



WHITE PAPER

Customer-Centric Financial Services: Balancing Digital Transformation and Data Governance

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IDC FINANCIAL INSIGHTS OPINION

IDC believes that achieving customer centricity should be the top priority of every financial institution today. Becoming customer centric, prioritizing the needs of the customer in every decision, will be the most important way to protect market share as younger competitors bring a higher standard of service to the market.

To correctly understand the customer and reflect this in its product and service offerings, a firm will need to make sure its culture and processes are supportive. That is why IDC believes that data governance is of critical importance. The time-honored relationship model of person-to-person interaction through a branch or office network is receding because the cost is too high in the face of digital forms of competition. As business migrates online, customer centricity is becoming, first and foremost, a matter of data.

Any institution serious about improving its customer centricity should be investing in data governance, but our research suggests that data governance projects are currently only being driven by compliance, as European regulators are becoming interested in data quality issues, and making ever-more onerous demands for reports – to finer levels of detail and over shorter timescales.

It is true that financial institutions should see data governance investments as a way of future-proofing themselves against the ratcheting up of regulatory demands. They need to embed good data governance in the DNA of their organization, so that a demand to produce more reports can be absorbed without the need for more resources and the controls are in place to minimize disruption.

However, even if they are satisfied with a project's impact on dealing with regulatory requirements, financial institutions will fail to maximize the impact of investments if they don't take into account the potential for improving customer centricity. While a regulator might want to be able to analyze data in real time, the same might apply to a product developer, a relationship manager, or an actual customer.

A financial institution which implements a data governance project by choice and with a view to improving customer centricity, rather than waiting until it is forced to by regulators, will see a considerable competitive advantage.

METHODOLOGY

Interviews for this white paper were carried out by IDC in April and May 2015 with more than 20 players from corporate, central, retail, and investment banks, stock exchanges, insurers, and reinsurers. The respondents included a variety of roles from CEO, CIO, and chief data officer (CDO) through heads of data governance and customer experience experts to application managers. The banks and insurers were spread across Western Europe, including the U.K., Ireland, Germany, France, Switzerland, the Netherlands, Poland, Sweden, Finland, Denmark, and Norway. Supporting data from IDC's *Software Survey 2015* is also used.

THE IMPORTANCE OF BECOMING CUSTOMER CENTRIC

A customer-centric financial institution will be able to remain relationship-based rather than transaction-based. Because it has an unbeatable customer experience, it can claim a greater share of mind and wallet, and thanks to a greater ability to cross-sell, it will be more resilient against competition, turning the threat of disintermediation from new entrants into an opportunity to open new revenue streams.

The importance of customer centricity is no longer up for debate. People are now used to high standards of service from other, more fleet-footed firms like Google, Amazon, and Uber, and expect the same experience from their financial services partners. Startup digital firms are also bringing new levels of customer service to different parts of the industry, and the fact that they can start with a narrow offering and brand new technology gives them an advantage. In response, existing players must offer a more personalized experience, and stay up to date with new technologies – such as mobility and wearables – and must participate in social media to interact with customers and gather intelligence.

There is a consensus on a basic definition of "customer centricity" – prioritizing customers in every decision and always asking, how will this improve their experience? But there are many ways to achieve customer centricity.

For a start, it requires a complete picture of all customer interactions with the financial institution, also known as a 360-degree view of the customer. An omni-channel strategy is necessary to deliver this. All the channels must work in tandem so that a customer can start, continue, or complete an interaction in any, and switch between them, with all interactions logged. This requires data being transferable in real time between the channels. The information collected must then determine the product or service offered, making them as relevant and contextual as possible.

Different parts of a financial institution must work together and share information. Timing is crucial: there is no point offering the right product a day later than it is needed. It is no longer enough to simply push the most suitable products from a portfolio toward the most suitable customer at the right time: customer centricity should also permeate product design and innovation.

Customer centricity also means making sure to only target the best non-customer prospects for particular products. For niche players and startups, being able to match the suitability of individuals or companies before they have a relationship with the financial institution has huge cost implications.

Self-service is also seen by a growing part of the industry as a component of customer centricity. Interactions which can be completed end to end by the customer without manual intervention are cheaper to deliver and may offer high customer satisfaction.

Finally, in practice, for many business functions, the customer is actually an internal one. The job of a datawarehouse is often to provide data to internal users such as product developers, compliance officers, and accountants. The concept of centricity holds, however, as these "customers" will produce the best outcomes when the data provided is optimized for their purpose.

For all of these aspects of customer centricity, building up a store of information about customers, and working out how best to use it, is a prerequisite. There is no point investing in new front-end systems if the data underpinning them is deficient, as the customer experience will suffer.

CUSTOMER CENTRICITY DRIVES DIGITAL TRANSFORMATION

Customer centricity is a priority for just about every financial institution in Europe, with financial institutions focusing on omni-channel strategies and process rationalization. But there is universal acceptance that more needs to be done. The historical difficulty is that banks and insurers had a product-centric mindset, with barriers between product lines and businesses preventing a holistic understanding of the customer. Data was not fully appreciated, and was collected haphazardly and then not stored in a way that would make it useable. Finally, there wasn't the technology available at the front end that could deliver data-driven customer relationships.

Improved customer centricity is often cited as one of the reasons for undertaking major internal overhauls, such as core system upgrades and harmonization projects. For multinational or product-diverse firms, acquisitions can take a long time to digest in terms of working out which customers have relationships to more than one part. There can be thousands of databases and applications which overlap, and trying to simplify IT landscapes is critical to customer centricity. Having a unified IT landscape, particularly if it extends across borders, makes customer centricity easier to achieve by having, for example, recognizable products for international clients in a number of different countries, and keeping a single view of those clients. This is difficult to achieve.

Concentrating on customer centricity also requires new thinking about the role of the organization as a provider of services and the importance of customer experience and relationship-building. One of the biggest challenges in becoming customer centric is making sure all stakeholders across the company are on-board, and that business and IT are aligned. Everyone needs to understand that relationship-building can be more important than meeting a sales target, and more profitable in the long run.

However, there are limits to what can be achieved unless a greater focus on collecting and understanding data is adopted. With the growth in data volumes as a result of the move toward a digital economy, it is clear that harnessing data will be the key to achieving world class customer centricity, and understanding what customers want, in the years ahead.

Financial institutions are starting to get to grips with data analysis to support this effort. Most Big Data projects are at very early stages, particularly in the insurance sector. The corporate banking sector is also lagging behind the retail sector, with corporate banks finding it more difficult to conceive of the benefits that might drive projects. But Big Data analytics techniques will help firms discover more about their customers, so it is important to have the governance in place to make sure the relevant data is clear and connected, while not breaching privacy guidelines.

IDC's *2015 Software Survey*

demonstrates that the European financial services industry is adopting data analytics technologies at a faster rate than other verticals. More than 40% of financial institutions in Western Europe are "considerably increasing their use of Big Data," with a similar percentage investing in new storage technologies to keep up with data

growth. Around one in three is building pilot Hadoop projects. While 14% of respondents are using Hadoop at the moment, more than 40% expect to start using it in the next 12 months.

"Where a business is new or unknown, Big Data analysis becomes more important in pricing it because there is less historical information to go on."

Insurance company, France

Another pan-European survey conducted by IDC, the *2014 European Vertical Markets Survey*, shows that insurers are lagging behind in their take-up of Big Data technologies. Partly this is due to a lack of information about their customers. A customer might only interact with the insurer at the start and end of a policy, so opportunities to build a relationship are minimal. Some insurers rely on intermediaries, meaning that their customers are a step removed. The consequences of this are that some insurers find it difficult to run useful analyses to inform customer segmentation and product development. They will know the renewal date, but have little on which to base cross-selling or product-tailoring.

Because of its importance to pricing risk, data has an extra level of importance for insurers. The vertical markets survey shows that more insurers than banks plan to adopt Big Data techniques this year, taking adoption among insurers to around 75%. Knowing that this is an area they should be investing in, some are resorting to buying anonymized data from other sources. Government agencies are useful sources about crime or car accident figures, and insurers are starting Big Data projects to bring this into their modelling. Others are simply turning over their data to third-party Big Data firms, to see what it might be possible to learn. This shows that many insurers are still feeling their way.

Plenty of firms still focus on direct customer feedback to hone their product offerings. Technology advancements are bringing new opportunities by, for example, offering short surveys after visiting a website or completing a transaction. Online crowdsourcing for product development is also an option.

The industry is starting to recognize, however, that good data governance and data management are necessary to take customer centricity to the next level. Unless a firm has a handle on its data, it will find it impossible to meet customers' needs.

DATA GOVERNANCE AS A COMPETITIVE ADVANTAGE

Whereas data management refers to the practice of collecting and storing data, data governance refers to the controls about what to do with it, both in terms of producing it, collecting it, storing it, and using it. It is necessary in the first instance to ensure that data conforms to a minimum standard of usability. When providing data to a regulator, the financial institution needs to know that that data is correct and complete, so that it is in compliance with the regulator. When using data to discover customer needs, the institution needs to know that that data is correct so that the best possible product is designed.

Data governance is a new idea for European financial institutions, and has become a growth area in the last couple of years. Before that, it was barely heard of or understood. Now, it is often in the top three priorities, as financial institutions realize they have mountains of data which needs to be

stored consistently for legally enforced minimum lengths of time. There are also sources of data which simply did not exist a few years ago, such as logs of customer behavior on a website.

The unwieldiness of existing data environments is often compounded by mergers and acquisitions, leaving organizations with multiple legacy technology stacks, datawarehouses, definitions, and policies. If data is fragmented, it will be more expensive and time-consuming to access and use. If there is no single view of data, the customer experience will suffer. To realize any benefits, systems need to be unpicked and consolidated at some point, and firms need to come up with crystal clear definitions and a harmonized master data set.

Next to the legacy systems were all the paper-based processes, which businesses are slowly eliminating while digitizing the information the paper contains. Not only does this tackle lost document problems, it also enables straight-through processing and sharing across lines of business.

In more recent years, BCBS 239, a collection of principles on risk data aggregation published by the Bank of International Settlements, was conceived. It is mandated for the world's 30 largest banks – which must comply by January 2016 – and is being adopted by national regulators for banks in lower tiers. BCBS 239 is already accelerating activities such as modernizing data analytics, integration, and tooling. It helps justify investment in these areas.

"If we solve the regulatory ask we have 80% of the problem solved. Only need to deal with the other 20% in terms of powering the customer experience." Universal bank, Ireland

BCBS 239 is broadly popular in the banking industry, unlike other regulations which demand overhauls of operations. It is seen, at least among proponents of data governance, as a code of best practices. Essentially, 80% of the solution for customer centricity lies in data governance, and once a bank has complied with BCBS 239, it can focus solely on the other 20%. Any bank could derive a competitive advantage from treating the principles as best practices and implementing them before more regulators issue compliance deadlines.

For insurers, Solvency II – an attempt to harmonize insurance regulation across Europe – is also a driver of data governance projects. This will come into force in January 2016 with regulators requiring insurers to explain how they build their risk models, and be able to account for data origins.

Some enterprises view data management as primarily a cost issue, but this focus can often result in similar methods to ones that might be used to enhance customer centricity. For example, keeping data remediation actions to a minimum makes data quality easier to sustain, which makes it more likely that customers can be offered the right products, but also keeps costs down. Integration of acquired businesses, down to the level of datawarehouses or even individual databases, is also a long process but one which bears cost synergies as well as improving an FI's ability to carry out analytics.

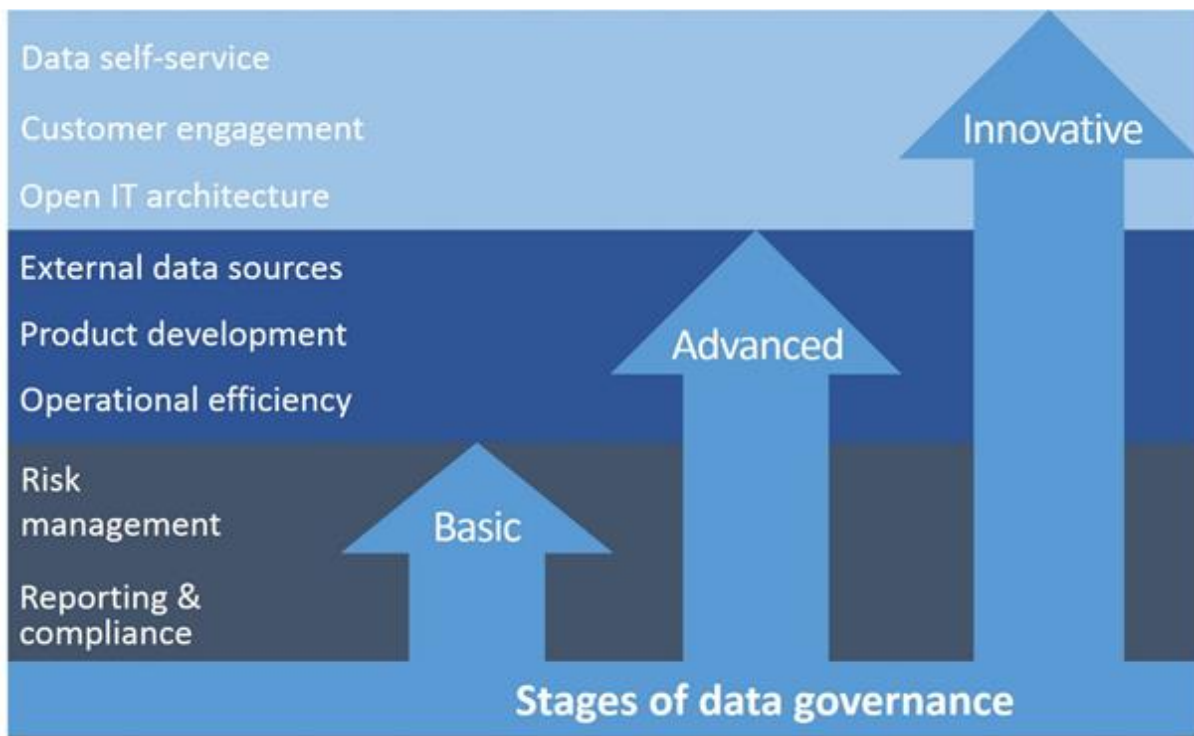
Nevertheless, improving customer centricity and competitiveness is an important part of the remit of data governance. The ability of other parts of a business to make use of the data an FI stores for different purposes is critical. Users need to know that the data they are accessing is complete and correct, and is the right data for their purpose. They need to be confident in the definitions as well, if they are going to design the best offerings.

Because of this, data governance and data management technology should be viewed as extremely important parts of customer centricity. Siloes of data need to be broken down and

modern analytics techniques need to be adopted to make sure data is accessible in real time or near real time. The more digital a firm, the more data it collects. Even compared to a couple of years ago, technology is much better suited to leveraging data to support customer centricity. Nowadays, if a financial institution wants to become a relationship-focused organization, the data governance underpinning customer centricity is critical.

FIGURE 1

The Progressive Benefits of Data Governance



Source: IDC Financial Insights, 2015

An important pillar of data governance is ensuring that internal projects are conducted with the right data, which in turn means that all data ideally needs to be labelled. Data used for trend analysis and profitability analysis – let alone data collected for regulatory reporting – needs differing levels of accuracy, and striking the right balance here will give an institution a better understanding of its own product and services portfolio.

Most institutions have not yet cracked the concept of data governance. It is clear that banks are so far much better at collecting data than exploiting it, and plenty are still focused on the foundations of data governance: consolidating, storing, standardizing definitions, and creating a golden source. They are at the stage of building data lakes, and using data for reporting rather than fully harnessing it to improve customer centricity. Insurers are more used to analyzing data to price their products, but less good at collecting it, as they have fewer customer interactions.

Not every entity has a chief data officer, so responsibility for data governance can be unclear, or not prioritized. For such institutions, working out the chain of responsibility should be the first stage in their data governance journey, and designating a chief data officer is a good start.

Bringing chief data officers in, often as a direct result of BCBS 239, adds urgency to data governance, and data officers are bound to evangelize for the wider benefits of data governance, including for customer centricity.

Board level support is a key factor. Impressing a new culture around data – encouraging staff to be "data-responsible" – will rely on force of argument to overcome ingrained behavior around, for example, reporting mistakes in the data correctly rather than ignoring them. Plenty of metrics exist to measure data governance, such as the direct cost of data remediation. Some, however, are difficult to translate into financial worth, such as tracking the percentage of data which has an official "owner." For this reason, encouraging staff to take data governance seriously is a large part of the battle, and so far one of the major drags on improving data governance is a lack of understanding through the firm.

Data governance needs to become part of a modern bank's DNA, to embed it into the culture permanently.

CREATING A CULTURE TO HARNESS DATA

The first principle of data governance is that data should be managed as a business asset and should be viewed strategically. Much of the data used for risk management and compliance is the same as that used in marketing, sales, and growing customer relationships. So investments in data governance should consciously be leveraged to improve an organization's customer centricity. Staff responsible for data should be educating their colleagues about this. If the link between data governance and customer centricity is understood, then there will be benefits at high and low level within a firm. This message will help secure management backing and unlock funding for data governance projects, and sweeten the pill of an overhaul. It will also make the job of changing the culture easier.

It is sensible to link customer-centricity initiatives on the back of the main drive for BCBS 239 compliance, taking advantage of the new focus on data to launch, for example, a master data management program explicitly aimed at improving customer centricity.

"The people who sit in the datawarehouse understand data governance. The problem is they don't speak to the business people who actually own the customer relationship."

Retail bank, Denmark

Different types of data need to be accurate to different degrees. Data for reporting needs to be 100% accurate but data for trend analysis, for example, need not be as stringently managed. Because strict controls represent a cost, FIs must get the balance right between making sure they are fully compliant and minimizing risks, but also not locking data down any more tightly than is necessary.

The same balancing act applies to access to data within a firm. Because using data is a key part of product innovation and customer centricity, its use should be encouraged, and the chances are that employees will use different data tools unprompted, experimenting with front-end analytics. But the more people have access to data for more purposes, the more acute the challenge in putting in the right controls.

Meanwhile, it's clear that data governance can't be left to IT. There remains a "missing link" between IT, which collects the data, and those people who could make the best use of it within an organization. The relationship between an FI and a key customer would routinely be placed in the

hands of a dedicated relationship manager, so why should not all the data which is relevant to the relationship as well? A chief data officer should be best placed to create this link.

One perspective of customer centricity sees it as something to lose, rather than something to gain. Any startup or niche player will have an easier job being customer centric than a mature, diversified bank or insurer. A startup will have good intentions and architect its systems in such a way as to be "future-proofed." However, personnel turnover, merger activity, new regulations, and the passing of time will gradually undermine this inherent customer centricity. Only when management feels distant from the customer, when bureaucracy, compliance, and other priorities come between the organization and its clients, will the topic of customer centricity arise.

"How can we say we want to be a relationship bank when we don't maintain control over the data of our relationships?"

Corporate bank, Sweden

A guiding principle for a CXO can therefore be to instill the culture of a startup in their existing business, and the way to achieve this might be through a digital transformation, a customer-centricity initiative, or indeed a data governance project. By streamlining processes, harmonizing standards and definitions, and integrating databases, a business can get closer to the state of a startup, and more adaptable to changing customer needs.

The drive toward self-service presents an interesting challenge for data governance also. This may end up applying to both customers and regulators, and these two drivers of data governance – regulation and customer centricity – will force similar changes. As regulation moves toward more frequent stress testing, and granular data requests, compliance officers will look for more efficient ways of complying than responding to each request. If an FI can give access to all relevant data in real time, it can remove the costly request-response dynamic. But to allow regulators direct access to data, the governance needs to be sufficiently robust.

As for the customer, innovative financial institutions should also look to see how they can open their data up to customers to enhance self-service. Data could help customers see their spending profile compared to peers. Or it could help them analyze their own risk profile. Again, this will require robust controls to ensure that customers only see the right data.

A firm must be confident in its information before exposing it directly to a third party or a customer in the form of dashboards. So a strategic approach to data governance will deliver the next generation of financial services.

OPERATING IN A TIGHTENING REGULATORY ENVIRONMENT

Turmoil in the financial industry has been mirrored by changes in regulatory regimes, which continue to move in the direction of more frequent stress tests and more forensic scrutiny of different categories of risk. The importance of data governance will continue to grow as a result of this process. Firms need to be able to assure the data quality, lineage, and definitions provided to the regulators, in a cost-efficient and timely manner. Because more types of data are scrutinized by the regulators, the importance of having the right data governance is compounded.

Banks in particular are still adapting to new regulatory structures in the EU and the U.K. Prudential regulation of large banks in Europe is now under the purview of the Single Supervisory Mechanism of the ECB, while local prudential and conduct authorities plus some national regulations also play an important role.

For example, Germany retains a "secrecy of letters" principle that restricts what banks can do internally with their customers' data. Switzerland also has restrictions on how a bank can use its customer data for analytics.

For the banking industry, BCBS 239 will have a continued effect for the next few years, as more regulators adopt it. There is also the impending implementation of the updated Payment Services Directive (PSD2), which will bring implications for customer centricity in particular. New rules on "access to account" are intended to promote innovation in the area of account aggregators and other third-party services. The industry will also be expected to implement stronger customer authentication measures, which could require improvements to data governance.

For the insurance industry, the main European regulation is Solvency II, which has a wide remit to cover capital adequacy but also governance and regulatory reporting, which have implications for data governance.

PLANNING AHEAD

The direction of regulation is now set in stone and well understood. Banks and insurers can expect more intrusive regulation and a trend toward more frequent stress tests. Regulators will be in a position to scrutinize businesses down to the level of individual decisions, and eventually will demand reports in real time. This will place ever more pressure on financial institutions' compliance departments, and the onus will be on them to find solutions that avoid the cost of compliance scaling directly with the demands.

The pressure toward real time will be felt just as keenly from the customer as from the regulator. As more business migrates to the mobile channel, customer expectation will be of financial partners which can provide tailored product offerings in real time. If traditional providers are not able to do this, new entrants will.

Investing in data governance is the only way to satisfy these twin forces.

There are a number of things a business must get right. At the highest level, the company must treat data as a strategic asset and a source of competitive advantage. A financial institution should immediately start work on changing its culture around data. One of the largest impediments to better data governance is lack of understanding through the business, so once data officers have written policies, established norms, and deployed the right tools, they will have to undertake educational programs throughout the business. Employees should be made aware of how and where to access the right data for their purpose, and also how and why they should collect data in a certain way.

These points ensure that a stable data landscape can be maintained, as opposed to staff going against policy and, for example, building up a new dataset for a particular project instead of accessing the golden source.

"The reason that customer centricity ties back to data governance is that unless we can knit our data efficiently, we are not going to offer services that meet customers' needs."

Global systemically important bank, Europe

The culture of seeing data as the preserve of the IT department needs to be changed as well. At the end of the day, it is not the IT department which will be actually using the data, but product development, sales, marketing, and other customer-facing staff. Data governance should ensure that all types of data are accessible to those who need it, giving the best chance of the right products being developed and then offered to the right customers at the best times.

ESSENTIAL GUIDANCE

IDC believes that the need for data governance is necessary to take customer centricity to the next level. Pursuing an enterprisewide data governance strategy will enable the institution to maximize the value of its data when it comes to product definition, sales, and marketing on top of achieving regulatory compliance. Here are the key recommendations to financial institutions beginning a data governance initiative:

- **Have a clear and achievable business purpose before beginning the data governance journey.** Do not build something and hope people will come. Be clear about the customer-centricity benefits at the outset and include definable goals, which can help guide implementation and assess the project at conclusion.
- **Do not try to solve all data problems at the same time.** Start small by focusing on one area. There should be some quick wins, which demonstrate the value of data governance, and a small start will allow the chance to refine the strategy, the investments, and the messages around it, before growing the project into a more ambitious undertaking. Starting small also gives the organization time to bed in new tools and processes. It is much better to fully utilize one round of investment before progressing to the next.
- **Treat BCBS 239 as a set of best practices – even if you do not have to comply yet.** Local regulators will bring in deadlines for compliance sooner or later, but banks of any size should aim to comply as soon as possible, to improve their customer centricity.
- **Get the culture right.** Define the responsibility and accountability for data governance. If there is no chief data officer in place, consider hiring one to create a data governance culture. If the chief data officer can plant the right data governance policies, customer centricity as well as regulatory compliance will benefit.
- **Become a data broker.** Open up to exchanging data with other industries such as buying and selling transactional data with retailers. Becoming a data broking platform in the financial services space is a useful goal to aim at.
- **Involve department heads responsible for customer centricity at an early stage in the project.** Securing buy-in from these key individuals makes it much more likely that the customer-centricity benefits from the project will "stick," and that the full potential of the project is realized. Education about the importance of data governance will be made easier as well.
- **Define clear metrics for success.** Customer-centric targets such as attrition rates and acquisition can be included along with metrics for data governance, such as around accuracy and completeness of data. Again, this can help increase the perception within a business of data governance as an enabler of customer centricity.
- **Make use of purpose-built software solutions to automate and scale data management and governance.** Relying on extra headcount to manage data as data volumes explode is not sustainable. Purpose-built software is likely to be cheaper and more future-proof than proprietary solutions.
- **Stick to a single data management architecture.** This includes data integration, data quality management, master data management, and data security. This will make data governance easier in future.
- **Data governance should be coordinated between business and IT.** A data governance project should not just be an IT project, but an enterprisewide cultural change. Try to use funding provisioned for risk management and regulatory reporting to deliver data required for customer-centric goals as well.

About IDC

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