

Watson Marketing gives banks a competitive edge

IBM solutions for bank marketers in the Cognitive era.



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Watson Marketing has arrived and the potential for banking is enormous

Facing upheaval triggered by uncertain economic times, societal changes and technology influences, the banking industry is primed for a landmark shift. As numerous banks struggle with compressed margins, they are simultaneously pressed to reevaluate their operating models amid complex regulatory requirements. In addition, the industry finds itself catering to an increasingly demanding and empowered consumer while contending with relentless and increasingly sophisticated security threats, as well as growing competition from non-traditional players.

Although challenging, this new reality presents exceptional opportunities for banks to deliver differentiating value through more personalized, relevant and timely interactions and offers that drive customer profitability, satisfaction and loyalty. To capitalize on these opportunities, banks must take advantage of the wealth of information assets at their disposal. They need to efficiently and accurately analyze customer data and deliver actionable, real-time insights to create unique, compelling engagements and maximize sales opportunities across digital, mobile and face-to-face channels.

Watson Marketing gives banks competitive advantage

In this age of empowered consumers, expanding channels, changing product mixes, evolving competitive landscapes and shifting value propositions, banks are looking for ways to better leverage the power of their data for competitive advantage. As they do, a new type of bank is emerging: the cognitive bank. This new bank can use Watson Marketing capabilities to discover insights previously beyond the abilities of programmed computers—and use these insights to create new business models and revenue streams. With the ability to grow knowledge from data, enhance expertise and learn and adapt continually, cognitive banks can make more informed decisions faster—and more confidently—serving customers in entirely new ways.

Cognitive systems are defined by their ability to understand, reason and learn—to go beyond if/then scenarios to generate hypotheses, reasoned arguments and recommendations—and ultimately to guide us to a new and deeper understanding of the world around us.

With the power to unleash a new era of innovation and growth, cognitive systems are already helping banks evolve to further enhance the customer experience, uncover new insights and improve the quality of timely decisions. This paper will show how IBM Marketing solutions built for the cognitive era provide banks a competitive advantage.

Banks face many challenges

The banking industry is changing and banks are under intense profit pressure driven by growing competition from both non-traditional and traditional companies, shifting customer demographics and expectations, stringent regulations and the ever growing cost to comply with them.

Pressure to improve profits and grow is intense

For many banks, the pressure to perform and grow are intense and profits are stagnating. Revenue from transaction services is declining and more than 465 U.S. banks have failed since 2008 (costing the FDIC \$98 billion¹)— even PricewaterhouseCoopers (PwC) expects 20% fewer bank branches in the U.S. by 2020².

In addition, complex, ever-changing and costly regulations combined with heightened security threats and volatile global economic environments add to the challenge. Banks are increasingly expected to reduce costs and improve returns on capital.

Technology has opened the gates for new competitors

New digital technologies—driven by cloud, mobile, social and analytics—have opened the gates for new players to offer banking services. As a result, many new, all-digital financial services firms, unencumbered by older, less agile systems, are aggressively pursuing banking customers by addressing their needs in new and distinct ways, using technology as the core of their value proposition. For example, nontraditional companies such as e-commerce leaders Tesco in Europe, Rakuten in Asia-Pacific and Walmart in the US have entered the banking market³. In China, internet giant Tencent created WeBank, hoping to capitalize on its vast user base of microblogging and peer-to-peer chatting services.

Simultaneously, entrepreneurs and traditional banks are also creating digital-only banks (called neobanks) such as BankMobile, Number26, Atom, ZenBanx and NuBank⁴. In the United States, Square has captured mobile small business customers, taking away some “merchant services” business from banks, while Alibaba is adding small business lending to its payments activities.

The millennial generation has arrived—and this changes everything

Customer demographics and expectations are also shifting, driven in large part by the increasing purchase power of millennials. As a generation born between 1981 and 2000, there are more than 84 million millennials in the U.S. alone, reflecting a shift in wealth to younger generations and emerging markets. As consumers, millennial expectations are radically different than any generation before them. They are tech savvy, mobile and social. They can easily compare pricing, offerings and other differentiators to find the right financial products and services among numerous options. They want to bank on their terms, demanding useful interactions and

fast, easy access to information. They expect customized experiences and offerings at lower price points.

This presents a distinct challenge for banks. Recent studies have identified banking as the industry most vulnerable to disruption by millennials⁵. Why? Because they estimate that one third of millennials predict they won't need a bank in five years⁶. They show that one in three millennials is open to switching banks within the next 90 days⁷. These reports also state that 73% of millennials would be more excited about a new offering in financial services from Google, Amazon, Apple, PayPal or Square than from their own traditional, nationwide bank⁸.

Industry leading banks are reacting to these market dynamics with offerings designed specifically for millennials. For example, CaixaBank launched imaginBank, Spain's first mobile-only bank, to target younger customers and provide banking services exclusively through mobile apps and social networks.

Banks need to respond with improved means of understanding, engaging and interacting with customers

To effectively leverage these new market trends, banks need to develop improved ways of understanding customer needs and expectations, personalizing messages and offers to be more attractive and engaging with customers using meaningful dialogue on a real-time basis across channels.

Better understand customers by using data and analytics

Bankers have always understood the value of information. And for better or worse, there has never been more of it than there is right now. But despite its inherent value, banks do not always mine it effectively. The vast majority of it goes to waste. To date, although we've been able to explore some of this big data in the traditional sense, most of the insights it holds have been invisible to us. We knew it was there. We knew it had value. But we had no means of seeing all of it, viewing it in aggregate or drawing meaningful conclusions from it. And by most

estimates, 80 percent of the world's data fall into this category, including images, text, literature, news reports, social media and even log files from computer systems themselves.

Data is the natural resource of the 21st century. More data creates more opportunity—but only if banks are able to leverage it to support marketing and business goals. Banks need solutions that can help them keep pace with growing amounts of data and respond to rapidly shifting market dynamics. To compete with more agile players, banks need to greatly accelerate their ability to turn data into insights and use those insights to better understand customer desires, needs and expectations. New tools and capabilities can unearth insights buried in data that can facilitate the development of innovative products and services. These insights can also enable more accurate and faster decision-making capabilities which can lead to more personalized recommendations for customers, as well as improved decisions relating to risk, security and fraud detection.

Personalize messages and offers to enhance customer engagement

Understanding customer expectations is the first step to delivering a delightful customer experience. Once a bank's marketing organization has a deeper understanding of customers, they can tailor messages, offers and campaigns with greater success. By making the right information available at the right time in the right way, customer engagement is enhanced which drives revenue growth.

According to a recent IBM report, a majority of banking leaders recognize the importance of customer insight in creating higher-value offerings⁹. They know they need to be able to “see,” “read,” “understand” and “use” all of this newly available data fast to create personalized messages and offers. Yet, many banks struggle to deliver this customer experience. In fact, 62 percent of banking executives believe their institutions are not effectively delivering a personalized experience, while 55 percent feel they are not providing successful self-service options. In addition, 57 percent are dissatisfied with their organization's ability to address customer

concerns efficiently and comprehensively, and 52 percent are dissatisfied with their customer retention rates.¹⁰

Banks need a fundamentally different approach to customer engagement, and market leaders are taking action. One leading European bank has moved away from ineffective direct-mail campaigns that push information to customers rather than creating a dialog. They now use big data and analytics to personalize content to their customers and make billions of relevant offers to them every day. By implementing a centralized campaign management program that creates personalized offers in real time and delivering them through multiple channels, this bank has increased average campaign response rates and expects to reduce its direct marketing costs by 35% per year.



Embrace omnichannel methodologies to improve customer experience

Hyper-connected consumers are the new norm and understanding and engaging them—with a seamless customer experience—and doing so in real time, presents vast new opportunity for banks. Financial organizations must simultaneously deliver personalized messages and offers across multiple channels that include brick-and-mortar stores, online sites and mobile platforms to better engage with their customers. Banks have to change how they compete and focus on the value the customer perceives they are receiving versus the proprietary types of technologies where banks dictate the format and how customers need to act.

Banks of the future will use omnichannel methodologies that enable customers to choose how, when and by what method or device they want to interact with their organizations. This will improve customer communication and collaboration which in turn will enable more tailored and effective service offerings for a more positive customer experience.



Today, however, many banks are frustrated and are struggling to keep pace with all the regulatory and compliance requirements, the significant penalties for non-compliance or mistakes, the exponential growth in data and the resulting explosive growth in data analysis needs. It's not surprising that Aite Group, an independent research and advisory firm focused on business, technology and regulatory issues and their impact on the financial services industry, have introduced a new area of study that addresses these concerns. It's called inorganic intelligence and it focuses on how a holistic combination and permutation of multiple computational technologies can inorganically solve human problems using methods derived from aspects of human intelligence at a beyond-human scale.¹¹

Watson Marketing Systems improve customer experience and drive profitable growth

Banks need to create deeper customer engagement through more relevant experiences using cognitive technologies that scale and elevate human expertise. They need capabilities and systems that understand, reason and learn so as to enhance each customer interaction. Successful banks will create knowledge from data to expand virtually everyone's expertise, continually learning and adapting to outthink the needs of the marketplace. They will use Watson Marketing systems to enhance digital intelligence exponentially, enabling them to obtain key, actionable insights from vast amounts of data, quickly.

Watson Marketing systems monetize big data

Watson Marketing systems are not designed to simply provide an answer determined by a numerical expression. Instead, they use machine learning to understand your goals, and can integrate and analyze the relevant data to help you make informed decisions and achieve those goals. In this way, cognitive computing does not act as "artificial intelligence." Rather, it augments human intelligence, extending expertise to all corners of the bank, including customers.

Unlike traditional computing that is programmed (rules-based, logic-driven and dependent on organized information), cognitive systems are probabilistic. They learn systematically,

are not dependent on rules and can handle vast amounts of disparate and varied data. This allows cognitive systems to understand both structured and previously untapped, unstructured information (dark data such as the imagery, natural language and sounds in books, emails, tweets, journals, blogs, images, sound and videos). Because cognitive systems can unlock meaning and reason through big data, banks benefit from new contexts to weigh and consider. These systems also interact with banks and customers naturally, dissolving barriers between humans and machine.

Continuous analytical process and active customer engagement drive profitability

It's important to remember that Watson Marketing isn't a linear process—it's continual. These systems understand, reason and learn, which means that with each iteration banks gain new insights that they can integrate back into the analytical process to continually improve future performance. By adding more data sources to their analysis over time and refining their existing sources, banks can significantly enrich their customer view and sharpen the accuracy of their predictive models.

And don't forget, banks don't make any money until they engage with customers. Before that, there is only cost. In analyzing the results from IBM projects impacting marketing, sales and merchandising, and analytics, Nucleus found that for every dollar spent, companies realized an average of \$15.82 in returns. This is up 7 percent from the previous analysis published in October 2014. Nucleus found companies gain increased returns by taking advantage of IBM's investments in cloud and integration, enabling new lines of business and delivering productivity gains through marketing automation.¹²

IBM Watson together with IBM Marketing solutions empower Watson Marketing

IBM is transforming the banking industry with the power of Watson Marketing. We recognize the enormous opportunity in orienting an entire business around the individual customer's experience. Our Watson Marketing solutions apply deep understanding, reasoning and learning in real time so banks can see new patterns and make unlikely connections for new,

actionable insights. Our goal at IBM is to help our banking clients get the most from their investments—to help them grow their revenue and create unbreakable bonds with their customers—building loyalty and lifetime relationships. This helps them:

- Know what customers want before they do and respond with the right experience at just the right moment—all day, every day—over any device and across any channel.
- Become more involved in their customers' lives, purchase activities and commerce activities which enhance the bank's value to both end customers and merchants. (This also drives loyalty and provides another reason for customers and merchants to stay with that bank.)
- Understand nuances of tone, sentiment and environmental conditions to engage customers on a human level.
- Forecast the future and integrate with partners and suppliers to create a synchronized, predictive value chain that mitigates risk and reveals hidden opportunity.
- Provide new value-added services for a fee (driving new revenue streams and attracting new customers).
- Identify new opportunities to upsell and cross-sell services (increasing incremental revenue).
- Do it all in real time, at the same time and on a global scale.

For example, a large Mexican bank uses IBM's Watson Marketing solutions built for the cognitive era to not only personalize messages and offers to customers, but to extract insights into how its customers' lives are changing—whether it's time for a new car, college tuition or a different kind of checking account—and then uses those insights to craft highly targeted cross-selling offers that hit the mark. This company is using “next best action” decision-optimization algorithms to guide local branch and call-center representatives in their direct dealings with customers. They expect to generate a bottom-line benefit of \$200 million in the first 24 months of the project, with roughly 60% of that amount representing cost reduction and 40% signifying additional revenue.

IBM's Watson Marketing solutions make personalized customer engagement faster and easier

IBM empowers financial marketing organizations to attract, delight and interact with customers using tailored, meaningful dialogues. We make this type of personalization possible at scale: across thousands of clients and millions of customers all using multiple devices and channels.

For banking marketers, customer service representatives and sales leaders, Watson Marketing enables them to analyze trends, provide real-time, personalized engagement with customers and to provide expert sales and service advice. For banking operations, Watson Marketing enhances decision-making capabilities that support faster new account opening and loan processing, making faster approvals possible. And it assists operations and advisors with managing and adhering to complex compliance requirements—with the possibility of saving thousands of hours of annual research costs.

Today, banks can leverage IBM Watson capabilities in different ways:

- They can enable customers and prospects to directly interact with IBM Watson in natural language: in a chat instead of speaking with the customer service representative (CSR).
- They can deploy it in the call center as a tool to help their CSRs quickly glance through the enormous amounts of big data relevant to the customer, and quickly come out with appropriate recommendations for the next best action for service or for cross-selling or upselling.
- They can use it as a virtual assistant. For example, a large bank in Spain uses IBM Watson Marketing solutions to help agents answer customer questions about foreign trade rules in minutes instead of days.

IBM Watson Marketing solutions help users discover insights that might otherwise not be found by even the most brilliant human beings. This can dramatically reduce research time, providing financial services providers with the speed and agility required in an industry facing ongoing transition. Cognitive systems reveal detailed information relating to customer

preferences and behaviors that can help improve products and services. They can also rapidly uncover insights, patterns and relationships from disparate and vast sources of information, facilitating more timely analysis of complex data used in detecting fraud, predicting client behavior and managing risk. For example, a bank marketer running a campaign to cross-sell credit cards to existing customers could use IBM Watson analytic capabilities to create look-a-like audiences and then identify the ideal audience segment, develop a targeting strategy and optimize ad content. This is like having a sophisticated marketing data analyst sitting at your side that you can talk to, who can run your analysis in seconds rather than days to help you develop the campaign.

IBM's Watson Marketing solutions help banks upsell and cross-sell

Successful cross-sell and upsell efforts hinge on delivering timely, targeted offers through the right channel to each customer. To take full advantage of these interactions, bank personnel need to know, in real time, which products, services and incentives are most likely to garner a favorable customer action. Faster responses allow banks to generate offers in near-real time as customers conduct interactions, browse product offerings and complete transactions. This more-informed and better-targeted approach lets banks provide more relevant offers, which can significantly boost campaign results.

Analytics can also continuously measure service efficiency and customer satisfaction to help ensure every interaction offers the greatest value for both the client and the bank. By providing customer-facing employees with at-a-glance, aggregated customer information and suggestions for the next best action, they will know which customers need a little extra care and where to focus their retention or cross-sell efforts. With better understanding of customer needs banks can:

- Make more personalized recommendations, engaging with customers with the right message, at the right time and through the right channel.
- Understand customers in the context of their relationships with the bank's brand.

- Predict which customers are at risk of leaving and why, and take actions to retain them which helps reduce attrition and churn.
- Measure customer sentiment in social media and survey data to gain a deeper awareness of customer needs, wants, intentions and behaviors.
- Identify customers with similar issues and proactively reach out to resolve their issues.
- Maximize customer lifetime value through personalized upsell and cross-sell offers.

IBM's Watson Marketing solutions enable banks to become higher value partners

Using IBM Watson Marketing solutions, banks can build ecosystems where they are engaging as middle men with end customers on one side and merchants on the other. In this way, banks can provide a seamless and consistent interaction between customers and their banks across multiple channels—driving new revenue streams. For example, insurance companies can provide customers with links to approved repair shops where the shop accepts the insurance company's payment (less deductible) as payment in full so that there are no surprises for the customer when they receive the insurance bill. Or, using Geo location, banks can make offers to customers for nearby merchants who are part of a bank's network to offer discounts for service. This enables banks to target small merchants (e.g. local, family-owned stores) who don't have GPS technology and enable them to extend personalized offers. Using GPS data, they can tell when customers are physically in specific areas and they can provide the customer analysis and make customized offers to end users for the merchant's goods and services. Then, they can take payments on behalf of the merchants. As Banks learn about customers to personalize offers, they become true value-added financial consultants to customers. And as they drive more business and customers to merchants, they become a higher value-added partner.

For more information about IBM Solutions for Bank Marketers in the cognitive era, please visit: <http://www.ibm.com/commerce/us-en/marketing/?lnk=buttons-bar-left> or talk to your IBM Marketing solutions or a customer engagement banking client executive to understand IBM solutions or schedule a demo.



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