FINASTRA

WHITE PAPER

MISSION CRITICAL

Leveraging Business Intelligence and Business Analytics to Surpass the Competition

THE FUTURE OF
FINANCE IS OPEN

CONTENTS

SECTION 01

How Business Intelligence and Analytics Drive Success

> "Financial institutions that proactively tap into and leverage business intelligence and business analytics are much better equipped to successfully confront today's challenges…"

Regulatory changes, earnings pressures, and the need for expanded income opportunities have intensified and complicated today's financial business environment. And because traditional barriers have disappeared, competition from non-traditional industry providers who are more in tune with new technology solutions have flooded the financial arena to capture niche markets. Financial institutions that proactively tap into and leverage business intelligence (BI) and business analytics (BA) are much better equipped to successfully confront today's challenges than those who continue doing business as they always have.

We've heard it time and time again: "Know thy customer." As consumers become more demanding and competition increases, it's more important than ever to consistently deliver products that resonate with existing and potential clients and members. To do that, financial institutions need to have a holistic perspective on consumer wants and needs, and an ability to identify opportunities for growing and strengthening consumer relationships.

A recent study asked consumers how well their primary financial institution (PFI) knew them. Comparisons of perceptions of consumers and their PFIs revealed some surprising gaps. To close these gaps financial institutions need to adopt a customer-focused approach—not just within the IT or marketing department, but throughout the entire organization, from the mailroom to the boardroom.

Strategic Goals and Consumer Expectations

Leveraging business intelligence and analytical data is invaluable to achieving strategic goals. However, research is often overlooked as an essential component of a financial institution's business strategy. And yet, linking an in-depth understanding of consumers, your competition, and the financial marketplace to operations (and even acquisitions, attrition, and organic growth) is an essential strategy to overall organizational success.

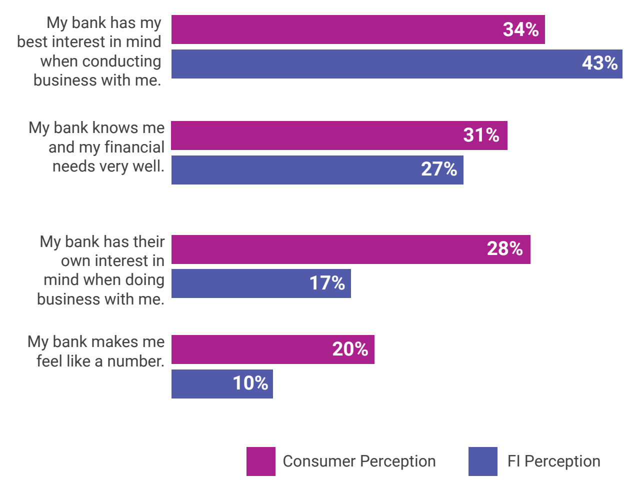
For example, if you want to grow through expansion, business intelligence solutions can help determine which geographical areas are under-served and ripe for the picking. Likewise, business analytics will tell you whether existing facilities are thriving or merely surviving, succeeding or underperforming, and even whether areas are overly saturated. Knowledge based on this research also will help determine and predict consumer reliance on physical channels.

Additionally, using high-powered business analytics to learn more about consumers, savvy financial institutions can effectively segment, target, and connect with their markets. By delivering the right messages and offers at the right time through the right channels, their marketing and sales efforts will prove exponentially more successful.

Another area poised for leveraging BI/BA is technology. Progressive FIs view it as a springboard for beefing up their digital presence for key (and highly profitable) generational segments. Because mobile users are more loyal and cost-effective to serve than are physical-plant clients, it's inherently smart to include them in business strategies designed for the competitive modern-day financial marketplace.

It is increasingly important that FIs can ensure that their channel management has consistent functionality. This can be accomplished with:

- A multi-channel strategy—focusing on delivery on multiple platforms;
- An omni-channel strategy—focusing on delivery through all channels equally; or
- An opti-channel strategy—giving consumers the best experience through their channel of choice.



Source: Gfk, Personetics and Digital Banking Report © March 2016 Digital Banking Report

Gen-Y is rapidly moving to non-traditional delivery channels. Again, tailoring the right experience during the right lifecycle segments within the right channels will increase acquisition, cross-sell ratios, and overall retention of this increasingly important segment of the population.

Fee income and expense reduction may be on your list of metrics in need of improvement. Data analysis will differentiate the clients who are costing you from those who are contributing to your bottom line. Armed with knowledge provided by BI/BA you will be well positioned to effectively manage fees and expenses, while staying competitive in the marketplace.

SECTION 03

BI/BA and Beyond

At a granular level, business intelligence and business analytics offer views that provide insight into your clients and their needs. This includes responding to important questions with actionable data, limited only by the number of time periods.

A diverse group of tools and techniques pressing questions:

Product Penetration Analysis
Who are your most loyal customers? What consumer segments do they represent?

Developing a profile allows you to identify other existing segments who might "look like" your clients, but who have been neglected or unserved by your FI.

Geographical Mapping Analysis
Which areas have a propensity for:

- Deposits?
- Loans?
- Self-service offerings?
- Financial education opportunities?
- Alternative investments?
- Business accounts?

Representing your clients geographically can tell many stories about not only your strongest areas of success, but also your greatest challenges.

Migration Channel Analysis
What penetration levels exist for each channel offered? What trends do you notice month-to-month and year-to-year?

Understanding channel preferences and usages allows you to determine where to focus internal investments strategically.

Trend Analysis
How have your customers changed over the past five years? What new customer demands have surfaced over the past year?

Paying attention to changes over time provides insight into product and service adoption, channel utilization rates, consumer segment shifts, and even pricing and fee structural opportunities.

Third-Party Data Analysis
Some core systems do not house all relevant data, so gathering and importing third-party information provides for a more complete picture of all household relationships. This enables you to best leverage valuable business intelligence and business analytics—providing your clients with answers and services uniquely tailored to meet their specific needs.

Demographic And Psychographic Analysis
How much do you really know about your clients, their lifestyle, and their preferences? What tools are in place to help you personalize your FI services to each client?

Some demographic fields—such as age, address, and income—exist in your FI system from accounts and loan applications. However, purchasing and incorporating tools with additional datagathering capabilities will provide a clearer focus for strategic initiatives. In fact, some sophisticated BI/BA software solutions deliver advanced research capabilities that include psychographic behavior modeling, enabling you to tap into the science of personalized services.

Younger Years | **Family Life** | **Mature Years**

Lifestage

High — **$** — Low

Y1
Upwardly Mobile
05 Power Couples
22 Bargin Lovers
24 Corporate Climbers
30 Fiscal Rookies
34 Online Living

Y2
Metro Mainstream
39 ATM Nation
43 Payday Prospects
49 Loan Rangers
50 Urban Essentials
54 City Strivers

Y3
Fiscal Fledglings
57 Young Urban Renters
58 Bottom-Line Blues

F1
Flourishing Familes
07 Family Fortunes
09 Big Spenders
12 Feathered Nests
15 Midlife Highlife

F2
Upscale Earners
14 Financial Independents
19 New Money
21 Leveraged Life
23 School Daze
25 Safe at Home
31 Khakis & Credit
32 Family Sprawl

F3
Mass Middle Class
33 Cut-Rate Country
36 Paying it Down
37 Rural Roots
41 Finance Chargers
44 Homespun Familes
46 Settling Down
48 New Nests

F4
Working-Class USA
45 Greenback Acres
47 Middle Ages
51 Starter Ranches
52 Country Cottages
55 Getting-By-Blues
56 Economizers

M1
Financial Elite
01 The Wealth Market
03 Business Class

M2
Wealthy Achievers
02 Globetrotters
04 Golden Ages
08 Domestic Bliss
10 Capital Accumulators
17 Home Sweet Equity

M3
Upscale Empty Nests
06 Civic Spirits
11 Savvy Savers
13 Annuity-ville
18 Travel & Antiques

M4
Midscale Matures
16 Leisure Land
27 Conservative Couples
28 Senior Solitaire
29 Retirement Ready
35 Hunters & Collectors
40 Timeless Tenants

M5
Retirement Blues
20 Comfortably Retired
26 Early-Bird Specials
38 Old Homesteaders
42 Sunset Times
53 Social Insecurity

The table above combines profitability propensity and life stage. When combined with your organization's geographic footprint, your approach will become much more scientific, allowing you to link your goals with opportunities.

Campaign Performance Tracking Analysis

How effectly are you using BI/BA to analyze your direct marketing results? Are you correctly tracking your campaigns with control groups, A/B testing, and trigger-based event follow-ups?

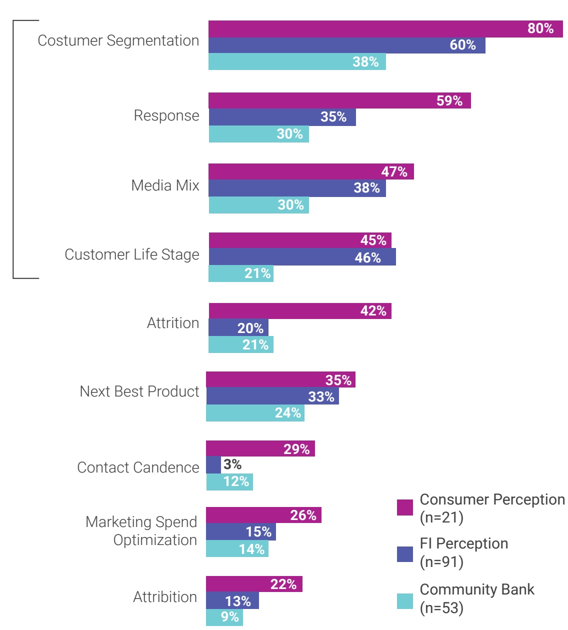
By incorporating campaigns within a customer relationship management (CRM) system, front-line staff are better informed and enabled to meet targeted cross-sell goals.

Profitability Analysis

Can you forecast, anticipate, and optimize the profitability of your products and services?

Although sometimes controversial due to the many other ways of measuring consumer, household, product, and service profitability, this component of enterprise resource planning can be valuable. By using agreed upon assumptions and profit categories (A-E), profitability analysis focuses on profit level movements (e.g., level B is more profitable than level C).

Percentage of FIs that Use the Following Types of Marketing Analytics Models (By Type of FI)



Source: Financial Brand/Aite Group survey of 262 senior financial services marketing executives

Attracting New Consumers

Do you think business analytics can only be used to enhance relationships with your existing clients? Think again.

Once BI/BA results have been calculated, applying them to traditional advertising channels also will help you attract outside consumers. Consult your media rep for statistics for each channel being considered.

SECTION 05

BA/BI Usage Today

When looking at financial institution usage of BI/BA by category, it's interesting to note that determining the next best crosssell product ranks #6 on the list. The low utilization rates related to automated trigger-based marketing and optimization reveal a lack of understanding of and focus on the value of intelligence and research. Competitors are quickly capturing a niche market with this opportunity by filling the gaps for savvy and demanding consumers.

SECTION 06

Time to Change?

> “New providers and non-traditional financial institutions continue to make inroads, particularly among younger generations, who studies show, will soon make up the majority of bank revenues.”

Anthony Jabbour
CEVP, Integrated Financial Solutions

47%

Only 47 percent of FIs over $10B ranked “improving data analytics” within their top three priorities.

8%

Only 8 percent of community banks and credit unions saw analytics as top priority.

A State of Financial Services Marketing survey by The Financial Brand showed that only 47 percent of FIs over $10B ranked “improving data analytics” within their top three priorities. Only 8 percent of community banks and credit unions saw analytics as top priority. Additionally, only a little over a third of all FIs are planning to increase their investment in data analytics by more than 10 percent. These lackluster stats readily position hungry competitors for a feast, especially considering the important role BI/BA plays in the consumer banking experience across all channels.

Just think of the many non-traditional financial start-ups entering the marketplace. By addressing consumers’ financial needs of today with solutions of tomorrow, these newbies are taking advantage of the gaps between modern-day consumer expectations and traditional financial institution complacency.

There are significant opportunities to build a stronger foundation for financial customer relationships. Simply providing channel access is no longer enough for today’s savvy consumers. Personalizing the interaction and delivery of products and services is essential. Clearly, a stronger focus and resource allocation on business intelligence and business analytics solutions and tools is necessary for success.

SECTION 07

Top Priorities

While many of the credit union vs. banking differences are explained by overall size and the availability of resources, the vast majority of top strategic priorities can be addressed by employing focused BI/BA initiatives. Combining areas such as marketing effectiveness, consistent channel deployment, and profitability and predictive analytics with business transformation will involve and engage many functional areas within the financial institution, resulting in organization-wide change.

Where FIs Fall Short

The attributes in the FIs PACE Index are clustered in four ascending bands of service relevance and quality. Level 1 attributes are recognized as essential foundational requirements in today's financial services environment (e.g., safety, security, fairness, reliability, transparency). Level 2 attributes are critical for successfully matching the current and future styles of FI competition required to attain and deepen customer relationships (e.g., being connected, omni-channel access, digital payments).

Given the number of high-profile security breaches over the years, it's not surprising that safety and security top the list of what's important to FI consumers. Unlike many other attributes, which vary in importance according to population segment, safety and security are universal concerns. Delivering on those attributes therefore represents the price of basic entry for being in the financial services industry.

Also ranked as important were the attributes that affect the very foundations of building a trusted relationship between customers and their financial service providers—fairness, reliability, and transparency. Unfortunately, beyond providing reasonably easy to understand products and services, FIs fall short on the majority of these most basic (and important) requirements.

Consumer Perception of Primary Banking Provider Performance

High

Relevance of banking provider

Perceived Quality of the bank's brand

Low

Level	Positive and Negative Performance Gaps	Takeaways
4 Partner for Financial Goal Achievement	• Banks don't do enough to help customers achieve their goals. • Banks don't intuitively anticipate customer's future needs. • Banks don't consistantly provide money management advice.	Include the personal insights driven touch with digital delivery to help customers achieve goals.
3 Recognition and Creating Loyalty	• Banks don't help customers enough to stay in control of their finances. • Banks don't recognize customer value and loyalty enough through rewards. • Banks are insufficiently focused on customization.	Get personal using digital and help customers keep control of their finances.
2 Convenience, Choice and Access	+ Banks are providing convenience and connectivity. + Banks are perceived as facilitating digital payments effectively. + Banks are seen to be performing well at providing omnichannel service. + Banks' in-person service is viewed as a strength. + Banks are meeting product innovation expectations.	Evolve strengths in transactional convenience to deliver sound money management to customers.
1 Basic Banking Requirements	• Banks don't do enough to help customers achieve their goals. • Banks don't intuitively anticipate customer's future needs. • Banks don't consistantly provide money management advice.	Scrutinize the foundations of trust and customer journeys to determine how to take trust to the next level.

The customer is looking for an interaction focus

The industry continues to have a transactional focus

Source: FIS PACE Study © May 2015 The Financial Brand

Financial institutions also failed to meet expectations on both the Level 3 and Level 4 attributes. The research reveals that:

Financial Organizations Don't Help Customers Stay In Control Of Their Finances

Consumers place above average importance on personal financial control as a factor that empowers them. Globally, FIs fall short of enabling control. Financial organizations don't recognize customer value through rewards. There is a wide gap between consumer expectations and FI performance in the area of recognition for bringing personal business to the service provider.

FIs Are Insufficiently Focused On Customization

Although most consumers indicate low demand for customized financial services, FIs are still seen to be neglectful in the area of tailoring products to individual profiles and needs.

FIs Don't Do Enough To Help Customers Achieve Their Financial Goals

Consumers have modest expectations for obtaining financial advice to help them manage their money or achieve the goals that are important to their lives. Unfortunately, FIs are failing to meet even these modest expectations.

FIs Don't Intuitively Anticipate Consumers' Future Needs

Currently, consumers have low expectations that FIs will actively anticipate their future needs. Even with the bar set low, the institutions are failing to deliver.

A Whole New World

By 2020, millennials will comprise more than one of three Americans and by 2025, they will represent as high as 75 percent of the workforce. Almost all millennials (88 percent) do their banking online and half use smartphones to conduct their financial business. Clearly, these consumers live in a different world than their grandparents or even their parents did.

About three-fourths of millennials (73 percent) are "more excited" about a new offering in financial services from Google, Amazon, Apple, PayPal, or Square than from a traditional provider. Can FIs afford to ignore these "new-world" trends?

According to an Accenture survey—"The Digital Disruption in Banking"—of nearly 4,000 retail bank customers in the U.S. and Canada, consumers are more likely than ever to bank without branches and consider a non-traditional provider. The idea of "convenience" in banking is shifting away from branch locations and toward digital products and services that mesh with consumers' mobile-empowered lives.

Key findings of the study:

- 27 percent of consumers would consider a branchless digital bank if they were to leave their current provider.
- 71 percent of U.S. consumers consider their current banking relationship as merely transactional.
- 51 percent of consumers want their bank to proactively recommend products and services. (55 percent said it would increase their loyalty.)
- 48 percent of consumers are interested in a spending analysis that both is real-time and provides a "forward view."
- 49 percent of consumers would bank with a company they currently use but that doesn't offer banking services.

27%

27 percent of consumers would consider a branchless digital bank if they were to leave their current provider.

71%

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48%

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SECTION 10

Technology—The Catalyst For Change

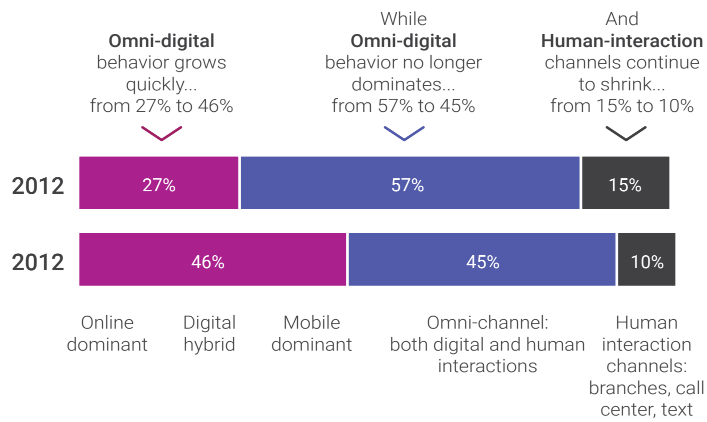
Consumers are adapting to new technology at record levels. The industry has experienced double-to-triple-digit growth in mobile banking users over the last few years. The result is an explosive increase in a hyper-connected customer base. Today's consumers are connected to their financial institutions through multiple channels and devices. In fact, according to a 2017 Digital Banking Consumer Survey by PwC, 46% of consumers use only digital channels, which is a drastic increase from the 27% share in 2013.

Unfortunately, this significant increase and shift in FIs' total customer interactions has not resulted in any measurable improvement in the deepening of customer relationships or in consumer satisfaction. Accenture research suggests that about 34 percent of the total traditional banking products sold were from institutions other than the consumer's primary FI.

The unplanned introduction of additional delivery and communication channels has led to a significant increase in operating expenses with very sub-optimal value creation. Rather than conforming to an FI's operating model, consumers prefer to transact with providers through multiple channels based on their personal needs—wherever they are and whenever they want. In addition, they expect their providers to recognize them and acknowledge their real-time financial needs and status regardless of their channel choice. However, many FIs have built incomplete operating models that improve service without significantly affecting sales. This results in stagnant customer satisfaction on one hand, and deteriorating sales force effectiveness and branch productivity on the other.

The rise of the omni-digital banking consumer

Across all users from 2012 to 2017



Note: Percentage may not add up to 100% due to rounding

Source: PwC © June 2017 The Financial Brand

SECTION 11

Conclusion: Positioning For Success

To operate effectively in this new world and be equipped to surpass the competition, it is mission critical that progressive financial institutions harness the power of business intelligence and business analytics. Meeting consumer financial expectations starts with a solid data intelligence foundation. To truly be successful, however, substantial internal buy-in and adequate resource allocation must also match market demands.

About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, we provide the broadest portfolio of financial services software in the world today—spanning retail banking, transaction banking, lending, and treasury and capital markets. Our solutions enable customers to deploy mission critical technology on premises or in the cloud. Our scale and geographical reach means that we can serve customers effectively, regardless of their size or geographic location—from global financial institutions, to community banks and credit unions. Through our open, secure and reliable solutions, customers are empowered to accelerate growth, optimize cost, mitigate risk and continually evolve to meet the changing needs of their customers. 90 of the world's top 100 banks use Finastra technology. Please visit **finastra.com**

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