

Did Business Intelligence Help Overcome the Panic of 1907?

Just over one hundred years ago, the US financial sector was rocked by a financial crisis. The New York Stock Exchange fell almost 50% from its high the previous year. There were runs on numerous banks and many fell into bankruptcy.

It is easy to see parallels with the current financial situation. From early 1907, the US stock market was already shaky and banks and securities firms were contending with major liquidity problems. The final crisis was triggered by a failed attempt to corner the market on stock of the United Copper Company. When this attack failed, the banks backing the bid suffered runs on their deposits and this quickly spread to affiliated banks. As regional banks withdrew reserves from New York City banks, the market suffered from a massive loss of liquidity and overall confidence. In those distant times, there was no Federal Reserve, no central bank to come to the rescue.

The man widely credited with saving the day was John Pierpont Morgan, recognised as the greatest banker of his day. The absence of computers a century ago did not preclude business intelligence as such. Undoubtedly Morgan had sufficient knowledge and understanding both of the strength of his own bank and of the external factors shaping the crisis - what we could easily term "intelligence about the business" - to enable him to be confident in driving a series of decisions to pump money into the market, and to convince other bankers to join him in doing so.

Of course whilst Morgan could build such an understanding from his handwritten ledgers and his observation of what was happening around him, today's financial world is infinitely more complex, and demands significant investment in computerised business intelligence applications, tools and techniques to enable organisations to make decisions and monitor the results. A financial institution trying to do business under the current economic and market volatility, and with short-notice changes in compliance and regulatory regimes, needs a comprehensive understanding of its business performance and financial exposures, and the ability to use that information to analyse alternative courses of action.

So as the current financial crisis continues to play havoc with global markets (at least, it does at the time of writing, in November), how can financial organisations of all sizes use business intelligence to help steer a path to future success?

Business intelligence spans the whole enterprise

Firstly it is important to recognise that business intelligence is all about enabling an organisation to focus on analysing and understanding business information across all aspects of the enterprise - it is not a case of simply speeding up the mechanics of generating ever-increasing volumes of financial reports. Jupiter Asset Management for instance, use BusinessObjects as their business intelligence tool, and it adds value throughout their organisation. "We first started using BusinessObjects for institutional client reporting," explains Business Intelligence Team Leader, Adrian Yorke. "It has now spread to encompass areas such as order management, operational risk, SRI reporting, compliance and treasury."

We see an increasing trend towards this pervasive use of business intelligence. Only in this way can senior management have a clear understanding of the different forces that are driving business success, through revenue growth, cost management and mitigation of risk. And they cannot be considered in isolation: absolutely critical in the current climate is understanding the balance between the first and last of these - growth and risk.

The drivers behind these three forces will vary considerably across the spectrum of financial institutions, and within an individual business. Taking growth for example, the retail arm of a bank will be concerned about customer loyalty and spend, customer service and product

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innovation. Increased revenue is derived from selling more products to customers, finding new customers, and keeping them longer: targeted marketing is driven by the ability to analyse customer behaviour.

Meanwhile the bank's investment banking arm will be focussed on capital markets and corporate finance, so consider the area of risk management. Being able to investigate, to drill down into detailed data and form an answer quickly and easily can make or break a bank in the current circumstances. One minute, you are drinking your morning coffee and attending to your emails when all of a sudden your office goes into a frenzy: another bank is failing in the United States. Within minutes you need to know your exposure and take steps to mitigate your risk with this counterparty. Business intelligence gives you the ability to slice and dice data, investigate in depth and track the results of your actions.

On the other hand, all financial institutions are struggling to get their costs in line with current business levels. Strategic reallocation of staff to more profitable areas is a current priority in order to optimise the workforce for 2009 challenges. However, obtaining a 360 degree view of employee costs, travel, and other overhead expenses, and matching them against employees' talents that are critical for running the bank is a difficult and time consuming challenge. Business intelligence unifies information to make these daily tasks easier to execute.

Embarking on a business intelligence initiative

When embarking on a business intelligence initiative, it is vital to understand the low level activities that influence performance, how they interact and how they eventually contribute to the bottom line. All too often we have seen organisations try to implement a high-level reporting regime with insufficient attention being given to how the numbers are actually built up, with the inevitable result being a lack of trust in the information presented and an investment in business intelligence technology that ends up sitting on the shelf gathering dust.

In today's world organisations rarely can afford the time to enter into a lengthy in-depth review of the entire business, to work out how everything ties together. Whilst that may be a valid approach from a business process perspective, you need better business intelligence right now. If the project takes too long, then by the time you are delivering the world will have changed around you. In Comset's long experience of delivering business intelligence applications, the most successful ones are those which have focus, perhaps on one key area initially, enabling an early delivery with in-depth understanding of critical issues.

Ideally that first application should not only be in an area that is giving significant business pain, but also one that has the underlying data reasonably accessible. You do not want to be distracted into heavyweight data warehousing projects at this stage - again, they take too long - but an application specific reporting data mart could well be appropriate. The objective is to deliver the application quickly, so that the business derives immediate value and the sponsor of the initiative sees an early return on the initial investment. Then, with the value that business intelligence is now bringing to the organisation proven, further applications can follow. It should also enable the users to do something that they cannot currently do: there is no point in simply taking your existing monthly reports and presenting them in a new format. Add real value: make them daily reports or up-to-the-minute dashboards, add analytic capability such as drilling, slicing and ranking, make data accessible to users that has not previously been available to them.

Typically, as much as 90% of the effort of delivering a business intelligence application is in the back-end data collection and infrastructure. This work often identifies inaccuracies and omissions in data and inconsistencies across source applications. Whilst these can be frustrating complications and may even prove difficult and time consuming to resolve, actually identifying that they exist can often be an early benefit of the business intelligence initiative.

But all the effort in collating and standardising data goes to waste if you do not get the delivery mechanism right. Not everyone will want the same cut of data, nor the same level of detail. A high level dashboard may suit the management team, business analysts and

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knowledge workers need something more interactive, field workers may use Blackberries, travelling personnel and home workers need remote access across the Internet, and simple PDFs may suffice for information consumers who just need a basic report.

The overarching message in all of this is that whilst business intelligence tools, technologies and techniques can bring considerable benefits to an organisation, implementation is not a simple process and success is not guaranteed. Bear in mind that you will probably only get one attempt at it - if your first project fails, it will be difficult to justify a second. But if your first project brings real value to your business then the use of business intelligence will undoubtedly spread, and become an intrinsic part of your day to day business processes.

Conclusion

Returning to our original question - did business intelligence help overcome the Panic of 1907? This long after the event, we cannot know how much business intelligence JP Morgan had, nor how it helped influence his decision to step in and risk his own fortune. But we can safely assume that it was a well-considered decision, not one that was taken without a great deal of examination of the information he had available to him. What we can be sure of though, is that over the next few years, as we go through a recession and out the other side, the financial institutions that will thrive will be those best able to understand and manage their performance, to take new revenue generating initiatives but balance them against risk. To do that, personnel throughout the organisation will need ready access to timely, accurate and relevant information - what they need, when they need it, where they need it, and in a format they need it: business intelligence.

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