

# CREATING AN EVIDENCE-BASED CROSS-SELL STRATEGY: THE FINANCIAL INSTITUTIONS' JOURNEYS

## INTRODUCTION

Financial institutions are continually looking for new ways to engage clients. Institutions turn to cross-sell to engage clients in order to increase their share of clients' savings ("wallet share"), improve client retention and achieve higher financial returns. And yet, in attempting to sell multiple products to clients, institutions do not always consider the intrinsic needs of the clients they are seeking to engage. The intent of cross-sell is well-meaning, perhaps, because there is an inherent assumption that certain products should be "good" for clients. However, because such assumptions are not backed by hard data or deep client insights, the products offered may not be relevant enough for clients, leaving them unused by clients and expensive for institutions.

One of the key factors for improving client engagement through cross-sell is relationship building. Understanding clients' behaviors not only toward one institution, but also toward all formal and informal financial services providers, a particular provider might notice how clients value building relationships with different institutions. Low income clients in particular tend to maintain relationships with multiple formal and informal financial services providers to increase their chances of accessing money when they need it most.<sup>1</sup> This is a potential challenge to cross-sell, as clients are reluctant to rely on one institution for all of their needs. But clients may also benefit from taking up multiple products with one institution. In developing a relationship with a particular institution, clients may come to increase their trust in the institution, better understand products and services and reduce the time and costs associated with dealing with multiple providers.

A financial institution has a higher rate of

success when it intentionally engages clients by using evidence to structure a cross-sell strategy relevant to clients' needs. Optimizing Performance Through Improved Cross(X)-Sell (OPTIX), a special project of Rockefeller Philanthropy Advisors (RPA), funded by MetLife Foundation and managed by Bankable Frontier Associates (BFA), is working with four institutions – SAJIDA Foundation, Banco WWB, Cooperativa Acreimex and Capital Aid Fund for Employment of the Poor (CEP) – in four markets: Bangladesh, Colombia, Mexico and Vietnam, respectively, to intentionally pursue cross-selling that positively impacts both the institutions and their clients.

The pursuit of more intentional, impactful cross-sell strategies is rooted in evidence from both the institution and its clients, including client preferences, behaviors and attitudes, management information systems (MIS) data, product profitability analysis and staff experiences.

### WHAT DO WE MEAN BY CROSS-SELL?

For this Focus Note and the project that it describes, we define cross-sell as financial institutions intentionally selling multiple voluntary products to clients so that clients actively and voluntarily use more than one product at the same institution, over time. By extension, our definition of cross-sell means that an institution is intentional and strategic about offering appropriate suites of products to different client segments, as defined by their transactional behavior, broader financial needs and demographics.

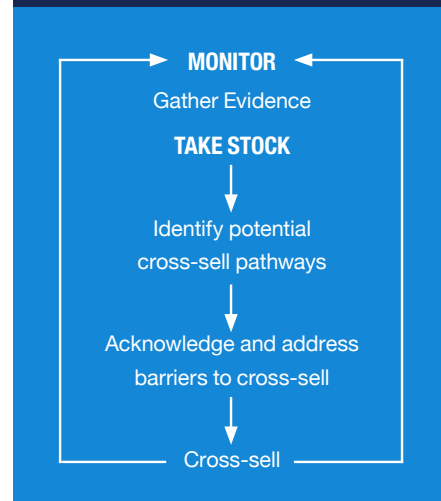
<sup>1</sup> These points are extensively made in Collins et al. 2009. *Portfolios of the Poor*. Princeton, NJ: Princeton University Press.

By weaving together information from multiple sources, the OPTIX institutions are designing cross-sell initiatives that intentionally meet their clients' needs and improve their bottom lines.

In [OPTIX FOCUS NOTE 1](#), we explained the purpose of the project and introduced the partner banks.<sup>2</sup> We also discussed one approach to tailoring cross-sell strategies to clients based on their needs, hypothesized by analyzing an institution's data but not yet tested through client research. Focus Note 2 summarizes the different types

of evidence we wove together to design cross-sell strategies with the four OPTIX institutions. While pulling from the same types of evidence, the results have paved different pathways for each institution. We employed a structured approach for each institution, as shown in Figure 1 (right) that first gathered different evidence types. Using the results to identify cross-sell pathways, we then considered key barriers to cross-sell and finally we identified some specific cross-sell opportunities in light of the evidence, potential pathways and barriers.

**FIGURE 1:**  
OPTIX cross-sell strategy development



## ▶ RECAP – THE FOUR OPTIX INSTITUTIONS

As described in OPTIX Focus Note 1, the four OPTIX institutions have different structures: two microfinance institutions (MFIs), one bank and one cooperative; they operate in different regulatory and competitive environments. Each institution offers different product types, depending on institution strategy and what is allowed by regulation. Table 1 lists a sample of the institutions' products; some of the institutions also offer insurance and specialized credit products.

**TABLE 1:** Main credit and savings products on offer by the OPTIX institutions

	INSTITUTION A	INSTITUTION B	INSTITUTION C	INSTITUTION D
<b>MAIN CREDIT PRODUCTS</b>	<ul style="list-style-type: none"> <li>Consumer loan</li> <li>Group loan</li> <li>Payroll loan</li> </ul>	<ul style="list-style-type: none"> <li>Small business loan</li> <li>Payroll loan</li> </ul>	<ul style="list-style-type: none"> <li>Small business loan repaid weekly</li> <li>Small business loan repaid monthly</li> </ul>	<ul style="list-style-type: none"> <li>Group loan</li> <li>Individual loan for group borrower graduates</li> <li>Individual small business loan</li> </ul>
<b>MAIN SAVINGS PRODUCTS</b>	<ul style="list-style-type: none"> <li>Current account</li> <li>Term deposit</li> </ul>	<ul style="list-style-type: none"> <li>Transactional account</li> <li>Commitment savings account</li> <li>Term deposit</li> </ul>	<ul style="list-style-type: none"> <li>Commitment savings account (called "voluntary savings")</li> </ul>	<ul style="list-style-type: none"> <li>Commitment savings account (called "voluntary savings")</li> <li>Term deposit</li> </ul>

*Institutions A and B have more flexibility in their product offerings due to their institutional structures and the way clients access the institutions, but Institutions C and D, the MFIs, have stricter requirements, particularly related to savings offerings. The MFIs do, however, benefit from their doorstep banking models—where loan officers travel to clients—making saving more convenient for clients than traveling to the branch to deposit savings. As a result, we found that over 70% of*

*clients from one MFI and 57% of clients from the other MFI already had multiple products voluntarily—e.g., a loan plus voluntary savings. Despite clients having multiple voluntary products, the evidence we collected revealed opportunities for the institutions to optimize their clients' cross-sell experiences through improved products, communications and channels.*

*With Institutions A and B, we found that a majority*

*of borrowers already had a savings account through which the institutions disburse the loans. However, we found that at Institution B, the average balance is only 4% of the loan principal amount. Despite clients' lack of account usage, the evidence pointed to distinct opportunities for both institutions to pursue bespoke strategies that would encourage usage among clients who already technically had two accounts, thus providing a better cross-sell experience.*

# DESIGNING EVIDENCE-BASED CROSS-SELL STRATEGIES

We are working with the OPTIX institutions to design optimal and impactful cross-sell strategies based on evidence from MIS data, business case and client and staff research. In gathering evidence from the institutions and clients, a picture began to take shape of what products and product combinations may be attractive to both the financial institutions and their clients. We balanced client perspectives and institution perspectives to weave potential pathways toward intentional, impactful cross-sell.

## DATA ANALYTICS

Financial institutions capture a wealth of client information in their MIS, providing a relatively easy and “free” way of getting insights into client behaviors. However, many institutions lack the time, capacity and know-how to take advantage of the data. We began our data analysis by asking questions about clients’ behavior with individual products and product combinations.

### WE LOOKED AT MIS DATA TO ANSWER QUESTIONS SUCH AS:

**INDIVIDUAL PRODUCTS:** What are the average balance and transaction patterns of clients in a given month, and over their lifetime with the institution? What is the average loan size and delinquency level of clients?

**PRODUCT UPTAKE:** What products do clients adopt first? How long until they adopt a second product? A third?

**PRODUCT COMBINATIONS:** What are the most common product combinations? For borrowers with a savings product, what are their savings patterns over the course of a first loan, second loan, etc.?

**MULTIPLE PRODUCT USE:** How do clients use their first product? If clients adopt additional products, how does their behavior toward the first product change?

**BFA examined these questions to identify patterns around product usage, including which products clients used the most and the least.**

This, in turn, helped us identify where to probe in the business case analysis and client and staff research. For example, with the patterns in hand, we conducted follow-up research with clients and staff about the possible reasons behind current client behaviors. With an informed understanding of which products clients use and how frequently, we were able to probe about clients’ barriers to usage, as well as what products outside the institutions clients used to meet different needs.

The MIS data on average savings balances, average loan principal amounts, average length of saving and credit delinquency and prepayment also informed the business case.

**Some of the findings quickly revealed differences in historic client activity with the institutions that led us toward different potential cross-sell pathways.**

Clients who remained with Institution D for longer than a year had increasing amounts of savings with the institution. However, Figure 3 shows that only 14% of Institution D's clients remained with the institution for 24 consecutive months. In contrast, while Institution A did not see any growth in average savings balance over time (Figure 2), it did see higher overall retention of savings clients (Figure 3). Already this points to opportunities to better engage the many clients of Institution A who remain with the institution, and opportunities to address the retention challenges of Institution D.

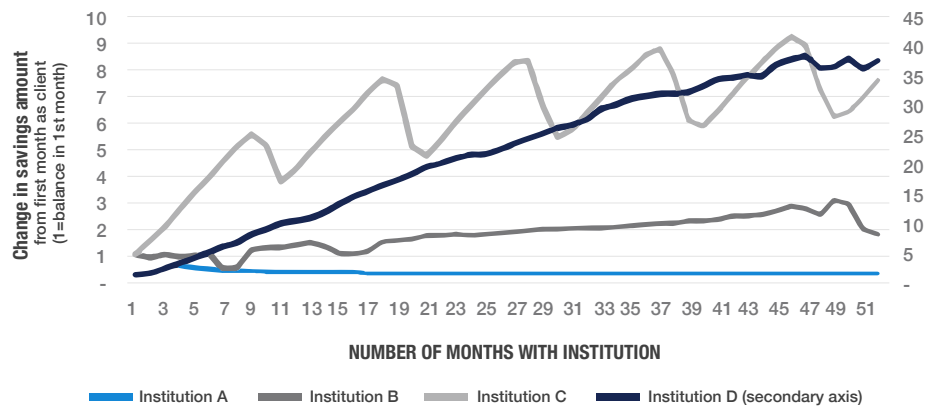
Institutions B and C saw retention somewhere between the other two institutions. Institution B saw no change in clients' average savings balance of clients and Institution C saw "wavy" savings behavior, likely tied to the length of an average loan cycle.

**Why the divergent patterns? Clients of Institution A told us about the challenges and inconvenience of consistently traveling to a branch to deposit savings.**

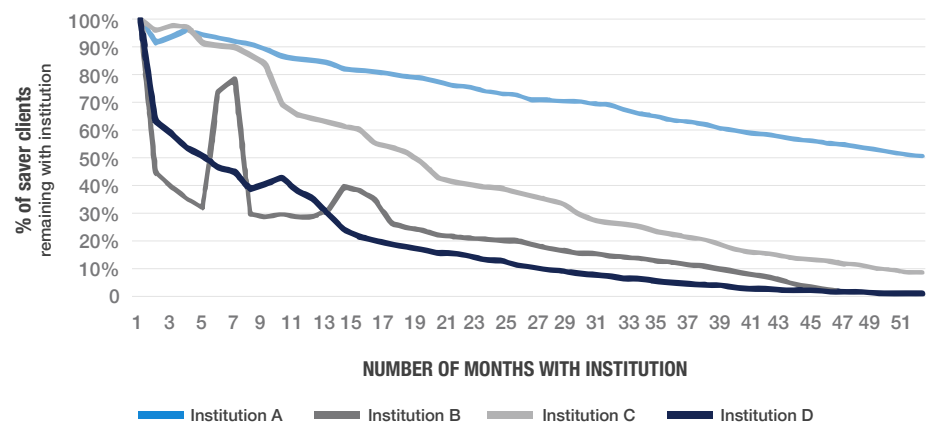
Institution A's clients reported their preference for disciplined, "stealthy" savings schemes where they do not have to handle the money themselves, but rather it goes directly from their employer into a savings group or account. In contrast, we knew from staff members of Institution C that clients like withdrawing some money at the end of each loan cycle, but leave most in the account to be able to subsequently borrow a larger amount against it.

Consider savings behavior as an example. Clients tended to exhibit different savings behavior over the course of their relationships with a particular institution (Figure 2), but also different patterns in retention (Figure 3).<sup>2</sup>

**FIGURE 2: Normalized average balance of most common savings account**



**FIGURE 3: Percent of clients retaining most common savings account**



**▶ THIS INITIAL ANALYSIS SET US UP TO FURTHER EXPLORE CREDIT DATA, AND HOW CREDIT AND SAVINGS BEHAVIOR DIFFERS IF A CLIENT IS CROSS-SOLD OR NOT.**

<sup>2</sup> Data based on client activity with the most common voluntary savings product from each institution.

## BUSINESS CASE

IN ADDITION TO INFORMING CLIENT AND STAFF RESEARCH, THE MIS DATA PATTERNS BUTTRESSED THE BUSINESS CASE. WE FIRST ASSESSED THE PROFITABILITY OF INDIVIDUAL PRODUCTS, AND THEN LOOKED AT PRODUCT COMBINATIONS TO CONSIDER WHICH ONES WERE FINANCIAL WINNERS AND LOSERS.<sup>3</sup>

We calculated the total cost (operating plus financial costs) of issuing and servicing a loan as a percent of the average loan value and compared the cost with the profit margin. We used the same approach for looking at costs and profit margin as a percentage of average savings balance (see Tables 2 and 3).

**TABLE 2:** Total cost and profit margin of loans, as percent of average loan value

	INSTITUTION A		INSTITUTION B		INSTITUTION C		INSTITUTION D	
	Group loan	Payroll loan	Small business loan	Payroll loan	Weekly small business loan	Monthly small business loan	Group loan	Individual business loan
Total cost	11%	6%	20%	7%	9%	3%	17%	10%
Profit	-3.1%	9.5%	14.9%	21.5%	5.8%	6%	5%	13%

**TABLE 3:** Total cost and profit margin of savings, as percent of average savings balance

	INSTITUTION A	INSTITUTION B	INSTITUTION C	INSTITUTION D
Total cost	51%	66%	9%	19%
Profit	-39%	-54%	-6%	-14%

**▶ THE COST AND PROFIT ANALYSIS PROVIDES INSIGHT INTO THE GENERAL PERFORMANCE OF THE PRODUCTS, WITH THE LOAN PRODUCTS TYPICALLY SHOWING PROFIT WHILE THE SAVINGS PRODUCTS LOSE MONEY.**

With each institution we delved deeper to identify the highest costs and subsequently plan with the institutions how they may lower certain costs, such as through improved manual processes or introducing technology.

<sup>3</sup> For more on business case impact and design, see [GAFIS Focus Note 3](#).

In our analysis of individual products, we focused on six levers for the savings and credit business cases that can help improve profitability by increasing income or decreasing costs (Table 4). To examine further some of the levers, consider acquisition and servicing costs (numbers 1 and 2 in Table 4) as examples. Acquisition costs are the costs to market, attract and register the client. Servicing costs are the costs to manage the account, plus allocated overhead. Institutions are incentivized to cross-sell partly to reduce acquisition costs.

**TABLE 4: Savings and credit business case levers**

SAVINGS BUSINESS CASE LEVERS	CREDIT BUSINESS CASE LEVERS
1. Cost to acquire a client and open an account	1. Cost to acquire a client and originate a loan
2. Cost to service an account	2. Cost to service a loan
3. Cash transactions vs. electronic transactions	3. Cash transactions vs. electronic transactions
4. Net interest margin	4. Net interest margin
5. Average balance and minimum balance requirement	5. Average principal amount
6. Fees or commissions charged to client, such as an account maintenance fee	6. Fees or commissions charged to client, such as for paying by mobile money

**TABLE 5: Acquisition and servicing costs, as percent of average loan amount, for common loans at the OPTIX institutions**

	INSTITUTION A		INSTITUTION B		INSTITUTION C		INSTITUTION D	
	Group loan	Payroll loan	Small business loan	Payroll loan	Weekly small business loan	Monthly small business loan	Group loan	Small business loan
Acquisition cost	2.4%	0.4%	4.2%	0.6%	3.3%	0.9%	3.0%	0.8%
Servicing cost	7.6%	1.5%	11.3%	2.1%	5.7%	1.9%	11.2%	4.6%

In Table 5, we examined the cost of acquiring borrowers versus servicing their loans, as a percent of the average loan amount. We found cost patterns based on the type of loan. Acquisition and servicing costs are higher for more labor-intensive loans; the high cost is mostly due to staff time on client acquisition and loan servicing. In contrast, the payroll loans for Institutions A and B have the lowest costs since they can acquire clients “in bulk” once they reach agreements with the employers. Servicing costs are also low because the payments are done on the back-end, passed from the employers to the institutions.

The payroll loan process therefore requires less staff time, lowering costs. In contrast, loans that mandate weekly payments – such as

the weekly small business loan and the group loans of Institutions C and D, respectively – require significant staff time to collect payments each week. While this analysis does not recommend that all institutions cancel weekly-paid loans, it does call into question how the weekly loan collection processes might be improved.

Aware of individual product profitability, we then considered the profit or loss of different product combinations. Savings accounts tend to have a negative margin, and combining them with a profitable loan product brings down the overall profit to the institution. We posit, however, that by addressing high cost centers of products, the profit of product combinations will increase.

**▶ BEFORE PURSUING PRODUCT COMBINATIONS TOO AGGRESSIVELY, INSTITUTIONS SHOULD FIRST CONSIDER WHAT REDUCTIONS IN COST OR INCREASES IN INCOME THEY MIGHT REALIZE FOR INDIVIDUAL PRODUCTS IN ORDER TO MAXIMIZE EACH PRODUCT'S POTENTIAL.**

## CLIENT AND STAFF RESEARCH

**DATA ANALYTICS PAINT A PICTURE OF CLIENTS' TRANSACTION PATTERNS. CLIENT AND STAFF RESEARCH REVEALS WHY CLIENTS BEHAVE THE WAY THEY DO AND WHAT OPERATIONAL AND STRATEGIC BARRIERS LIMIT INSTITUTIONS' WILLINGNESS OR ABILITY TO TAILOR THEIR PRODUCTS AND SERVICES TO CLIENT BEHAVIOR.**

We pursued client and staff research to understand clients' behaviors from clients themselves, as well as staff who interact with the clients. Our research focused on clients' experiences and financial product usage with the OPTIX institutions, as well as other formal and informal financial services providers; income sources, expenses and the seasonality of both; financial stresses, confidence and health; and household decision making practices, among other insights.

**BY LOOKING AT THE FINANCIAL LIVES OF CLIENTS WITH AND OUTSIDE OF THE OPTIX INSTITUTIONS, WE IDENTIFIED HOW THE OPTIX INSTITUTIONS CURRENTLY FIT INTO THEIR CLIENTS' LIVES, AND WHERE AND HOW INSTITUTIONS MIGHT BE ABLE TO PLAY A BIGGER AND MORE IMPACTFUL ROLE.**

By speaking with staff, we gained better insight into the operational constraints and opportunities to better meeting clients' needs.

In Figure 4, we divided clients by income quartile to understand the percent of wallet share held by the OPTIX institutions.<sup>4</sup> The figure shows that clients with less income tend to save a greater portion of their savings with the OPTIX institutions, whereas clients with relatively higher income tend to diversify their savings and save in other instruments. The figure also shows that higher income clients at each institution trend toward a particular savings instrument outside of the OPTIX institutions, i.e., Institution A's clients with higher incomes save more in investments, Institution B's clients save more at home, etc.

Examining where else clients say they save, and how much, institutions can gain a better understanding of both formal competitors and informal competitors, such as savings in the house or in gold. This in turn helps inform institutions' strategic decisions on how to compete.

**FIGURE 4: Percent wallet share held by OPTIX institutions versus other savings instruments, by income quartile**



<sup>4</sup> We also compared clients' use of credit from the OPTIX institutions and from other sources to understand clients' full financial portfolios. This section focuses on savings only to provide an example of the analysis.

For example, Institution B’s higher income clients reported saving more at home, while its lower income clients reported saving more with the institution. The research showed that clients tend to rely on liquid savings in the house for emergencies and day-to-day expenses. If Institution B wants to capture more of its clients’ liquid savings, it must introduce a more accessible, liquid account that can compete with savings at home. But staff told us that the institution is not looking to become a transactional partner of its clients.

In contrast, Institution C’s higher income clients tend to save more in gold. The research showed that clients regard gold as a longer term savings instrument that requires an initial lump sum investment (to buy the gold), though it is still liquid in case of emergencies. With input from its salesforce, Institution C considered how it could position a term deposit product to mimic the properties of gold in order to cross-sell – or better cross-sell – to certain clients.

**▶ UNDERSTANDING WHERE ELSE CLIENTS KEEP THEIR SAVINGS AND FROM WHERE ELSE THEY BORROW CAN INFORM THE INSTITUTIONS’ STRATEGIES OF HOW THEY WANT TO MEET THEIR CLIENTS’ EMERGENCY, SHORT-TERM AND LONGER TERM NEEDS.**

## CROSS-SELL PATHWAYS AND BARRIERS

### THE EVIDENCE WE COLLECTED INFORMED POTENTIAL CROSS-SELL OPPORTUNITIES FOR EACH OPTIX INSTITUTION.

One of Institution A’s pathways provides an example of how we used the evidence to arrive at a pathway that we expect to positively impact the institution and its clients (Figure 5).

Institution A offers a suite of general and specialty loan products, as well as basic savings accounts. Its loan officers have passively offered or signed up payroll clients for current accounts. Figure 5 shows how we wove together evidence to identify a product combination that the institution will pursue more intentionally.

The business case provides the evidence that the payroll loan is a profitable product. Savings products for Institution A are not profitable for small savers, but the evidence also shows that Institution A’s current savings offerings may not be optimally designed to meet clients’ needs. Clients like disciplined, convenient savings, but the institution is offering current accounts to clients.

**FIGURE 5: Weaving a cross-sell opportunity for Institution A**





## ▶ INSTITUTION A IDENTIFIED A MORE OPTIMAL CROSS-SELL OPPORTUNITY, BUT IT ALSO ENCOUNTERED BARRIERS TO CROSS-SELL.

For example, Institution A encountered the barrier of payroll loan officers' incentives and roles not aligning with the institution's cross-sell objectives. The loan officers have traditionally focused on supporting payroll credit and are not always up to date on the latest changes to savings products, nor do they actively promote savings to their clients. To overcome such a barrier in order to intentionally cross-sell effectively, the branch staff and head office worked together to confirm clear, measurable goals for cross-selling to payroll loan clients. The head office is also monitoring whether it needs to better communicate to the credit officers about their responsibilities, incentives and training.

## ▶ THE BARRIERS LISTED BELOW CREATE INEFFICIENCIES AND REDUCE THE EFFECTIVENESS OF CROSS-SELL FOR THE INSTITUTIONS AND THEIR CLIENTS.

While Institution A identified the motivations and incentives of staff as a particular barrier for the pathway described above, we found a list of barriers to be common for all four institutions, regardless of their institutional structures, country contexts or current product offerings.

- Clients' limited incomes and cash flows mean they need active portfolios of financial instruments to respond to unpredictable and lumpy needs.
- Clients lack understanding of products' terms or relevance, and institutions fail to effectively communicate to clients.
- Head office and branch staff struggle to maintain productive feedback loops and their different experiences inform divergent, sometimes conflicting strategies for engaging with clients.
- The motivations and incentives of staff are not aligned with institutions' cross-sell objectives.
- The capacity of MIS and front-end systems is limited and hinders efficient processes.
- Institutions have products that are unprofitable or appear to overlap with one another, and lack a strategy for why they offer each product.
- Channels do not sufficiently reach clients, or clients perceive them as too expensive.
- Institutions encounter challenges with third party partners, such as partners not providing service to the standards of the institutions.
- In increasingly competitive markets, institutions struggle with identity and brand.

## ■ CROSS-SELL

Institution A and the other OPTIX institutions are addressing barriers of their cross-sell pathways and proceeding to pilot pathways and determine the most efficient ways to cross-sell in order to meet clients' needs and their own financial and strategic goals. The institutions will continue to gather evidence to ensure cross-sell pathways feed into an overall strategy that positively impacts their clients and the institutions.

### THE INSTITUTIONS WILL BE TRACKING INDICATORS SUCH AS:

- Changes in client access to and usage of the institutions due to cross-sell
- Time and cost for the institutions to more intentionally cross-sell
- Organizational change within the institutions necessary to cross-sell

In monitoring the results of the cross-sell strategies, we will turn to cross-sell's impact on the client journey and how other institutions can apply the learnings to their own cross-sell initiatives.