The Cost of Poor Data Quality in the Banking and Financial Sectors

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Financial institutions use identity data for many critical purposes: customers or accounts; new customers; credit and loan applications; fraud reports, anti-money laundering, bankruptcy and other lists; prospects, the marketing database, call centre, and any other area where the addresses of people, organisations, products or other entities need to be searched, matched, grouped, screened or linked. This means that for a financial institution to run effectively and efficiently the quality of that information must be accurate, otherwise it has the potential to undermine customers’ confidence, waste money, fail compliance requirements, and ultimately affect the company’s reputation.

### Why do we have poor data quality?

Problems with data quality often stem from a basic misunderstanding of what ‘data quality’ actually means. Data quality refers to the ongoing process of capturing, maintaining, validating and updating customer information. Customer information in turn has three integral parts – quality, integrity and validity. The problem is compounded by the fact that data is essentially invisible – most people within an organisation do not have to think about it and even fewer have to interact with it.

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A vast number of Australian companies think an 80 per cent database accuracy rate is a good result and that some element of poor data is the norm. This perspective is a very expensive one that reveals little awareness of the financial costs associated with the 20 per cent that simply falls by the wayside.
THE COSTS OF POOR DATA

The 20 per cent data inaccuracy accepted by most Australian companies can result in a range of financial burdens. If a company undertakes a mail-out marketing exercise and 20 per cent comes back as return-to-sender mail, a huge amount of money has been wasted in terms of postage and administration. Further costs must then be incurred to find the correct addresses. The double handling, rechecking and wasted time involved can be very expensive – QAS estimates one item of mail that is returned to sender costs between $14 and $25 when both direct and indirect costs are factored in.

Inaccurate data also greatly increases the risk of fraud and bad debt, as one way fraud makes its way into an organisation is through false and inaccurate addresses. Verifying new customers’ address details as they are entered into the database could help minimise risk and reduce the cost of meeting AML legislative requirements.

Other costs of poor data quality, aside from strictly financial ones, include poor business intelligence and difficulty in achieving a single view of the customer’s relationship with the bank or financial institution. These issues end up with frustrated business prospects and clients. When a business which claims to put the customer first cannot even get their address details correct, it sends a negative message and can result in lost business, missed sales opportunities and worse – a damaged reputation.

Compliance to legislation is now taken very seriously. Poor data quality is a potential compliance risk and can undermine even the most well-designed privacy, security, and accountability controls. The quality, integrity and validity of underlying data impacts every data-dependent compliance activity for Sarbanes-Oxley (SOX), Basel II, AML legislation, the Financial Services Reform Act and a raft of other regulations that mandate information privacy, security, and accountability. Compliance simplifies the question of data quality: Do you trust your data, or not? And if you don’t, how can you be sure you’re in compliance with privacy, security, and accountability regulations?

The data quality problem is much bigger than many people believe. Eighty-five per cent of financial organisations say inaccurate data costs them money.¹ Sixty-five per cent of financial organisations admit to losing revenue and on average in Australia, it is estimated that six per cent of revenue is wasted due to poor address data.²

THE BENEFITS OF IMPROVED DATA QUALITY

Within any business it is essential for an organisation to know its customers. While it is sometimes difficult for organisations to understand the extent of the burden placed on their business by poor data quality, most find it much easier to understand when the benefits of a higher rate of accuracy are explained.

From a business perspective, an accurate database means reduced churn and better customer management. It means companies are able to have a 360 degree view of their customers and that alone brings tangible cost savings on things such as return-to-sender mail, as well as marketing and operational efficiencies. An accurate database also assists in reducing incidences of fraud and meeting compliance obligations.

For IT departments, better data quality means a single point of truth in the form of customer-centric systems and data migration, as well as improved return on investment from infrastructure investments, such as CRM, business intelligence and data warehouse.

THE CHALLENGES

In a survey of eight countries (Australia, Benelux, France, Germany, Singapore, Spain, UK and US), Australian organisations recognised that compliance with data regulations was extremely important (48 per cent), with only France and Singapore showing greater awareness. However, Australia is lagging behind other world leaders when it comes to having an organisation-wide data strategy. Businesses from France, Germany, Singapore, Spain, the UK and US all scored higher when asked whether such a strategy was in place.³ And when asked whether they had 100 per cent compliance with database-related regulations, Australia scored 35 per cent, trailing Spain and Germany (48 per cent each) and Singapore (46 per cent), showing that there is still a long way to go.

For banks and financial institutions, the solutions are not always easy ones but they are achievable. Identifying the most common challenges when it comes to data quality is instrumental in illuminating the best ways to combat the problem.

One of the most common challenges comes in the form of people and process variations. Eighty-four per cent of businesses cite mistakes at the point of entry as a significant barrier to achieving more accurate customer information. When it comes to processes, a large organisation may have different departments following different procedures, resulting in inconsistencies and errors.

Legacy data issues are also a common problem. Most organisations will find they have inherited some incorrect data and must embark on a course of action designed to clean it up.

Implementation costs can be a challenge, particularly when data quality is not given the desired level of attention at board level. According to a recent survey, 60 per cent of Australian organisations cited lack of time and resources as the main reason for their inaccurate data.⁴ An effective data strategy must be supported across all levels of an organisation.

Disruption to the normal course of business in the form of training staff to use new systems is also off-putting to businesses that do not fully recognise the financial burden of inaccurate data. This is particularly relevant to call centres that have to take staff from their normal duties to improve their performance.

Finally, a common challenge faced by businesses with poor data quality is that validation data is difficult to source. Recent changes to the Electoral Act still only allow access for organisations to use the data it receives for the sole purpose of verifying, or contributing to the verification of, identities under the Financial Transaction Reports Act 1998. If the organisation uses the electoral role data for any other “commercial purpose” it will be open to a penalty of $110,000 for using the electoral role data for “commercial purposes”.

² ibid.
³ ibid.
⁴ ibid.
FIVE STEPS TO BEST PRACTICE

While these challenges are significant, they are by no means insurmountable. QAS recommends the following Five Steps to Best Practice when it comes to improving your data:

Step 1
*Align Business and Systems*

It is imperative that senior management recognise, understand and take some responsibility for the problem. The desire to improve data quality must become ingrained within a business and form part of its culture. In the last three years, only eight per cent of Australian boards have discussed data management. Data quality must take its rightful place as a strategic business issue and be supported from the top down.

Step 2
*Investigation and Audit*

A data audit can reveal specific deficiencies and data conditions that are impacting business systems and help the business understand the cost of poor data. After a data audit, a company should have a good understanding of high priority areas and expose any opportunities to optimise processes to improve data quality and data collection. These changes may also pave the way for improving turnaround times and customer service.

Step 3
*Create a Data Strategy*

Only 32 per cent of Australian organisations have a data strategy in place. A data strategy cannot be a one-time project; rather, it must be a consistent and concerted effort to manage customer touch points with continuous improvement. Targets must be set and measured whenever possible to ensure processes are actually delivering.

Step 4
*Create a Search Strategy*

Regardless of how good you think your data is, there will always be a need for a “safety net” search that can cut through residual data error. QAS Partner, Identity Systems can assist an organisation’s ability to search, find, match and group identity data accurately and quickly, regardless of structure, format, location, duplication, omissions or errors. It recommends using a robust search strategy that should be viewed in line with business risk to provide confidence that information has not been missed. According to Identity Systems, a good search service will have real-time functionality and use a consistent, high-quality search across all sources of customer data.

Step 5
*Use Tools to Help*

Put a system in place that enables staff to get it right from the beginning. Considering 84 per cent of Australian businesses cite mistakes at the data entry point, this step is crucial. Make sure data touch points serve your business needs appropriately. Use tools to clean existing data and maintain it over time and remember that search tools should operate as a safety net.

CONCLUSION

Data integrity is an important element for any business which relies on effective communication with its customers. For the banking and financial sectors, it is crucial. The benefits of improved data accuracy rates are considerable, particularly in terms of money saved through wasted time, effort and administration, and revenue gained through reaching more people, more efficiently.

There are challenges when it comes to data but these challenges can be quite easily overcome – the first step is realising there is a problem. An effective data solution must have support at board level and must become part of an organisation’s culture.

The road to better data is straight and clear – your business, and your customers, will thank you for travelling down it.