Point of View Paper

Using Data to Create Sound Strategies

A Four-Step Formula for Better Decision Making

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Financial institution leaders have plenty of data to help them make decisions, but it's often hard to access. If leaders could make decisions without getting overwhelmed or impeded by data, they would have the means to create stronger strategies in a timelier manner.

Most high-performing financial institutions have an established process for strategy execution. Guided by a project sponsor, organizations move systematically through phases for planning, implementation, evaluation and improvement. Then the cycle starts again.

But what about decision making? The assumptions and decisions that fuel strategy also should follow a rigorous and consistent process. Good decisions are cumulative and lead to stronger strategies.

The consequences of poor decisions are steep right now. Net interest margins are at record lows, according to the FDIC and recovery levers are hard to grasp while unemployment levels and interest rates are bleak. Provisions to protect borrowers during the pandemic are making it harder for financial institutions to address problem loans and compliance is more difficult to manage from altered work environments.

Leaders know they must react now to support new programs, changing requirements, and stakeholder and consumer demands. The pace of change can be uncomfortable, but to survive and thrive, financial institutions are seeking a balance between caution and speed.

During examinations, regulators won't necessarily assess a financial institution's strategic responses to the COVID-19 crisis, but they will examine due diligence. What were the steps for creating strategy? How did the financial institution assess strategic risk before making a decision? What was the decision making process?

Financial institutions want a strategic decision making process that is thorough, well-documented and quick. There are four key considerations that can help achieve this goal.

Step 1: Accurate View of Performance

The foundation of good decision making is good data.

What is good data? First, it's not about quantity. In fact, trying to capture and use every bit of information an organization creates can make it more difficult to make good decisions. Instead of collecting more data, financial institutions can source deep data.

Deep data – a small number of information-rich data streams – can yield greater business value at a lower cost. With deep data, financial institutions can turn customer information into specific, actionable insights. For example, a few specific data points on customer behavior can guide leaders toward better customer engagement strategies.

Collecting deep data requires leaders to think ahead about what they need to make decisions. What inputs are influential? What revelations would be game-changing? Once leaders understand which data points are most relevant to decision making, they can let some of the other details fall by the wayside.

Good data is also integrated. It encompasses all the drivers of performance from across the organization. It's reliable in its balance and timing. Integrated, accurate data gives leaders answers to three important questions: What? Why? and So what?

"What?" is the question most CFOs try to answer. It's the descriptive, rearview mirror look at performance. But to make better decisions moving forward, CFOs try to fill out the storyline and explain why targets were hit or missed. The finance office wants to capture the drivers behind performance, so leaders can learn from and apply the experience.

By answering "Why?" and "So what?," the leadership team can create new strategies and measure likely outcomes. They can use those insights to predict what will happen and determine the right course of action.

Step 2:

A Platform for Imagination and Simulation

Intelligent simulation tools give financial institutions a safe place to test their assumptions, evaluate their strategies, review the outcomes and document good decisions.

Leaders can adjust their assumptions about rates, terms or price points and tweak strategies until they find the right balance of risk, ROI and performance.

Every time a scenario is simulated, the team can capture the inputs and assumptions that support the strategy. If something goes right or wrong, leaders want to understand why. Which assumption was right or wrong? Which variable affected the outcome?

Leaders also want finance-focused simulation tools. Leadership teams should be able to integrate risk management into decision making, create forecasts and model profitability based on product, branch, leader or whatever variables make sense. They want the ability to include economic factors such as interest rate forecasts, prepayment experience, home values and employment rates.

With intelligent, industry-specific simulation tools, financial leaders can evaluate their decisions in a risk-free environment.

Step 3:

A Faster Way to Access Key Information

When the process for collecting and testing data is cumbersome, the data starts to lose its power. Assumptions and strategies can become outdated and ineffective quickly, especially in the current environment.

That's why data that informs decision making needs to be accessible, understandable and shareable. Decision makers need easy access to reliable information, whenever and wherever they're working.

Many organizations use automation to speed up data collection and reporting. By integrating key applications, data processing tasks can happen automatically and free up staff to focus on analyzing the data, solving problems or taking on bigger-priority roles for the organization.

Efficiency is a means to achieve better decision making. Speed is also important when course correction is needed. With timely and accurate information, financial leaders can see mistakes or opportunities faster and act quickly.

And because good decision makers document their assumptions, it's easier for them to update their models and adapt related strategies.

Step 4:

A Culture of Curiosity

Installing technology and redirecting budget toward transformation are the relatively straightforward parts. It's much more challenging to embrace curiosity and exploration in a fast-paced, get-it-done world. But decision making will suffer without curiosity.

Encourage staff to ask questions and explore data in meaningful ways. Give people the time and tools they need to explore and invent new possibilities. It's not wasted time.

Make sure goals are widely known and that employees are empowered to solve problems. By doing so, more people will have ownership and accountability for creating solutions.

Applying the Formula

Once those four criteria are in place, it's time to put good decision making into practice. It will flow through a consistent process:

- First, set a goal and define success in terms of financial effect, such as profitability growth, and make sure data collection and decision making align with the goal and definition of success
- List the assumptions and drivers that influence performance, such as a certain interest rate or credit risk tolerance
- Test different actions and variables using finance-focused simulation tools and evaluate the outcomes of each proposed action
- Decide on a strategic response based on the expected outcome
- Document the decision as a building block and include what was decided, why, assumptions relied on, how the decision was analyzed and who was involved
- Implement the strategy with confidence
- If assumptions change or new data suggests a better possible outcome, adapt quickly to improve the strategy

To move through the decision making process, organizations need a foundation of accurate, integrated data as well as finance-minded planning and modeling tools, speed and a culture of curiosity. With that formula, financial institutions can respond to new challenges with diligence and agility.

About the Author

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