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Survival Depends on Financial Institutions' Ability to Harness Data to Differentiate and Innovate

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Virtually no industry has been immune to the transformative changes rocking the economic landscape over the past several years. Shifts in consumer behavior, digitalization imperatives, increased regulation, heightened competition, innovative new entrants, economic uncertainty, and the Uber-ization of business models have left many companies scrambling to catch up. Financial services is no different, and leaders are finding that catching up is not enough. Achieving a competitive advantage has become paramount to survival.

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In this rapidly evolving financial services marketplace, the key to sustainable longevity revolves around an organization's ability to be agile in the face of inevitable disruption. That agility hinges on its leaders' capacity to make informed, quick pivots when needed. To that end, financial services institutions (FSIs) need to hone massive internal and external volumes of information into usable 360-degree views of consumers, employees, and finance and risk indicators.

Consumers: Use Data to Meet Shifting Demands

Financial services loyalty has long been trending downward, especially among younger demographics. And today's digital-first environment makes switching easier than ever before. A Capco survey found that 53% of millennials and 42% of Gen Z had switched their banking provider within the last two years.

Just as the retail industry has had to evolve along with digitally savvy consumers' expectations for cohesive omnichannel experiences, the financial services industry is pivoting to meet similar demands. As everyday lives have become increasingly complex, consumers are demanding streamlined interactions that intersect (rather than interrupt) their daily lives.

Nearly six out of 10 consumers say their expectations of their financial institution's digital capabilities increased since the start of the pandemic.

The pandemic kicked consumers' penchant for digital environments and interactions into overdrive. Looking for more flexibility and convenience, they flock to providers that offer seamless experiences that allow them to conduct transactions, get help, or manage their accounts without having to visit a branch or even interact with anyone in person. It should come as no surprise then that 71% of young consumers (20-39) would open an investment account without speaking to a person.

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The more financial institutions can perfect and personalize their digital experiences, the more market share they can secure. This, of course, depends on a deep understanding of their customers' preferences and market trends, which can only be derived by looking at consumer-centric data from their own sources as well as third-party sources. The power of customer analytics on the right data will help financial institutions better engage customers and more effectively target prospects to generate new business. Examples include the ability to track a customer's journey, segment their customers by interest or demographics, and spot patterns in critical focus areas like customer retention.

Financial Performance: Keep Profitability Top of Mind While Managing Risk

As key economic drivers (e.g., interest rates, inflation, and overall economic performance) continue to evolve, many FSIs are struggling to stay above water when they should be discovering ways to leverage the disruption to differentiate themselves in an increasingly competitive market. This competition combined with price elasticity and increased regulatory requirements has put pressure on FSIs to price consumer products appropriately, drive revenue, and realize greater margins. The prevalence of these challenges, on top of an uptick in divestitures, mergers, and acquisitions, makes it clear that cost-cutting or price increases alone are no longer enough to combat this disruption.

To stay a step ahead of industry trends and competitors, FSIs need to keep close tabs on their key finance and risk metrics. These metrics help leaders make strategic decisions related to the introduction of new products, entrance into new markets, divestitures, contingency planning, and modeling the business for future revenue while managing the institution's threshold for risk.

Finance analytics get to the core drivers of profitability and performance across all dimensions of the business, including product, market, channel, and customer. It takes a forward-looking approach to drive increased margins, lower costs, and price products and services to meet strategic objectives. Risk analytics help companies identify and respond to a variety of risks, improve risk management, and meet compliance requirements. The ones that come out ahead will be those institutions that are able to use their data to maximize performance across various internal financial metrics while driving toward strategic goals and managing their own risk thresholds.

Employees: Manage Engagement and Retention

Human capital management (i.e., the process of attracting, hiring, retaining, and managing employees) is another area of major focus for FSIs in today's environment. The "Great Resignation" has created a challenging labor market for employers as candidates increasingly seek out positions that meet or exceed their expectations for meaningful work, better pay, opportunities for growth, and more flexibility. Focusing the business's people strategy on the engagement and retention of existing employees can save FSIs large quantities of time and money that would otherwise be required to onboard new team members.

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Retention begins the moment each employee starts. It's critical to make sure new hires are trained effectively and comprehensively, that all departments are fully staffed and has the right equipment to do their jobs well, and that employees feel connected to the organization and engaged in its strategic long-term vision. Organizations that manage and measure employee sustainability effectively could see benefits to their brand and shareholder value.

Keeping an eye on metrics like employee payroll, engagement, and turnover can illuminate areas of concern before they cause a mass exodus that results in lost productivity and increased recruitment costs.

Using Data to Justify Strategic Decisions

While it's important to understand how industry dynamics are shifting at a high level, it's even more critical for FSIs to zoom in on their own data to determine how these trends are impacting their own businesses.

To gain these insights, FSIs need the capability to look at historical data combined with predictive analytics or forecasts to determine how, when, and where to evolve. This requires faster, deeper data and more robust analytics.

There is no shortage of consumer data in FSIs, flowing in from various sources constantly. The trouble is that most of it is in siloes and very little of it is accessible or actionable. Reducing duplicative systems, manual reconciliation tasks, and redundant information technology costs will allow financial institutions to be more efficient. The intentional implementation of a robust cloud-based platform that can handle the volume and variety of data FSIs manage will provide them with the capability to look at historical data combined with predictive analytics to make smart decisions about when and where to act. This should be viewed as a strategic investment in the long-term health of the organization.

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