

**SIMON ♦ KUCHER & PARTNERS**

Strategy & Marketing Consultants

# Successful minimisation of churn rates in Wealth Management

Simon-Kucher & Partners' Banking Strategy Forum

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# Our agenda for the next 15 minutes



**What is the customer churn rate**

**I**



**What are reasons for churn?**

**II**



**What are typical churn rates?**

**III**



**What can you do about churn?**

**IV**



**Case study: Successful churn management in Wealth Management**

**V**

# I What is the customer churn rate?

Churn rate = Percentage of customers who end their relationship with a company in a particular period. It is typically measured by month, quarter or year.

Decreasing churn rate = Potential signal that something is working well.  
Increasing churn rate = Potential signal that something needs addressing.

Looking at churn rates per customer segment can help identify which types of customers are at risk and which may require an intervention.

Sophisticated, data-rich firms (i.e. financial services providers) should even look at the churn rate on an individual customer level.



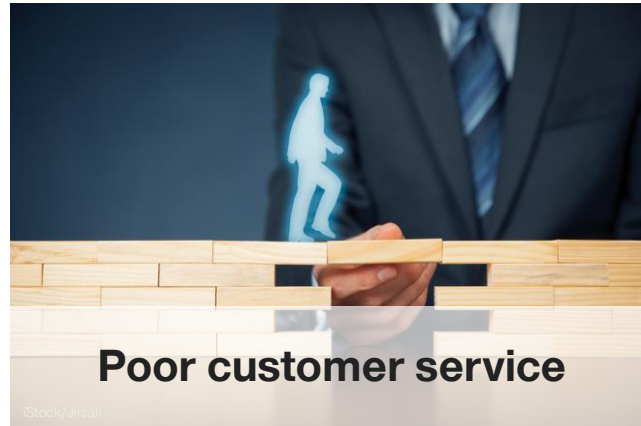
## Why should you care?

**Depending on which study you believe, and what industry you are in, acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one**

## II What are reasons for churn?

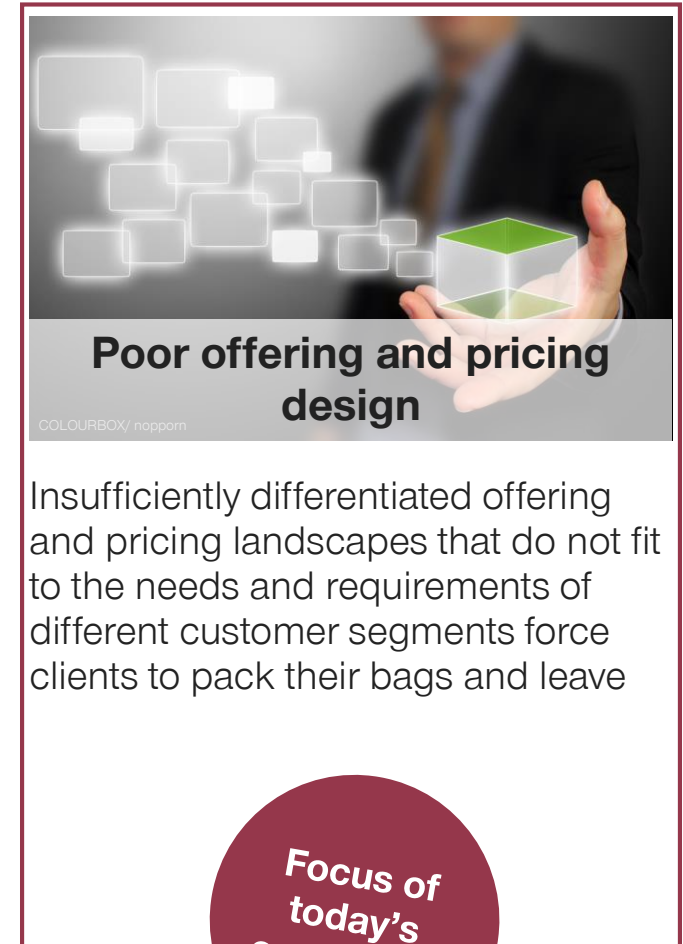


Industries that promote price heavily up front attract the wrong kinds of customers, as these are deal seekers who then leave quickly when they find a better deal with another company



Customers that do not receive the service they look for will turn away and tell people about their bad experience via social media

**89% of customers began doing business with a competitor following a poor customer experience<sup>1</sup> and 59% of 25-34 year-olds share poor customer experiences online<sup>2</sup>**



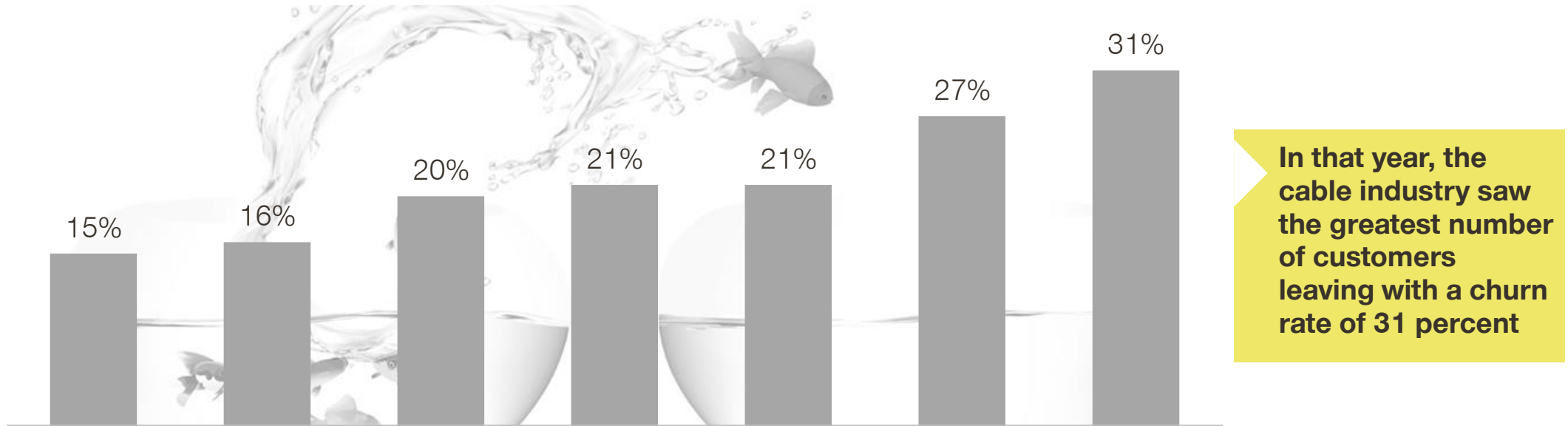
Insufficiently differentiated offering and pricing landscapes that do not fit to the needs and requirements of different customer segments force clients to pack their bags and leave

**Focus of today's case study**

1) <http://www.oracle.com/us/products/applications/cust-exp-impact-report-epss-1560493.pdf>; 2) <https://www.newvoicemedia.com/blog/the-multibillion-dollar-cost-of-poor-customer-service-infographic>

## III What are typical customer churn rates?

### Customer churn rate in the United States in 2017, by industry

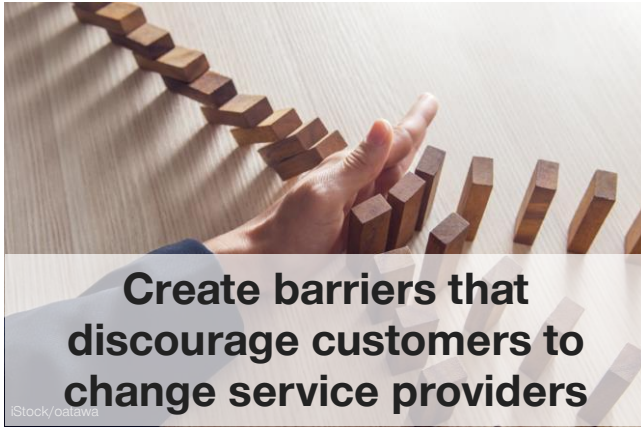


United States, 2017: 1,000 respondents, 18-65 years

**There is no such thing as one target churn rate. Instead of fixating on a certain number, the best managers look at what their churn was last year and ask themselves how they can do better**



## IV What to do about churn?



Companies that introduce contractual binding periods, use of proprietary technology, value-added services or unique business models have higher customer retention rates



The more products a banking customer uses, the smaller the chance of the customer leaving

**Identify customers with a high likelihood to churn, using behavioural analytics**

The collection and analysis of behavioural data can support the creation of a churn risk score that helps identify customers to focus on with retention activities

**Focus of today's case study**

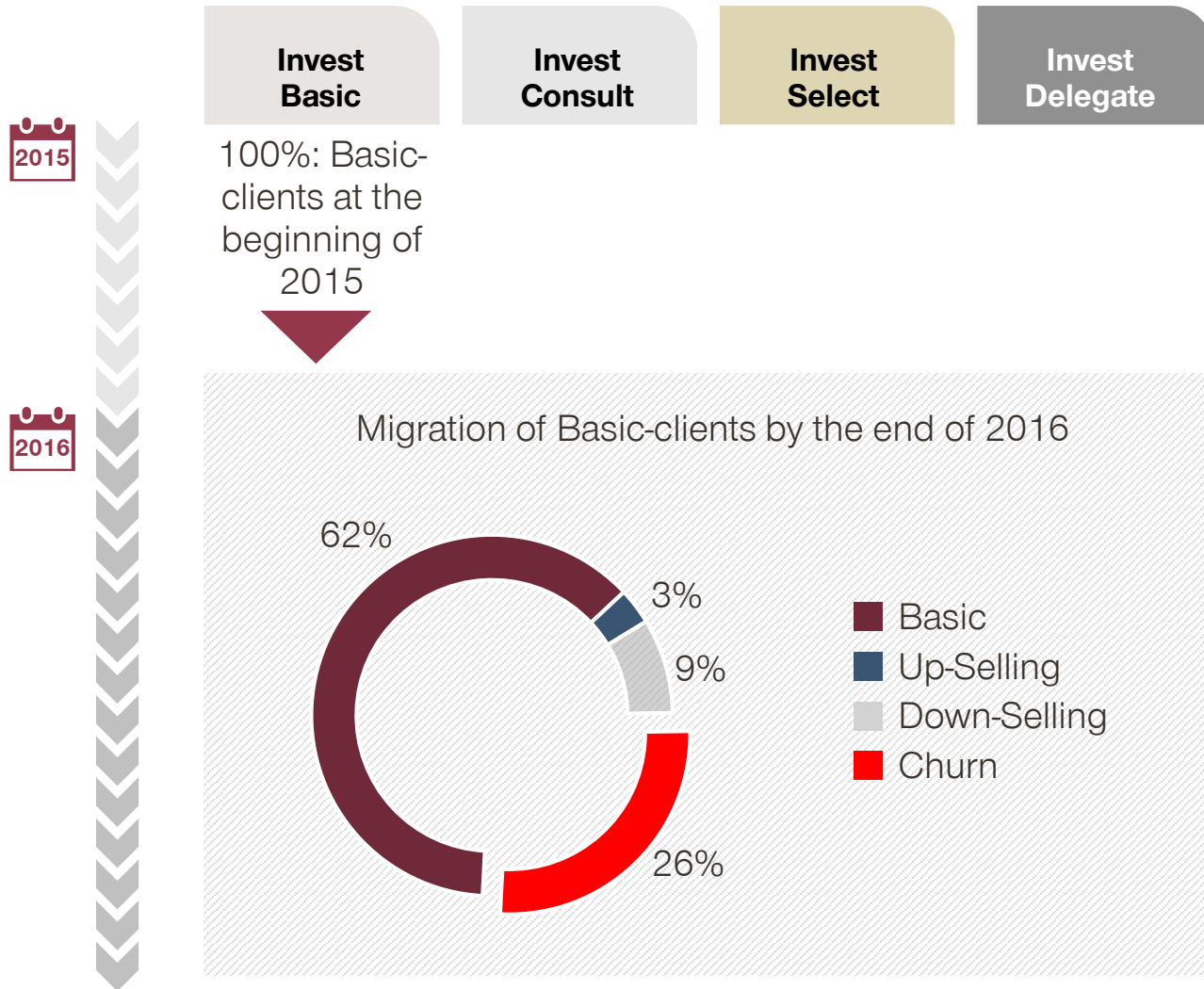
# V Case study: Initial situation at our client

	<b>1</b> Invest Basic	Invest Consult	Invest Select	Invest Delegate
Advisory contract	✓	✓	✓	✓
Risk profile	✓	✓	✓	✓
Custody account	✓	✓	✓	✓
Transactional advice	4 incl. p.a.	12 incl. p.a.	✓	✓
Transactions	Charged separately	12 incl. p.a.	24 incl. p.a.	✓
Proactive recommendations	x	x	✓	✓
Portfolio review	<b>2</b> 1 incl. p.a.	2 incl. p.a.	2 incl. p.a.	3 incl. p.a.
Account statement	1 incl. p.a.	1 incl. p.a.	2 incl. p.a.	2 incl. p.a.
Performance statement	Charged separately	✓	✓	✓
Tax statement	Charged separately	✓	✓	✓
Pricing	<b>3</b> 0.60% - 0.30% p.a.	0.84% - 0.54% p.a.	1.08% - 0.78% p.a.	1.20% - 0.90% p.a.

## Key shortcomings of initial offering and pricing landscape

- 1** Very retail-like client base with few and undifferentiated portfolio holdings migrated to Basic advisory solution
- 2** Insufficiently differentiated offering landscape. No focus on real value drivers as differentiation factors (i.e. access to experts [bankers vs. asset class specialists / investment consultants]; Degree of safety through portfolio monitoring, etc.)
- 3** Too high pricing for same service as former execution only proposition

# V Case study: Client churn & downgrading specifically visible in the advisory service landscape



## 26% churn rate of Invest Basic clients within two years

- After two years, a large share of Invest Basic clients has either left the bank or has downgraded to an execution only solution
- 9% of clients who used Invest Basic in January 2015 had opted out to move into an execution only proposition
- More than 50% of new clients have left the bank within 2 years

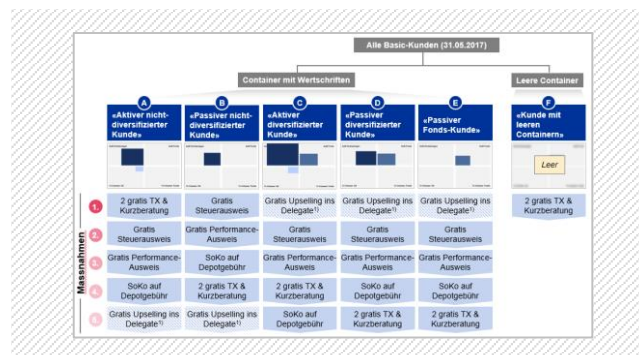


# V Case study: Simon-Kucher's approach to churn management

## 1 Development of a churn prediction model

IDP_Nr.	Alpha	Name	Banking	Churn	Risikoprofil
01010	1	Eden Phil Studer	aktiver diversifizierter Anlagekäufer	0	30
01020	1	Eden Theresia Sigan-Budger	aktiver diversifizierter Anlagekäufer	0	40
00708	1	Isabel Kasper	passiver nicht-diversifizierter Kunde	0	20
01046	1	Flaminia Fritzer	aktiver nicht-diversifizierter Kunde	0	20
00276	1	Sara Karc	passiver nicht-diversifizierter Kunde	0	20
01062	1	Markus Hansli	passiver nicht-diversifizierter Kunde	0	20
01063	1	Andreas Hodel	passiver nicht-diversifizierter Kunde	0	20
01064	1	Walter Furrer	passiver Fonds-Kunde	0	20
01065	1	Walter Furrer	passiver nicht-diversifizierter Kunde	0	20
01066	1	Christina Jaggi	aktiver diversifizierter Anlagekäufer	0	20
01067	1	Markus Hodel	aktiver diversifizierter Anlagekäufer	0	20
01068	1	Renald Durriger	passiver nicht-diversifizierter Kunde	0	20
01069	1	Flaminia Fritzer	aktiver diversifizierter Anlagekäufer	0	20
01070	1	Andreas Hodel	aktiver diversifizierter Anlagekäufer	0	20
01071	1	Rudolf Bachmann-Fritzer	aktiver diversifizierter Anlagekäufer	0	20
01072	1	Karl Weber-Ross	aktiver diversifizierter Anlagekäufer	0	20
01073	1	Jacqueline von Arn	passiver diversifizierter Anlagekäufer	0	20
01074	1	Christine Müller-Fürst	aktiver diversifizierter Anlagekäufer	0	20
01075	1	Beat Zuber	passiver nicht-diversifizierter Kunde	0	20
01076	1	Ralf Champson	passiver diversifizierter Anlagekäufer	0	20
01077	1	Heidi Berg und Eleana Mellen	passiver diversifizierter Anlagekäufer	0	20
01078	1	Heidi Brunner-Vogt	passiver nicht-diversifizierter Kunde	0	20
01079	1	Christine Studer	passiver diversifizierter Anlagekäufer	0	20
01080	1	Silvia Schmid-Heller	passiver diversifizierter Anlagekäufer	0	20
01081	1	Rudolf Furrer	passiver diversifizierter Anlagekäufer	0	20
01082	1	Sofian und Maria Veronik Innes	passiver diversifizierter Anlagekäufer	0	20
01083	1	Ulrich Furrer	passiver diversifizierter Anlagekäufer	0	20
01084	1	Renald Sigg	passiver diversifizierter Anlagekäufer	0	20
01085	1	Heidi Veronik Innes	passiver diversifizierter Anlagekäufer	0	20
01086	1	Renald Oberholzer-Kornen	passiver nicht-diversifizierter Kunde	0	20
01087	1	Christine Studer	passiver nicht-diversifizierter Kunde	0	20
01088	1	Heidi Furrer	passiver diversifizierter Anlagekäufer	0	20
01089	1	Rudolf Furrer	passiver diversifizierter Anlagekäufer	0	20
01090	1	Werner Stadel-Riederbach	aktiver diversifizierter Anlagekäufer	0	20

## 2 Identification of customer churn risk profiles and definition of mitigation measures per profile



## 3 Development of churn management tool for client advisors

The screenshot shows a client advisor tool interface. It displays client details for 'Martin Müller' (ID: 0123456). The interface includes sections for 'AUM & Transaktionsvolumen (CHF)', 'Anzahl Positionen & Transaktionen', and 'Portfolioleistung'. The 'AUM & Transaktionsvolumen (CHF)' section shows a total value of 114839 CHF. The 'Anzahl Positionen & Transaktionen' section shows 1 position and 1 transaction. The 'Portfolioleistung' section shows performance metrics for 2017 (1.00%), 2016 (3.2%), and 2015 (4.5%). The 'Massnahmen' section lists several measures: '1. Mitteilung im Dialog zu Basis-Konten', '2. 2 Gratis Transaktionen mit Kurzerberatung', '3. 2 Gratis Performance-Ausweise', and '4. 2 Gratis Steuerausweise'. The interface also includes a 'Portfolioleistung' chart and a 'Welche vorgeschlagenen Massnahmen nimmt der Kunde in Anspruch?' section with checkboxes for 'Kontakt', 'Kontakt', and 'Kontakt'.

- Development of a regression model (churn prediction model) to identify risk of client attrition
- Factors identified were number of products used, number of lines in portfolio, type of investment (fund vs. single lines), etc.
- Validation of prediction factors with bankers and senior management

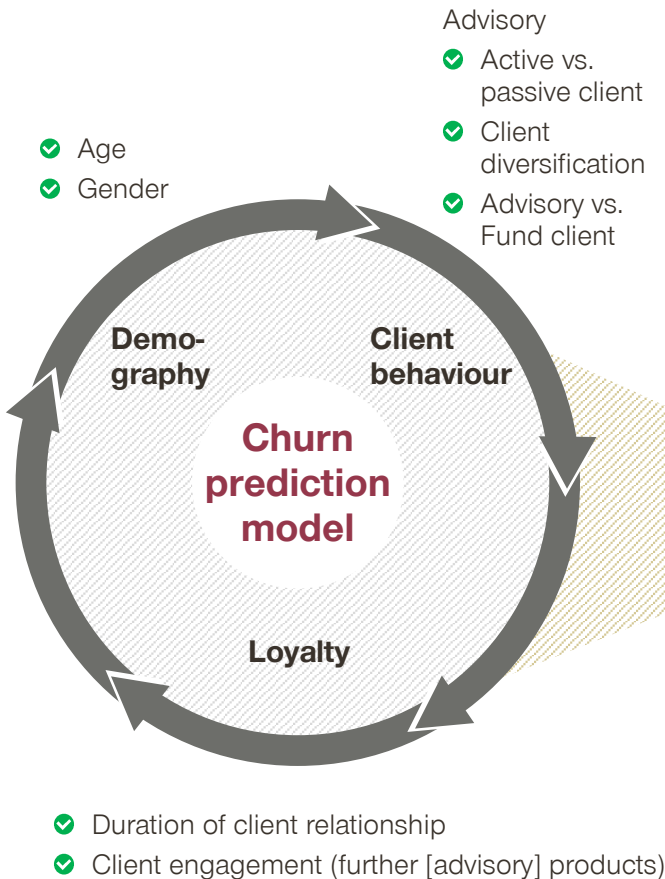
- Identification of customer churn risk profiles based on churn prediction model
- Definition of mitigation measures for all risk profiles

- Development of bespoke churn management tool for client advisors
- Tool aided client advisors to work through their list of target clients and adopt proposed measures
- 82% of all Basic clients were contacted, and churn rates decreased significantly to below 1% p.a.

Simon-Kucher developed a tool for client advisors to firstly identify customers at risk of leaving the bank and secondly to maintain them as clients through specific measures

# V Case study: A churn prediction model enabled risk classification of clients based on CRM data

## Development of churn prediction model



## Sounding with bankers

**Banker 1**

**Banker 2**

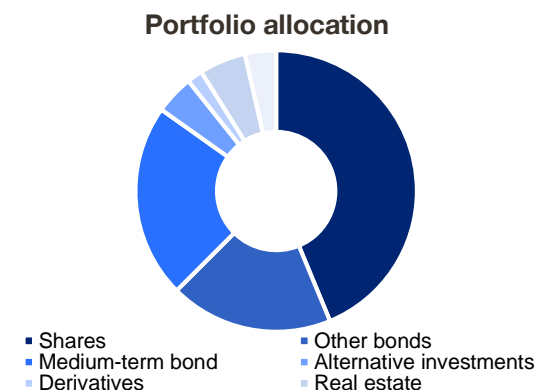
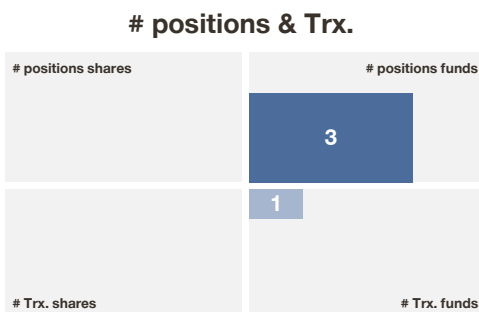
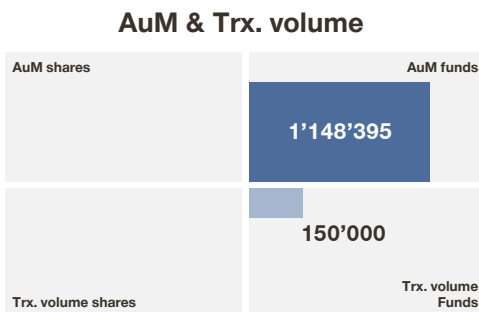
**Banker n**

The churn probability of clients was measured based on a set of churn predictors. The results of the regression model were then verified with relationship managers

# V Case study: A bespoke Banker Tool allowed for a more effective management of client relationships

The goal was to enhance client engagement with clear measures especially for high value clients in high risk classes.

Client info	Name	Martin Muster
	Client ID	0123456
Advisory	Client behaviour profile	Passive funds client
	Selected investment strategy	Risk-averse
	Churn probability	15%
	Client revenue (investment segment) 2016	£ 8,000
	AuM (without cash)	£ 1,148,395
	Performance-relevant liquidity	£ 1,130
	Other liquidity	£ 233,000
	Discounts	—
	Retrocession refund amount 2016	£ 6,243
	Portfolio performance 2017	- 1.00%
Portfolio performance 2016	3.20%	
Portfolio performance 2015	4.55%	
Client relationship	Client revenue in further segments 2016	£ 4,000
	Mortgages	—
	Further financing	—
	Payments	£ 30,000
	Savings	£ 200,000
E-Banking	Yes	



### Measures

- 1 Up-Selling measure
- 2 Service for free measures
- 3 Special condition measure
- 4 ...
- 5 ...

### Activities

Contacted	Will not be contacted	Still open
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Which proposed measures will be applied?

1	2	3	4	5
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Comments .....

### Why was the client not contacted?

Only just recently contacted

Low churn risk

Other .....

A longlist of measures has been developed, reduced to a shortlist and specified for each client profile

## Contact



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