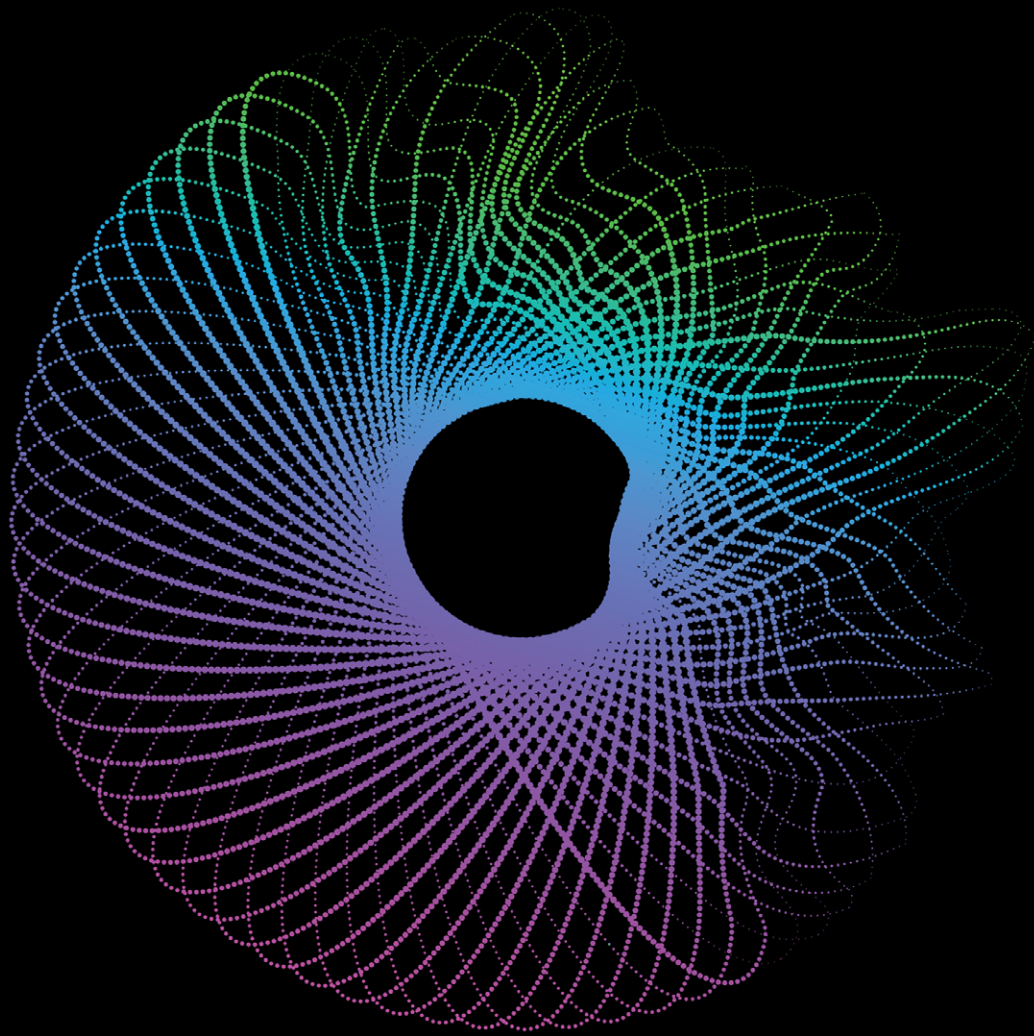


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Data management trends in
the financial services sector

Why invest in offensive and defensive data capabilities

Evolving data landscape

The data landscape in financial services continues to rapidly evolve. New technologies, such as cloud, artificial intelligence (AI), and open application programming interfaces (APIs), are changing data supply chains. At the same time, regulators have become increasingly savvy and are asking for data that is more granular, traceable, and reported more frequently. Market competition has also heightened the need to innovate and invest in data assets. To compete with new fintech entrants, institutions are embarking on a redesign of traditional business models and value chains, anchored on modern platforms that amplify organizations' data assets.

Data and technology leaders have been compelled to contemplate massive modernization of tools and infrastructure to compete, as well as changes to fundamental ways of working.

Additionally, the role of the chief information officer (CIO) and chief data officer (CDO) continues to evolve with technology and the regulatory landscapes. CIOs and CDOs are increasingly transitioning from being policy enforcers to operators to enablers. Data leaders are now tasked with delivering data and data services for strategic business initiatives related to finance, customer experience, and digital.

Investments in defensive and offensive agendas

To respond to the evolving data landscape, data leaders are investing in new offensive and defensive data capabilities. In this paper, we will consider key investments data organizations are making across both the offensive and defensive agendas.



Offensive agenda

Finance and risk at the core

Financial institutions are automating finance and risk processes while empowering business units with real-time insights and smarter scenario planning. Beyond automation, firms are focused on new areas of risk, such as climate, as well as new stripes of existing risk, such as concentration.

Customer-centricity and digital engagement

Customers increasingly expect increased levels of flexibility and customization by firms. Financial institutions are managing granular customer data to deliver integrated experiences and hyperpersonalized services, while enabling cross-business client data integration and exchange.

Analytics-driven growth agenda

After stabilizing foundational assets, firms are shifting focus toward value-generating initiatives. Financial institutions are focused not just on unlocking efficiencies, but also reimagining business models, extending product portfolios, and driving innovation.



Defensive agenda

Regulatory reporting

As regulators are becoming sophisticated and asking for more granular and higher-quality data, financial institutions are working to meet evolving regulatory expectations, support compliance objectives, and drive efficiencies in reporting processes.

Data risk, health, and resiliency

Financial institutions are focusing on accuracy early in the data life cycle and defining and reporting metrics that demonstrate the health of data to senior management. Cyber and data risk remains a top priority; boards are looking to understand enterprise data health.

Data infrastructure modernization

As financial services companies adopt next-gen technologies, embrace public cloud infrastructure, foster agility, and support open banking/financial services, focusing on implementing an effective blend of technology, tools, and data based on the highest-priority use cases will be critical for the success of modernization efforts.

Offensive agenda

Finance and risk at the core

The risk landscape continues to evolve. To stay ahead of the curve, firms are focused on new areas of risk, such as climate, as well as new stripes of existing risk, such as concentration. They continue to invest in automating finance and risk processes, and empowering business units with real-time insights and smarter scenario planning so that they can respond.

Newer risk types (e.g., climate risk, geopolitical risk) are gaining increasing focus from the firms themselves, as well as stakeholders and regulators. Firms are responding by incorporating more granular, real-time data and a wider variety of data into risk models to account for new risk types. To support this, data and analytics organizations are moving toward cloud-based, scalable planning and risk modeling capabilities.

External stakeholders are increasingly evaluating firms on how seriously they are addressing emerging risk areas, such as environmental, social, and governance (ESG) considerations. According to a Deloitte UK survey¹, climate change and sustainability are playing a more prominent role in customers' behavior:

- 61% of consumers wish that their bank would do more to create a positive social and environmental impact
- 71% are more likely to choose a bank with a positive social and environmental impact
- 61% would leave their bank if it was linked to any social or environmental harm—even if it had the best offer

In response, firms are measuring and reporting on ESG goals to accelerate efforts to get stakeholders on board with their ESG strategies.

Existing risk types have emerged in new ways due to changes in business environment. Firms are facing the highest levels of turmoil since the financial crisis of 2008 due to rising interest rates and the emergence of new risk stripes. To mitigate the risk, firms are performing interest-rate risk scenarios testing to avoid risk of overconcentration. Most firms continue to maintain adequate liquidity and capital levels, with large banks benefiting from higher net interest margin. Changing fiscal and economic conditions will require better literacy around data used for stress testing and scenario modeling.



Customer-centricity and digital engagement

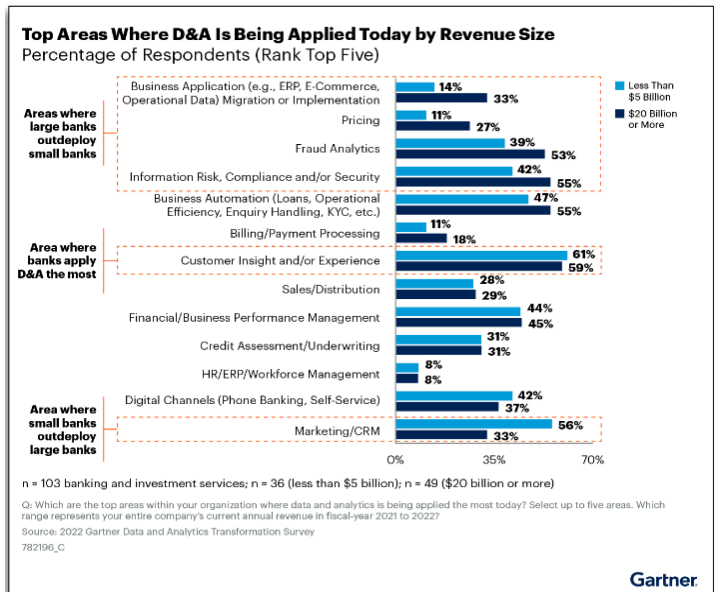
Customers increasingly expect greater flexibility and customization of their digital experience. Experiences in other sectors spill over to customer expectations of their financial institution. Both commercial and retail customers expect greater access to their own data as well as seamless digital experiences. Firms continue to invest in digital, customer-facing technology to provide a seamless, end-to-end customer experience and engage customers across the full range of financial needs. According to a Deloitte UK digital survey², the top driver of a retail client's likelihood to switch during COVID-19 was a poorly designed mobile platform. More than half of those surveyed indicated a well-designed banking app is a primary consideration when choosing a bank. On the commercial side, less than one-third of corporate executives were satisfied with their company's primary bank's digital self-service channels in the past year.

In response, financial services firms are offering more holistic, personalized products and services to improve the customer experience, including digital banking offerings. In addition, firms are working to improve the amount and quality of information their relationship managers have access to in order to increase their reach.

Investment in customer 360-degree views within customer relationship management applications gives the relationship manager a view of clients' activity across products. Implementation of chatbots and conversational AI can improve the responsiveness and breadth of relationship management services. AI and machine learning (ML) can support relationship managers in their sales conversion, including next best offer, related products, and inquiry support.

Analytics-driven growth agenda

After years of investment to strengthen middle- and back-office functions, firms are shifting investment in analytics toward value-generating initiatives.



AI deployments are still not ubiquitous, with most deployments limited to niche use cases and small-scale pilots, pricing and cost optimization to drive profitability is one of the top areas of focus.

Defensive agenda

Regulatory reporting

Regulators are becoming more data savvy and are seeking more granular and higher-quality data at increasing frequency. Emerging areas such as digital assets, climate-related financial risk, crypto-related banking activities, and AI/ML have caught regulators' attention. Additionally, regulators have shown a renewed commitment to assess remediation of outstanding supervisory findings—emphasis on Matters Requiring Attention (MRAs). In response to the emerging and existing areas, regulators have handed down increasingly large fines for deficiencies in risk management and data governance. Since 2016, regulators have taken more than 26 regulatory actions against financial institutions, totaling more than \$3.4 billion in fines.

In response, firms are adopting new methods of managing risks, such as transitioning from periodic reviews to continuous monitoring, and limiting the use of third-party data to adjust to the fast pace with which operational risks and regulatory expectations are evolving. Additionally, they are building firmwide integrated accounting, risk, and data repositories with an emphasis on a streamlined technology infrastructure to drive automation and efficiency. To help mitigate future actions, firms are implementing strong internal controls around the report preparation life cycle and establishing independent quality assurance functions.

Firms' analytics functions have also evolved. Data management capabilities are being prioritized in response to regulatory expectations, with increased scrutiny on transformational data programs that address modernization and closure of MRAs. Moreover, financial services firms have seen an increasing need to align product and reporting taxonomies to improve the ease of responding.

Data risk, health, and resiliency

Cyber and data risk remains a top priority. The number, sophistication, and financial and reputational impact of cybersecurity breaches continue to increase. Firms continue to invest in defining a data risk taxonomy and associated controls framework. Management teams are beginning to be expected to measure data risks as they manage the enterprise risk appetite.

Beyond cyber, boards are also looking to understand enterprise data health. Stakeholders are demanding more transparency into the data supply chain and how data moves from capture to use. Firms have begun to operationalize data testing routines for first and second lines of defense to increase confidence in the accuracy and completeness of data. There is increased emphasis on simplifying and protecting the data supply chain. Leaders are establishing unambiguous accountability and responsibility frameworks over data and have made reporting data health through regular senior-level reporting and dashboards a priority.

As investment in AI continues to increase, firms have begun to put in place governance frameworks in expectation of increased regulatory activity. EU and US regulators have begun publishing draft rules and guidance for AI and algorithms. In preparation, firms are starting to put documentation and controls around AI and algorithms in production, as well as setting up internal governance structures.

Data infrastructure modernization

Implementing the right blend of technology, tools, and data based on the highest priority use cases has shown to be critical for the success of modernization efforts. Building the right data foundation is seen as a necessary enabler to other investments in analytics, AI, and other algorithms. Firms increasingly migrate to cloud-based data platforms as a solution to optimizing their data supply chain and relieving data or technical sprawl. Employing a use case-based approach helps focus the migration efforts, demonstrate early wins, and lessen the likelihood of re-creating the sprawl in the cloud. To capture the promised value, firms must be disciplined and decommission legacy applications as they are migrated.

As firms get more sophisticated, they have begun to explore federated architecture constructs, including lake houses and data mesh architectures, empowering businesses to create their own data products. Interoperable tools, which are tools with API-based integration systems, have become increasingly important as firms look to connect and get the most out of their cloud data assets.

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Endnotes

1. Deloitte, "[Making an impact: ESG factors are a priority for customers when choosing a bank](#)," press release, December 20, 2020.
2. Peter Pearce, Malte Borkenhagen, and Maggie Gross, [Digital banking redefined in 2021](#), Deloitte Digital, 2021.

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