Singidunum University

Department for Postgraduate Studies

"Predicting Retail Banking Consumer Behaviour Through Statistics"

Submitted

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Belgrade, 2015

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Abstract: The purpose of every economic activity in general and the financial one in particular is the satisfaction of clients' necessities. The specificity of clients' consumption behavior in the financial–banking realm, impose the understanding of the necessities and their occasional process to the banking system. The client's behavior analysis, as an obvious barometer of a bank evolution is the most important component of a marketing research. The relationship between the client, as a natural person or a juridical person and bank, is very important and requires to be supported in order to assure clients' loyalty and to develop long term relations with them. Therefore, banks should give advice to their clients concerning their finance organization or concerning the preparation of their business plans, fact which is able to reinforce the professional image of the bank. This aspect must be completed by the presence of some communication specialists who will assure the information transfer, creating a feedback between the employees and the clients.

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 is a financial institution licensed as a receiver of deposits. There are two types of banks: commercial/retail banks and investment banks. In most countries, banks are regulated by the national government or central bank.

Commercial banks are mainly concerned with managing withdrawals and deposits as well as supplying short-term loans to individuals and small businesses. Consumers primarily use these banks for basic checking and savings accounts, certificates of deposit and sometimes for home mortgages. Investment banks focus on providing services such as underwriting and corporate reorganization to institutional clients.

While many banks have both a brick-and-mortar and online presence, some banks have only an online presence. Online-only banks often offer consumers higher interest rates and lower fees. Convenience, interest rates and fees are the driving factors in consumers' decisions of which bank to do business with. As an alternative to banks, consumers can opt to use a credit union.

The customer is an individual or business that purchases the goods or services produced by a business. The customer is the end goal of businesses, since it is the customer who pays for supply and creates demand. Businesses will often compete through advertisements or sales in order to attract a larger customer base.

Businesses often follow the adage that "the customer is always right" because happy customers will continue to buy goods and services. Companies' closely-monitor the relationships that they have with their customers, eliciting feedback to see if new products should be created or adjustments to be made to what is currently offered.

Sales and trading is one of the key functions of an investment bank. The term refers to the various activities relating to the buying and selling of securities or other financial instruments. Typically an investment bank will perform these tasks on behalf of itself and its clients.

In market making, traders will buy and sell financial products primarily to facilitate the investment and trading activities of its clients with the goal of making an incremental amount of money on each trade.

The sales component refers to the investment bank's sales force, whose primary job is to call on institutional and high-net-worth investors to suggest trading ideas and take orders. Sales desks then communicate their clients' orders to the appropriate trading desks, which can price and execute trades, or structure new products that fit a specific need.

The sales and trading function will also typically employ financial analysts that provide trading strategy advice to external as well as internal clients to support sales and trading. This strategy often affects the way the firm will operate in the market, the direction it would like to take in terms of its proprietary and flow positions, the suggestions sales persons give to clients, as well as the way structures create new products.

The relationship between banker and customer is mainly that of a debtor and creditor. However, they also share other relationships.

Some of the important relationships are:

- Debtor and Creditor;
- Pledger and Pledgee;
- Licensor and Licensee;
- Bailor and Bailee;
- Hypothecator and Hypothecatee;
- Trustee and Beneficiary;
- Agent and Principal;
- Advisor and Client;
- Other

a) Rel□tionship of Debtor □nd Creditor

When a customer opens an account with a bank and if the account has a credit balance, then the relationship is that of debtor (banker/bank) and creditor (customer).

In case of savings / fixed deposit / current account (with credit balance), the banker is the debtor, and the customer is the creditor. This is because the banker owes money to the customer. The customer has the right to demand back his money whenever he wants it from the banker, and the banker must repay the balance to the customer.

In case of loan / advance credit, the banker is the creditor, and the customer is the debtor because the customer owes money to the banker. The banker can demand the repayment of loan / advance on the due date, and the customer has to repay the debt.

A customer remains a creditor until there is credit balance in his account with the banker. A customer (creditor) does not get any change over the assets of the banker (debtor). The customer's status is that of an unsecured creditor of the banker.

The debtor-creditor relationship of banker and customer differs from other commercial debts in the following ways:

1.The creditor (customer) must demand payment. On his own, the debtor (banker) will not repay the debt. However, in case of fixed deposits, the bank must inform a customer about maturity.

2.The creditor must demand the payment at the right time and place. The depositor or creditor must demand the payment at the branch of the bank, where he has opened the account. However, today, some banks allow payment at all their branches and ATM centers. The depositor must demand the payment at the right time (during the working hours) and on the date of maturity in the case of fixed deposits. Today, banks also allow pre-mature withdrawals.

The creditor must make the demand for payment in a proper manner. The demand must be in form of cheques; withdrawal slips, or pay order. Now-a-days, banks allow e-banking, ATM, mobile-banking, etc.

b) Rel□tionship of Pledger □nd Pledgee

The relationship between customer and baker can be that of Pledger and Pledgee. This happens when the customer pledges (promises) certain assets or security with the bank in order to get a loan. In this case, the customer becomes the Pledger, and the bank becomes the Pledgee. Under this agreement, the assets or security will remain with the bank until a customer repays the loan.

c) Rel□tionship of Licensor □nd Licensee

The relationship between banker and customer can be that of a Licensor and Licensee. This happens when the banker gives a sale deposit locker to the customer. So, the banker will become the Licensor, and the customer will become the Licensee.

d) Rel□tionship of B□ilor □nd B□ilee

The relationship between banker and customer can be that of Bailor and Bailee.

1.Bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned when the purpose is ended.

2. Bailor is the party that delivers property to another.
3. Bailee is the party to whom the property is delivered.

So, when a customer gives a sealed box to the bank for safe keeping, the customer became the bailor, and the bank the bailee.

e) Rel□tionship of Hypothec□tor □nd Hypothec□tee

The relationship between customer and banker can be that of Hypothecator and Hypothecatee. This happens when the customer hypothecates (pledges) certain movable or non-movable property or assets with the banker in order to get a loan. In this case, the customer became the Hypothecator, and the banker became the Hypothecatee.

f) Rel□tionship of Trustee □nd Benefici□ry

A trustee holds property for the beneficiary, and the profit earned from this property belongs to the beneficiary. If the customer deposits securities or valuable with the banker for safe custody, banker becomes a trustee of his customer. The customer is the beneficiary so the ownership remains with the customer.

g) Rel□tionship of Agent □nd Princip□l

The banker acts as an agent of the customer (principal) by proving the following agency services:

- Buying and selling securities on his behalf;
- Collection of cheques, dividends, bills or promissory notes on his behalf,

Acting as a trustee, attorney, executor, correspondent or representative of a customer.Banker as an agent performs many other functions such as payment of insurance premium, electricity and gas bill, handling tax problems, etc.

h) Rel□tionship of Advisor □nd Client

When a customer invests in securities, the banker acts as an advisor. The advice can be given officially or unofficially. While giving advice the banker has to take maximum care and caution. Here, the banker is an Advisor, and the customer is a Client.

i) Other rel□tionship

Other miscellaneous banker-customer relationships are as follows:

- Obligation to honor cheques: As long as there is sufficient balance in the account of the customer, the banker must honor all his cheques. The cheques must be complete and in proper order. They must be presented within six months from the date of issue. However, the banker can refuse to honor the cheques only in certain cases.
- Secrecy of customer’s account: When a customer opens an account in a bank, the banker must not give information about the customer’s account to others.
- Banker’s right to claim incidental charges: A banker has a right to change a commission, interest or other charges for the various services given by him to the customer. For example an overdraft facility.
- Law of limitation on bank deposits: Under the law of limitation, generally, a customer gives up the right to recover the amount due at a banker if he has not operated his account since last 10 years.

3. The Promotion Mix of B□nking Services

Promotion is according to Brassington & Pettitt (2000) the direct way in which an organization communicates the product or service to its target audiences. Within the financial services industry, promotion is used in many different ways[2]. Brassington & Pettitt (2000) has categorized the promotional tools into five main element:

- Advertising,
- Sales Promotion,
- Public Relations,
- Personal Selling, and
- Direct Marketing
- Advertising

Brassington & Pettitt (2000) define advertising as any paid form of non-personal communication directed towards target audiences and transmitted through various mass media in order to promote and present a product, service or idea. The key difference between advertising and the other promotional tools is that it is impersonal and communicates with large numbers of people through paid media channels.

Meidan (1996) states that a financial services organization can use its advertising for either its short-term or its long-term objectives. A bank attempting to generate a long-term build-up of its name would use institutional advertising, while a bank interested in promoting its brand name and its different services would use a brand advertising policy.

Meidan (1996) further states that the institutional advertising consists of promotion of the firm's image as a whole, and promotion of the products offered, with extra emphasis on the specific firm's name organization. The organization seeks through its marketing communications, to build awareness and to impress customers looking for the best range of financial services. Due to the former impression of banks as impersonal institutions with no

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

interest in their customers as people, and of financial services as abstract and quite similar, the institutional advertising has become more and more important. Brand advertising follows closely in the footsteps of institutional advertising. Its purpose is to create awareness of the bank's name and to advertise the different services it is offering. Since financial firms are serving a mass of people, the problems of brand advertising are to know who to advertise to, and how to advertise. While institutional advertising is directed towards the whole population, the brand advertising of particular products has to be much more selective, since it has to show that the consumer will benefit from the service. Furthermore, all the individual campaigns of brand advertising have to be compatible in tone and presentation, and match the image the bank has created through its institutional advertising.

Mortimer (2001) states that an important part of advertising is to make the service tangible in the mind of the consumer in order to reduce perceived risk and provide a clear idea of what the service comprises. Furthermore she considers it important to advertise consistently, with a clear brand image, in order to achieve differentiation and encourage word-of-mouth communication.

According to Meidan (1996), there are two types of advertising channels appropriate for financial advertising. That is "above-the-line" and "under-the-line" advertising. Above-the-line advertising contains different channels of communication, such as television, radio, posters, magazines and newspapers. Under-the-line advertising constitutes a huge part of a financial organization's advertising activities. It is the invisible advertising of the bank's services, including leaflets, pamphlets, explanatory guides and manuals that can be used to support selling of a specific service. It is hard to draw a definite distinction between under-the-line advertising and sales promotion. Under-the-line advertising is very easy and cheap to produce, but it must be used discreetly. Furthermore, this kind of advertising does not attract new customers, and it is depending on personal selling for its effectiveness.

S�les Promotion

According to Brassington & Pettitt (2000) sales promotion is different tactical marketing techniques with mostly short-term incentives, which are designed to add value to the product or service, in order to achieve specific sales or marketing objectives. Furthermore, Meidan (1996)

states that it has two distinctive qualities. Firstly, it provides a “bargain chance”, since many sales promotion tools have an attention-gaining quality that communicates an offer that will not be available again to purchase something special. The disadvantage, however, is that although they appeal to a wide range of buyers, many customers tend to be less brand loyal in the long run. Secondly, if sales promotions are used too frequently and carelessly, it could lead to insecure customers, wondering whether the service is reliable or reasonably priced.

Meidan (1996) indicates that due to the conflicting ideas concerning the benefits of sales promotions, a financial service organization must base its decisions upon relevance and usefulness of sales promotion, as well as cost-effectiveness. Peatti & Peatti (1994) claim that normally, coupons, special offers and other forms of price manipulation are the dominant forms of sales promotion. However, price-based promotions are difficult and probably dangerous to use for financial service markets. This due to the fact that the price setting of a financial service is already a difficult process, and that consumers often see lower prices as a result of lower quality. However, Meidan (1996) states that sales promotion within financial services appears to be most effectively used in combination with advertising. The primary objectives with sales promotion within financial services are to attract new customers; to increase the level of deposit accounts, thereby increasing the banks share of savings; to increase market share in selected market segments; and to lower the cost of acquiring new customers by seeking to avoid direct price competition with other financial institutions.

Public Rel□tions

According to Brassington & Pettitt (2000) the essence of public relations (PR) is to look after the nature and quality of the relationship between the organization and its different publics, and to create a mutual understanding. PR covers a range of activities, for example the creation and maintenance of corporate identity and image; charitable involvement, such as sponsorship, and community initiatives; media relation for the spreading of good news, as well as for crisis management, such as damage limitation. Moreover, an organization can attend trade exhibitions to create stronger relationships with key suppliers and customers as well as enhancing the organization’s presence and reputation within the market.

Meidan, (1996) states that another part of public relations is the publicity gained through magazines. Financial services obtain considerable publicity in so called quality press, such as different financial journals. In popular newspapers the publicity is, in contrary to the quality press, often negative from the financial firm's point of view. Meidan (1996) further claims that the importance of public relations is being increasingly attended and financial services often have public affairs officers, working actively to generate publicity.

Personal Selling

Brassington & Pettitt (2000) define personal selling to be a two- way communication tool between a representative of an organization and an individual or group, with the intention to inform, persuade or remind them, or sometimes serve them to take appropriate actions. Furthermore, personal selling is a crucial element in ensuring customers' post-purchase satisfaction, and in building profitable long-term buyer-seller relationships built on trust and understanding.

Verhallen et al. (1997) state that the increased competition within the fast changing environment of financial services has lead banks to develop and maintain comprehensive relationships with their customers. Furthermore, Julian & Ramaseshan (1994) state that the long-term person-to-person relationship is an important factor for retail banks to achieve a competitive advantage. Meidan (1996) points out that once a customer has chosen its bank, he is unlikely to switch to another. Thus, personal selling is probably the most important element in the communication process within the financial services industry. Lee (2002) states that personal selling can be performed either face-to-face or through technological aids such as the Internet.

According to Julian & Ramaseshan (1994) the relationship between the salesperson and the customer is perceived as being of great importance for the marketing of a bank. Hence, the sales force within the financial services industry needs not only to be trained in the art of selling, but also to be aware of all the services available and be able to clearly explain what each service offers. Since customers' needs and motivation are likely to be complex, and their ability to assess alternative courses of action without professional assistance is likely to be

limited, it is of great significance for the sales force to know their customers, as well as their products. Verhallen et al. (1997) indicate that banks should see the selling as a problem-solving process in which the sales force engages and co- operates towards the customer, trying to find a solution to the customer's problem, rather than only persuading him to purchase the products or services. In addition, Meidan (1996) claims that it is up to the sales force to enhance the bank's reputation by looking after its customers.

Direct M□rketing

According to Brassington & Pettitt (2000), direct marketing is an interactive system of marketing, using one or more advertising media to achieve measurable response anywhere, forming a basis for creating and further developing an on-going direct relationship between an organization and its customers. To be able to create and sustain quality relationships with sometimes hundreds or even thousands of individual customers, an organization needs to have as much information as possible about each one, and needs to be able to access, manipulate and analyze that information[3]. Thus, the database is crucial to the process of building the relationship.

Lee (2002) states that the fast advances in technology over the past 30 years have reshaped how consumers today interact with their financial institutions. The financial sector has extended its "face-to-face" selling towards direct marketing of products and services in the form of phone, mail, or computer transactions.

Mols (2000) claims that as computer literacy and the availability of computers increase and the costs decrease, Internet banking consumers are increasing considerably. Through the Internet banks, the customers can identify what interests them. Furthermore, the Internet technology also makes it possible to follow individual customer usage. With the information gathered in an integrated database it is possible to read the customers' needs and satisfy them. This knowledge can be used for different kinds of direct marketing.

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

3.1 Extern□l F□ctors Influencing the Choice of Promotion Str□tegy

According to Cavusgil et al. (1993) there are three categories of influences on the choice of adaptation of the promotion strategy; the product and industry, the company and the export market of choice.

The Product □nd Industry

According to Cavusgil et al. (1993) the product and industry influences include four factors; type of product, product uniqueness, technology orientation of the industry and cultural specificity of the product.

Type of Product

Cavusgil et al. (1993) define the type of product as the product's classification. Nicolaud (1989) & Meidan (1996) state that services are intangible products which often cannot be separated from the person performing or selling them. Czinkota & Ronkainen, (2004) further state that the value of services is harder to measure, its performances are harder to observe and to possess, compared to manufactured goods. According to Bossone (2000), banks are intermediaries between savers and users of capital. They supply transaction services and provide liquidity to both consumer and industrial markets. Meidan (1996) states that banks need to offer a wide range of products and services to meet a variety of financial and related needs from different customers in different areas. The general types of products offered by a bank can be divided into five categories:

- Cash accessibility (for instance telephone banking)
- Asset security (for instance safety of money deposits)
- Money transfer (for instance payment service)
- Deferred payments (for instance loans)
- Financial advice (for instance advice on investments, taxation or wills)

Meidan (1996) further states that a service such as bank credit cannot appeal to a buyer's sense of touch, smell, taste, sight or hearing, which as a result makes it very important for the

marketer to explain what the service actually comprises. However, the general promotion strategy tends to focus on the brand rather than the product.

Product Uniqueness

Cavusgil et al. (1993) define the product uniqueness as the degree to which the product is made or designed to satisfy unique needs of the customers. According to Julian & Ramaseshan (1994) there is constant pressure within the competitive environment of banking to innovate and develop new ways to improve customer service. Long-term person-to-person relationships between a financial institution, its distributors and its customers, are seen as an important factor for a bank to achieve a competitive advantage. However, Meidan (1996) claims that since banks offer similar products, it is very hard to stand out. According to Marquardt (1994) a bank's services are seldom unique and they are easy for competitors to copy. Additionally, Meidan (1996) states that banking services tend to meet general needs rather than specific, and since there are no particular benefits distinguishing different banks from each other, promotion of financial services is essential. A bank must strive to attain a good overall image and to attract customers with the right message.

Technology Orient□tion of the Industry

According to Cavusgil et al. (1993) the technology orientation refers to the technology intensity of the industry. Joseph et al. (1999) claim that technology has increasingly been applied in the delivery of services since the mid-eighties. The adoption of technology into service industries has become important, and service providers are being urged to invest in technology as a way of securing their future in the electronic age. Meidan (1996) states that new products, new payment systems, new forms of distribution and delivery and improved management information systems are increasing the demand of technology within the financial services sector. According to Flohr-Nielsen (2002) Internet banking should be seen as part of general trend in which customer relationships as well as new Web-technologies have become very important. The banking industry provides strong incentives for banks and customers to use the Internet. Banks can reduce their costs considerably, and at the same time meet potential demands of customers, such as convenience and cheap transactions. (ibid)

Cultural Specificity of Product

According to Cavusgil et al. (1993) cultural specificity of a product concerns if the product relates to the extent to which the product mediates the needs of a specific culture. Albers-Miller et al. (2000), state that consumer expectations can differ tremendously and the issues of culture should therefore be thoroughly examined by the bank in wish of conducting international business. An understanding of the customers is essential in order to create effective promotion. Root (1994) indicates that the greater the distance between two cultures, the harder it is to communicate effectively. Culture can affect many, if not all, of an organization's strategic decisions. Meidan (1996) states that banking services tend to meet general needs rather than specific. He claims that a bank should analyze the wants and needs of different market segments and design its marketing mix to fulfill them. Consequently, market segmentation is essential. Consumer behavior towards financial services is very much a function of social class.

Papavassiliou & Stathakopoulos (1997) claim that the development of a basic advertising campaign with country-specific adaptations is very important, especially when there are great linguistic differences across different host countries. The advertising messages must correspond with the beliefs and traditions of the citizens in each country traditional, since cultural values have an impact on advertising message appeal.

Other External Factors Influencing the Choice of Promotion Strategy

Papavassiliou & Stathakopoulus (1997) state a few other factors that are influencing the advertising adaptation. These factors are country of origin image, economic factors and advertising infrastructure.

Country of Origin Image

Root (1994) implies that people in industrial countries tend to have a more favorable image of their own country's product than foreigners do. Knowledge of made-in images can be of great help when operating abroad. Each image contains both positive and negative attitudes towards the product identifiable with the country of origin. By being aware of these attitudes and promoting on the positive ones, a company can increase the chance of success. Claessens &

Jansen (2000) mean that the increasing internationalization of financial services eliminates discrimination in treatment between foreign and domestic financial services providers, and removes barriers to the cross border provision of financial services.

Economic Factors

Papavassiliou & Stathakopoulus (1997) indicate that the economic conditions prevailing in the host country are of major concern in influencing international strategy. Brassington & Pettit (2000) mean that these economic factors can include inflation, exchange rates, income, consumption potential, rate of unemployment and exchange control regulations.

Ghauri & Holstius (1996) state that the Baltic countries have made free trade agreements with the Scandinavian countries and have started to redesign their legislation to follow Western principles better. That is very important, since modern taxation laws are crucial for foreign investors. There are also some investment incentives for foreign enterprises in all the Baltic countries, such as tax relief and improved protection of foreign property against nationalization.

Advertising Infrastructure

Papavassiliou & Stathakopoulus (1997) further state that the availability, performance and cost aspects of the advertising infrastructure can affect the promotion decisions. The advertising infrastructure consists of the institutions and functions essential to the advertising process, such as availability of media, the structure of media, availability of technical equipment, local advertising experience and staff talent in the target country. Arnold et al. (2001) claim that in the latter years, a great deal of money has been invested in advertising in the Baltic States, and this in turn has increased availability of media and development of the advertising structure.

Adaptation and Standardization of the Promotion Strategy

The decision whether to adapt or standardize the marketing mix is, according to Brassington & Pettitt (2000), complicated for any organization operating in more than one environment. Too much adaptation might lead to failure of the organization to exploit the synergies that become

possible when going international. However, Van Mesdag (2000) states that a pure, comprehensive standardization is not possible, since the differences in for example language, retail structure, regulations and cultural features between countries are too great.

Ad□pt□tion

Agrawal (1995) states that marketers in favor of the adaptation strategy tend to argue that advertisers have to take differences including culture, stage of economic and industrial development, stage of product life cycle, media availability and legal restrictions into consideration. Brassington & Pettitt (2000) claim that when acting on an international market, an organization always have to consider to which degree a customer's needs and wants are different from those on the domestic market, and if adaptation is necessary.

Brassington & Pettitt (2000) further state that promotional mixes often have to be adjusted to suit the local environment and reflect the target markets preferences. Promotion has to take language as well as local regulations, in terms of both media choice and content, into account. Sales promotion is also affected by local regulations; therefore the choice of activities must respect these regulations and consider the preferences of the customers.

Brassington & Pettitt (2000) also indicate that marketing communication might have to be adapted, due to consumer readiness stage. A product that is mature in one market might be totally unknown in another market, and therefore the promotional mix will have to be adapted. Cavusgil et al. (1993) claim that adaptation of the promotion includes the costs of using different promotional messages, appeals, packaging/labeling and media. There are four variables that significantly and constantly impact the promotion adaptation. These are the firm's international experience, technology orientation of the industry, product exclusivity and the competitive intensity of the market.

Cavusgil et al. (1993) further state that both reactive and proactive approaches of promotional adaptation exist. Proactive harmonizing with the characteristics of the market includes modification of positioning, packaging/labeling, and promotional approach. Firms may also choose to reactively adapt their products in order to improve their competitive

position, especially if competition in the market is intense, the industry is technology intensive, or the product is unique.

There are three basic conditions, stated by De Mooij (1994), that have to be fulfilled in order to use a standardized approach, and if these are not realized adaptation should be considered.

1. A brand's advertising cannot be universal if different national markets are in diverse stages of maturity.

2. A brand's advertising cannot be universal if the idea depends on a large budget which is unsupported in some markets

3. A brand's advertising cannot be universal if it defies local customs and regulations and ignores the efforts of the competition.

De Mooij (1994) presents eight arguments in favor for choosing an adaptive promotion strategy:

1. The heterogeneity of the countries concerned.
2. The "not invented here" syndrome: the desire to create own campaigns.
3. Differences in the media scene.
4. Differing regulations regarding service or advertising.
5. The nature of the competition in different markets.
6. The service is at different stages of its life-cycle in different markets.
7. The danger of being seen as a foreign company.
8. Reduced economic advantage because of higher co-ordination costs.

According to Czinkota & Ronkainen (2004) adaptation also has to be carefully investigated in emerging market economies, where the consumers are more likely to be interested in rational

advertising that has a clear message. They see advertising as information, which they can use in order to sort out between the numerous and sometimes confusing offers. This has led to the fact that many consumers tend to prefer advertisements in newspapers to those on television, particularly if they are well organized and informative.

Standardization

Cavusgil et al. (1993) state that the development in communication and transportation technologies, together with the increased travel contributes to the globalization of markets, has resulted in emerging global customer groups. Therefore, in a market where needs and preferences of the customers are largely universal, standardization might be preferable. In order to succeed in the global market it is of importance for companies to be able to deliver high-quality products at a competitive price. Standardization of marketing programs might be crucial to achieve a low-cost competitive position.

Agrawal (1995) explains that people favoring a standardization approach believe that differences between countries are more a matter of degree than direction. That is why advertisers should focus on the similarities of the consumers in the international marketplace rather than the differences.

De Mooij (1994) claims that the following nine arguments are a reason for choosing a standardized promotion strategy:

1. Cost reduction is the most important argument for standardization.
2. A uniform brand image and corporate image worldwide avoid confusion.
3. The globalization of media.
4. Simplified planning through uniform objectives.
5. Maximum use of good ideas and transmission of know-how.
6. Centrally managed international enterprises.

7. Better use of manage abilities and resources.

8. Universal guidelines and quality standards.

9. Better access to know-how and experience of other countries.

According to O'Donnell & Jeong (2000) the main characteristic of global marketing tends to be to standardize the elements of the marketing mix as much as possible. The advantages are economies of scale within the three elements product, place and promotion, which are captured in the marketing mix.

O'Donnell & Jeong (2000) further claim that the amount of standardization needed depends on the type of product. Industrial products are seen to be more suitable than consumer products for standardization, since industrial buyers tend to be more rational in their purchasing behavior and demand for industrial products is more homogenous across markets. Furthermore, Cavusgil et al. (1993) state that in a captive market, where the product already has achieved a leader position, a higher degree of standardizations may be advantageous.

The Contingency Theory

O'Donnell & Jeong (2000) indicate that it is not possible to use either total standardization or complete adaptation. The degree to which these are used depends on a number of internal factors, for example organizational structure and managerial orientation, and external factors, such as target market and environment. Cavusgil et al. (1993) states that standardization and adaptation should be seen as two extremes, and choosing one of these approaches without adjusting it will not be successful.

3.2 The concept of B□nk M□rketing

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 marketing and work in the spirit of marketing concept. 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 ;

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

- ✓ 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:

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

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

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.

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, effectively managing customer integration should be considered as a primary focus in any acquisition.

To assess the risk of customer attrition during an acquisition and identify key factors driving it, the Deloitte Center for 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 switched at least one of their accounts to another institution 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. Almost two-thirds of the survey respondents who had switched an account to another bank did so within the first month after the deal was announced.

To increase customer retention, we believe banks should consider employing an explicit framework to guide efforts to improve the customer experience and build relationships with their new customers. Such an integration framework includes the following element:

Standard customer integration protocol. Even before a specific acquisition is being considered, banks have the opportunity to develop a standard protocol for managing the customer experience throughout the life cycle of the integration. This protocol 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 the customer experience during an acquisition helps safeguard the customer base that provides the core value of the bank being acquired. Beyond simply minimizing customer attrition, an acquirer has an opportunity to drive additional growth by making a positive first impression on its new customers, communicating the bank's brand and value proposition, and starting the process of building customer loyalty.

Finally, the focus on customers is best maintained beyond conversion. The effort to continually strengthen customer relationships — both with new and existing customers — is never completed, essentially being central to a bank's culture. This is especially true with existing customers whose satisfaction is as important as that of newly acquired customers. Investing in understanding and improving the customer experience can help a bank build strong, profitable relationships with all its customers over the long term.

Re□sons customers look elsewhere

Given the enormous change that the European banking industry has undergone in the last two years, it is little wonder that customer attrition has become a real and pressing concern. Among the customers who have changed their main bank, 10 percent did it in the last two years and a

further 11 percent of respondents plan to do so.[6] This clearly demonstrates acceleration in attrition, even if these customers often keep one or more products with their former main bank.

Among those who have already changed their main bank, 63 percent of German respondents did it during the last two years. There is a similar trend for the UK and Italy, where half of main bank changes are concentrated within the last two years. The highest risk of attrition is in Spain, where a fifth of all customers expressed plans to move their primary provider (among them, 45 percent did it during the last two years). However, France and Belgium seem to be less impacted by the attrition acceleration.[7]

Customer attrition can be significant after an acquisition. Deloitte's survey found that 17 percent of the respondents that were customers of banks that had been acquired switched at least one of their accounts to another institution ("switchers"). Further, an additional 31 percent of respondents remained at risk — saying they were at least somewhat likely to switch one or more of their accounts to another bank over the next 12 months.

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.

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.

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

[7] "ibid", p 10

Critic□l first month □fter □n □cquisition is □nnounced

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.

F□ctors influencing □ttrition

Before banks can begin to design and implement meaningful retention strategies, it is vital that they first investigate the factors driving customer attrition. Approximately a third of respondents (32%) attribute their decision to change banks to service levels, while 26% blame the price of products. Among those planning to leave, these issues take on even greater significance, with 43% blaming price and 42% attributing their dissatisfaction to service. Most worryingly, perhaps, a quarter of those customers planning to change their main bank say that they are doing so because of a lack of trust.

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. Respondents who remain at risk of switching appear to have adopted a wait-and-see attitude. They want to see if their new bank will provide similar customer service, products, and fees to those provided by their old bank, and many are shopping around to see what other banks can offer.

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.

Emotion□l

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.

Why customers move – country by country

When asked about their reasons for changing bank, clear differences emerged among European countries. Price elasticity is at its lowest in France and the UK, where only 16% say they would change banking provider because of price. In Italy and Germany, by contrast, price is given as a reason by 50% and 55% respectively.

Trust is the greatest concern in the UK and Belgium, where 26% of customers blame their decision to leave on a lack of trust. Both these economies have suffered major bank failures in the last 18 months, which could be a factor in such a feeling.

In France, the biggest worry is service, blamed by 35% for their move, while in Spain the same percentage attribute their dissatisfaction to the service offering available.

Banks should note that the current band of dissatisfied customers does not necessarily feature those that have historically been the least loyal. Contrary to the idea that certain customers

move banks on a regular basis, our research reveals that many of those who are planning to change service provider are doing so after many years as a loyal customer.

Across Europe, almost half of those looking to move (48%) have been customers of their bank for more than 10 years, and nearly three-quarters (71%) have been customers for more than five years. In France and Belgium, the need to retain previously loyal customers would appear to be greatest – in each country three-quarters of the customers looking to switch their main bank have been customers of their current institution for more than a decade.

Clearly, expressing an intention to leave a main bank and actually doing so are two very different things, but banks should nevertheless address the need to improve retention as well as to adapt acquisition strategies so as to harness new customers.

It is important to harness customers during their first few years with a new bank in order to build a good relationship and engender loyalty. Very few customers look to change their bank in their first five years with an institution – just 26% of Europeans intending to switch have been with their bank for less than five years. Dissatisfaction apparently increases over time, and so providers would be prudent to consider policies aimed at improving service quality and pricing policies as the relationship matures.

Germany appears to have the most mobile customer base, with 22% of customers looking to move less than a year into a relationship with a new bank.

Action – Addressing loyalty

- Banks need to develop new strategies to target disaffected customers and prevent attrition. Improving customer service and service quality will have a major impact here, and staff incentive programs should be considered to reward superior service quality.
- A sophisticated understanding of the bank's customer base is vital. Banks must conduct analysis to identify and target resources towards key customers.
- Having achieved greater insight into the customer base, programs should address concerns among key customers and deliver a "back to basics", clear and simple service offering to all customers.

- To prevent customer attrition, banks should consider developing "product bundles" for customers, so that there are tangible benefits in purchasing a number of products from one provider as opposed to patronizing several banks.

Banks must invest in and expand customer retention units to take a more holistic view of customer concerns across product areas.

Action – preventing ttrition

- Banks must address service levels and pricing for key customers using sophisticated customer segmentation to identify target beneficiaries of enhanced offerings.
- Banks also need to personalize and transform the customer relationship as customer satisfaction is not reliant on price.
- A personalized relationship program is a true differentiator which cannot be easily copied by the competition and protects margins.
- There is a need to better harness customers during their first few years, again using customer analytics to identify and nurture key relationships.
- Customer analysis must be improved to allow banks to understand which customers are leaving and why, and to then take a view on the best way in which to address attrition.

Incentivizing the sales force should be used not only to encourage the selling of new products, but also to reward renewals and retention of key customers.

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. Shifting Consumer Beh□viors on Ret□il B□nking

4.1 Rel□tionship m□rketing

Relationship marketing emerged in the 1980's as an alternative to the prevailing view of marketing as a series of transactions, because it was recognized that many exchanges, particularly in the service industry, were relational by nature. Within a retail banking setting[8] one defines RM as "the activities carried out by banks in order to attract, interact with, and retain more profitable or high net-worth customers." Relationship marketing thus aims at increasing customer profitability while providing better services for customers. Several studies have empirically demonstrated a positive association between RM strategies and business performance[9]. Within a banking context, Keltner (1995) found that German banks, in contrast to American banks, managed to maintain a stable market position during the 1980's and early 1990's as a consequence of relationship oriented banking strategies.

RM will not automatically lead to stronger customer relationships; rather, customers will exhibit different levels of relationship closeness and strength. In order to be attractive, RM strategies should enhance customers' perceived benefits of engaging in relationships[10]. However, all customers do not want to engage in relationships and, in fact, it has been suggested that close customer relationships in banking are rare, and that they are being further weakened by the increase in self-service technologies[11]. An alternative is to look upon new

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

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

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

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

technologies as relationship facilitators[12] and to use them strategically in customer relationship management[13].

One of the basic tenets of relationship marketing is customer orientation. Already the SOCO (selling orientation-customer orientation) scale, developed by Saxe and Weitz (1982), was based on the premise that customer oriented sales people strive to increase customers' long-term satisfaction. Selling oriented sales people were considered to prioritise the achievement of an immediate sale at the expense of customer needs. Subsequent research has shown that the degree of customer orientation indeed has an effect on a firm's relationships with its customers. In a study of financial services, Bejou et al. (1998) found that customer oriented employees had a positive impact, while sales oriented employees had a negative impact, on customers' relationship satisfaction.

To our knowledge, there are no previous studies on the effect of RM activities on customer loyalty in different profitability segments. Before describing profitability segmentation, it will be briefly reviewed two desired relationship outcomes, customer relationship satisfaction and loyalty.

Marketing scholars have paid particular attention to studying the value of relationships, and the merit of forming relationships has been generally accepted.

However, what has been missing from the literature is an examination of the fundamentals of relationships. Without this critical examination, it is likely that relationship marketing efforts will be off-target. As a result, many of the initiatives which service providers are presently touting as "relationship marketing" are anything but. The authors contend that many relationship marketing programmes are not customer-focused, as they are based on:

1: raising the switching costs for a customer; or

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

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

2: relying on database-driven information to market "at" a customer – one who may or may not be interested in a relationship.

The approach of raising switching costs can be seen in the number of "loyalty" programmes which exist. Such programmes are behaviourally driven and not characteristic of a genuine relationship between company and customer. In addition, like core product attributes, these tactics can be easily copied by competitors. The result of raising switching costs is that consumers may feel locked-in to dealing with a company because they do not wish to forfeit accumulated rewards.

One of the practices increasingly applied in consumer marketing is the maintenance of customer databases. As technology has become more widely available, the use of databases has become commonplace. This has created a situation where some practitioners and authors have drawn a close link between relationship marketing and database marketing. This view of relationship marketing is, however, onesided.

The establishment and maintenance of databases does not constitute an effort to forge true relationships. Databases can be used to target customers, with the customer having little or no knowledge of the company in question or the existence of the database. In addition, databases are limited in the extent to which they can help manage genuine relationships.

It is clear that many companies have implemented loyalty programmes and begun to create and manage databases in efforts to build closer relationships with customers.

While each of these tactics may form a component of an integrated relationship marketing programme, neither represents a strategic approach to relationship formation. They will do little to bolster the relationships a company can have with its customers if the company does not examine:

1: the manner in which the customer defines a relationship;
2: whether the conditions under which the company interacts with customers are conducive to relationship formation; and
3: the factors which contribute most to quality relationships.

4.2 The core of relationships

Although the customer-oriented literature on relationships has been growing, the consumer's view of relationships remains largely unexplored.

Examination of the foundations of interpersonal relationships, as documented in the social psychology literature, provides marketers with insight into factors that can add value in marketing relationships. The importance of taking the customer's viewpoint is vital, for in most cases it is the customer who is courted and who usually decides that a relationship is over. How should relationships be defined in order to convey the customer's perspective? From a review of the social psychology and relationship marketing literature, the authors identified two characteristics which should be present for an exchange situation to be characterised as a relationship.

First, for a relationship to exist, it has to be mutually perceived to exist; that is, acknowledged by both partners. Social psychologists have long recognised this necessity. Hinde (1979) commented on the mutuality of relationships, suggesting that the behaviour of one party must take into account the behaviour of the other. Second, a relationship goes beyond occasional contact to some special status, suggesting that a relationship is difficult to define, but the partners will know when one exists. Obviously, relationships involve more than these characteristics, but in their absence it cannot be said that a true relationship exists. As evidenced by the parallel many scholars and practitioners draw between loyalty programmes, database marketing, and relationship marketing it appears that these characteristics of relationships have yet to be fully recognised.

4.3 The dimensions of relationships

How, then, can such constructs as mutuality and special status be operationalised? Berry (1995) observed that there has been a lack of research on the factors that increase or decrease the quality of relationships. A review of the social psychology literature was undertaken with the principal objective of focusing on those attitudinal and psychological dimensions of relationships that have been identified by other researchers.

Closeness in relationships

Many social psychologists have studied the phenomenon of close interpersonal relationships.

The construct "closeness" has considerable value in relationship marketing as it may be presumed that relationships which are deemed to be "close" are those which are likely to endure. Social psychologists have acknowledged that some relationships are closer than others and that different groups may be more or less prone to the establishment of close relationships. Clark and Reis (1988) observed that closeness is a concept that underlies many aspects of relationships. Consequently, other authors have developed approaches to the measurement of closeness that are appropriately applied to the measurement of consumers' relationships with companies.

Berscheid et al. (1989b) developed a Relationship Closeness Inventory which approaches the measurement of closeness from three perspectives:

1. the respondent's self-assessment of the closeness of the relationship;
2. a measure of the emotional tone of the relationship; and
3. a measure of the respondent's satisfaction with the relationship.

Emotional content of relationships

Berscheid et al. state that a relationship cannot exist without emotional content, and observe that close relationships are characterised by positive affective ties. Consequently, they focus on the emotional tone of the relationship to assess its closeness and, therefore, its likelihood of lasting. In its original form, an emotional tone index constructed by Berscheid et al. (1989b) consisted of 27 emotions.

Strength of relationships

Scholars have employed several terms to identify that aspect of a relationship that implies the likelihood of its continuing. Lehtinen et al. (1994) addressed the measurement of the intensity of relationships in marketing.

Berscheid et al. (1989b) incorporated a measure of relationship strength in their Relationship Closeness Inventory. The implications of the use of such terms are that strong, intense relationships are less vulnerable and more likely to endure.

Relationship marketing in retail financial services

Examining the foundations of interpersonal relationships can provide marketers with insight into how they might forge relationships with their customers, and the characteristics that will be present once a true relationship has been formed. Marketers must, however, extend their customer orientation by examining other factors which affect relationship formation. In order for relationship marketing to be successfully applied, consumers must be willing to enter into relationships with services providers, and services providers must fully understand the process of relationship formation and management.

These authors posit that, for the most part, consumers are willing to engage in relational behaviour with financial services providers, but it is questionable whether some of those providers are yet prepared for the task.

Consumer willingness to enter into financial services relationships

What factors affect the ability of service providers to form relationships with customers? Barnes (1994) stated that not all companies can expect to form customer relationships, owing to factors such as the nature of the interaction and the customer's attitudes toward relationships and the company. However, it would appear that financial services providers do have an opportunity to form genuine relationships. Ennew and Binks (1995) correctly state that the quality of banking relationships will be dependent on the willingness of customers to participate. Customer involvement in the delivery of services varies across industries, but it is accepted that involvement is higher with services which are either relatively complex or longterm in nature: both characteristics of financial services. Other situations where consumers will likely wish to form relationships are where the service is high in perceived risk, or when customers are heavily dependent on credence qualities in service evaluation. Again, these characteristics are present in the case of financial services.

On the basis of the aforementioned criteria, it appears the efforts of financial services providers to form customer relationships are justified, as many consumers appear willing to engage in relational behaviour. Ability to form and manage relationships

In comparison to other industries, financial services providers do have relationship marketing advantages by virtue of the fact that many consumers will wish to form relationships.

However, it is questionable whether inancial services providers are yet equipped to capitalise on these opportunities. There are numerous external and internal environmental factors which impede the ability of a financial services provider to form and manage customer relationships. Establishing relationships with customers is complicated in many countries, owing to multi-branch banks, increased complexity of financial markets, and saturated markets characterised by intense competition. The formation of customer relationships is further confounded by dramatic growth in the use of technology in the delivery of financial services. The growth of technology based service delivery reduces the personal contact between financial services providers and their customers, thereby altering relationships which may have previously existed, and relationships yet to be formed. There is growing evidence that some customers are rejecting this approach to banking in favour of a more traditional and personal form of relationship with their banks.

Still very important questions remain to be answered in relation with their banking experience. Marketing departments of bank are interested in clarifying:

1: How should the relationship construct be defined for effective implementation of the concept of relationship marketing?

2: Under what conditions can services marketers expect to form relationships with customers?

3: What are the predictors of strong, close, satisfying relationships between services providers?

Relationship dimensions

An analysis using principal components was perfomed in order to understand the dimensions of clients with their primary bank. Fifty four scaled statements were analysed, indicating ten

different factors graded higher than one value. The sum of 10 factors helped explain 60.2 percent of the data variance.

The first factors listed in Table 1 represent those which explained the greatest per centage of the variance. Notably, the first factor relates to the customer's feeling toward the principal financial institution (Factor 1: "reliance and caring"), while the second relates to how he or she is made to feel in dealing with the company (Factor 2: "how I am made to feel"). Other factors reflect dimensions that were hypothesised to exist as components of the customer's interaction with his or her financial institution, including feelings that one is trapped (Factor 3), a sense of being very close to employees of the financial institution (Factor 4), and doubts about the value received (Factor 5).

Table 1 - Relationship dimensions

1. Reliance and caring
• "I get the feeling that _____ really cares about me"
• "I rely on ____ to give me good financial advice"
2. How I am made to feel
• "I like the way I am treated by the staff at _____"
• "I am treated with respect by _____"
3. Feeling locked in
• "I often feel intimidated when dealing with _____"
• "Sometimes I get the feeling I am trapped in dealing with _____"
4. Individual staff closeness
• "I really am much closer to some of the employees than I am to _____ itself"
• "I spend a lot of time talking with staff at _____"
5. Uncertainty about value
• "I could probably get better interest rates at another bank"
• "I could probably get better service at another bank"
6. Diligence in financial matters
• "I like to keep a close eye on my bank account"
• "I try to keep up to date on changes in interest rates"
7. Trust

• “I am honest in my dealings with _____”

• “I feel my accounts are safe with _____”

8. My financial institution by choice

• “I deal with _____ because I want to, not because I have to”

9. Disinclination to switch

• “Moving my business to another bank is just not worth the effort”

10. Perceived complexity

• “I find banking today very complicated and difficult to understand”

Predictors of relationship quality

Following principal components analysis, multiple regression analysis was conducted to identify variables that are most important in predicting strong, close, satisfying relationships.

The independent variables were drawn from three sources: the relationship dimensions produced from the principal components analysis; variables relating to the interaction between the respondent and his or her main financial services provider; and various demographic and socio-economic characteristics of the respondent. The results are summarized in Table 2.

Table 2 – Predictors of relationship quality

	Closeness (R^2 = 0.44)	**Strength (R^2 = 0.42)**	**Satisfaction (R^2 = 0.66)**
1	Emotional tone	Emotional tone	Emotional tone
2	"Reliance and caring"	"Reliance and caring"	"Reliance and caring"
3	"Individual staff closeness"	"Uncertainty about value" (-)	"How I am made to feel"
4	Branch visits per month	Closeness gap (-)	"Feeling locked in" (-)
5	"Feeling locked in" (-)	"Feeling locked in" (-)	Duration of relationship with financial institution
6		"How I am made to feel"	"Individual staff closeness"
7			"Uncertainty about value" (-)
8			closeness gap (-)

Relationship closeness

Forty-four per cent of the variance in relationship closeness was explained by five variables.

The variable that best explains the closeness that respondents felt toward their main financial institution is the emotional tone of the relationship. The variables presented in the first column of Table 2 provide a good understanding of the nature of close customer relationships. Customers who score high on the closeness scale indicate that they experience positive emotions more often than negative in their interaction with the financial services provider; they rely on the financial institution and tend to think that the company cares about them; and they are close to individual staff members. They are also distinguished from those customers, whose relationships are less close by the fact that they make more personal visits each month, suggesting that face-to-face contact with employees contributes to closeness. They are also less likely to feel that they are trapped in their relationship.

Relationship strength

Six variables explained 42 per cent of the variance in the measure of relationship strength – a composite variable measuring share of wallet, likelihood to refer others and likelihood to remain a customer. As with closeness, emotional tone was the most important predictor. Strong relationships with one's financial institution are largely characterized by affective dimensions, as reflected in the fact that four "affective" factors entered the regression equation. Those consumers with strong relationships are less likely to be uncertain about the value they are receiving from their main financial services provider, and experience less of a closeness gap than do those with less strong relationships.

Satisfaction with the relationship

Congruent with the findings from the other regression analyses, satisfaction with one's relationship with a financial institution is also very much influenced by the emotional tone of the interaction. It is also important to note that five of the eight independent variables that together explain 66 per cent of the variance in the satisfaction variable are factors representing affective dimensions of the relationship, including "reliance and caring", "how I am made to feel", and closeness to staf.

Obvious from the results is the importance of how customers are made to feel in their dealings with their main financial services provider. As illustrated by the principal components and

regression analyses, the emotional tone of the interaction between the financial services provider and the customer has the greatest impact on the degree which the customer feels close to and has a strong relationship with the provider, and is satisfied with that relationship. Harrison (1977) has stated that mere exposure to another can cause an increase in affect, but marketers will do little by simply creating an emotionally charged service environment: they must ensure they evoke in consumers positive emo tions; the type which enhance relationship quality. As the authors asserted earlier in this paper, relationship marketing is not simply a stimulus-response function. These empirical findings should indicate to marketers that relationships cannot be built on behaviour alone: forcing customers to deal with a firm does not contribute to quality relationships.

Much of the literature dealing with service quality and customer relationships has dealt with the manner in which consumers evaluate the service encounter. This literature has stated that consumers' satisfaction with service delivery is a function of expectations versus outcomes, most related to imitable core product elements. From the findings of this study, however, it appears that service providers should pay more attention to non-core elements, such as the manner in which customers are made to feel prior to, during, and following service delivery. Several scholars have investigated the role of affect in consumers' evaluation of services. For example, Oliver (1993) recognised that the interaction between service provider and customer causes both positive and negative affect, while Alford and Sherrell (1996) and Price et al. (1995) conducted research to determine the influence of affect on satisfaction levels. However, one of the major contributions of this study is an empirical link between affect and relationship quality. This link points to implications for the way in which financial services providers target their customers, structure their organisations, and hire, train and empower employees.

In order to improve marketing effectiveness, financial services providers expend considerable effort in segmenting their markets. These authors assert, however, that once a segment has been identified and a product mix tailored, financial services providers often devote little effort to devising service delivery processes that make consumers feel good in dealing with the company. Under such conditions, it can be argued that the entire purpose of segmentation is

– to improve marketing effectiveness

– undermined.

Focus group research conducted by the authors suggests that some young customers, for example, feel intimidated by banks. Such a feeling would appear to be a major impediment to the building of relationship equity. Without clearly defined plans to reduce this intimidation among young people, a tailored product mix and marketing communications may do little to help financial services providers form quality relationships with this target segment.

The importance of positive affect in quality relationships also has implications for the manner in which financial services providers structure their companies. In an insightful article on relationship marketing in financial services, Axson (1992) stated that financial services delivery involves two core processes: transactions management and relationship management. He states, however, that most modern banks are structured to be efficient at transactions management, not relationship management. The financial services industry has lagged behind others in truly empowering employees. Decision-making power, which aids relationship management, has been gradually removed from the branch, as evidenced by the introduction of computerised creditscoring models, fees for services, regardless of customer status or value, and centralized advances departments (Axson, 1992). It can thus be argued that the structure which has allowed financial services providers to become adept at transactions management has contributed to consumers' perceptions of banks as large, remote, and unfeeling. As in all high-contact service industries, the quality of relationships that a financial services provider builds with customers is contingent on the quality of its front-line employees.

Researchers have studied the impact of the behaviour of employees on customers' perceptions of service quality. As shown in this study, it is important to make the customer feel "right" about the way he or she is being treated, which has significant implications for the manner in which financial services providers recruit, train, compensate, motivate, and evaluate their front-line employees. The importance of affect means that financial services providers must go beyond mere service scripting. Every interpersonal interaction is unique, and front-line financial services employees must be cognizant that even the minutest nuances of the exchange can have an impact on how customers feel. The importance of employees' actions on the emotional content of the relationship has been anecdotally recorded. The findings from this study indicate that the quality

of the relationships a company has with its customers is very much determined by how employees make customers feel.

In conclusion, the fact that the emotional interaction between a company and its customers is critical, as shown herein, and that such exchange is difficult for competitors to imitate, makes understanding the drivers of positive emotion very important. Czepiel states: “Most services are parity offerings and depend on building relationships as a strategy to offset the effects of competition”, while Thomas (1978) and Bhide (1986) state that most services providers are generally unable to protect most components of their offering from rapid imitation by competitors.

Given that many financial services are parity offerings, it can be stated that a customer is unlikely to be overly impressed by core product attributes when all companies are providing similar offerings. As shown in this study, what will probably provide differentiation is the way the financial services provider makes the customer feel during service delivery. Different elements of the service encounter will produce emotion for different groups of customers; from the financial services provider’s perspective, it is important to identify and maximise the elements that lead to positive emotions. That is, on a segment-by-segment basis, there is a need to determine the causal sequence of service provider behaviours and consumer emotions: this represents a logical extension for future research.

Customer rel□tionship s□tisf□ction

Customer evaluation measures should reflect the type of exchange that is being evaluated, i.e. transactional or relational. Often used measures in a relationship context are relationship quality, and relationship satisfaction (e.g. Abdul-Muhmin, 2002; Rosen and Surprenant, 1998). A positive relationship between service quality and satisfaction has been well established in the banking sector. However, the constructs are highly correlated and sometimes difficult to separate in transactional interactions[14], but even more so from a relationship perspective[15.] In

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

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

long-term relationships perceived quality and satisfaction are likely to merge into an overall evaluation of relationship satisfaction.

Customer loy□lty

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.”[16].

As illustrated in the definition above, loyalty has both an attitudinal and behavioural dimension[17]. It is assumed that customers who are behaviorally loyal to a firm display more favorable attitudes towards the firm, in comparison to competitors. However, in some cases behavioral loyalty does not necessarily reflect attitudinal loyalty, since there might exist other factors that prevent customers from defecting.

Customer satisfaction and loyalty are highly correlated but form two distinct constructs. Customer satisfaction with a bank relationship is a good basis for loyalty, although it does not guarantee it, because even satisfied customers switch banks. One important reason for switching is pricing. Hence, banks have launched customer loyalty programs that provide economic incentives. Although the effectiveness of loyalty programs has been questioned, research has shown that they have a significant, positive impact on customer retention, service usage, and/or share of customer purchases.

4.4 The link between loy□lty □nd profit□bility

Numerous studies have shown positive links between loyalty and firm profitability[18] Nonetheless, not all loyal customers are profitable[19]. According to Reinartz and Kumar (2002),

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

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

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

the overall link between loyalty and profitability in many industries is questionable for two reasons:

1) a relatively large percentage of long-term customers are only marginally profitable, and
2) a relatively large percentage of short-term customers are highly profitable.

It is noteworthy, however, that Reinartz and Kumar's (2002) findings from four industries (high technology, postal service, retail food and direct brokerage) still indicate that a larger proportion of the long-term customers than of the short-term customers exhibit high profitability, and a larger proportion of the high-profitability customers than of the low-profitability customers are long-term customers. Thus, the theory of an overall positive connection between customer loyalty and profitability cannot be rejected.

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[20], 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

Market segmentation is one of the central concepts in marketing, attributed to a seminal article by Smith (1956) in the Journal of Marketing. However, customer profitability as a

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

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

segmentation criterion is a newer phenomenon[21]. It has become increasingly predominant in many industries, leading to differential treatment of customers[22].

In order to increase the profitability of customer relationships, Storbacka (1997) suggests applying the principles of segmentation in an RM context. The following segmentation criteria are proposed:

1) relationship revenue and relationship cost;
2) relationship volume;
3) relationship profitability, or
4) relationship volume and profitability.

In an empirical study of two Nordic retail banks, Storbacka (1997) found that both banks opted for a segmentation based on relationship volume and profitability. Relationship volume was defined as the sum of the customer's yearly average deposit and loan balances, and absolute profitability was measured as the customer's relationship revenue minus relationship costs over a fiscal year. Six main segments were identified based on different levels of volume and profitability. The least attractive segment included the low volume, unprofitable customers. Storbacka (1997) recommends that efforts should be made to increase the volume of these customers, or impact the nature and/or price of transactions in order to increase relationship revenue and cut relationship costs. Similar recommendations are found in other studies[23]. The most attractive segment comprised high volume, profitable customers, a majority of who represented a large portion of the total profitability of the customer base. Storbacka (1997) emphasises that customer defections from this group must be kept to an absolute minimum (optimally at a nonexistent level) in order to maintain and/or increase the profitability of the customer base. In a similar vein, Reinartz and Kumar (2003) suggest that customers can be

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

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

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

grouped according to share-of-wallet and profitable lifetime duration, and that each customer group should be targeted with a specific strategy.

In summation, relationship marketing activities should be directed particularly towards the most profitable customers in order to increase their satisfaction with and loyalty towards the bank. Therefore, in the case study, which is presented next, we expect that the high profitability segment that was targeted with a relationship oriented strategy will express higher relationship satisfaction and loyalty than the mid-profitability segment that was targeted with a more sales oriented strategy. Furthermore, we expect the perceived relationship improvements since the bank's RM strategy was launched, four to five years prior to the study, to be greater within the high profitability segment than within the mid-profitability segment.

4.5 The trends in consumer b□nking beh□viours

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 respondents said their current bank adapts products and services to meet their needs.

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 switch their accounts from one bank to another—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.[24]

This intent is troubling for financial institutions that have traditionally found a huge amount of inertia in their customer base. Not only are customers less loyal to their main bank, they are increasing the number of banks they use. Globally, multi-banking is a growing trend as customers search more actively for the best rates and products. Customers with only one bank

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

have fallen from 41% to 31%, while those with three or more have increased from 21% to 32%.[25]

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 anticipate their customers' needs and offer them the variety of channels to fulfill their requirements throughout the day 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. The global banking survey results show that 70% of customers are willing to provide their banks with more personal information, but in return they expect to receive tangible improvements in the suitability of products and services they are offered. According to the survey report, "[P]ersonalization goes beyond appropriate products. Customers' channel preferences are becoming increasingly complex, and they like the convenience of flexible access to their bank. Banks need to let customers choose how they interact and offer different cost and accessibility options" [26]

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.

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

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

- 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, viewing their transaction history, transferring money between their accounts, paying their bills, and transferring funds to third parties. Antenna CEO Jim Hemmer says, "The public clearly want to fit their banking chores around their lives and not their lives around their banking chores, and using their mobiles, they can."[27]

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, 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.[28]

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.[29]

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

biz/news/read/25-per-cent-of-uk-mobile-internet-users-do-mobile-banking/014805

[28] Nordea press releases and website

[29] Deirdre Fernandes, "Banks struggle to keep up with Mobile demand," The Boston

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.[30]

Soci�l medi�

Social media should be considered another type of banking channel today. According to the Ernst & Young consumer banking survey, "Customers are listening to each other more than their banks or financial advisors. Globally, 71% seek advice on banking products and services from friends, family or colleagues, and 65% use financial comparison sites to find the best deals. The views of online communities and affinity groups are also gaining importance. The use of social media as a source of banking information (by 44% of customers) is amplifying customers' voices, giving them greater power as advocates or critics."[31]

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.

Globe, 14 July 2013

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

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

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.

As for the understanding of financial-banking services consumer, natural person, we must take into account a few more important aspects, which can reduce a part of the difficulties its evaluation implies in all complexity[32]:

- Financial-banking services mean a series of selling-buying relations developed at different time distances, do not refer to a single selling transaction as in goods' case;
- The interaction that takes place between the client and the banking clerk has an ultimate influence over buyer;
- Noticeable differences appear between the information used before buying decision, during buying and post buying;
- The information obtained by clients form inner sources or during experimenting the banking service have a major importance;
- The estimation of banking service after the acquisition is ultimate because it allows the buyer to decide whether he continues or interrupts his relation with the respective banking institution.

Thus we can conclude that the study of the financial-banking products and services of the consumer's behavior, respectively the understanding of its influence elements have a significant contribution to the efficient development of banking activity because it helps the banking institution in the planning process of the offered products and services to define the offer's structure and to anticipate the probable clients' reactions.

Behaviors study in general and of the financial-banking services in particular cannot be achieved without taking into account the factors that influence this behavior.

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

Many authors have studied the way this behavior is made, the results being synthesized in a series of patterns, some with general feature, some specific to the services, also applicable in the financial-banking field.

Since it's impossible to identify each client's needs and wishes, the patterns try to catch the causal bounds between the factors that influence a person's behavior; in order to understand his behavior, the banks need to determine those aspects of the human behavior that are consequent and regularly take place and also to determine the noticeable influences (demographic factors, economical, specific to the marketing mix, situational) with major influence over the behavior, over the influences inferable of endogenous type (perception, motivation, personality, learning, attitude) and of exogenous type (family, reference group, affiliation group, social class, culture and subculture)[33]

The demographic factors, associates of the influences of each person represent features that influence the banking services buying decisional behavior at individual level (age, sex, training level, race, ethnicity, matrimonial state, occupation, working level, habitat, the size/the category of the living area, geographic/historical living area etc.), of family/household (occupation and working level of the "head of the family", the size and the structure of the house by sex and age criteria, life cycle of the family, living conditions, the size/category of the living city, geographic/historical living area).

The economic factors that influence the banking services consumer's behavior refers to the personal income and at the total income achieved by all the members of the house/family as a monthly average, refers at the prices of the banking products and services (interests, taxes, commissions, rate of exchange), at the minimum and medium wages at the national economy level, at the population incomes and at their structure on provenience sources, at the population expenses and their structure on destinations, the GNP/net medium on each inhabitant, the equipping rate of the population with different long term use goods, the inflate rate, the price index, the official national currency circulation etc.

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

The demographic and economic factors, considered independent variants, by which the dependent variants that describe the particular processes of the consumer's behavior are interpreted, act interconnected and diversify the segment area and the types of consumers.

The factors particular to the marketing mix that influence the consumer's behavior for banking services refer to the product (service), price, distribution and their promotion.

The banking services purveyors are permanently preoccupied to anticipate consumers' needs and often, the offer excels their expectations, according to the use of the advanced technologies in the field, financed by banks. We are witnesses to a shaping of the behavior by the financial players and to a financial culture promotion, without precedent among all consumers' categories, no matter of their age, earning possibilities or training level. Financial innovations are fast adopted by the emergent markets.

The elements of the marketing mix with significant influences are the product/the service (the available banking services and products, the offered counseling services, the behavior of bank's clerk, the function schedule of the bank, the atmosphere and the ambiance in the bank, the touchable elements), the price (the interest level, the taxes and commission level, the offered stimulants), distribution (the net of branches and agencies, the ATM net, the distribution of banking services over the internet, the distribution of banking services over the telephone) and promotion (communication about the offer service, the used promotional techniques, the oral advertising).

The situational 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[34].

The authors remark the existence of five dimensions concerning the situational influences: physical or social ambient, time, purpose and former state.

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

The physical ambient includes the geographical space, the scenery, the sounds, the smells, the luminosity, the weather and the presentation way associated to the product. The physical scenery affects the individual's heart state and his attitude towards the product.

The social ambient refers to the presence of other persons in the respective situation that creates a micro-social environment during which mutual influences take place.

The time is the same with the moment of behaviors' manifestation: time of the day, day in week, season or relative period from the last acquisition. The studies over the affluence of clients indicate the fact that the greatest demands for banking products and services take part mainly at the beginning of the day, when people allocate time for bank relations, in the first and fourth day of the week. The busiest period is to the end of the year, especially in December.

The purpose refers to the personal objectives of the consumer at a certain point. A person who cares about social prestige will tend to use luxurious products (gold card) towards an ordinary person for whom a credit card is satisfactory.

The former state is a temporary state of mind or a condition of the consumer during decision (fatigue, agitation, lack of money, good will etc.). The former state differs from the actual one of response to the buying stimulus, because it has already existed before the moment of buying. Taking into account the consumers' expectations and the factors that determine them, Valarie A. Zeithhalm, Leonard L. Berry, A. Parasuraman achieved a very valuable pattern under the aspect of understanding the mechanism that leads to the received (perceived) banking-financial service[35] [36] [37].

The pattern, made for services in general proves its value also in the banking-financial field. The pattern draws attention to different sources of people's expectations in general, of a certain

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

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

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

segment and even of a single client. It allows establishing the share of each factor, and also over the way they act (permanently, occasionally).

On this basis, marketing specialists can act to reduce the tolerance area. The perceived service is determined, at its turn, by a series of factors such as: direct contact with the labor carrier (moment of truth), contact elements (personnel, ambiance and processes), bimage and price.

They can practically be found in the quality of service, clients' satisfaction and perceived value. Concerning the conventional persons, the most frequent need that determines the organizations to ask for the services of a banking-financial institution is the need for loans, in time and without obstacles.

Also, the organizations can appeal to the services of a financial-banking institution in order to obtain an income by way of interest, money transfers, the administration of their own businesses' risk, getting the information and financial counseling.

During the analysis of the behaviour of the consumer as a conventional person it is important to take into account the important share in the economic field of the micros and of the different act of the buying and consumption behaviour according to the organization size[38].

The decisional process, as a rational combination between risks and gains is influenced by a multitude of factors (medium, organizational, interpersonal and individual) that can determine certain behavior of commercial consumers regarding the banking products and services.

Among these there are: the level of primary demand, the economic conjuncture, the buying possibility of the national currency, legislation, the rhythm of economic changes, objectives, politics, procedures, organization's dimensions, organizational structure, field in which they work, geographical position of the company, the management style (authority, persuasiveness),

[38] Jelev, Marketing and Environmental Education, 2008, p. 82

commercial and financial position within the competitive area (the statute), the organization's necessities and wishes, personal features (age, education, income, attitude towards risk etc.)

The buying process of the company represents "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"[39].

In this process, the company is every time, in one of the following situations: new acquisition (the company buys for the first time a new product), repeated acquisition (the buying process repeats) and modified repeated acquisition (the modification of the way the former process has developed – quantity, price)%.

The most important components of the buying decision of the company must take into account the availability of the financial-banking product or service, its quality, that has to be concordant to the specifications, as well as with the best paid price for product's quality and availability, and with the services that join the product and not last, long term relations[40].

The main phases of the acquisition process are the following:

- The appearance and the identification of a certain need;
- Establishing the quality, quantity and delivery term, of graphics to spread out the payments;
- The definition of the features of the financial-banking products and services that are to be bought in order to satisfy the need and the identified ones;
- The identification of the banking institutions susceptible to answer the company's demands;
- The launch of offer demand;
- The reception and the analyze of different offers and the preliminary negotiation;

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

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

- The choose of the financial-banking institution with whom there will be discussions to enclose contracts;
- The evaluation of the relationships' efficiency with the financial-banking institutions;

The decisions concerning the acquisition process of financial-banking products and services are taken within each organization by a certain number of persons that make out the decisional center, called in the specialized works, "acquisition center".

The relations between the client and the bank are very important for the two parts involved in the acquisition process. A detailed analysis allowed identifying some company's buying behavior patterns, among these being the patterns: Sheth, Webster and Wind.

As for the Sheth pattern concerning the buying decision we take into account the participation of at least two persons. This pattern makes the difference between the decisions taken in the basis of a delegation by a single person (self-governing decisions) and the collective ones of the participants to the decisional process (common decisions). The self-governing decisions are lower risk decisions, while the common decisions take into account decisions with a high risk level.

The decision process regarding the acquisitions of the organization is, in this case of organizational behavior, influenced by six types of factors, grouped, at their turn, in two categories: production factors and particular factors to the organizations. The first category includes time pressure, perceived risk and the type of acquisition, and the second includes the size, the orientation and the centralization rate of the organization.

The Webster and Wind pattern takes into account how the company's acquisition behavior is influenced by four categories of factors: environmental, organizational and interpersonal (acquisition centers) and individual.

These categories have influence both on individual decisions (by delegation to a component of the acquisition center concerning the lower risk decisions), and on common ones (where the risk is high and more members have to participate at).

Though both presented levels are among the more complex ones, we must not forget that in reality, other variables can appear and influence the decisional process. In the study of clients' behavior we need to think also of those financial products and services consumers (the investors)[41].

The main category of clients in capital markets are the qualified professional investors (credit institutions, investments societies, other authorized entities to operate on the financial markets, assurance societies, collective disposal organism and societies to administrate them, retirement funds and societies to administrate them, national governments, banks, international and over national institutions etc.) and individual investors on personal estate markets.

The consumer's behavior is structured, in the specialized literature, in two components: buying and consumption behavior. Within the capital market, from the financial investments view, the buying behavior or, other said, the investment decision is more important[42]. In case the other advantages are equal, the investor will tend to choose the investment that offers him the greatest gain. Anyway, when calculating the potential income, we must not forget the eventual losses as well. Also, when calculating the expected incomes and when taking the investment decision, the investment's decision, intrinsic value of the investment plays an important role.

The consumer's investment behavior does not consist only of the maximization of the profits obtained as a result of the investment.

The fear for regret is another factor that affects consumer's behavior. This factor prevails when the investor doesn't trust the information he has or does not believe he can process them. The main feature of the investments consists in the fact that they don't produce immediate effects and neither certain. From a capital market's point of view, investor's consumption behavior appears later and it is generally conditioned by the reinvestment decision.

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

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

From a European integration perspective, it is highly important to study financial service European consumer behavior. The main factor that influences the consumer's behavior is, in this case, close to the demographic and economic factors, culture.[43]

The consumers in the European economic space presents major cultural differences that permanently influence consumption behavior. From this point of view, marketing ensures the adjustment of organizational activity to the cultural values specific to each investor's category. The major tendency is that of cultural homogenization. Their behavior analysis, as an obvious barometer of a bank's evolution is a main key to a marketing research.

The relation between client, either natural person or conventional one is very important and needs to be sustained in order to ensure clients' loyalty and to develop long term relationships with them. Therefore, the banks have to give consultations to their clients regarding the organizing of their own finances or the grounding of business plans that should reinforce bank's professionalism image. This aspect needs to be completed by some communication experts' presence that should provide for the information transfer, thus realizing a transfer between employees and clients. Through this brief analysis and partially completed of the way the financial-banking products and services clients' buying and consumption behavior's expression, people tried to achieve an introduction itinerary that will be the basis of further researches to give the possibility of finding some methods and instruments adequate to the Internet and Cognition era.

The scientific revolution is necessary not only in the marketing, but in all economic sciences as well that will pave the way to multidisciplinary beginning of buyers' buying and consumption behavior at all levels and in all the fields.

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[43] 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) and Reichheld (1996) studied the customer lifetime value and the respective value for achieving customers' loyalty by analysing the clients' 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.

The clients' satisfaction means that their respective needs are covered, the respective products or services to satisfy the needs are considered satisfactory, and the customer experience is positive. (Friday & Cotts, 1995). According to the above definition, the consumer 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 confirmed that the relation between customer satisfaction and loyalty is not stable or reliable[44]. 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.[45]

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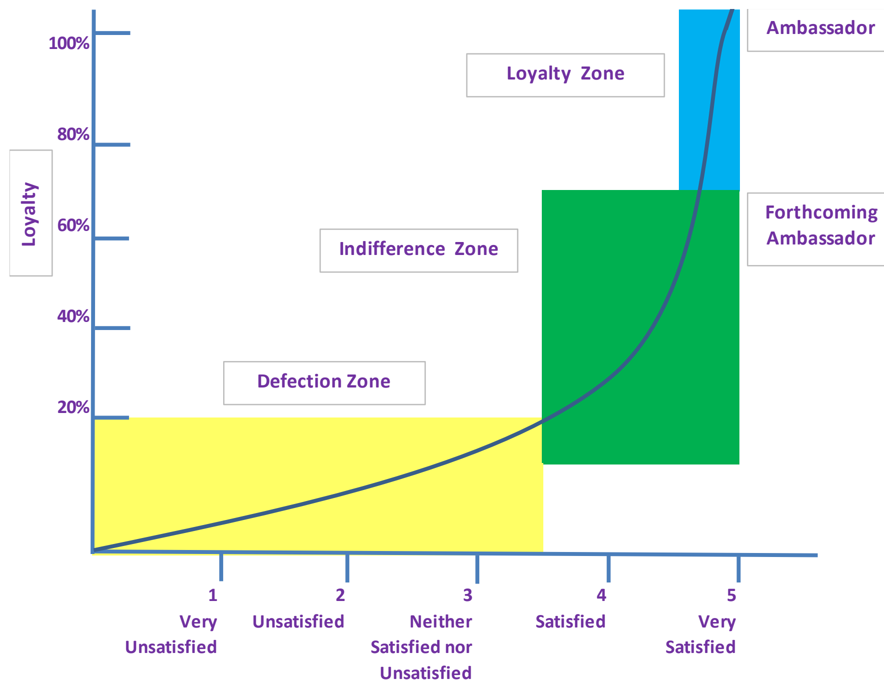
[44] Kaplan, Robert S. and Norton, David P. (1996), "The Balanced Scorecard: Translating Strategy into Action", *Harvard Business School Press*, Boston, Massachusetts, USA.

[45] 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.

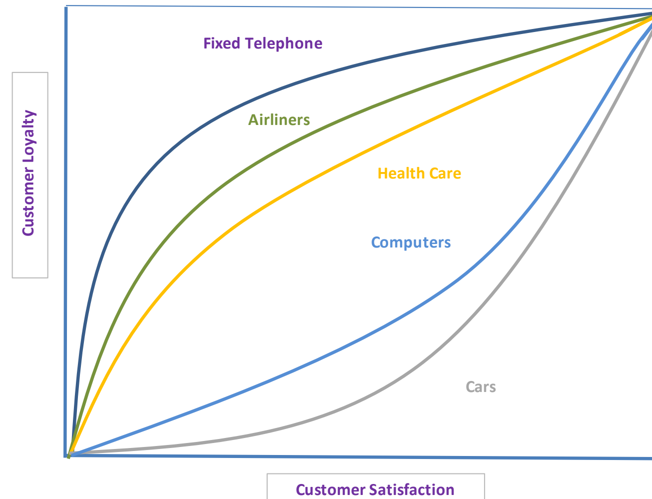
Diagram 1 – Relation between clients' satisfaction and loyalty



The relation between customer loyalty and financial result

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

Diagram 2 – customer satisfaction & customers' loyalty



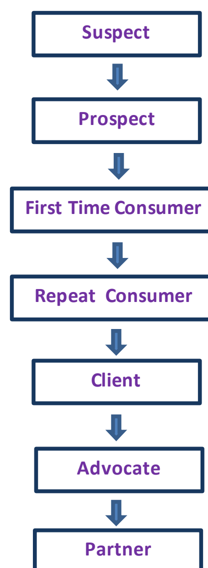
According to the above diagram, if a client has at his disposal a variety of options, a relative low cost of changing providers and a competitive environment, the relation between the customer satisfaction and his/her loyalty is simulated with the curve that relates to the customers of the car industry. 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.[46] 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



[46] 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.[47]

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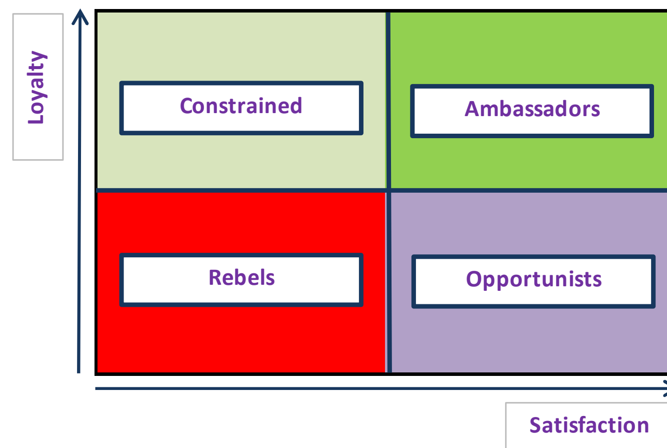
[47] Jones, Thomas O. and Sasser, W. Earl Jr., (1995), "Why Satisfied Customers Defect", *Harvard Business Review*, Jul-Aug, 1995, Vol. 73, No. 6, 88-99.

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. [48]

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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[48] 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. [49]

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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[49] 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 to the right prospects at 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.[50] 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.

[50] 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 A New Approach to Bad Debt Modelling

Every credit company needs to anticipate the payment behaviour of its clients. In particular, it needs to know the amount of write-off which will arise from the advances which it has already made. Bad Debt Forecasting is concerned to estimate:

- The amount of currently outstanding debt which will not be repaid;
- The timing of the write-offs;
- If possible, the consequences for bad debt of decisions on the portfolio and trends in the credit market.

Bad debt forecasts usually take the form of provisions - percentages of the balances outstanding in various categories of debt are set aside to provide for future write-offs. In each accounting period, new provision is made based on the amounts entering each of these debt categories; amounts actually written off are deducted from the outstanding provision. The new provision is entered on the profit and loss statement. The net total provision is entered on the balance sheet.

Historically, provisioning levels have been established in a rough and ready manner. This is largely because:

- the categories on which provision was made were subjectively defined;
- the criteria for write-off were also subjective;

No computer records of accounts histories were available, so any estimation of percentages passing to write-off was based (at best) on small scale samples taken during audits.

This system of provisioning is still widely used, particularly on current account portfolios. It does not give rise to major problems where:

- bad debt is insignificant in proportion to the overall portfolio;
- the portfolio is stable, and hence bad debt levels are stable;
- there are no marked trends in delinquency.

These conditions are increasingly rare; hence the historical method is increasingly insufficient.

When a portfolio grows rapidly, the historical method is likely to be very misleading. It normally makes provision only for late stages of delinquency. Therefore, no provision is made for new accounts going to write-off rapidly. Further, the categories are based on subjective judgment of accounts. The criteria are typically vague - for example "all reasonable measures for internal collection of the debt have been exhausted" - and describe the actions which have been taken on an account, rather than the state of the debt as such. When collection resources are under pressure, a backlog builds of accounts awaiting action. This means that the "action" criteria for passage to a different category cannot be fulfilled. But the lack of action is, in fact, aggravating the longer-term bad debt situation. Thus, the bad debt provision is of little value in accounting terms and is positively misleading as management information.[51]

The major alternative to the historical method is based on roll-rates. Accounts pass through several arrears stages - typically six to nine - before being written-off. A roll-rate is thought of as the probability of passing from one status to the next. The roll-rate from status k to status k+1 is defined as the amount in status k+1 in period n+1 divided by the amount in status k in period n.

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 perfoming 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 enviroments that there is no spending, except for the one coming from the accounts

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

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.

6.2 The Idea

The solution to the problem lies in generalizing the roll rate approach. A powerful generalization can be obtained by using a statistical technique known as Markov Chains. Such models were first suggested for commercial lending portfolios in 1962 (Cyert et al. 1962). A more recent application is to be found in Corcoran, 1978. Further references are given in the bibliography. The ideas described below apply this technique to the consumer credit area and attempt to deal with the practical problems involved in modelling. This section describes the basics of how such a model works.

One of the main problems with roll rates is the assumption that accounts pass through a fixed sequence of states, neither stopping nor making partial recoveries, nor jumping states. Instead, we define a set of "risk states". In general, an account can jump from any state to any other -or remain put-in successive periods. For instance, an account which was three months delinquent may make a partial payment and be classified as one month delinquent. On the other hand, if the customer's cheque bounces, the account will go to a high risk state straight away.

Not all states need correspond to delinquency. For instance, the bad debt provision on an in-order account will vary considerably with its behavioural score. This can be accommodated by defining risk states which correspond to behavioural score bands. In fact any group of accounts whose behaviour is of particular interest can be singled out as a risk state.

On any given date, an account is classified in a single state. We can estimate the probability that an account moves from one state to another quite readily, using standard statistical techniques. However, bad debt forecasting is concerned with balances, not with numbers of accounts. Therefore, we need also to model the changes in balance over a period.

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 Developing the Model

The development of a bad debt model involves two phases - an initial set -up followed by a continued checking, maintenance and updating. It is extremely important to pick up trends early, yet not to be misled by "statistical flukes".

The first step in developing a Markov Bad Debt Model is to assemble a database. For each account to be used, summary information is required to cover at least twelve months (providing the account has been open that long). By preference, two years information should be used. This will allow investigation of seasonality not possible in a single year.

The information required for each account in each period is:

- opening balance;
- total credits received (broken down between payments, credit interest and other credits if possible);
- total expenditure;
- debit interest;
- closing balance;
- information sufficient to define the likely states of interest.

The information required to define states of interest will vary considerably from one portfolio to another. In large measure, the definitions depend on the available information. For instance, if there is no behavioural score, it is pointless to have states depending on score band. The following list shows fields likely to be of use:

- current delinquency (or days dormant);
- days in debit during period (current accounts only);
- time on books;
- type of account (e.g. budget/option);
- time since last delinquent;
- behavioural score;
- account blocks;
- Turnover of account.

The information is required for a large sample. If possible, the whole portfolio should be used. The large sample is needed because small proportions of accounts go to write-off in any period. Hence, to reliably estimate the proportions in the set-up phase, it is possible to use a more modest sample (with richer information) to identify the states to be used. Then a larger sample will be taken, stratified by state, to estimate the generalised roll rates. In the maintenance phase, it is not possible to stratify based on outcome state. In this situation, a sample of about 1000 accounts in a particular state is needed to estimate the generalised roll rates sufficiently accurately. As with any statistical system, a validation sample should be constructed.

Once the sample has been assembled, an initial (small) set of states is defined. Then a cluster analysis is performed to identify families of accounts which are relatively homogeneous in terms of their generalised roll rates. These families then become the states in a more elaborate system.

Time series methods are applied to estimate the generalised roll rates (See section 5). Then, statistical tests check that the states really do capture all the essential information about the roll rates - that is, all accounts in a given state have roughly the same probability of jumping to each other state next period. If not, the states are revised and the process starts over.

Once a satisfactory set of states and of generalised roll rates has been identified, the system is validated on a hold-out sample.

Separate systems are possible for different subpopulations. However, within an overall system, certain subpopulations (such as those based on time on books) will tend to move within separate groups of states. Thus, separate systems are not usually needed.

Once the system has been set-up, it should be tested each period. This test consists of taking the predictions based on the previous periods state distribution and verifying the accuracy (or otherwise) of its predictions. If major discrepancies occur, then one of two things is happening:

- Deteriorarion 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 soved 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' will is to be considered, aiming initially to restructure the existing credit obligation. Approximately once a year, all the statuses should be examined to see if they are still reasonably homogeneous. This is likely to lead to the redefinition of some statuses.

6.4 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 most short 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.

6.5 The Mathematics

Let x(t) be an N+1 dimensional vector, representing the state of the portfolio at any particular period, t. x0(t) is the amount of debt paid back up to period t, set to zero at the outset. States 1 to N-1 are the regular states of the portfolio. State N corresponds to written off debt.

Let A be an (N+1)x(N+1) dimensional matrix, which gives the transition probabilities from one state to another. That is Aij is the proportion of the debt in state i at period t which is in state j at period t+1. It is assumed that A is stationary - i.e. that the transitions do not depend on t. (This assumption is tested later on). A is called the roll-rate matrix.

Let S be a diagonal matrix of order N+1. The diagonal elements of S give the propensity to spend of accounts in each state; that is S ii is the ratio of amount spent to balance in period t by accounts in state i during period t+1. Obviously, no spend is allowed in states 0 or N. S is called the spend matrix.

Let R be a diagonal matrix of order N+1. The diagonal elements of R give the period interest rate to be applied to accounts in state i. R is called the Interest matrix.

The one-period model is:

$$x(t+1) := (I + R)(I + S)A'x(t)$$

$$t = 0,1,2,....$$

The appropriate level of provision for each state is given by:

$$r := (I - A\{1..N-1\})\ a\{1..N-1\},N$$

where r is the provision level for each state (a vector of order N-1), A{1..N-1} is the vector of transition probabilities restricted to states 1..N-1 and a{1..N-1},N is the vector of direct transition probabilities for states 1..N-1 to state N (write-off).

The expected cash flow under any scenario is given by $\lim_{t \to \infty} x_0(t)$

The expected write-off is given by $\lim_{t \to \infty} x_N(t)$

The model can be discounted by an appropriate factor by including a discount matrix D in equation:

$$x(t+1) := (I - D)(I + R)(I + S)A'x(t)$$

$t = 0,1,2,....$

D is a diagonal matrix with $D_{00} := 1$, $D_{ii} := 1-d$ for $i = 1,2,..N-1$, $D_{NN} := 1$, where d is the period discount factor to be applied. Note that only the "live" states (1..N-1) are discounted. States 0 and N are accumulations of values that enter at different periods. Hence, the values must be discounted before they enter, not after.

The statistical problems are estimating A and S;

Determining a sufficient state space, so that the process determined by A is in fact Markovian.

An appropriate way to address the problem is to treat {x(t)} as a multi-dimensional auto-regressive process. Certain coefficients are constrained to be zero. The coefficients can be estimated using the Box-Jenkins approach. We test the hypothesis that the process is Markovian by the testing the order of the autoregressive function. If it is one, then we conclude that the model is Markovian. An alternative best fit is constructed using Ake-Ike's Information Criterion.

Alternatively, the matrix A can be estimated by using a jack-knife approach. The variance of estimate can then be found using a bootstrap method. This has the advantage that the constraints on the coefficients (zeroes and stochastic condition) will be met automatically. The Markovian condition is then checked by testing for equality between A and an A-type matrix constructed over two periods.

The difficulties arising from such an exercise are mostly theoretical and they related to the seasonality and transformation of {x(t). to time series

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 in the decision making process the preference of the individual 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.[52]

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.[53] 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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[52] Ajzen I., Theory of Planned Behavior/ Reasoned Action, 1985, p. 45

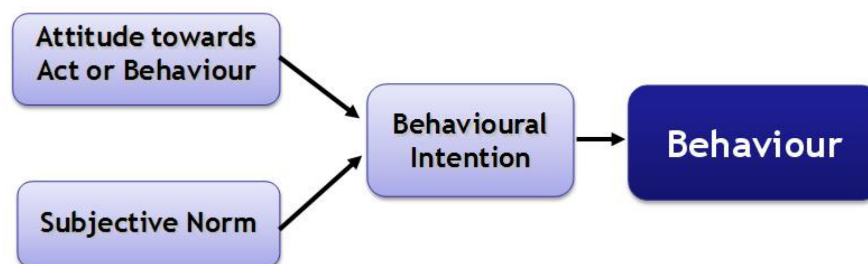
[53] Ajzen I. & Fishbein F. M., Theory of reasoned action, 1977, p. 121-127

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.[54]

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

[54] 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[55]. 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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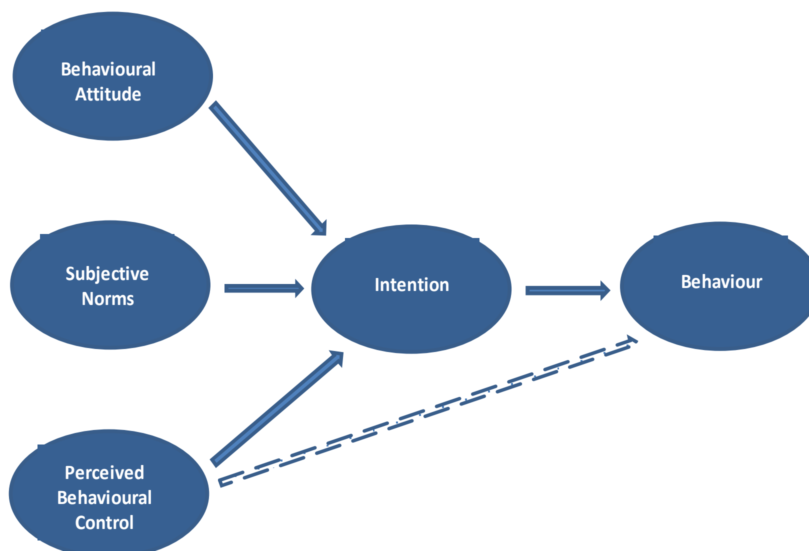
[55] Ajzen I. & Madden G., The Theory of Planned Behavior, 1986, p. 120 - 169

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[56]. 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)



[56] 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[57]. 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

[57] 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. Banks: Gatekeepers or Gateways?

The often made statement that all economies need a banking system but not necessarily banks is beginning to come to fruition. Many players in today's financial services industry are non-banks and non-financial service organisations; Consumer electronics giant Sony has recently announced their intention to provide online financial services through their Dreamcast electronic games consoles[58].

Today, banks are no longer gatekeepers but gateways to financial products[59].

In the old gatekeeper model, the bank functioned as an inhibiting intermediary that restricted a customer's set of product choices. In the new gateway model, the bank functions as a flexible intermediary that provides access to an entire spectrum of products and delivery channels. Some of the products — insurance, entertainment, travel, investment management — may not even originate from within the bank but instead be provided by third parties. It is possible that banks will be one type of trusted portal, part of peoples' personal connection to e-commerce. And institutions that fail to keep up with the online revolution are likely to find themselves regulated to supplying financial commodities to intermediaries.

While IT plays a vital role in CRM happenings, as with all IT investments it should be driven by a strategic management perspective. Too often, companies seek to build CRM capabilities by designing a powerful IT system without considering wider business issues in the business world, success is about owning the customers' total experience[60] and this is premised on understanding the customer and customer behaviour[61]. Customers expect to interact with an institution through any channel, whatever is convenient for them, and receive instant, high-quality personalised

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

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

[60] Seybold, Customers.com

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

service. The customer's experience in transacting business is important and the channel should be aware of the history. Technology should be used to create value for customers.

Integrated information is paramount for successful management of customer relationships. Information is the essential enabler when based on scalable technology as the platform (that is, information is centrally managed), enterprise-wide and registers as the 'one version of the truth' and provides a consolidated view of the customer across all channels and products.

To manage the transition to a customer centric organisation, organisations must develop the capabilities to acquire the key resources, knowledge, and tools that can help them match customers with appropriate products and services. Unfortunately, many banks have a culture that may be inconsistent with the desire to organise around the customer, and a set of processes that are siloed along product lines instead of customer lines.

Traditional financial service companies also struggle with the cultural, organisational and technological challenges associated with becoming customer focused enterprises. The sheer size and historical baggage of traditional financial institutions can have a negative implication in the new ecology. In many banks, the branch is the central point of reference: accounts are held there.

It is very likely, that in the future banks will need to use their distribution networks to sell non-financial products if they are to remain competitive. In Greece, multi coalition loyalty schemes based on non-payments cards (see "bonus" programme) already is the case.

Technology and the new economy offer tremendous opportunities for existing bricks-and-mortar organisations.

There are lots of opportunities; and the ecosystem is being continually defined and refined. There is, however, the danger that the organisation neglects the basics. Competing in the marketspace does not mean that the past is irrelevant. Many of the attributes that made organisations successful in the past are still crucial. Organisations still require strong leadership; the right structures and processes must be put in place; the right people with the right skills, attitudes and competencies hired and deployed appropriately; technology must become part of

management "theory of businesses". All must be incorporated within a sound strategic business perspective.

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 3). 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 3 – Serbian Population Credit Worthiness

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%			
	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%	13%	DTI and Score	-29%
	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 67:		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%			
	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%	6%	DTI and Score	-22%
	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 3, 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 4).

Table: 4 - Subject Portfolio Credit

...gin	Number of CIFs	Consumer Finance: Overdraft	Consumer Finance: Cash Loans	Consumer Finance: All in One	Housing Loans: Standard	Credit Cards: Dina	Credit Cards: V. Classic	Credit Cards: V. Benefit	Credit Cards: V. Gold
		Eligible No of Clients per origin							
...se	93,413	4,869	13,726	4,177	7,676	12,859	12,093	14,402	86
	19,219	/	7,979	2,178	4,598	7,834	7,190	8,338	36
...abase	46,724	/	8,135	4,218	4,807	8,344	8,056	8,792	49
...ase	6,535	/	983	776	/	1,016	984	1,027	34
...e	31,454	/	8,315	2,499	4,843	7,074	6,178	8,621	51
	133,060	4,869	16,635	6,877	9,263	17,695			
	4,039	109	0	2,950	169	811			
...oducts	16,903	4,760	16,635	3,927	9,094	16,884			
...le for 2 products	5,067	46	4,812	200	28	5,048			
...le for 3 products	6,820	1,377	6,807	1,047	4,409	6,820			
...le for 4 products	4,374	2,695	4,374	2,038	4,015	4,374			
...le for 5 products	642	642	642	642	642	642			

	Overlapping Analysis					
	Total	Overdraft	Cash Loans	All in One	HL Standard	Credit Cards
	4,869	4,869	4,713	1,002	2,891	4,757
	16,635	4,713	16,635	3,714	9,054	16,635
	6,877	1,002	3,714	6,877	2,349	3,911
	9,263	2,891	9,054	2,349	9,263	9,075
	17,695	4,757	16,635	3,911	9,075	17,695
		3.7%	12.5%	5.2%	7.0%	13.3%

...cators	Overdraft	Cash Loans	All in One	HL Standard	Credit Cards
	12%	9%	10%	17%	14%
	45%	34%	30%	1%	16%
	87%	85%	88%	90%	80%

...nt					
...e product only	5	0	78	0	15
	221	433	98	14	298

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

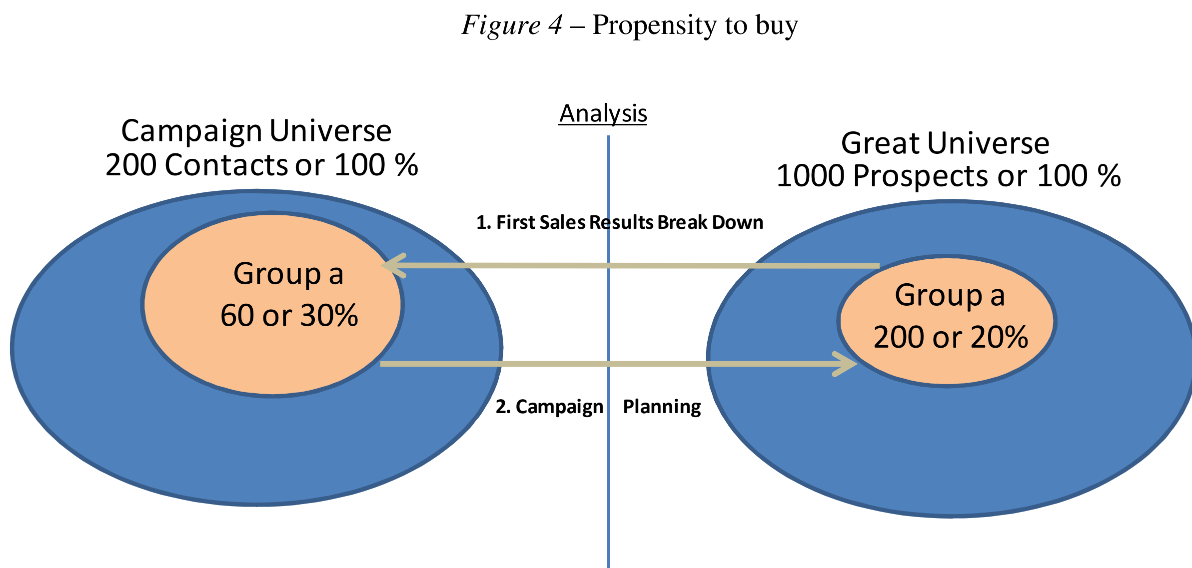
Part of the same exercise is the "fuelling" part, or otherwise consumption or records. Segments will definitely respond differently to products offering, but also prove to have different absolute number of records to "feed" the communication channels. It is therefore not unusual to observe that high potential segments owing too much of their appreciation to their extremely elevated

62 "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

“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 5). 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 5 – Products portfolio C

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

n 1	Car	Cash	CC	Consumer	Active curr.acc	Direct debit	Housing	Overdraft	Savings account	Standing order	Term deposit
0.00%	0.18%	36.56%	32.01%	1.69%	61.30%	0.05%	1.08%	12.82%	6.17%	0.04%	0.99%
2.75%	100.00%	6.27%	14.60%	1.11%	61.43%	0.06%	1.58%	7.80%	11.37%	0.18%	5.33%
4.10%	0.26%	100.00%	24.82%	1.55%	72.89%	0.04%	1.71%	14.80%	7.87%	0.05%	4.91%
8.03%	0.53%	21.21%	100.00%	1.97%	17.25%	0.21%	2.72%	12.14%	10.01%	0.08%	3.60%
0.93%	0.46%	15.28%	22.67%	100.00%	67.06%	0.19%	2.50%	13.31%	9.86%	0.17%	4.66%
7.77%	0.50%	14.02%	12.45%	1.31%	100.00%	0.30%	2.73%	6.55%	11.59%	0.03%	8.89%
2.02%	0.16%	4.19%	15.50%	1.24%	97.98%	100.00%	3.10%	5.27%	26.51%	1.24%	15.97%
4.56%	0.43%	10.97%	20.41%	1.63%	90.99%	0.32%	100.00%	10.21%	14.60%	0.35%	6.62%
4.64%	0.96%	43.15%	41.44%	3.95%	99.26%	0.25%	4.65%	100.00%	12.72%	0.09%	3.76%
1.35%	0.16%	2.61%	3.89%	0.33%	19.98%	0.14%	0.76%	1.45%	100.00%	0.04%	14.33%
0.87%	3.26%	20.65%	40.22%	7.61%	70.65%	8.70%	23.91%	13.04%	57.61%	100.00%	15.22%
0.82%	0.28%	6.11%	5.24%	0.59%	57.53%	0.32%	1.29%	1.61%	55.21%	0.04%	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 6 & 7) and after the campaigns ended (tables 8 & 9). 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 6 & 7 - 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 8 & 9 - After the campaigns commence analysis (numeric and percentage)

Campaign no	Product Type	Approved No in 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 % in 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 XXX 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

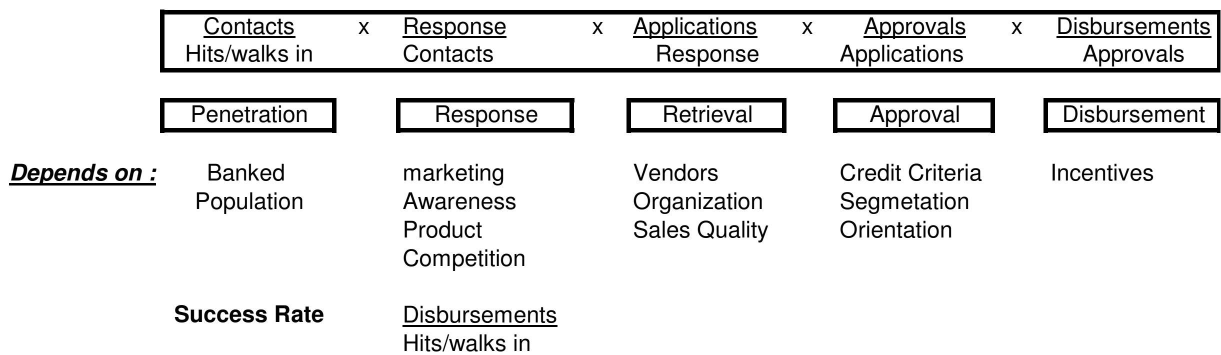
At the final stage, after having "secured" both the credit worthiness and the propensity to buy of the prospects, it is important to secure the operational execution by reaching conclusions for each step of the product sales circle.

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 10). 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 10 – 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 2013	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 "*The present value of the future cash flows attributed to the customer during his/her entire relationship with the company*[63]

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.[64]

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

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:

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[63] http://en.wikipedia.org/wiki/Customer_lifetime_value

[64] http://en.wikipedia.org/wiki/Customer_lifetime_value

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 11)

Table 11 – Categorisation of personal loans defectors

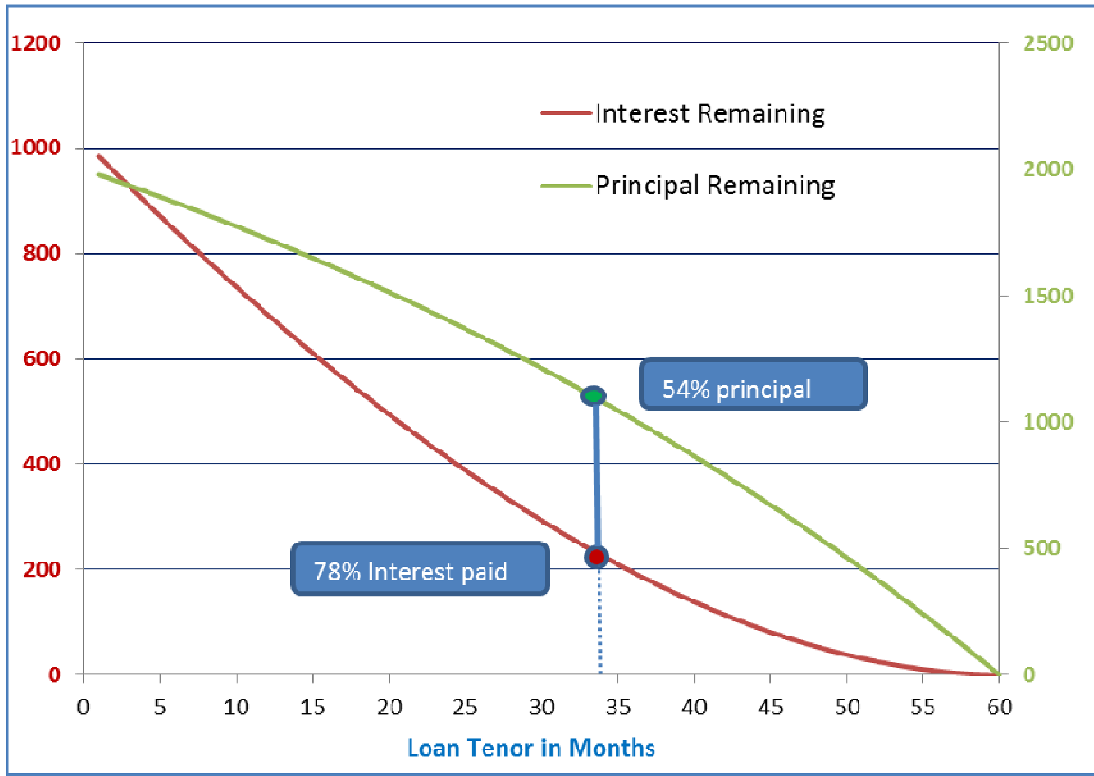
			Outstanding Balance					
			<=1000 €		1001-4000 €		> 4000 €	
Repayment Status		Outstanding Interest	<= 25%	> 25%	<= 25%	> 25%	<= 25%	> 25%
Repayment Status	Current	Additional Product: None	C	C	C	B	B	A
Repayment Status	Current	Additional Product: Payroll	C	B	B	B	A	A
Repayment Status	Current	Additional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

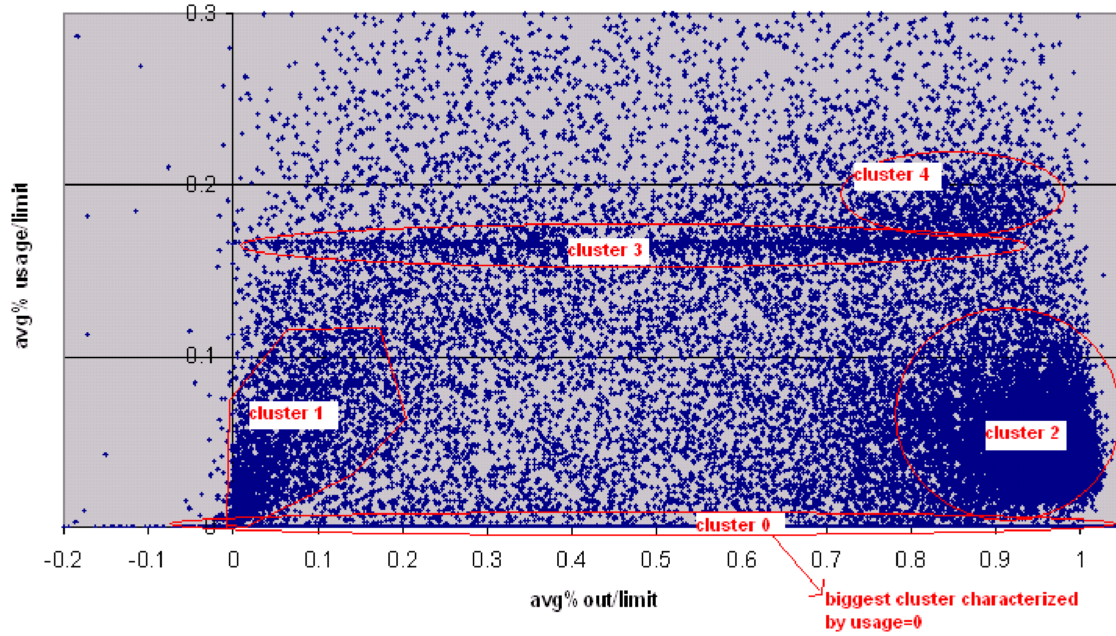
Group A not to exceed 10% of the active portfolio;

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



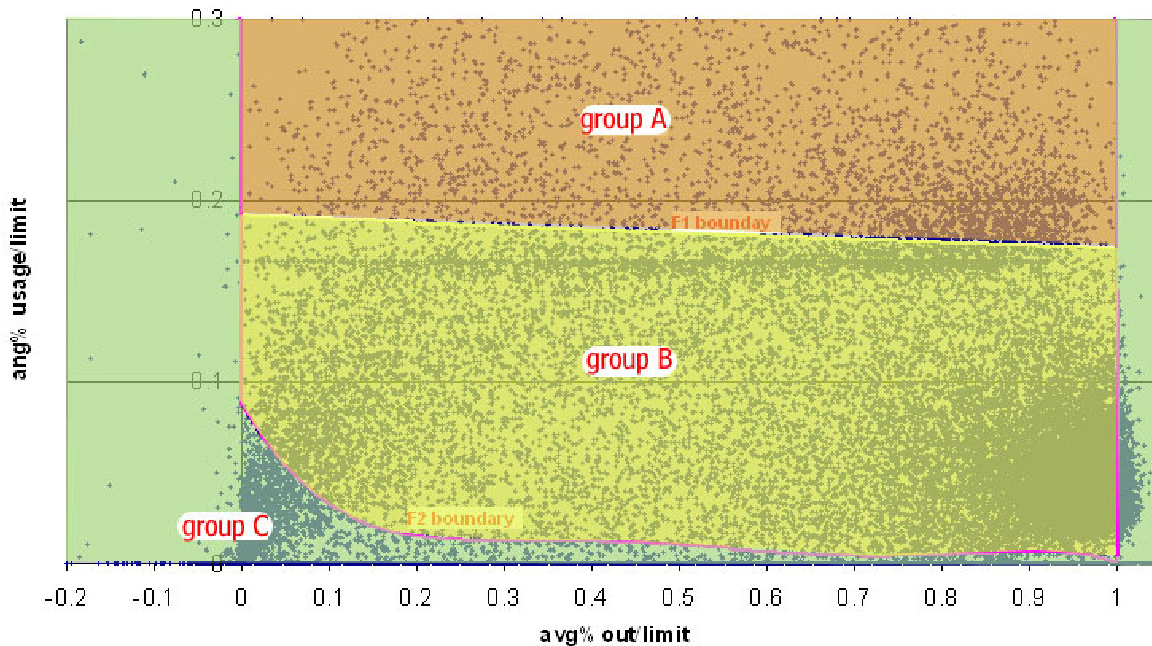
The following, group boundaries were set based on the cluster analysis of the initial data used:

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 21) 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 12 – Anti-attrition policy follow up matrix

	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
Client Category	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 13)

Table 13 - 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

Cost simulation	Clients Categories -anticipated split	most expensive offer	Cost per loan	TTL cost
	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 14) 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 14 - 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 14 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 24. 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 15 – 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	39	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 16) 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 16 – 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 17), 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 17- 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 banking industry provides strong incentives to its 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 / Cash Loans: A personal loan is an unsecured loan, meaning the borrower does not put up any collateral or security to guarantee the repayment of the loan. It is typically used to finance a large, one-time purchase or expense. The borrower is given all the money at once and agrees to pay back a certain amount per month until the debt is repaid. The monthly payment includes both principal (the amount you borrowed) and interest.

***Credit Car**d:* 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.

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

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.

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.

Interest Due: The portion of a current mortgage payment that is comprised of interest on the remaining principal amount.

Principal Due: The portion of a current mortgage payment that is comprised of principal amount.

***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.

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).

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

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