

The role of business analytics in meeting banking priorities

SAS' Business Analytics framework offers firms the ability to plan and strengthen their organisational strategies.



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The current global economic slowdown has threatened the survival of financial services organisations and damaged the industry's reputation. It is now everyone's goal within the market to redress the balance between risk and return and between short and long-term objectives.

Executives responsible for putting banking on a safer, more promising footing need to ensure they do so armed with the right facts and analysis. To do this effectively, we see the need for the adoption of a Business Analytics framework, so that decisions can be based on accurate facts, true knowledge, and adjusted for known risks.

A comprehensive Business Analytics framework provides all decision makers with critical insight, not only into what happened in the past, but why it happened, what may happen in the future and how organisations can achieve the best possible outcome when unplanned events occur. This insight can then be used to act confidently and transform the business.

In this uncertain climate, we've identified five key priorities that should be addressed, highlighting how Business Analytics can help achieve the best possible outcomes.

IMPROVE CUSTOMER RELATIONSHIPS

A Business Analytics framework enables firms to understand how customers' experience is impacted by internal and external events and thus helps innovate the customer experience continually by improving marketing, sales, service engagement and communication.

The web has become the primary battleground for acquiring new customers, selling more products to existing customers and maintaining their loyalty. It is therefore critical to understand and improve the online customer experience that is delivered. To do this effectively there is also a need for a cost effective way of collecting data on non-internet based behaviours, so as to better understand

customers' overall behaviours.

The start of the online journey is acquiring customers. Business Analytics creates the opportunity to increase the ROI from online marketing. It can be used to drive the purchase of online media to determine which campaigns are acquiring the 'best' customers. By doing this, one major retail bank reduced spend on online media by 15%, which was then re-invested to acquire additional, profitable customers.

The next stage is for customers' online experience, service and sales conversion to be improved. Business Analytics typically can increase online conversion between one and five percent by allowing banks to identify inhibitors of business performance online and identify how to resolve these factors.

Finally customer behaviour, when researching online, can be used to segment and personalise marketing communications, in both the online and non-internet based channels. For example, use of a mortgage calculator to target campaigns for mortgages.

Over the last 12 months we have seen the increasing pressure on bank collections operations. Some creditors are now exploring new approaches to this problem; an example is where customers in financial difficulty select their own preferred choice of collection process. Would they, for example, prefer to have regular text updates when payments are due or missed, or would they respond better to prompts through the internet channel? This approach could be a cost effective step that will allow some creditors to gain competitive advantage. What is certain about these innovative approaches is that the success will be based upon targeting the right customers with the right offer; Business Analytics plays a critical role in unlocking the potential inherent in these new collections models.

■ A leading bank has implemented SAS to increase collection rates by £70,000 per

day, leading to a 2.5% increase in their impaired debt cure rates. SAS' Business Analytics was used to identify the most appropriate collection strategy for each account and then prioritise the allocations of resources, such as dialer and call centre resources, to those cases that would produce the highest collection rates at a particular time of the day. This prioritisation also took into account the bank's overall targets for such things as tackling debt of a certain age or product type or ensuring that all past due accounts received at least one contact during a given period.

IMPROVE RISK MANAGEMENT

The need to improve overall risk management is widely recognised. This includes rebuilding liquidity, accurately tracking regulatory compliance and precisely measuring and forecasting overall capital positions to strengthen balance sheets. To avoid potential disaster but also uncover opportunities for growth, an effective enterprise-wide risk programme is no longer a luxury, it's a necessity.

This was echoed by a 2009 EIU and SAS survey¹ of 334 worldwide executives that found that over 50% of respondents said they had conducted or planned to conduct a thorough overhaul of risk management with key focus areas to be improvements to data quality and availability, the strengthening of risk governance, a move towards a firm-wide approach to risk, and the deeper integration of risk within lines of business.

Business Analytics enables firms to proactively manage enterprise-wide risk, while complying with regulations and tracking, enhancing overall corporate performance. It provides the critical foundation to detect relationships between disparate data sources and risk types – relationships and dependencies that even the most experienced risk practitioners may miss. Adopting a holistic approach will drive optimised risk decision-making and further develop the ability to proactively and prudently manage risks, helping to drive cost reductions, improve efficiencies and increase revenue generation. The ability to accurately perform integrated stress tests is also a critical element of a Business Analytics risk framework. These capabilities will serve to underpin sustainable long-term business growth and strengthen customer confidence.

ENGAGE AND MANAGE REGULATORS

Better compliance and transparency enables accurate and auditable regulation, and has commercial benefits of improving compliance controls, systems and procedures, which reduce credit, market and operational risks. Integrated data coupled with advanced analytical capabilities will provide all the information and analysis needed to improve compliance of financial services laws, regulations and standards.

For example, Business Analytics can fully support all regulatory requirements including credit, market, operational and liquidity risk, economic capital management, stress testing and risk measurement reporting. Advanced network analysis and statistical techniques can also assist in compliance with anti-money laundering regulations and uncover suspicious transactions for all types of fraud.

COMBAT FINANCIAL CRIME

Today, it is even more critical to reduce operational losses and combat financial crime in order to accurately provision capital and ensure customer confidence.

Business Analytics will unlock the full breadth of predictive modelling techniques to combat fraudsters while minimising the level of false positives that can inconvenience customers. A Business Analytics fraud framework will provide detection, alert and case management capabilities enabling a reduction in fraud loss and ultimately prosecute fraudsters.

■ HSBC has chosen SAS' software as its principal solution for fraud management across its global network; SAS is currently being used in the US, UK and Asia Pacific. HSBC uses SAS to protect against credit and debit card fraud and is expanding this to combat fraud across multiple lines of business and channels, such as at the customer and account level, to further protect against branch banking, bank transfer, on-line payment fraud and internal fraud.

ORGANISATIONAL PERFORMANCE

The board of directors' objective is to review business strategies for a different climate and identify new ways to drive income and enhance shareholder value. In doing this, it is important to monitor the situation regularly and be prepared to reshape your organisation and integrate business silos. By using Business Analyt-

ics, organisations can optimise strategic planning and operational execution.

'What if' simulations and business optimisation can be applied across end-to-end business processes, encouraging lines of business to work together, for example, product marketing activity and credit limit decreases can be planned in unison to maximise the business objectives of each part of the business. The objectives being to maximise revenues and profitability, achieve the desired market penetration, maintain risk portfolio scores for different market segments and control operational costs. Looked at in isolation, each objective is clear to all, but when combined, the optimal approach is far from clear – intelligent use of Business Analytics can solve this complex equation and encourage co-operation between departments.

In summary, Business analytics plays a critical role in solving the challenges faced by banks today. While each requires a complex, multi-layered approach; if the approach is underpinned with sound data and fact-based analysis, every decision-maker, at all levels, will be better equipped to make the right strategic and operational decisions.

1. <http://www.sas.com/apps/whitepaper/index.jsp?cid=9196>

DOWNLOAD THE WHITE PAPER
For further in-depth comment on the issues discussed, please download our white paper: **Risk and Return: striking the right balance - The role of business analytics in transforming banking:** www.sas.com/uk/banker

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