

Data mining at Union Investment

Customer loyalty - a thing of the past?

Customers are the future for every business. Companies that don't know their customers' needs sooner or later will lose them. That is why client retention is at the heart of every successful business strategy. Yet this poses a task nearly impossible without the use of modern information technology. Union Investment has now implemented a professional data-mining system, an IT architecture for the systematic, criteria-based analysis of the entire mass of client data. Now the fund provider can better anticipate client behavior in order to outline measures targeted specifically to client needs.

The days of lifelong client loyalty are long gone; most customers are quite willing to switch given a more attractive offer from competitors. To differentiate themselves, companies have to market products in a manner specifically geared to client needs. But this is only possible if you first know your client. It is not enough to have general information like average client age or income. It must be known for example which type of offers particular client groups will respond to, which requires a wide range of data such as client age, gender, product buying history, demonstrated product interest, investment frequency and savings behavior. Taken together these data can be utilized to gauge with precision client affinity to specific offers, but gathering and evaluating such data is a complicated and time-consuming undertaking.

Data mining (DM) is a technique allowing the systematic analysis of the entire body of a company's data to uncover hitherto undiscovered insights. Data mining systems allow searching through enormous volumes of data on a largely automated basis applying specific criteria in a way that cannot be achieved through 'manual' searching. Results are then evaluated so as to reveal things like client behavior tendencies. This allows accurate anticipation of client behavior on the basis of which more attractive, tailored products can be developed and offered. The result: enhanced service quality that raises customer satisfaction, which translates into customer retention.

Data mining booming in financial services

Data mining is of particular interest to the financial services sector, which deals with tremendous volumes of client data. The professional DM system implemented by asset manager Union Investment for example has been extremely productive since going live in mid-2007, enabling the company to optimize its marketing campaigns and substantially increase the effectiveness of mailings. Clients are now categorized into specific groups, so mailings only go out to those being targeted on the basis of life circumstances or other profile considerations. New contract closings have thus risen between 30 and 100 percent in some cases versus mailings conducted without data mining.

"To stay ahead of the competition, companies need to focus like a laser on client retention," says Thomas Fender, Data Mining Project Manager in Union Investment's Private Client Data Management group. "That is why we decided two years ago to become more client-oriented by implementing a proprietary analytical system for optimizing client relationships." Product distribution is still done exclusively via the branch office network of association banks in the *Genossenschaftlicher Finanzverbund*, but Union Investment wanted client communications, marketing and service to be more focused. Infomotion GmbH, Germany's leading consulting firm for business intelligence solutions in the financial sector, was hired for the job. Because Infomotion had earlier built a large data warehouse for Union Investment's private client business, an excellent base of data was



already available. "Setting up a DM system was only the next logical step," explains Infomotion project manager Christoph Demming. "The data warehouse automatically collects all corporate data for use in reporting. The data mining system now completes the picture by allowing the identification of significant patterns in data."

Best done right the first time

The project kicked off with extensive evaluation of the underlying software. "There are tremendous differences among the DM software products on the market," reports Demming. "We budgeted sufficient time for evaluation to ensure that the solution to be developed would be the best possible one for Union Investment." Thomas Fender of Union Investment: "We first put together a precise catalog of specifications documenting every requirement." Four software solutions made it into the second round of selection, which then underwent intensive analysis in a test environment created by Infomotion. In the end we decided to go with one of the leading DM software products, SPSS Clementine.

The first analysis issue addressed by the data mining system was client attrition. Though a seemingly clear-cut matter at first, it took a large amount of consultation with the specialist division to define the profile of a potential client defector. "This is a highly complex client category," Fender explains, "as there are many potential reasons why a client may leave." A variety of attributes were worked out helpful in categorizing clients. The system provides reports broken down by client, account, fund and broker to afford maximum flexibility in terms of informational views. Specific attributes were defined for each individual view, so that for example when querying for the largest accounts, the existing base of data can be used, instead of one having to be compiled separately. "Design and development thus took a bit of time," said Demming, "but our goal from the start was to create a flexible system. Now all department queries can be processed extremely rapidly." The Union Investment data mining system saves two to four workdays on average, allowing a much larger number of analyses to be conducted.

Systematized client retention

Marketing and Client Service benefit the most from client segment analysis, i.e. categorization of clients into distinct groups (speculative/conservative etc.) based on historic activity. The DM system then automatically predicts which clients are likely to be interested in specific products. Union Investment has also had a lot of success with dependency analysis for cross-selling purposes. The data mining system allows identification of favorable opportunities, along the lines of 'clients buying product A are X percent likely to also buy product B'. "Client retention is now much more efficient too, due to the more individualized offers we are able to make," says Demming of Infomotion, "The DM system is a tremendous aid to Union Investment's client management. It is optimal for active, targeted client communications, allowing us to speak to the client in a more individualized manner." Thomas Fender adds, "Now we are able to identify clients at risk of defecting before it is too late in many cases. We can then introduce retention measures allowing us to stay on top of the situation."

About Infomotion

Infomotion GmbH, headquartered in Frankfurt am Main, is one of Germany's leading consulting firms for business intelligence solutions. Founded in 2004, Infomotion has already opened branch offices in Munich, Stuttgart and Cologne. Our roughly 80 consultants and developers plan, design and implement solutions for business intelligence, corporate performance management, data warehousing and reporting. Our customers include investment and brokerage firms like DekaBank, DIT and Union Investment and retail banks like Dresdner Bank and ING DiBa, in addition to such non-financials as Deutsche Post and Adidas. We are partners with AQUIN Components, Business Objects, Cognos, Informatica, KXEN, Microsoft, NewFrontiers, Noad Business Intelligence, Oracle and SAS.

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