EMBRACING TECHNOLOGY IN FINANCIAL SERVICES

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SEASON 2, EPISODE 9 TRANSCRIPT

Unlocking value from data-driven banking

HOST: Tim Broome, Managing Director, Technology Advisory, Accenture Australia and New Zealand
GUEST: Stewart Baxter, Managing Director, Financial Services- Digital Transformation, Accenture Australia and New Zealand

Tim: Stewart Baxter is a Digital Managing Director for Financial Services and joins me on this episode to discuss data-driven banking and the emerging role of the Chief Data Officer.

Presenter: Welcome to Embracing Technology in Financial Services. A podcast brought to you by Accenture, where leading experts share insights on business issues facing Australia's financial services industry and beyond. Now here's your host, Tim Broome.

Tim: I'm really pleased to have Stewart Baxter explore one of his areas of business interests, and that is really looking at the role of data within the banking industry.

Stewart: Thanks for having me, Tim.

Tim: Anything changed since we last met?

Stewart: Well, probably one of the interesting things that I've been doing is that I am a coach on our Leadership Development Program. So, the Leadership Development Program takes a whole lot of senior managers from around the world. We have 800 senior managers this year, and they go through a very structured experience, which enables them to create a point of view around a topic. My teams got "profit for purpose", and then we re-frame that topic for a particular client with a solution. So, why I'm talking about that is I'm about to head overseas with my team for a week at our Milan Innovation Centre to go through that structured experience.

Tim: So, when you say profit for purpose, are we looking at moving away from profit for profit's sake, and what is the role of an organisation within society? Is that the type of thing you're looking at?

Stewart: Yeah, absolutely. So, I think we're at a tipping point this year where the environment and sustainability has become a massive thing, and organisations are really starting to take it seriously. Organisations are still going to want a profit. I mean, they have to profit.

Tim: Absolutely.

Stewart: I think purposeful profit is where you'll start to see some organisations really set themselves apart from others. We do see stats coming out in the market whereby more ethical organisations or companies with a strong purpose are delivering above market returns, and so this is really just an extension of that.

Tim: Look, and I'm starting to see a generational change. I was a voter on a hackathon not so long back, and one of the things that really came out to me was the number of entrants who, when we pressed a bit on where's the money in your solution, a lot of the solutions were saying, well, “this is not about money. This is about doing the right thing for the community, doing the right thing for society, doing the right thing for the environment.” It was a bit of an eyeopener for me, that I think we're starting to see a generation come through who has a slightly different value set than those that we had when we were coming through.

Stewart: Yeah. These ideas still need a business case, but where there's a business case which is financial, and then something for humanity, environment, that kind of thing, I think they're the more powerful ideas that are going to get up.

Tim: One of the things I know that you've been researching is data-driven banking. And when we were chatting about it, I thought it'd be really interesting just to delve a bit deeper on what exactly do we mean by the term data-driven banking? I mean, I guess for you, where did you get into this and what do you see as the offering?

Stewart: Sure. So, I've been working in data for some of Australia's largest banks for the last four or five years now. And data is really the lifeblood of a bank, right? So, it's super important from a customer’s perspective, in order to help customer’s improve their financial well-being. It's important to help some of these banks to shift towards being more digital banks and to digitise processes and ensure that they're creating products and services that are personalised to customers. It's going to become increasingly important in the Open Banking era, where organisations are going to start matching data with the bank's data to create things that customers want.

So that's from a customer's perspective, but it's also incredibly important as we've seen in Australia from a risk and regulatory perspective. So, we had the Royal Commission quite recently still, the banks are still dealing with the outcomes from that. And effectively, data is incredibly important from ensuring that customers are charged the right amount, that they're not overcharged.

Tim: Absolutely.

Stewart: Yeah. But then also from a KYC, so “Know Your Customer”, and anti-money laundering perspective as well.

Tim: But won't banks say, well, we've always been data driven. We've always had repositories where we run our reporting. We've always pulled data out of systems. So, what is different from what you're talking about now?

Stewart: So, what I would say is yes, banks have had data for a long time. But they're not necessarily unlocking the value of that data to create new customer propositions to digitise experiences. So, you see now attackers coming into the market. So, one of my favourite examples is a UK example called Monzo.

Tim: Yep.

Stewart: So, what they do is that they're all about purpose in helping people to improve their financial well-being. So just imagine this is that if you're a commuter and you're going into London city every day and you go and buy your five-pound ticket on the tube. I actually don't know how much that costs, but I just made that up. But you buy your five-pound tube ticket every day, and that person can't afford to buy the monthly or yearly ticket, right?

Tim: Right.

Stewart: Because they don't have enough cash in the bank, or their cash flow is not right. So, what Monzo is doing is that they're effectively creating a product where they will loan or mini finance the cost of a monthly or yearly ticket. There's a very big saving for that customer on the monthly or yearly ticket, and then they pay back the monthly ticket to Monzo throughout the year out of their salary when they get paid. So, from my perspective, it's a win, win, win scenario. The customer wins because they're paying less overall for transport, Monzo wins because they're actually getting a loan and they are helping that customer to improve their financial wellbeing.

Tim: Okay, and is that translating to Australia?

Stewart: So, I think we're just starting to see the entrance of a number of digital attackers in the Australian market. So, you might've seen Xinja, Volt, Judo I think is really interesting in the SME space. I read an article the other day where Xinja had achieved their year one deposit target in as little as three weeks. So, I think they got $120 million worth of deposits in three weeks, where they had expected to get that over one year. So, from my perspective, the proof is in the pudding, in that a lot of organisations didn't think that the uptake of new products and services from these digital attackers would be so strong. But we are seeing these organisations on-board a significant amount of customers.

Tim: I suspect timing with the Royal Commission has probably worked out quite well for some of these digital attackers. People have experienced a lot of negative sentiment towards the traditional banks, and all of a sudden, some alternatives appear in the market. So, I think the timing has probably helped as well.

Stewart: I think it is, and these new digital attacker organisations have refreshed brands, which are about helping people to achieve their goals and improve their financial well-being. They've really carved out quite a good niche in terms of a brand perspective, but then also by having simple processes, simple on-boarding experiences, they're really doing a good job at acquiring customers.

Tim: Okay. Why is it not easy, or I guess on the other side, why haven't the bigger banks done this?

Stewart: I mean, that's a really good question and it's something that I get asked a lot. And so, you will see that a lot of the banks are starting to make movements in this space. So Westpac announced a partnership with 10X recently where they're looking to create some sort of digital attacker in the banking space. But for these big organisations, actually pivoting an organisation the size of CBA or Westpac to become a digital attacker is by no means an easy feat. Because they have an incredible amount of legacy technology and legacy platforms, and it's just not easy to go and do that.

Stewart: I think for some of these organisations they're really stuck in the middle. So, they do have their legacy data footprint of data warehouses and whatnot, which might not be as connected as they should be. But at the same time, what they're trying to do is invest in big data, artificial intelligence, machine learning technologies, which are needed in order to create these real time, great experiences for customers. And so, where I see a lot of these organisations at the moment is pivoting from that old world to that new world, and it's a difficult part in the process for those companies because they can be stuck in the middle where they have a large amount of investment that still needs to be pumped into the BAU (business as usual) footprints. While they also need to free up investment to invest in this new, cool stuff.

Tim: And they need to free up investment to deal with remediation.

Stewart: Absolutely.

Tim: And increasing financial crime and increasing cyber-attacks. It's difficult at this point. There is a lot of money to be spent on just staying in the same spot.

Stewart: Yep.

Tim: Increasing regulation as well. So, they're dealing with an awful lot of... I guess we could call them attacks on some sides, remaining with their license on other sides, and trying to become a data-driven bank at the same time.

Stewart: Yeah.

Tim: There's a lot to deal with.

Stewart: And rates are at an all-time low, and so they've got margin pressure. So, they're really getting it from all angles. Perhaps, one of the most difficult challenges as well for them is that not only do they need to pivot their architecture and data foundations from the old to the new, they actually have to bring, in some cases, 12 to 1,500 to 2,000 analysts. Whether that be data scientists, data engineers, solution engineers, who have had a lot of experience working on those warehouse technologies and retrain, re-skill. Because the ways of working in the old are very different from the new.

Tim: Absolutely. And you either retrain, or you fight a battle in the marketplace for those who have the newer skills already, and that market is tapped out.

Stewart: Oh, Australia is, I think, one of the most constrained markets in that space. It's finding good data scientists that have experience in that space, and you have Google wanting those people. You've got Facebook wanting those people. You've got Atlassian wanting them. You've got all the banks wanting them, and you've got Accenture wanting them, too.

Tim: Indeed. So, if we pivot back into data-driven banking. Fundamentally, what do you think needs to change with our larger organisations to be data-driven at the soul?

Stewart: Sure. So, I mean first of all, I think these organisations need a vision for data with a clear executive ownership for data. You've seen probably a lot of the banks have a Chief Data Officer now.

Tim: Yep.

Stewart: So, I think that's one of the first steps. The next thing is around democratising the data, and by democratising it you make it available to the enterprise. But in order to do that, you need to have really effective governance in place. So, governance around the ingestion of data so you're not just creating a data swamp. The second thing is creating the data foundations. So, a lot of organisations have been on the journey to build big data lakes on public cloud, whether that be Azure or AWS. So, they need to go about investing and creating those data foundations. I think the third thing is really having a use case roadmap that delivers value. So, it's great to have the data foundations but you need to have the ideas in order to prosecute using data so you can create new products and services for customers or personalisation, or whatever it might be.

And then I think lastly, changing the mindset to really think about data as a product rather than just a thing. What I've seen is that some organisations are now creating data products, which can be used for a number of different use cases. The idea behind that is creating reusability.

Tim: So, when you mentioned use case roadmap. By use case roadmap, are you talking about picking out almost a value stream and understanding what's the data that I would need to support that? Now let's get that clean, ready to go, ingested, or are you talking about something else?

Stewart: No. So, that's exactly what we're talking about. So across the bank you'll have use cases across marketing, and consumer bank, and wealth management, and business bank. So, what's important to do there is to understand what that pipeline of use cases is, and then to understand what are the data attributes that you need to feed each of those use cases.

Tim: Yep.

Stewart: So, we've talked about creating the big data foundations. I haven't talked so much about filling the data lake with data that is needed in order to execute and use those use cases. So, for each use case you would go, “well, for this use case, we already have 80 per cent of the data already in the big data platform. Let's just go and ingest the last 20 per cent and off we go.” For some other use cases, none of the data might be in that big data platform, so the cost to ingest that data is actually going to be significantly more. So when we're looking at the use cases and prioritising those use cases, what we look at is, first of all, the value that that will create for the business. But then also the do-ability in terms of how much of that data already exists on the platform and is ready to go.

Tim: Yeah. In my head I can see there's a quadrant, there's value, there's effort, and top right-hand corner is...

Stewart: The ones that we want to do, correct.

Tim: What we're after, yeah. Yep. Okay. You mentioned the role of the CDO. There's a lot of investment in the work that the CDO is delivering. I'm assuming that there's maybe a limited lifespan of a CDO in terms of you've got here's the money, but if you don't start showing some returns pretty soon, the CEO is going to start asking questions on where's this money going? I'm just conscious that this is, we're creating almost a new entity within an organisation and you've got to show return.

Stewart: That's right. I think the way different banks think about CDOs is quite interesting as well. So, you'll have some CDOs that are more sort of strategy driving business results perspective. Which might not have a very big team of data scientists and engineers, and then you might have other CDOs which actually own all of the business intelligence and reporting and platforms and that kind of thing. So, there's that real distinction there. I also think that the mind share of a lot of CDOs is probably directed to some of the regulation in Australia at the moment. So Open Banking is probably really topical for them, but then also KYC (know your customer), AML (anti-money laundering), and the remediation issue as well.

So, they do have a lot on their plate. I think the challenge for them is to be able to navigate, be able to respond to all of the regulatory stuff, but then be able to deliver some value for customers as well. Because if they don't focus on customer outcomes as well, that's where they're going to find these digital attackers, that I talked about before, continue to eat away at market share.

Tim: I think that gets back to almost the challenges that we were talking about early on. So, there'll be your Chief Marketing Officer will be wanting, “well I want data because I need to be understanding my customers better.” But then you've got the regulatory side and the remediation all saying, “well actually, I need the data to speed up the processes that I need to get around on my side as well.” I think probably the role of the CDO is probably stressful at the minute with the number of different bits of the business who'll be knocking on the doors to say, “oh well, I need that data and I need it now.”

Stewart: And what you don't want to do is create a bottleneck. So, when I talked about democratising the data, you want to have the data which is governed in a central place like a big data platform on the cloud, whereby marketing can get in and use that data and there's controls around how that data is used and that PII (personally identifiable information) data and all that kind of thing is protected. But, democratisation is incredibly important to prevent the creation of bottlenecks, so that analysts across the organisation, and there might be thousands, can access it to create business value for marketing or consumer bank or human capital or risk or whatever function it might be.

Tim: And I think we've historically seen a business unit will, at least within their minds, own their data. I think that's starting to break down a little bit as we're understanding the value of different bits of data across different parts of the business. Are you seeing clarity on who owns data within the bigger financial services organisations?

Stewart: So, I think what I'm seeing is that they have the, I was talking about the Chief Data Officer, but then often they'll have data domain leads and those data domains might be... A bank might have 20 or more data domain leads, and they'll own a particular piece of dataset. So, whether that be customer data or product data, say for instance it's a product or home loan data.

Tim: Yep.

Stewart: I think what the banks need to ensure is that they've got consistency across that data, and the big focus that I see with the banks at the moment is around creating quality data lineage so that you can have confidence in the quality of that data. So, where that data has come from, so the source system that it's come from, and any transformations or anything that has been done to that data. Understanding what those things have happened, and that's what I think is going to be increasingly important from a data ownership perspective, is really understanding that lineage.

Tim: Okay. What do you think is next?

Stewart: That's a really interesting question. So, look, I think over the next few years, what we're going to see is organisations increasingly accelerating from the old to the new. Because I talked about this stuck in the middle problem.

Tim: Yep.

Stewart: So, we're going to say banks increasingly try to decommission and right size their old data footprint to be able to build out their new capabilities. What's really driving that is the demand for better customer experiences by consumers out there in the market, and then also all of these external pressures that we talked about before. So risk and reg (regulation) wanting a better quality data and having to report back to the regulators, and then the digital attackers are nipping at their heels.

Tim: Okay. Well look, I really appreciate catching up with you on this topic. I think we've got quite an interesting next couple of years ahead of us, especially with, you mentioned the digital attackers. For them, I think data is their lifeblood and they've built themselves on their data. So for them, it's a case of, well, keep doing what they're doing and to keep looking at what's coming next. For the bigger banks, I think they've got some pretty significant hurdles ahead of them and it'll take a lot of investment to get this right. But it's been great to talk to you, I really appreciate your time. So thank you very much, Stew.

Stewart: Thanks, Tim.

Tim: If you're interested in following up on any of the topics we've discussed around data-driven banking, please reach out to me, Tim Broome, or Stewart Baxter on LinkedIn. Thank you very much.

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