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HOW DATA IS TRANSFORMING THE FINANCIAL SERVICES INDUSTRY

Lesley French

Banking and financial services is a data-driven industry in which organisations rely heavily on data analytics to meet customer expectations and stay competitive. Like most industries, customers within this sector increasingly require fast and easy personalised experiences, with the added assurance that their information will be kept safe. To be successful within this sector, financial services organisations must be able to pivot rapidly to address changing needs in the market while ensuring the protection of personal data.

In addition to these traditional challenges, the industry faces a unique cultural shift due to the emergence of artificial intelligence (AI) and automated technology, coupled with ever-increasing industry regulation. Once-thriving sources of capital are not performing in the current market, so business models must adapt to maintain profitability. As a result, the industry is refining its approach to data analytics to keep pace with digital transformation and the evolving regulatory environment.

The rise of data-driven strategies

Data-driven strategies are becoming increasingly paramount for corporate agendas across many industries in order to maintain a competitive advantage (Barton & Court 2013). With specific regard to the banking and financial services industry, 'big data' and analytics can provide key information for devising consumer and business products, corporate strategy, operational plans, and forecasting future business performance and goals.

Banking and financial services organisations currently use data analytics for the development of products and services and to monitor industry trends through the collection of behavioural, demographic, geographic, and psychographic data from their customers.

Smart devices and apps are conveniently capturing and generating massive volumes of data, including:

- customer information
- financial transaction details
- product and service purchase histories
- customer journeys
- service enquiries
- social media streams
- Internet of Things, or IoT, streams
- software logs
- text messages
- emails.

It is key that organisations effectively capture all of this disparate data across multiple streams to develop an accurate and consolidated picture of the current market situation.

There are five areas are where data is transforming the banking and financial services industry, namely:
1. customer service and experience
2. operations
3. risk reduction and security
4. marketing
5. revenue opportunities and future plans.

These areas are examined in the following sections of this paper.

1. Customer service and experience

Leveraging data to analyse individual customer preferences optimises the customer journey by personalising their experience through specifically targeted products and services (Department of Industry, Innovation and Science 2018). Banking and financial services companies can now use digital tools, such as chatbots and robo-advisers, to more rapidly assist online customer enquiries while gathering customer data. This not only reduces the effort and time required of employees but provides customers with further information to make informed decisions, while also enabling an additional source of customer data to companies.

Banking and financial services organisations can use data to recognise customer loyalty by monitoring customer actions and inactions. Companies can then provide rewards for milestones, on-time payments, or other particular service actions that have been met. Additionally, it can help companies to identify upsell and cross-sell opportunities where other business services could be beneficial to a customer. Data is also being used to identify recurring customer issues that require more attention, such as a need for additional employee training.

2. Operations

Data analytics, combined with new technology and automation, are streamlining business operations and increasing efficiencies across various industries, including banking and financial services. From 2018 until 2020, Deloitte predicted that 76% of Australian businesses would increase their investment in analytics capabilities (Deloitte Access Economics 2018).

AI and automating processes, led by analytics, improve employee productivity, optimise company resources, and improve response times to customer enquiries. In fact, AI is considered by PwC to be one of the eight essential technologies that businesses should be incorporating into their strategies (PwC Global n.d).

These new technologies can better manage the vast amounts of data coming into financial services organisations every day. Companies that operate on legacy systems may actually be at corporate risk in the longer term because legacy systems were not designed to withstand the growing workload from the current data-rich environment. Legacy infrastructure was simply not made to collect, store, and analyse large volumes of data.

Example: using data analytics and automation to recover debt

One area where data analytics and automation work seamlessly together is debt recovery. Analytics can show trends on different methods to contact individuals and organisations with outstanding debt and identify those that deliver the best results. This data can be fed into an automated system that generates customer communications and manages the full debt recovery process without the need for employee intervention.

3. Risk reduction and security

Data is beneficial to improved accuracy, recommendations, and setting precedents in the organisation based on findings. It provides an overall picture of the company operations, which can reduce the risks associated with particular areas of weakness.

These may include:
- determining loan and credit amounts
- delivering real-time credit recommendations
- recognising the signals that may indicate illegal activities (e.g. fraud or money laundering).

Analytics can prevent fraudulent crime by assessing customer, geospatial, and transactional data — among other types — in order to identify anomalies and detect suspicious activities. For 2019, there were more than 4,600 reports of investment scams in Australia (Australian Competition & Consumer Commission 2019), with 42.1% reporting financial losses that totalled over $54 million. Australia's reports of fraudulent crimes have been on the rise and now sit above the global average (Shackell 2018).

Given the confidential information that banks and financial institutions have to obtain from customers, it should come as no surprise that cybersecurity is a burning issue for the industry. The importance for businesses to have a strong privacy solution for the digital realm is only increasing, with the financial sector across all countries noted as being highly vulnerable to cyber threats due to confidentiality of the data.

Digital transformation is a double-edged sword. On one side, it benefits companies by streamlining operations and processes, generating more productivity, and creating the potential for increased profits; but on the other side, by transferring information and processes to digital, it increases the range and number of entry points hackers can exploit (Bouveret 2018).

Alarmingly, only 34% of professionals were highly confident in the ability of their organisation's cybersecurity team to detect and respond to cyber threats (ISACA 2019).

Between July 2018 and April 2019, Australian organisations took an average of 281 days to identify and

The quote

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contain breaches, which contributed to an average cost of US$2.13 million per data breach. However, for the Australian financial industry, the average breach cost US$4.3 million, with the industry representing the highest average for cost per record. The repercussions of these breaches resulted in a loss of customer trust and, in turn, led to serious financial consequences, of which lost business had the greatest impact on companies (IBM Security & Ponemon Institute 2019).

4. Marketing

Using data to drive marketing campaigns can provide better results as it identifies consumer insights and industry trends. Companies gather information on customer preferences, accounts, loyalty, and recent actions. This data can be used to generate more lead-driven marketing efforts, such as tailored solutions and services for specific channels or scheduling advertisements at specific times. Mapping customer experiences and personalising content are considered as the most effective tactics that optimise marketing automation efforts (HubSpot 2019).

Being proactive about knowing what types of customers the business has and the main concerns of these customer can help to make the messages more specific within marketing collateral. Knowing more about potential customers, how they search, and key words they are looking for, can improve a company's search engine optimisation, or SEO, thus leading to better results.

5. Revenue opportunities and future plans

The traditional business strategy is no longer relevant to the current banking and financial services industry environment, with the avenues that once brought in the most capital now struggling. The acceleration of digital technology and new innovations has caused mass disruption and a need to reassess future strategies.

In order to stay competitive and relevant, using data and analytics becomes an essential part of strategising for future forecasts, long-term corporate strategies, and identifying areas for improvement. Data provides insights on what has worked and what has not, areas of success or failure, products and services, and differentiating consumer experiences. It can also pinpoint new areas and opportunities that are emerging in the market, and assist executive members in forward-thinking approaches.

Data and analytics are providing the industry with the ability to transform businesses from internal day-to-day operations to reviewing plans and strategies for the future. They are also providing key insights specific to the individual company on customer preferences, experiences, and services offered, and picking up on issues or areas that need improvement.

Cybersecurity is the greatest ongoing risk for all types of financial services companies across many multinational markets. Therefore, financial services companies continue to invest to protect valuable customer information. A key opportunity for the financial services industry is the use of data to identify company and industry insights, such as weaknesses or competitive threats, so that the industry can be future-proofed from emerging issues while capitalising on new market sectors. **FS**

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