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# Innovation Insights

## **Banking Hyper personalization in the era of the all-Data**

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Differentiation

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Insights

**A** thorough and nuanced understanding of each customer's needs, preferences, and behaviours. On many levels, this would seem like the basic understanding any business operating in any sector would need to have on their customers. Yet, Banks have until recently relucted to engage in such a paradigm. Hyper generalization and high-level customer approach has been the rule so far, due to legacy systems and internal resources unfit to approach each customer through its unique perspective.

As discussed in our previous paper, *Leveraging Data to Acquire New Customers: Uncovering Opportunities for Banks*, financial institutions are now approaching customer acquisition with an individualistic strategy. But from acquisition to retention, the challenges remain the same, and developing a more engaging and satisfactory customer experience is of the essence. By leveraging data analytics and artificial intelligence, banks can now transform their product and service offering and engage in a real-time, ultra-precise customer experience. This is called Hyper personalization, and it represents both the present and the future of banking. The new sector competition, made up of fintech and neo-banks, have well understood it, and are disrupting the industry in such a way that traditional bank have little to no choice but to get into the data race to avoid observing a rising churn rate.

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## **What are the factors driving hyper personalization?**

The last decade has seen the rise of several technologies and business standards that redefine client approach and have placed hyper personalization strategies at the forefront of banks' challenges, among which:

- **Need for Instantaneity:** The main behavioural driver behind hyper personalization. In the era of Netflix, Spotify, and Amazon, customers have gotten used to getting offered what they expect without having to search for it, in real-time. Such expectations have now expanded to daily habits, most importantly payments. Immediate

Credit scoring and approval, tailored payment plans in real-time, adapted to the client profile and habits are now a must to retain customers and enhance their payment and banking experience.

- **The algorithming of client approach:** Consumers have gotten used to accessing services and products tailored to their habits and expectations. From music apps to online shopping, algorithms and machine learning have pushed through the necessity for a client to start his search from scratch. He is in fact most of the time offered with ready-to-use products and services which fit his usual needs. More importantly, he knows that any new dimension in behaviour will be factored by the business he is using and therefore enters a semi-collaborative relationship with the said business. Banks now understand the necessity to offer not just such a product or service, but an actual relationship where the customer effort is minimized.
- **Open Banking:** If customers are ready to share with banks their data and allow them the control of it, which most of them are if it enables a better service, Open Banking can indeed be considered the best facilitator of Hyper Personalization. According to a survey by EY, challenger banks, which business

model relies mostly on Open Banking and the ultra-availability of customer data, face the highest level of customer loyalty at 87%.

- **The era of APIs:** APIs enable hyper-personalization in banking by integrating diverse data sources for a comprehensive understanding of customer behaviors and preferences. They facilitate real-time insights and predictive analysis, allowing banks to offer relevant, timely services. Through collaboration with fintech and third-party applications, APIs enhance customer experiences with tailored financial advice and personalized user interfaces. Additionally, they help in automating personalized marketing and improving customer support with AI-driven tools. In essence, APIs are pivotal in allowing banks to rapidly adapt, providing customized banking experiences to meet individual customer needs.
- **Rapid technological inclusion:** Customer connectedness is one of the first steps to achieve hyper personalization. Creating a mutual access between the bank and the client, in a user friendly and customer adapted approach, helps sustains the personalized services through the power of digitalization. Seamless and quick operations and inquiries can help create intimacy in the bank-customer

relationship and therefore increase retention rates.

- **Financial Inclusion:** The elements mentioned so far have had the benefit of overcoming two main challenges. The first one is allowing banking services access to a category of customer that otherwise were until now unable to access a financial service, especially in developing countries and remote areas. The availability of smartphones at a lower price and mobile internet for instance has created a new category of demand that banks did not have access to beforehand as their physical presence was usually centred on major urban areas. The second is the possibility for banks to offer tailored products to customers experiencing drastic life changes that have a direct impact on their finances, playing therefore the direct role of financial advisor and partner.
- **Brand distinctiveness:** As mentioned earlier, banks are now facing a new type of competition, generally focused on one specific product or service, linking the excellency of their customer experience, which is easier to achieve given the focused nature of their offering, with their brand image and success. The need for banks to find their place in this evolving ecosystem can be enabled by hyper personalizing their services, as this would provide a customer satisfaction level unmet so

far, transforming clients into promoters. The road to Hyper personalization product offering is paved through three main milestones banks need to fulfill and invest on:

## Redefining the KYC approach

- **Know Your Customer:** Building on Fraud Prevention and Anti-Money Laundering logic, banks need to re-think the way they gather both basic and complex information about their clients. To develop a deep understanding of customers, they are to leverage several data sources that will help them (re)create a customer imprint proper to each. Among these data sources:
  - Basic account opening information (address, city, country, level of income, age, etc)
  - Account activity data: financial behavior, spending)
  - Contact information
  - Marketing preferences
  - Third party data sources
  - Demographics data sources
  - Web-browsing data sources

Utilizing these sources, and coupling them with insights from social media, past interactions, and most importantly transaction and payments data, will allow banks to delve into customer insights on three levels.

- **Three levels of insights:**

**Descriptive Insights:** The “what”, “where” and “when”: To define a consumer’s behavior in time and space is of paramount importance. Each person has its own timeline, especially from a banking standpoint. Engaging a client right when he is about to buy a home with a mortgage offering or a car loan for a young professional about to purchase his first vehicle can help the bank establish itself as a financial partner rather than a business selling a product. Developing the right ML models that will help define the timing patterns is thus critical to be able to keep a step ahead of the competition in this matter.

**Diagnostic insights:** The “how” and “why”. This is where analytics come into play. The goal being providing a deeper insight into the origins and the elements that led to the observation. Through empowered ML and AI models, banks can now precisely define root causation of customer behavior, reduce guesswork, and increase quality of decision-making.

**Predictive insights:** Building on the two previous aspects, this is where hyper personalization materializes. Through predictive insight generation, banks anticipate in time, space, and personal logic a client’s financial evolution but also health. The challenge here lies in differentiating insights for each customer or customer group (which should be limited in number) to help anticipate needs and preferences.

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## How can hyper personalization apply?

Customers, across all businesses and sector, have come to take for granted personalization of the services offered, and banks should act no differently. It is not just a matter of digitalizing banking, but accurately recommend the right products and offerings in a timely manner. Implementing data science, artificial intelligence solutions and the right analytics approach is thus necessary. Below are some of the main examples in the banking industry that show entities getting on the data wagon, and some even driving it.

- Digital First approach:** Personalization is about speed, spontaneity, and accessibility. Hence, Banks have entered a technology race in which they must be able to provide anytime/anywhere banking experiences on whichever platform or channel, the same way they would if clients were to visit a branch. To support this, banks must therefore rely on a high-level of process automation and take advantage of application programming interfaces (APIs) for cross-institutional services. Partnering with the right providers and institutions for Core Banking, Card Management and Credit Scoring platforms serve thus as a sine qua none condition. Furthermore, banks must ensure a synergy between product related platforms it uses and data unification and management ones: customer data platform, enterprise resource platform, and customer relationship management platform all need to be orchestrated simultaneously.
- Custom-made product recommendation:** One major bank in northern Europe adopted that approach and applied it across all teams. They have moved away from a one-size-fits-all approach and focused instead on each customer's behavioural data and preferences. To do so, the bank makes sure to bring all data points together from all the different client touchpoints. For instance, the bank makes sure to define the right marketing channel, aside from the traditional TV, email and radio is one of those, to maximize its ROI.
- Customer needs prediction:** By engaging personalized data and insight, banks have the possibility to be several steps ahead, and open opportunities for cross and up-selling. To do so, the objective is not just about being able to predict the need, but to ensure to have the right data strategy and focus, tailored to the targeted segment. As such, financial data leading personalization providers are now working directly with banks across geographies to help customers empower their financial journey through proactive approaches.
- Providing financial managements insights and advisory services:** Building customer loyalty is a matter of providing personalized financial management solutions. One data oriented fintech has for instance developed innovative digital banking solution for a major European bank, focused on helping clients improve their financial situation. This resulted in an 80% rise of customers highly pleased with the digital bank, and 66% of them highlighting that they have a better financial health.
- Open Banking loans:** Perhaps one of the most interesting use cases of hyper personalization. Open Banking allows

lenders to access a client's personal data, with his approval, through multiple other institutions, resulting in a 360° assessment of the borrower's profile, a faster approval process, improved accuracy, and reduced fraud risk. These products use advanced machine learning algorithms to assess creditworthiness and define personalized loan terms.

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## **What key results does hyper personalization bring?**

By implementing such data and analytics strategies, at a time when clients won't settle for general solutions, and by trusting non-traditional financial institutions and actors into their ecosystems, banks have a real opportunity to get ahead of the competition through the following results of hyper personalization:

- Real-time customer approach and solution offering based on a proper value allocation and segmentation.
- Improve service and product transparency via insights.
- Reduce churn rate and enhance client attraction.
- Engage existing customers into behaviors that will create profitable relationships. This will materialize via improved customer account balances and deposits levels.
- Increased efficiency in transaction handling and reduction of overall costs thanks to dematerialization of some processes.
- Help identify non-profitable relationships and allow the bank to do away with products and or partners that do not fit the productivity of the strategy.
- Improve overall revenue and brand image.

## Conclusion

As much as hyper personalization might seem like a ship about to leave the port and therefore, calling on banks to board on immediately, it is necessary for them to realize that personalization is not a product, but a full-on transformational strategy. Delving in such an offering calls on the development of an internal roadmap, affecting multiple elements across the board, from loans to customer experiences via marketing and digital banking. Not all personalization applications might be suited for all industry players, and it is therefore

necessary to assess what type of application the available data, the level of investment and capabilities in analytics and data science, but also the profile of customers, allow the banks to develop.

### **We eagerly await your insights!**

Please don't hesitate to contact us at [businessinnovation@hps-worldwide.com](mailto:businessinnovation@hps-worldwide.com)

We're all ears and ready to engage in meaningful discussions.



The logo features the letters 'HPS' in a bold, black, sans-serif font. To the right of the letters is a stylized slash mark. The slash is composed of two parallel diagonal lines: the upper line is light blue and the lower line is light green. The background of the entire page is white, with a large, faint, light-colored graphic element consisting of several overlapping diagonal bars in shades of blue, green, and purple. The page is framed by a thin border: purple at the top, blue on the left and right, and green at the bottom.

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