



WHITE PAPER

BANKING ON ANALYTICS: WHY DATA IS YOUR SECRET WEAPON

As payments become faster, smarter, frictionless, and more innovative, the stakes for financial services providers raise in tandem. Customers expect their financial institutions to deliver the same personalized, immediate, and instant experience they receive when they use their mobile device to make a reservation, locate a ride-sharing service, or buy online. As financial disruptors continue to enter the payments space and increase customer expectations for relevant and immediate solutions, a financial service provider's ability to harness data and use it to form actionable insights about a customer's spending habits, channel and payment preferences, future needs and aspirations is critical to retaining customers, and attracting new segments.

In this white paper, we'll explore:

- Why the ability to harness data beyond a single source is so challenging for financial institutions
- How financial providers can apply data analytics to optimize portfolios and revenue streams
- How data analysis will evolve into a predictive tool financial institutions can leverage to improve risk controls, and minimize fraud as payments become real-time

Data will either enable your growth trajectory or put you out of the market.

GAUTAM VYAS, GROUP EXECUTIVE, FIS PAYMENTS

Financial Data: Finding Meaning in a Sea of Information

Financial institutions are privy to a wide breadth of data from both internal and third-party sources that other industries envy – but quantity isn't beneficial without a strategy for how to harness data, and interpret it into meaningful and actionable information. Eric Kraus, VP/GM Fraud Management, FIS Payments explains the data management dilemma for many financial institutions isn't a lack of data, nor is it a debate about whether it can drive business results.

In the 2017 FIS Readiness Report, nearly 40% of respondents agreed there is substantial room for improvement when it comes to unifying data sources across their organizations, combining internal and external data to better inform decision-making, and using advanced analytics and AI for predictive identification and risk opportunities.¹ In a separate study, nearly 60% of bank executives said data analytics are very important, but just 17% felt well-prepared to manage data.²

Finding the Golden Nugget

Gautam Vyas, Group Executive, FIS Payments³ says most financial institutions know they have useful information housed somewhere in their data – but don't know how to find it. He explains that as the industry has consolidated and banking preferences shift towards digital and mobile channels, many financial institutions have lost sight of their portfolios. He illustrates the common challenge with this example:

A bank knows it has six million accounts in its portfolio, and that four million of those accounts are active. Yet, they don't know which of those four million accounts are profitable. Further, of the remaining two million accounts that are not active – they cannot identify spending patterns that might signal opportunities for targeted engagement. As a result, they can't determine whether the accounts are viable candidates for revenue driving outreach, or whether to close them.

"They have a strong need to extract data and determine who is profitable, and who is not. But the real money is to look at the most profitable accounts and determine how to make them more profitable—and to take the least profitable segments and determine how the right offer will make them more profitable," explains Vyas.

Everyone is trying to get a 360 degree view of their customer. The first step is aggregation. There is so much disparate data that getting a holistic view is the biggest challenge.

ERIC KRAUS, VP/GM FRAUD MANAGEMENT,
FIS PAYMENTS

Look Beyond the Obvious

Financial institutions have access to varying data sets. Those who think outside the obvious data parameters have opportunities to identify seemingly unrelated data points, and leverage them to form a deeper understanding of customer segments, habits, and future financial needs.

Consider that nearly 70% of banking transactions are now digital in nature, according to FIS' 2017 Performing Against Customer Expectations (PACE) report⁴. A financial institution could marry separate data points like check deposit information and online card payments, coupled with data points specific to customer behavior in various channels like mobile apps, or branch visits to form a better understanding of customer behavior, and how to leverage it to increase engagement. McKinsey points to the success one particular bank had identifying the next best product for a specific customer segment, once it opened data analytics parameters to include seven discrete data sets.⁶

Once financial institutions define which potential data points could serve as a basis for a specific analysis, the next challenge is how to engage the many departments, product line teams, and external partners to access several disparate data points and form a 360-degree view of the customer.⁵ FIS is focused on making access to these insights convenient, safe and easy.

A comprehensive data solution empowers financial service providers to manage their own business more effectively. In parallel, the data solution financial institutions employ to drive actionable insights for their own organization can be leveraged for their commercial clients – further deepening those relationship ties and extending a more differentiated value.

A THREE-STEP MODEL TOWARDS ACTIONABLE ANALYTICS

To find that proverbial golden nugget of data, Vyas says clients can start with a basic three-pronged model to help determine what business problem data could potentially solve.



STEP 1: ASSESS

What is the problem/desired solution, and what do you know about it? When Vyas' team visited a large bank, the client knew the problem: They needed to find a way to use their data to drive incremental growth in the portfolio, for more revenue.

Vyas' team dug deeper to explore what the client knew about the problem, based on their existing insights, and formed a hypothesis. Based on the banks peers and industry benchmarks, they estimated the bank was ranked in the bottom third, in terms of market position. Assuming that information was correct, the team then identified the goal for improvement:

To be in the top 1/3 of its peer group.



STEP 2: ANALYZE

Using the client's identified problem and aspiration for improvement, Vyas' team proposed a set of five actions the data strategy could potentially take (such as, identify the specific segment on which to focus, or what it will take to drive value) to reach the goal of improved market positioning.



STEP 3: ACTION

Given the goal to move from the bottom 1/3 to the top 1/3, the team outlined 15 things the bank would have to do. By applying which of those actions were possible based on its ability to make capital investments, or the skillset existing staff had, it formed an action plan.

Analytics in Action

Bridging technology and data equips financial service providers to deliver curated experiences for their customers.

Consider these use cases where FIS data solutions have empowered customers to identify new business opportunities, improve marketing campaign cost-efficiencies, and encourage customer engagement with technology platforms for enhanced ROI, and business value.



USE CASE 1: Optimize Marketing Campaigns

Technology-driven business intelligence solutions can provide data-rich insights about whatever the future may hold for your customers—based on their financial habits, the platforms they use, balances, usage patterns, how and when they move money.

Using FIS' data solutions, for example, a retailer can analyze a variety of a data sets, including credit and debit card purchase data, buying patterns and product inventory over the course of a specific time period (such as 90 days), to identify opportunities to deepen relationships with its own audience, increase share of wallet, and attract new business from competitors.

For example, one major retailer was able to identify that within a 90 day time period:

940,635

cardholders made a purchase at one of its largest competitors, regardless of payment type

791,970

cardholders made a purchase at one of its' own retail locations

253,003

cardholders made purchases at both retailers

With those insights, the retailer could craft targeted promotions and offers designed to deepen loyalty among existing cardholders who shop at both retailers, entice customers away from the competing retailer, and engage with those who've recently purchased. The retailer can further refine the data with filters like age and gender to personalize its campaign strategy based on specific customer segments.



USE CASE 2: Encourage Behaviors that Improve the Bottom Line

Financial institutions who use data to understand the economics behind millennial purchase patterns are better equipped to encourage behaviors that support P&L improvements.

Millennials are more partial to paying with credit, debit or prepaid products rather than cash compared to Gen X and Baby Boomers, and tend to be earlier adopters of digital and mobile banking and payment technology. A financial institution may presume that a campaign encouraging millennials to use a specific card to earn rewards or incentives would adequately cultivate loyalty, and in turn, support business profitability.

Despite that belief, FIS data solutions reveal that there's more to consider when it comes to millennial profitability:

- Millennials swipe with some form of non-cash payment more than any consumer segment – but they spend the least per transaction.
- Channel is a key differentiator in millennial purchase behavior: The average offline debit transaction amount made by millennials is about half the average online debit transaction amount. The average online credit card purchase by a millennial is \$109, but about \$78 offline.

Without including channel specifications in a campaign intended to drive purchase frequency, a financial institution could miss a key opportunity to drive only those behaviors that improve its own bottom line.



USE CASE 3: Measure Performance Against Industry Benchmarks

When financial institutions use data to gauge how they stack up against the broader market, they can align internal goals to the competitive landscape and strategize opportunities to gain market share.

In FIS' 2017 PACE study, 64% of senior millennials and 51% of Gen X-ers surveyed said they expect to have at least one major life event in the next few years that will impact their finances⁴. When financial institutions harness their internal data about customer engagement and share of wallet against industry benchmarks, they can identify potential risks in their own customer portfolios.

- When comparing average transaction amounts for one client against Federal Reserve data, for example, FIS data solutions revealed that the client's average debit transaction was about \$12 higher than industry norms – but its average credit card transaction amount was nearly \$20 less than the benchmark.
- If the financial institution didn't have the broader data points to gauge its own strengths and weaknesses, it could miss an important opportunity to invest in the future messages and strategies to enhance credit card transaction amounts, and maintain the performance of its debit card portfolio.
- Industry benchmarks empower customers to see how they perform against competitors, and better identify what investments they may need to make in technology platforms, customer acquisition and retention strategies to maximize customer lifetime value and share of wallet.
- When one client leveraged FIS data solutions to measure the health of its transaction volume, it found that primary competitors averaged nearly 23 transactions a month, compared to its five transaction monthly average.



USE CASE 4: Apply Mobile Analytics for Top of Phone of Status

Financial institutions can use data to improve the ROI of financial technology investments.

The 2017 FIS Pace Survey⁴, revealed that more than 70% of consumer interactions with a bank are done digitally (mobile or online banking). Millennials lead the way for mobile banking (nearly 50% had paid a bill from their mobile device in the last 30 days), but Gen X and Baby Boomers are quickly following their lead.

In the case of mobile banking, for example, data applied to specific questions like:

- How users behave in the mobile channel
- What services customers use
- How customers are engaging with new features compared to the industry median
- The economic benefit of mobile services

All can be applied against data to determine the appropriate mix of mobile products and services for acquisition strategies, and better define the ROI and customer lifetime value that each delivers.

Data Analytics to Fight Fraud

Payments have modernized into nearly real-time events that allow no room for error. In addition to the increasing popularity of digital payments facilitated by customers via their primary bank's apps and those of third-party providers, a move towards immediacy and open API's leave financial institutions' vulnerable to fraud and security concerns.

Eric Kraus, VP/GM Fraud Management, FIS Payments explains that business rules can help financial institutions manage and define the amount of risk they're willing to absorb in their respective portfolios and customer experience as it pertains to false-positives and verification triggers to prevent fraud – but that cannot be the only line of defense.⁶

Aligning front line and back office card data like confirmed fraud, authorizations, chargebacks, disputes (and the different departments tasked with managing them) is a challenge, but a holistic data management strategy will reveal trends to proactively identify fraud. Eventually a feedback loop that increasingly becomes more preventative and less siloed will emerge.

A holistic data strategy can help a financial institution reconcile both front and back office data to recognize where holes in the system allow for fraud – and identify how they can be proactively patched to reduce it, while delivering an optimal customer experience.

Once a financial institution has harnessed the intelligence in its own data, fraud prevention can be taken a step further to potentially incorporate data from third-party resources to marry issuance data with merchant data, or marry data such as attempts to open fraudulent deposit accounts, to pre-empt fraudulent card use.

**The more data you can layer,
the better your lines of defense.**

ERIC KRAUS, VP/GM FRAUD MANAGEMENT,
FIS PAYMENTS

When mobile and digital payment technologies are aligned with indicators such as geolocation and IP addresses, then applied to existing analytics about customer transactions and behavior patterns, financial institutions can develop highly intelligent models that identify where a customer is (and is most likely to be). This can reduce potential fraud across channels, including mobile payments, digital and ecommerce - minimizing disruption to the payment experience in the form of reduced false positive declines. As payments move to immediacy, those financial institutions who succeed in harnessing their data have opportunities to layer it into robust models that form an even stronger line of defense.

FIS Data Solutions: Easy Access to Actionable Insights

More than 90% of the top 50 global banks use advanced analytics to varying degrees of success⁴ – but the emerging leaders have done so with the support of industry leaders who make data analytics accessible and manageable enough to drive meaningful business results.

FIS™ will help you simplify and enrich lives by removing friction across the payments ecosystem, while simultaneously empowering you to understand your business, your customer, your risks and your opportunities, with strategic and intelligent data management solutions that drive business value. In addition to our world-class solutions and global expertise, our dashboard driven insights make it easy to measure historical trends compared to a 90-day moving average. We provide trend lines and insights that equip you to examine key performance indicators and create feature-specific intelligence. We partner with financial providers of all sizes to apply data solutions that empower you to stay relevant and competitive in the modern financial world.

If you're looking for a way to deliver better customer experiences and build a differentiating position in the market using your own data, contact us today.

There are so many new entrants to the financial and payments space whose core DNA is to let data drive the direction of their business. The amount of disruption it will create to FI's and credit unions is going to be limitless.

GAUTAM VYAS, GROUP EXECUTIVE, FIS PAYMENTS

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com

1 - *The FIS™ Readiness Report: The Hunt for Growth, 2017*

2 - *Retail Banking 2020: Evolution or Revolution?* PricewaterhouseCoopers. 2015. 27 Aug. 2015.

3 - *Gautam Vyas, FIS Group Executive, Retail Payments, August 2017*

4 - *FIS 2017 Performing Against Customer Expectations (PACE) Report, December 2016*

5 - *Eric Kraus, FIS VP/GM Fraud Management FIS Global Retail Payments, August 2017*

6 - *"Information Overload: Why Portfolio Managers Need Analytics," Trevor Mast, FIS Senior Vice President Financial Services Products, PaymentsLeader.com, July 2015*

7 - *13th annual open-loop prepaid cards forecast 2016-2019; Mercator, September 2016*

8 - *"Using behavioral analysis to extend the life of cardholders while reducing costs," David Johnson, FIS Senior Vice President, Emerging Commerce Products, Payments Leader, March 2017*



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