

## For banks, customer data is the new king

One common theme of the new banking regulations is the requirement for banks to collect, analyse and store more data. But rather than viewing this as just a compliance exercise, savvy banks are transforming this into an opportunity to learn more about their clients to drive new revenue opportunities, writes **Steven Lewis**

Few can argue that the relationship between a bank and its customers is not strained. Banks of every size are more focused than ever on rebuilding this relationship around trust and loyalty. To achieve this objective, banks must meet the modern customer's expectations and deliver services that are convenient, integrated and accessible.

To do that profitably and consistently, banks need to be much more connected. Without effectively collecting, aggregating and analyzing customer data, they will struggle to reduce costs across the institution and better serve customers.

Moving forward, banks are expected to gather and integrate more data on clients to comply with regulations ranging from anti-money laundering and Know Your Customer (KYC) to FATCA. While this is a daunting and expensive proposition for most banks, they should view this not just as a costly compliance exercise, but also as a strategic opportunity.

As banks are redesigning their customer data systems and processes, they should do so creatively, with plans for using this data to serve multiple masters.

### Sharing the wealth

However, the key for banks to take full advantage of vast amounts of customer data lies in developing their ability to share it and the insights gleaned from it.

Over the past few decades, banks have become adept at gathering data but are not adroit at sharing this information effectively across their organizations.

Moreover, many institutions are struggling with legacy systems that are not able to interact or communicate with each other.

From the outset, banks should be revamping their structures, systems and culture to minimize silos. Reorganising the business around the customer instead of products and redesigning systems to deliver a single view of the customer will help.

According to EY's latest Global Consumer Banking Survey, more than 70% of respondents around the world are willing to provide more data on themselves if they receive

tangible improvements in the suitability of products and services they are offered.

Where there is a reluctance to share this important data, due to traditional fiefdoms, lack of trust or because management fails to support its own directives to share, the cost can be lost revenue.

On the contrary, given the cost of system redesigns and the multiple demands on scarce investment funds, these changes need to deliver financial benefits to the bank. Thus, banks must take a two-pronged approach to these change management projects:

1. They must overcome their own inertia, make the various data owners comfortable about sharing and not offer the not-to-share option, and
2. They must do this with return on investment on top of their minds, and not treat it as another compliance exercise.

### Classifying true customer value

Customer data can be divided into two categories: one, collected just to comply with regulations, and the other that can also be used to support sales and relationship management.

With business lines under ever more pressure to strengthen their competitive position through a better understanding of customers, adding just a few new questions to the customer onboarding process can help banks obtain potential new insights about client behavior.

For example, asking behavioral questions about a new customer's future plans – funding a college education or buying a home – can help a bank design and sell more targeted products.

This data can also help banks identify their most profitable customers. Institutions have traditionally sought to boost profits through volume, but have learnt that an increase in customers does not necessarily correlate with an increase in profitable customers. Faced with today's revenue and capital challenges, banks should look to redesign their current systems with powerful analytics to enable them to determine the true value of their relationship with each customer – a

task that most banks struggle to accomplish now.

To gauge customer value requires an aggregate measurement of every product and every margin for a client, whether corporate or retail.

When a bank can gain a view of the capital it allocates to each client, and collectively to all clients, the business can make a judgment about its effective use.

Sharing information across the bank on trading and hedging products might also provide an opportunity to reduce capital if they are matched effectively.

To make these determinations, banks need a single, enterprise-wide view of each customer, their interactions with the bank, behaviors and needs. Few institutions have that capability today and, exacerbating the problem, new customer data is being generated at great speed, making it necessary for banks to implement systems and processes that can not only manage this data, but also manage it quickly.

As a result of increased commentary and interaction via social media, the systems also need to be capable of synthesizing and analyzing the unstructured parts of "big data."

Partnering with technology firms or joining forces with other banks to share infrastructure may offer an alternative to those unable to match requirements with investment funding.

Banking customers are already providing reams of data on their behavior and preferences as they move toward online banking, mobile banking and greater use of digital self-service tools. In effect, many customers are beginning to segment themselves.

Utilising the insight gained from this information and other data, the goal for banks should be to create a complete, front-to-back view of each customer.

This can then be used to drive decision-making on allocating capital and providing capital-intensive products to particular customers.

*Steven Lewis is lead analyst, EY Global Banking and Capital Markets Center*