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With CEOs committed to constantly reinventing business value, enterprise data analytics technology should be the foundation for financial institutions to improve access to and enhance insights derived from their data.

## Enterprise Data Analytics to Power Digital Transformation and the Financial Institution of the Future

March 2021

#### Questions posed by: Teradata

Answers by: Steven D'Alfonso, Research Director, Compliance, Fraud and Risk Analytics Strategies

# **Q.** What are the key data challenges that financial institutions (FIs) are dealing with today?

A. Financial institutions have grappled with data silos for decades. Legacy systems built or bought by FIs, as well as those obtained through mergers and acquisitions, have created a mountain of technical debt. That technical debt has resulted in a fragmented ecosystem of data, spread among large repositories that hinder data monetization. Complicating matters is the rapid adoption of cloud technologies by FIs, further introducing data access challenges for data scientists and business users alike, essentially creating another data silo.

While FIs have progressed to an extent with mobilizing their data assets, this progress has largely been a knee-jerk reaction to regulatory compliance without regard for a broader strategic vision. The result is that — as backed by IDC's industry research — chronic data movement still dominates the analytics process at the expense of realizing less value from artificial intelligence initiatives. Data expert teams across FIs are forced to access, collect, and prepare data from multiple sources, creating an inefficient, seemingly never-ending use and reuse cycle of data. The resulting lack of a trusted, unified data source exposes FIs to deficiencies in core operational areas such as underwriting, fraud detection, and marketing.

## **Q.** What are the primary digital transformation drivers for FIs?

A. According to data from IDC's October 2020 *COVID-19 Impact on IT Spending Survey*, nearly half of FIs surveyed indicated that they would be investing in technology to close the gap in their digital transformation journeys in 2021 and 2022, with one in four indicating that it would speed up the pace of its efforts. The disruptions of 2020 exposed gaps and weaknesses throughout FIs of all sizes, forcing many to rethink their business and operating models. In the same IDC survey, 56% of FIs indicated that future proofing their organization by ensuring that business and operating models are viable in the future is a top 3 priority. Creating an FI of the future that is secure, efficient, and resilient starts with a modern, unified data platform that is the bedrock upon which data scientists and business users build customer-facing applications and internal digital assistants with clear linkage to KPI improvements such as net income or Net Promoter Score.

A major part of the drive to digital transformation and better resiliency, which started before the pandemic but has since accelerated as a result of it, is the rapid shift of workloads to the cloud, including SaaS offerings. IDC is seeing critical workloads and data move into cloud environments. We believe that FIs worldwide will use hybrid environments consisting of public cloud, private cloud, and on-premises solutions as the best way to balance innovation and speed to market. Governance, security risk, and compliance are all important requirements to establishing this core data foundation platform. Utilizing a single technology solution will reduce data complexity and operational risk, especially for FIs that require hybrid deployments spanning both cloud and on-premises locations.

## **Q.** What are the benefits of an enterprise analytics platform for a specific corporate function (e.g., risk management)?

A. A typical FI's risk function lacks ready access to some of the most fundamental internal and external data sources. Where FIs have addressed this challenge, the solution is typically a hodgepodge approach consisting of multiple repositories strung together. While these purported data warehouses have somewhat mitigated the information silo problem, the data stubbornly remains fragmented across channels and business lines. Business stakeholders rely on institutional knowledge held by a select few individuals, the departure of whom would jeopardize the ongoing risk analytics models underpinning critical business decisions.

Contrast this current state with a true enterprise data and analytics platform, which by definition is a single platform for both data *and* analytics. By bringing analytics to the data through highly scalable in-database queries and workload optimizations, FIs can focus more time on enhancing risk models, which are critical to running a better business and spending less time on the mechanics of data management. Furthermore, risk managers' jobs can be boosted with automation tools to increase efficiency and enhance decision making. In this type of environment, all risk functions base their models and decisions on a common, single source of trusted data, which improves the consistency and accuracy of risk decisions.

Colocating the organization's most granular data along with corresponding risk models allows FIs to model customer behavior at the customer level or "segment of one." Colocating data with risk models not only introduces a new level of hypersegmented risk modeling but also improves the overall customer experience through more personalized offers and tailored digital interactions. With more timely access to higher-quality know-your-customer data, FIs are simultaneously better positioned to comply with increasingly stringent customer identification program requirements while meeting the demands for best-in-class customer experiences.

## **Q.** How can an analytics platform help bank and insurance fraud teams deliver better customer and financial outcomes?

A. Effective financial crime detection and prevention requires the acquisition and preparation of dynamic, diverse, and expansive data sets. While grandiose visions of intricate data strategy include the latest in unstructured, external data sources, the reality is that many FIs and insurers do not share data across fraud teams or lines of business. In addition, the results of investigations at the customer level often reside within the case management systems of individual line-of-business fraud teams and are not



accessible to other fraud and risk teams. The net impact is that separate business units are reinventing the same solution over and over again or, worse yet, failing to resolve their challenges altogether.

An enterprise analytics platform can solve the problems of data visibility across the organization as well as provide access to prepared data for use in risk models. The analytics platform can be used to repurpose data so that various data teams do not have to prepare the data again to run similar risk analytics models across fraud teams. In addition, the ability to connect fraud investigation outcomes of shared customers across business lines (e.g., deposit fraud teams and card fraud teams) will improve fraud strategies as well as positively impact customer experience outcomes.

Leading financial services companies are leveraging the data and outcomes related to fraud investigations to improve customer experiences from online applications and digital onboarding to payments in the open banking and faster payments environments. Having a single, accessible, and trusted source of data on which to run fraud models at scale enables a faster and quicker separation of the bad or suspicious actors from the good customers, helping create a seamless and frictionless customer journey.

## **Q.** What will the FI of the future look like, and how will it function?

A. The future FI will be connected and intelligent. Such an FI will have data at its core, and knowledge workers across the enterprise will have access to a single trusted source of data to help ensure that informed decisions can be made, actions can be taken, and expected outcomes can be delivered. Connectivity to the data will be seamless, cost effective, fast, pervasive, and secure. The connected organization will enable scalable business outcomes as well as secure anytime, anywhere access with appropriate reliability and resiliency to deliver consumer-centric, pervasive digital experiences.

The connected FI will empower individuals across the organization to make their own business unit more intelligent, using their preferred tool(s) of choice, while keeping raw data and created insights in place for everyone else to see. IDC views the future intelligent organization as one that has a capacity to learn combined with an ability to synthesize the information it needs, applying the resulting insights at scale. Enterprise data analytics capabilities are the foundation for this vision. Enterprisewide data operations will be connected to artificial intelligence initiatives, business intelligence, model operations, knowledge networks, and decision environments. The connected ecosystem will provide an environment in which insights are derived in real time and can be shared and applied across the organization.

Integrated systems, characterized as best-in-class today, drive customer journeys, create efficiencies, and fuel predictive models that drive business processes. The future FI organization will move beyond integrated systems to focus on intelligent interactions and personalized services with its customers and to support collaboration with an ecosystem of fintech partners. The future FI will also engage in more machine-led, human-supported artificial intelligence to drive better prescriptive analytics as well as enable the next generation of digital assistants for external and internal processes.



## **About the Analyst**



### *Steven D'Alfonso, Research Director, Compliance, Fraud and Risk Analytics Strategies*

Steven D'Alfonso is a Research Director with IDC Financial Insights responsible for compliance, fraud, and risk analytics strategies. His coverage area includes research on technology solutions aimed at solving key issues facing financial institutions around GRC regulations, financial crime, and risk management.

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