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Tara Heusé Kenyon,
Founder & CEO

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Kentara Analytics Beyond the 'Obvious'

By Vishnu Santhosh

Regulation. Is it a constraint or a gift on Christmas morning? Tara Heusé Kenyon, Founder and CEO of Kentara Analytics, asks a simple yet profound question pertaining to the panoply of rules for efficient risk management in the banking industry. The words “risk management,” more often than not, are heard as back-office or constraining “police” function. Consequently, it gets dismissed as a compliance exercise or a necessary evil—with added expenses. As regulations and standards move ahead full steam, Kenyon stresses that banks need to challenge that perception. “If we adopt those regulatory regimes as our own best practices and then solidly connect them with strategic plans, operations, marketing strategies, products, and other lines of business, the financial industry gets stronger.” She adds, “In essence, best practices inherent in those regulations drive better decisions and increase profitability.”

She explains, “When a new regulatory regime or an accounting standard like the IFRS9 is initiated, it is often a well-thought-out response to a near-miss or catastrophe that has already occurred. Regulators and standards boards don’t haphazardly make up new rules. Rather, they seek out best practices among the catastrophe survivors. New standards and regimes reflect those best practices.”

Having worked in the trenches as a Chief Risk Officer at one of the largest 50 banks in the U.S., Kenyon notes the almost visceral response to new regulation is to view it as a constraint. “The attitude is ‘oh, I have to do this’ when it could be ‘Wow, I get to do this!’— by seeing new best practices as the gifts on Christmas morning that they are. By aligning them with their strategic plans and lines of business, banks can leverage best practices for nurturing success and shaping their future,” adds Kenyon.

At the core, “Kentara,” the Indonesian word for “obvious; right before your eyes,” navigates clients in treading the obvious path of best practices with its strategic consulting and analytic services. Kentara stands on the belief that data and analytics are the keys to unlocking the doors to measures—some sophisticated, others simple—that are essential for financial analysis and decision-making. The company mobilizes business analytics for striking a balance

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between risk and reward, better decision-making, and value creation. Turning the constraint into a pleasant Christmas morning, the Dallas-based company assists risk and strategy professionals in measuring and improving their performance and gaining insight into regulatory expectations and best practices.

When Regulation Resembles Christmas Morning

At first glance, Kenyon has been able to boil down the pursuit of Christmas morning with two prominent strategies followed by banks: enhance data analytics capabilities and reduce operating costs. While a CRO, Kenyon found that large software systems built for analyzing risk data were too complex and expensive for all but the 30 largest banks in the U.S. Prior to founding Kentara Analytics, she served as a bank analytics software consultant throughout North America and Europe. “While we served the large financial institutions,” Kenyon continues, “analytics solutions remained unaffordable for small financial organizations. That’s when the idea was born to gear our analytics expertise to smaller banks and credit unions.”

Run with the Horses

For small organizations, the struggle to comply with competitive and regulatory pressures aggravates already thin margins and limited budgets. “The software required by the banks is expensive and designed to meet specific requirements unique to an

organization and often demands large in-house analytics teams,” she adds. Kentara takes a deep dive into statistics, predictive modeling and stress testing, data mining, and operations analysis to help clients develop business analytics and analytics strategies that propel business planning and future performance. With Kentara’s advisory services, smaller organizations are enabled to perform and apply financial risk calculations to each transaction, assuring organization-wide, risk-based pricing and risk-based capital. Since inception, Kentara has been focused on enabling banks and credit unions to enhance their risk analytics capabilities so that they can work to fulfill their missions of improving the communities where they do business.

For smaller financial institutions with “big” risk analytics needs, Kentara brings well-developed analytical, conceptual, and strategy-formulation capabilities that are instrumental in improving profitability and value creation. The company boosts analytics capabilities and finds ways to reduce operating costs with three models of delivering analytics services: Analytics as a Service (AaaS), analytics in open source software for DIY, and risk management advisory services, helping its clients in risk-based pricing and in capital calculations.

A question posed to the Prophet Jeremiah in the 7th century BCE was “If you run with others on foot, and they tire you out, how can you compete with horses?” “Getting stuck on regulation-as-constraint will most certainly wear you out and increase your costs with no compensation for your efforts,”

Kenyon observes. “But when we combine the risk culture and expertise of the organization with best practices and data analytics, we seek to enhance the bank’s decision-making, giving smaller financial institutions the ability to compete with their much larger counterparts.” Whether through an acquisition, loan pricing, risk capital, or venturing into new lines of business, with Kentara’s help, an organization can increase its capabilities to use its data as a strategy and management tool.

The Success Streak

During the onboarding process, the Kentara team, together with bank management, scrutinizes internal and external data, bank policies, and culture while performing credit, market, and operational risk assessments. It then ensures that the bank’s Key Performance Indicators (KPIs) have a one-to-one match with its Key Risk Indicators (KRIs), thereby making a solid connection between bank strategy and analytics effectiveness. Illustrating the company’s expert capabilities, Kenyon explains Kentara’s work with the management of a \$1 billion U.S. bank to utilize credit analytics for making better pricing decisions and decreasing underwriting time. Kentara played a vital role in enhancing their compensation model and leveraging analytics to change the perceptions of the CRO and the CIO from police to valued partners.

Once the U.S. bank began to treat the data in its loan portfolio as an asset, it saw a way to manage talent, improve loan quality, and increase profitability. The bank leveraged heaps of historical data to create actual measures of default to move beyond the five Cs of credit and enhance its internal credit rating system. That move came with an unexpected realization—high-producing loan officers didn’t necessarily have high-quality portfolios. When the bank started to improve its risk-based pricing analytics, it saw that it was overpricing its prime customers and grossly underpricing its most risky customers. Instead of loan officer incentives based strictly on volume, the bank added asset quality to the mix, and that resulted in a reduction in non-performing loans and charge-offs. With the price correction, loan officers are better able to serve their lower-risk customers, improving customer loyalty and reducing churn.

Data is used for its risk-based profitability-measurement framework, and in 18 months, the bank expects at least a 15-basis point improvement in their commercial portfolio. “Kentara Analytics thinks that the improvement will be three times that estimate,” says Kenyon, giving the bank a viable ROI for its efforts rather than continuing to view risk management as a cost center.

In another instance, a U.S.-funded economic growth organization based in Africa has a program that encourages banks to lend money to female and young (under 35) entrepreneurs. Despite guaranteeing 50 percent of each loan made to an entrepreneur, the organization was having difficulty convincing lenders to loosen their purse strings. Believing that the barriers to lending to start-ups were grounded in ultra-

conservative loan underwriting, the organization approached Kentara for assistance.

Kentara’s investigation into the reasons behind this difficulty, however, revealed that the country’s central bank requires real property collateralization for nearly every loan. Most of the entrepreneurs need working capital loans for start-up expenses like leasing equipment and for payroll, not for purchasing property. Unfortunately, because of this country’s bank policies, no collateral means no loan. In this on-going project, Kentara and the economic growth organization are using predictive analytics to illustrate to the central bank how matching loan terms to loan purpose can improve not only lending statistics to women-owned and youth-owned businesses but also economic growth as a whole.

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A Future for Banking

Kentara’s ascension to success is governed by Kenyon’s rich expertise and knack for unlocking the true potential of analytics capabilities in risk management. As an accomplished CRO with a record of successfully orchestrating the optimization of risk and strategic management programs within the community and regional banks for over two decades, there is little that she hasn’t encountered. Kenyon fluently speaks the language of regulatory compliance, credit, market, and operational risks, rattling off vivid and conceptual analogies to simplify the regulatory labyrinth. As someone whose career has experienced a rise through the various ranks of the financial industry, such ingeniously creative analogies are especially handy for her as she steers the work of Kentara Analytics in combining the client’s expert knowledge with analytics and data to significantly enhance profitable decision-making in banks and credit unions.

With the breadth of her experience coalescing well with elements that drive analytics for growth, she plays a vital role at Kentara in servicing the obvious data analytics capabilities needs of multiple financial organizations. With a mission to improve the world’s economy one community at a time, Kentara adapts to the needs of the financial services industry with simplicity and innovation. **BC**

