ECONOMIST IMPACT

It's all about data: harnessing finance's most valuable asset

September 2nd 2022
Event Summary Report

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Executive Summary

It's all about data: harnessing finance's most valuable asset

According to the World Retail Banking Report 2022, 73% of banking executives say their companies struggle to turn data into useful insights and 70% say they lack the resources to adequately process and analyse data.

The data deluge is not unique to banking. Rapid advances in technology mean huge volumes of data are being generated every second in every industry, within companies and as they interact with customers and suppliers. Business leaders frequently say that data is their biggest asset, but very often their practices do not reflect this.

To discuss how the financial-services industry uses and perceives data, Economist Impact convened "It's All About Data: Harnessing Finance's Most Valuable Asset", a webinar sponsored by InterSystems and moderated by Swarup Gupta, head of financial services and ESG at the Economist Intelligence Unit. The panel of experts brought together Joe Lichtenberg, global head of industry marketing at InterSystems; Kerem Tomak, global chief analytics officer at ING; Sarah Gadd, global head of data and artificial intelligence (AI) solutions at Credit Suisse; and Nilesh Vaidya, global head of the banking and capital markets practice at Capgemini.

An industry in transformation

The maturity and usefulness of data available to financial-services firms has increased sharply in recent years. Banks now know more about their customers and markets than ever before. The ability to understand their customers’ wants and needs, and to draw real-time insights from data and make predictions, is transforming the industry and leading to the creation of new products, services and even whole businesses.

Much of the transformation in banking stems from our daily interactions with social media, which have raised people’s expectations for their experiences with technology and how they want to connect with businesses. This has greatly influenced customer journeys in financial services.

“Retail banking was the first to digitalise and offer an always-on experience for clients, and this has influenced the B2B world as well,” said Mr Vaidya of Capgemini. “We are seeing more and more initiatives on completely digitalising commercial and corporate banking services, with interconnections between banks and corporate clients and SME clients.” He added that reports are increasingly available in real time and business processes are more tightly integrated.

The four P’s

When putting data to use in the banking industry, Mr Lichtenberg explained that InterSystems focuses on “the four P’s”: data use should be panoramic, predictive, prescriptive and programmatic.

The panoramic use of data provides a broad real-time view of what is happening across an organisation. Predictive data use gives information about the probability of certain events occurring, such as the Federal Reserve raising interest rates, and lets humans act accordingly. Prescriptive use suggests the most appropriate action for a person—perhaps a risk manager—to take based on what is happening or likely to happen. Programmatic use directs intelligent actions in real time without human interaction; common applications include fraud prevention, pre-trade analytics and programmatic trading, as well as the automation of processes for efficiency gains.

When we consider how to use data, “There isn’t one right answer,” said Mr Lichtenberg. “We see all the four P’s happening. It depends on the use case, scenario and organisation. They are all important.”

Working in sprints

As banking institutions embark on their data and product-innovation journeys, one of the key challenges is getting access to the right data, which is often held internally in silos or outside the company.

Mr Lichtenberg recommended “working in sprints”, iterating rapidly to get value from innovation rather than embarking on a major “rip-and-replace” technological upheaval. “We are very much about working in scoped sprints versus big-bang, top-down deployments; you get value very quickly and are able to be more agile and then you grow incrementally from there.” Banks should begin with the data they already have available “Best practice is having the right executive sponsorship and organisational structure in place, allowing innovation to happen where it can provide the most value,” he said.

He also noted that problems often arise when a project has too large an initial scope and is not structured for success. “As projects become more complex, they need ownership and collaboration,” he said. Projects should be aligned with organisational goals to unlock data whose reuse has clear value.

Non-disruptive architectural approaches such as enterprise data fabrics, which speed and simplify access to data across the business by pulling together internal and external sources from multiple systems and silos, can ease the extraction of value from data and the creation of new products.

Developing a data culture

Panellists said that for companies to succeed in the data era, they should create an organisation-wide data culture where staff see the value of data and commit to using it fairly and ethically.

Employees hold the most detailed knowledge of what is going on in a business, and need to be given the tools and space to innovate and think creatively. Building a company culture takes support at the executive level, but also passion and momentum at the grassroots. To engage employees in the data journey, Ms Gadd of Credit Suisse recommended hackathons and innovation days. Upskilling and training programmes are essential, she said, along with transparency and the celebration of success. Given that some people might fear automating themselves out of a job, a collaborative, community approach to innovation is also critical.

Mr Tomak of ING said his firm has established guidelines around data ethics and the use of AI. The company is educating employees to ensure data literacy, as there needs to be an understanding of which data models are fair, the implications of embedding data models in business processes, and the regulations surrounding privacy. "We are educating everyone who is responsible for building and implementing these models in production," he said. "They need to understand the ethical dimensions of doing such work, which brings a big amount of responsibility for those who build it."

Ms Gadd stressed the importance of watching out for biases, even in machine learning. "Combining human intelligence with AI is the sweet spot," she said. "This is how you also remove the fear." Reliability, trustworthiness, bias, fairness and transparency are the main ethical elements that regulators focus on, and she said financial organisations should pay close attention to these areas.

Learning from the fintechs

Panellists said the explosion of fintech start-ups into the marketplace has been positive for the financial-services industry, catalysing digital transformation among traditional bricks-and-mortar banks. Mr Tomak said fintechs have elevated the importance of innovation and shown incumbents that there are faster ways to achieve change. They have also set new standards and pricing structures for digital services in the banking industry.

Panellists said traditional banks need to adopt the culture of fintechs and always be iterating, learning and optimising. In broad terms, the strategy of start-ups is to identify a customer need—an everyday problem or an inefficient process—and solve it with technology in a scalable way. It is about finding a solution that everyone wants to use.

“The influence of fintechs has been overwhelmingly positive for the industry and consumers,” said Mr Lichtenberg, but noted that incumbents still hold the advantage over fintechs. Traditional banks have access to huge volumes of historical data that they can use to build new business models, and also own most of the customer relationships. This has made it difficult for fintechs to capture significant market share.

Mr Lichtenberg suggested banks recreate the approach of fintechs by cultivating a start-up culture within their organisations through innovation labs. “It is an organisational challenge and less of a tech challenge,” he said, to create space within large organisations where people have the time and bandwidth to innovate. “The learnings and playbooks are already there.”

Banks have become more willing to collaborate with fintechs in the past couple of years, in areas where they offer greater agility, such as customer onboarding and hyper-personalisation of services, while others have bought into fintech companies to learn from their ideas. However, with low-cost funding drying up, it remains to be seen what the future holds in store for fintechs.

Stop following, start leading

What is clear is the movement towards data democratisation and informed, in-the-moment decision-making, which makes it imperative to unlock the value from data. Traditional financial institutions are still at the beginning of this journey. They need to start thinking of data as an asset and treating it like a currency. With technology developing rapidly, banks need to seize the advantages they hold over fintechs and start leading the change, working with trusted partners to co-create new products and solutions while ensuring the right controls and safeguards are in place.

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