"Everybody seems to realize that analytics is something that's very, very important. If it's done well, then it becomes a really important competitive advantage."

Suzhou Huang,
Director of R&D Global Analytics,
Ford Motor Credit Co.

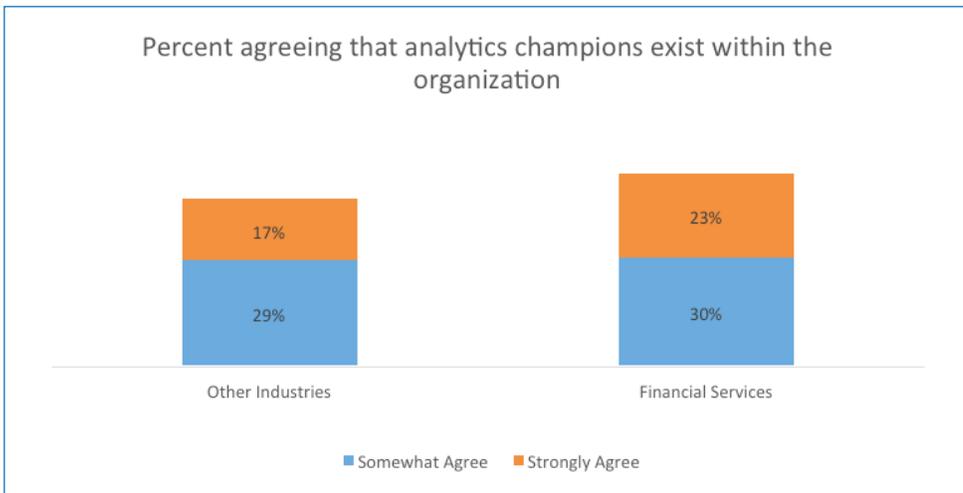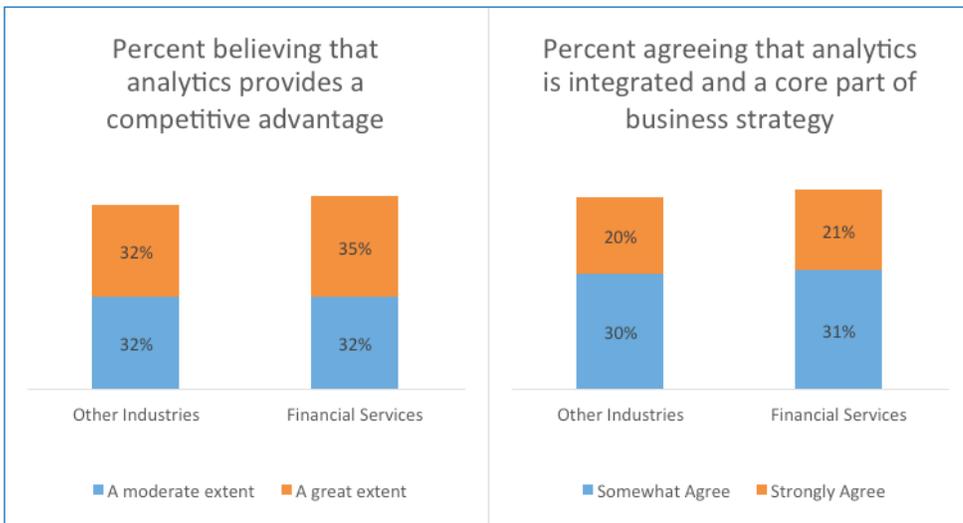# The Analytics Mandate: Generating profits in difficult economic and regulatory times

The financial services industry has been dealing with the twin challenges of tighter regulations and depressed interest rates for several years. In this difficult market environment, financial services firms have struggled to increase profits, which have generally shown slow growth over the past four years. With interest rates at all-time lows, companies must generate new sources of revenue and do a better job of targeting customers with new offers. The global uncertainty of unpredictable cyberrisks, fluctuating currencies and regulatory reforms all threaten the bottom line.

To be successful, financial services companies must continue to harness the insights in their data to sell new products to their customers and monitor risks in their portfolios and markets. As consumers continue to migrate to digital channels and generate more data, companies need to apply more analytics for real-time decision making and multichannel marketing.

Analytics: The competitive advantage

Since 2007 and the publication of Tom Davenport's book *Competing on Analytics*, the adoption and use of analytics has burgeoned across all industries as more organizations turn to their data to gain an edge. In fact, research from MIT Sloan Management Review and SAS indicates that two-thirds of businesses believe that analytics creates a competitive advantage in their organizations, and 52 percent say that analytics has helped their organizations to innovate.

According to our research, more than half of financial services organizations agree that analytics has helped improve their ability to innovate and 70 percent of respondents from all industries sectors believe that analytics has helped improve their ability to innovate. Despite these strong indicators, these organizations recognize their competitors are nipping at their heels. About half of respondents feel that their organization's use of analytics is about the same or less advanced than that of their competitors.

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Percent believing that analytics provides a competitive advantage

	Other Industries	Financial Services
A great extent	32%	35%
A moderate extent	32%	32%

■ A moderate extent ■ A great extent

Percent agreeing that analytics is integrated and a core part of business strategy

	Other Industries	Financial Services
Strongly Agree	20%	21%
Somewhat Agree	30%	31%

■ Somewhat Agree ■ Strongly Agree

Percent agreeing that analytics champions exist within the organization

	Other Industries	Financial Services
Strongly Agree	17%	23%
Somewhat Agree	29%	30%

■ Somewhat Agree ■ Strongly Agree

"Ultimately, several questions kept on being asked: How do I better manage, measure, visualize and report on risk? How do I deal with all of this regulatory change? How do I continue to find new sources of return? What new types of investments, asset classes and geographies do I have to expand into to achieve better yields? How do I keep my costs down, and how do I make sure I'm getting a fair shake in my trading activity?"

J.R. Lowry,
Chief Operating Officer,
State Street Global Exchange

Analytics seems to have a much stronger voice within financial services companies than in other industries. More than half of financial services respondents report that their organizations have champions tasked with promoting analytics and publishing best practices, compared to 46 percent in other industries. Two of the three financial services organizations interviewed in this study have C-level analytics roles, a clear indication that executives are placing strong emphasis on promoting the use of analytics throughout their organizations.

Using analytics more strategically

As with other industries in the MIT Sloan study, financial services firms acknowledge the pressure from senior management to become more data driven and increase the use of analytics in making decisions. When assessing their organizations' current analytics capabilities, many financial services respondents report they are effectively capturing and analyzing data, as well as using insights to guide future strategy.

State Street, a wholesale banking organization, is applying analytics to respond to regulation changes resulting from the 2008 financial crisis in two ways. The first is to aggregate and report on regulatory compliance risks. The second, and more important, approach is to identify and exploit new business opportunities created by these changes. As J.R. Lowry, Chief Operating Officer of State Street Global Exchange, points out, "It's preferable to drive changes when you don't have a crisis."

Making the investment

In the coming year, financial services companies plan to focus analytics investment on technology and training their staff members more aggressively than others in planned investments. About two in five respondents anticipate hiring new analytics talent.

Ford Motor Credit's approach is to use skills and expertise outside the core analytics teams by employing internal job-rotation programs and external research relationships with notable universities.
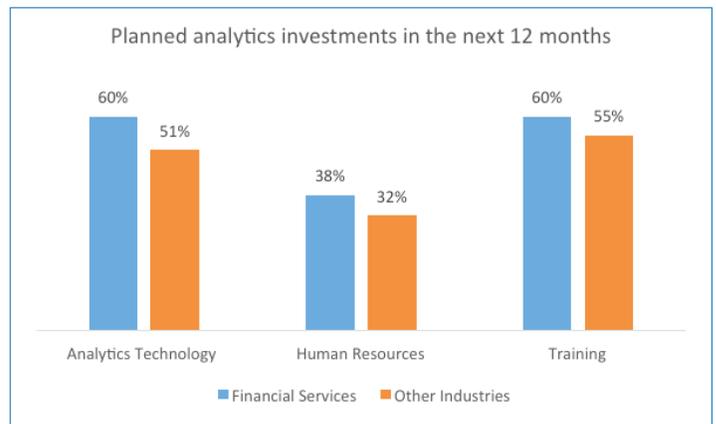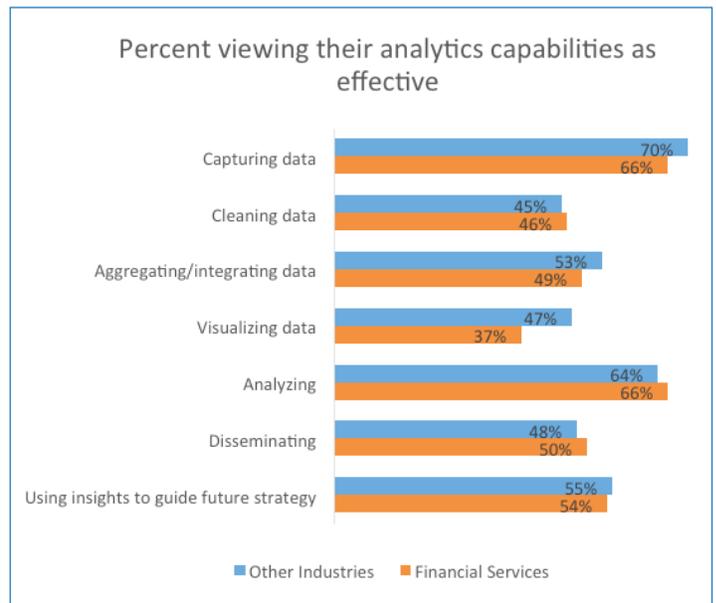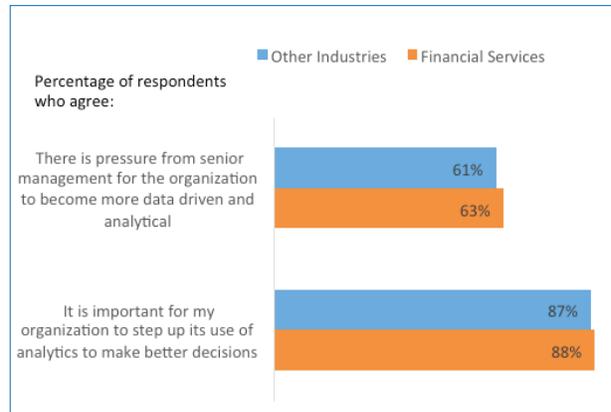
The path forward

From identifying and quantifying regulatory and operating risks to determining the optimal offers for targeted channels, analytics plays a critical role in the financial services industry. Senior management should continue to lead the transformation to a data-driven organization. Infusing analytics within the decision-making process will help maintain revenue growth and profitability in a complex global environment.

The Analytics Mandate report

To read more about the transformative power of data and the characteristics of companies using analytics for innovation and competitive advantage, read the full MIT Sloan Management Review report, The Analytics Mandate.

How SAS can help

SAS is the leader in business analytics software and services and the largest independent vendor in the business intelligence market. Drawing on 38 years of experience in financial services, SAS helps banks, credit unions, lenders, capital markets firms and other organizations address critical business needs. More than 3,500 financial institutions worldwide use SAS® solutions, including more than 90 percent of the top global banks. SAS provides advanced, high-performance in-memory analytics and data management solutions that help firms grow revenues and customer experience using customer and marketing analytics, protect against fraud and financial crimes and improve risk management and regulatory compliance. Visit sas.com/banks for more information.

Percentage of respondents who agree:

Legend: ■ Other Industries ■ Financial Services

There is pressure from senior management for the organization to become more data driven and analytical
- Other Industries: 61%
- Financial Services: 63%

It is important for my organization to step up its use of analytics to make better decisions
- Other Industries: 87%
- Financial Services: 88%

Percent viewing their analytics capabilities as effective

Capability	Other Industries	Financial Services
Capturing data	70%	66%
Cleaning data	45%	46%
Aggregating/integrating data	53%	49%
Visualizing data	47%	37%
Analyzing	64%	66%
Disseminating	48%	50%
Using insights to guide future strategy	55%	54%

Legend: ■ Other Industries ■ Financial Services

Planned analytics investments in the next 12 months

Category	Financial Services	Other Industries
Analytics Technology	60%	51%
Human Resources	38%	32%
Training	60%	55%

Legend: ■ Financial Services ■ Other Industries

Source: MIT/Sloan Management Review, Data and Analytics Survey, 2014.

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