STRENGTHEN CUSTOMER RELATIONSHIPS THROUGH DATA

Financial industry sees huge risk
in not fully using information

Financial services and insurance companies collect huge amounts of customer data, but this information has often not been put to effective use. Consider a bank that has multiple relationships with a customer, spread across different departments such as retail banking, insurance and wealth management.

"When you add all those relationships together, you could have a very important customer," says Steve Jones, global vice president of big data at Capgemini, a technology consultancy. "But because bank departments often work in isolation, one department might not realize how important that customer is and, say, put a standard block on one of his accounts when he overdraws it. That might irritate the customer and lose us *all* his business."

Consolidating different relationships into a 360-degree view is a key way that financial institutions are beginning to leverage big data and analytics tools. Consolidation allows businesses to understand which customers deserve more TLC as well as how to shape marketing materials and offers based on a complete understanding of the customer. But that's far from the financial industry's only priority around big data and analytics; this technology is in the forefront of efforts to improve efficiencies and the bottom line—from preventing fraud to improving loan collection.

RISK OF NOT USING DATA

It's clear that financial and insurance executives view big data and analytics as paramount to their success. In fact, they consider themselves more vulnerable to financial risk from failure to fully leverage digital information than any other industry, according to a new survey conducted by Oracle in partnership with WSJ. Custom Studios and IPSOS North America Market Research.

Certainly financial institutions have significant challenges around big data, especially since they are one of the few industries that is highly regulated around the globe. But they also have a significant advantage when it comes to analytics. "Banks, for instance, *should* know a lot about their customers," says Zhiwei Jian1g, U.K.-based head of global business information management for financial services at Capgemini. "There are not many companies that people have a more intimate relationship with than their bank."

Consequently, financial services firms understand the need for using data for personalization: Consumers expect to receive offers while they're online or using a mobile app that will be of interest to them, based on their browsing or past purchases. At a time when data privacy is a growing issue, it's important that these personalization efforts focus on preserving the relationship financial institutions have created with customers, rather than simply bringing in more revenue.

"When it comes to personalization, the goal must be about creating brand trust and affinity," says Craig Stires, associate vice president for big data, analytics, software for IDC Asia/Pacific in Singapore. "If a bank is asking, 'What would make my customer want to use more of my services and recommend them to their friends?,' then that bank is going to make the right decisions about appropriate data usage."

Take a bank in India that set itself a delicate challenge: Improve its rate of debt collection without alienating customers. The bank used algorithms to crunch its huge data stores and determine how different types of customers responded to email, phone calls and letters about their debt. By segmenting customers along these lines, the bank was able to reach out to different debtors using the most effective communication channel for each. As a result, the bank increased its collection of auto loans by 50 percent, while reducing the amount of workforce time it needed for collection by 80 percent.

> ## "Finance and insurance are fundamentally information-based businesses."

A BIGGER PART OF CUSTOMERS' LIVES

By providing more specific insight about customers, big data and analytics are also allowing financial institutions to enlarge the role they can have in customers' lives. "Financial services organizations are often limited to selling products to their customers, not actual services," Stires says. "Using analytics, these organizations have a big opportunity to provide financial planning and management services. For example, banks that offer self-service financial analysis over mobile apps are changing the relationships they have with their customers."

As financial institutions expand their use of analytics, they are also looking for ways to combine internal and external data. According to the Oracle study, over the past two years, customer information has grown most rapidly (36 percent), followed by market data from external sources (30 percent) and sales/marketing data (29 percent).

In one instance, a bank discovered that people's payment history with the local telecommunications provider was a great predictor of their credit behavior with the bank. The bank purchased the telco's information, giving the bank a compelling advantage in its underwriting. "Finance and insurance are fundamentally information-based businesses," Capgemini's Jones says. "If a financial institution can price risk 5 percent better than the competition, it can be massively more successful."

Banks are also accelerating their use of social media data. In the survey, 17 percent of respondents say social media is now one of their fastest-growing data types; over the next two years, 23 percent expect it to become one of their fastest-growing data types. Banks are analyzing comments that customers post on the web to detect and head off brewing dissatisfaction, as well as to identify new products that would interest customers.

PREVENTING FRAUD

Big data and analytics are also critical to fraud prevention. For instance, an insurance company examined travel insurance claims by analyzing tweets. In some cases, the content of the tweets revealed that the claimant wasn't at the place where the accident supposedly took place, suggesting fraudulent activity. A credit-card company matched location data from a mobile phone to a purchase location for an expensive bottle of wine, determining that the card was stolen. "Those are relatively simple algorithms, but it's been difficult to use them in the past on large volumes of data," Jones says. New technology allows financial firms to analyze huge amounts of data in real time.

As big data becomes more important, financial and insurance companies are adopting a big data ecosystem around technologies such as Hadoop, which helps companies manage and use large amounts of data, and new IT capabilities to understand and respond to customer needs better, faster and at lower cost. "It's all going to be about building context, particularly around customer preferences, risk profiling and fraud prevention," IDC Asia/Pacific's Stires says. "Technology that pulls data from a spectrum of very different systems and can put it into the hands of users in a trusted and meaningful way is going to have the biggest impact."

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NEW YORK

1155 Avenue of the Americas

5th Floor

New York, NY 10036

LONDON

The News Building

1 London Bridge Street

London SE1 9GF

HONG KONG

25/F, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Sarah Dale

Vice President, Media Sales

212.597.5729

sarah.dale@dowjones.com