

Information management in financial services

Data deluge, data desert or both?

Martha Bennett, Freeform Dynamics Ltd, January 2012

Making sure that the right information is available at the right time to the right people is more important than ever in today's volatile economic and political environment. But how are financial services firms doing in actually living up to the ideal? And what can they do to improve?

Key Points

The current economic and political environment has many impacts

Having to cope with a steady stream of new regulation has been a fact of life for the financial services industry for a number of years. The ongoing economic and political turmoil adds to the uncertainty surrounding planned regulation, while also putting pressure on revenue streams and increasing the need for the most up-to-date, sophisticated risk management and reporting systems.

Investment has been focused on regulatory compliance

When it comes to putting in place the processes and technology required to make available the right data when it's needed, financial services companies have put the emphasis firmly on improving their ability to comply with regulatory requirements and to meet ad hoc information requests from the regulator, as well as supplying the finance department with up-to-date and timely information.

Key areas related to customer acquisition and retention are being neglected

Companies' desire to ensure regulatory compliance and to service the needs of the finance department has led to a comparative level of neglect when it comes to areas of the business that are directly or indirectly tasked with retaining existing customers and bringing on board new ones. While client satisfaction, customer service and delivery of value to clients are regarded as important, key supporting capabilities such as understanding customer profitability and client/prospect segmentation don't get the level of attention they deserve.

Access to business intelligence remains restricted

In the majority of firms, provision of business intelligence remains largely limited to senior management. Despite the fact that decision making is increasingly taking place away from the centre, and at all levels of the organisation, few are making BI facilities available at departmental level, or to the broader workforce.

Technology investment is key, but it's not sufficient

Companies who are doing better at making available the right information at the right time to the right people have invested more in supporting technologies, and intend to continue investing. Those companies also tend to have a more collaborative culture, encourage local empowerment, and take a less product-centric view of the business. In short, they have done better at dismantling the organisational boundaries that tend to get in the way of effective information management.

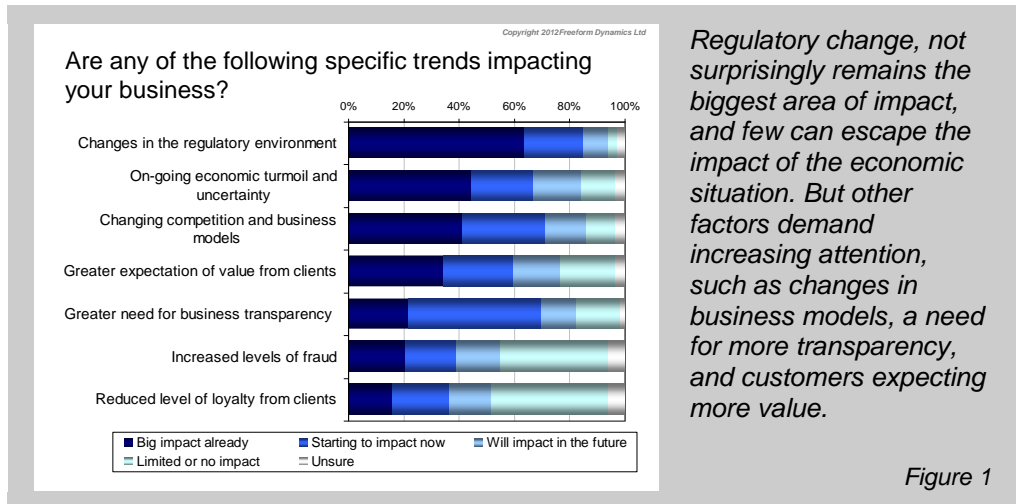
The study upon which this report is based was independently designed, interpreted and reported by Freeform Dynamics and executed in collaboration with The Register news site. Feedback was gathered via an online survey of 90 respondents, mainly IT professionals from the UK, USA, and other geographies. The study was sponsored by Microsoft.



Microsoft®

Living in interesting times

Nobody needs reminding that financial services (FS) firms today operate in a particularly challenging economic and political environment. Rapid and sometimes unforeseen developments require immediate action and at times also major changes. New and updated regulations have steadily increased the demand for timely and accurate information about firms' financial and risk position. For many, regulatory intervention has resulted in entire income lines disappearing. There's also widespread recognition that the stream of new regulation and compliance requirements isn't going to dry up any time soon.



As shown in Figure 1, the pressure from external factors such as regulation, economic turmoil and a changing competitive landscape shows no sign of letting up. At the same time, consumers and enterprises alike have become more demanding and better informed.

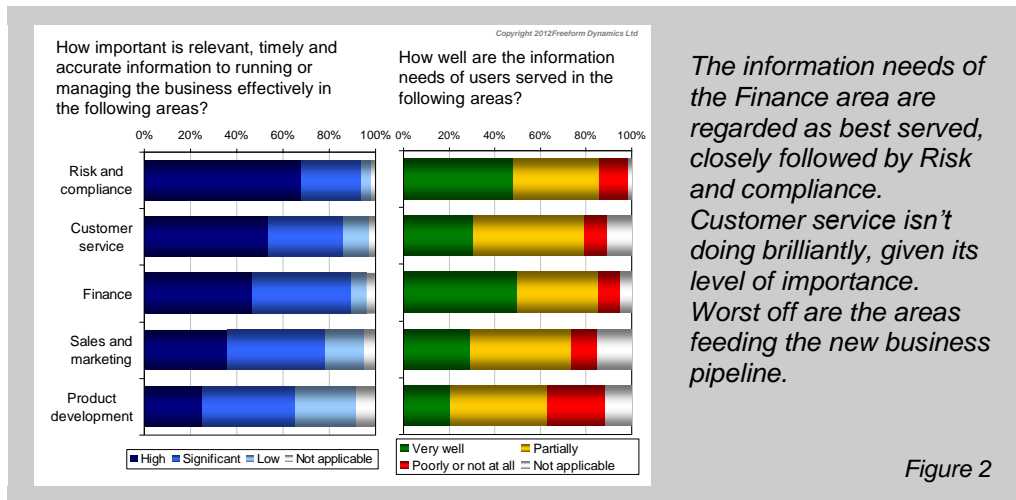
For FS firms, a delicate balancing act ensues. There's the obvious desire to meet the expectations of existing and potential customers, to keep them happy both in terms of the products and services provided. But all this has to be achieved within an acceptable cost framework, without negative effects on risk, and in full compliance with all regulations. All of this relies on having the right data available to the right people (or system) at the right time. But how well are FS firms actually doing at making that happen?

To provide a checkpoint, we surveyed 90 respondents, mainly IT professionals; in all FS segments (see Appendix A for more details). In addition to requesting responses to very specific questions, we also gave respondents ample opportunity to introduce additional topics and viewpoints.

As with all online studies such as this one, we must bear in mind when looking at the results that participants are self-selecting, which means that those with a greater interest in information delivery, and how to improve existing capabilities, are more likely to respond. Some of the results are also likely to be influenced by the fact that over 80% of respondents were IT professionals, i.e. they largely reflect business priorities as seen by IT.

Some business areas are more equal than others

When we asked respondents how important it was for specific business areas to have relevant, timely and accurate information at their disposal, the results don't hold any surprises, given the current preoccupations of FS firms (Figure 2).



It would be of concern if risk and compliance weren't given top rating. After all, shortcomings in either area, or indeed both, can have a serious impact on the business. As we've seen over the past few years, inadequate risk management can bring even large and renowned institutions to the brink, both in banking and insurance. The cost of compliance failures increasingly results in hefty fines, quite apart from the provisions firms may need to make to compensate wronged customers; as recent examples in the UK have shown, these can be substantial.

When it comes to customer service, discrepancies start to appear when we compare the level of importance given to this area, and companies' ability to deliver the required information to people when they need it. This suggests many FS firms are reluctant to pour more resources into servicing customers or make the required organisational and process changes, as long as there isn't any serious impact on the business in terms of reputational damage, or customers taking their business elsewhere. It can of course be argued that this is short sighted. After all, the touch point between company and client can make or break a business relationship, whether that client is a large enterprise, a small company, another FS firm or a retail customer. It goes beyond the scope of this report to dive more deeply into this discussion, interesting as it would be.

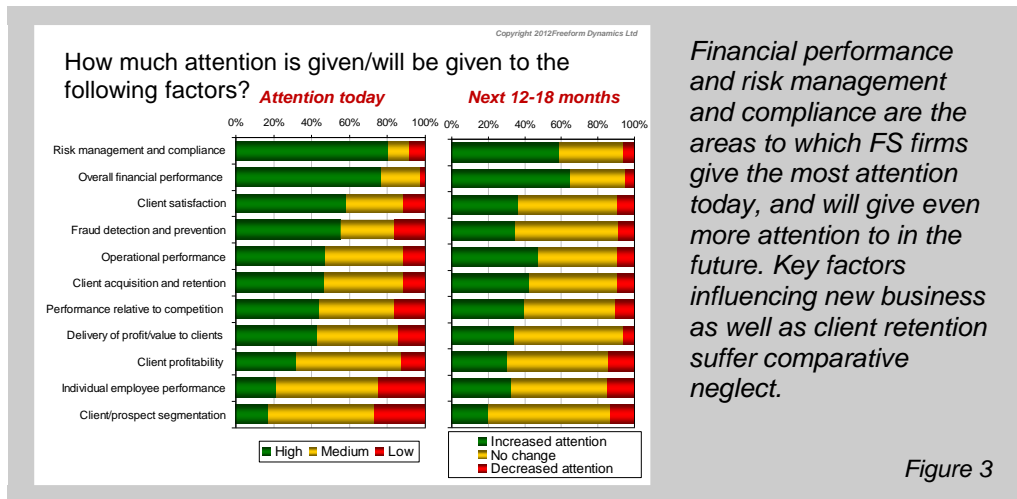
For now, let's look at the other areas that influence whether a company gains or retains a customer: product development, and sales & marketing. These are the areas that – in comparative terms – are regarded as least important when it comes to information provision. We again find however, that only a minority of firms are able to meet the information needs of these areas well. Product development appears to suffer the most neglect, with a quarter of respondents stating that its information needs are only met poorly, if indeed at all.

In particular when seen in the context of today's economic challenges and fast-changing competitive environment, this will sooner or later impact on a firm's market position and ability to attract and retain customers.

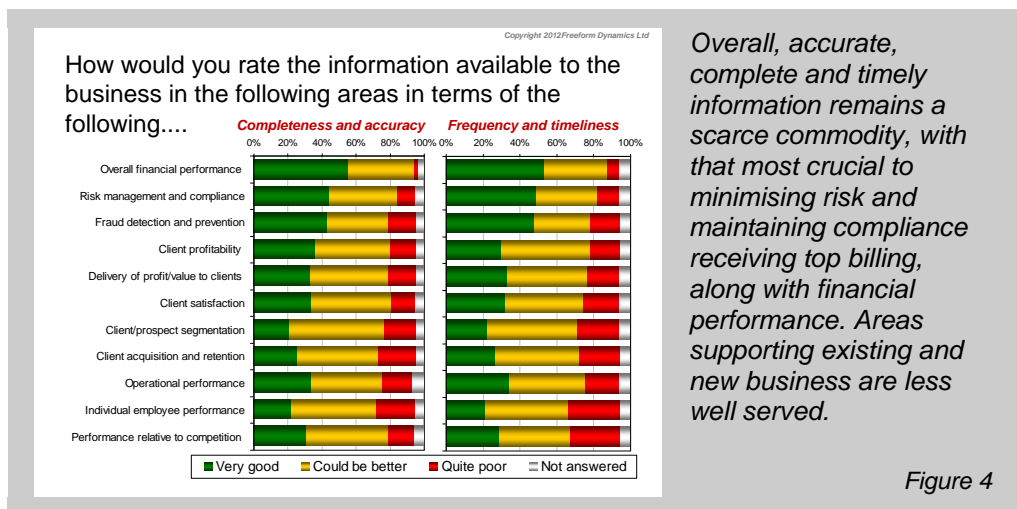
Many FS firms may be undermining their ability to compete

As we have seen in the previous section, less emphasis is placed on the information needs of the business areas directly influencing the acquisition of new clients, as well as making the most of potential cross- and up-sell opportunities to existing ones.

The same picture emerged when we asked respondents how much attention they were giving, and expecting to give, to a series of factors crucial to running the business. While client acquisition and retention are given comparatively high billing in terms of attention, both today and in the future, the same cannot be said of the factors that have a direct influence on acquisition and retention strategies: client profitability, and client/prospect segmentation (Figure 3). The latter in particular appears to be treated a bit like the proverbial 'ugly sister', despite its strong influence on client acquisition and retention.



The reasons for this are no doubt multi-faceted, and a look at how respondents rate the frequency and timeliness of data provided to the business gives us some insight (Figure 4).

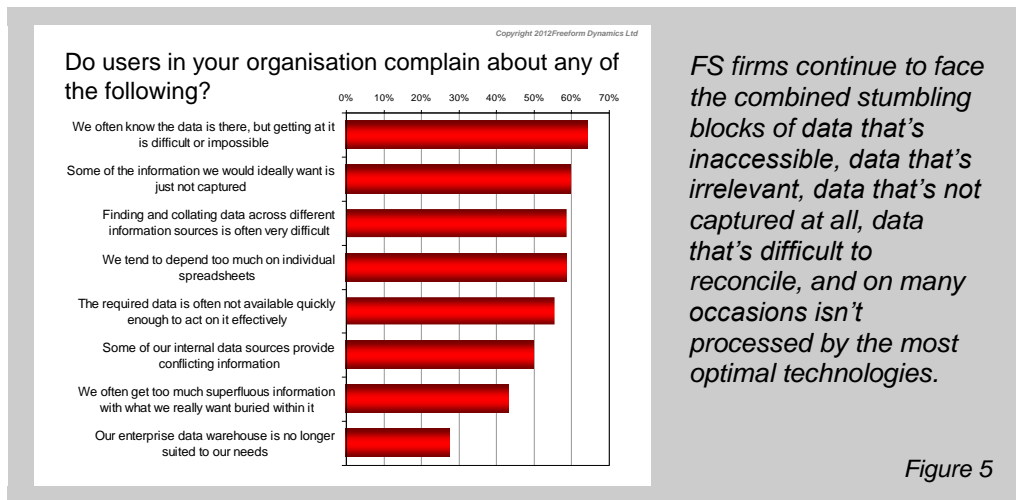


The majority of companies are at best middling when it comes to providing complete, timely and accurate information to areas directly pertaining to clients and prospects. The area that does worst is once again client/prospect segmentation.

As we've stated before, it's obvious the priority has to be given to data that enables a firm to understand its financial and risk position, and to be compliant with regulations. After all, there is little point in having the world's best customer service or product development if the company goes out of business due to inadequate risk management or flawed financial models. By the same token, in order to differentiate themselves in an increasingly cut-throat environment, FS companies reduce their chances of winning profitable business if the products they develop aren't right for the customer they're aimed at. So what's in the way of providing the right data to the right person at the right time?

Data deluge and data desert: companies suffer from both

When we asked what users in their organisation complained about when it comes to provision of data, the answers confirmed what many would probably suspect (Figure 5).



Summarising the points from the chart in Figure 5, we're looking at a set of interlinked issues when it comes to data availability and accuracy:

- Data that's there, but too difficult to get at, or not retrievable in a timely manner. This includes valuable data hidden in a deluge of less important or irrelevant information.
- Data that would be useful, but isn't captured.
- Data whose value is reduced because it conflicts with other information from other systems.

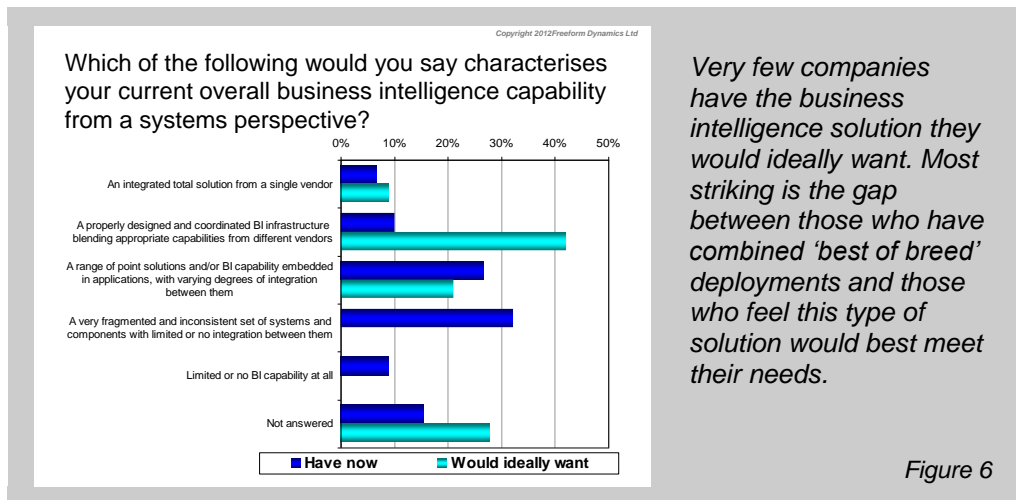
In addition, it's likely that neither the processes nor the systems that support them are optimal in their ability to meet the information needs of different departments and job roles. A case in point is the use of spreadsheets, which well over half of respondents single out as being an issue. Over-dependence on individual spreadsheets has a number of consequences:

- Lack of accessibility. Regardless of where they're stored, spreadsheets containing useful information are often not available to other people requiring the same data.
- Creating a vicious circle of conflicting information. While conflicting data often originates in the various back-end systems, the problem is compounded by people producing their own models and forecasts, which in turn get circulated and used as the base for further calculations.
- Decisions based on sometimes questionable, not to say downright wrong, assumptions in the hands of those who either don't understand the data, or spreadsheets, or indeed either.

This is not to say that spreadsheets should be banned from the front line, as it's not the spreadsheets per se that cause problems, but the way they're used. Aside from being great tools in the right hands, they can be very useful as an information front end, either bringing together and analysing data from disparate systems, or acting as a more user-friendly interface to applications that could otherwise only be used by trained specialists.

Formal BI capabilities remain suboptimal, but change is afoot

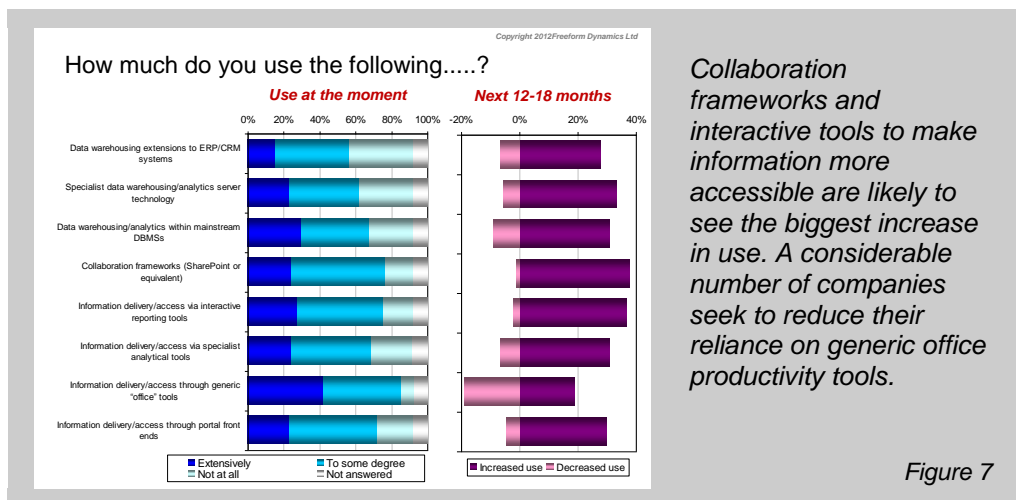
We'll get back to those specialists in a while. For now, let's take a look at the solutions that help organisations gain valuable insight from the data that's held in their back-end and transaction systems. We've grouped these under the term 'business intelligence' (BI).



Very few companies have the business intelligence solution they would ideally want. Most striking is the gap between those who have combined 'best of breed' deployments and those who feel this type of solution would best meet their needs.

While very few companies have only limited or no BI capabilities, around one in three are saddled with fragmented systems that aren't integrated well, if at all (Figure 6). This is in stark contrast to what our respondents would prefer to have, namely a 'best of breed' deployment, combining products from different vendors in a properly designed and integrated BI infrastructure.

When it comes to the tools companies are using, and intending to use, to provide access to information, two aspects are worth highlighting. One, collaboration frameworks and interactive reporting tools are the areas likely to see the biggest increase in use over the next 12 – 18 months (Figure 7). Two, around one in five companies are seeking to reduce the use of generic office productivity tools for information access and delivery. This amounts to the largest planned decrease in the use of any of the tools we asked about. At the same time, almost as many respondents state they'll increase their use of generic office productivity tools in this context.



Collaboration frameworks and interactive tools to make information more accessible are likely to see the biggest increase in use. A considerable number of companies seek to reduce their reliance on generic office productivity tools.

A note on the use and evolution of office productivity tools

Given the obviously opposing views in this area, it's worth looking in a little more detail at the potential reasons for companies intending to decrease or increase their use of office productivity software as business intelligence tools.

As we've already seen in the earlier discussion, many companies feel that they rely too much on individual spreadsheets. If an intended decrease in the use of generic office tools reflects a firm's desire to get away from the uncontrolled use of spreadsheets, then that is a worthy aim. True, we've been hearing the same refrain over many years, and nothing much seems to have happened. Be

that as it may, it's still a positive move to at least try and get away from inappropriate spreadsheet use and all its downsides.

However, it may be tantamount to throwing out the proverbial baby with the bathwater if a firm simply wants to reduce the use of generic office tools as information access and delivery mechanisms because of problems caused by the proliferation of spreadsheets and documents. Those problems are of course very real, and should be addressed. But it's possible to address them without losing the benefits that office productivity tools can bring in a business intelligence context, in particular when bearing in mind the tools in question are already on most PCs, and people have at least a basic familiarity with their use.

Generic office software has evolved considerably in recent years. Any company reliant on older versions should consider these developments before writing off such tools for information access and delivery. The following areas are worth highlighting:

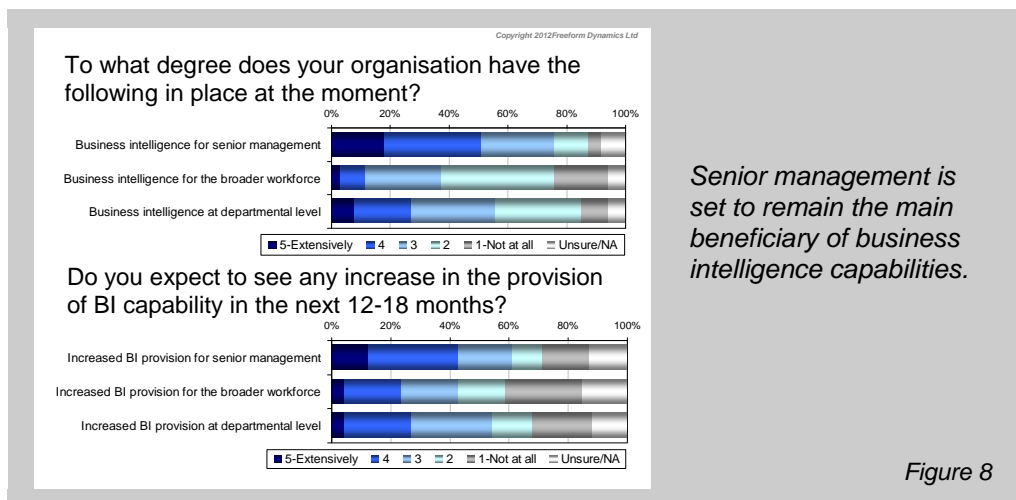
- Collaboration capabilities have much improved, making version control easier. Improved integration with workflow-enabled document management tools and other repositories also helps to address this issue, and can provide access control and audit trail information.
- Spreadsheets as well as word processor files and presentations can act as user-friendly and easily accessible front-ends to a wide variety of back-end systems, be they databases, specialist business intelligence tools, or other data feeds.
- The inherent analytical capabilities of spreadsheets mean they can be a powerful tool in their own right. That's of course provided users are given the appropriate training to help them get the best out of the software.

Last, but by no means least, making use of generic office software for information delivery, interaction and analysis also means it's possible to roll out BI facilities to a broader audience without incurring additional licence costs.

Such benefits are likely to be the driver for the companies telling us they are intending to increase their use of generic office productivity tools for information access and delivery.

Right information, right time – but not in all the right places

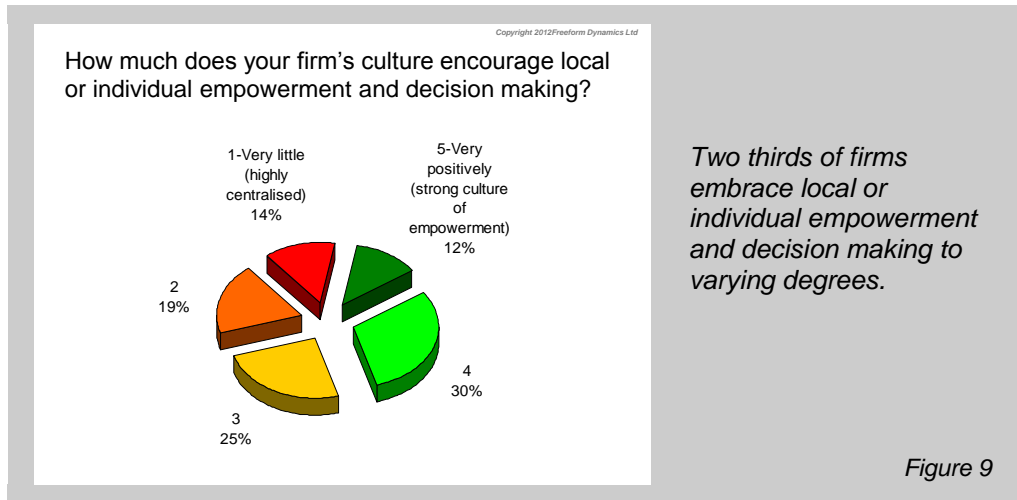
When we investigate who is actually served by companies' existing BI capabilities, and how this may be changing, we found that senior management is the main beneficiary of BI capabilities today, and that this isn't going to be significantly different in the foreseeable future (Figure 8).



It's likely that in many cases, the senior managers aren't actually using those tools themselves, but rely on BI specialists to provide them with the required reports. Providing portal front ends and

interactive tools can go some way to reduce this dependency, but it doesn't address the issue of who gets access to BI.

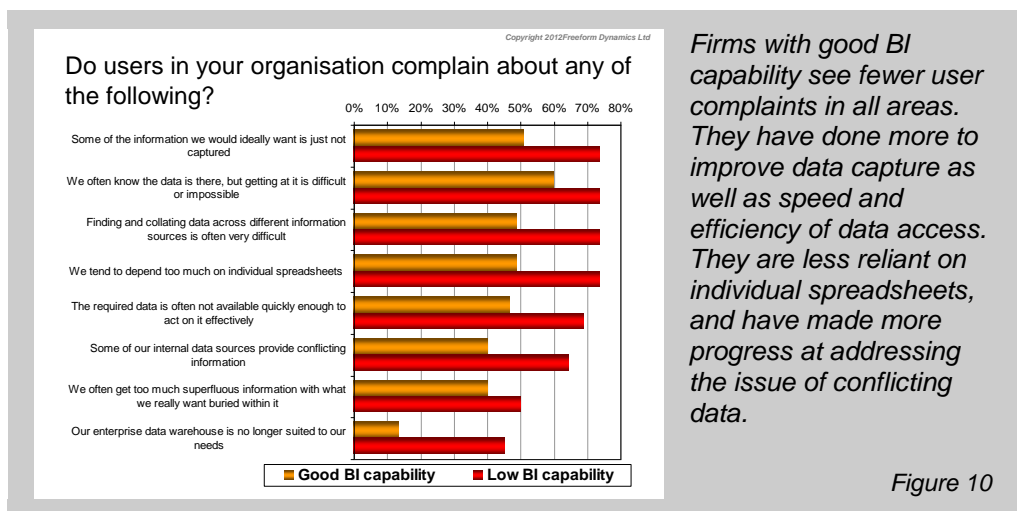
While there is some intention to extend availability to the broader workforce and at departmental level, this isn't nearly enough. Decision making is increasingly taking place at all levels of the organisation, and it's no different in the FS sector. As shown in Figure 9, two thirds of organisations embrace local and individual empowerment to varying degrees. For this reason alone, it's more important than ever that the individuals taking decisions have the right information at their disposal in order to ensure that the decisions they take are appropriate.



How can FS firms get better at information access and provision?

It's inevitable that BI resources are focused on the areas that need to be addressed from a regulatory and compliance perspective. But it's also easy to hide behind those pressures when it comes to providing complete, timely and accurate information to those who are serving clients and prospects on a day-to-day basis, and those who are developing the products and services.

So what can – and should – FS companies do to improve their capabilities when it comes to making sure that the right people can access the right information at the right time? To identify key action points, we looked at what differentiates those firms that are doing better at information provision from those who are finding it more of a struggle (see Appendix B for segmentation methodology).



One would expect that companies with good BI capability have fewer users complaining about the issues we listed. But as Figure 10 shows, the difference can be considerable. So it's worth comparing responses to a number of survey questions, in order to understand what those with good BI capability are doing differently.

We found that the firms with good BI capability:

- Embrace local or individual empowerment to a much greater degree
- Have a more collaborative culture
- Are the least product-centric in the way they manage their business
- Are ahead in making BI available to the broader workforce, but avoid taking a 'scatter gun' approach to BI provision
- Have already invested more in BI technologies, and continue to invest (Figure 11)

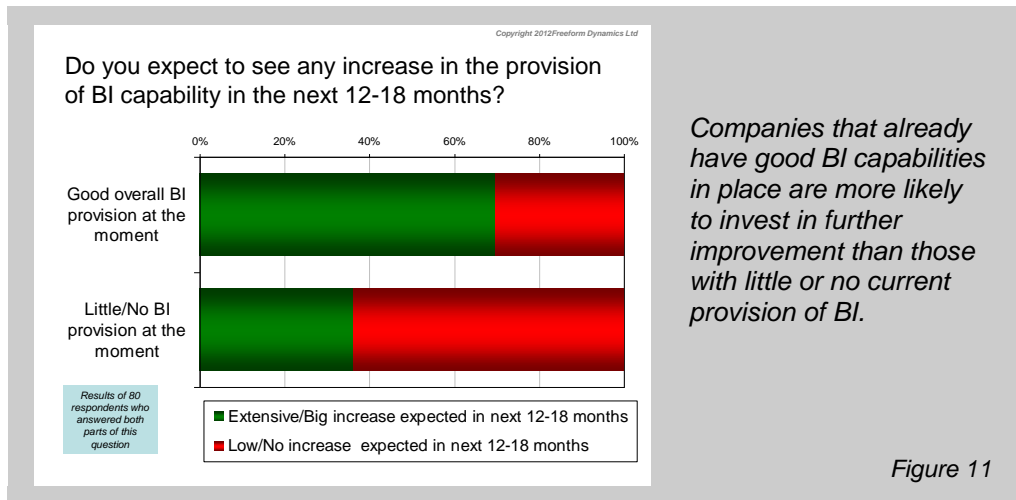


Figure 11

In a nutshell: investment in BI pays off. The companies who are doing better are in a virtuous circle of investment that has delivered benefit, and this in turn gives them the insight and confidence to invest more. By the same token, the companies who lack equivalent BI capability seem to be stuck in a vicious circle of not knowing or appreciating what's possible, and are more reluctant to invest.

So let's take a closer look at these two groups. We'll outline in a minute why those with better BI capability should not be resting on their laurels, but let's begin with the FS companies in the lower capability half of the spectrum.

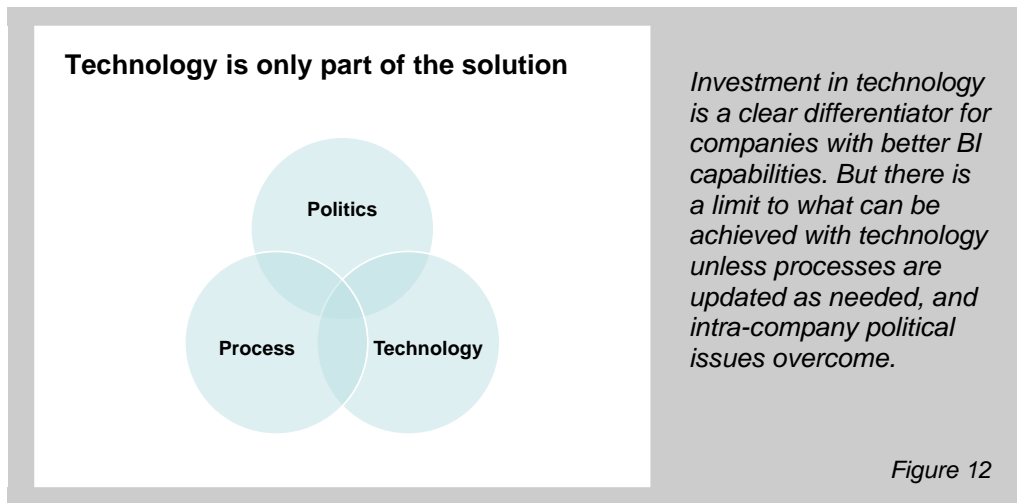
Breaking out of the vicious circle

The only way out for those with relatively low BI capability is to start investing. But investment isn't equivalent to just throwing money at the issue and buying some (or some more) technology. The first – and for many the most difficult – step will be to get all levels of management to agree that there is an issue that *needs* to be addressed, and which *can* be addressed. It'll also involve taking a closer look at how the company operates, and where the biggest barriers are in terms of departmental boundaries, disjointed processes and data silos. Issues of process and data ownership will need to be resolved, and for many, it'll mean changes in the way people work.

This all sounds very much like standard management textbook speak. That's because there's no way round it – technology alone isn't going to improve a firm's BI capabilities. However, it can be comparatively easy to demonstrate quick wins, often through leveraging existing technologies, once the decision has been taken to remove the obstacles that are in the way of process improvement.

That is the point at which it becomes a lot easier to enter into the discussion about increasing investment in technology. Supporting arguments can then also be brought in, such as the research results presented in this report. Furthermore, it's not just about BI capabilities, which were the focus

of this particular study. Research carried out by Freeform Dynamics in the first half of 2011 shows a clear link between technology investment and business performance ^[1].



Making the virtuous circle more virtuous

Coming back to those who are already doing comparatively well with BI, the key word here is 'comparatively'. As we've already seen, the companies with good BI capabilities have invested more in technology, intend to invest more, and are less likely to take a scatter-gun approach to making BI capabilities available (i.e. they focus their efforts objectively). This has helped them achieve a much greater level of capability when it comes to meeting the information needs of all the areas we asked about. However, it is clear that the emphasis has been primarily on meeting regulatory requirements, and satisfying the needs of the finance department. That is understandable in the current environment. But it also means that there is plenty of scope to improve the provision of BI to those areas we've already highlighted as being key to retaining and gaining customers: product development, and sales and marketing.

Given that a lot of technology is already in place, and further technology investments are planned, it's mainly a matter of refocusing and making sure that existing and future investments are leveraged to best effect. For example, more than twice as many companies with good BI capabilities keep compliance-related investments completely separate compared to those with lower BI capabilities. This focus no doubt enables our top half of companies to deal with compliance projects in a more effective and timely manner. But that same focus also brings with it the risk that those same companies aren't getting the most out of their compliance-related investments. The core capabilities put in place during those projects – data management, data extraction, cleansing, integration, and so on – are the same as those for any good business intelligence framework.

The foundations for better leverage of existing investments in technology and data provision are more likely to be in place for our top half of respondents: collaboration, local/individual empowerment, and a less product-centric approach to managing the business. What's needed is a recognition at all levels of the organisation that areas such as client/prospect segmentation are key to competitive differentiation, and to make sure that those areas get the support they need.

Final thoughts

There's plenty that can be done to improve companies' ability to achieve a better balance between data deluge and data desert. While it's clear that much can be learnt from those who've done better at meeting their respective organisations' information needs, there's room for improvement even among those who've done most to address the challenge of making the right information available to the right people at the right time. For all companies, the two key success factors will be a clear focus on the objective of any BI-related project, and a willingness to tackle the people and politics

issues that typically stand in the way of successful technology deployments and attendant process changes.

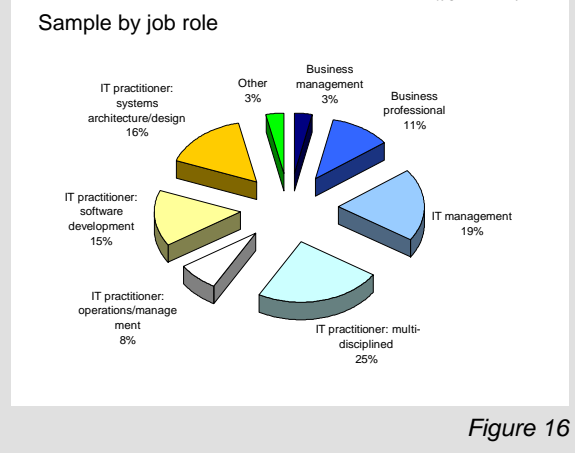
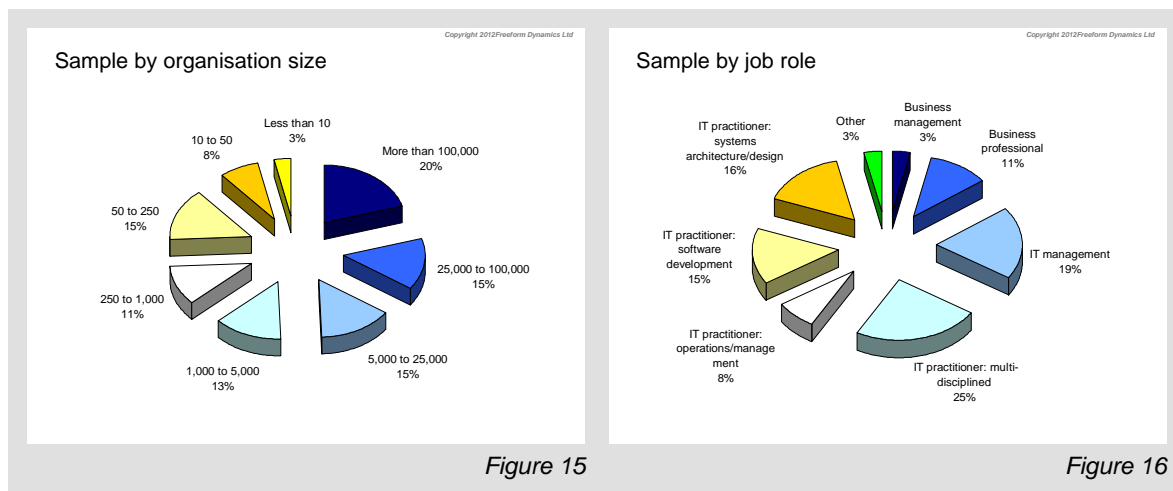
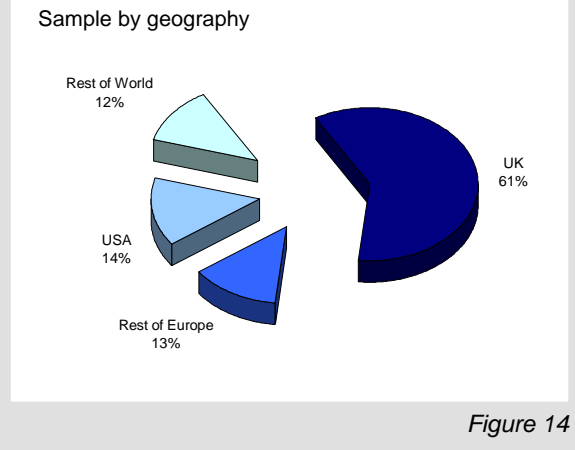
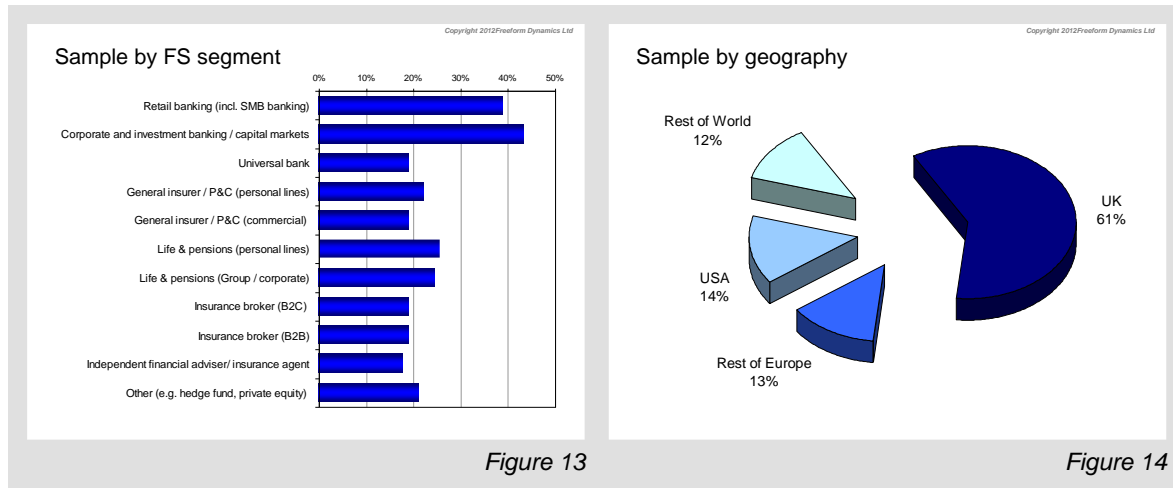
References and further reading

1. Defining the Business Change Agenda
Achieving the right blend of innovation, transformation and optimisation
<http://www.freeformdynamics.com/fullarticle.asp?aid=1387>
2. End User Productivity Revisited
Getting the most out of supporting technologies
<http://www.freeformdynamics.com/fullarticle.asp?aid=1367>

Appendix A: Study Sample

Feedback was gathered via an online questionnaire published on The Register news and information site (www.theregister.com). The respondents, totalling 90, were mainly IT professionals representing a cross section of job functions and working in all main segments of the financial services industry.

The sample distribution was as follows:



A note on methodology

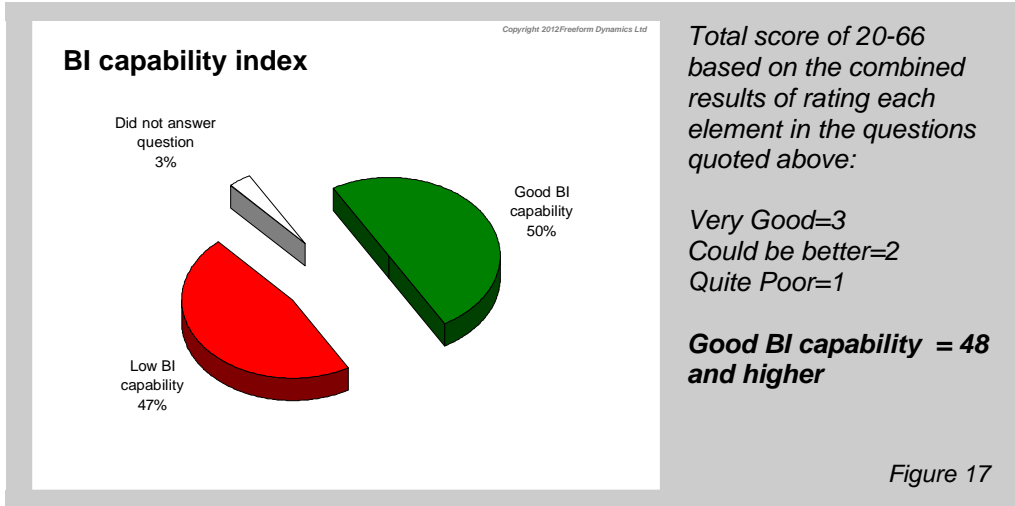
The web survey approach used in this study is subject to the 'self-selection' principle, which basically means that people with a greater knowledge of or interest in the topic are more likely to have responded.

Such self-selection does not undermine the analysis we have presented here as we have focused on the relative emphasis of different perceptions and types of activity. It does, however, mean that it would be inappropriate to regard any of the statistics we have used as a representation of the absolute level of need or activity across the business community as a whole.

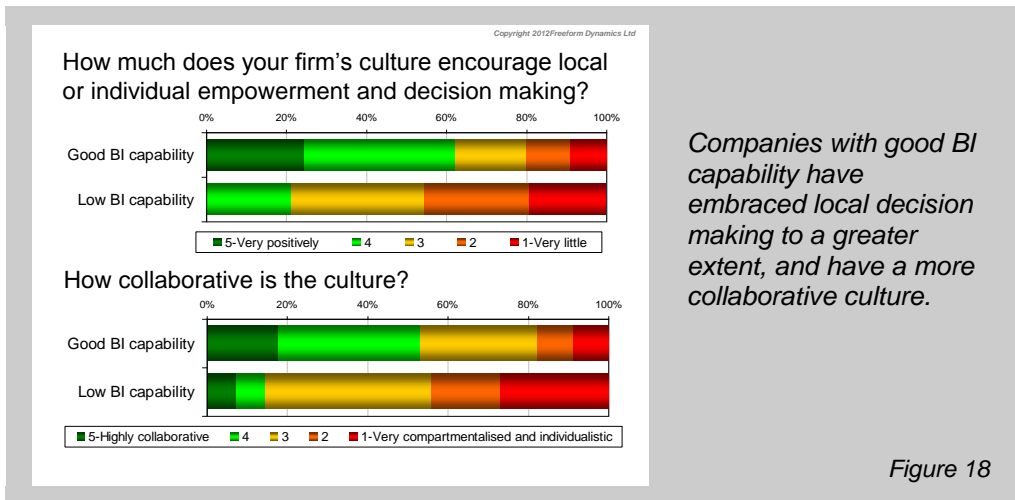
The study was completed in October and November 2011, and we would like to take this opportunity to thank all of those who took the time to participate. Your help is very much appreciated.

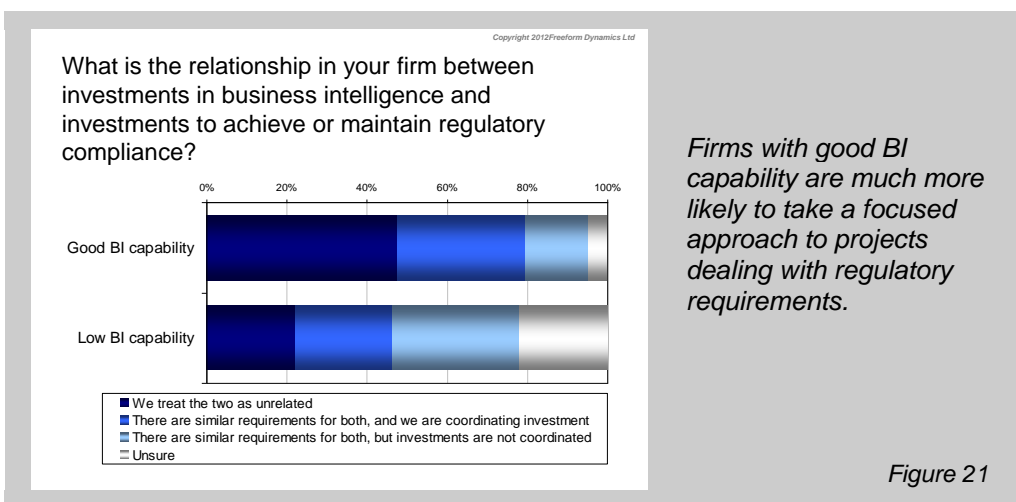
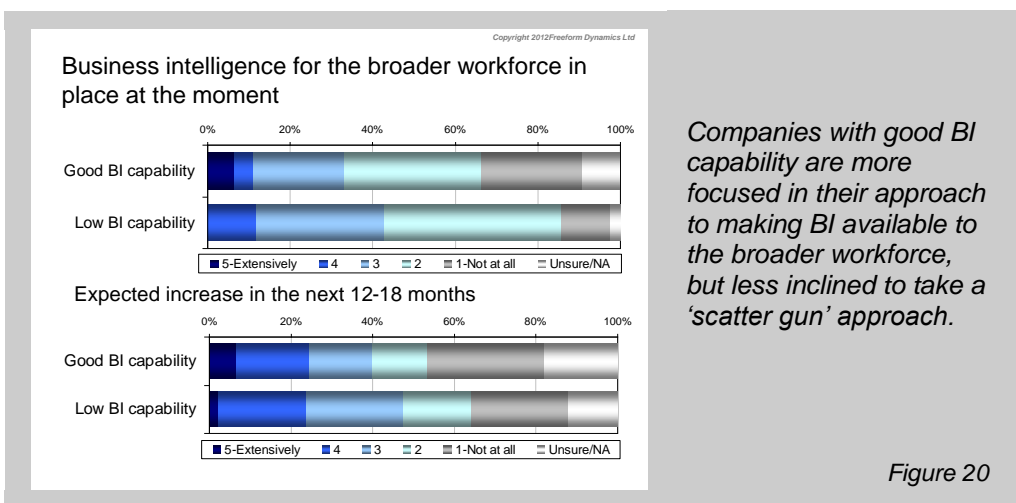
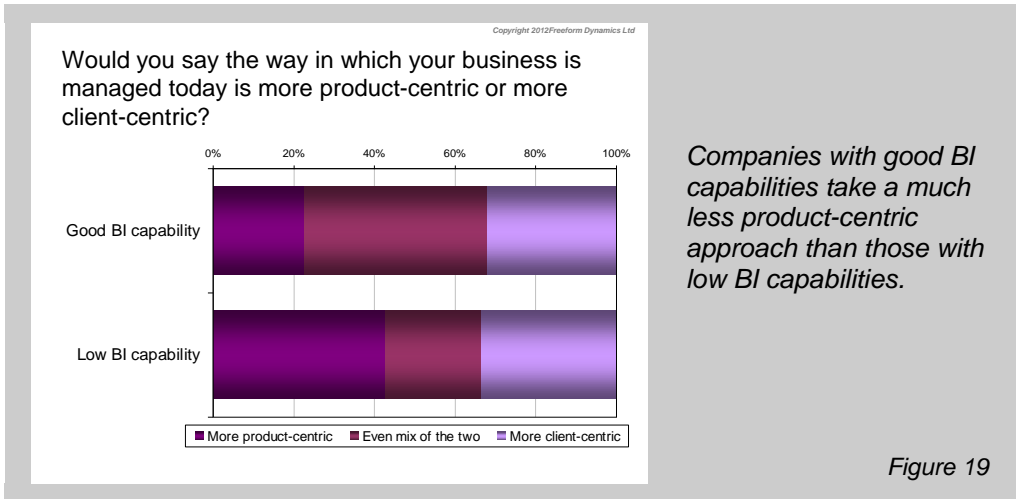
Appendix B – BI Capability Index

To establish the BI capability index, we scored respondents' answers to the questions "How would you rate the information available to the business in the following areas in terms of *completeness and accuracy?*" and "Looking at the same criteria, how would you rate the information available to the business in terms of *frequency and timeliness?*".



The following charts show the data referenced in the final section of this report (*How can FS firms get better at information access and provision?*)





About Freeform Dynamics



Freeform Dynamics is a research and analysis firm. We track and report on the business impact of developments in the IT and communications sectors.

As part of this, we use an innovative research methodology to gather feedback directly from those involved in IT strategy, planning, procurement and implementation. Our output is therefore grounded in real-world practicality for use by mainstream IT professionals.

For further information or to subscribe to the Freeform Dynamics free research service, please visit www.freeformdynamics.com or contact us via info@freeformdynamics.com.

About Microsoft



Founded in 1975, Microsoft (Nasdaq "MSFT") is the worldwide leader in software, services and solutions that help people and businesses realise their full potential.

Terms of Use

This document is Copyright 2012 Freeform Dynamics Ltd. It may be freely duplicated and distributed in its entirety on an individual one to one basis, either electronically or in hard copy form. It may not, however, be disassembled or modified in any way as part of the duplication process.

The contents of the front page of this document may be reproduced and published on any website as a management summary, so long as it is attributed to Freeform Dynamics Ltd, and is accompanied by a link to the relevant download page on www.freeformdynamics.com. Hosting of the entire report for download and/or mass distribution of the report by any means is prohibited unless express permission is obtained from Freeform Dynamics Ltd.

This report is provided for your general information and use only. Neither Freeform Dynamics Ltd nor any third parties provide any warranty or guarantee as to the suitability of the information provided within it for any particular purpose.