Go Beyond Gut-Brain: Making Data-Driven Decisions in Financial Services

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According to BARC research, 58% of our companies made at least half of their regular business decisions on gut feeling till 2016. However, the research also shows that 60% of business decisions of best-in-class companies are data-driven.

The instincts-driven approach is based on human experience and skills gained over years. It is valuable but not sufficient as the industry deals with constantly increasing regulatory pressures.

Shifting customer expectations and market fluctuations make it harder for companies to rely only on intuition. Instead, using data makes financial decision-making quicker, easier, and more accurate.

This white paper discusses why financial institutions must shift to data-driven decision-making. We will also understand the benefits, challenges, and steps to transition to data-driven decision-making.
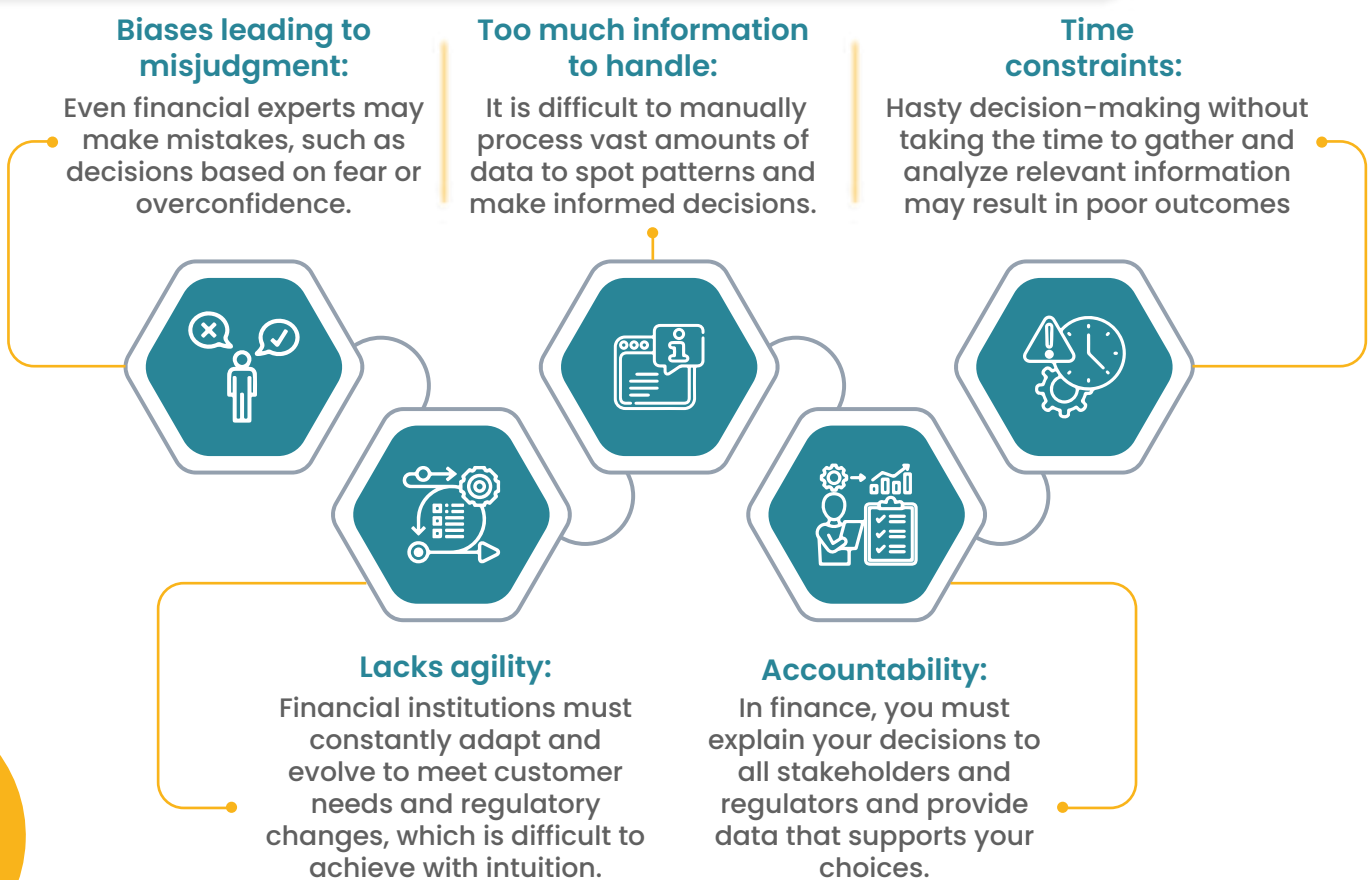
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Intuition is No Longer Enough

Intuition, or the "gut feeling," has played a big role in making or breaking businesses in the past, but it is no longer enough. Business leaders like Fred Smith, who founded FedEx, made decisions based on their intuition and succeeded. However, we should acknowledge that not all are gifted with an instinct that is so strong, and not all gut-driven decisions hit the bullseye.

Relying only on your gut feelings for financial decisions is like firing arrows in the dark. You need to make sure you get all the important information to avoid making costly mistakes.

Here's why data-driven decisions are so important now:

Biases leading to misjudgment:
Even financial experts may make mistakes, such as decisions based on fear or overconfidence.

Too much information to handle:
It is difficult to manually process vast amounts of data to spot patterns and make informed decisions.

Time constraints:
Hasty decision-making without taking the time to gather and analyze relevant information may result in poor outcomes

Lacks agility:
Financial institutions must constantly adapt and evolve to meet customer needs and regulatory changes, which is difficult to achieve with intuition.

Accountability:
In finance, you must explain your decisions to all stakeholders and regulators and provide data that supports your choices.

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The Era of Data in **Financial Services**

A **PwC** survey results show that highly data-driven organizations are three times more likely to improve decision-making than those relying less on data. Big data, predictive analytics, AI, and ML are helping financial institutions make informed, evidence-based decisions.

Financial institutions can gather large volumes of data from transaction records, customer profiles, and credit scores. It offers insights for informed decision-making that helps:

Improve risk management

Enhance customer experience

Strengthen compliance

Increase operational efficiency

According to **IDC,** companies that use data analytics effectively for data-driven decisions increase profits and revenue by 8% and reduce costs by 4%. The report also states that these companies are better positioned to outperform their competitors.

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Benefits of Data-Driven Decision-Making

Data-driven decision-making is faster and more accurate than gut instinct. Financial institutions that make evidence-based decisions enjoy the following benefits:

Increased Accuracy:

Automating data collection and analysis helps mitigate human error and bias. AI data models can analyze millions of variables for precise predictions and assessments.

Faster Decisions:

Advanced analytics tools process large data sets quickly to support faster decision-making. AI models evaluate loan default risks or investment performance much faster than humans.

Risk Mitigation:

Data helps financial institutions predict potential risks and take proactive measures. Predictive analytics detects fraudulent activities to assess credit risks and detect fraud.

Compliance & Accountability:

Financial services is a heavily regulated industry, and companies must comply with regulations like the General Data Protection Regulation (GDPR) and anti-money laundering (AML). Data-driven decisions provide the necessary audit trail and evidence to prove compliance and accountability.

Personalized Services:

Analyzing transaction patterns, behaviors, and preferences helps financial institutions tailor services, offers, and communications to customer needs.

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Real-Time Insights for a Global Leader in Home Textiles

A leading home textile solution provider operating across India, the US, the UK, and Europe needed real-time nsights for faster and more accurate decision-making.

The Practus Approach

Siloed operations

Fragmented information

Inconsistent reports

This issues were hampering their supply chain and inventory management.

The Practus Solution

Practus helped the customer transition to a data-driven environment by understanding their current workflows and expectations.

Our experts designed and implemented a solution which automated operational processes, ensuring data accuracy and higher efficiency. Real-time and end-to-end visibility across the company helped stake-holders to make

The Practus Impact

20X ROI on Fees

Sales Increase: **2%**

Gross Margin: **35%**

Inventory Liquidation Improvement 5%

Savings in opportunity costs

Faster sales reviews

Improved operational efficiency

Total ROI: 25X

Areas Where Data-Driven Decisions Matter

According to Deloitte, financial services companies will face challenges with digital transformation, technological advancements, and cybersecurity in 2025.

With the rising risk, the need for data-powered solutions is increasing. A data-centric approach helps financial services companies make informed decisions in the following areas:

Credit Risk Assessment:

Traditionally, credit risk assessment relied only on credit scores, income, and employment. It did not consider the individual's financial behavior. Data analytics helps with more comprehensive assessment of an individual's profile. It involves data points such as spending habits, transaction histories, social media behavior, and mobile usage. ML models help financial institutions understand and evaluate a customer's creditworthiness better.

Fraud Detection and Prevention:

Financial fraud is a constant challenge, costing billions each year. LexisNexis reports that 57% of financial services and 66% of lending organizations have seen a rise in fraud over the past year. The report also states that every dollar lost in fraud costs the financial institution $4.41.

Traditional fraud detection methods are reactive. Real-time data analytics help financial institutions proactively detect and prevent fraud through identity theft, phishing attacks, or data breaches.

Investment and Portfolio Management:

Making investment decisions based on gut feeling can be risky for wealth managers. Analyzing historical market trends, economic indicators, and real-time data from multiple sources helps make informed investment choices.

Quantitative models help improve investment strategies based on a client's risk tolerance, financial goals, and market conditions. Robo-advisors help financial institutions provide low-cost automated portfolio management using data.

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Customer Experience and Retention:

Data provides financial institutions deeper insights into customer behavior and preferences. For example, research by McKinsey shows customers who regularly use a bank's digital channels, like mobile apps or websites, have the highest average satisfaction compared to those using other channels or infrequently using digital channels. Therefore, by analyzing data from customer interactions, transactions, and feedback, institutions can predict what services customers need next or identify potential pain points to improve the efficiency of personalized marketing campaigns, customized financial products, and proactive customer service.

Regulatory Compliance and Reporting:

Complying with financial regulations manually is difficult, time-consuming, and error-prone. Data helps proactively detect anomalies and suspicious behavior to ensure compliance with anti-money laundering (AML), know-your-customer (KYC), and other local regulations. It also makes regulatory reporting easier and more accurate.

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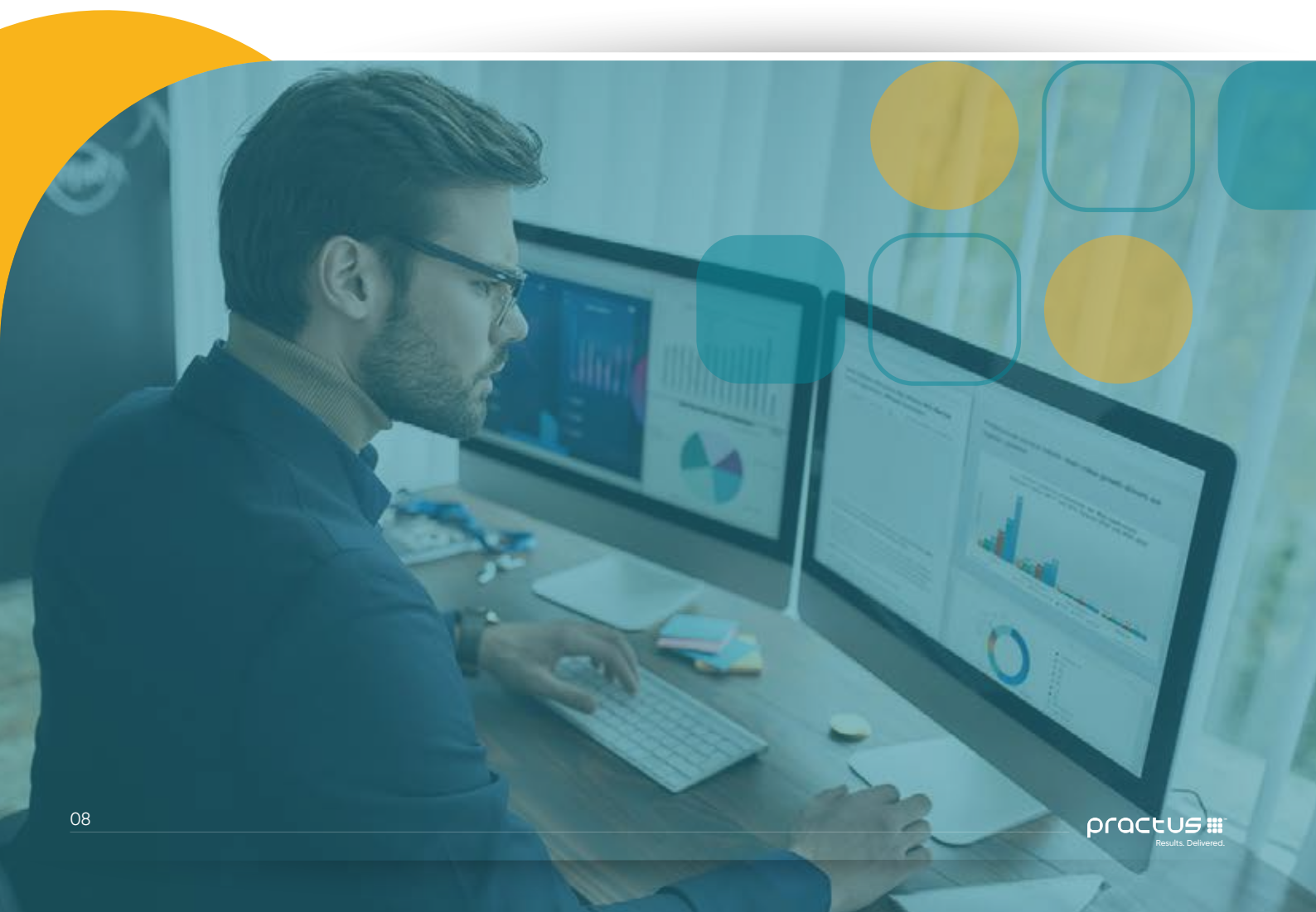
Challenges in Implementing Data-Driven Decision-Making

Shifting from relying on intuition to making data-driven decisions is not easy. Here are some common roadblocks that companies face when adopting a data-driven approach:

Monitoring Data Quality

Poor-quality data can lead to flawed insights. Accurate, up-to-date, and clean data is needed for analytics.

Data Integration Issues

Financial institutions have data siloed across departments or legacy systems, making comprehensive analysis complex.

Privacy and Security Concerns

Financial institutions handle large volumes of sensitive data, so complying with regulations like GDPR and the California Consumer Privacy Act (CCPA) becomes complex when using data analytics.

Lack of Data Literacy

Not all employees are comfortable with data. They need training to interpret, analyze, and use it effectively.

Missing Technological Infrastructure

Data-driven financial institutions need modern technology ecosystems that can handle massive volumes of data at high speeds.

Expensive Change Management

Shifting from intuition-based to data-driven decision-making needs a cultural change within the organization, including retraining staff and promoting a data-first mindset. The initial cost of technology and training is a barrier.

Higher Risk

Financial companies handle large volumes of confidential data and a breach can have severe consequences. Implementing robust cybersecurity measures is necessary in a data-driven environment, but it adds to operational costs

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Balancing Data with Human Intuition

Financial services companies must balance data-driven decision-making with ethical considerations and human intuition. Data can provide valuable insights to support human judgment. It can speed up the company's response to customers changing financial needs and market fluctuations.

Human factors such as empathy, creativity, and critical thinking help build lasting relations by earning customer trust. A data-first mindset can help bridge the gap and result in well-rounded decisions.

While industry giants invest heavily in AI and data analytics, smaller financial institutions and startups can adopt data-driven decision-making strategies by leveraging third-party services.

Third-party solutions like cloud-based platforms provide scalable data storage and analytics capabilities. These help analyze payment data for fraud detection, use insights for personalized customer experiences, and enable automated underwriting using predictive modeling.

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Making Data-Driven Decisions in Financial Services

Transitioning from intuition-based decision-making to a data-driven approach requires a structured process. Here are the steps financial institutions can follow to make data-driven decisions effectively:

Identify Problems and Opportunities:

Financial institutions must define objectives such as reducing fraud, improving credit risk assessment, or enhancing customer experience. It helps align data collection and analysis with their business priorities.

Collect and Organize Data:

Implement processes to gather relevant data in real time. For holistic decision-making, use organized and clean data. Eliminate data silos and make sure data is easily accessible.

Implement Advanced Analytics Tools:

Using data analytics tools powered by AI and ML helps improve decision-making accuracy. Predictive models analyze credit risk, forecast market trends, and detect fraudulent activities.

Create a Data-Driven Culture:

A data-driven decision-making culture requires a mindset shift. Train and encourage teams to make evidence-based decisions.

Ensure Data Governance and Compliance:

Implement robust data governance practices to comply with regulatory requirements like GDPR, KYC, and AML. It also ensures reliable and secure data is used for decision-making.

Monitor and Refine Decisions:

Data-driven decision-making is an iterative process. Continuously monitor and refine decisions based on new data, customer feedback, and market changes.

The Practus Impact

An **e-commerce giant** faced major operational challenges in its finance team. The company was struggling with inefficient processes, lack of automation, and inconsistent performance metrics. These issues resulted in wasted time and delayed decisions, with no structured process to evaluate business performance or address losses.

The manual financial reporting processes led to time-consuming, error-prone workflows that hindered quick decision-making. Without standardized performance measures across units, management struggled to track performance uniformly or make data-driven decisions. The finance team lacked tools to predict outcomes or simulate scenarios, leaving them reactive to challenges. The company also lacked efficient systems to track orders, supply chain processes, or losses, missing optimization and cost-saving opportunities.

Practus worked closely with the finance team to overhaul their processes and implement data-driven solutions. The transformation was achieved by automating critical finance functions and developing **business intelligence (BI) dashboards.** Streamlining financial reporting through **ETL (extract, transform, load) automation,** data collection, and report generation helped save over 100 hours per month.

Practus standardized performance metrics across the organization, ensuring all departments used a common basis for evaluating performance and making decisions.

AI-powered BI dashboards provided deeper data insights, enhancing financial reporting and management reviews, resulting in potential savings of ₹16 crore. Key dashboards covered customer experience, city logistics, supply chain management, and losses. The **'What-If'** feature allowed business heads to simulate scenarios and understand their impact on GMV and contribution margin, enabling informed data-driven decisions. Practus established strict **governance and review practices** to ensure actionable insights from the dashboards were regularly monitored.

Moving beyond gut instincts to data-driven decision-making processes improved their financial strategy. Within 12 months of implementing automated dashboards and governance practices, the company expects an **11X ROI** through improved efficiency, cost savings, and faster decision-making.

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Data-Driven Decision-Making in 2024 and Beyond

The future of financial services is data-driven, and this trend will speed up beyond 2024.

Here's how financial institutions use data

AI-Powered Predictive Analytics

AI, ML, and predictive analytics are integral to decision-making processes. Financial institutions can use these technologies to assess credit risks, detect fraud, and forecast market trends.

Hyper-Personalization

Financial services companies use customer data to offer hyper-personalized experiences. AI-powered chatbots, Robo-advisors, and tailored investment portfolios are examples of data-driven hyper-personalization.

Advanced Customer Insights Through Behavioral Data

As digital customer interactions increase, financial institutions can use behavioral data to understand changes in customer needs and preferences. It is useful for optimizing product offerings and marketing strategies.

Real-Time Data Analysis

Real-time data analysis tools help financial institutions monitor customer behavior in real-time to respond with personalized offers and improve fraud prevention.

Process Automation

AI-powered automation tools help financial services companies automate processes like loan underwriting, credit scoring, and risk assessment. It saves time and eliminates errors to improve customer experience.

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Conclusion

In the financial services industry, relying solely on intuition is no longer enough. Data-driven decision-making enhances risk management, improves customer experiences, and helps companies achieve operational efficiency.

However, balancing data's precision with human intuition's empathy is essential. Technology is the key to automating data collection and analytics for better financial service delivery.

About the Author

Rohan specializes in finance and business transformation. As a Chartered Accountant with a Diploma in IFRS and training from ISB, he brings a strong background in CFO advisory, finance transformation, and strategic finance.

His work emphasizes financial planning and analysis (FP&A), data analytics, and business intelligence to drive digital transformation and business growth. Rohan is a leader in change management initiatives in finance and digital transformation, showcasing his commitment to helping businesses adapt and thrive.

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