



Data Evolution in the Cloud

Financial services' long-time data advantage

Breaking down data silos in financial services

Data powers transactions in modern financial services (FS)—but the smooth and speedy processing that most companies in the sector hope to achieve is often impeded by the fact that data is siloed away in legacy systems and in product- or service-specific applications.

This impedes the sector's data evolution in a range of ways. Above all, the persistence of data silos puts a unified view of data out of reach for many FS firms. And that, in turn, makes it hard for them to achieve strategic goals such as offering individual and institutional customers a personalised experience across departments, channels and touchpoints; meeting global regulatory standards; detecting

and protecting against risk and fraud; and increasing overall operational efficiency.

Take, for example, retail banking: according to the 2020 World Retail Banking Report by Capgemini and the European Financial Management Association (Efma), most banks are not capitalising on their data-rich advantages. The analysis shows that only a small proportion of banks are able to manage, as well as leverage, their best and most actionable datasets.¹ Meanwhile, FS providers of all types face competitive threats posed not just by long-standing rivals, but also by disruptive challengers ranging from fintech start-ups to giants such as Apple and Google.

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¹ ["World Retail Banking Report 2020"](#), Capgemini Research Institute and Efma, 2020.

And then, there is covid-19. The pandemic has been a defining moment for digital transformation in the sector, forcing adoption of digital channels, particularly online and contactless payments, according to a recent report from Deloitte and the Institute of International Finance (IIF), which emphasises that “institutions that invested...in digital over the past decade have been better prepared to navigate these shifts and respond to the crisis.”² All this is generating a tsunami of data that will further upend the sector in the years to come.

The future data landscape is the focus of a recent survey, conducted by The Economist Intelligence Unit and sponsored by Snowflake, of 914 global executives across eight industries, including 114 from the FS, insurance and banking sector (referred to as “FS” in this report). It is the industry most likely across the survey to see expanding its customer base as the biggest opportunity from utilising data-driven insights, cited by 34% of respondents, versus a survey average of 29%. Improving digital capabilities and raising employee productivity tie for second place (each cited by 26%), perhaps reflecting the challenges imposed by data silos.



Figure 1: Biggest opportunities from utilising data-driven insights

(FS industry responses; %. Respondents could select more than one option)



Source: The Economist Intelligence Unit

² “Realizing the Digital Promise: Covid-19 catalyzes and accelerates transformation in digital services”, Deloitte and IIF, 2020.

The third-party paradigm in data sharing

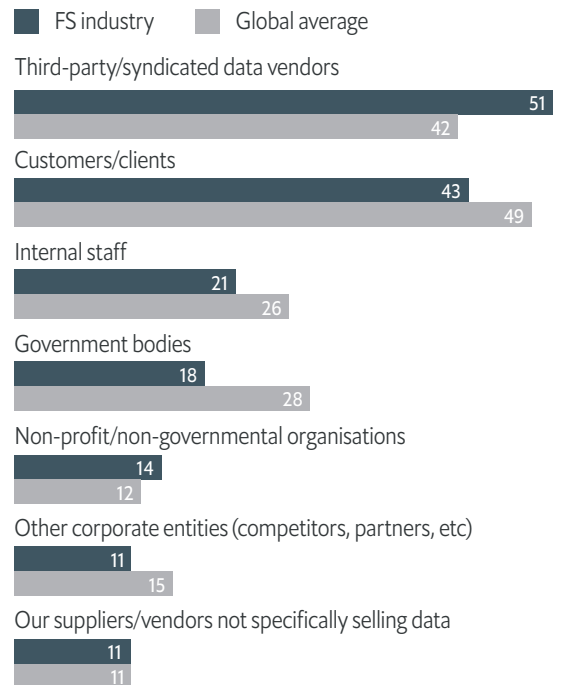
The FS sector has a long track record of using third-party data in its decision-making, dating as far back as the late 19th century, when ticker tape was used to transmit stock price information over telegraph lines.³ Today, this third-party data takes many different forms: demographic datasets, consumer surveys, corporate regulatory filings, stock exchange feeds, and real-time pricing on bonds, futures, options and so on.

In our survey, this sector values data from third-party or syndication partners more highly than any other. These sources are cited by 51% of respondents from this industry as the most valuable source of data, far above the survey average of 42%. Next comes data from customers/clients (43%), followed, at some distance, by data from internal staff (21%).

Reflecting this, in the past six months, almost six out of ten FS respondents (59%) say their organisation has purchased data from third-party vendors, slightly ahead of the survey average of 58%. Although FS budgets for data purchases are set to grow for this over the next three years, they will do so at a far lower rate than in all other sectors, which probably reflects extensive past outlays.

Figure 2: Which of the following currently provides the most useful source of data for your organisation?

(%. Respondents could select more than one option)



Source: The Economist Intelligence Unit



³ Adam Hayes, "Ticker tape", Investopedia, last updated July 2020.

No lack of resources, but more investment needed

Although data integration remains a hurdle for FS companies, they are likely to be better placed than other industries to commit serious resources to overcoming it. Over half of FS respondents (56%) agree that it is a struggle to integrate data from varied sources—significantly below the survey average of 64%.

In terms of resources, FS is the industry least likely to point to a lack of sufficient investment in data systems/infrastructure as a hurdle to collecting data (26%, versus a survey average of 32%). And when it comes to drawing insights from data, it is the least likely to cite a lack of internal talent to analyse data (16% versus 22%) and the second-least likely (after retail/consumer goods) to point to a lack of investment in relevant tools (17% versus 20%).

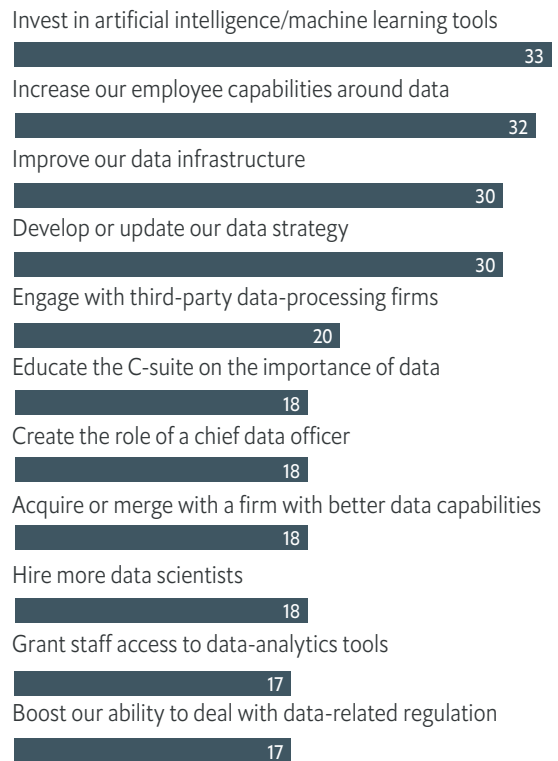
That said, FS companies continue to invest at above-average rates in order to achieve the levels of data-sharing they need to overcome their legacy silo problem. Respondents report that budgets in the sector have increased significantly over the past three years when it comes to analysing and drawing insights from data and integrating data into business processes and the customer experience.

Looking forward, priorities in the sector over the next three years include investing in artificial intelligence and machine learning (AI/ML) tools (cited by 33%) and increasing employee capabilities around data (32%). AI/ML in particular have seen growing applications as numerous retail banks have launched chatbots, based on natural-language processing, to

interact with customers and assist them with tasks such as looking up balances or checking credit-card limits. In 2019 South Korea's Kyobo Life Insurance launched what it claims is the world's first AI underwriter, in order to analyse and approve new client contracts.⁴ And JP Morgan Chase's AI-based system reviews commercial credit agreements, replacing hundreds of thousands of hours of work previously conducted by human lawyers.⁵

Figure 3: Top priorities to enhance data capabilities in the next three years

(FS industry responses; %. Respondents could select more than one option)



Source: The Economist Intelligence Unit

⁴ "Kyobo Life Insurance Launches the World's First AI Underwriter", *The Korea Herald*, October 30th 2019.

⁵ "JPMorgan Software Does in Seconds What Took Lawyers 360,000 Hours", *Bloomberg*, February 27th 2017.

Effort and pay-off

Data silos have historically been a hurdle to the FS sector, but the covid-19 pandemic has made clear the importance to future competitiveness of attracting and retaining customers by providing them with better digital experiences. Although substantial effort is still required to break down the silos, our survey underscores the fact that this sector has the resources—and the willingness—required to integrate data from a variety of sources more tightly into business processes and customer experiences. These next steps in digital transformation promise to drive growth and reduce risk exposure across the FS sector.



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