

Market Commentary

It's all about the data: how to prepare for the future of banking

Changes in regulation, customer expectations and technology have set many banks on a journey of digital transformation in recent years.

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Eli Rosner
Chief Product and Technology Officer
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As traditional structures and processes are dismantled and rebuilt across the whole banking sector, it has become increasingly clear that data, along with its safe harbour, exchangeability, timeliness, and accuracy will be key to the future shape of financial institutions.

For this reason, data is often described as the new oil - such is the power of data to enable personalisation, platform models and collaboration in the brave new world of banking.

Some financial institutions have already embraced these, realising that collaboration and platform models can ease access to innovation and open a path to working more closely with fintechs, to ultimately better serve customers.

However, unlike oil, data is not a finite commodity but continues to proliferate. It also inhabits the traditional, product-focused silos built over decades by banks within legacy technology systems.

About the author



Eli Rosner
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Eli brings more than 25 years of experience to his role, from product and platform strategy and architecture, to the solutions development lifecycle and data center operations.

Eli's main areas of focus include Product, Solution and Platform Strategy, Product Portfolio Management, Product Management, Innovation, Customer Centric Design, Architecture, Engineering, and Quality Assurance.

So what have the experiences of banks been so far with open banking? What are the lessons that can be learned from them, and how should institutions prepare for a future in which their position as trusted data custodians could be hugely different from the role that they play today? We set out to gather insights from the industry and our partners, to see what they think.

Cultural barriers and the not-invented-here syndrome

The first lesson learned is that legacy systems and thinking can create barriers, both because data needs to be exchanged between open networks and closed banking systems and because institutions have leaned towards caution and protectiveness in the past. This has sometimes had an impact on banks' ability to attract the skills they need to transform their operations.

Ferenc Böle is Head of IT Project Management and the Transformation Directorate at OTP Bank, a Hungarian bank operating across 12 countries. OTP Bank has invested heavily in digitisation and innovation over the past three years but has had to work through some challenges along the way.

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Eyal Sivan

Head of Open Banking at Axway, aka Mr. Open Banking

"People are living their lives online and we had to change significantly," says Böle. "At first we found that connecting to our systems created technical bottlenecks. We also had concerns about which data could be used by us, or shared with which partners, and that constrained some activities.

"However, we found that asking permission to use client data and providing superior services in return for that permission removed the barrier. We are now finding that as long as the banking services work, people aren't too interested in how it operates – just as they expect a light to come on without knowing how the electricity is generated."

Banks too are embracing the concept of collaborating with Fintechs instead of seeing them as the competition. Joel Winteregg, joint founder of Swiss Fintech NetGuardians, says: "The not-invented-here syndrome was definitely in place when we started out: no-one wanted to talk to us and it was difficult for large banks to work alongside a fast-moving start-up. There's been a big change in the past couple of years, enabled by platforms and driven by regulation like PSD2."

The commoditisation of banks' traditional products and services is a further driver for change, simply because it has lowered the barriers to market entry for so many new players.

Juan Jiménez Zaballos Head of Financial Industry Transformation, Santander Digital Platforms comments: "Banks have been obsessed by products, but there has recently been a flight to vanilla that makes it difficult for banks to differentiate themselves from competitors: a loan is a loan wherever you get it from. Creating relevant and personalised services and experiences is vital, but the only way to respond is with the intelligent use of data."

Think like a customer

The key to progress in open banking is to think back from the customer's point of view and requirements, then fill in the gaps with systems and processes via open APIs within a strict governance and security framework using an open platform. Insights into data, both historical and real-time, will create opportunities to build personalized services and new revenue streams.

Eyal Sivan, Head of Open Banking at Axway, also known as Mr. Open Banking, says it is no secret that the big challenge with all of this is that banks have so much data to work through. "Banks have years of historical data about all of their customers. The race is on to get their arms around that data, use tools that deliver insights and think about how it can be shared."

Collaboration will also bring change in the corporate banking sector, says Paul Le, Chapter Lead Trade, Data & Platforms, ING. "Physical documents in Trade are commonly used and in one single transaction 80% of information is duplicated," he says. "What we really need is one digital version of the truth that everyone can use. Collaboration is needed to achieve this."

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Ferenc Böle

Head of IT Project Management and Transformation Directorate, OTP Bank

New doesn't always mean better

By its nature rapid innovation has led to many new ventures that tackle the inefficiencies of individual traditional processes. This dislocated approach does not always necessarily take into account the overall service that needs to be offered to clients, so we are now at the stage where banks can step into to unify best-of-breed services on a single platform, collaborating with competitors rather than trying to 'own' the whole process.

An example is the open, collaborative clearing platform that Kynec is developing: "In the old days clients would trade, clear and settle through one bank," explains Robert McWilliam, CEO & Founder at Kynec. "Disruption driven by regulation broke down the trade lifecycle and customers were tempted by lower prices for different parts of the process.

"However, while new entrants offer cheaper alternatives, the disadvantage is that customers need to deal with lots of providers, not just one.

That's why we are building a platform connecting banks and funds that want to clear with multiple Clearing Houses and companies that provide clearing related services. A single connection to our platform will give fast and efficient access to the entire clearing marketplace."

Looking forward to a new era

Eyal Sivan adds that a further impact of open banking, together with data protection regulation, is that customers regain ownership of their data. The role of banks is likely to shift as a result, from protectors of physical currencies to trusted data brokers and custodians.

"There will be a rediscovery of banks as we realise that the business they are actually in is trust," he says. "When we are all sharing our data across the internet we need organisations that can protect personal information on our behalf. Perhaps banks could provide a trusted facility that we can go into and adjust who sees what information."

However the landscape changes in future, it's clear that we are moving towards a world in which banks will need to become confident in selling products and services that they haven't manufactured themselves. This will mean having the platform that attracts the right developers and provides an ecosystem that creates the groundwork for entirely different business propositions.

And as Ferenc Böle concludes, many banks are still at the beginning of this road to transformation. "We have to be aware that there will be obstacles, and that there may be conflicts with existing projects that need to continue. Despite all of that we need to invest in technology today that will allow us to harvest benefits in the future."



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