Achieving Competitive Advantages with Innovative Data Management Strategies

By Monica Summerville, Head of FinTech and European Research, TABB Group

The 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. But firms that take advantage of innovative strategies for leveraging data and include business end-users in the decision-making process, can meet their compliance demands efficiently and gain competitive advantages in areas such as client insights and business intelligence.

It has been more than 10 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. With access to only limited data sets, senior executives in risk, compliance 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 leveraging data not only meet compliance 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) and machine learning (ML) is clear. For example, a recent TABB Group survey of over 100 financial institutions found 83% of respondents described the impact of AI/ML on revenue as significant when used to generate customer insights.

Exhibit 1: AI/ML’s potential as a revenue driver

Source: TABB Group survey, >100 financial institutions, 2018
The ability to use AI techniques effectively depends on having access to complete and high quality data. 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.

In addition, data access often requires IT resources and may require multiple iterations to gather all of the required data, all of which can take valuable time away from other technology initiatives.

The solution to 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 numbers of new data sources (see exhibit 2), 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 2: Importance of Data Types

<table>
<thead>
<tr>
<th>Data Type</th>
<th>Importance Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documents</td>
<td>2.83</td>
</tr>
<tr>
<td>CRM Data (Call Notes)</td>
<td>2.75</td>
</tr>
<tr>
<td>News / Premium Data Sources</td>
<td>2.70</td>
</tr>
<tr>
<td>Knowledge Bases</td>
<td>2.60</td>
</tr>
<tr>
<td>Core Banking Systems</td>
<td>2.33</td>
</tr>
<tr>
<td>E-mails</td>
<td>2.30</td>
</tr>
<tr>
<td>Social Media</td>
<td>1.08</td>
</tr>
</tbody>
</table>

Source: TABB Group survey, >100 financial institutions, 2018

Meanwhile, the need for near-real-time or predictive analytics is increasing across a number of business use cases. For example, our survey found that two-thirds of respondents described the ability to trigger customer insights in real-time as “extremely important” (see Exhibit 3). These types analytics often rely on artificial intelligence (AI)
and natural linguistic programming (NLP) techniques, which can be difficult to apply by the average (i.e. non-data scientist) end users. A race is on to make these solutions accessible to less-technical end users.

Exhibit 3: The importance of real-time triggering of customer insights

Source: TABB Group survey, >100 financial institutions buy side firms, 2018

To meet these new requirements, the preference of in-house technology teams to “build not buy” has been challenged post-crisis. Financial institutions are focusing their stretched technology resources on core competencies and value-added activity. An increase in capital requirements, a raft of new regulations and a zero-tolerance attitude toward compliance infractions by regulators are creating challenging conditions for many financial institutions. Technology budgets have been consumed by simply keeping pace with compliance obligations; but this is starting to change, and leading financial firms are beginning to focus 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 can 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 buying and building - in other words they are turning to specialist vendors who offer innovation through co-creation. This approach leverages the expertise and perspectives of an enterprise, its technology partners, and its 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. A unified, scalable and tightly integrated data source, that enables automated policy compliance across regulatory jurisdictions, not only reduces the total cost of compliance, but empowers business users outside of the risk and compliance function to better understand their customer and monetize data-driven insights. The right storage and analytics solution ensures that data is searchable and retrievable when, where and how it is needed.
TABB Group research found financial institutions believe that generating proactive insights and business intelligence can lead to competitive advantages. Business use cases need to be well understood however. For this reason, decisions on data management no longer are the preserve of technology departments alone – business end users across compliance, risk and legal teams within financial services are being included in the decision-making process. The leading firms using innovative data strategies are meeting these challenges and deriving value well beyond regulatory compliance.

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