Exasol
The analytics database

DATA STRATEGY AND CUSTOMER LOYALTY IN FINANCIAL SERVICES

THE GROWTH OF DATA IS IMPACTING ALL TYPES OF FINANCIAL INSTITUTIONS' ABILITY TO DO BUSINESS EFFICIENTLY.

According to IDC, data growth in FSI companies is expected to increase by 26% CAGR from 2018-2025. Difficulty managing the growth of data is also compounded by the prevalence of data silos which are endemic in financial services firms.

Unlocking the true potential of data is critical for any organization that's trying to gain a competitive advantage or or move their digital business forward. Data analytics can help organizations better connect to their data and uncover the valuable insights they need to improve business operations, develop new products and services and, crucially, enhance their customer experience.

Data analytics is an essential part of any customer retention strategy as data insights can be used to understand customers better,

identify business opportunities and reduce costs. Data analytics also allows FSI companies to actively identify clients at risk of attrition by using behavioral analytics to generate individual customer action plans - which they can then choose to implement, tailored to the client's specific needs.

The objective of this research was to decipher how exactly organizations are using data to increase customer loyalty and deliver a better experience. Our research indicates that data strategy is considered to be extremely important to customer insights and loyalty efforts. Respondents agree they now have a deeper understanding of customer lifetime value, allowing their organizations to understand and measure the loyalty of customers.

The importance of customer loyalty in FSI organizations in 2019

Before we look at organizations' data strategies let's look at the impact data analytics is having on customer loyalty within the FSI sector:

• **4 in 5 businesses (80%) agree that improving customer loyalty is a key priority. The rest of respondents (20%) believe it to be very important, but not currently in their top three priorities.**

This is not surprising given that consumer facing aspects of financial services are seen as a key differentiator. According to Bain & Co., increasing customer retention rates by 5%, can increase profits by anywhere from 25% to 95%.

65%

OF RESPONDENTS AGREE THAT DATA ANALYTICS GIVE THEM THE ABILITY TO PREDICT CUSTOMERS' FUTURE BEHAVIOR AND OFFER PERSONALIZATION

But increasing customer retention and improving loyalty is not an easy feat. More than half (54%) of respondents find that customers have higher expectations around their experience when interacting with FSI organizations, which is making loyalty increasingly difficult to earn and maintain. However, there are other challenges:

- **41% of respondents think that regulations, such as PSD2 and GDPR, are impacting their ability to develop and improve customer loyalty initiatives**

- **42% of respondents agree that digital disruptors are challenging established FSI organizations when it comes to customer loyalty because they support new customer experiences, offerings and alternative business models**

The impact of poor customer loyalty are lost opportunities for customer engagement and advocacy (44%), lost revenue generating opportunities (42%) and higher levels of customer churn (44%). This last point is particularly pertinent when you consider the cost to the company - according to conversion rate optimization experts, Invesp - of acquiring a customer is five times more expensive than selling to an existing one.

Data and customer loyalty

We know that customer loyalty, customer retention and service are of the utmost importance for FSI organizations. We have also seen that keeping customers happy and loyal is easier said than done, especially in an industry that is heavily regulated and facing a wave of new tech-savvy disruptors.

In our survey, we wanted to explore how data analytics is helping FSI organizations overcome the challenges and deliver better customer experiences; and, whether with new technologies also come new, unexpected challenges and what those might be.

Almost 7 out of 10 (68%) respondents deem data strategy to be extremely important to customer insights and loyalty efforts. When looking at the impact of data and analytics, respondents agree that they benefit customer loyalty initiatives mainly by giving a deeper understanding of customer lifetime value and allowing organizations to understand and measure the loyalty of customers.

42%

OF RESPONDENTS AGREE THAT DIGITAL DISRUPTORS ARE CHALLENGING ESTABLISHED FSI ORGANIZATIONS WHEN IT COMES TO CUSTOMER LOYALTY

- **65% of respondents agree that data analytics give them the ability to predict customers' future behavior and offer personalization, which Gartner agrees is the most powerful driver of positive response.**

- **Almost all organizations (97%) use predictive analytics as part of their customer insights and loyalty initiatives, with three fifths (62%) using it as a key part.**

It is very interesting to call out here big differences between UK and US respondents when it comes to adoption of data analytics. In the US, 9 out of 10 (93%) of organizations' departments have embraced data analytics, with over half of these (51%) encompassing the entire workforce; however, UK respondents say only 37% of the workforce has fully embraced data analytics. It looks like there's much room for improvement in the UK when it comes to fostering a data-driven culture in FSI organizations.

We observe signs of maturity around data analytics in financial services compared to other sectors, which is highlighted by 96% of respondents being very positive about their organization's data strategy and how it is

communicated for the workforce to implement it. It is important to note, however, that almost half of these (48%) believe it could be improved. McKinsey also flags this room for improvement in their research, stating that even though for more than half of the banks surveyed analytics is a strategic theme, the majority struggle to connect the high-level analytics strategy to a targeted selection and prioritization of use cases, and to implement them in an orchestrated way. It is also worth noting that, according to McKinsey, banks are starting to use advanced-analytics techniques in several areas—commercial, risk, innovation, and technology—but for many, views that emphasize the imperatives of upper management limit the potential of analytics in their core strategic initiatives.

As FSI companies step up their sophistication in data analytics, the skills and demands required mean that some struggle or are challenged to leverage them effectively. The biggest challenge FSI organizations face when implementing data/analytics into customer loyalty initiatives is their inability to use advanced analytic methods for their desired analyses and activities (38%), followed by a

lack of access to external and more detailed customer data (35%).

In the last year, the majority of organization's (86%) used data and analytics to support the development of a new product. A better data strategy has enabled organizations in the financial services industry to deliver new products and services as they now have access to data that was previously unattainable. The application of more advanced analytics can also help FSIs improve personalization and reduce churn. An analytics database such as Exasol's can help FSIs unlock the value of customer data to ultimately drive better experiences and loyalty.

86%

IN THE LAST YEAR, MAJORITY OF ORGANIZATION'S (86%) USED DATA AND ANALYTICS TO SUPPORT THE DEVELOPMENT OF A NEW PRODUCT
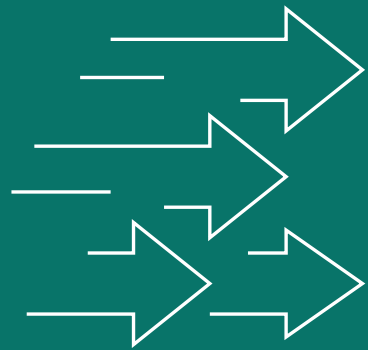
RESEARCH OVERVIEW

The primary quantitative research underpinning this campaign was conducted in September 2019 by Sapio Research. The survey was conducted among 457 senior level FSI workers and decision makers makers across Germany, Austria, Switzerland, the US and the UK, whose organizations are focused on/ planning to focus on customer loyalty through data and analytics technologies.

At an overall level results are accurate to $\pm$ 4.6% at 95% confidence limits assuming a result of 50%.

A robust sample of almost 457 online interviews were completed across three key geographic markets:

• 153 in DACH

• 150 in the UK

• 154 in the USA.

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