The Banker's Guide to Big Data

How Banking Can Use Big Data to be More Like Google

MX

Introduction

In the last few years Google has rapidly expanded into new markets via the umbrella company Alphabet — selling laptops, inventing wearables, producing self-driving cars, etc. And yet about 90 percent[1] of the company's revenue still comes from a single stream: Advertising.

Google's advertising is profitable primarily because of their technique. They soak up loads of data from the searches performed each day on their system and then use that data to deliver hyper-personalized ads to their end users. This relevancy enables Google to charge premium prices for ad space — a price that marketing departments are happy to pay for. They know it's all about giving users the right offer at the right time.

Banks and credit unions have the opportunity to enact something similar. Just like Google, financial institutions are sitting on a goldmine of data. Every transaction, every loan, and every checking account contains data that can be leveraged in ways that help their end users have a better experience — just like Google does.

Banks that use analytics to understand customer attrition have a 12 percentage point lead in market share over those that do not.

Unfortunately, many financial institutions don't know how to sift through all the data to find what's relevant. As a result, advertising at financial institutions is sometimes clumsy and imprecise. For example, in a recent study Gallup shows that 53 percent of fully engaged customers received an ad from their primary bank for a product they already had and 66 percent felt like the offer was very general and could have applied to any of their customers.

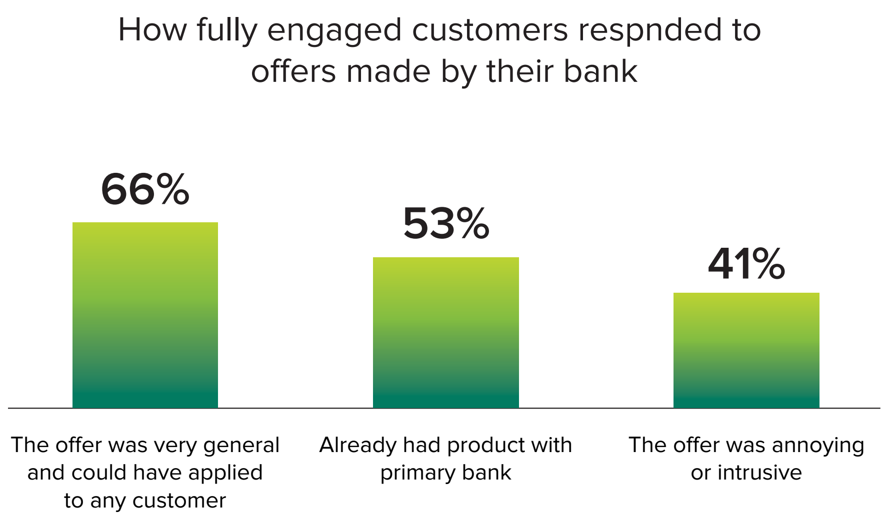
Imagine if Google, with all their attention on algorithms and advertising, made these blunders. How much would their revenue decline as more and more customers realized that bidding for ad space wasn't worthwhile? It would be brutal.

The implications for financial institutions are similarly enormous. In a Banking Outlook Report, KPMG[2] asserts that proper data analytics is key to growth in the digital age. They write, "Banks that develop an infrastructure allowing them to analyze data quickly, that staff up to do that work, and that make revenue-oriented analytics part of their culture, are the banks most likely to grow their top lines." And a report from the Aberdeen Group[3] found that banks that use analytics to understand customer attrition have a 12 percentage point lead in market share over those that do not. Year after year, a lead of that size adds up.

In short, financial institutions that effectively leverage data analytics and targeted marketing will gain market share for years to come, while those that ignore these benefits will be caught flat footed.

Once financial institutions understand this, the next step is to figure out how to best build a revenue-oriented culture around analytics. Below, we delve into five essentials for building that culture.

Banks Fail to Properly Target Engaged Customers



Source: Gallup Research

5 Essentials for Building a Culture of Data Analytics and Targeted Marketing

To make your experience more like Google's, your data must be:

1. **Agile** - Refreshed at least daily
2. **Accessible** - Easily understood by all relevant parties
3. **Actionable** - Directly tied to decision making
4. **Applicable** - Segmented according to specific user traits
5. **Analytical** - Based on account aggregation

These five guidelines make all the difference when implementing the right data solution for your marketing team. Let's look at each point in detail.

1. Agile

For marketing efforts to be most effective, it's crucial that internal and external data be as current as possible. (We're talking minutes or hours—not weeks or years.)

You can access external data in real-time via two methods. First, you can access it via multi-sourced account aggregation. Second, you can access it by analyzing transactions that are leaving your institution to a competitor's. The best approach is to use both of these real-time methods at once.

The primary benefit of agile data is that it enables you to enact the lean startup methodology, a methodology used by startups to tighten the time between idea,execution, and analysis. It works like this:

1. Invent an idea to generate revenue
2. Execute on that idea
3. Analyze whether the idea and execution worked by referencing real-time data
4. Repeat.

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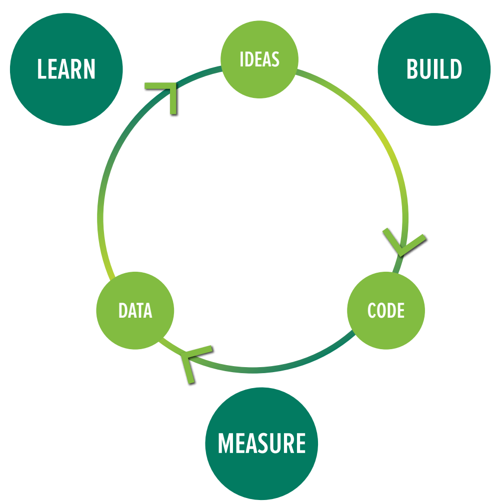
- Anthony Thomson, Founder of the Metro Bank



When you tighten this feedback loop, you learn which ideas actually bring results and can then execute on those ideas above all others. McKinsey & Company found that this agile methodology is critical to successful marketing at financial institutions. In their "Digitizing the

Consumer Journey" report[4] they say, "The most successful omnichannel marketers we've seen...practice end-to-end management of microcampaigns. Their campaign-building processes typically include systematic calendaring, brainstorming, and evaluation sessions to allow for one-week and two-week turnaround times." A two-week turnaround time is tremendously agile for the financial services space. At that pace you'll quickly outpace the competition. That's the power of the lean startup methodology.

Mastering the lean startup methodology matters because new players in the financial services industries are already moving at the speed of digital. For instance, when we interviewed Anthony Thomson,[5] the Founder of Metro Bank (the first bank to launch in the UK in over 100 years), he said, "We will be one of the first data-powered banks. Everything we do will be driven by data. Using data analytics and predictive technologies, we will help customers know what they want before they even think about it. We are in the data business as much as we are in the banking business." That's how new players think. Anything less is too slow.

Players in the financial industry want an agile experience because it's what consumers have come to expect. These consumers visit Amazon and see recommendations based on what they just purchased; they visit Google and see results that directly match what they just searched for. They expect the same experience from their bank or credit union.

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- Parin Kothari, SVP of Digital Channels Strategy and Planning at TD Bank, North America

2. Accessible

According to a KPMG survey,[6] only one third of bankers say their financial institution has "a high degree of data and analytic literacy." If your institution falls into the category of those who don't have this literacy, there are two ways to fix the problem:

1. Hire a team of professional statisticians
2. Purchase effective data analytics software that does the heavy lifting behind the scenes and then displays simple, easy-to-read charts

While a combination of both options is probably ideal, the quickest and most affordable way to solve the problem is by purchasing effective data analytics software. The right software will empower everyone on your team with all the crucial data points. Once you have that power, your team can unite around analytics.

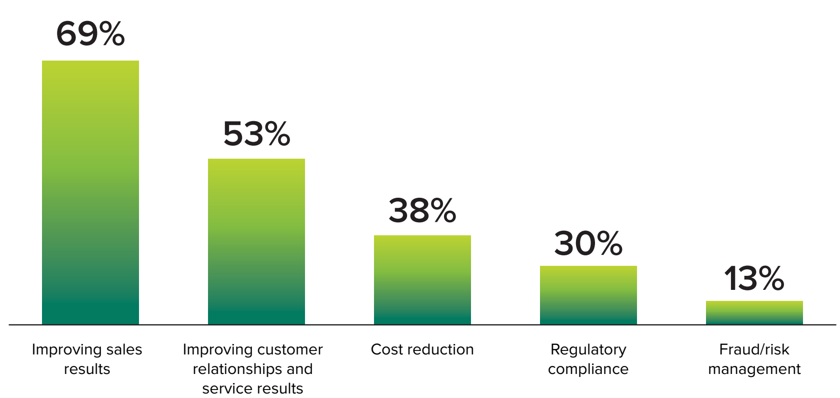
In light of this, it's hardly surprising that 80 percent of IT employees at financial institutions say they want their organizations to be driven by data.[7] IT employees are currently the ones with access to the data and so they can see why it's so useful. If everyone else had ready access to this data, they'd also see the importance of a data-driven culture. You can't have a data-driven culture if your key players can't access the data.

To learn more about implementing an accessible strategy for data analytics, we interviewed Parin Kothari,[8] SVP of Digital Channels Strategy & Planning at TD Bank, North America. Kothari said that the key is make sure you pay more attention to the data than to the highest paid person's opinion. "If banks want to successfully fight the disruption coming from the likes of Silicon Valley startups, they need to flatten hierarchies and promote openness — besides listening to the data and the customers." This openness only comes if the data is easy to digest and is accessible to all relevant parties.

3. Actionable

It's one thing to have access to key data sets, and another thing entirely to be able to act on that data. Any solution you implement must involve a component that lets you immediately create and launch a digital campaign. If it doesn't, then it just provides you with "nice to know" information — interesting, but not worth investing in.

Top Priorities for Data Solutions Among Bankers:



Source: Celent Research via Penny Crossman

The best analytics platforms lead directly to increased revenue, a top priority among bankers:

When a data analytics platform improves sales results, it pays for itself and then some. NetFinance backed up this point when they said, “Banks have goldmines of data available to them. However, it is not just about the data you collect. It’s how you mine it, interpret it and draw insights to provide personal customer experiences, which can be quickly deployed across the organization.” In other words, the full value of data hinges on whether you can act on it quickly.

“You have to know what actionable insight you’d like to draw from data,” adds Alex Nakhapetian,[9] Head of Data & Direct Marketing at Global Life, Zurich Insurance Group. “This challenge is an opportunity to achieve this clarity of thinking...it becomes a beautiful thing to work through.”

You can see the beauty of actionable data in Google’s Adwords — ads that show up exactly when users are searching to learn more about a product or make a purchase. In many cases, marketers use Adwords to point to a product that’s available for purchase right then and there. What could be more actionable than that?

Financial institutions can take note of Google’s experience and make products directly available wherever they show an offer. Imagine a user who’s actively searching for a savings account when they see an offer and can click it to open that account all within a few minutes. That’s an actionable experience.

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4. Applicable

Marketers are consistently realizing that digital ads have more sway than traditional ads. This is not just because more people are online now than ever before, but also because digital ads allow marketers to target specific user segments in real time. You can see the shift by looking at how digital ad spending has grown ten times since 2001 and is now three times more than spending on newspaper ads.

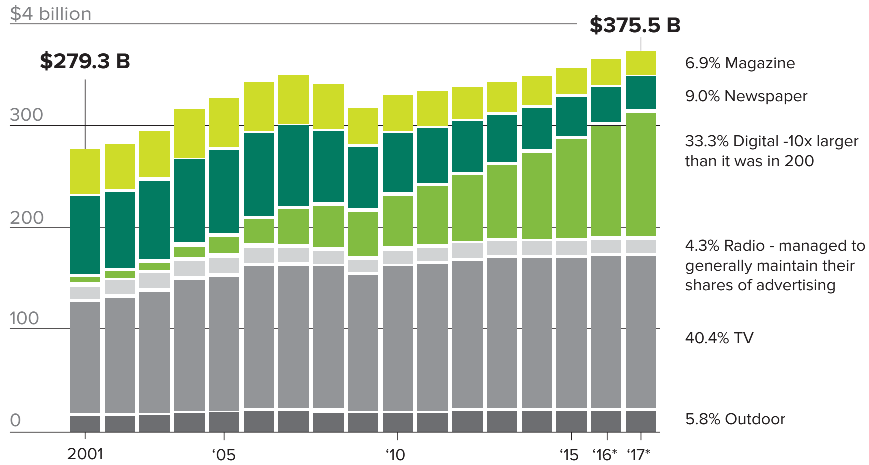
Again, a major part of the popularity of digital ads is that they can leverage data. Ad platforms for financial institutions should follow this lead, enabling banks and credit unions to achieve mass personalization. Brett King, author of Bank 3.0, puts it this way: “Unless the bank develops the ability to intelligently mine the data it has already and then match that with behavior or location opportunities, the likelihood that the bank will be able to deliver me an offer that meets my needs is very slim.” Matching the message to specific behavior is the essence of making your campaigns applicable — especially if the campaigns can factor in competitor account data.

One more thing: While it's crucial to match the message with specific behavior, it's even more crucial to add legitimate value with every interaction you have with your account holders. Otherwise you risk

Media Shifts

Newspaper declines in print advertising are accelering, shrinking their share media spending.

Global ad spending, divided by media share inflation-adjusted



*Projections

Source: Wallstreet Journal

alienating account holders by using their data. When you create offers that are truly applicable, the way Google does, you will delight instead of irritate your users. That's where real profitability comes from.

5. Analytical

Any marketer knows that part of the job consists of showcasing the return on investment to your executive team. That's why worthwhile marketing solutions include a component that shows you the effectiveness of your campaigns in real time — including how many users were targeted, how many users saw the ad, and how many users clicked it.

With this data at hand, you'll use the lean startup methodology to refine your campaigns and quickly figure out your optimal marketing strategy.

If a particular campaign falls flat, you can iterate and produce something more compelling. Soon enough you'll know exactly what's most effective for your institution.

The crucial piece here is that you have access to external data. As McKinsey says,[10] "Companies must apply advanced analytics to the large amount of structured and unstructured data at their disposal to gain a 360-degree view of their customers." You can't get a 360-degree view if you only have internal data.

In their white paper "Getting the Most Out of Big Data," IBM[11] summarizes the issue perfectly: "To anticipate and execute timely, personalized interactions, banks need deep insight into the customer experience, both on an individual basis and in an aggregated format to accommodate demographic behavior." With this analytical view of demographic behavior, you'll be set to develop a solid ongoing marketing strategy.

Conclusion

Account holders expect smarter marketing efforts in the digital age. As Jim Marous, editor at The Financial Brand, says, "You look at the best marketers out there, digital marketers, Amazon, Apple, Best Buy, and others — that's where consumers are setting the bar. That's what they expect. They expect the bank, which is supposed to know more about them than probably anybody else, to even do a better job." Marous adds, "Unfortunately, research shows that banks still are doing a very bad job of targeting."

Everything we've studied makes us think that bankers are well aware of these shortcomings. For instance, an American Banker survey found that 36 percent of bankers are shopping for a new analytics-solutions provider, which is "the third-largest category of new spending, just behind regulatory compliance and customer experience."

To echo this, IBM found that 71 percent of financial institutions say that their use of information is "creating a competitive advantage" for them. That's nearly a 100 percent increase over what IBM found just two years ago. It's no wonder that people such as Lorraine Waters, Deputy Chief Data Officer at HSBC, says, "We're turning ourselves into a data-centric organization. We're increasing the awareness that in this digital age the quality of our data and the way in which we put it to work is absolutely key." In this vein, EY found that 83 percent of firms said that "data is their most valuable strategic asset."

Your data truly can be your most valuable strategic asset too, especially if your efforts embody the five essentials listed in this white paper. Once this happens, you'll be using big data to delight end users and be more like Google.

If you're interested in learning more about data analytics and targeted marketing, read the **Insight & Target case study** from MX or contact us at **801.669.5500.** Thanks for reading!

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"You look at the best marketers out there, digital marketers, Amazon, Apple, Best Buy, and other — that's where consumers are setting the bar. That's what they expect. They expect the bank, which is suppose to know more about them than probably anybody else, to even do a better job."

- Jim Marous, Editor, The Financial Brand mx.com