White paper

How financial institutions are leveraging data for business objectives

Table of contents:

Introduction

Having a data governance program isn't just best practice—it's a necessity. From regulation to business intelligence, the modern financial institution relies on tremendous amounts of data to make decisions and to manage organizational risk. Yet, the sheer volume and breadth of that data can present challenges when it comes to storing, accessing, and analyzing it. Processes tend to become siloed between departments, and data becomes distributed and de-standardized. That's why having documented policies and processes surrounding this information is critical to ensure that its quality is never compromised and that it is accessible when you need it.

The benefits of having high-quality data cannot be understated, so when implementing data governance policies, it is important to establish a formal data quality program. We recently surveyed 110 financial institutions about the process of securing funding for data quality programs to learn about the drivers behind their initiatives, the challenges they faced, and the ways they achieved success. We found that while securing buy-in for a data quality program often comes down to regulatory pressures, the potential impact of leveraging good, clean data extends far beyond the compliance and risk departments.

To that end, 90 percent of financial institutions see value in implementing a data quality program. Our study shows that many financial institutions consider business intelligence, customer experience, and adding value to business initiatives to be leading drivers for their investments in data quality. By taking a proactive stance on the quality of your data, your financial institution can better meet regulatory requirements, empower business users to make better decisions, and increase customer loyalty and advocacy.

Key drivers for data quality in finance

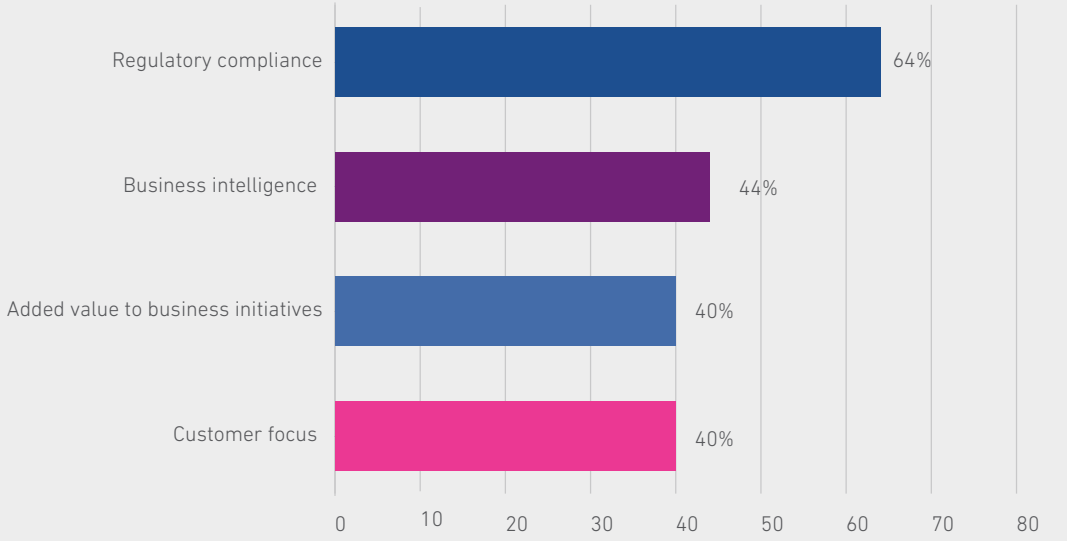
Regulatory compliance

It goes without saying that executives at your institution understand the risks associated with non-compliance. In light of the grave personal and professional consequences that executives can face (imprisonment in the most extreme cases), it's reasonable to assume that staying compliant with regulation is high atop their priority lists. Through our study, we found that 85 percent of financial institutions say their senior management teams have a clear understanding around the value of accurate data and the benefits of a data quality program. Further, they say regulation is the main organizational objective to which their data quality and data management programs apply.

In the financial services sector, especially, increasing pressure from regulators to report on things like aggregate risk exposure and capital adequacy means that you need to uphold the highest standards of data quality and data management. Without a good handle on your data, your institution will find it difficult to meet regulation such as Basel Committee on Banking Supervision (BCBS) 239 or the Comprehensive Capital Analysis and Review (CCAR) framework. In addition, you must be able to quickly access data from disparate systems when complying with regulation like Know Your Customer (KYC).

If data quality is starting to sound like an IT-only problem, it's not. Regulation such as the Telephone Consumer Protection Act (TCPA) is specifically targeted at marketing practices, and it can be a big headache for organizations that have errors in their contact records. The regulation is designed to reduce the number of telemarketing calls consumers receive

Chart 1
Key drivers for data quality in financial services



and mandates that they opt-in to being contacted on their phones or by SMS. If your financial institution sends account alerts or balance reminders to consumers' mobile phones, you will want to ensure your customer records are accurate, and that you have obtained all necessary permissions. In 2017, just one TCPA violation can run you $11,000, and the typical penalty for an enterprise can run into the tens of millions of dollars.

Business intelligence

The best part about leveraging your data is the opportunity it provides for strategic business decisions. In fact, 44 percent of the financial institutions we spoke to say that business intelligence is a key driver for their data quality programs. Today, your business users are craving access to your organization's data assets, but departmental silos and the technical expertise needed to write SQL queries mean that business users are often left in the dark until your IT department can generate the reports. Yet, this process can take days or even weeks to complete, which is hardly ideal in today's fast-paced business environment. In order to make business users feel empowered, financial institutions are looking to place their data directly into the hands of business users by investing in the right processes and technology.

That said, business users do not always trust the quality of the data they're given, and this tends to make them skeptical of their findings. Whether they've uncovered quality issues in the past (diminishing its reliability) or lack transparency into its lineage, business users are rightfully wary of the data on which they're basing decisions. So even when the data reveals something interesting or novel, users tend to rely on their own intuition, overriding the data, when making important decisions. To that point, our 2017 global data management benchmark report revealed that 50 percent of financial institutions say that they rely on educated guesses or gut feelings to make decisions based on their data.

If you are ever going to trust your data for decision-making, you'll need to prioritize data quality and begin to implement practices that will improve the reliability of your information.

Added value to business initiatives

Your financial institution is under tremendous pressure to innovate as competition and customer expectations continue to mount. In recent years, we've watched fintech companies disrupt areas of finance that were traditionally controlled by larger banking institutions with long-standing customer relationships. The appeal of personalized customer experiences, lower prices, and convenience pits these fresh start-ups against entrenched Fortune 500 enterprises. Now more than ever, it's clear that increased competition means financial institutions need to adapt in order to weather the storm.

Yet, bad data often prevents businesses from adapting quickly enough. Eighty percent of the financial services organizations we spoke to agree that poor data quality hurts their business objectives. So it's no surprise that the financial institutions we surveyed say that adding value to business initiatives is a top driver for their data quality programs. These business initiatives include things like meeting regulation, implementing master data management programs, and improving the customer experience—and high-quality data underpins each of these initiatives.

Take, for example, a bank that processes millions of credit card transactions daily. Each of these transactions produces an exhaust of metadata such as the transaction amounts, NAICS/SIC codes, dates, times, and locations. A savvy bank might look at this metadata on aggregate to identify shopping patterns of their customers and segment its customers based on these attributes. This would enable the bank to do more targeted marketing campaigns, such as offering customers the best credit card rewards program for their personal shopping habits—a win-win for the bank and for the customer. But, this only works if the data collected is good enough to begin with.

Customer focus

Today's customers (especially the Millennial generation) expect more from their banks, and financial institutions are recognizing the importance of the customer experience as it relates to retention and advocacy. But customer experience isn't just something you talk about in a board room; it needs

to be managed actively to deliver on its vision. The most effective customer experience initiatives are deliberate and disciplined, focusing on the customer across three key areas: effectiveness, ease, and emotion. By creating an experience that delivers value to your customers with less difficulty, you'll leave them with positive sentiments around your brand.

How do you achieve this? Start by prioritizing the customer journey. Analyze the customer information already in your systems so that you can begin to understand what your customers want from your institution. Then, break down silos between your systems to achieve a consolidated, 360-degree customer view. Of course, the quality of the data you're working with is critical to your ability to achieve these goals. That's why 87 percent of financial institutions agree with the statement that customer experience is a critical driver behind data quality initiatives.

Data quality maturity

By and large, the financial services industry is much more mature with respect to data quality than other industries. Our study revealed that centralized data roles, such as a Chief Data Officer (CDO), for corporate-wide assets is more likely to be prevalent in companies operating in financial services (27%) compared to other sectors (13%). We view organizations with CDOs in place to be among the most advanced when it comes to data quality maturity. Furthermore, we found that organizations in the financial services sector are more likely to have a platform approach to data compared to other sectors (35% vs. 17% respectively).

It makes sense then that financial institutions see far less impact related to bad data quality compared to other industries. According to our study, 58 percent of financial institutions are negatively impacted by poor data, compared with 69 percent of other industries. Still, we believe the percentage of financial institutions suffering from poor data quality remains too high, and that they need to continue refining their approaches to data quality.

Measuring data quality

To determine the current state of your data quality, and to prove the effects of attempts to remediate bad data, you'll need to be able to measure your data quality. Many financial institutions invest in technology that provides visual dashboards to make data quality monitoring easy. In fact, 65 percent of organizations are most likely to use technology tools that quantify the cost of bad data. Further, they tend to measure their data quality either a monthly (28%) or daily (26%).

But what if you don't have any budget to buy these tools that give visibility into your data? How do you begin to quantify your bad data? This is often the case for smaller organizations, or for those that do not have an established data quality program. We find that most financial institutions look at compliance penalties tied directly to bad data, the cost of lost sales opportunities, and the amount of wasted time to tie a number to their bad data.

Implementing a data quality program

According to our study, 80 percent of finance organizations say poor data quality hurts their business initiatives. So it's clear that achieving key business objectives hinges on your ability to implement an ongoing data quality program. This means investing in the right people, processes, and technology.

Case study: Schroders

Gaining insights into complex data processes and architectures to enable operational improvements

Schroders is a large global asset management firm with almost £400bn under its stewardship on behalf of institutional and individual investors.

Challenge

When investigating problems within its own organization, Schroders discovered that processes for assuring data quality at key points in the day were being duplicated, either at consumers' desks, by central teams, or as part of IT support processes. Challenges around assuring large volumes of prices and positions for a global start-of-day for the investment group were being accentuated by greater data usage demands, as well as by the increasing complexity of the overall data architecture environment. Those problems with data quality were costing vital time and money, as well as frustrating users through a suboptimal experience.

Solution

Schroders launched a project to implement a data quality assurance capability. After speaking to Experian, Schroders was able to test the Experian Pandora solution using a trial key, and because the solution appeared to meet the requirements, it was chosen for a "proof of concept" test. As a result of that test phase, the company decided to go forward with Experian's Pandora, given the flexibility it provided, and that it would be the easiest and quickest of the available options to implement, with the solution scoring well in all the key factors for assessment.

Implementation of Experian Pandora was a relatively rapid process, with Schroders using it as a service—only three months were required to bed down the software and integrate it into the existing technical infrastructure. Experian Pandora was set up to monitor the data, flagging unusual shifts and data points, with Tableau used to provide a visualized set of the end results.

Results

Once Experian Pandora was fully bedded down as a part of Schroders' investment operations capabilities, the rewards soon became apparent. After an initial increase in identified failures and faults, resulting from the solution's better monitoring capabilities, issue identification and resolution came at a faster pace. As a result, Schroders has seen a marked increase in the quality of start-of-day data since using Experian Pandora.

One of the most significant short-term contributors was the reduction in the proportion of issues caused by applications and flows of data between them. Once Experian Pandora was bedded down and started identifying the full scale of issues with the existing processes, it was established that just under 15% were a result of system interactions—a figure that eight months later had been reduced to half that figure. That represents a huge reduction in process breakdowns as a result of systems interactions, given that the total number of problems identified was also reduced during that period.

Experian Pandora's speed also meant that the investment operations team is now able to target those problems much more quickly, reducing the impact due to the volumes of data that can be loaded in short time frames. Not only did Experian Pandora identify short-term system fixes, but it also highlighted the challenges that the existing systems faced in order to provide high-quality, timely data for the investment process, which led to further discussions around future data strategy and architecture upgrades.

We're helping Schroders take a proactive approach to data quality. Read the full case study to learn more!

Read it now

Yet, while those in financial services today understand the necessity for high-quality data, for many of them, the process of developing a data quality program is harder than they expect. Of the businesses we spoke with, 54 percent said they found the process of building a business case for data quality to be difficult, and 77 percent believed that too many stakeholders were involved in the process. Given the challenges around building a business case, it's not surprising that most financial institutions that embark on data quality programs take 6-12 months to fully implement it.

In order to expedite this processes and achieve success, it's critical to identify some of the common challenges other organizations have encountered, and work to address them before you begin your own program. Through our study, we identified a lack of budgets and return on investment (ROI) as leading obstacles that organizations face. This is likely due to an inability to quantify the effects of poor data quality on the business, which is a common hurdle we see stakeholders face when asking for funding. Obviously, it can be difficult to determine budget and return on investment when you don't understand the monetary impact on the business.

If you're in a similar circumstance, building a case for a data quality program can be easy if you think about the broader effects of bad data on the business. For instance, can data quality issues be linked to wasted time? Do data quality issues make your business processes inefficient or unachievable? Can data quality issues increase risk to the business, such as regulatory risk, or negatively impact brand value? If you're able to answer these questions, you're well on your way to building a business case.

Conclusion

If your financial institution is putting forward a proposal for a data quality program, you will want to focus your efforts around strategic business initiatives that are specific to your organization. These might include objectives like achieving regulatory compliance, increasing revenue, improving worker productivity, enhancing the customer experience, or expanding market penetration. By focusing on strategic areas for your business, decision makers will find it much easier to see the value in your data quality program.

About Experian Data Quality

Experian Data Quality enables organizations to unlock the power of data. We focus on the quality of our clients' information so they can explore the meaningful ways they can use it. Whether optimizing data for better customer experiences or preparing data for improved business intelligence, we empower our clients to manage their data with confidence.

We have the data, expertise, and proven technology to help our customers quickly turn information ¬¬-into insight. We're investing in new, innovative solutions to power opportunities for our people, clients, and communities. To learn more, visit www.edq.com.

Methodology

Experian Data Quality has conducted a global survey to understand how organizations are building a business case for data quality. This study looks at the current state of data quality in organizations, the tangible impacts of bad data, the challenges businesses face when quantifying the effects of bad data, and how successful organizations develop a proposal for sustainable data quality.

Produced by Loudhouse for Experian Data Quality in July 2016, the study surveyed 100 management-level professionals from financial services and banking organizations around the globe. Of those organizations, 32 percent were domestic banks, 24 percent were global investment banks, 23 percent were investment banks, 9 percent were asset management, 8 percent were insurance, and 4 percent were credit unions.

A variety of roles from all areas of the organization were surveyed, including information technology, finance, marketing, customer service, sales, operations, and more. Respondents were chosen based on their visibility or knowledge about their organization's customer or prospect data management practices, and if they have built or presented a business case to justify an investment in data quality or if they have evaluated the impact of bad data on their business.

Experian
53 State Street
Boston, MA 02109
T: 1 888 727 8822
www.edq.com