eBook: Dynamic Decisioning

Dynamic Decisioning and Analytics in Financial Services

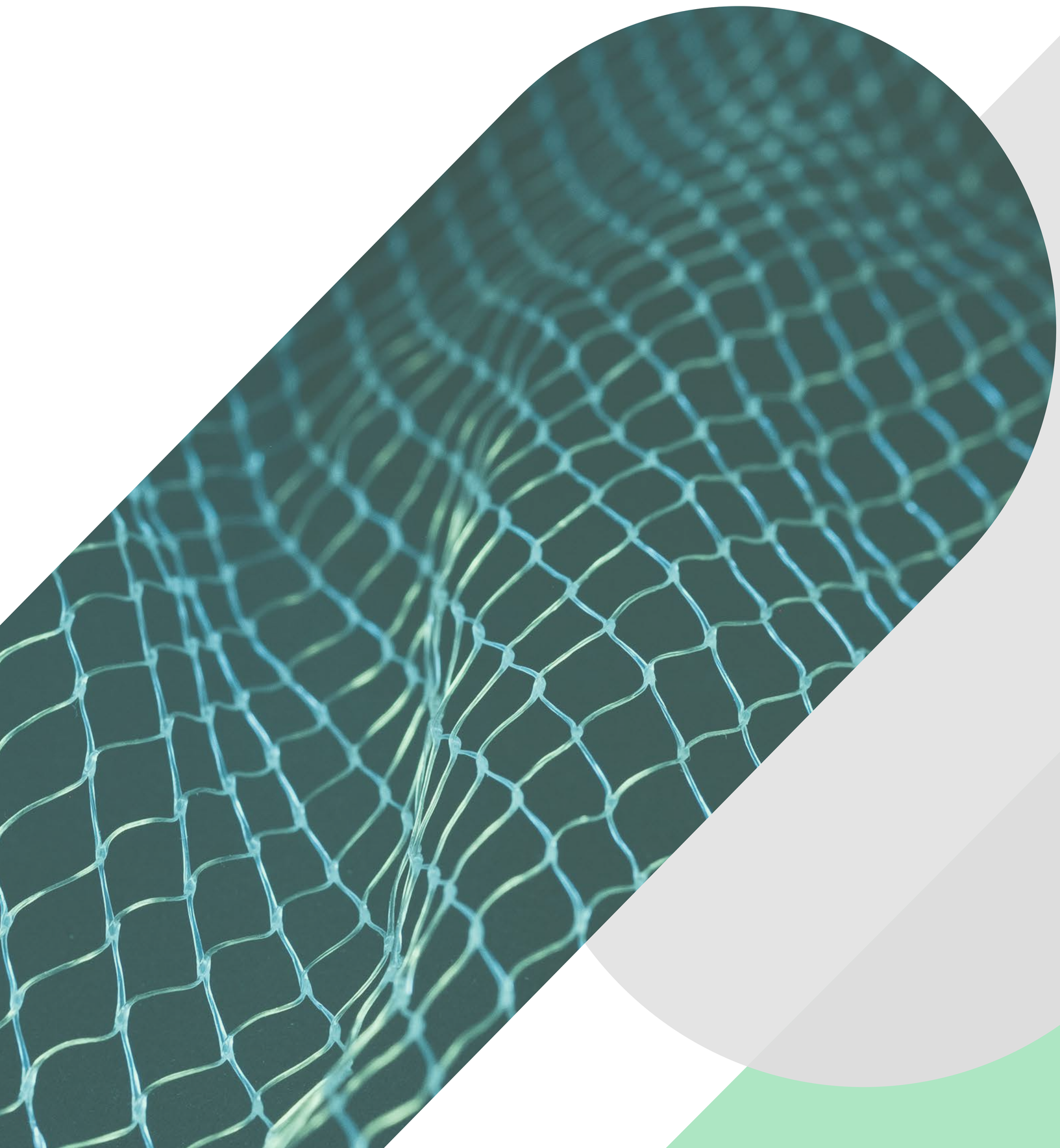

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Table of Contents

Executive Summary 02

The Evolution of Decisioning and Analytics in Financial Services 03

A Vision for the Future – Enabling What's Next 08

Dynamic Decisioning and Analytics 11

The Path Forward 14

Summary 16

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Executive Summary

In this eBook, we'll examine the many facets of dynamic decisioning and analytics in financial services:

Assessing where we are in the **evolution** of decisioning and analytics

Laying out a **vision** for where financial services firms need to move next

Describing the **capabilities stack** required to achieve optimum results in personalized customer experiences, strategic alignment, profitability, operational excellence and customer lifetime value

Forward-thinking organizations in financial services now deploy sophisticated tools such as artificial intelligence (AI) and machine learning (ML) to upgrade the customer experience throughout the customer journey. These firms have rightly **prioritized decisioning and analytics** to remake their business models.

Based on strategic imperatives, banks and insurers typically focus on lifecycle touchpoints like new customer acquisition, account remediation, and promoting add-on products and services.

Providing a more pleasing customer experience (CX) has improved the situation, but this is only a "baby step" toward meeting the expectations of consumers accustomed to a high level of full-lifecycle engagement.

In order to capture the full business value of their efforts, financial services firms need to take a more holistic view of transformation. They need to ensure that they are **covering the entire customer lifecycle**, and that the effort encompasses the entire organization. Only then can they become truly connected, agile, and resilient.

The Evolution of Decisioning and Analytics in Financial Services

The world of financial services has long depended on the abilities to reason, be analytical, and make sound decisions based on those analyses.

Decisioning models, both formal and informal, have been built and honed for centuries, primarily focused on:

Extending credit

Driving customer acquisition

Encouraging customer retention

Even the most conservative organizations in financial services have progressed well past the days of manual, labor-intensive decisioning, but many remain mired in a world driven by credit-based decisioning and statistical modeling.

This leaves **customers and prospects unsatisfied** when they compare their experiences in financial services to those in other business segments.

	Mid- to late-20th century	Late-20th century	Early 21st century	Today
Decisioning Focus Area(s)	Risk mitigation	Extension of credit, risk mitigation	Credit, customer acquisition, market share gains	All phases of the customer lifecycle
Primary Decisioning Methodology	Manual	Mostly manual, with some automated credit report inputs	Increasingly automated, but in silos across the organization	Automated, but still siloed
Typical Turnaround Time	Weeks to months	Days to weeks	Minutes to hours (days in extreme cases)	Usually hours to days, depending on lifecycle stage and task at hand
Customer Experience (CX) Implications	Not always a high priority	Grin and bear it, institutions control the processes and access to products & services	Improving slowly vs. other sectors (e.g., online retail)	High priority, but still falls short - customers often seek competitive alternatives (e.g., neobanks, fintechs)

Mired in Credit-Based Decisioning and Old-School Modeling

The standard method of pricing in financial services for more than 30 years has been based on fairly unsophisticated risk assessment methodologies.

Lending decisions in particular have been driven by two factors: credit scoring for the individual borrower, and statistical models based on the behavior of large numbers of consumers over time. The problems with these approaches have become more and more apparent over time. Credit scoring relies on parameters that exhibit notoriously long time lags – changes in income, repayment performance on other financial products, and changes in demographics, to name just a few. Credit scoring also falls far short of the personalization and timely offer-making customers have come to expect from other businesses, such as online retail.

Similarly, statistical modeling attempts to take behaviors exhibited by large swaths of the population and apply them to decisions about an individual customer. These **rules-based systems "run out of gas"** when the decision-making becomes complex and/or there are large volumes of data to be considered, in other words, in critical situations such as insurance rating and pricing, where it's difficult to define the rules in advance, when decision-making needs to change continuously, and when financial institutions may have millions of records to work with.

A Glimpse into the Customer Lifecycle

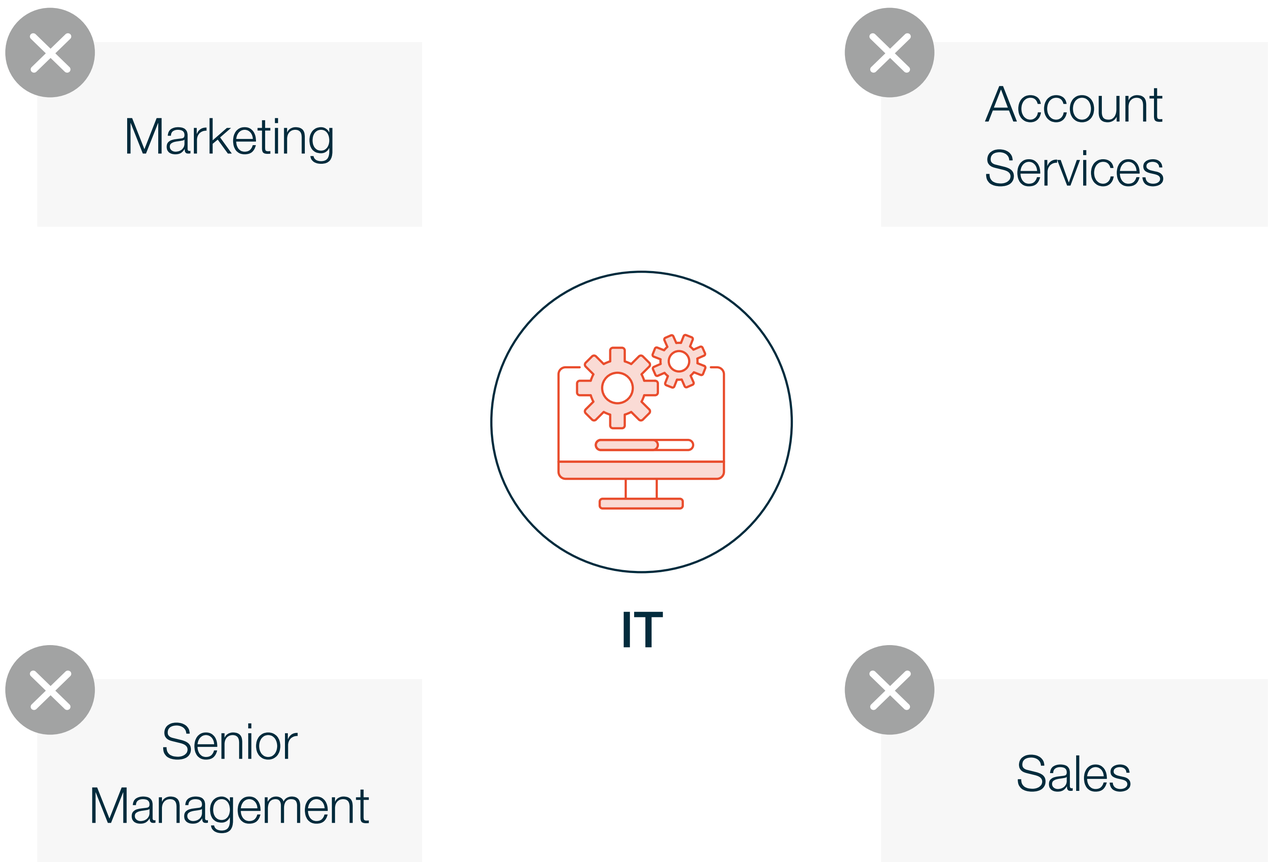
When financial services firms first move beyond the practices prevalent in the late 20th century, they typically choose a portion of the customer lifecycle that they deem to be of **highest strategic value.**

For example, an insurer focused on customer acquisition may choose to automate the rating and pricing functions first. Banks focused on cleaning up their loan portfolios may implement analytics in account monitoring and collections, attempting to predict upcoming defaults, then reach out to borrowers to initiate renegotiation discussions.

These moves represent positive first steps toward improving internal operations and customer engagement.

However, these efforts often become mired in difficulties with unruly, siloed data and disconnected operations. Different functions across the organization may be at odds about priorities, such as what portion of the customer lifecycle deserves the most attention first.

Marketing might want to focus on lead generation and new account acquisition. Account services may prioritize churn reduction or cross-selling opportunities. Senior management may be pushing for integration with external partners to broaden the service portfolio and gain greater share of wallet.



Caught in the middle, shared resources such as IT and Finance may be called upon to deal with these conflicting imperatives, attempting to sort through the myriad requests and to play "referee" between the organizational factions.

IT, for example, is hungry to bring modern technologies such as artificial intelligence (AI) and machine learning (ML) to the task, but are faced with the dilemma of exactly what that task is. They're in the uncomfortable position of attempting to cut across those data and organizational silos, while dealing with scarce resources and time.

By focusing efforts on discrete events or phases in the customer lifecycle, organizations are not capturing the full potential of customer engagement, and are not providing the **holistic, connected customer experience consumers expect.** In fact, by slicing up the customer lifecycle, they often perpetuate the disconnected customer experience they set out to address.

A Vision for the Future – Enabling What's Next

In order to **capture the full advantages of modern technology,** financial services firms need to think more holistically. They have a unique opportunity to jump from where they are today to a new future, to "leapfrog" their competition, and to gain significant advantage quickly.

To do this, they must think and implement holistically in two important dimensions:

1 Across the Entire Customer Journey

In other business domains, customers and prospects have become accustomed to attentiveness from the first exploratory contact to the deepest engagement, and even to the potential end of the relationship with their vendors. Online retail in particular is often held up as the benchmark, with remarks such as "just make it like Amazon" indicators of how high the expectations bar has been set.

McKinsey makes the point that the entire customer journey must be considered in order to achieve the overarching goals all organizations strive for:

- ✓ Stronger customer acquisition
- ✓ Higher customer lifetime value (LTV)
- ✓ Lower operating costs
- ✓ Manageable risk profiles

McKinsey makes a compelling case for the focus being on the full customer lifecycle experience, rather than on points in time or phases in the customer journey. They put it pictorially this way:

Banking customer lifecycle →

Customer Acquisition	Credit Decisioning	Monitoring & Collections	Deepening Relationships	Smart Servicing
Hyperpersonalized offers Customer retargeting Propensity-to-buy scoring Channel mapping	Credit qualification Limit assessment Fraud prevention	Early-warning signals Probability of default/self-cure VAR[1]-based customer segmentation Agent-customer mapping	Intelligent offers (eg, next product to buy) Churn reduction Channel propensity Fatigue rule engine	Servicing personas Dynamic customer routing (channel, agent) Real-time recommendation engine AI-enabled agent review and training
Monthly customer-acquisition run rate	**Credit-approval turnaround time, % of applications approved**	**Average days past due, nonperforming assets**	**Deposit/AUM[2] attrition rate, products 6 per customer**	**Net promoter score, cost of servicing**

Key metrics

[1] VAR is value at risk

[2] AUM is assets under management

https://www.mckinsey.com/industries/financial-services/our-insights/ai-powered-decision-making-for-the-bank-of-the-future

Across the Entire Organization

To bring excellence to the customer journey, organizations must also break down organizational barriers and traditional ownership models.

While marketing has traditionally “owned” customer acquisition, underwriting has “owned” pricing and new customer approval, and account services has “owned” long-term customer satisfaction, success is now based on the entire organization owning the full customer journey.

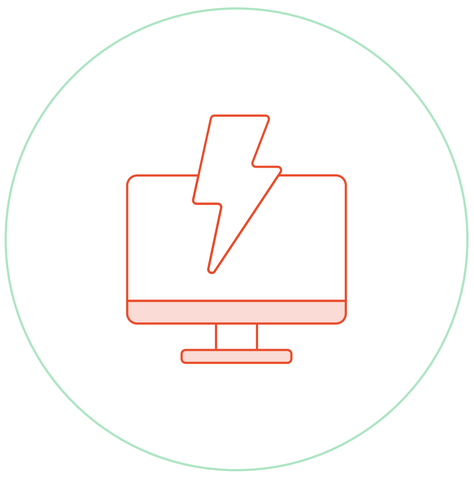
No silos, no fiefdoms, no handoffs from one function to another that create discontinuities in the customer experience.

Further, all levels of the organization across all operating units must have access to the most sophisticated tools and applications possible, in order to execute on the mandate of delivering the best possible customer engagement.

Dynamic Decisioning and Analytics

As discussed previously, analysis and decision-making are age-old human skills. In today's world, **forward-thinking banks and insurers** have access to dynamic decisioning, analysis tools, and technology of the highest order.

Here are ways to bring these capabilities into to the organization:

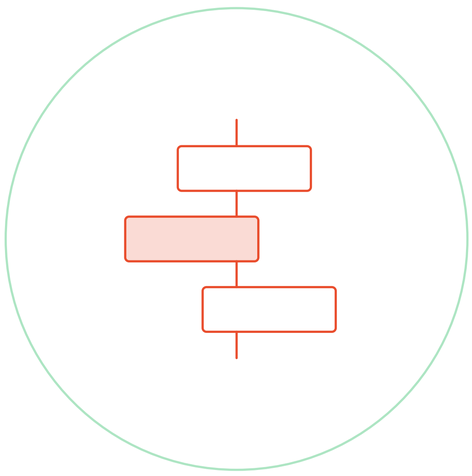


Integrating New and Existing Datasets in Real Time

Insufficient data, bad data, missing data, outdated data, duplicate data.

Every organization wrestles with these issues, which stand in the way of sound analysis and decision-making, including the use of artificial intelligence (AI) and machine learning (ML), cornerstones of modern business.

Internal data is often scattered in silos across the organization, its ownership is uncertain, much of the data is unstructured. When not properly managed, curated or kept current, siloed data prevents the development of a full "360-degree view" of current customers and their needs.



Driving Smarter Decisions and Achieving Organizational Alignment

When dynamic decisioning and analytics are infused into every application across the organization, and made available to all levels of the firm, **smarter operational decisions become automatic.** The technology empowers organizations to identify, implement, and monitor strategic initiatives more confidently, while reducing the manual effort needed to manage daily performance.

Analytics and reporting also ensure that all levels and all functions across the organization are fully informed and invested in decision-making and outcomes.

Achieving Strategic Outcomes Cost-Effectively

When approached systematically, and employing the right technology, dynamic decisioning and analytics enable clear-eyed visibility and insight into all operations, allowing for the monitoring and tracking of strategic initiatives with **minimal manual effort.** Successes are apparent immediately, as are needs for course corrections and modifications to plans.

Product-level implementations can be monitored automatically in real time, and adjustments made on a timely basis, to keep pace with changes in the industry, market conditions, and competition. In turn, keeping manual effort to a minimum helps rein in costs and frees up financial resources for strategic initiatives.

The Path Forward

In order to achieve these objectives, there are four key components that make up a **full suite of dynamic decisioning and analytics functionality**, and all are available now from Earnix.

Pricing	Personalization	Usage-based insurance (UBI) and Telematics	Consumer Engagement
At the heart of the Earnix solution is the engine that drives dynamic pricing. The AI-driven enterprise rating and pricing engine **operationalizes advanced analytics,** and builds in robust control and governance standards across the organization. This enables insurers and banks to instantly deploy pricing to online channels, serve up millions of quotes and offers per day, and optimize those digital channels in real time.	Nothing drives customer engagement more than personalized offers and attention. With Earnix, banks and insurers can reach **a new level of personalized consumer experiences,** better serve diverse audiences, implement new market/ product strategies in real time, and build a more relevant, value-adding organization.	Usage-based insurance and telematics are revolutionizing business and treating customers to highly-personalized experiences. Earnix provides a leading-edge telematics app that collects robust data around braking, acceleration, distraction, speed, cornering, and other real-world driving events, then uses ML to generate predictive scoring algorithms. This empowers insurers to **assess the precise risk** presented by individual consumers, maximize profitability, and align product offers with lifestyle and behavioral factors, going beyond simple financial or demographic data.	Timing is critical to capturing consumer attention and incremental business throughout the customer lifecycle. The Earnix solution offers an **easily-deployed, cross-channel consumer engagement application** that automatically delivers prices, personalizations, and communications to consumers at the optimal time and through the optimal communications channel(s). Proactively engaging with consumers to offer contextually-relevant and timely offers allows financial services leaders to create real-time, value-adding engagements that increase lifetime value.

Summary

Through intelligent operations, Earnix can help you apply dynamic decisioning and analytics to make the transition faster and the competitive advantages lasting.

At Earnix, we create agile, composable, and intelligent solutions that empower the world to reimagine their financial services operations. We help leaders in centuries-old industries **evolve their best practices and incrementally innovate** all aspects of their operations to better serve modern consumers.

By creating more agile and resilient infrastructure, our customers confidently take on large-scale transformation, while instantly unlocking more value from every single customer engagement.

We **connect existing systems, new technologies, and diverse teams at all levels** across organizations to not only improve what exists, but to accelerate "what's next."

When it's time to reimagine your organization, it's time to capitalize on the operational improvements that only Earnix can deliver.

Gain the competitive edge with dynamic decisioning today

Learn More at Earnix.com →

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Earnix is the premier provider of composable intelligent solutions designed to transform how global insurers and banks are run. Earnix solutions unlock value across all facets of the business, connecting with customers, and breaking away from the status quo imposed by legacy single systems.

Earnix's solutions offer systemized, enterprise-wide value with ultra-fast ROI. It has been innovating for Insurers and Banks since 2001 with offices in the Americas, Europe, Asia Pacific, and Israel. For more information visit: earnix.com.