DATA DIFFERENTIATORS FOR 2020: A COVID-19 UPDATE

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Coming into 2020, the data landscape was already subject to significant transformative forces, notably around increased expectations on data privacy, continued internal pressures to reduce costs and additional customer demands for new services and digital offerings. COVID-19 has now ushered in unprecedented disruption, impacting not just customer and employee health and safety but also business continuity and the financial system as a whole.

In times of crisis, particularly of this scale, it is a challenge to plan beyond the next few weeks, let alone months. However existing data challenges will not disappear in the meantime – in fact, COVID-19 only re-emphasizes the need to address them in the most diligent and forward-looking manner possible.

Moreover, the pandemic brings into sharp focus new challenges for financial institutions. The proliferation of digital channels/offerings will continue, if not accelerate – and data organizations will play a critical role in helping the industry respond to this market dynamic in an effective and efficient way.

At the beginning of the year we identified 12 key data trends in 2020 impacting near-term regulatory and cost challenges as well as strategic, revenue-generating objectives. In this article, we'll re-visit our data differentiators, how they have shifted in the last few months and how they also remain more relevant than ever.

MODELLING RISK IN THE MIDST OF PANDEMIC

- The global recession that looks set to follow the pandemic will have a significant impact on financial institutions' clients. Banks, for instance, will need to reassess how they model credit risk by looking at the network impacts of shocks through their client base. Risk modelling will need to look wider than credit, market and liquidity risk and focus on operational risk.
- Analytics will play an important role in looking at how credit shocks will impact their complex network of clients and the solvency of those clients. Banks will need to focus on identifying early signs of problems and take pre-emptive actions to help their customers with credit and liquidity issues.
- More modelling, and more data within these models, will demand an increased focus on better understanding the provenance and quality of data used in such models, and on effective model governance and appropriate model validation.

BUSINESS RESILIENCE AND THE DIGITAL TWIN

- Key to both continued operations and the management of operational risk is a clear understanding of organizational dependencies around infrastructure, employees and third-party vendors. Being able to comprehensively map an organizations' people, process, data and technology will be critical to navigating through the challenges that COVID-19 has brought to light.
- This emphasises the need to understand an organization's 'Digital Twin', which sets out its operating models in a manner which is navigable and can be queried. This allows a clearer understanding of the 'what-if' ramifications of different scenarios. We foresee organisations needing to stress test their operations much as they currently stress test their capital.
- Wider than business resilience, a digital twin will be an invaluable tool for process/organization optimization, automated testing and change impact analysis'

KEEP ANALYTICS GOING IN AN AGILE FASHION

- Whether providing digital offerings to their clients or managing complex cost environments in resource-heavy processes such as KYC, organizations' analytics pipelines need to be developed with robust data management as the foundation. Firms should continue to focus on building data 'assets' that can be reused.
- COVID-19 presents a specific challenge to analytics teams with regards to accessing data in a digital workforce. The only way to resolve this is via enterprise analytics platforms, and here data organizations should continue to take ownership and push for their development and enhancement.

VULNERABLE CUSTOMERS

- Institutions can identify where customers may need financial support or are suffering from poor mental health by analyzing spending patterns from transaction data. COVID-19 has meant significant financial uncertainty for customers, and the importance of support or intervention is greater than ever.
- Banks are increasingly looking to understand customer appetite for proactive, data-driven support. We expect the UK Financial Conduct Authority and Information Commissioner's Office to provide guidelines on how banks can ethically provide such services, which should rapidly gain traction in the wake of the pandemic.

CUSTOMER IDENTITY AND KYC

- Challenges around confirming customer identity will be exacerbated during the pandemic. With the FCA's announcement that it will allow banks to carry out Anti-Money Laundering checks using smartphone selfies as well as scanned documents sent by email, firms will need to accommodate new data sources.
- To address identity-related challenges, there will need to be clear segregation of an individual customer's identity, relationship and transactions, with organizations gravitating towards more sophisticated analytics solutions – such as entity resolution and network analytics - to manage a single repository of customers in a secure and ethical fashion.
- With KYC, now one of the fastest growing costs within organizations, more sophisticated, risk-based data analytics approaches need to be taken to build more robust client profiles and take a more pragmatic risk-based approach to KYC.

DATA QUALITY COST REDUCTIONS

- Financial institutions will be under pressure to rapidly identify cost-cutting opportunities. Key to achieving this is a proactive understanding of a firm's reliance on costly, manual mitigating controls and any duplication of data quality checks across their data flows. Additionally, understanding how poor data quality impacts a firm's digital channels and offerings will be key to effective automation. Gaining this insight presents opportunities to ensure the data is correctly controlled at source via automated means, thus eliminating the need for costly manual controls downstream.
- Through a resultant increase in data quality, firms will be able to undertake more accurate risk reporting and by extension achieve a better understanding of their available capital during the pandemic.

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