THE FUTURE OF DATA
WHERE NEXT?

According to the World Economic Forum, the global data market could be worth half a trillion dollars by 2024. With data being measured and regulated more closely than ever before, what does this mean for banking culture? SARAH LOWTHER investigates the challenges and opportunities presented by this new data-driven era.

POWER TO THE *people*

Has the introduction of GDPR and Open Banking caused a data dilemma? Could this be an opportunity for banks and their customers? The answer is all about trust.

"Data has become the single most valuable asset not only of banks, but of their customers," says Daniel Meere, MD of global management consulting firm Axis Corporate. "It also defines how a regulator views a bank under its supervision."

Data on customers has become as valuable as the customers themselves, adds Meere, and the rise of the data-specific banking roles, such as CDO and CISO, and the emphasis placed on data governance and security, is part of the focus on protecting, preserving and policing customer information and privacy.

New personnel appointments are just some of the responses to the data regulation changes this year. GDPR has revolutionised the way companies protect customer data, and Open Banking, in the form of the Second Payment Services Directive (PSD2), is financial services-specific, instructing banks to make customers' financial data shareable with trusted third parties if, and only if, the consumer gives permission.

In 2018 the banking industry is resolutely focused on regaining the customer confidence lost after the 2008 financial crisis and the data breaches that have occurred as a result of targeted attacks, whistleblowers or human error.

Rav Hayer, Banking Data and Analytics partner at PwC, is optimistic that data-specific regulation will be more than simply a restrictive measure. "GDPR should not be treated as a mandate – it should be treated as an opportunity," he says. "It has certainly brought a realisation that data is an incredibly valuable asset in financial, regulation and reputation terms. It's a major opportunity for a bank to become more customer-centric and to better react to the way customers evolve based on data insights and technological advances."

THE MOST IMPORTANT MARKETING CAMPAIGN EVER

Stephen Lester, Propositions Director at Paragon Customer Communications, believes that if the administrative side is executed thoroughly, the relationship between bank and customer can be refreshed and realigned. "Under the new regulation, banks need to gain freely given, specific, informed and unambiguous clear affirmative consent in order to email customers about their services. While the re-permissioning procedure may have been something of a struggle for some, the process of re-contacting existing customers has afforded financial institutions a unique opportunity to cleanse existing data and remove contacts who are not interested in their services and solutions, and concentrate on those who are.

"In this sense," asserts Lester, "re-permissioning is possibly one of the most important marketing campaigns banks will ever run. Held securely and in full compliance with legislation, customer data can provide a wealth of information that can be used to improve customer experience."

Rav Hayer agrees that customer data made available through Open Banking will help banks themselves to create opportunity through tailoring products and services to better suit customers – as long as GDPR is adhered to. While some bankers suffering from admin-heavy change fatigue may view Open Banking as a GDPR contradiction, Hayer disagrees: "There's a fundamental prospect with Open Banking. It's not a clash with GDPR; it's an opportunity to better understand and work with the customers, harnessing the power of the data available," he says.

"GDPR allows for data portability, so this removes the notion of it clashing with Open Banking – or with PSD2, for that matter. Questions still remain, however, regarding an organisation's duty to redact sensitive data or obligations to delete data after a certain period of time when it comes to third-party providers."

The uplift in Open Banking is expected to be significant – PwC, for instance, estimates the Open Banking market could be worth £7.2 billion by 2022. With calculations like this, Hayer says, banks "need to be bolder", and to think about which other services the sector could add to the Open Banking ecosystem. "Lifestyle services and the

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Internet of Things," he says, "are examples of opening up new revenue streams. Data monetisation is a significant opportunity, and organisations need to capitalise on this."

NO TRUST, NO ENGAGEMENT

In order for customers to fully engage with the developing digital ecosystem and its inherent opportunities, they need to understand and trust it. Just one month before GDPR was launched, IBM published its cybersecurity report, which revealed that 82% of UK respondents surveyed agreed with the statement: "If I don't trust a company to protect my data, I won't buy from them no matter how great their products are."

For consumers to regain confidence about how their data is managed there needs to be information and choice. The Catch-22 is that the consumer must give permission for banks to share their data with third parties. If not, choice remains undisclosed. The solution could lie in more personalised education and the launching of astute marketing campaigns, Lester suggests.

The public know about GDPR, but they are less familiar with Open Banking. The big incumbent banks have been ordered to put customer data in a standardised form so that people can see all their financial accounts in one place. This at-a-glance-intelligence is consumer-empowering, allowing customers to switch providers, for example. So far, HSBC has unveiled a connected smartphone app that lets consumers take advantage of that initiative. Santander has launched Open Banking integration with Moneybox, and ING has its FinTech app Yolt.

FinTech disruptors offering Open Banking initiatives are outnumbering the banks, and it is inevitable that the market share of established players will be eroded. "Major household names in the technology sector see Open Banking as a significant opportunity to make money from data and, similarly with PSD2, to be a payment provider," claims Hayer. "There is a major challenge to banks to evolve like the FinTechs and tech giants. We know traditional banks are thinking about setting up digital banks, but they will also have to think about how they adapt and flourish in the different digital ecosystems."

THE GENERATION GAME

While banks deliberate, more competition is coming online. David Llewellyn, Professor of Money and Banking at Loughborough University, says the speed with which the emerging ecosystem is adopted will be determined by the public, and the impact of Open Banking "will depend crucially upon how consumers react and on their willingness or otherwise to allow the sharing of data. These reactions may be different for different generations of consumers."

"While Open Banking and other technological changes can be expected to substantially alter most aspects of financial services," he adds, "this will be a process of evolution and adaption rather than a rapid disruption such as that of analogue film processing by digital photography."

He puts the pace of change down to likely consumer resistance to unfamiliar products and the slow process of co-ordination of regulations and standards. The unfamiliar will only become familiar through education, with 2019 being predicted to be the year of the canny financial services and data-savvy marketeer. CB

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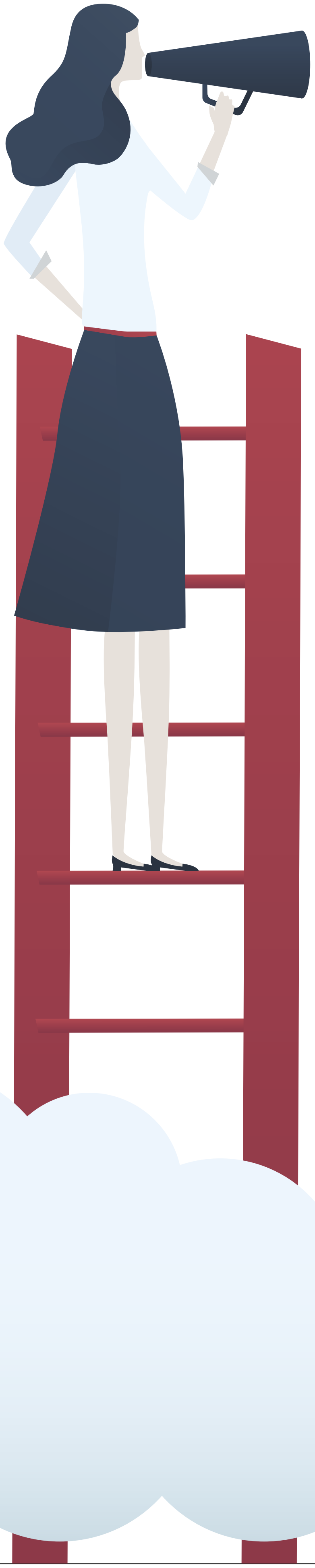

TONE from the TOP

As banks work to embed advanced analytics in their DNA and leverage the value of customer data, what determines a healthy banking culture in the digital age?

Psychological safety over fear; remuneration and incentives; leadership and management capabilities; and assessing culture: all of these have been identified by the Financial Conduct Authority as ongoing thematic lines of enquiry. It's part of the dialogue initiated by the regulator in March and intended to speed up the pace of change for cultural transformation in financial services. It's pertinent that this culture in banking debate coincides with the digital transformation that is making the industry more inclusive for itself, its customers and its competition.

With digitisation and automation comes a volume of data, insights and intelligence that is becoming part of the banking culture in terms of how it is viewed, vaulted, valued and – in the crudest form – vended.

David Llewellyn, Professor of Money and Banking at Loughborough University, says banks have always been in the information business: "That is their comparative advantage, but historically they've only scratched the surface in developing that advantage and are now in a much better position to utilise data."

The current transformation in retail financial services, Professor Llewellyn says, depends largely on the consumer and on a willingness to transcend the divide between relationship and purely transactional banking. "Will consumers be prepared to transfer information from their bank account, which is implicit in the Open Banking model? It's important to distinguish between what is technically possible and what consumers want. Just because something is possible doesn't mean that's what we want."

The financial crisis, misselling and other scandals defined the banking industry of a decade ago, and there was a corresponding decline in trust. "We're not as confident in dealing with our banks as much as we once were," says Llewellyn. "Do we trust the culture of the bank?"

Liz Sandwith, Chief Professional Practice Advisor at the Chartered Institute of Internal Auditors (IIA), references the 2017 Edelman Trust Barometer which pointed out that the financial sector is still viewed as untrustworthy. She is hopeful that part of the solution lies in the IIA's remit to educate businesses about the role of internal audit in linking governance and culture to help rebuild that trust and also to "strengthen an organisation's reputation". Internal organisational audit, she stresses, contributes to the debate about culture, governance, compliance and reputation.

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CASCADING CULTURE

"Culture should be set by the board and senior management team and should cascade through and be understood by all individuals within the organisation," she says. "We have seen a number of examples where the tone from the top is flawed – look at Oxfam and the halo impact that had. Contributions from the public fell around 35%, so culture isn't just important to an organisation – it has the ability to impact across the sector."

Feedback the IIA is receiving is that culture starts at recruitment. Sandwith says it's essential that individuals are recruited who share the organisation's values and embrace the culture. "One CEO I worked with felt culture was as simple as ABC – attitude, behaviour and consequences. In other words, if individuals don't demonstrate the right attitude and behaviours, there should be consequences."

A HIGHER PURPOSE

The concept of purpose is increasingly being incorporated into mission statements and corporate vision. Anjan Thakor, Professor of Finance at Washington University in St Louis, has researched organisational culture in banking. He has developed a framework for diagnosing and changing corporate culture in a way that more effectively supports the bank's growth strategy and induces behaviour that enhances financial stability. "A healthy banking culture is one that is based on a clearly articulated higher purpose for the bank; a prosocial contribution goal that transcends usual business goals but intersects," he says.

"It should emphasise high capital in the bank and value safety over 'reckless' growth. Compensation packages for executives should be aligned with this culture." He gives the example of "just compensating loan officers based on loan growth is inadequate".

MEMORIES ARE SHORT

Chris Bailey, founder of research consultancy Financial Orbit, says the profit incentive remains at the core of any financial institution but not as intensely as it was prior to the global crisis of 2008. "Compliance cultures are more appreciated and risk exposures are better understood, although the complex, dynamic and opaque web that underpins any financial sector company will always provide uncertainties," he says. "The shift to deferred incentive compensation regimes with longer vesting periods and the expunction of such benefits at the time of leaving a company should help these efforts.

"However, memories fade slowly and senior managers who themselves rose through the ranks during more risk-embracing epochs are still susceptible to business routines which will become unstuck during cyclical downturns. A managerial ethos of equally questioning material positive and negative shifts in operational performance/market share has to become central to all financial sector institutions."

Liz Sandwith agrees that the values, policies, attitudes and behaviours set out by management require proper monitoring, and questions what type of behaviour is being driven by performance-based rewards. "The Wells Fargo Bank was a recent example where performance-based rewards drove the wrong behaviour. If the lessons at Toshiba and Wells Fargo and perhaps now Carillion have taught us anything, it's that the existence of an inappropriate culture can be dangerous to an organisation and its employees."

Against the backdrop of old habits dying hard, the adoption of internal audits and the embracing of organisational culture, which skills do today's leaders need in order to cultivate a healthy banking culture?

Sandwith advocates being proactive. "The IIA is hearing from members and SMEs that organisations need to prepare for incidents, be it a regulatory breach, a cybersecurity event or a change in senior management, such that in the calm before the storm they have their 'story' for the media and customers. Preparation of a business resilience statement can contribute to reducing damage to reputation."

Thakor circles back to purpose and how leaders need to understand what a corporate higher purpose for the bank means, how to imbue the bank with it, and the levers they need to pull in order to change culture. Most importantly, he stresses, they should understand the value of having high capital in the bank of an equity-to-assets ratio of 15% or higher.

HYBRID MODEL IN ITS GENESIS

While the views of Thakor, Llewellyn, Sandwith and Bailey should be universally recognised as wholesome common sense, Simon Thompson, Chief Executive, the Chartered Banker Institute, is worried that some of the messages may be lost due to the distraction of digital transformation. Banking, he says, will primarily be shaped by data, technology and myriad digital channels; a hybrid banking model where bankers and regulated technology work alongside each other is in its genesis.

He's keen to ensure customers are not viewed as mere 'data collection points' and to that effect the Institute has developed the Advanced Diploma in Banking and Leadership in a Digital Age to prepare future generations of bankers who, in addition to learning about technology and data, will be educated about the core banking skills of credit, risk, regulation, banking operations and professional ethics.

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Thompson says it's essential the industry doesn't just focus on the digital and the data and on the technology which should underpin and not determine the service which is banking. "The challenge is training future generations of bankers at all levels, from service officers to chief executives, to be able to understand what the deployed technology is, how the deployed technology works, how it arrives at the outcomes it does, what inputs it needs, and to be able to demonstrate that the outcomes are genuinely in customers' best interests."

In essence, he wants to ensure the industry avoids a bias or other ethical issues that can creep into technology, and reconcile the advancement of technology with the restoration of trust.

Personalisation: from novelty to necessity

As the data culture establishes itself, so too does the requisite etymology and classifications associated with the new paradigm. There's the 'Me-Me', the 'Advice is Nice', the 'Discounter' and the 'Function Favourer'. All are categories of personality types willing to share their data in exchange for commercial benefits. They've been identified by data-led trends agency Foresight Factory and encompass those who will share data on varying scales in return for a range of personalised advice, relevant discounts and improved product suggestions.

Another term entering the data-driven lexicon is 'hyper-relevance', which is referenced in Accenture Strategy's Global Consumer Pulse research. This established that nearly a third of consumers expect the companies they engage with to know more about them, while two-thirds are willing to share personal information with companies in order to make those organisations 'hyper-relevant'. Data divulgence will only occur if there is a perceived value exchange, however.

Lesson one in the value exchange, according to Stephen Lester, Propositions Director at Paragon Customer Communications, is about basic manners. "Using an individual's name is crucial to winning people over; it demonstrates that they are valued and that the message to be delivered will be important to them. Despite regulations surrounding how banks hold and use data, today's customers are savvy. They know that a wealth of information about them is available and they expect organisations to use it wisely."

Lesson two, says Lester, concerns timing. "Personalisation is about more than addressing something to the right person; it's about reaching that person at the right moment and in the right manner in order to deliver timely and relevant messages." The challenge, he adds, is in identifying an individual's preferred way of being contacted, be it by direct mail, SMS or email, and at what time of day they are most likely to respond. "These insights into preferences and behaviour can be achieved through analysing data and responses such as opens, clicks and landing-page visits."

Another key skill identified by Lester is the one governed by listening. By listening to how people respond through a variety of touchpoints, he suggests, banks can glean a far better understanding of what matters to their customers and use this to speak to them in a relevant, engaging way.

"BANKS CAN GET TO THE HEART OF PEOPLE'S RELATIONSHIP WITH MONEY BY BETTER ANTICIPATING CUSTOMERS' NEEDS."

OWNING THE INTERACTION

Abhijit Deb, Head of Banking and Financial Services in the UK and Ireland at professional services company Cognizant, says banks, card issuers and lenders have been doing just that for several years and are pushing the boundaries of personalisation to try to understand and own their customer interactions. "Apart from the fact that personalisation promotes customer loyalty and better opportunities for cross- and upselling, financial services providers realise that they need to go beyond simple transactional relationships and move to a lifestyle-based banking model, where they are at the centre of any financial decision their customers make."

He suggests two key elements sit at the foundation of personalisation in banking. Through collaboration with behavioural experts, banks can get to the heart of people's relationship with money by better anticipating customers' needs. Secondly, he says, are the advanced technologies that capture and analyse customer and transaction data. "Other sectors such as retail, travel and hospitality are already using such data analysis – beacon technology is enabling retailers to send personalised offers directly to shoppers in their stores, for example," says Deb. "Banks are now investigating how data can be coupled with beacon technology to improve the customer experience in branches; this makes the experience frictionless and targeted, without being intrusive."

USING GEOSPATIAL DATA

This year's GDPR regulation was aimed in part at eliminating intrusion, and both Lester and Deb agree that, in accordance with the new legislation, information held by organisations must be kept securely and only after the correct permissions have been sought.

Today's consumers expect their bank to understand and even anticipate their needs, delivering personalised, tailored solutions. But do they see real value in the data exchange?

"Banks must ensure that their ever-more personalised services adhere to strict data privacy rules," says Deb. "For example, financial services providers are looking at using geospatial data, which can be easily accessed from mobile devices, to inform the customer about the best car loans on offer when they are at a car dealership, say. While certain customers might find this relevant and timely, it could equally lead to distrust in some customers' minds about how their bank is accessing their data and why. However, regulations such as GDPR and high-profile scandals, such as that surrounding Cambridge Analytica, are helping to define acceptable practices around data-sharing, permissions and renewing customer consent, all of which banks, as well as marketers, will have to adopt and adhere to."

Peter Kirk, who leads Accenture's Financial Services Distribution and Marketing practice in the UK, says consumers want natural conversation with a bank that understands their needs and acts in their best interests, while keeping their data safe and secure.

"We know that customers have evolving attitudes towards the privacy of their personal data and banks will be keenly aware of the need to let the customer retain control and to be careful not to cross the line from convenient to intrusive," he says. "The next challenge is how banks provide convenient customer experiences that blend human and digital services to stop them becoming faceless and putting trust at risk."

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POCKET-SIZED BANKING

Developers worldwide have been listening, creating solutions devoted to personalisation based on timing, convenience, behavioural expertise, neuro-linguistic programming and data insights. One such solution is Finn AI, an artificial intelligence-powered virtual assistant built for personal banking and finance, which aims to 'put a personal banker in every bank customer's pocket'. In June it launched a collaboration with digital payments provider Visa Canada, with customers serviced by conversational banking chatbots.

Dr Kenneth Conroy is Finn AI's VP of Data Science. He explains that the AI-powered, conversational platform system delivers value by being able to handle and reduce a high volume of simple customer service and bank interactions from call centres. For the consumer, the likelihood of being kept on hold or passed from department to department is eradicated, with the human customer support representatives freed up to focus on higher-value interactions.

Will the chatbot solution transcend from novelty to necessity – or has it already done so? "Chatbots are like phones," says Conroy. "They're more of a utility than a necessity. It allows us to have the ability to 'always be on the line', meaning that no matter how much time has passed, our information and interactions will always be saved on file. So the next time a user engages with the chatbot, they're able to pick up the conversation where it left off. Right now, interacting with a chatbot is viewed as a novel option to connect with one's bank. However, as digital becomes more entrenched as a preferred mode of communication, especially with millennials and Gen Zs, chatbots and other digital platforms will become a necessity for any business looking to engage proactively with these audiences."

The debate returns to data exchange and whether an organisation – in this instance a bank – has hyper-relevance to a consumer who expects value-add. Conroy says chatbots can enable banks to provide a truly holistic, mutually beneficial, conversational approach to managing users' money. "Focusing solely on banking allows our system to truly understand what bank customers want to do, and also enables banks to proactively engage in the form of money management recommendations to users. This occurs in the form of push notifications, reminders or nudges in order to encourage behavioural changes."

Will those changes result in the demise of overt data divulgence by the consumer? Sharing is now far more subtle, with Conroy revealing that by leveraging Finn AI's intelligent system, banks can increase proactive engagements with users by providing personalised recommendations and insights, without necessarily requiring more personal data.

EXPLORING THE SUPER-APP UNIVERSE

With a billion monthly active users, social and commercial app WeChat is expanding its payment platform beyond China. What can the UK banking industry learn from this Asian digital ecosystem?

During his career as an asset fund manager, Chris Bailey, founder of global investment research consultancy Financial Orbit, has been a frequent visitor to Asia. "A trip to any major Chinese city appears at face value to be a step into a new super-app consumer world," he says. The rapid emergence of Alipay and WeChat Pay in the Chinese financial system is, he believes, due to the "lack of natural banking sector digital expertise and payment infrastructure in an emerging market".

Simon Thompson, Chief Executive, the Chartered Banker Institute, concurs: "The difference in China is that the majority didn't have access to banking until recently and now, due to the initiative of Jack Ma and his Alipay, there is almost universal financial inclusion."

USER EMANCIPATION

Samuel Murrant, Senior Analyst, Payments, at GlobalData, believes the industry in the UK can learn from China's example, but he doesn't see the market here developing in the same way, as a result of the UK's pervasive card infrastructure. "Essentially, these electronic payment ecosystems grew up without a rival ecosystem based on cards to compete with," he explains. "It was cash or nothing, and now it's cash or mobile, moving to mobile-only."

Murrant says it will be difficult to 'crack' established consumer behaviour in the UK by giving people a way to pay in store via mobile. That already exists. Instead, he says, there's more to learn from the WeChat model with its blend of interaction and commerce. "For the UK, the super-app platform would need to come first and payments would be integrated into it."

TRANSFORMING EXISTING UK INFRASTRUCTURE

The issue facing the banking industry here, says Simon Thompson, is how we transform all the existing infrastructure: "The UK is managing a transition that China and Indonesia did not have to face, such as the retrofitting of an existing culture and infrastructure. The great majority of UK consumers use credit and debit cards, and many still even use cheques."

Daniel Meere, MD of management consultants Axis Corporate, observes the marketplace banking concept in Europe is now piecing together the collective drive for frictionless transactions, customer choice and better technology. In the UK, he adds, "The Open Banking standards have pushed this concept. Banks are finding their under-pressure business models can use the marketplace to generate new sources of revenue through better use of data – matching customers to relevant products, filling gaps in their product offering and tailoring pricing based on better insights. As the sun sets on legacy systems, the smart-app future in financial ecosystems looks bright."

PRICELESS INSIGHTS INTO PRIVACY PROVISION

The shadow of data breaches, though, is ever-present. Data safeguarding and privacy have become banking's metaphorical bogeymen in 2018. Bailey remains sanguine, however. "Privacy concerns will have to be addressed, although the growth of contactless payment mechanisms over recent years should have provided priceless insights."

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The major insight for UK banks, he argues, is that inexorably local consumers will rapidly become extremely comfortable with such payment techniques and that ensuring a technological capability in their customer offerings has shifted from important to essential. "Failure to do this opens up the opportunity for newer players to take significant share, piggybacking off the UK's existing payment infrastructure operators."

The UK has high mobile penetration and a consumer base that is increasingly app-confident, so how can the country's legacy systems be transformed as Thompson asks? Meere argues that banks' legacy systems are not up to the challenge of getting to the data they hold. Banks are therefore reliant on the agile methods of technology partners "to create flexible, scalable platforms to help them extract, cleanse and present data to make it useful," he suggests. "This significantly impacts cost, as infrastructure is effectively outsourced to the partners, as is the ongoing investment in maintaining regulatory compliance."

A NEW PARADIGM AND MINDSET CHANGE

Ecosystems rely on strong partnerships based on an alignment of objectives, robust standards and interoperability. "This is a completely new paradigm for banks," adds Meere. "They are used to being 'owner/operators' of their own infrastructure and building in-house rather than buying in from the external market. The question is, can a bank truly be assured that it is better than the leading technology firms at their own game?" The change in mindset required is significant, argues Meere, which explains the delay in uptake.

Thompson argues that none of this will work effectively without banking professionalism. "It worries me if we don't have a banking system with professionalism at its heart," he says. He stresses that banks and bankers of the future must, of course, understand digital tech and how to work with digital channels and must not forget that technology supports the delivery of banking services. CB