credit bureau data continuously is not the only obstacle in reaching 100% approval rate. As different banks use different credit policy manuals and technical solutions to report data to the credit bureau, it is not unlikely that repayment delinquencies of less than 30 days past due not to be reported and therefore, alienating the expectations for overall future approval.

A generic conclusion that can be retrieved by our analysis is that the higher the response rate, the higher the commitment of the prospects to deliver the full documentation for the credit assessment.

Cash loans (19.07%) and Credit Cards (16.58%) are the champions in response rate followed by proportionally high retrieval rates of (48.41%) and (40.19%) respectively.

Unlike a common sense that would vote for higher response and retrieval rates for prospects aiming for debts consolidation loans, this is not the case. The well-established opinion that existing creditors would react more than anybody else to the call of reducing their monthly credit obligations is not only supported by the relative low percentage of response rate (14.9%), but also by the respective retrieval rate that cannot go north to (34.37%).

The overdraft remains the last, holding the lower percentage in response rates (11.86%), and the second lowest one after debts consolidation loans for retrieval rate (35.55%). Both rates confirm the theory stated at the conclusions of the "propensity to buy" part, suggesting that the overdraft is not a matter of choice for the recently employed prospects. As such, once having the full capacity to apply for it (being employed), not only they seem hesitant but they also confirm it by showing small willingness in delivering the requested data. It is fair to point out that the overdraft offer was presented to our segmented prospects once we have verified the existence of payroll. So, chronologically there is a gap which is created between the time that they were employed and the time that they received the overdraft offer. If, at first their unwillingness to apply for it is justified by the fact that somebody else, see the bank or the employer presented it indirectly to them at the time of the payroll account opening, this cannot be the case afterwards when they had either decided to cancel it in-between, or not apply at all from the very beginning.

The operational rates presented above, although representing a sufficient statistical sample that has been processed following both the credit pre-selection and "propensity to buy" approach, need to be judged critically after going into details about operational elements that led to such results.

Therefore, we should not underestimate that although the response rate is heavily influenced by the results of the previously conducted "propensity to buy" analysis, the same does not stand for the retrieval rate.

The latter depends heavily on the type of documentation requested and the back office support provided in order to collect the documentation reception. As the back office support was the same for all product categories, i.e. delivery and collection of necessary documents by courier company and the subsequent physical presence of the prospect required only at that last stage for ID verification, contact signing, we may conclude that the number and type of documents influenced significantly the respective quality rate.

Given that Credit Cards and Cash loans applicants share the same necessary credit assessment documents, it is highly unlikely that their willingness to submit them be differentiated based on additional elements, or exceptional cases like the request of an extra guarantor. Nevertheless, this does not apply to the case of debts consolidation loans applicants, who need to present to the new financial institution the confirmation of the existing credit exposure. Such a procedure requires the prospects to come in contact with their current bank which will undoubtedly seek using all anti-attrition tools to prevent the clients' defection. It is therefore, the anti-attrition effectiveness of each retail oriented bank that will define to a high extent the ability of clients to defect and submit the necessary documentation issued by the current creditor.

11. Anti-attrition Policy

Defining the process of creating an offer for future defectors (customers that expressed their definite will to early prepay entirely their credit card / personal - consumer loan outstanding balance) differs from the standard retail banking products offer creation as their main purpose is not to increase credit portfolio but to prevent downsizing as well as negative "mouth to mouth" publicity.

The most critical objectives of an anti-attrition policy are:

- To reduce loans prepayments
- To keep clients who show interest in premature loan repayment/credit card cancelation in the bank by offering them adequate solution within available possibilities or some additional benefits which are not directly connected with the stated reason, but which could keep clients with the bank.
- To analyse feedback information on accepted anti attrition offers as well as on the rejected ones and to identify groups of clients who prepaid their loan/cancelled credit card early because they could not been offered a solution that would keep them with the Bank.
- To predict future behaviour and treat future defectors according to the results of the analysis.

Although basic clients retention measures can always be applied (see introduction of fees for outstanding balance statement issuing, partial or total early prepayment, credit card cancellation) the results can never be satisfactory as competition will always consider them in the primary debts consolidation offer and try to cover the subject client transfer cost. Therefore, such measures cannot predict behaviour and will not be the subject of this paper.

11.1 Clients' lifetime value segmentation

Both personal/consumer loans and credit cards analysis to follow on anti-attrition policy is based on the life time value of the future defectors.

The definition of the life time value is "a calculation of how much profit a business could make from one customer over the whole period that they remain acustomer"[65]

One of the major uses of customer life time value theory (CLV) is customer segmentation, which starts with the understanding that not all customers are equally important. The CLV-based segmentation model allows the bank to predict the most profitable group of customers, understand those customers' common characteristics, and focus more on them rather than on less profitable customers.

CLV-based segmentation can be combined with a Share of Wallet (SOW) model to identify "high CLV but low SOW" customers with the assumption that the company's profit could be maximized by investing marketing resources in those customers.

Customer Lifetime Value metrics are used mainly in relationship-focused businesses, especially those with customer contracts. Examples include banking and insurance services, telecommunications and most of the business-to-business sector. However, the CLV principles may be extended to transactions-focused categories such as consumer packaged goods by incorporating stochastic purchase models of individual or aggregate behaviour.[66]

The use of such a model by a financial institution can deliver the following advantages:

- Consider customer relationship as an asset
- Define the optimal level to invest in marketing and sales channels easily
- Focus on the most promising customers
- Allocate resources wisely after having measured loyalty and maximum return

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[65] http://dictionary.cambridge.org/dictionary/business-english/customer-lifetime-value

[66] Onditi A, Implications of Customer Service on Customer Life Time Value in Tourism Sector, International Journal of Sciences: Basic and Applied Research, 2009 , p. 243

For the purpose of the below analysis, we have identified those key elements for both personal loans and credit cards, which would be attributed to the clients' life time value in the following manner:

11.2 Personal Loans

1. outstanding balance ,
2. interest due
3. Other products that client holds within the Bank (current account, additional CL, CC etc.)
4. Payments regularity

Using the above criteria, the future defectors have been categorised in four main Groups: A-D (Table 9)

Table 9 – Categorisation of personal loans defectors

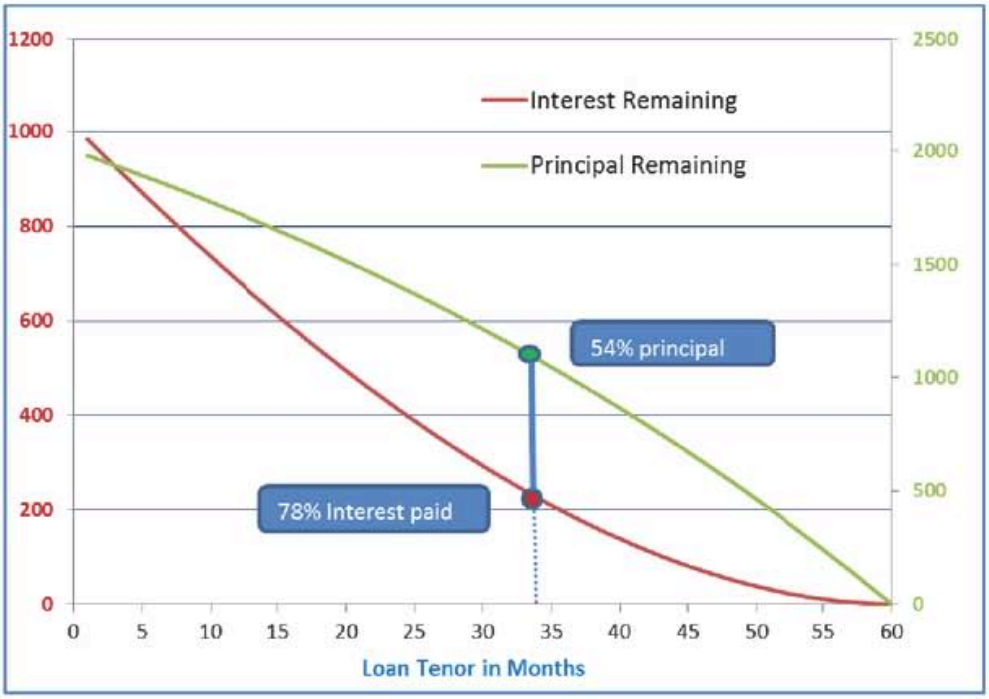
Repayment Status			Outstanding Balance					
			<=1000 €		1001-4000 €		> 4000 €	
		Outstanding Interest	<= 25%	> 25%	<= 25%	> 25%	<= 25%	> 25%
Current	Additional Product	None	C	C	C	B	B	A
		Payroll	C	B	B	B	A	A
		Other Credit	C	B	B	B	A	A
Due			D	D	D	D	D	D

The participation of the different groups, after applying the above mentioned criteria on the client portfolio, was as follows:

A - 5% , B - 30% , C - 28%, D - 37%.

The classification and the relevant creation of the counter offer was based also on the analysis that identified where the highest concentration of future defectors was at the moment of their defecting vs. their repayment schedule (Diagram 4).

Diagram 4 - Defection point personal loans



The results indicated that the higher concentration of defectors appears when the clients have already repaid 42 % of their principal due and 75% of the interest due. As the loans repayment formula for equal annuities applies in the same way for all interest rate levels, the main attribute to the above analysis is the nature of personal/consumers loans with an average tenure of 60 months. The analysis indicated that the higher number of future defectors will declare their willingness to "leave" the bank shortly after they have repaid more than half (34th month) of their scheduled instalments.

11.3 Credit Cards

The Credit cards anti- attrition policy followed the same customer life time value approach by segmenting future defectors into 4 value groups A-D, group D amassing all accounts in delinquency bucket 3 or more, while the first three created based initially on two factors:

- average % of balance from the approved limit (an indicator of the degree of risk and interest revenue a customer provides)
- average % of monthly usage from the approved limit (an indicator of the degree of cash flow card dependence and commissions & fees revenue a customer provides)

The two factors were calculated based on the last 6 months of an account history so as to take into account two important factors:

- seasonality factor for usage and
- minimum outstanding build-up period

Historical data proved that the variance of the portfolio's two dimensions changes with ±5% margin from month to month, therefore the following group distribution is set as rule on defining the boundaries of the first 3 groups:

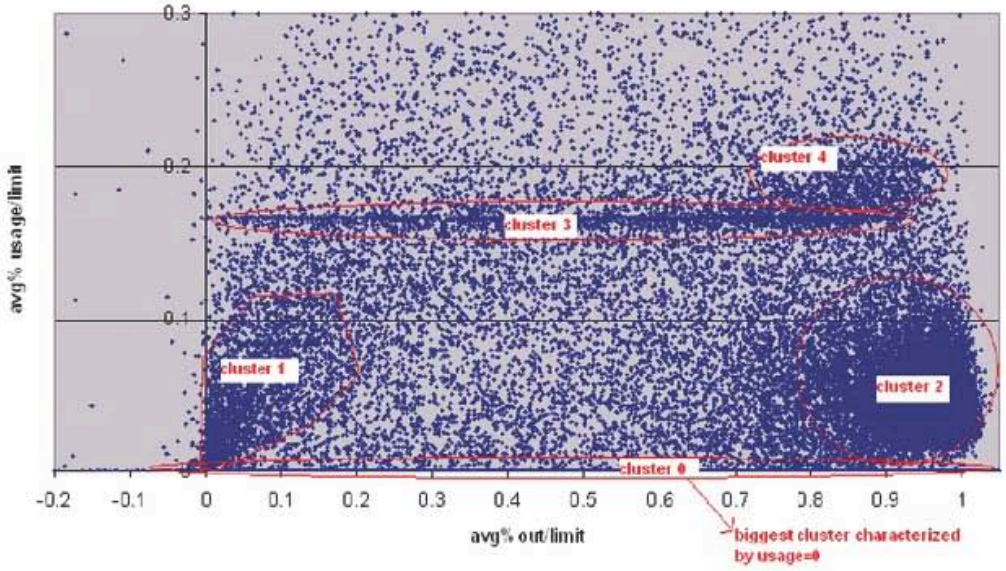
Group A not to exceed 10% of the active portfolio;

Group B to represent between 30-40% of the active portfolio;

Group C to represent between 40-50% of the active portfolio;

A cluster analysis was performed on the active portfolio to identify the general historic patterns of accounts regarding the two factors. Therefore, 5 clusters were identified that amass 75% of the active portfolio, cluster 0 and 1 being the most dense ones (Diagram 5).

Diagram 5 – Usage concentration of credit cards



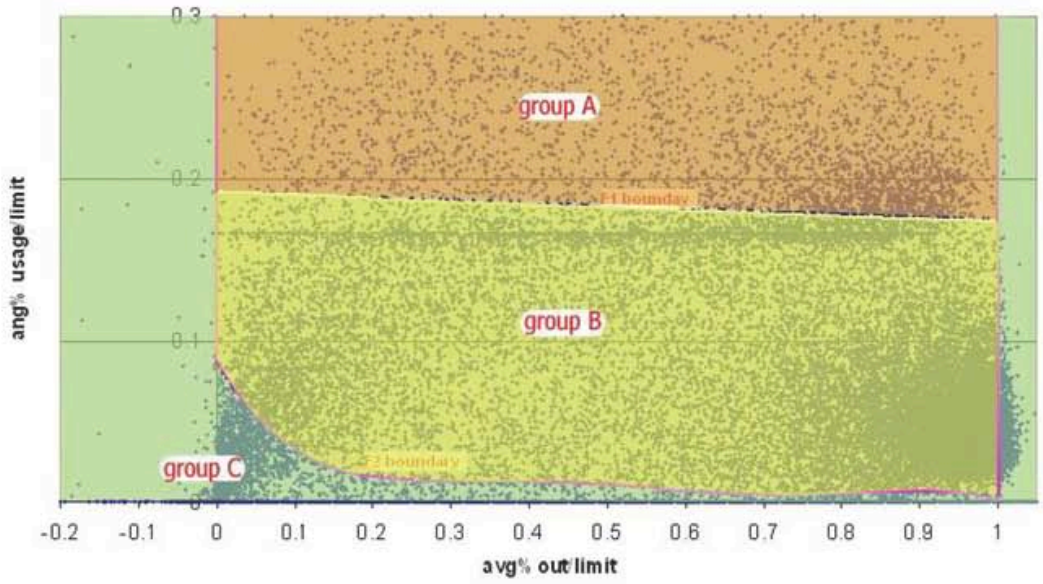
The following, group boundaries were set based on the cluster analysis of the initial data used:

Group A: avg%Usage/limit>=0 & avg%OB/limit<=1 & above boundary F1

Group B: is defined by eliminating groups A and C from the active portfolio

Group C: avg%Usage/limit<0 & avg%OB/limit>1 & below boundary F2

Diagram 6 – Credit cards holders groups' boundaries



Boundaries F1 and F2 are to be updated at the beginning of each month, to control the population size on each group so they comply with group distribution

The Participation of the different groups, after applying the above mentioned criteria on the client portfolio, was as follows:

A - 8% , B - 37% , C – 49%, D - 6%.

11.4 Clients Grouping – Reason of defection and cost of retention.

Having secured the same life time value approach for both personal/consumer loans and credit cards product categories, we needed to adopt the same approach for the behavioural modelling to predicts both what categories of clients are more likely to defect and how manageable each category of future defectors is.

The anti-attrition process was thus built up on a policy matrix (table 10) generated by the identified behavioural models; two phases were scheduled for its implementation, as follows:

Phase 1: policy matrix was organized based on three dimensions

1. Customer group
2. Future defection reasons
3. Counter Offers

Phase 2: based on a minimum of 500 observations taken during phase 1, an analysis will be carried on for better fit offers to customer expectations and to optimize the matrix performance; the 2nd phase also had the role to fine-tune the chosen dimensions.

Reasons for Potential Defection

- As reasons for potential defection were considered:
- Possibility of higher indebtedness in another bank (additional cash)
- Lower interest rate – lower instalment in another bank
- The Client's application for some additional product in Bank is rejected

- Client does not transfer the loan to another bank – prepaying from personal funds (savings, legacy etc.)
- General dissatisfaction with Bank's services
- Personal reasons
- Annual Subscription fees (Credit Cards)
- Monthly Fees

Table 10 – Anti-attrition policy follow up matrix

Client Category	Reason of Potential Defection	Counter offer Type	No of Offers proposed	No of Offers accepted	% vs. overall no of offers accepted	% vs. category's no of offers accepted
	A	a	X	1	%	%
		b		2	%	%
		c		3	%	%
		d		4	%	%
		e		5	%	%
	B	a	Y	6	%	%
		b		7	%	%
		c		8	%	%
		d		9	%	%
		e		10	%	%
			Sum X+Y	Sum(1:10)		

11.5 Retention Cost

As previously described, the customer life time theory describes a calculated approach of predicting the total value of an asset either for taking actions for new acquisition or retention. As such, we may consider as retention cost an upper limit of the amount the bank would be willing to pay to avoid losing the customer relationship.

In both Personal/ Consumer loans and Credit Cards product categories, the particular upper limits that the bank was willing to pay in order to avoid losing the customer were defined based on the customer's profile and relevant loss of income.

In the case of Personal Loans the following logic was followed (table 11)

Table 11 - Personal loans defectors retention

Early prepayment Statistics	AVG prepaid amount	2,000 €
	AVG interest rate minus MFR	13.1%
	AVG remaining tenor	32
	Total interest until maturity date	369 €

Anti-attrition policy expectations	AVG montly prepayment (acc)	840
	expected retention rate	5%
	expected monthly retention (acc)	42
	expected 4 months retention (acc,-trial period)	168

	Clients Categories -anticipated split	most expensive offer	Cost per loan	TTL cost
Cost simulation	Category A (8%)	lower IR	99 €	1,386 €
	Category B (47%)	free insurance	30 €	2,370 €
	Category C (45%)	pertners discount	0 €	0 €
	Category D	Restructuring	0 €	0 €

Final P&L Result	Total anticipated NII from retained clients	61,992 €
	Total anticipated anti-attrition cost	3,756 €
	Net anti-attirittion policy income	**58,236 €**

The assumptions were based on real personal loans data, setting as target the retention of 5% of the montly confirmed defectors for the subject product category. As a trigger event we considered the situation in which the client would initiate the process of requesting an outstanding balance report to be used for debts consolidation application to another bank.

The total anticipated net interest income to be generated from the potential retained defectors was compared with the highest counter offer cost per category. It resulted in a retained income of 58,236 Euros, had the 5% retention rate been achieved.

A similar approach (table 12) was also followed in the Credit Cards case, aiming to return the cost of the anti-attrition policy in 2-3 months (average net income per 3.12-5.33 € monthly) after the process succeeded in retaining the average future credit card holder defectors.

Table 12 - Credit cards defectors retention cost

		Clients Categories											
Anticipated Retention Rate	30%	A		10%	B		35%	C		50%	D		5%
Average Credit Card OB	334	Defectors no		657	Defectors no		2300	Defectors no		3285	Defectors no		329
Annually cancelled Cards	7300	Cost	offers accepted	TTL Cost	Cost	offers accepted	TTL Cost	Cost	offers accepted	TTL Cost	Cost	offers accepted	TTL Cost
Estimated Contact Rate	90%												
Counter Offers Split													
Interest Rate Decrease	15%	7.67%	30	757 €	5.36%	103	1,852 €	5.36%	148	2,646 €	5.36%	0	0 €
Annual Fee waive	9%	10.5 €	18	186 €	5.3 €	62	326 €	5.3 €	89	466 €	5.3 €	0	0 €
Credit Limit Decrease	1%	0 €	2	0 €	0 €	7	0 €	0 €	10	0 €	0 €	0	0 €
Cash Loan	3%	0 €	6	0 €	0 €	21	0 €	0 €	30	0 €	0 €	0	0 €
Medical check up voucher	5%	5.5 €	10	54 €	5.5 €	34	190 €	5.5 €	49	271 €	5.5 €	0	0 €
Purchase voucher	10%	20.5 €	20	404 €	20.5 €	69	1,414 €	20.5 €	99	2,020 €	20.5 €	0	0 €
Special Discount voucher	2%	0 €	4	0 €	0 €	14	0 €	0 €	20	0 €	0 €	0	0 €
Debts Consolidation loan	55%	0 €	108	0 €	0 €	379	0 €	0 €	542	0 €	0 €	99	0 €
			197	**1,402 €**		**690**	**3,782 €**		**986**	**5,403 €**		**99**	**0 €**

Total Retained Cards	1971
Total anti attrittion Cost	10,587 €
AVG cost per retained Card	5.37 €
AVG annual credit net incor	30.06 €
Break even no of months	2.1

The creation of the table 12 was based on different assumptions in order to quantify the potential cost / financial gain for the bank. All credit cards holders were split in different lifetime value categories A-D, as well predicted the percentage split of contacts that the bank would receive due to having clients declaring their final will to cancel their credit cards based on their client category.

The potential reasons for cancellation were quantified as well as the anticipated retention rate (credit cards holders retained / credit cards holders expressed their will to cancel their card) which, at the time of creating the policy, was 30%. For each counter offer, the respective unit cost was computed multiplied by the number of the anticipated accepted counter offers. Our exercise predicted that each retained credit card would break even the anti-attrition cost in the following 2.1 months.

11.6 Results of anti-attrition policy for Credit Cards.

Having already experienced the provision of counter offers to 8,364 potential credit card defectors, we may come to the findings depicted in table 13. The table results, for the purpose of being concise, include only the cases where at least one counter offer was accepted from the potential defectors.

A distinction between the presented columns "No. of offers proposed" and "No. of offers accepted" needs to be made. While the latter is strictly linked to the particular offer accepted by potential defectors, the former refers to the reason for defection which was indeed supported by more than one counter offer presented to the client to choose from. As such, the figures appearing in the column "No. of offers proposed" cannot be considered cumulatively.

The results are shorted in the following order:

1. Clients 'category A-D
2. Accepted counter offers' percentage over the total accepted counter offers of the same clients' category
3. Accepted counter offers' percentage over the total accepted counter offers of all clients categories

The results are very interesting, as only in one case (potential reason for defection: annual fees), the counter offer succeeded in retaining a defector by offering something directly linked to the reason for defection (counter offer: 50% decrease of annual fees).

Surprisingly, all potential defectors that declared "personal reasons" as their reason of defection are extremely difficult to be retained (8.7%). Having already been approached by other banks to consolidate their credit balances that include their credit cards, appears as a good enough reason to not be willing to share this info with their primary bank. The substantial number of cases (2,521) recorded with that reason leads to that conclusion if it is also compared with the effectiveness recorded by the same counter offers for other defecting reasons and especially the "refinancing loan with/without disbursement fees".

Also, as refinancing loans rank high in the acceptance rates, we need to point out that their acceptance, as a retaining tool is observed as more than one potential defection reasons. Among them are the credit card's high interest rate, the intention of the client to apply for another credit product or the intention to decrease his/her current credit exposure.

The well-established relation between clients and branch service level is not proved after the following anti-attrition policy results. It is possible that only 3.3% of potential defectors declared as "branch dissatisfaction" the reason for the potential cards cancellation. This, together with the low number of defection reasons attributed to the high interest rate, leads us to conclude that credit cards holders are not price or service sensitive.

Contradicting findings may also be made. We would point out those clients wishing to increase their "Open to Buy" that were retained after they were offered a new cash loan, as well as those clients wishing to decrease their credit cards annual fees that were retained by new refinancing loans. The same stands for clients wishing to buy another bank's credit product that were retained by a refinancing loan.

Given that the number of records does not represent a significant portion of the analysis, we can conclude that these cases do not create patterns and they are exception to the main findings described above.

Still, a significant observation should not go unnoticed. When noticing the ability to retain for the same defection reason among different clients' categories, we see that the different clients 'categories have also different retention ratios. A good example can be the "personal reasons" among the different product categories. Being indeed the most unpredicted reason for defection it shows the following retention rate among clients' categories: A 13.4%, B 12.8%, C 3.9%, D 5.8%

Although different types of counter offers are attributed to the overall retention rate of each client category, we can conclude that not only do different reasons of potential defection lead to different retention rates but also that different clients categories prove that clients with different usage / current or non repayment characteristics tend to behave differently for the same defection reason.

Credit Cards' Retention Rate per client Category	
A	29%
B	27%
C	13%
D	36%

Our analysis followed a twofold way in order to prepare the counter offers. Firstly, it made any effort to decrease the profitability of the bank at the expense of a retained customer. In this direction, whatever seemed to be the main defection reason, the counter offer was always based exactly on what it could instantly reduce the clients' cost and therefore the bank's profitability. Secondly, it was requested to think "out of the box" and prepare counter offers that are not necessarily directly linked to the financial need of the potential defectors. Therefore, proposals were prepared in such a way that they would try also to consider other confirmed aspects of the subject clients. The cards holders' sales profile was taken in consideration for that reason. Particularly, both their extended cross sell ratio and the findings over their "propensity to buy" for other consumer lending products were considered.

However, it was assumed that should such close relationship be already confirmed by studying their sales behaviour, it could only help to add to the counter offers elements of other consumer lending related products. The three examples of the contradicting cases described above, where the credit cards originated concern was solved by offering cash/refinancing loans proves the interrelation of credit cards holders' behaviour not only during the initial acquisition phase but also during the attrition one.

An additional confirmation of this aspect can also be derived from the cases of clients wishing to decrease their cards' interest rate, retained after having been offered a new cash loan. Although not pragmatic and contradicting any logic that seeks to find truth in decreasing monthly obligations by approving additional credit, this finding is true and has been observed in a considerable portion of category B clients.

Table 13 – Anti attrition policy results for credit cards holders

Client Category	Reason of Potential Defection	Counter Offer Type	No of Offers proposed	No of Offers accepted	% vs. overall no of offers accepted	% vs. category's no of offers accepted
A	ANNUAL FEE	TOTAL MEMBERSHIP DUES	49	19	2.11%	7.82%
A	INTEREST RATE	REFINANCING LOAN	49	18	0.98%	3.61%
A	OTHER BANK'S PRODUCT	REFINANCING LOAN	189	57	3.09%	11.42%
A	OPEN TO BUY INCREASE	REFINANCING LOAN	368	109	5.90%	21.84%
A	DECREASE OF DEBIT IN BANK	REFINANCING LOAN	36	7	0.38%	1.40%
A	USER HAS MORE CREDIT CARDS	REFINANCING LOAN	11	2	0.11%	0.40%
A	OTHER BANK'S PRODUCT	CONVENIENCE/RESTRUCTURING LOAN	189	33	1.79%	6.61%
A	OTHER BANK'S PRODUCT	REFINANCING LOAN GROUP SALES CONDITIONS	189	29	1.57%	5.81%
A	OTHER FEES	TOTAL MEMBERSHIP DUES	7	1	0.05%	0.20%
A	DECREASE OF DEBIT IN BANK	REFINANCING LOAN GROUP SALES CONDITIONS	36	5	0.27%	1.00%
A	PERSONAL REASONS	REFINANCING LOAN	424	47	2.55%	9.42%
A	USER HAS MORE CREDIT CARDS	REFINANCING LOAN GROUP SALES CONDITIONS	11	1	0.05%	0.20%
A	INTEREST RATE	REFINANCING LOAN GROUP SALES CONDITIONS	49	4	0.22%	0.80%
A	DISSATISFACTION WITH THE BANK	REFINANCING LOAN	68	5	0.27%	1.00%
A	OPEN TO BUY INCREASE	REFINANCING LOAN GROUP SALES CONDITIONS	368	25	1.35%	5.01%
A	INTEREST RATE	INTEREST RATE (OLD PORTFOLIO) P 1.31/ CA 1.31	49	3	0.16%	0.60%
A	INTEREST RATE	INTEREST RATE (OLD PORTFOLIO) P 1.31/ CA 1.70	49	3	0.16%	0.60%
A	OPEN TO BUY INCREASE	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	368	21	1.14%	4.21%
A	DISSATISFACTION WITH THE BANK	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	68	3	0.16%	0.60%
A	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN W/O COMMISSION	161	6	0.33%	1.20%
A	USER DOES NOT WANT TO USE CREDIT CARD	CASH LOAN W/O COMMISSION	54	2	0.11%	0.40%
A	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN GROUP SALES CONDITIONS	54	2	0.11%	0.40%
A	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN GROUP SALES CONDITIONS	211	7	0.38%	1.40%
A	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN	161	5	0.27%	1.00%
A	APPLYING FOR CREDIT CARD IN ANOTHER	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	211	6	0.33%	1.20%
A	DECREASE OF DEBIT IN BANK	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	36	1	0.05%	0.20%
A	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN GROUP SALES CONDITIONS	161	4	0.22%	0.80%
A	OTHER BANK'S PRODUCT	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	189	4	0.22%	0.80%
A	ANNUAL FEE	REFINANCING LOAN W/O COMMISSION	49	1	0.05%	0.20%
A	ANNUAL FEE	REFINANCING LOAN GROUP SALES CONDITIONS	49	1	0.05%	0.20%
A	INTEREST RATE	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	49	1	0.05%	0.20%
A	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	161	3	0.16%	0.60%
A	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN	54	1	0.05%	0.20%
A	PERSONAL REASONS	TOTAL MEMBERSHIP DUES	424	7	0.38%	1.40%
A	OPEN TO BUY INCREASE	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	368	6	0.33%	1.20%
A	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN W/O COMMISSION	211	3	0.16%	0.60%
A	OPEN TO BUY INCREASE	REFINANCING LOAN W/O COMMISSION	368	5	0.27%	1.00%
A	APPLYING FOR ANOTHER PRODUCT IN	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	161	2	0.11%	0.40%
A	OTHER BANK'S PRODUCT	CASH LOAN W/O COMMISSION	189	2	0.11%	0.40%
A	OTHER BANK'S PRODUCT	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	189	2	0.11%	0.40%
A	OTHER BANK'S PRODUCT	REFINANCING LOAN W/O COMMISSION	189	2	0.11%	0.40%
A	APPLYING FOR CREDIT CARD IN ANOTHER	TOTAL MEMBERSHIP DUES	211	2	0.11%	0.40%
A	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	211	2	0.11%	0.40%
A	OTHER BANK'S PRODUCT	OVERDRAFT GROUP SALES CONDITIONS	189	1	0.05%	0.20%
A	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (NEW PORTFOLIO) P 1.66/ CA 2.18	211	1	0.05%	0.20%
A	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (OLD PORTFOLIO) P 1.31/ CA 1.31	211	1	0.05%	0.20%
A	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (OLD PORTFOLIO) P 1.31/ CA 1.70	211	1	0.05%	0.20%
A	APPLYING FOR CREDIT CARD IN ANOTHER	TRAVEL INSURANCE	211	1	0.05%	0.20%
A	PERSONAL REASONS	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	424	2	0.11%	0.40%
A	OPEN TO BUY INCREASE	CASH LOAN W/O COMMISSION	368	1	0.05%	0.20%
A	OPEN TO BUY INCREASE	DECREASE OF LIMIT	368	1	0.05%	0.20%
A	PERSONAL REASONS	REFINANCING LOAN GROUP SALES CONDITIONS	424	1	0.05%	0.20%
B	ANNUAL FEE	50% DECREASE OF MEMBERSHIP FEE	143	109	5.90%	12.12%
B	INTEREST RATE	REFINANCING LOAN	119	34	1.84%	3.78%
B	OTHER BANK'S PRODUCT	REFINANCING LOAN	304	83	4.50%	9.23%
B	OTHER FEES	50% DECREASE OF MEMBERSHIP FEE	16	4	0.22%	0.44%
B	OPEN TO BUY INCREASE	REFINANCING LOAN	601	146	7.91%	16.24%
B	USER HAS MORE CREDIT CARDS	REFINANCING LOAN	23	4	0.22%	0.44%
B	OTHER BANK'S PRODUCT	REFINANCING LOAN GROUP SALES CONDITIONS	304	40	2.17%	4.45%
B	DECREASE OF DEBIT IN BANK	REFINANCING LOAN	71	8	0.43%	0.89%
B	INTEREST RATE	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	119	12	0.65%	1.33%
B	OTHER BANK'S PRODUCT	CONVENIENCE/RESTRUCTURING LOAN	304	29	1.57%	3.23%
B	USER HAS MORE CREDIT CARDS	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	23	2	0.11%	0.22%
B	USER HAS MORE CREDIT CARDS	REFINANCING LOAN GROUP SALES CONDITIONS	23	2	0.11%	0.22%
B	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN GROUP SALES CONDITIONS	367	30	1.63%	3.34%
B	PERSONAL REASONS	REFINANCING LOAN	896	68	3.68%	7.56%
B	OPEN TO BUY INCREASE	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	601	42	2.28%	4.67%
B	DISSATISFACTION WITH THE BANK	REFINANCING LOAN GROUP SALES CONDITIONS	129	9	0.49%	1.00%
B	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN GROUP SALES CONDITIONS	133	9	0.49%	1.00%
B	OPEN TO BUY INCREASE	REFINANCING LOAN GROUP SALES CONDITIONS	601	39	2.11%	4.34%
B	OTHER FEES	REFINANCING LOAN GROUP SALES CONDITIONS	16	1	0.05%	0.11%
B	LOSS OF EMPLOYMENT / USER'S DESEASE	50% DECREASE OF MEMBERSHIP FEE	18	1	0.05%	0.11%
B	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN GROUP SALES CONDITIONS	247	13	0.70%	1.45%
B	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN	133	6	0.33%	0.67%
B	USER DOES NOT WANT TO USE CREDIT CARD	DECREASE OF LIMIT	133	6	0.33%	0.67%
B	USER HAS MORE CREDIT CARDS	TRAVEL INSURANCE	23	1	0.05%	0.11%
B	DECREASE OF DEBIT IN BANK	CASH LOAN W/O COMMISSION	71	3	0.16%	0.33%
B	APPLYING FOR CREDIT CARD IN ANOTHER	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	367	15	0.81%	1.67%
B	INTEREST RATE	INTEREST RATE (NEW PORTFOLIO) P 1.70/ CA 1.70	119	4	0.22%	0.44%
B	INTEREST RATE	CASH LOAN W/O COMMISSION	119	4	0.22%	0.44%
B	INTEREST RATE	REFINANCING LOAN W/O COMMISSION	119	4	0.22%	0.44%
B	APPLYING FOR CREDIT CARD IN ANOTHER	50% DECREASE OF MEMBERSHIP FEE	367	11	0.60%	1.22%
B	DECREASE OF DEBIT IN BANK	REFINANCING LOAN W/O COMMISSION	71	2	0.11%	0.22%
B	DECREASE OF DEBIT IN BANK	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	71	2	0.11%	0.22%
B	ACCOUNT CLOSURE	REFINANCING LOAN	36	1	0.05%	0.11%
B	OTHER BANK'S PRODUCT	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	304	8	0.43%	0.89%
B	INTEREST RATE	INTEREST RATE (NEW PORTFOLIO) P 1.50/ CA 1.85	119	3	0.16%	0.33%

Client Category	Reason of Potential Defection	Counter Offer Type	No of Offers proposed	No of Offers accepted	% vs. overall no of offers accepted	% vs. category's no of offers accepted
B	OTHER BANK'S PRODUCT	REFINANCING LOAN W/O COMMISSION	304	7	0.38%	0.78%
B	APPLYING FOR ANOTHER PRODUCT IN	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	247	5	0.27%	0.56%
B	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	247	5	0.27%	0.56%
B	PERSONAL REASONS	REFINANCING LOAN GROUP SALES CONDITIONS	896	18	0.98%	2.00%
B	OPEN TO BUY INCREASE	CASH LOAN W/O COMMISSION	601	12	0.65%	1.33%
B	OTHER BANK'S PRODUCT	CASH LOAN W/O COMMISSION	304	6	0.33%	0.67%
B	OTHER BANK'S PRODUCT	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	304	6	0.33%	0.67%
B	OPEN TO BUY INCREASE	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	601	10	0.54%	1.11%
B	PERSONAL REASONS	50% DECREASE OF MEMBERSHIP FEE	896	14	0.76%	1.56%
B	DISSATISFACTION WITH THE BANK	REFINANCING LOAN	129	2	0.11%	0.22%
B	USER DOES NOT WANT TO USE CREDIT CARD	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	133	2	0.11%	0.22%
B	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	133	2	0.11%	0.22%
B	DECREASE OF DEBIT IN BANK	REFINANCING LOAN GROUP SALES CONDITIONS	71	1	0.05%	0.11%
B	DECREASE OF DEBIT IN BANK	50% DECREASE OF MEMBERSHIP FEE	71	1	0.05%	0.11%
B	ANNUAL FEE	REFINANCING LOAN GROUP SALES CONDITIONS	143	2	0.11%	0.22%
B	PERSONAL REASONS	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	896	12	0.65%	1.33%
B	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN	247	3	0.16%	0.33%
B	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (NEW PORTFOLIO) P 1.50/ CA 1.85	367	4	0.22%	0.44%
B	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (NEW PORTFOLIO) P 1.70/ CA 1.70	367	4	0.22%	0.44%
B	OPEN TO BUY INCREASE	REFINANCING LOAN W/O COMMISSION	601	6	0.33%	0.67%
B	APPLYING FOR CREDIT CARD IN ANOTHER	CASH LOAN W/O COMMISSION	367	3	0.16%	0.33%
B	APPLYING FOR CREDIT CARD IN ANOTHER	TRAVEL INSURANCE	367	3	0.16%	0.33%
B	DISSATISFACTION WITH THE BANK	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	129	1	0.05%	0.11%
B	USER DOES NOT WANT TO USE CREDIT CARD	CASH LOAN W/O COMMISSION	133	1	0.05%	0.11%
B	ANNUAL FEE	CASH LOAN W/O COMMISSION	143	1	0.05%	0.11%
B	ANNUAL FEE	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	143	1	0.05%	0.11%
B	APPLYING FOR CREDIT CARD IN ANOTHER	INTEREST RATE (NEW PORTFOLIO) P 1.93/ CA 2.18	367	2	0.11%	0.22%
B	HOME BRANCH CLOSURE	50% DECREASE OF MEMBERSHIP FEE	201	1	0.05%	0.11%
B	APPLYING FOR ANOTHER PRODUCT IN	CASH LOAN W/O COMMISSION	247	1	0.05%	0.11%
B	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN W/O COMMISSION	247	1	0.05%	0.11%
B	OPEN TO BUY INCREASE	DECREASE OF LIMIT	601	2	0.11%	0.22%
B	OTHER BANK'S PRODUCT	OVERDRAFT GROUP SALES CONDITIONS	304	1	0.05%	0.11%
B	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN W/O COMMISSION	367	1	0.05%	0.11%
B	PERSONAL REASONS	INTEREST RATE (NEW PORTFOLIO) P 1.70/ CA 1.70	896	2	0.11%	0.22%
B	PERSONAL REASONS	TRAVEL INSURANCE	896	1	0.05%	0.11%
C	ANNUAL FEE	50% DECREASE OF MEMBERSHIP FEE	432	208	11.27%	51.23%
C	OPEN TO BUY INCREASE	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	245	27	1.46%	6.65%
C	APPLYING FOR ANOTHER PRODUCT IN	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	58	5	0.27%	1.23%
C	OTHER BANK'S PRODUCT	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	165	12	0.65%	2.96%
C	APPLYING FOR CREDIT CARD IN ANOTHER	50% DECREASE OF MEMBERSHIP FEE	121	7	0.38%	1.72%
C	OTHER BANK'S PRODUCT	REFINANCING LOAN	165	9	0.49%	2.22%
C	OTHER FEES	DECREASE OF LIMIT	40	2	0.11%	0.49%
C	APPLYING FOR CREDIT CARD IN ANOTHER	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	121	6	0.33%	1.48%
C	OPEN TO BUY INCREASE	REFINANCING LOAN	245	12	0.65%	2.96%
C	USER HAS MORE CREDIT CARDS	50% DECREASE OF MEMBERSHIP FEE	49	2	0.11%	0.49%
C	OPEN TO BUY INCREASE	DECREASE OF LIMIT	245	9	0.49%	2.22%
C	OTHER BANK'S PRODUCT	CONVENIENCE/RESTRUCTURING LOAN	165	6	0.33%	1.48%
C	APPLYING FOR ANOTHER PRODUCT IN	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	58	2	0.11%	0.49%
C	INTEREST RATE	CASH LOAN W/O COMMISSION	64	2	0.11%	0.49%
C	INTEREST RATE	REFINANCING LOAN	64	2	0.11%	0.49%
C	USER DOES NOT WANT TO USE CREDIT CARD	50% DECREASE OF MEMBERSHIP FEE	389	12	0.65%	2.96%
C	OTHER FEES	CASH LOAN W/O COMMISSION	40	1	0.05%	0.25%
C	OTHER FEES	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	40	1	0.05%	0.25%
C	APPLYING FOR CREDIT CARD IN ANOTHER	CASH LOAN W/O COMMISSION	121	3	0.16%	0.74%
C	USER HAS MORE CREDIT CARDS	REFINANCING LOAN GROUP SALES CONDITIONS	49	1	0.05%	0.25%
C	DECREASE OF DEBIT IN BANK	CASH LOAN W/O COMMISSION	53	1	0.05%	0.25%
C	DECREASE OF DEBIT IN BANK	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	53	1	0.05%	0.25%
C	DECREASE OF DEBIT IN BANK	REFINANCING LOAN GROUP SALES CONDITIONS	53	1	0.05%	0.25%
C	OTHER BANK'S PRODUCT	REFINANCING LOAN GROUP SALES CONDITIONS	165	3	0.16%	0.74%
C	PERSONAL REASONS	50% DECREASE OF MEMBERSHIP FEE	1167	21	1.14%	5.17%
C	OPEN TO BUY INCREASE	CASH LOAN W/O COMMISSION	245	4	0.22%	0.99%
C	INTEREST RATE	INTEREST RATE (NEW PORTFOLIO) P 1.93/ CA 2.18	64	1	0.05%	0.25%
C	INTEREST RATE	INTEREST RATE (NEW PORTFOLIO) P 1.70/ CA 1.70	64	1	0.05%	0.25%
C	INTEREST RATE	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	64	1	0.05%	0.25%
C	INTEREST RATE	REFINANCING LOAN GROUP SALES CONDITIONS	64	1	0.05%	0.25%
C	ACCOUNT CLOSURE	50% DECREASE OF MEMBERSHIP FEE	73	1	0.05%	0.25%
C	DISSATISFACTION WITH THE BANK	REFINANCING LOAN	81	1	0.05%	0.25%
C	APPLYING FOR CREDIT CARD IN ANOTHER	OVERDRAFT GROUP SALES CONDITIONS	121	1	0.05%	0.25%
C	APPLYING FOR CREDIT CARD IN ANOTHER	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	121	1	0.05%	0.25%
C	PERSONAL REASONS	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	1167	8	0.43%	1.97%
C	PERSONAL REASONS	REFINANCING LOAN	1167	8	0.43%	1.97%
C	OTHER BANK'S PRODUCT	CASH LOAN W/O COMMISSION	165	1	0.05%	0.25%
C	OTHER BANK'S PRODUCT	REFINANCING LOAN W/O COMMISSION W ADDITIONAL CASH	165	1	0.05%	0.25%
C	USER DOES NOT WANT TO USE CREDIT CARD	CASH LOAN W/O COMMISSION	389	2	0.11%	0.49%
C	USER DOES NOT WANT TO USE CREDIT CARD	OVERDRAFT GROUP SALES CONDITIONS	389	2	0.11%	0.49%
C	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN GROUP SALES CONDITIONS	389	2	0.11%	0.49%
C	PERSONAL REASONS	REFINANCING LOAN GROUP SALES CONDITIONS	1167	5	0.27%	1.23%
C	HOME BRANCH CLOSURE	50% DECREASE OF MEMBERSHIP FEE	236	1	0.05%	0.25%
C	OPEN TO BUY INCREASE	REFINANCING LOAN W/O COMMISSION	245	1	0.05%	0.25%
C	OPEN TO BUY INCREASE	REFINANCING LOAN GROUP SALES CONDITIONS	245	1	0.05%	0.25%
C	USER DOES NOT WANT TO USE CREDIT CARD	CASH/CONSUMER LOAN GROUP SALES CONDITIONS	389	1	0.05%	0.25%
C	USER DOES NOT WANT TO USE CREDIT CARD	REFINANCING LOAN	389	1	0.05%	0.25%
C	ANNUAL FEE	REFINANCING LOAN W/O COMMISSION	432	1	0.05%	0.25%
C	PERSONAL REASONS	INTEREST RATE (NEW PORTFOLIO) P 1.70/ CA 1.70	1167	2	0.11%	0.49%
C	PERSONAL REASONS	INTEREST RATE (NEW PORTFOLIO) P 1.50/ CA 1.85	1167	1	0.05%	0.25%

11.7 Results of anti-attrition policy for Personal Loans

The results of the similar analysis (table 14) for the personal loans are characterised by the wish of potential defectors to increase their credit exposure. Therefore their main wish to apply for another credit product in another bank dominates client categories A, B and C. As a consequence, the counter offer of a debt consolidation loans appears as most attractive to them. Having been offered standard pricing or not does not seem to differentiate results as the paramount concern is not to decrease the current credit exposure.

As we may notice, the greatest majority of counter offers accepted is the ones with the possibility of extra cash along the new debts consolidation loans. As such, the benefit received from lowering the interest rate of the current credit exposure is bound to vanish due to the impact of the new credited amount and the respective extended new tenor.

Two less common reasons for defection are the existence of lower interest rates in other banks and personal reason. While the former is easily manageable with the offer of debts consolidation loan, the latter appears like in the credit cards case to be a pre-determined answer when the agreement with the competitive bank is already concluded. Different counter offers except the debts consolidation one, see re-indexing of the existing loan in euro with lower rate also fail to convince customers not to defect.

What also needs to be noted is that personal loans potential defectors prompted almost negatively to all counter offers that could differentiate themselves by offering other products options/benefits. In this regard, providing bancassurance free policies, credit cards with no annual fees, or even cash loans with preferential pricing does not support saving a potential defection. And it is exactly the difference between offering only a new personal loan and offering debts consolidation loan with extra cash that we need to focus on. While the offering of the latter is widely accepted without considering the extra cost that will derive from the new credit exposure, the former is rejected without great difficulty as it is considered as an additional burden to the existing monthly amounts due.

A unique case is also observed in clients of category D (delinquent clients). While wishing to increase their exposure to other banks along with personal reasons being the dominant reasons of

potential defection, the reprogramming counter offer becomes interesting to them due to different reasons. In the case of credit exposure increase, the reprogramming loan becomes an instant option while the subject clients have already been contacted by the collections/NPL in order to repay their amounts due. Therefore, customers are not strangers to the particular offer as now it sounds more than a confirmation to an offer that they have already heard.

In so far as those clients claining personal reasons, things can be much simpler. In order to be partially repaid, a credit requires all due amount to be settled. Therefore, a potential defector who claims personal reasons has already been informed about this by the competitive bank that he approached or was approached by. Inevitably, the solution of reprograming becomes the only one available, as no other bank would wish to refinance a delinquent client, while it would be difficult for him/her to accept in public that he has already communicated with another bank.

The potential defection reason "general dissatisfaction with the bank" also scores very low when it comes to the number of the provided cancellation requests. In all four clients categories it seems minor compared with both the incoming requests as well as with the retained clients. It becomes obvious that personal loans defectors do not rank the overall relation with the bank highly, prompting for more personal / product related reasons for exercising their right to choose among different banks.

Personal Loans Retention Rate per client Category	
A	62%
B	60%
C	39%
D	32%

Table 14 – Anti attrition policy results for personal loans

Client Category	Reason of Potential Defection	Counter Offer Type	No of Offers proposed	No of Offers accepted	% vs. overall no of offers accepted	% vs. category's no of offers accepted
A	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission	91	38	0.63%	12.93%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission	282	91	1.51%	30.95%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission w additional cash	282	87	1.44%	29.59%
A	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission w additional cash	17	4	0.07%	1.36%
A	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission w additional cash	91	21	0.35%	7.14%
A	PERSONAL REASONS	All In One w/o commission	46	10	0.17 %	3.40 %
A	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission	20	4	0.07%	1.36%
A	PERSONAL REASONS	All In One w/o commission w additional cash	46	8	0.13 %	2.72 %
A	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission w additional cash	20	3	0.05%	1.02%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Cash loan w/o commission	282	15	0.25%	5.10%
A	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	Cash loan w/o commission	20	1	0.02%	0.34%
A	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission	21	1	0.02%	0.34%
A	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission w additional cash	21	1	0.02%	0.34%
A	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Cash loan w/o commission	91	2	0.03%	0.68%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Reindexing w/o additional costs	282	4	0.07%	1.36%
A	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Free life insurance	91	1	0.02%	0.34%
A	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Reindexing w/o additional costs	91	1	0.02%	0.34%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Credit Card w/o annual fee	282	1	0.02%	0.34%
A	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Loans by GS conditions	282	1	0.02%	0.34%
B	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission	1090	446	7.38%	11.12%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission w additional cash	3895	1547	25.59%	38.56%
B	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission w additional cash	1090	380	6.29%	9.47%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission	3895	969	16.03%	24.15%
B	PERSONAL REASONS	All In One w/o commission	891	150	2.48%	3.74%
B	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission	193	30	0.50%	0.75%
B	PERSONAL REASONS	All In One w/o commission w additional cash	891	121	2.00%	3.02%
B	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission w additional cash	143	16	0.26%	0.40%
B	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission w additional cash	193	17	0.28%	0.42%
B	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission w additional cash	474	36	0.60%	0.90%
B	REPAYMENT FROM PERSONAL RESOURCES	Cash loan w/o commission	474	27	0.45%	0.67%
B	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission	143	7	0.12%	0.17%
B	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission	474	22	0.36%	0.55%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Cash loan w/o commission	3895	144	2.38%	3.59%
B	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Cash loan w/o commission	1090	37	0.61%	0.92%
B	PERSONAL REASONS	Cash loan w/o commission	891	15	0.25%	0.37%
B	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	Cash loan w/o commission	193	3	0.05%	0.07%
B	PERSONAL REASONS	Loan reprograming	891	6	0.10%	0.15%
B	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	Reindexing w/o additional costs	193	1	0.02%	0.02%
B	PERSONAL REASONS	Reindexing w/o additional costs	891	4	0.07%	0.10%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Reindexing w/o additional costs	3895	15	0.25%	0.37%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Loan reprograming	3895	9	0.15%	0.22%
B	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Reindexing w/o additional costs	1090	2	0.03%	0.05%
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Loans by GS conditions	3895	4	0.07%	0.10%
B	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Loan reprograming	1090	1	0.02%	0.02%

Client Category	Reason of Potential Defection	Counter Offer Type	No of Offers proposed	No of Offers accepted	% vs. overall no of offers accepted	% vs. category's no of offers accepted
B	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Free SMS service	3895	3	0.05%	0.07%
C	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission w additional cash	298	110	1.82%	13.35%
C	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission w additional cash	951	337	5.57%	40.90%
C	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission	298	80	1.32%	9.71%
C	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission w additional cash	32	8	0.13%	0.97%
C	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission	951	177	2.93%	21.48%
C	PERSONAL REASONS	All In One w/o commission	358	33	0.55%	4.00%
C	PERSONAL REASONS	All In One w/o commission w additional cash	358	29	0.48%	3.52%
C	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission	32	2	0.03%	0.24%
C	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission	44	2	0.03%	0.24%
C	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	All In One w/o commission w additional cash	44	2	0.03%	0.24%
C	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission w additional cash	441	19	0.31%	2.31%
C	REPAYMENT FROM PERSONAL RESOURCES	All In One w/o commission	441	14	0.23%	1.70%
C	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Reindexing w/o additional costs	951	6	0.10%	0.73%
C	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Reindexing w/o additional costs	298	1	0.02%	0.12%
C	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Loan reprograming	298	1	0.02%	0.12%
C	PERSONAL REASONS	Reindexing w/o additional costs	358	1	0.02%	0.12%
C	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Free SMS service	951	2	0.03%	0.24%
D	PERSONAL REASONS	Loan reprograming	773	440	7.28%	48.03%
D	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	Loan reprograming	132	50	0.83%	5.46%
D	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	Loan reprograming	306	73	1.21%	7.97%
D	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Loan reprograming	1309	301	4.98%	32.86%
D	GENERAL DISSATISFACTION OF ABS PRODUCTS AND SERVICES	Loan reprograming	70	8	0.13%	0.87%
D	REPAYMENT FROM PERSONAL RESOURCES	Loan reprograming	280	25	0.41%	2.73%
D	REJECTED APLICATION FOR ANOTHER PRODUCT IN ABS	All In One w/o commission w additional cash	132	1	0.02%	0.11%
D	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission	306	2	0.03%	0.22%
D	LOWER IR / LOWER INSTALLMENT IN OTHER BANK	All In One w/o commission w additional cash	306	2	0.03%	0.22%
D	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission w additional cash	1309	7	0.12%	0.76%
D	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	All In One w/o commission	1309	4	0.07%	0.44%
D	PERSONAL REASONS	All In One w/o commission	773	1	0.02%	0.11%
D	PERSONAL REASONS	Reindexing w/o additional costs	773	1	0.02%	0.11%
D	POSSIBILITY OF ADDITIONAL DEBIT IN OTHER BANK	Cash loan w/o commission	1309	1	0.02%	0.11%

11.8 Over/underrepresentation and anti-attrition policy

As already the case during the sales process, the over or under-representation theory can lead to useful conclusions also in the case of anti-attrition policies.

The continuous search of clients' anticipated answer to our counter offer is not only governed by the readings of the statistical sample which provide guidance to the most well accepted counter offer for the x or y defection reason. It may also not only be governed by the parameters set in order to define the lifetime value of each client category vs. the scheduled counter offer.

Following the application of the same approach during anti-attrition policy and more specifically observing the representation of each clients' category during the segmentation process (table 15), when the split of potential defectors and the relevant counter offers are created and subsequently when we have the recorded cases of clients having expressed their definite intention to defect by fully early repaying or cancelling their card, we notice:

Table 15- Over/underrepresentation and anti-attrition policy

	Consumer		CC	
Category	No. Of accounts - consumer	AA Consumer Total	No. Of accounts - CC	AA CC Total
A	2732	477	4466	1701
B	32886	6686	13966	3318
C	13967	2124	13463	3227
D	25650	2870	227	118
Total	75235	12157	32122	8364

	Consumer		CC	
Category	No. Of accounts - consumer	AA Consumer Total	No. Of accounts - CC	AA CC Total
A	3.63%	3.92%	13.90%	20.34%
B	43.71%	55.00%	43.48%	39.67%
C	18.56%	17.47%	41.91%	38.58%
D	34.09%	23.61%	0.71%	1.41%
Total	100.00%	100.00%	100.00%	100.00%

The above table depicts the representation differences between the different segmented groups of clients before and after the implementation of the anti-attrition policy. The upper part of the

table presents the absolute numbers representing each client category while the lower part of the table shows the relevant percentages. It is noticeable that when it comes to personal/consumer loans, categories A and B are overrepresented which means that they have a higher propensity to express their willingness to fully prepay early or cancel their credit card compared to the other two ones.

The finding should not be surprising as all banks seek via different sources the "healthy" clients of their competitors. Practices supported by the purchase of data from credit bureau or "instant credit worthiness check" at branch network level aim exactly at identifying the high net worth value clients and make subsequently attractive offers for refinancing.

The status for credit cards is almost the same, observing much higher representation in category A as the same tools can also be used by banks to attack the higher spenders. Unlike loans, we notice also a overrepresentation in category D (delinquent clients) which is also characterised by a relatively high percentage of "personal reasons" as the origin of defection.

An explanation for this can be the unwillingness of delinquent credit card holders to continue having in their wallet a revolving credit tool that already proved to take them far beyond the frontiers of their financial capabilities.

12. Final conclusions –findings

The structure of the present paper is divided into two big parts. The first part consists of major theoretical evidence and international theories on the subject, and the second creates a business case trying to identify the intentions and behaviour of the subject clients.

Linked to this, the major elements of the first part focused on clarifying the personal selling relationship which, in the case of financial services, is translated into a "face to face" process through phone or other technology based transactions. The transformation of banks into a core web based environment was not overlooked given that now the banks provide strong incentives to their clients to use internet based applications and services. The obvious aim of reducing costs was not seen in isolation, as the ability to communicate personalised messages is considered of equal or even much higher importance. Further on, we examined the reasons of not having a standardised approach to product offering, as well as why clients look elsewhere in order to satisfy their needs.

The international theories that followed were the ones of the variables of predicting behaviour which proved the significant role of emotions, of the customers' loyalty element, lifetime value and planned behaviour describing the motivational factors that influence decisions depending jointly on intentions and ability to take action.

Both sales and anti-attrition approaches presented and analysed in the last part of the paper depicted a snapshot of a certain portfolio of clients. For practical reasons, the order of checking the Credit worthiness / Propensity to buy/ Operational Execution in the two different processes was not the same although they were based on the same methodology.

While not focusing too much on the credit worthiness part as it is a subject for each financial institution's credit risk appetite, an overall analysis of the individuals' credit status (see: Entire County's analysis) was performed in order to identify if, strategically, intensifying our sales effort in the particular market was justifed.

Considerable attention was paid to "propensity to buy/defect" and operational execution parts: for the former the over/underrepresentation model was used while for the latter the penetration /

response / retrieval / approval/ disbursement- issuing rates model was used. The simple division of sub groups represented before and after a campaign ended, can be used not only based on simple logistical sheet computations, but also subject to further mathematical analysis given multiple regression analysis or churn models that can be developed in each bank. The steps-rates approach foucsed on highlighting the sales process of retail banking products in small pieces and identifying therefore the significance of their inter relation. It is not strange that the results of the process analysis could be hardly questioned if seen in total, but easily the opposite if seen only by the particular departments participating in each step. So, before any material conclusions it is important to understand that *a valuable business step was achieved when all involved parts realised that it took more than a single participation to understand and predict clients 'behaviour*. The Risk Dept. understood that not all pre-selected and credit worthy clients were willing to accept the product offer and Sales Dept. understood the opposite, i.e. that not all people willing to apply for a personal loans were very likely to have their credit application approved. The same stands for the quality of data provided as not all clients could be reached, or even to a great surprise, after clients accepted the product proposal, they would not deliver the full documentation needed. The sharing of a common value which in our case is the "success rate" provided common ground for evaluating marketing actions and benchmarking among different campaigns.

The overall sales and anti-attrition policy analyses also led us to very interesting findings. *The high promptness of overdraft and credit cards holders to almost any kind of similar category products,* i.e. cash-debts consolidation loans should not go unnoticed. The same stands for the least unexpected findings that also need to be used by the products-sales managers. Thus, *the willingness of existing debts consolidation loans holders to apply for higher cost cash loans*, and the similar behaviour of *existing credit card holders to apply for more costly products* like the overdraft or cash loans indicate a perpetual tendency to increase credit exposure; unlike all credit risk expectations claiming that clients will seek a cheaper way to serve their credit needs.

Following the same pattern, the anti-attrition results do not only prove different retention rates among clients of different lifetime values but alo confirm in practise what future defectors need to be offered as a retention tool. They also confirm the willingness of future defectors to "stay "with the current bank by *increasing their credit exposure and not by decreasing it*.

Other important findings that should not be overlooked are the *low importance of service satisfaction and the time sensitivity of the counter offer proposal*. As the trigger event for initiating the anti-attrition process was the request of the outstanding balance confirmation, the relative high number of defection reasons "personal reasons" can be associated with the offer already provided by competitive banks. Given that this type of defection reasons were in fact not manageable leads us to second thoughts about the importance of proactive actions in order to identify future defectors.

It is important to note that a great part of the analysis and the respective findings represent a model that is subject to on-going evaluation and re-adjustment. Thus, the definition of clients' value is subject to a different evaluation given different business strategies in different periods of time. The same stands for the cost of the counter offers and respectively how much each bank is willing to "sacrifice" for retaining existing clients. The existence of a certain number of clients to whom we always address our product offering will not limit us only to answering the "propensity to buy" question. The selection of the proper communication tool combining the best cost efficiency element with the most qualitative sales efficiency is an issue that goes beyond the prediction of behaviour for sales or anti-attrition reasons.

Having said this, few business managers may provide a proper answer to all these questions, provided he/she has not already elaborated on the exact figures proving the expected sales volumes when particular segments are at his/her disposal. The preparation of annual business budget contains as mandatory elements the "enablers" part, which requires managers to justify the anticipated sales-clients retention expectations provided with the existing tools and resources.

In this light, the methodologies presented become not only useful, but also necessary as we apply them in any creditors' portfolio; we come across very well argumented figures on what new sales expectations we should be having from addressing an available clients' universe. Equally important, this also applies to our clients' retention expectations and the day-to-day handling of potential defectors as the best statistically accepted counter offer, which needs to be the first one to be presented to the respective type future defector.

As methodologies rely on on-going data evaluation, the ability to confirm or not our findings depend on the willingness to re-asses periodically a huge amount of clients' data, excluding the product proposals or counter offers that did not deliver expectations and replacing them with ones that might also not work. Therefore, predicting retail banking customers' behaviour is a constant effort that requires decent access to data, analytical capability, and technological support and business persistence.

It is important to state that the initial hypothesis that customers will behave based on standard patterns following the pre-defined calculation methodology was proved correct, to a great extent. Although the particular behavioural patterns identified for the groups of clients examined (for both customers' new products selling and anti-attrition counter offers) surprised us, with customers intending either to increase their credit exposure or not link their initial request with the final accepted offer, the concentration and repetition of similar answers in multiple campaigns indicate that they are trustworthy and can be used for future purposes.

Finally, I am convinced that the methodology and findings of this paper made a particular contribution to economic science and banking industry. The particular steps taken to monitor and evaluate all stages of the sales process can be used not only for a retail banking environment but also for others characterised by a mediation of different processes between the client contact and the final product acquisition. Its arithmetic presentation as a multiplication of different fractions having always the same nominator/denominator before and after each step intended to prove not only the unquestionable relations between the different steps but also the need to evaluate results based on common grounds. It is bound that any manager who would follow such monitoring of his/her sales efficiency would come to very concrete conclusions that will redefine the perception of each tool, see marketing-product-operations-credit, as the focus will not only be on each of them but the fine tuning that will deliver the finest result.

The behavioural patterns identified should not only be seen as ways to predict a more accurate budget or increase clients' sales and retention. The obvious findings calling for clients intentions to increase their credit exposure or reply positively to x or y offers need to be incorporated into the credit tools of every bank. Therefore, the proven case of client intention can be a part of any credit scorecard, as it is already the case for income, property ownership, age, etc.

As the particular tools already exist, see multiple regression analysis for setting scorecard cut off scores, the introduction of a new field (intention) will definitely deliver great value in assessing future customer credit behaviour.

13. Glosary

Personal / unsecure Loans: "A loan that is issued and supported only by the borrower's creditworthiness, rather than by a type of collateral. It is not used for a special purpose".[67]

Credit Card: A credit card is known as a revolving line of credit. A lender, usually a bank, approves a client a credit limit, which is the maximum amount the bank will let him borrow.

Debts Consolidation Loans: "The combining of several unsecured debts into a single, new loan that is more favorable. Debt consolidation involves taking out a new loan to pay off a number of other debts. The new loan may result in a lower interest rate, lower monthly payment or both ".[68]

Overdraft: "An extension of credit from a lending institution when an account reaches zero. An overdraft allows the individual to continue withdrawing money even if the account has no funds in it".[69]

Credit Bureau: "An agency that researches and collects individual credit information and sells it for a fee to creditors so they can make a decision on granting loans. Typical clients include banks, mortgage lenders, credit card companies and other financing companies."[70]

Outstanding Balance: "The unpaid, interest-bearing balance of a loan or loan portfolio averaged over a period of time, usually one month. The average outstanding balance refers to any term, instalment, revolving or credit card debt on which interest is charged".[71]

Interest Due: The portion of a current credit payment that is comprised of interest on the remaining principal amount.

Principal Due: The portion of a current credit payment that is comprised of principal amount.

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[67] http://www.investopedia.com/terms/u/unsecuredloan.asp

[68] http://www.investopedia.com/terms/d/debtconsolidation.asp

[69] http://www.investopedia.com/terms/o/overdraft.asp

[70] http://www.investopedia.com/terms/c/creditbureau.asp

[71] http://www.investopedia.com/terms/a/average-outstanding-balance.asp

***DTI*:** "A personal finance measure that compares an individual's debt payment to his or her overall income. A debt-to-income ratio (DTI) is one way lenders (including mortgage lenders) measure an individual's ability to manage monthly payment and repay debts. DTI is calculated by dividing total recurring monthly debt by gross monthly income, and it is expressed as a percentage". [72]

Credit Scorecard: "Mathematical models which attempt to provide a quantitative estimate of the probability that a customer will display a defined behaviour (e.g. loan default, bankruptcy or a lower level of delinquency) with respect to their current or proposed credit position with a lender. Scorecards are built and optimized to evaluate the credit file of a homogeneous population (e.g. files with delinquencies, files that are very young, files that have very little information".[73]

Deliqunecy: "The failure to accomplish what is required by law or duty, such as the failure to make a required payment or to perform a certain action. A delinquent is an individual or corporation with a contractual obligation to make payments against a loan in a timely manner, such as through a mortgage, but payments are not made on time"[74]

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[72] http://www.investopedia.com/terms/d/dti.asp

[73] Murray Bailey "Practical Credit Scoring: Issues and Techniques" White Box Publishing (2006)

[74] http://www.investopedia.com/terms/d/delinquent.asp

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