



Topic: Analytics in Banking: War is Ninety Percent Information¹

Banking, Financial Services, and Insurance (BFSI) Outsourcing Market Report – June 2013: **Key findings / highlights**

¹ *War is ninety percent information.* – Napoleon Bonaparte (1769-1821)

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Background and scope

Background of the research

Increasing affordability / cost efficiency of storage systems coupled with the meteoric rise of Internet and social media in the last decade has led to creation and assimilation of humungous amounts of unstructured data. Organizations today, are on the lookout for means to effectively process this unstructured data to gather meaningful insights that can be leveraged for superior decision making. Managing and processing data which is emanating from a variety of sources, generated in multiple formats and is delivered at high velocity is a key priority for enterprises. For this purpose, companies across verticals are leveraging analytics for improving their data-management capabilities to better understand customer needs, streamline and automate processes, identify clandestine patterns, and make accurate forecasts

The Banking, Financial Services, and Insurance (BFSI) industry is one of the largest adopters of analytics services. Economic turmoil, increasingly demanding customer profile, and regulatory pressures have created a challenging environment for banks. Further, heightened need of customer focus is driving the demand for analytics solutions. Amidst this environment, banks increasingly realize the value they can unlock through evolved analytics capabilities.

On the supply side, evolution in technology and people expertise has enabled service providers to meet this growing need of banks and make previously inconceivable tasks possible. Service providers are enhancing their capabilities at a furious pace – primarily through acquisitions and alliances.

In this research, we analyse the current trends, key uses and broad service provider landscape for analytics services, specifically for the banking sector. We focus on:

- Understanding analytics: key elements, processes, functions and deployment areas
- Banking market size and key transaction characteristics
- Key drivers, trends and activity for analytics in banking
- Major service provider categories and capabilities

Scope of this report

- Industry: Banking (retail banking, wholesale banking, credit cards, loans, and mortgages); excludes capital markets and insurance
- Services: Banking (industry-specific BP services), Banking-IT (application and infrastructure services)
- Geography: Global

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Analytics and its building blocks

Analytics enables better decision making by gleaning insights from the vast amount of data available to an organization

The building blocks of analytics

Data

Raw information received from multiple sources

- Both unstructured and structured data
- Big data characterized by high velocity, volume, and variety of data

Technology tools

Core set of technology tools for analyzing data

- Tools that process and analyze data to identify patterns and relationships useful within specific contexts

Competency

Knowledge of domain, technology tools, and statistical analysis methodologies

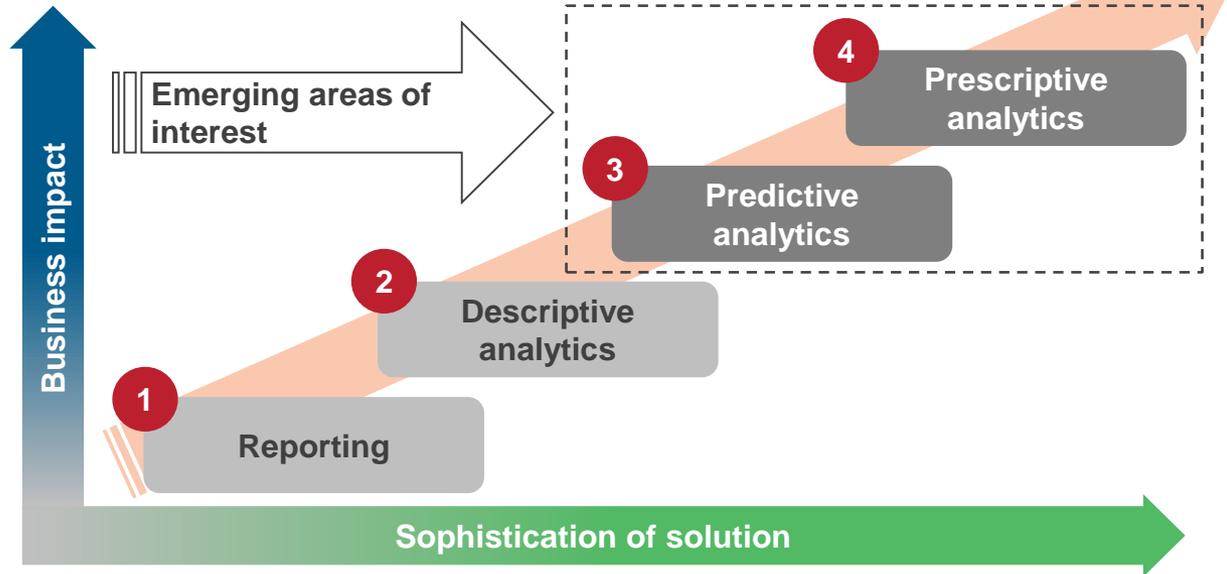
- **Analytics competency:** Knowhow of algorithms, analytical, and statistical tools
- **Domain competency:** Industry expertise and domain knowledge to frame the right questions / hypotheses and interpret results

Analytics is a complex function that is made up of three discrete elements (data, technology tools, and competency), each of which is critical to the overall process and cannot work in isolation

Levels of analytics

Analytics models vary from simple reporting to highly sophisticated prescriptive analytics solutions

Increasing maturity of analytics solutions



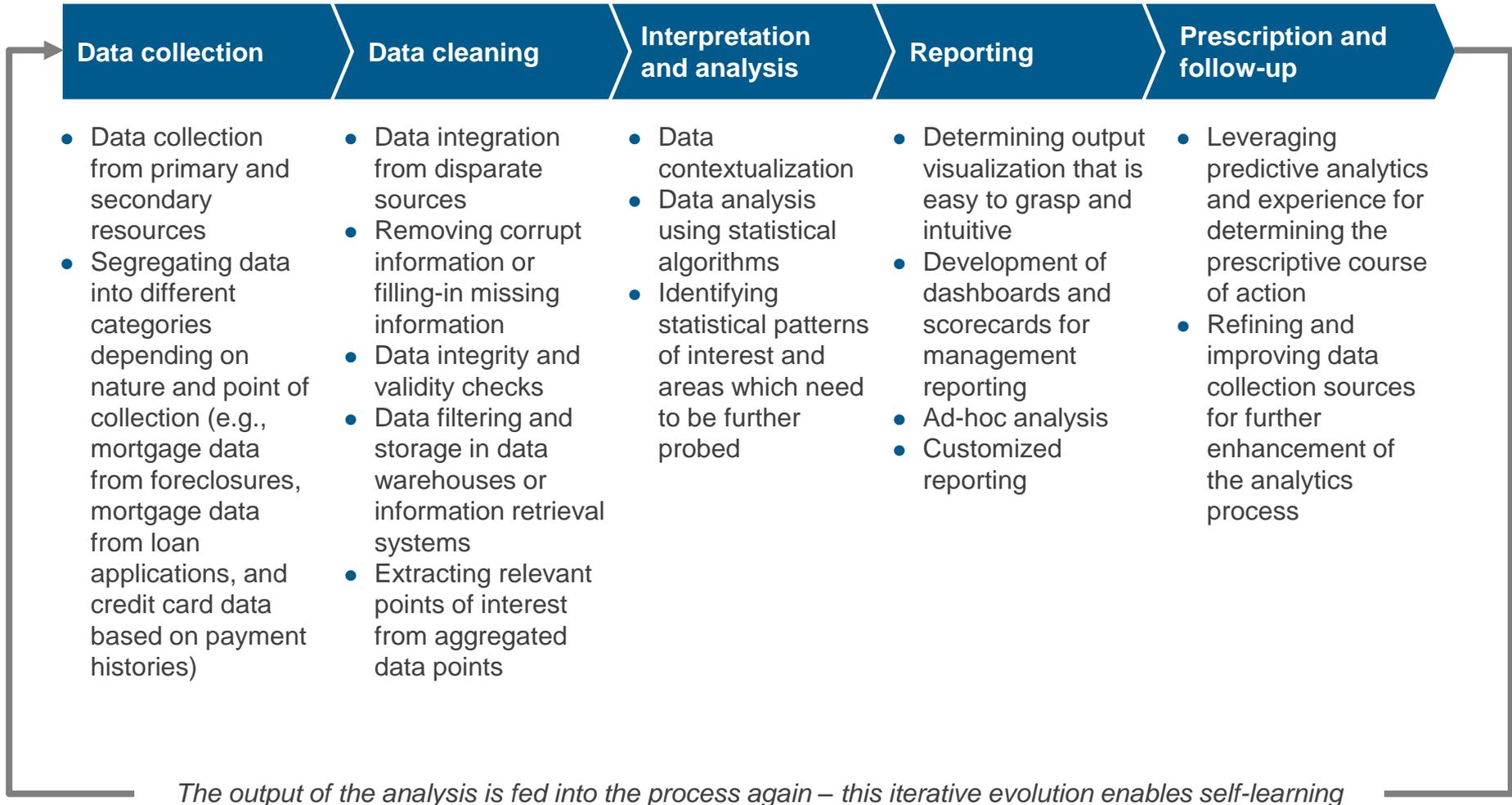
Business impact

- Prescriptive analytics**
Prescribing action items required to deal with predicted future events
- Predictive analytics**
Predicting the likely future outcome of events
- Descriptive analytics**
Actionable insights on the current situation
- Reporting**
Building data repositories and reporting current situation

	1	2	3,4
Data	<ul style="list-style-type: none"> Simple, regular data feeds 	<ul style="list-style-type: none"> Complex, time-series data 	<ul style="list-style-type: none"> Big data, real time, from a variety of sources
Statistical/technology tools	<ul style="list-style-type: none"> Simple 	<ul style="list-style-type: none"> Advanced 	<ul style="list-style-type: none"> Advanced and specialized tools Promotes self-learning
Competency (domain and technical)	<ul style="list-style-type: none"> Minimal 	<ul style="list-style-type: none"> Medium 	<ul style="list-style-type: none"> Strong

Analytics value chain

The analytics value chain consists of five distinct phases beginning with data collection



Drivers of analytics adoption in the banking industry

Evolving capabilities in the analytics domain and the banks' need to improve performance across various dimensions are driving analytics adoption

Drivers of analytics adoption in the banking industry



Details on drivers available on the upcoming pages

Source: Everest Group (2013)

Recent analytics initiatives of large banks (page 1 of 2)

Analytics implementation activity in banking has consistently grown in the last five years with most banks undertaking such initiatives...

Bank	Analytics initiative/implementation	<u>NOT EXHAUSTIVE</u>
	<ul style="list-style-type: none">• Banco Santander (Portugal) implemented a credit cards analytics initiative in 2010, which helped increase conversion rates six-fold and reduce churn by one-fourth	
	<ul style="list-style-type: none">• In 2010, Barclays UK implemented speech analytics using Nexidia technology to improve customer verification, provide focused banking advice, and improve customer service, increasing verification rates by 25%• Barclays offers a fast-track Leadership Program in Marketing Analytics to new employees, who work to improve customer acquisition across Barclays business units	
	<ul style="list-style-type: none">• Bank of America acquired Merrill Lynch in 2009, including the Decision Support Modeling Team, which has used analytics over the last 25 years for various ends• In 2010, Bank of America implemented a new analytics solution using SAS that helps in predictive modeling, forecasting, and reporting for credit cards customers	
	<ul style="list-style-type: none">• In 2012, Citibank launched the Citi Payment Analytics tool, which provides clients with a consolidated view of payments with regard to payment types, channels, currencies, customers, and geographies	
	<ul style="list-style-type: none">• In 2008, First National Bank partnered with InfoCentricity, an analytics technology provider to develop a customer targeting analytics solution, which used prediction scores to help achieve a 10% increase in customer response rates	

Recent analytics initiatives of large banks (page 2 of 2)

...either internally, or through leverage of service providers

NOT EXHAUSTIVE

Bank

Analytics initiative/implementation



- In 2010, ICICI bank implemented an analytics system to optimize collection resources among delinquent customers, reducing manpower needs by 80%. Through this initiative, the bank was able to enhance its debt collection process by identifying the appropriate customer-approach channel for its diverse customer base



- In 2011, IDBI Bank partnered with Oracle Financial Services to develop an analytics solution to better assess interest and liquidity risk and improve performance analysis



- In 2009, ING Direct (Canada) implemented technology from Verint Systems that helped it better understand customers' need for voice support, leading to a 5% decrease in call volume and 48% increase in customer retention



- JPMorgan Chase & Co. is integrating credit card customer data with economic statistics from the U.S. Government to develop customer insights and categorize different types of customers according to their banking needs



- RBC implemented a fraud detection and prevention analytics solution that helped them avoid US\$15 million in credit fraud losses starting 2010



- In 2012, Wells Fargo implemented an internally-developed analytics and data solution that delivers better reporting to the Risk Management group, enhancing decision making

Challenges faced by banks in analytics implementation

Banks currently lack internal capabilities along a number of dimensions, to be able to bridge the gap between demand and adoption

Challenges

Brief description

Cost and time considerations

- Limited budget and scale to meet the high planning and implementation costs for cross-enterprise analytics initiatives
- Limited time available to integrate analytics into existing process flow, risking loss of competitive advantage through delay in implementation

Limited analytics expertise

- Lack of in-house analytics or process experts available
- Lack of understanding of areas where analytics can most help, the best possible analytics implementation, and the clear objectives that analytics can help meet

Lack of technology resources

- Limited understanding of technology resources, including toolsets and implementation processes
- Unable to easily integrate new tools into the existing process flows

Lack of benchmarking data

- Have few benchmarks and efficiency indicators that can help to compare internal performance with best-in-class institutions
- Difficult to objectively set quantitative targets to strive for in the absence of historical data and information

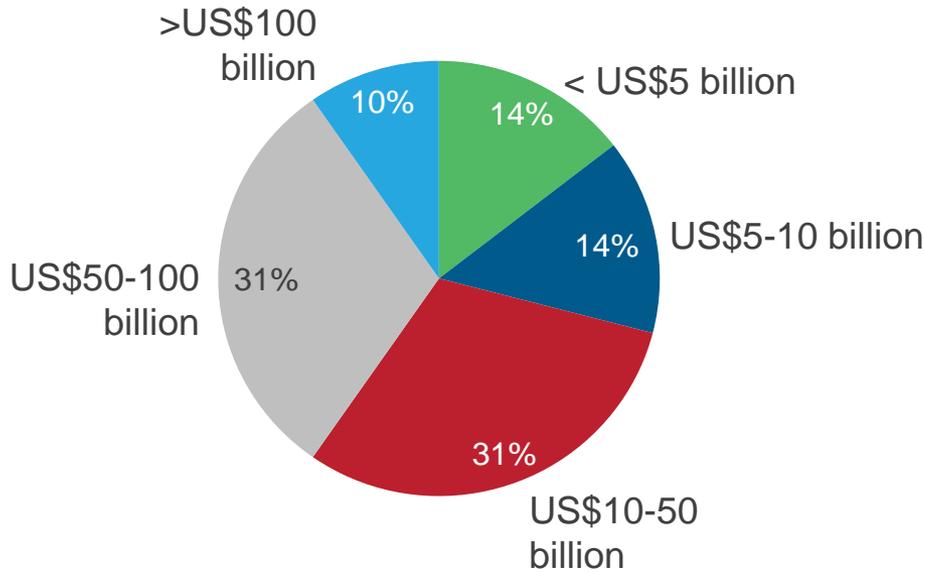
Lack of process expertise

- Most banks can end up implementing analytics initiatives in silos, without being able to tie them to strong organizational performance objectives
- A third-party provider can drive analytics objectives towards process improvement strongly tied-in with a larger outsourcing engagement as a whole

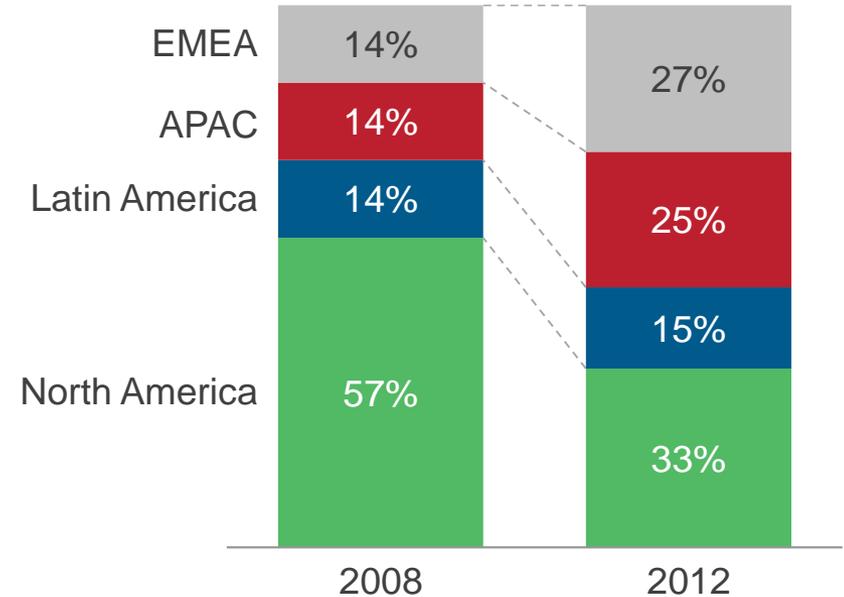
Banking Analytics deal characteristics | Buyer-size & region

Majority of the analytics deals announced currently have been announced by large banks however, adoption by small- and medium-sized banks is growing

Analytics deals split by buyer size¹



Analytics deal split by geography



- More than 70% of the analytics deals have been announced by large-sized banks; adoption by small-sized banks is picking up
- In terms of geography, North America (primarily the United States) dominated the announcement of analytics deals till about five years back. In the recent times, APAC and EMEA have increased their share of the analytics deals announced

¹ Based on deals announced by banks publicly, which have an analytics component

Source: Everest Group (2013)

Banking Analytics deal characteristics | Banking LoBs

Credit cards and lending LoBs find the maximum use of analytics especially for functions such as generation of customer insights and targeted marketing

Frequency of analytics adoption by LoB by end purpose

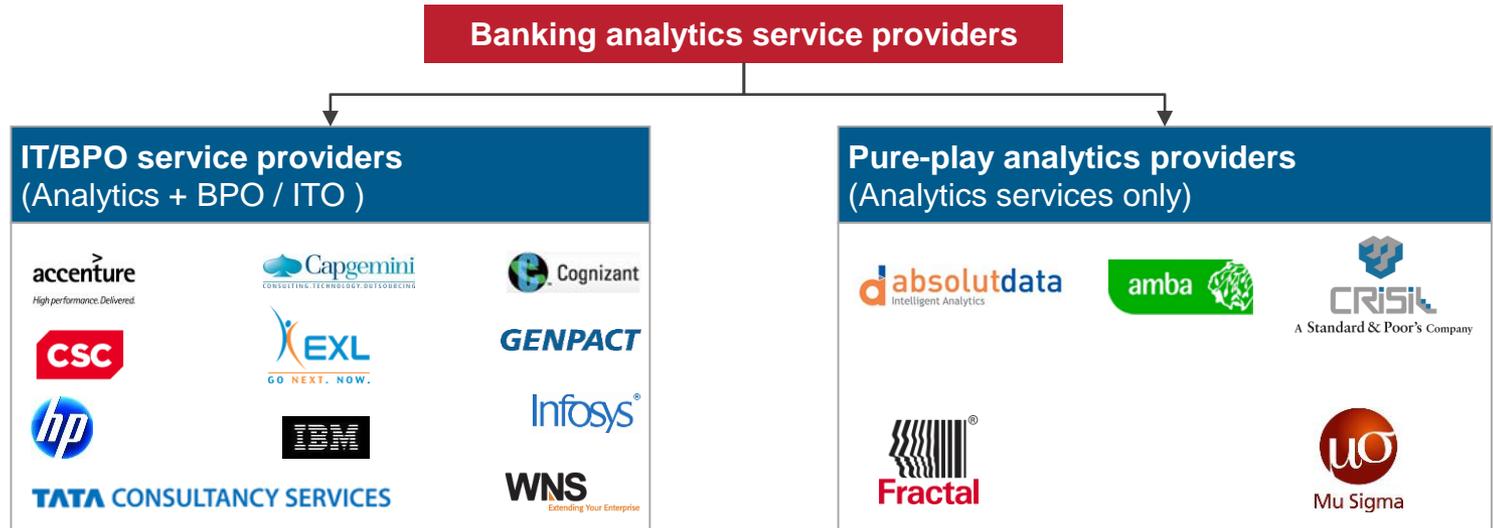
■ High ■ Medium ■ Low

End purpose	Credit cards	Lending	Retail banking	Commercial banking
Customer insights	High	High	High	High
Operational reporting	Medium	Medium	Medium	Medium
Marketing	High	High	High	High
Fraud and risk management	High	High	Medium	Medium
Regulatory compliance	Medium	Medium	Medium	Medium
Product optimization	High	High	Medium	Low

¹ Based on deals with analytics component announced publicly by banks
Source: Everest Group (2013)

Analytics service provider categories

Banking analytics service providers can be divided into two broad categories, each with a different approach and value proposition



Target market

- | | | |
|--|---|--|
| | <ul style="list-style-type: none"> Primarily large market global buyers, though have started pursuing smaller opportunities as well | <ul style="list-style-type: none"> No rigorously-defined market – opportunistic in deal pursuits |
| | <ul style="list-style-type: none"> Pursue a process-driven approach, combining analytics with process competence and expertise | <ul style="list-style-type: none"> Pursue a combined (process + software) driven approach but limited scope to optimize business processes |
| | <ul style="list-style-type: none"> Ability to combine consulting, technology, and process capabilities with global reach Ability and experience to cover multiple BPO towers under one deal | <ul style="list-style-type: none"> High analytics expertise and competence Ability to deliver quick wins by applying analytics competency fast to a business situation |

Typical solution approach

Key value proposition

Service provider capabilities by banking LoBs

Service providers' presence and capability varies for each LoB with both the categories being highly active in the retail banking segment

Degree of activity: ■ High ■ Medium ■ Low

Banking LoBs	IT/BPO service providers	Pure-play analytics providers
Retail banking	■	■
Cards	■	■
Lending	■	■
Commercial/ corporate banking	■	■

Key functions delivered

BPO

- Data collection and management
- Analysis
- Reporting
- Business process management
- Consulting

ITO

- Data warehousing
- Business intelligence
- ADM & PI
- Analysis & reporting
- Consulting

Core analytics services

- Database integration
- Reporting
- Predictive modeling
- Statistical analysis
- Data modeling and analysis

Service provider investment in analytics – key themes

Most service providers are focusing their investment efforts on creating capability along four major dimensions relevant to banking analytics

Developing industry-specific scale and expertise

- Emphasis on creating strong scale for banking analytics and offering specific solutions targeting each LoB
- Developing turnkey core banking analytics solutions for quick implementation

Developing Big Data handling capability and expertise

- While Big Data is not a prerequisite for analytics, being able to manage and leverage it is becoming critical
- Leading to the rise of in-memory analytics (complexity + real time)

Developing sophisticated prediction and prescription capabilities

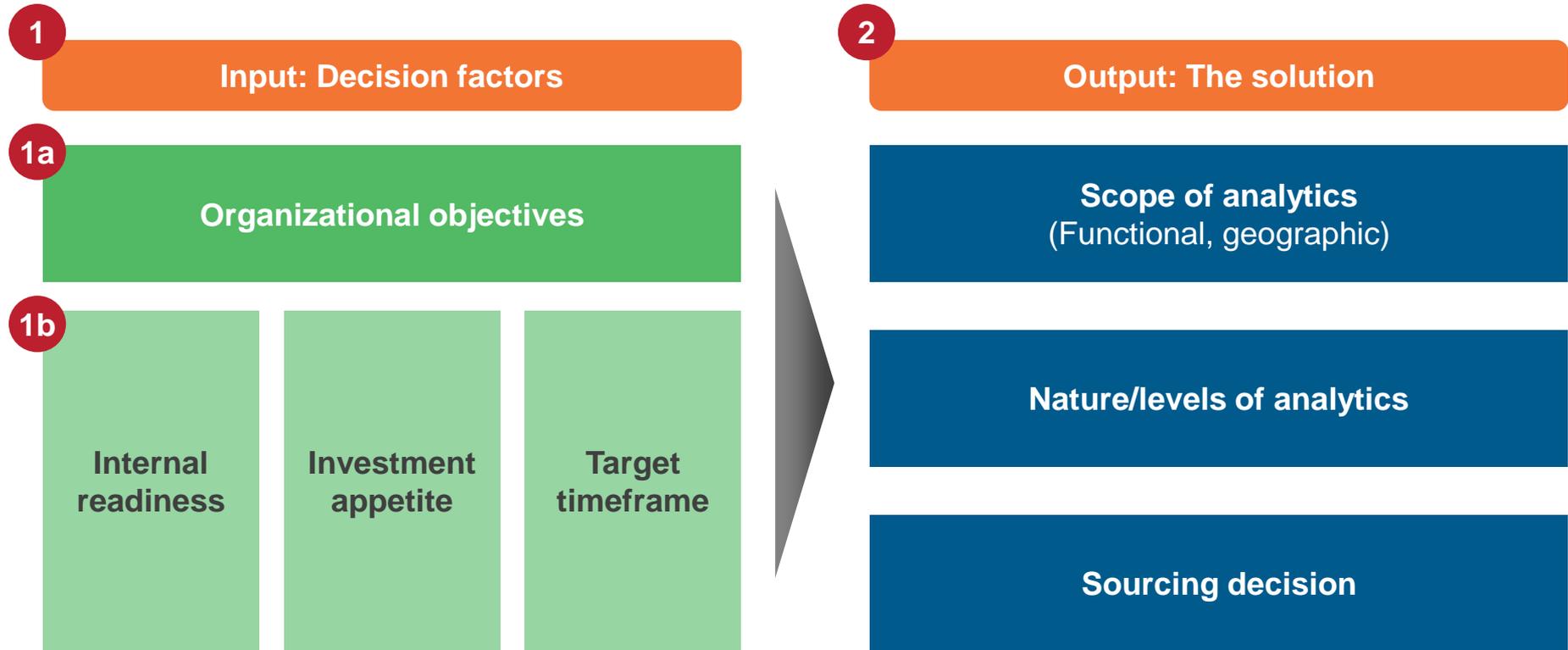
- Partnerships with academic institutions or other service providers to develop advanced predictive and prescriptive analytics solutions
- There is a greater thrust on solutions that can create strategic competitive advantage for banks

Banking
analytics
service
providers

Enhanced risk management focus

- Increased focus on developing analytics offerings for fraud detection and risk management
- Greater emphasis on developing compliance and regulatory risk management tools and services

The approach to banking outsourcing analytics depends on organizational objectives and buy-in from different business units

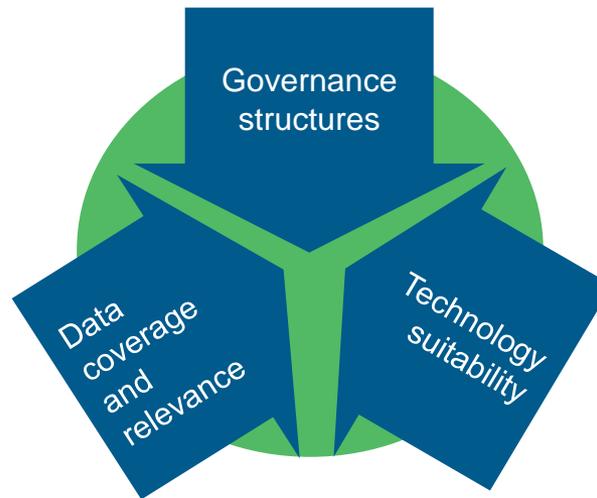


Organizational change before implementing an analytics solution is critical

- Buy-in from different business units is important in creating an enterprise analytics solution that can leverage information from across the enterprise seamlessly
- Creating an enterprise strategy and partnering business leaders to accept, implement, and leverage analytics insights is critical to integrate analytics with daily business decision making

Banks must also consider key caveats to a successful analytics implementation before embarking on the analytics journey

- Ensure that the right governance structures are in place – not just to capture data from across the enterprise, but also to be able to communicate insights from the data to relevant functions
- The governance team must also be responsible for measuring ROI and assessing changes to the organizational operating model needed to accommodate analytics insights



- Incomplete, biased, or broken data can often result in ineffective “insights”. It is important to validate the sources and completeness of data before embarking on an analytics implementation
- No analytics implementation is perfect the first time round – effective feedback loops that can help improve the relevance and accuracy of insights are critical

- Technology tools are an inalienable part of an analytics implementation, but they should be selected based on an appropriate mix of cost, capability, and future needs
- Turnkey technology solutions should be evaluated for their ability to be able to integrate with existing bank processes

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BFSI ITO research agenda

Published Current

Topic	Release date
Application Outsourcing (AO) in Banking – Service Provider Profiles Compendium	October-2012
Application Outsourcing (AO) in Insurance: PEAK Provider Landscape – Policies for Growth and Differentiation	October-2012
IT AO in Capital Markets: PEAK Provider Landscape – Need for Speed: Capturing the Capital Markets Momentum	December-2012
Application Outsourcing (AO) in Capital Markets Annual Report – Change is the Only Constant	January-2013
IT Application Outsourcing (AO) in Insurance – Service Provider Profile Compendium	January-2013
Webinar Deck: State of the Global Services Market: 2013 Predictions	January-2013
IT AO in Capital Markets – Service Provider Profile Compendium	February-2013
Analytics in Banking: War is Ninety Percent Information	June-2013
IT Outsourcing in Banking – Annual Report 2013	Q2-2013
IT Outsourcing in Banking – Service Provider Landscape with PEAK Matrix Assessment 2013	Q3-2013
IT Outsourcing in Banking – Service Provider Profile Compendium 2013	Q3-2013
IT Outsourcing in Insurance – Annual Report 2013	Q3-2013
IT Outsourcing in Insurance – Service Provider Landscape with PEAK Matrix Assessment 2013	Q3-2013
IT Outsourcing in Insurance – Service Provider Profile Compendium 2013	Q3-2013
IT Outsourcing in Capital Markets – Annual Report 2013	Q4-2013
IT Outsourcing in Capital Markets – Service Provider Landscape with PEAK Matrix Assessment 2013	Q4-2013
IT Outsourcing in Capital Markets – Service Provider Profile Compendium 2013	Q4-2013

BFSI BPO research agenda

Published Current

Topic	Release date
A PEAK into the Leaders, Major Contenders, and Emerging Players of the Banking BPO Market	October-2012
Webinar Deck: PEAK into the BFSI Outsourcing Market	October-2012
A PEAK into the Leaders, Major Contenders, and Emerging Players of Capital Markets BPO	November-2012
Banking BPO Service Provider Profile Compendium	November-2012
Insurance Business Process Outsourcing (BPO) Market 2011-2012 – Annual Report	November-2012
Capital Markets BPO Service Provider Profile Compendium	December-2012
Insurance BPO Service Provider Profile Compendium	January-2013
Analytics in Banking: War is Ninety Percent Information	June-2013
BFS BPO – Annual Report 2013	Q2-2013
Banking BPO – Service Provider Landscape with PEAK Matrix Assessment 2013	Q2-2013
Banking BPO – Service Provider Profile Compendium 2013	Q3-2013
Capital Markets BPO – Service Provider Landscape with PEAK Matrix Assessment 2013	Q3-2013
Capital Markets BPO – Service Provider Profile Compendium 2013	Q3-2013
Insurance BPO – Annual Report 2013	Q3-2013
IT Outsourcing in Capital Markets – Annual Report 2013	Q3-2013
Insurance BPO – Service Provider Landscape with PEAK Matrix Assessment 2013	Q4-2013
Insurance BPO – Service Provider Profile Compendium 2013	Q4-2013

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