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Fast & Open Data: Who, Why, How?

Transforming regulatory pressure into business opportunity

An Adox Research Ltd White Paper, commissioned by Gresham Technologies

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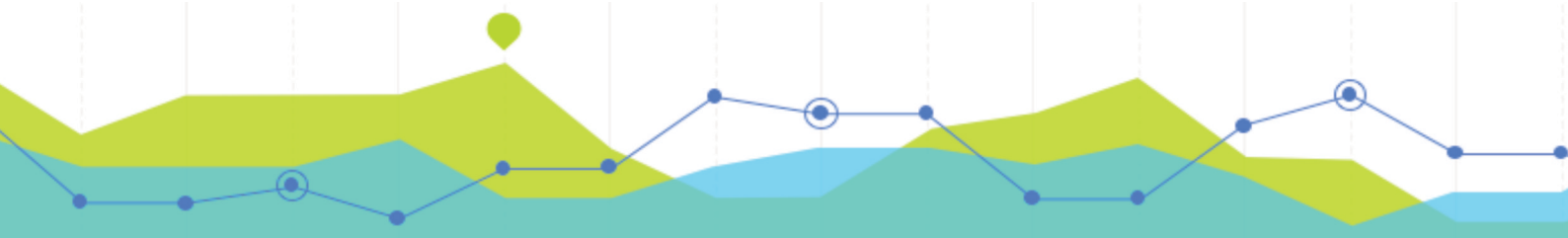
Background: Regaining Control in an era of Fast & Open Data

Banking culture is traditionally anchored around trust, operational and financial control - for all the right reasons. More than ever, regulatory pressure and technology transformation are challenging the old ways. How can this closed and necessarily 'slow' environment deal with the dual challenges of high-volume, high-velocity data and the radical transparency mandated across banking and capital markets regulations, including Open Banking, PSD2, MiFID and SFTR ? Who will be the winners and losers? At which speed are banks embracing these new opportunities? Why now - which benefits do banks seek beyond compliance, and how are they building the business case for investment in better data control and oversight?

This research paper will focus on the 'Who", 'Why" and "How" of this industry transformation and banks' organisational and technological response to these two converging trends. To better analyse the accelerators and obstacles for financial services firms to deal with new data transparency and velocity requirements, Adox Research Ltd surveyed 70+ senior executives across financial services with technology buying responsibility during March-April 2019. This white paper summarises the key findings of our research.

Summary and key insights:

The drive for more transparent data, architected to be more connected through increasingly open, secure cross-enterprise interconnections is secular and is quickly moving from (imperfect) policy goals to de facto best practice: up to 50% of firms are leveraging compliance-led transformation to modernise technology and operational models . The dual change of open access and high transparency is real and tangible with



quantifiable costs and benefits, winners and losers. We see this is driven both from regulatory and business optimisation drivers. While traditional banks are likely to benefit most - up to 60% of the opportunity lies with challenger banks and new entrants from the fintech and e-commerce space.

The business case is further driven by the benefits of data monetisation - which will account for up to 20% of new business within the next two years. In a transformed business environment there is no opportunity/innovation without financial control (managing cash, liquidity, investments, credit across multiple banks/processors), and in our industry financial control equals control of the data. Banks are trying to mitigate risks and costs of meeting compliance goals and are solving long-established fragmentation and integration challenges.

This is not an infrastructure technology play - banks are evaluating specific and applied use cases, to build strong business cases based on revenue/risk trade-offs.

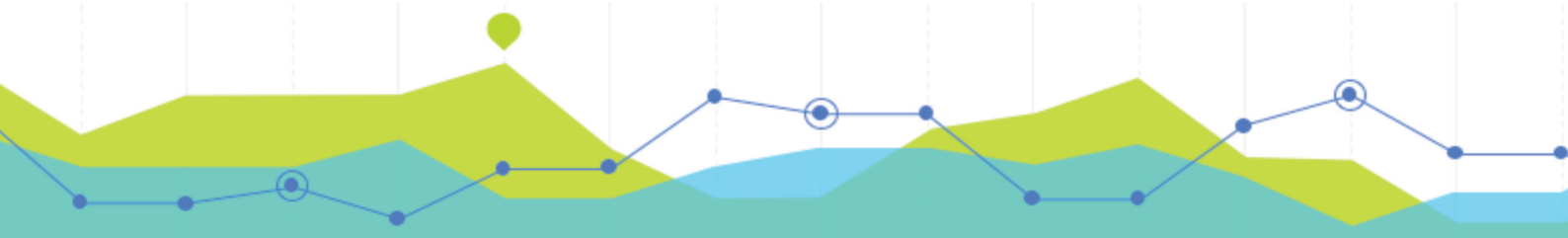
Key Stats

49% of firms are repurposing compliance deliverables for strategic transformation

Two thirds expect data monetisation to deliver 10 to 40% of new business growth

Customer-centricity and improved decision support are top 2 business drivers for investing in data quality and control

The business case is driven by a classic combination of old and new: solving legacy data quality and control challenges will allow banks and managers to achieve the customer-centric transformation they need to survive and thrive in the era of fast and open data.



Who? Winners and losers: Readiness and maturity across new and old market participants

Banks and asset managers have faced a dual challenge since the financial crisis. Wide ranging regulation aimed at systemic transparency and customer protection directly challenged the old ways of doing business, and at the same time opened the door for competition from new entrants. In a customer and data-centric market, banks' traditional approach would surely be too old-fashioned and slow when faced with the singular focus of less-regulated fintech challengers? The list of fintech challengers is very diverse - from e-commerce giants like Google and Amazon or Alibaba to specialist niche operators like Transferwise, or challenger banks such as Monzo, Starling or N26. The expectation that these new competitors will eat the banks' lunch seems premature - for now. Our research shows that traditional banks remain the most likely beneficiaries of the industry transformation that transparency and open data initiatives will bring - easily the single largest category at close to 40% or responses.

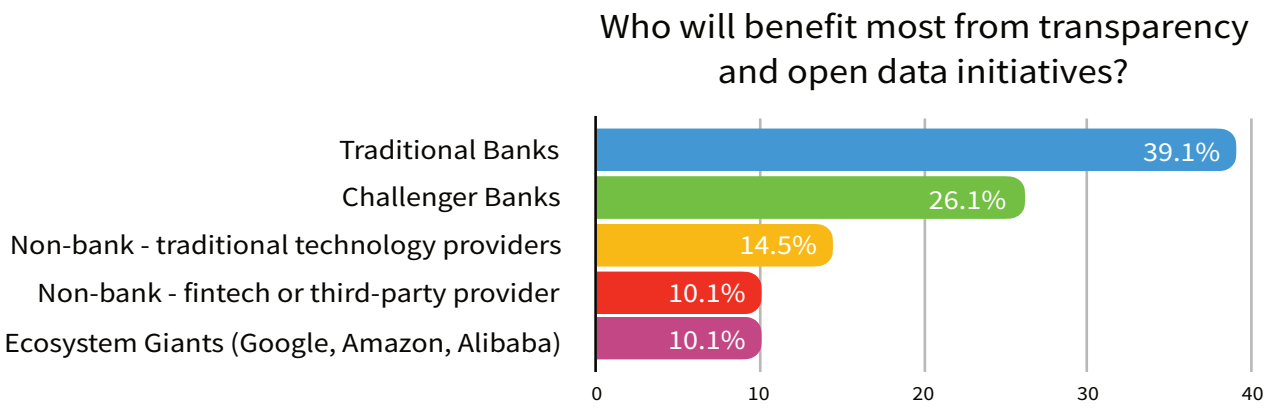


Figure 1 . Expected winners from data-centric transformation projects. % of responses.

But the news is not wholly reassuring - in aggregate, more than 60 % of respondents expected challenger banks and the various fintech and e-commerce hopefuls to benefit most.

Where there is change there is opportunity. So how ready are banks and asset managers to deal with specific regulatory pressure - as well as the combined impact of transparency and customer protection measures across multiple jurisdictions and business lines?

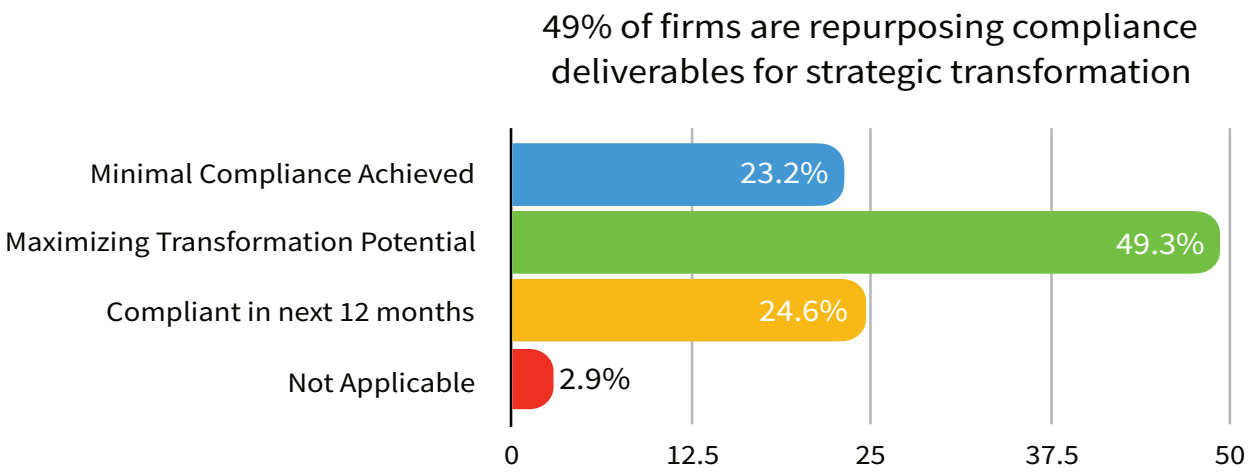


Figure 2 . Readiness for compliance across Open Banking, PSD2, MiFID2. % of responses.

We asked our survey participants about the maturity and readiness of their efforts to comply with transparency and open-access regulation including PSD2, Open Banking, and MiFID2 - covering payments, corporate and capital markets initiatives.

The picture is again rather mixed. The good news first : the largest group of respondents (more than 49%) is leveraging the transformation potential of what are essentially compliance goals to repurpose and maximise those must-do projects into strategic opportunities. Those 'maximisation' projects range from digitizing the customer experience to selective outsourcing, targeted automation and overhaul of vendor partnership models. On the other side of the coin, there are significant minorities fighting a rearguard battle. Almost a quarter of respondents are targeting minimal compliance goals only: doing enough to keep the regulators happy, but not able to imagine or deliver potential benefits of this industry-wide shake-up. Another 24 percent cannot even meet

minimal compliance goals yet - and are still scrambling to meet regulatory goals in the next 12 months.

Why? Innovation and Operational Streamlining in a 'multi-everything' world

What determines if a bank or asset manager is capable of identifying opportunity in compliance-driven change? When we asked our participants to rank the most significant benefits they expect to realise from transparency and open-access initiatives, we presented them with a list of 8 plausible benefits - the results are very revealing. Firms hope to simplify their operational environment, as well as use these new mandated changes to start building innovative products and services

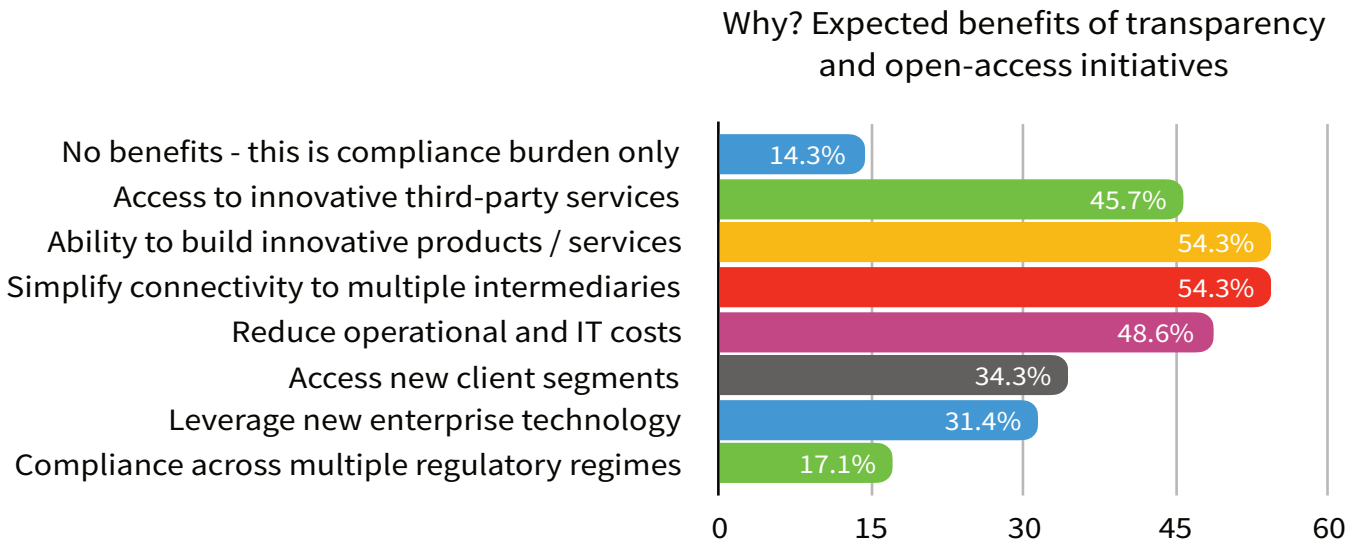


Figure 3 . Expected benefits from data-centric and open-access projects. % of responses.

It is very encouraging to see the 'no benefits - compliance burden only' vote score so low - it suggests firms have moved on from complaining about the headwinds of regulation to proactively identifying the different ways investment in compliance can help them with current and future goals. Let's take a close look at the two top scoring benefits:

- "Simplify connectivity to multiple intermediaries": collecting and aggregating disparate data has been a burden for every financial institution since forever. The arrival of new

reporting requirements like MiFID2, as well as open-access regulation like Open Banking and PSD2 means that there is now a systemic imperative to make interfaces to multiple customers, intermediaries and agencies a more straightforward and business-critical deliverable for IT and operations.

> "Focus on data ownership and governance is helping us much more than big data or analytics tech innovation"
> Head of Data Management, Global CIB

- "Build innovative products and services": the benefits are not limited to better operational and reporting capabilities. Banks and managers are using open APIs, real-time data, and standardised connectivity to build better cash management, liquidity and credit solutions.

Why? Monetisation of data is critical to success

Banks are not just investing in open and fast data projects because it is the right thing to do operationally or technologically. In the previous data point we captured how innovation and operational simplification are current targets - they will help firms achieve compliance and business transformation goals as part of a unified effort to get ahead of regulatory mandates. Banks know that 'fast and open data' initiatives can help build a business case for solving legacy challenges. But that business case is clearly not just reactive. Data integrity, improved control and data governance are no longer optional - these capabilities are key to ensuring survival and success in a business model that is increasingly driven by customer-centric data.

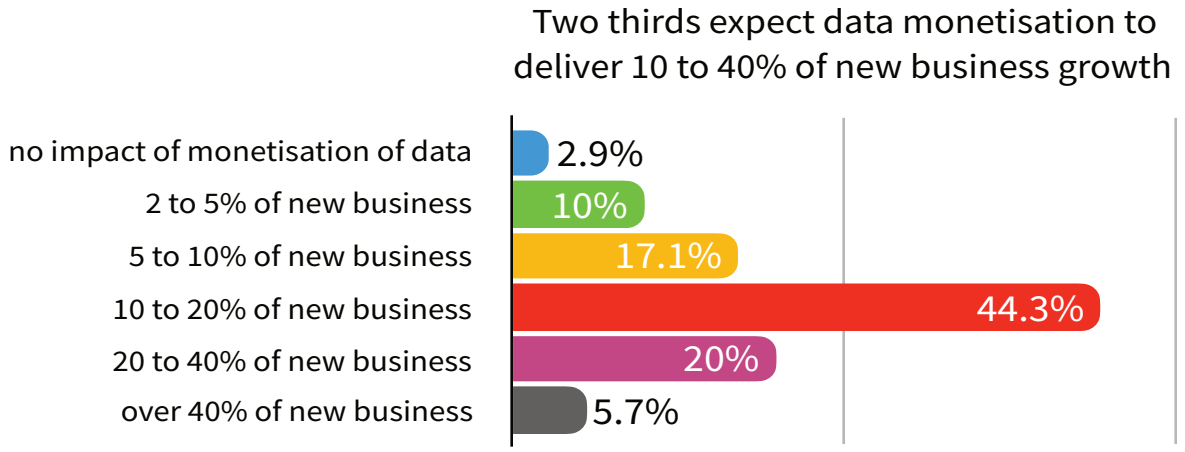


Figure 4 . Expected impact of data monetisation of new business. 24 month time horizon.% of responses.

When we asked firms how and when they expect data monetisation to impact new customer acquisition, the most revealing data point was on the '24 month' time horizon. A large majority (44%)of executives expect that data monetisation will directly contribute 10 to 20 percent of new business within the next two years. In a business environment of shrinking margins, lower profitability and customers who are more willing and able to shop around and change providers, data monetisation is not just an abstract buzzword. The ability to leverage data to analyse product and customer profitability, market opportunity and product suitability is critical to survival and success - and the time horizon for this data-centric reckoning is surprisingly short.

> "Underlying data quality is essential for things like insight-driven analytics, you need the basics to be happening in sync"
>
> Head of Operations, US Asset Mgmt

Why Not (yet)? Firms are worried about the ongoing costs and risks of regulatory compliance and integration of legacy technology

Doing nothing or delaying change projects has for a long time been the default setting for many firms when it comes to data control solutions. We provided survey participants with a menu of potential risks and concerns, factors in their de facto decision to date to do nothing, or to delay investment.

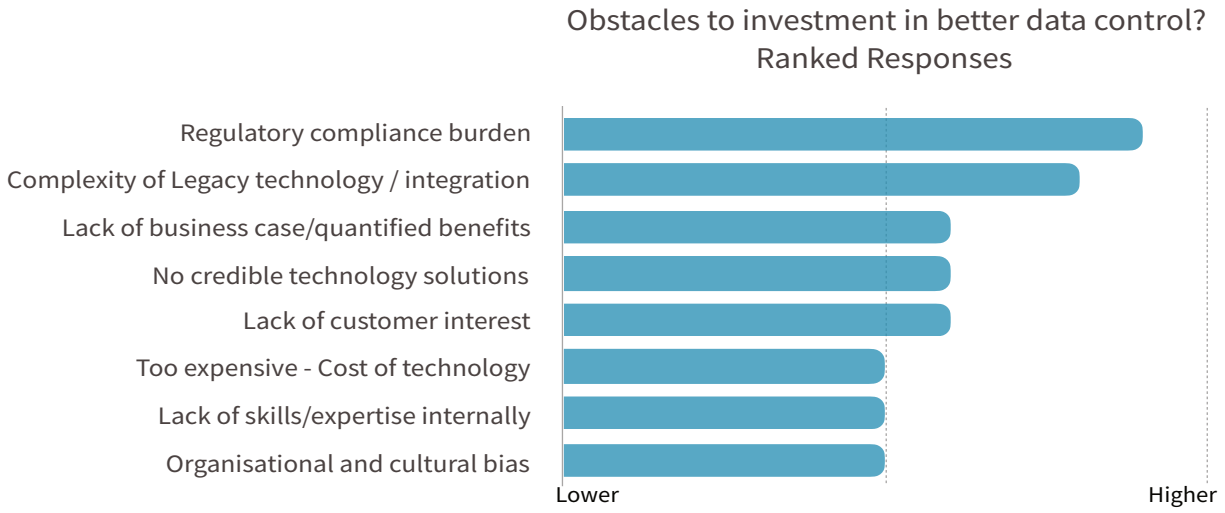


Figure 5. Obstacles to investment in data quality and control solutions

For the past decade, the sheer size and expansion of the regulatory burden has been a drag on technology investments across the board. Unless directly tied to a regulatory outcome, projects have struggled to find executive sponsorship and budget. That is still an important factor for banks as they prioritise technology spending, even if there is a compliance aspect to the investment. That means the business case for change needs to be very robust, and technology obstacles relatively light.

Integration has always been a key obstacle for technology transformation in financial services. The same product-based silos which have stood in the way of customer-centricity, have also created a large amount of disparate systems and applications across business divisions and product lines. Not a new problem, but it is hard to move forward without solving the data quality and integration dilemma/

How? Evaluating use cases for open access and data transparency

What are firms looking for when they start evaluating use cases for open access, transparency and data monetisation initiatives? We asked our participants to rank 10 of the most common use cases for Open Banking and PSD2 projects - the results suggest there are three tiers of value:

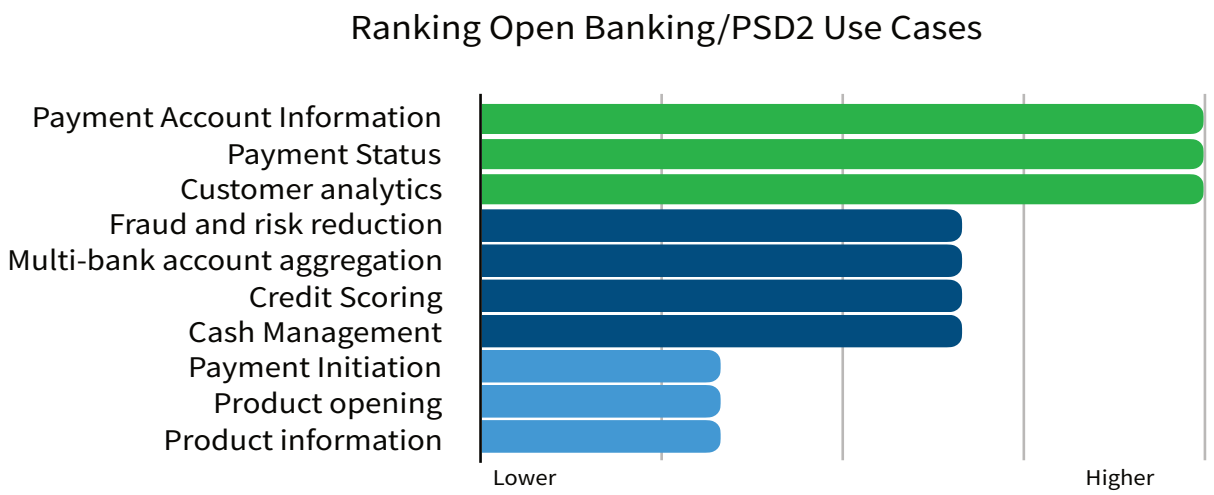


Figure 6. Ranked priority of Open Banking/PSD2 Use Cases

These three levels of value suggest banks are adopting a phased approach to compliance and are prioritising projects in a clear trade-off between quick wins in analytics, operational and financial control and straightforward transactional deliverables.

Tier 1: Payment and Customer Analytics

Payment Account Information, Payment Status and Customer Analytics

Tier 2: Operational and Financial Control: Risk, liquidity, credit

Fraud & Risk Reduction, Multi-bank account aggregation, Credit, and Cash Management

Tier 3: Transactions

Payment Initiation, Product Opening, and Product Information

> "It used to be 'bring the data to the analytics' - now the reverse is happening - 'bring the analytics to the data' instead"
>
> Head of IT, US Asset Mgmt

How? Customer-centricity and improved decision support are the core business case drivers for investing in data quality and control

In order to better understand what would make firms move forward with investments in data quality and control technology, we identified 8 possible triggers, from cost to scalability, digital transformation, productivity, scalability and the others you can see on figure 7.

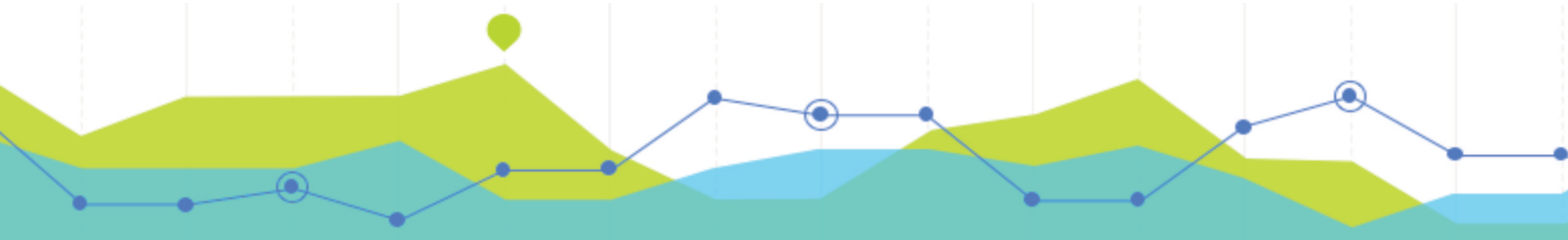
Figure 7. Triggers for increased investment in data quality and control solutions

Business value is a key driver - allowing firms to focus on customer service and higher quality decisions in investment and trading, as well as reducing the opportunity cost of in-house data management. Better decision support was the joint highest scoring trigger - we are far away from the traditional operational efficiency focus of the past. Instead, firms are focusing on core competencies: banks and asset managers are not in the business of technology or data management. They need high quality data to make better decisions across every product line and business division - from risk, cash management, and credit decisions, to stock selection, trade timing, risk and performance goals.

That same focus on value is clear in the high score for "Quality of customer service". Banks and asset managers have really understood the need to become more customer-centric. For a very long time, our industry has been product centric - building out process and data silos to align with financial products and services, not customers. The difficulty which retail and corporate customers have in receiving consolidated account information is the flip side of the internal balkanisation of data within banks which makes it very hard to collect and analyse data on core business metrics including risk, profitability and performance.

Cost and operational concerns score relatively low. Rather than tactical cost plays that make minor margin improvement, the cost drivers now are more strategic, linked to business optimisation e.g. improving customer service by removing wasteful manual processes, and unnecessary system steps. Or ensuring robust control by automating workflows using more efficient, agile technology to remove the complicated workarounds and restrictions that load operations with costs.

This points to the fundamental shift we can observe across all data points in this survey: banks and asset managers have moved beyond the predictable and unavoidable, and are taking the opportunity presented by combined projects to solve long-standing challenges



of data quality and control. Finally - it is starting to look like the customer is king, and the development of new products and services to capture, onboard, cross-sell and engage with digital-savvy and transient retail and corporate customers will keep forward-thinking firms in the lead, long after their compliance goals have been met.

About this Research Paper

Survey Demographics
Adox Research Ltd surveyed 70+ senior financial services executives with technology buying responsibility during March/April 2019. This research was commissioned by Gresham Technologies and conducted by independent research specialist Adox Research Ltd.

- Geographical breakdown: North America (USA, CA) 29%, UK 21%, EU (non-UK) 28.6%, APAC 14%, MEA 7%.
- Segment Breakdown: Asset Manager 27%, Sell-side Banking 43%, Custodian 1%, Universal Bank 17%, Lending/Accounting 11%.

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