Harnessing the Power of Your Data Through Analytics

profitability performance strategic planning management

Summary: Data analytics offer community financial institutions an opportunity to increase customer engagement, improve profitability, and grow revenue. We take a look at some of the analytics capabilities that can deliver on this promise and give you some tips on how to build them.

Water dowsing — a traditional method to search for underground water — has been practiced in rural communities, somewhat controversially, for possibly thousands of years. Dowsers, also known as “water witches” or “diviners”, walk back and forth over the area to be tested with a forked stick, which is said to rotate when the ground below contains water. With modern technology, community financial institutions (CFIs) have more sophisticated methods of extracting value from the resources at their disposal.

Data analytics have been an integral part of the financial industry. These days, multiple touchpoints allow financial institutions to gather enormous amounts of data which, if mined successfully, can yield actionable insights that can drive improved business performance. Typically, data will be collected and stored in numerous systems and departments. This data needs to be integrated and viewed as a whole to produce a detailed picture of customers and products in an accessible format, enabling the institution to make better strategic decisions.

Data analytics can help drive these strategies, setting them up for everything from increased profit to streamlined operations.

Enhanced customer experience and revenue growth. A 360-degree view of your customers enables you to pinpoint exactly what each customer needs at any point in time. Harnessing this advanced data can allow you to provide the type of personalized services that consumers expect. The data can also reveal which products are more likely to succeed with a given customer, making cross-selling much more definitive. Research by Forrester found that financial institutions with more advanced personalization were nearly 3x as likely to outperform their objectives in cross-selling and customer acquisition, compared to financial institutions with less mature capabilities.

Increased profitability. Insights on customer and product profitability, including measures evaluating net interest margin, ROA, ROE, and anticipated lifetime net income, allow you to selectively focus resources where they will deliver better returns. This can inform strategies to increase revenues from unprofitable loans and customers.

Improved risk management. CFIs can lower their risk by analyzing the data of customers with below-average credit quality that could create an unprofitable relationship. Along with the customer’s credit risk, loan pricing should also take into account cost assumptions, fund transfer pricing, associated income, and consideration of capital to determine the best risk-adjusted return for the CFI and the best price for your customer.

Effective management tools. Relationship manager scorecards — including metrics such as ROE and ROA of the relationship manager's portfolio compared to the total CFI, average deposits/loans, and annual fee income —help leaders measure performance, provide focus, and set expectations for their teams.

Four ways to strengthen your analytics capabilities

1. **Be clear on your analytics strategy.** As with any digital transformation project, a well-defined strategy is key. Start by identifying your objectives — what it is that you are trying to achieve — whether that's identifying potential new customers, seeking cross-selling opportunities, or pricing loans competitively. This will provide a clear path forward and enable you to engage with key stakeholders.
2. **Build an analytics team and culture.** Given the distributed nature of their data, it is essential that CFIs recognize the value of data throughout the organization. Appoint a data expert or team to help connect the dots and ensure that lessons are carried from team to team. Data and insights should be shared to empower all employees to positively contribute to the customer engagement process.
3. **Select the right technology partner.** Despite the abundance of data collected by financial institutions, research by Capgemini shows that over 70% of financial executives are unable to generate useful insights. Rather than grapple with this issue alone, CFIs can leverage tried and tested third-party solutions to integrate and analyze disparate data and deliver on its untapped potential.
4. **Further develop your analytical toolbox.** CFIs can benefit greatly from developing advanced analytics capabilities that allow them to:
   • View profitability by customer (including lifetime value), product, branch or industry segment
   • Create what-if scenarios and apply them to relationships, loans, and deposits
   • Capture all household accounts and businesses with multiple entities linked together
   • Identify share of wallet, underutilized credit lines, significant overdraft customers, and high-cost-of-funds customers

The ever-increasing amount of data at a CFI's disposal offers huge opportunities to boost performance. Solutions such as our Profitability FIT allow CFIs to unlock the value of data, which increases customer loyalty, profitability, and shareholder returns.

COMPETITIVE AND CONSISTENT LOAN PRICING

Achieve a 360-degree customer relationship view so you can determine the best loan pricing based on your customer data, while driving higher bank profitability. Learn more about our solution for customer profitability to give you that comprehensive perspective.

ECONOMY & RATES

Rates As Of: 10/05/2022 10:45AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	3.45	0.12	3.39
6M	3.98	0.06	3.79
1Y	4.15	0.14	3.76
2Y	4.17	-0.11	3.43
5Y	3.98	-0.12	2.71
10Y	3.77	-0.06	2.25
30Y	3.78	0.00	1.87

FF Market	FF Disc	IORB
3.08	3.25	3.15
SOFR	**Prime**	**OBFR**
3.04	6.25	3.07