

WHITEPAPER

How to Become a Data-Driven Bank

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New data analytics tools help community banks harness business intelligence

Community banks are coming of age with the new power they can wield from the growing availability of advanced data analytics. Client data and the tools to analyze it can literally transform how community banks conduct their commercial lending business. Data-driven community banks can use data analytics to make informed decisions and more profitably serve their customers and streamline their operations. So why are data-driven community banks not the norm?

The main barrier to the adoption of business intelligence (BI for short) by community banks is making sense of the overwhelming number of options available for boosting performance. Faced with the complexity and scale of this data, the top strategic issue for a community bank is how to translate data into action throughout the organization. This article recommends some key considerations for a community bank on its journey to become a data-driven organization and turn data analysis into bottom-line results.

Getting Started

Community banks can start by understanding best practices for collecting and organizing data. This requires looking under the hood to examine the underlying details, issues, and challenges with today's tools, processes, and frameworks. We can begin by defining the data universe. The data that community banks can use to enhance their profitability includes company financials, qualitative customer data, and borrower behavioral data, including payment and credit utilization history. Establishing a centralized system that captures this unstructured data systematically and consistently is the first step in this process.

As banks begin to structure the centralized data, they must ground it in core business principles by identifying which business and operational metrics are critical to the organization. The scope of data analytics will vary with the complexity and sophistication of a bank and its portfolio. Aligning data points to the core strategy will allow banks to correctly structure the data points that have most value for them.

To be a data-driven bank, bankers must align these top business goals and priorities with usable and actionable insights. This can be accomplished by leveraging insights from the key credit measures

with a BI tool linked to the bank's central database. For instance, investment in technology solutions can help capture, organize, and use data points inside a bank's processes and help bankers make informed loan decisions faster, identifying new customers or target markets while reducing expenses.

Alignment and Benchmarking

Effective strategies ensure that short- and long-term organizational goals are aligned with the bank's current business operations. Partnering with an industry leader with the required data analytics technology and implementation expertise could help the bank capture the right data and integrate it into their processes.

Whether a bank chooses to partner with a third-party vendor or not, focusing on specific segments under the key data categories is critical for meaningful analysis. We all know that looking at statistics for the total customer base masks changes in customer behavior, characteristics, and performance. Baseline customer analytics should, at a minimum, consider new accounts versus the existing customer base to avoid conclusions based on customer characteristics and behaviors that may be changing.

Even data-driven community banks should be wary in aligning internal data with external benchmarks and best practices, because the latter may not be applicable to a particular type of business, product focus, marketplace, or strategic approach. Instead, banks can use internal data to define their own benchmarks and measure decisions against goals and past performance.

Monitoring benchmarks via dashboards on an ongoing basis can gauge the current portfolio performance against peer benchmarking data and historical portfolio performance. Assessing actual performance by comparing historical trends to new profitability, default and recovery metrics (including internal ratings) serves as an indicator of improvement. In other words, how would the prior portfolio perform given new tools and measures versus actual performance?

FOR DATA-DRIVEN ANALYTIC INITIATIVES TO BE SUCCESSFUL, LEADERS IN A COMMUNITY BANK NEED TO:

1. Support investment in systems that centralize data and standardize processes
2. Reinforce investments with new policy, training, and change management initiatives to ensure adoption
3. Champion the new systems, programs, and processes and how they contribute to the organization's success

Establishing these metrics at the portfolio, customer, or business department level will not only align business functions within the organization but also ensure an effective reporting system that is real-time and responsive. Consistent reporting is accomplished by making it easy to filter data and generate reports that offer personalized views to manage day-to-day operations and strategic business decisions.

The top tactical issues with this approach revolve around collecting, organizing, and ensuring the quality of the data. Maintaining the integrity of analytics requires data that is accurate, comprehensive, and continually updated. The quality of the data is key to realizing the value of BI tools.

Communication is Key

A data-driven approach can mean different things to different people. An objective interpretation would require alignment of strategy, risk, technology, and operations. Crafting and implementing data analytics and setting goals should be steered by management and approved by the board. This practice can be reinforced by communication from senior management to the front lines on the importance of these new systems and processes to the bank's success.

A comprehensive communication strategy should build awareness and set expectations for addressing challenges of individual departments alongside the bank's strategic goals. An optimal path will offer common goals across the organization, including alignment with short- and long-term goals and transitional phases to achieve this change.

Educating the organization on the value of credit measures, whether risk management back office staff or front office sales professionals, will equip all stakeholders with a solid understanding of these tools and how they support the overall goals of the bank. Operational effectiveness could get a boost from a program to provide support for behavior change, including knowledge of user-friendly software applications. The resulting transparency in the objectives behind data analysis will back up systems with the right support at all levels.

You Can't Go It Alone

Working through these challenges alone could be arduous for a bank charting its own course. Community banks can maximize value from their data and analytics by partnering with a vendor that provides tools or solutions built around data quality. If a vendor's own solutions value high data integrity, the vendor will likely have recommendations on how to use their tools and incorporate check points into the processes to provide validation.

In the long run, leveraging advanced data analytics and BI tools is an investment that, if properly implemented, should pay dividends in the form of higher quality, more profitable loans and increased operational efficiency for community banks.

How to Implement Your Data Analytics Strategy	
Tactical Issues	Operational Areas
<p>» Data quality and consistency. Standardizing processes across the organization to capture the required data consistently on an ongoing basis</p>	<p>» Business development and marketing. Leveraging customer data to analyze product usage and customer needs to drive upsell, cross-sell, and offer targeting</p>
<p>» Multiple systems. Integrating systems to avoid data gaps, overlaps, and incomplete datasets</p>	<p>» Underwriting. Using systematic and transparent risk measurement tools to make loan origination, pricing, and limit-setting decisions</p>
<p>» Reliance on decentralized tools and processes. Ensuring manual processes are automated and leverage new hosted technologies to provide accessibility to all users and create consistency in outcomes</p>	<p>» Loan processing. Using workflow reporting and portfolio metrics to target process inefficiencies</p>
<p>» Historical data integrity. Reviewing historical data and ensuring accuracy to build a strong data foundation</p>	<p>» Credit monitoring and portfolio management. Using risk management analytics to reduce customer default and delinquency rates and monitor portfolios</p>
<p>» Data aggregation. Investing in the technology and resources to aggregate and update data regularly in a centralized framework</p>	<p>» Reporting. Developing regulatory and management reports using on-the-fly analytics and software</p>

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