Why Make Advanced Analytics Part of Your Strategy? Because it's Everything: Mathematically It's Even More

Advanced analytics is no longer a strategic initiative for IT and business intelligence departments. Advanced analytics is important to all key players within the credit union as it is a quintessential *business matter*. From senior management to each line of business, analytics means everything to the credit union because insights born from data will be used to greatly impact the entire organization. Today, new and powerful data analytic tools are discerning trends, patterns, and predictive insights around member data proven to create tremendous business value.

Even though many credit unions have put a data analytics strategy and program in place, there is an unbalanced emphasis on the **"analysis"**, and a lack of focus on the **"math"**. Today's "analytics" often encompasses visuals, graphs and trends while, advanced analytics, results in quantitatively-proven prescriptive statistics from regression and machine learning. The true value driver for credit unions, is the ability to transform data into actionable information, identify segments of opportunity, and take measured actions to develop recurring best practices that empower front-line staff.

Uncovering opportunities by focusing on the math requires data savvy talent or an outsourced Chief Data Scientists/ Strategy Officer. Whether you have these resources on hand today, consider these real-life scenarios on why the math truly means everything when it comes to data.

Member Contribution

For most credit unions, the minority (and often the vast minority) of members provide the vast majority of many key metrics. For example, risk weighted, capital, service and transaction costed member contribution results reveal that percentiles 1 to 3 or 5 generate 150% or more of total gross member contribution. Percentiles 4 or 6 to roughly 15 generate an additional 80% to 120%. Members in percentiles 16 to 89 tally a negative 40 to 100% while, the bottom 10 percentiles generate another negative 100% leaving the net institution 100%.

The members in the last ten percentiles are known because the credit union has received bankruptcy notices or members are in asset-recovery. The financial institution usually has an intuitive idea of the best members. The intuition is typically 75% to 80% correct. Achieving precise knowledge of these members is important.

Finding Low Hanging Fruit

What if the top five percentiles represent members that exceed a certain contribution threshold. The goal is to recognize new members, at the two week or two-month period, that demonstrate an "opportunity" to join that exclusive group. Once recognized, what are the actions to deliver member service and empower them to realize their potential by being informed about the right product or service, through the right channel, using the right approach at the right time? The credit union's goal: to have 6% or 7% over the targeted member contribution threshold the following year and 8% the year after.

Similarly, greater opportunity exists to *slightly* change the habits of those that exist in the 16% to 89% range. Several segments represent "low hanging fruit". Members often appreciate being informed that a product or service will meet a need exhibited by their usage while improving their retention, engagement or contribution measure with the credit union.

As an example, consider a discussion with a member with a *lower* credit score. If they were to open a CD and receive a CD secured line of credit, maintain a low percentage balance, and make on-time payments from their checking account, those factors coupled with the available credit can boost their credit score 40-80 points within a year. After the year mark, an additional factor will further help their credit score. The credit union will be helping the member while earning several advantages.

Segmentation & Retention

Identifying action lists of opportunities is revealed through segmentations that range from simple to advanced. The challenge is that members in both the top and bottom percentile ranges have a checking account, use internet banking and a debit card. However, their statistics and usage differ significantly. To identify the opportunities, data savvy talent or an outsourced Chief Data Scientist must be able to measure the member's relative engagement and contribution.

Measuring retention is equally important for credit unions. To remain competitive and strong, management should focus on extending the average life of certain members, but this requires the ability to measure a member's relative retention. Transaction ranges, types of transactions, and whether they have or use certain products are factors in a retention metric. Leveraging member characteristics such as millennial, executive, retiree, rural are all important to the mathematical equation. More so, matching the channel, message, approach, and timing to address the financial needs of each member segment will measurably increase growth opportunities.

Put Data to Action

If the credit union has the proper advanced analytics technology in place, these newfound analytical insights offer a marked transformation to the institution – from more granular targeted marketing campaigns, to better cross-selling and up-selling opportunities.

Knowing the relative contribution and retention characteristics of products and services within the different segments of members will empower loan officers and branch teams to take prescriptive action. Front-line teams will appreciate receiving "opportunity action lists" because they will know a particular message will drive success forty percent of the time. Through the data, the credit union can measure the return on investment of different actions versus a control group. Teams can determine the best message to send to a specific member identified by an established filter. Finally, the credit union can develop prescription action lists that can be refined for long-term success.

Imagine the benefits the credit union would experience by making these data-driven decisions. Are you ready to start the journey?

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