

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



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Current Trends

Data-driven Banking

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Defining the Concept:

Data-driven Banking is about using data and analytics to better serve customers. It's about using technology and analytical processes to aid in strategic planning and decision-making. A data-driven culture helps banks to be more agile because it gives them access to more information about their customers and competitors. This information is then used to respond quickly to market changes and adapt their strategies accordingly.

The term "Data-driven banking" refers to all activities that leverage data to provide a range of banking services. Through the structural and targeted use of digital tools, data-driven banking makes a decisive contribution to achieving important results in: **defining potential risk, identifying new opportunities for growth** through insights that can help make more accurate decisions in a timely manner, and in **developing personalized ways for banks to interact with their customers** by turning the knowledge gained about an individual customer into a strong competitive advantage. Moreover, financial services institutions that invested in advanced data management systems were able to **increase the quality of their performance, improve the customer experience, and increase profits.**

In other words, a data-driven culture values analytics, metrics, and evidence-based decision-making over gut instinct or intuition. Thus, a bank that has built solid data foundations, and is focused on becoming a data-led organization, is best placed to be among the industry's future leaders.

Data-driven Banking: How to get started?

1. Identify Data Requirements: Evaluate which data your business needs and identify the process of sourcing and gathering that data. Your data must address specific business use cases and help drive value to the organization. This will help in drawing a clear picture of what data will empower the organization and its workforce.

2. Integrate Technology into Data Landscape: Technology has an important role to play in the creation of a data strategy, as it complements and supports the data management framework. Thus, it is essential to choose technology tools that allows rapid development of data pipelines¹ and platforms for data analysis including machine learning and AI.

Benefits of Data-driven Banking:

3. Strong Data Governance: Governance of data enables data sharing and analytics practices at an enterprise level. A data governance model will ensure that the right people and relevant data owners have access to the right sets of data. A data governance program also helps in addressing some crucial aspects of a data strategy. For example, how will the organization ensure data quality or handle issues around security, privacy, accessibility, and ownership.

Deployment of analytics and data-driven capabilities helps banks to:

Improve efficiency: Data enables banks to optimize and streamline the internal processes with the help of machine learning, artificial intelligence and robotics. As a result, banks can increase the performance and reduce the operating costs.

Increased agility: Agility is important for any business that wants to keep up with the rapid pace of change in the digital world. A data-driven culture helps businesses be more agile because it gives them access to more information about their customers and competitors. This information is then used to respond quickly to market changes and adapt their strategies accordingly.

More control over marketing strategies: Marketing strategies are often difficult to implement because they involve multiple stakeholders with different goals. With more data available to banks on their customers, they'll be able to make more informed decisions about marketing campaigns and sales channels. Banks will be able to know which marketing strategies are working best for each segment of their target audience. Therefore, no time and money are wasting on ineffective marketing methods. Accordingly, data-driven culture improves decision-making as data provides valuable insights to distinguish between what strategies work well and fit the business and what doesn't, allowing banks to make better decisions with confidence.

Better focus on core processes: When you have access to reliable data on client preferences or employee engagement levels, it allows you to focus on what really matters instead of wasting time on non-essential tasks.

Barriers to Data-Driven growth for banks?

Drives innovation: By using data as an input factor within your organization, you encourage creativity and innovation amongst employees who have access to it. This helps them come up with new ideas, products or services that solve client problems better than competitors do.

Builds respect & creates stronger employee relationships: Finally, having access to data gives everyone in your business insight into how things are going at any given time. This transparency creates an environment where people feel more connected regardless of whether they work directly with one another or not because they understand each other's roles better than before.

Capital Reconstruction: Another transformative use case for data-driven culture which will have the biggest impact on the banking industry, is the Reconstruction of Capital. Capital's Reconstruction means identifying where the capital shortfall exists within the organization, and then using data-driven analytics to target alternative investment opportunities and close the gap.

According to Accenture, there are four barriers that often stand in the way of a successful transformation to data-driven banking, and the solution to overcome each barrier:

1- Organizational silos:

Data is most useful when it can be pulled together from multiple areas to create a complete picture of customer's behaviors, preferences, potential risks and opportunities. Over the years, banks have built various departments and functions one at a time. This has created data silos that are difficult to be accessed across various functions and regions. Therefore, without the ability to harmonize data and technology assets, it becomes difficult to undertake large-scale data analysis using all of the available data.

Solution: Re-configure processes and systems, and re-establish the organization's culture to support easy sharing of data. Leaders can help by building a vision of how data gathered from across departments with various functions can come together to improve overall results, and by putting

resources in place to ensure that there are no technical barriers to data sharing.

2- Focusing on incremental improvement

When banks continue to focus only on incremental improvements, rather than large-scale change, compatibility problems will occur as individuals, departments or functions are introducing their own data solutions, which are not part of an overall plan where all of the pieces work together.

Solution: Data-driven growth must be part of the bank's overall business strategy. Leaders are more likely to drive real growth when they are open to change on a large scale, rather than trying to retain the old, comfortable structures. Data should be used to drive and support new business models, not just to amend current processes and products.

3- Digital transformation fatigue:

Technology becomes obsolete faster than it can even be implemented. This non-stop cycle of trying to keep up with latest technological infrastructure has made many banking leaders reluctant to embrace additional large and expensive IT projects, especially projects that extend beyond their area of expertise.

Solution: There has to be a clear plan for how data is going to be used by the bank. Banks need data specialists in senior positions who can help to drive understanding of the specific ways that ambitious data-driven evolution can be used to achieve major growth. Providing a clear and compelling view on what the journey will cost, and what use cases and value drivers will be unlocked because of data, will help set the right expectations and move forward.

4- Lack of Commitment & Ownership:

Banks should be established based on a data-first perspective, and leaders should acknowledge that the strategic use of data can enhance the bank's market value and brand's image, but this commitment to data-driven approach is not that common in some banks. In fact, the widespread lack of such a commitment makes it difficult to prioritize advanced data projects.

Some Practices Worldwide:

Solution: Leaders at the board and executive levels should have the ownership and commitment to the bank's data driven strategy, they can demonstrate their ownership of the bank's transition towards a data-driven culture by encouraging the sharing of data across all levels and operations, data-driven decision making, and data use cases orientation.

BBVA's journey to become a digital data-driven bank:

In 2007, BBVA set off its digital data-driven journey with the aim of making servicing available to customers in digital channels through the construction of an advanced technological platform, and the development of DIY² "DO It Yourself" availability of the bank's products. As a result, BBVA achieved exponential trends in sales through digital channels, while customer experience was improved with innovative products and solutions. Now, the bank is immersed in a new stage, focusing on growing their customer base by attracting customers with higher presence in digital platforms through leveraging their own digital channels, and channels of third parties. Moreover, it already faces the next challenge which is providing proactive and personalized advice to their clients supported by technology and data in order to help customers making better decisions, and manage their finances to achieve their business goals.

DBS Bank:

To further strengthen its digital capabilities and prepare its employees to be future-ready, DBS has equipped more than 16,000 of its employees with big data and data analytics skills through tailored training programs to truly transform the bank into a data-driven organization. As a result, bank's employees will be able to use data to address business challenges, identify opportunities and prioritize better customers' experience.

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Headquarters – Nasr City
22 A, Dr. Anwar El Mofty St., Tiba 2000
P.O.Box: 8164 Nasr City, Cairo, Egypt

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