

## FINANCE

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**FRANK A. WOLAK**

Frank A. Wolak is the Holbrook Working Professor of Commodity Price Studies in the Economics Department and the Director of the Program on Energy and Sustainable Development at Stanford University.



**SIMON J. EVENETT**

Simon J. Evenett is Professor of International Trade and Economic Development at the University of St. Gallen, Switzerland. He is also the Coordinator of the watchdog Global Trade Alert.



**WILLEM THORBECKE**

Willem Thorbecke is a Senior Fellow at Japan's Research Institute of Economy, Trade, and Industry. Prior to this, he was a Senior Research Fellow at the Asian Development Bank Institute.



**ALISA DICAPRIO**

Alisa DiCaprio is a Regional Cooperation Specialist at Asian Development Bank (ADB). Prior to joining ADB, Dr. DiCaprio was a Research Fellow at United Nations University's World Institute.



**STEVEN BECK**

Steven Beck is Head of Trade Finance at Asian Development Bank. He is also a member of the World Trade Organization (WTO) Working Group for Trade Finance.



**DEBORAH L. RINER**

Deborah L. Riner, who holds a Ph.D. from Princeton University, is the Chief Economist of American Chamber of Commerce of Mexico. Dr. Riner presently serves on the Board of Governors of the International Community Foundation and of Progresemos.



**ALAN OSTER**

Alan Oster is Group Chief Economist at National Australia Bank Limited. Before joining the bank, Alan was the Senior Adviser in Treasury responsible for economic forecasting and modeling.



**MARK BEATSON**

Mark Beatson is Chief Economist at the Chartered Institute of Personnel and Development (CIPD). He is also an Honorary Visiting Professor at the London Guildhall Faculty of Business and Law, London Metropolitan University.



**JOHN BURTON**

John Burton is Head of International Development Assistance Services at KPMG UK.



**PHIL FLYNN**

Phil Flynn is Senior Energy Analyst at The PRICE Futures Group, a Fox Business Network contributor and author of The Energy Report.



**DAVID M. BREAR**

David Brear is the Chief Thinker at Think Different Group Ltd. He is a FinTech strategist, speaker, scholar and writer.



**MICHAEL PALLIER**

Michael Pallier is the Managing Director of Sydney Sotheby's International Realty.



**BARBARA MAGNONI**

Barbara Magnoni is the President of EA Consultants. She is currently advising a Peruvian financial institution on its strategy to expand into rural areas with the International Finance Corporation (IFC).



**PHIL BECKETT**

Phil Beckett is a Partner at Proven Legal Technologies. He is also a qualified fraud examiner and a recognised court expert in relation to various aspects of digital evidence.



**SIMON WALLER**

Simon Waller is a Partner and Head of Eversheds' Finance and Restructuring Group.



**JOAKIM LUNDQUIST**

Joakim Lundquist is Head of Italy, Switzerland and Austria for Webranking at Comprend.



**SHARON CONSTANÇON**

Sharon Constançon is Managing Director of Valufin UK.



**DAMIAN YOUNG**

Damian Young is Managing Director EMEA at Nomis Solutions.



**NICOLA MEADEN GRENHAM**

Nicola Meaden Grenham, Ph.D., is a Senior Adviser to Armstrong International.



**AVI TURGEMAN**

Avi Turgeman is the Founder and CTO of BioCatch™.



**VIVEK AGARWAL**

Vivek Agarwal works with dun & bradstreet as a Senior Vice President and Business Head for its analytics and technology solutions.



**AMBREESH KHANNA**

Ambreesh Khanna is Vice President of Analytical Applications at Oracle Financial Services.



**DAVID ABBOTT**

David Abbott is Payments Lead, EMEA at Fiserv.



**ANDRE SEVERINO**

Andre Severino is Head of Fixed Income for US and Europe at Nikko Asset Management.

WRITTEN BY

Vivek Agarwal

Senior Vice President, *dun & bradstreet technologies & data services pvt. ltd.*

# The Need for Analytics in the Banking Industry—It's All About Speed and Accuracy

AS WE MOVE INTO A MORE networked economy with more informed and impatient customers, speed is the key. The new generation of customers wants a modern retail experience while shopping for financial services, and therefore banks need to offer a rich bouquet of offerings, which can be mass-customized and delivered quickly. However, in the banking industry we need to balance speed with accuracy in our daily decisions, as the cost of making a mistake is high. This fundamental need to balance speed and accuracy is the key driver of using analytics in all-important business decisions on customer service, product features and pricing throughout the customer lifecycle.

On the supply side, an explosion in data availability, massive leap in computing power and substantial reduction in data-storage costs have enabled a much wider adoption of analytics solutions by making them more affordable for even the small and mid-sized banks. This article highlights some of the key reasons why banks cannot afford to ignore analytics any longer:

**Customer centricity** — Analytics is the key enabler to a shift from a "product-centric" approach to a "customer-centric" one that takes a 360-degree view of all relationships across products to

determine the potential value as well as risk that a customer brings to the bank. Analytics can also help banks to take more proactive measures in retaining and developing their best customers by giving them accurate insights on customers' needs, propensities to buy new products and potential attritions.

**Digital channels** — Rapid technological advances in mobile applications and platforms have ensured the dramatic increase in the potential consumer universe and have enabled a new cost-effective channel that is available "anytime, anywhere". Currently about 25 percent of Internet banking traffic comes from mobile devices, and in the next five years, these should account for around 25 percent of total retail-banking transactions. Social media is also evolving as a mainstream form of communication, where people provide detailed information about themselves, their preferences, particulars about their daily activities and other important aspects about their personalities. This information can help banks understand consumer needs and customize their product and service offerings accordingly to enhance customer experience and loyalty. However, to truly leverage on these alternate customer touchpoints, banks need to strengthen their analytical capabilities.

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**Risk management** — Risk-and-fraud management has been one of the most common usages of analytical models traditionally as it enables a bank to assess customer risk profiles more accurately to move towards risk-based pricing from average pricing, while allowing "good" customers to build reputational collaterals and seek better credit terms. More sophisticated models using transactional patterns as well as external data will further improve the accuracy of these decisions.

**Operational efficiency** — Today, limited growth in credit expansion and stricter regulatory norms on liquidity are putting the banks under margin pressure and forcing them to reduce operational costs by driving higher efficiencies and greater automation in customer decisions. To stay competitive, banks need to replace traditional labor-intensive structures with analytics-driven decision engines for faster turnaround, consistent outcomes and reduced costs per transaction. Real-time integration between operational systems and analytical models will also enable the models to evolve on a dynamic basis to become self-correcting, thereby providing more accurate results.

**Regulatory compliance** — Post-financial crisis, there has been an overwhelming pressure on banks to meet multiple regulatory requirements in a wide range of areas, such as ALM (asset liability management), AML (anti-money laundering), Basel Accords, FATCA (Foreign Account Tax Compliance Act), stress testing, etc., across multiple business lines. Dynamically evolving requirements make this task even more difficult, and without robust analytics capabilities, these requirements can put a substantial drain on a bank's resources.

To summarize, today analytics is an essential capability for a bank to have to compete in an industry characterized by economic uncertainties and increased competition. Some of the key areas in which analytics can make a significant impact are: efficient capital deployment, improved speed and accuracy of customer decisions, development of differentiated products based on customers' needs and risk profiles, and reduction in operational costs through enhanced automation in routine decisions; thereby allowing banks to become more consistent, competitive and customer-centric.

However, the adoption of analytical solutions is still not as far-spread as it should be, especially in the emerging markets of South Asia, the Middle East and Africa. In a survey conducted last year by *dun & bradstreet*, it was found that only one-third of the banks had invested in analytics. Availability of sufficient data of acceptable quality and lack of conviction that analytics could deliver superior results were the top two reasons quoted by banks for not using analytics in making business decisions. We believe that as investments made in transaction automation and digitalization over the last decade improve banks' abilities to capture customer-behavior data, they will be more prepared to exploit this data through analytics to improve their business performance. Senior management commitment is another key prerequisite for building an "analytics culture" in the bank. We find that a fundamental belief that analytics can produce the right answers, even if such answers are counterintuitive, is sometimes absent in higher levels of management. This may be because a generation ago, most banks lived in a data-starved environment, which

resulted in most successful managers of the time relying on experience and intuition to make decisions. The mindset change, though significant, has yet to permeate to the board rooms completely. In the next few years, as more C-suite managers become comfortable with the current data-overload environment, they are more likely to begin experimenting with analytics, and soon the benefits will start accruing to justify additional investments.

The greatest push, however, will come from the new generation of customers, as they will expect and demand the same experience from their banks as they receive from other service providers. After all, as Victor Hugo said: "No one can resist an idea, whose time has come." ◀

