Capgemini invent

COLLABORATIVE DATA ECOSYSTEMS

Another internet moment for banks?

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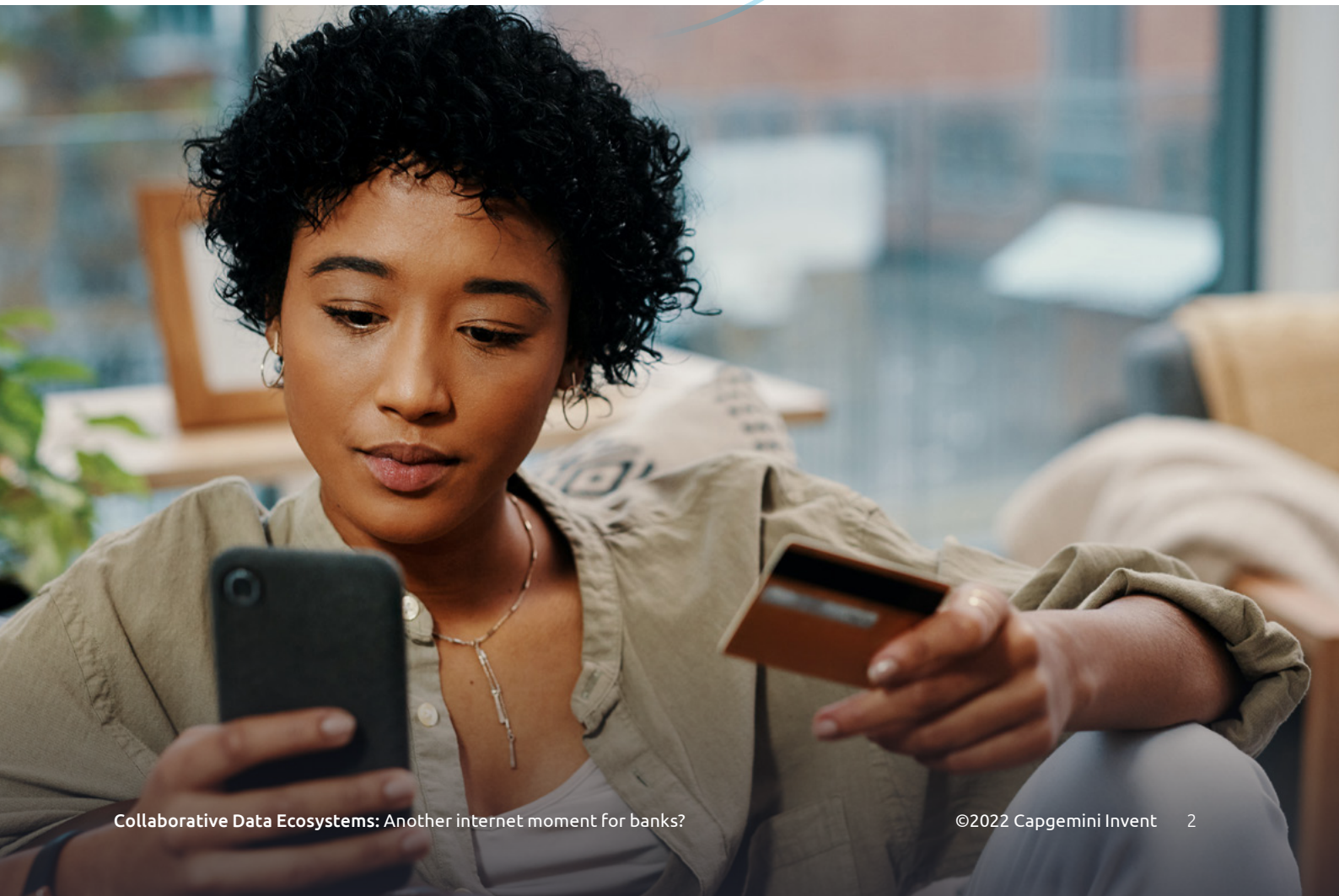
AN INTERNET MOMENT FOR BANKS

When the internet became available to the public in the early 1990s, it ignited a series of irreversible changes across all aspects of human life, from culture to media to how we communicate and do business. It accelerated digital transformations, giving us unprecedented computing power, faster and wireless networks, and an entire category of devices (smartphones) that became the center of people's digital lives. Information, or more broadly, any form of data, has never been more accessible to people and organizations, never this fast, and never this affordable. Once just an obscure "by-product" of using computers, data became organizations' most valuable asset.

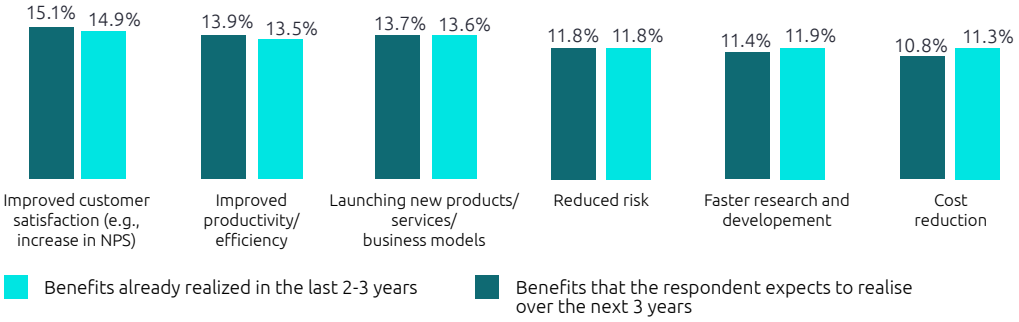
Three decades into this revolution, we at Capgemini strongly believe that we are at the dawn of a new wave of impact, a new internet moment, this time for banks. Networks are becoming frictionless infrastructure for data. As such, data is no longer just consumed but leveraged outside the boundaries of organizations, shared with others to collaborate on new products and services that would otherwise be impossible. Regulatory frameworks are also maturing to support these developments. Customers are learning to appreciate and demand this new generation of services - sometimes called the "experience economy" - that can only be built through seamless cooperation between businesses. We call these emerging relationships: "collaborative data ecosystems."

This transformation will not only create new sources of revenue for the financial services industry but also give rise to additional customer value in ways that we can barely imagine today.



THE BENEFITS

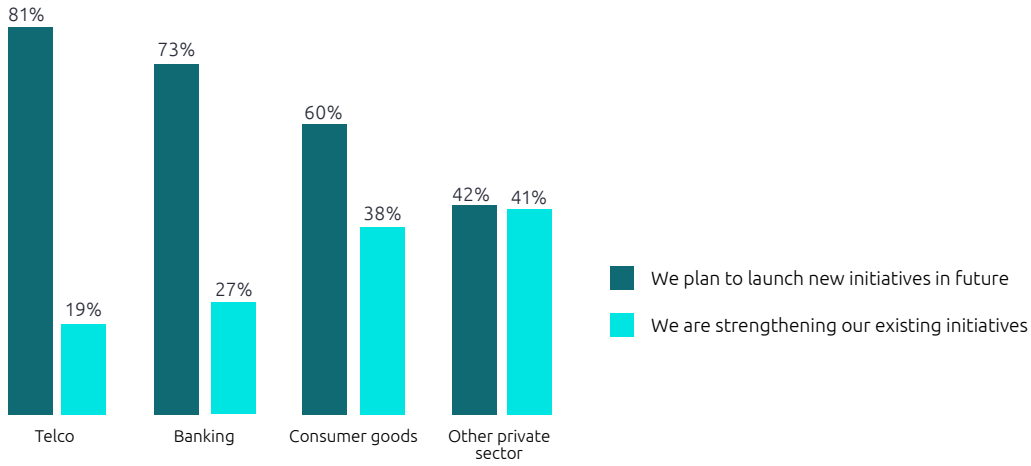
The upside is clear: collaborative data ecosystems offer benefits across the entire business spectrum (see figure 1), from improved productivity and efficiency to higher customer satisfaction and enabling companies to create new products and services.



Source: Capgemini Research Institute's Data Sharing Masters survey, N=750 organizations, April-May 2021.
NPS stands for net promotor score - a key customer satisfaction metric

FIGURE 1. IMPROVED CUSTOMER SATISFACTION AND IMPROVED PRODUCTIVITY/EFFICIENCY EMERGE AS THE TOP BENEFITS OF ENGAGING IN DATA ECOSYSTEM

Capgemini's Research[1] shows that about 40% of organizations plan to launch or join initiatives in this space by 2024 (see figure 2). Together with Telco and Consumer Goods, banks have already started building the first ecosystems and reaping early benefits. Therefore, it is reasonable at this stage for the sector to intensify its efforts to ensure it gets its fair share of the benefits on the table. Recent movements in open banking and embedded finance are a clear and concrete example of those efforts and already demonstrate banks' potential within data sharing.



Source: Capgemini Research Institute's Data Sharing Masters survey, N=750 organizations, April-May 2021

FIGURE 2. TELCO, BANKING AND CONSUMER GOODS STILL APPEAR TO BE TREADING CAREFULLY RELATIVE TO THEIR POTENTIAL

[1]Capgemini Research Institute (2021) Data Sharing Masters

Despite this great potential, we would argue that the sector is still treading too carefully – particularly in those geographies where regulation is strict – and failing to build its value-proposition to justify making the first move. We know from conversations with our clients that very reasonable concerns – such as preserving their customers' trust and ensuring compliance with the applicable legal frameworks – lead them to adopt a defensive posture that could have consequences in the years to come through lost opportunities to create original products and services.

But this cautious approach poses other risks as well. Banks are not the only organizations with access to rich data sources and a profound understanding of their customers' behavior and preferences. Think, for example, of modern media or commerce companies, such as Amazon, Google, and Netflix.

We believe banks are still uniquely positioned to be primary beneficiaries of this transformation.

This is because banks retain a critical competitive advantage: over many decades – and overcoming many challenges and occasional incidents along the way – they have established a fundamental relationship of trust with customers, partners, and regulators. Businesses and individuals understand that the confidentiality and privacy of what a bank knows about them – the value of their assets, spending habits, transactions, favorite brands and service providers, attitude towards investments and savings, and cash-flow patterns – are safe.

It is reasonable that banks want to preserve that hard-earned and well-deserved trust while, in parallel, complying with current regulations. But we believe it is possible to do so while at the same time shifting gears to adopt a more entrepreneurial mindset, striking a new balance that will let them take the first steps towards benefitting from data sharing.

This cautious approach poses other risks as well.

THE CHALLENGES AND THE STAKES

With banks today grappling with pressure on several fronts, it can be a challenge to focus on this exciting future. There are ever-increasing regulatory requirements, cost pressure, and stress on the profitability of traditional businesses, like deposits and lending products, as consumers and enterprises seek alternatives. Rather than being another complication in that list of troubles, collaborative data ecosystems could well be the solution to many of these challenges.

This leads to two types of opportunities. On the one hand, banks can use the additional data for "introspection" to better understand their own processes, assets, and knowledge. Data can also facilitate the transformation of the internal structure of their business, e.g., allowing for a more efficient allocation of the workforce, like in customer service or processing complex loans. Moreover, using additional data while documenting their responsible, environmental, social, and governance metrics (commonly called "ESG data") enables banks not only to comply with regulation, where applicable, but – beyond that – to proudly claim their achievements in the pursuit of more sustainability, in the eyes of their clients.

On the other hand, and perhaps more interestingly, sourcing data from partners makes it possible for banks to tailor offerings more precisely to client needs. Data collaborations take down the traditional barriers of the industry to create opportunities for innovation and develop new products and services that go beyond the conventional portfolio, be they B2C or B2B. Think, for example, of what Plaid could achieve in creating a unified banking programming interface that allows third-party apps to offer banking services without developing all the infrastructure themselves. The new services will, in turn, create new revenue streams and – eventually – stimulate the emergence of new business models.

What's at stake? The leadership in financial services over the next few decades. Some banks will not let that opportunity pass, while the ones that don't act at all may risk being left behind.

WHOOPS, WE'VE GOT COMPANY!

As noted, there are other players on the field, a common theme across many sectors. There is competition looming from non-traditional players, both startups and tech giants, such as Amazon, Apple, and Google. These emerging players' competitive advantage is understanding the power of integrating services and channels. This approach does not have to be exclusive to them. Modern services share the ability to break the traditional boundaries between one sector and another to create new services. This is what data ecosystems enable.

For example, Apple is tiptoeing deeper into finance with Apple Pay: a payment card and soon its own By-Now-Pay-Later (BNPL) service. You could see Apple as a combination of multiple companies: an electronics manufacturer, a software maker, a cloud services provider, a customer services operator, and a bank, all rolled into one. Apple Pay is made possible by how those multiple "companies" can seamlessly exchange and collaborate over data. But Apple does not have the experience in the traditional banking sector, and it may not have come as a surprise that their BNPL offering missed the recent launch event on September 2022[2].

It is no longer necessary to become a giant business agglomerate in order to gain the same privileges. Technologies such as Cloud and AI, regulatory frameworks such as PSD2 and GDPR, and management practices have evolved to a level of maturity that makes establishing collaborative data ecosystems between separate, complementary organizations feasible, manageable, and legal. Banks are ideally placed at the center of many future opportunities to create collaborative financial data ecosystems and enable the advanced financial services that require them.

PURSUING KILLER USE CASES IN A COMPLEX REGULATORY ENVIRONMENT

Because business models are still emerging and killer use cases for the financial sector have yet to be found, the C-suite may feel comfortable staying on the fence. Add complex regulation into the equation and less adventurous banks will will feel hunted by their legal obligations and prefer to wait and avoid acting.

The disparity between the legal frameworks worldwide risks creating dramatic differences in developing new opportunities. Where regulation is less strict, banks will start their exploration for killer use cases by wondering, "what am I allowed to do from a legal point of view?" They'll collect precious learning and best practices before anyone else. In other quadrants, the challenge will be more significant. Where compliance is more demanding and customers have higher expectations regarding the ethical profile of their service providers and their trustworthiness[3], exploration will be slower and the investment more significant but necessary and – we would argue – more robust and time-proof.

Whatever geography they operate in, banks don't want to get to an impasse at the exploration stage, meaning they never find the killer use case. This is because the first bank that demonstrates those use cases in their market will send chills down the spine of the others.

[2]Ramirez, K. (2022) Apple Pay Later unexpectedly delayed until further notice
[3]Van Dyke, J. (2022) BankThink Banks are losing customers' trust, but it doesn't have to be this way

THE FIRST STEPS

Let's be clear: regulatory concerns must be respected and understood. However, for banks to start data sharing, they must face an even bigger, if not the most significant obstacle: their mindset.

Historically, banks consider data a proprietary internal asset that gives them a competitive edge. Sharing their "alpha" leads to a natural conundrum: what if others know what I know? Naturally, they are reluctant to do this. They ask: won't I lose a critical advantage? This traditional way of thinking fails to recognize the value created when that precious asset is combined with external sources. With data sharing, the whole is much greater than the sum of its parts.

Making that shift toward a sharing mindset does not require a quantum leap. It starts by building on the things you have already done or - in many cases - should have done.

The journey begins with understanding what data a bank has, describing it clearly, and establishing the process to manage it thereafter. This does not mean sharing the data at this stage, but these are the necessary first steps so that the company can function efficiently. This process can offer important insight, a kind of to-do list essential for moving to the next level of data maturity.

Once a mature data foundation is in place, we offer this five-step roadmap for organizations ready to move toward collaborative data ecosystems with confidence:

1. Formulate an ecosystem strategy

Banks need to start by identifying opportunities and the strategies and deciding what their organization wants to get out of data sharing. Answer questions like: Why engage in an ecosystem? Can we share data, e.g., to meet sustainability goals? Who will lead and govern this effort? Once a more constructive posture is adopted, it is easier to derive plans and ingredients, and a bank can explore collaborative data ecosystems more confidently. It creates an internal incentive to engage in understanding this potential and make meaningful efforts to continue along the path that leads to data sharing.

2. Make key design decisions

Leaders can then think about what design best supports those objectives and strategies. This includes important discussions about what data can and cannot be shared, the data's value, who the partners are and in which roles, what the business model would be, and how to make it sustainable.

3. Master the regulatory landscape

This analysis of data sharing will allow banks to make a more honest assessment of regulatory issues. After all, banks have a long history of adapting to regulatory environments and have developed robust tools and competencies for compliance. This will help them analyze the regulatory frameworks the banks move within and where it enables or constrains their options. Indeed, the best banks understand that robust regulatory frameworks provide important clarity that enables them to innovate in new areas. This is particularly true in the European Union.

4. Kick-off implementation

Rapid advances in privacy and security tools have created solid solutions for sharing and mixing data in ways that respect both trust and regulatory issues. Solutions like confidential computing, homomorphic encryption, and blockchain tech create flexibility for achieving the type of ecosystems that align with your use case goals. Companies must study and identify which capabilities they need, how processes must be transformed, and which platforms to use.

5. Build and operate

With strategy, design, and trust questions addressed, the next layer is the implementation, in terms of both technology and organizational transformation. Many companies are still in the midst of the belated adoption of the cloud and AI. Those efforts must be accelerated to ensure the foundational elements are in place for data sharing. But in parallel, companies can begin to think about how they will eventually scale uses cases, measure success, and foster a data-sharing culture.

CONCLUSION

Collaborative data ecosystems will significantly change the way banks do business in the future. As with any disruption, anticipating change and mobilizing early in the process will help to reap the benefits. For banks, there is still significant value to be added and the benefit of a competitive advantage that is exclusive to them. The initial steps we recommend will reinforce the current business while building insight and the confidence to go further.

Is this a new "internet moment" for banks? We at Capgemini believe it is. It is a watershed that can be a huge threat or an opportunity for the most adventurous banks. We are ready to help banks put collaborative data ecosystems at the top of their agenda and ensure they land on the right side of that divide.

About Capgemini Invent

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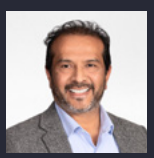

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