Achieve Competitive Agility with Innovative Data Management Strategies

By Monica Summerville, Industry Analyst & Director, Winchmore FST

Over ten years on from the start of the global financial crisis one of the core enabling issues of the global meltdown has yet to be addressed: compliance and risk systems still are highly siloed. The recent pandemic-induced crisis has amplified the importance of finding a solution to this challenge, added to cybersecurity concerns, and, spotlighted the competitive advantage business agility brings. Firms that take advantage of innovative strategies for leveraging data can meet security demands and gain competitive advantages in areas such as client insights and business intelligence.

It has been more than ten years since the global financial crisis began and although countless pages of financial markets regulation have been enacted, one of the core enabling issues of the global meltdown has yet to be addressed: compliance and risk systems still are highly siloed. Today, with a ‘new normal’ post-Covid19, financial entities know they have to do more with less – and in compressed timeframes - when meeting the new challenges arising from remote-working paradigms. The ability to deliver technology projects faster than ever before in a way that respects data privacy and security requires agility in both an enterprise’s application and data infrastructure. This combined agility produces a competitive advantage for the business.

With access to limited data sets, despite the amount of raw data increasing, and remote working on the rise, senior executives in risk, compliance, security and legal can struggle to see the big picture, and so risks may be underestimated and warning signs missed. However, leading firms using innovative strategies for managing and leveraging data not only meet compliance and security needs efficiently but gain competitive advantages in areas including client insights and business intelligence.

In the right business use cases, the potential for revenue impact through the application of artificial intelligence (AI) is clear (see Exhibit 1). For example, asset managers embracing big data and analytics are growing revenue 1.5 times more quickly than the rest of financial services, according to a recent report by management consulting firm Oliver Wyman.
However, the ability to use AI techniques effectively depends on having access to complete and high-quality data – issues financial institutions rank as in the top three of key hurdles to AI implementation (see Exhibit 2). Meanwhile, data is growing at an incredible rate, challenging even the largest firms’ ability to store everything on premises. A raft of regulations, implemented post-crisis, means banks and asset managers now collect vast quantities of data for regulatory reports, but the compliance, risk and legal teams often have inflexible, limited access to company-wide data for analytics and business insights. The way data is stored, accessed and made available to other applications often is designed to support forensic, not predictive, analytics.

Exhibit 2: Poor quality and lack of access to data are key hurdles to AI implementation

Data source: Global survey of 151 financial services firms by World Economic Forum (WEF) and University of Cambridge Judge Business School, January 2020

Exhibit 1: The use of AI exerts a positive impact on a firm’s profitability

Data source: Global survey of 151 financial services firms by World Economic Forum (WEF) and University of Cambridge Judge Business School, January 2020
Gaining access to data often requires support by IT resources - sometimes requiring multiple iterations to gather all of the required data. This takes valuable time away from other technology initiatives. Meanwhile, the need for near-real-time or predictive analytics is increasing across a number of business use cases. With technologists’ hands full with other matters, the race is on to make solutions accessible to less-technical end users.

The resolution of this challenge is best driven by the end users who understand how to leverage the data to create business insights, namely compliance, legal and risk team members. Data use cases are becoming increasingly sophisticated, often incorporating large amounts of new data sources (see exhibit 3), including both semi-structured (e.g., email, web data sources) and unstructured (e.g., documents, images, audio recordings, social media feeds) data. Traditional database systems were designed primarily for structured data meaning structured and unstructured data repositories are often managed separately – in both an infrastructure and management sense. In this case, end-users are unable to easily combine data from all these varied repositories.

Exhibit 3: Sophisticated data use cases incorporate large amounts of new data sources

<table>
<thead>
<tr>
<th>Importance of 'unstructured' data sources in AI applications (scale 0-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documents</td>
</tr>
<tr>
<td>CRM Data (Call Notes)</td>
</tr>
<tr>
<td>News/Premium Data Sources</td>
</tr>
<tr>
<td>Knowledge Bases</td>
</tr>
<tr>
<td>Core Banking Systems</td>
</tr>
<tr>
<td>E-mails</td>
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<tr>
<td>Social Media</td>
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</tbody>
</table>

Data source: TABB Group survey, >100 financial institutions, 2018

To meet these new requirements senior business leaders are challenging the preference of in-house technology teams to “build not buy”. Financial institutions are finding that partnering with trusted solution providers allows stretched technology resources to focus on core competencies and value-added activity. The latter’s case includes helping the business leverage data to find deep insights around its customers and business model and then implement change quickly to capture a competitive advantage – in other words supporting business agility.

A secure and agile approach to leveraging data is especially important in light of the rising cyber security demands due to increased remote working. The shift to working from home, which inevitably entails using less secure home networks and a mix of corporate and personal end points, significantly increases cyber risk to an industry which already ranks among the most attacked (see Exhibit 4).
Financial institutions were facing challenging conditions even before the pandemic struck, thanks to post-financial crisis increases in capital requirements, a raft of new regulations and a zero-tolerance attitude toward compliance infractions by regulators. Technology budgets have been consumed by simply keeping pace with compliance obligations; but this is starting to change, and leading financial firms are now focusing on leveraging their data for competitive advantage.

Fortunately, the “80/20” rule – which says that off-the-shelf solutions meet only 80 percent of requirements – may no longer hold true. Thanks to today’s leading-edge technology approaches and innovative hybrid cloud approaches, third-party solutions can offer highly flexible, modular solutions. These work with other systems as needed in a “plug and play” fashion, and the best are easily customized, even by non-technical end users. Instead of asking whether to “build or buy” companies are taking a hybrid approach - in other words they are turning to specialist vendors who support innovation through co-creation. This approach leverages the expertise and perspectives of an enterprise, its technology partners, and end users, enabling the development of truly differentiating value add functionality.
Business end users are used to a digital, on-demand world in their personal lives and expect this to apply to work environments as well, regardless of where the user is, the time of day and what device is in use. Despite the additional challenges a post-Covid19 world presents for financial institutions, this is no time to slow digital transformation initiatives. In fact, the most competitive entities are accelerating their efforts in this area.

A unified, scalable and tightly integrated data source that enables automated policy compliance across regulatory jurisdictions, not only reduces the total cost of compliance and supports digital transformation, but empowers all business users to better understand their customer, monetize data-driven insights and embrace new ways of working. The right storage and analytics solution ensures that data is searchable and retrievable when, where and how it is needed – ensuring data agility in a secure way. With the business world moving towards cloud-centric IT delivery, hosting the desktop in a virtual environment using technologies such as Virtual Desktop Infrastructure (VDI) can help monitor how and by whom data is being accessed and limits data loss from user devices in the events of an attack.

Research shows that financial institutions believe generating proactive insights and business intelligence leads to competitive advantages. However, business use cases need to be well understood and security and compliance concerns addressed. Decisions on data management are no longer the preserve of technology departments alone – business end users across compliance, security, risk and legal teams within financial services are being included in the decision-making process. Leading financial institutions using innovative data strategies are meeting these challenges but deriving value well beyond regulatory compliance. They are gaining competitive advantage by delivering technology projects faster and by enabling widely accessible but secure data-driven insight capabilities – in other words, they are achieving competitive agility.

“Enterprises right now are operating in more extreme circumstances than at any other time in living memory… the most competitive financial institutions are engaged in building a digital twin for their physical world.”

- Paul Lewis, Global CTO, Hitachi Vantara

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