



BANK DATA: UNLOCKING THE VALUE

Abstract

Data provides a strong monetization opportunity to Banks against increasing threat to existing revenue streams. Getting the data play right requires an efficient payments infrastructure backed by robust data cleansing capability. Deep insights are generated when Bank's data is coupled with supplementary external data. Banks will need to move swiftly to unlock this value and stay ahead of the game.

Introduction

Wells Fargo was one of the first banks to introduce the world to the position of the Chief Data Officer. As traditional value chains got disrupted, there was a need to re-imagine product offerings, provide personalized experiences to existing customers and unearth new opportunities through untapped customer segments and product constructs. Data, the new oil opened this possibility.

High costs, low margins and commoditized services have traditionally characterized

banks' transaction-based revenue models. Transaction fee which has traditionally been driving revenue, is under threat today with technology driven transformation and business model innovation.

Remaining relevant necessitates redefining business models. In an increasing competitive world with non-traditional players and lower regulatory barriers, there is thus a need to reduce reliance on existing revenue models and pro-actively explore new avenues that would provide sustainable and long-term growth.

Data, an in-house gold-mine on customer preferences, spending habits, demographics – can be one such high margin revenue stream. According to Allied Market Research forecasts, the data monetization market is expected to touch \$370.9 billion by 2023. Banks can be data merchants selling aggregated and anonymized data to third parties, leverage the power of data analytics to share insights or use the data internally for enhancing operational efficiency and improving sales effectiveness.

There are many use cases of banks internally monetizing their data through machine learning and AI. Tightly defined customer segments can be targeted with tailored marketing offers improving returns on marketing spend. Preferential Pricing and Risk-based pricing can be executed at individual customer level with deep insights available on customer behavior. Insights on customer footfall in branches can help optimize branch network and costs accordingly. Data can even identify how to reach customers and understand customer behavior to drive sales. Personalizing client offerings is one such opportunity. For example, a 360-degree view of payments data can give banks deeper insights to their customer's credit health and financial needs. By looking at overall financial transaction patterns, institutions can determine better and focused targeting of their credit offerings.

Despite the enormous benefits associated with Data Monetization, banks have been somewhat reluctant to seize the opportunity. This is partially attributable to regulatory and compliance concerns. While the concerns around anonymized data are limited, using data at a customer specific level without informed consent can have serious implications. However, if done right, banks as data owners can generate recurring revenue from a multitude of players like merchants, digital stores and even app developers. Millions of raw data points are generated when customers transact and pay online. These can be refined to construct insights into how people spend online and generate focus offers and promotions for these customers.

Start Right – Enterprise data, Clean Data, Quality Data

Data is already there, running alongside transactions. Quite often stored in silos, disjoint and legacy systems. Putting this data to work requires an Enterprise Payments play – an end to end system across channels and touchpoints.

An integrated enterprise payments platform, or payments hub, is crucial to intelligent payment processing. An integrated platform facilitates Straight Through Processing with least manual intervention – providing faster processing, with more accurate and complete data. With an efficient payment infrastructure, financial institutions can process payments and collect the data that runs alongside it – across channels, payment types and form factors. If “data is the new oil,” this collected data now needs to be refined to derive the value of real data monetization.

Data and generated insights become more potent when combined with the power of Alternate Data. The transformation in the digital landscape and customer lifestyle is generating new non-traditional data points, vital for inclusion in data strategies for meaningful insights. Digital footprints left behind by customers in social media, digitized tax records are valuable data points that can be synthesized with bank's data. For example, a bank can pull a customer's utility bill payments to gauge his consumption levels and repayment patterns. Social media footprints can help build customer persona and facilitate geo and lifestyle tagging. Using this

information, the bank can sharpen risk profiling of the customers and offer contextualized products and services.

A mix of both internal and external data thus significantly helps better understand and serve customers. Banks can seize substantial monetization opportunities by including such supplementary external data in the generation of insights. These opportunities range from the traditional use cases in consumer finance to more innovative ones of producing market studies of aggregated and anonymized data available for purchase.

As connected devices and IoT grows, so would the volume and sources of data. Handling this explosion of data for monetization would be possible through an efficient Payments Infrastructure coupled with data cleansing capabilities as the fundamental building block. This needs to be coupled with Alternate Data from the greatest variety of sources to make the data play more meaningful and rewarding. Monetization can take various shapes and forms from here depending on the bank's data and business strategy. The bank could simply provide Data-as-a-Service or move a step-up providing Analytics-as-a-Service running advanced analytics on synthesized data. A more innovative format can be an analytics-enabled Platform-as-a-Service in alliance with a software partner. Partnerships with data analytics specialists and Fintechs can be a possible starting point. All these options need to be evaluated keeping in view the market and regulatory dynamics, while maximizing revenue generation opportunities.

Translating Insights to Opportunities

Payments data generates immense insights on spending patterns – propensity, purchase frequency and geo locations to name a few. These insights can be translated into purchase opportunities by coupling consumers with preferred merchants and originating channels. Market dynamics can be understood at a postal code level to create targeted marketing campaigns directed at

selected consumer groups. Product recommendations can be directed at consumers who have shown traits of buying it.

The question now is of identifying third parties for this data. Merchants fit the bill here. For a small fee charged by the payment data provider, they gain access to rich data with potential of substantially boosting their sales. An example of this is

Upserve, providing payments insights to US restaurants. Upserve offers tools to local merchants to enhance their knowledge of customer spending habits by leveraging customer payments data, coupled with their social media footprints. CRM tools are also bundled to assist merchants trigger marketing actions to convert insights into real-time personalized offers.

Showing the Way

BBVA	The Bank's 'PayStats' offers anonymized and amassed data from transactions done with its cards and other cards used at its terminals, creating a simulated chart of customer spending patterns and demographics for other organizations to purchase.
Saxo Payments	UK based Saxo Payments has been pursuing the API marketplace model. Called The Banking Circle, it is open to card acquirers, payment gateways and other third-party enterprises.
State Street Global Exchange	State Street combines its data and analytics with research to provide an entirely new gamut of products. Its offerings include research, advisory, data solutions and investment analytics.
Cardlytics	Cardlytics has built a model around selling data, in compliance with privacy requirements. They partner with banks which provides them a view on consumer spending patterns. This anonymized data is then sold to help identify buying patterns and target potential buyers. Cardlytics has access to two of every five swipes in the US.

Payment data providers also need to be cognizant of building a sustainable pricing model – cost effective for the end user and cost-efficient for itself. A Per-

Unit-Sales linked commission (eg. card holder accepting a target offer) bundled with a fixed monthly fee could be one such model. An enhanced version is a

consulting model, like American Express and Mastercard, which bring together consumer spending data with advisory services to deliver strategic insights.



Conclusion

Data is already a multi-billion-dollar industry. However, the road to data monetization is not an easy one. Payment Data providers need to operate within compliance and data privacy requirements and seek informed consent wherever applicable. It is ideal to include these requirements as design principles while visualizing new products and services.

A larger challenge lies within - that of continuing to treat existing revenue streams as permanent. The threat of banks losing revenue to new age disruptors is real and here. While banks remain at the centre of payment ecosystem, they need to move quickly to gain a stronghold in the data monetization opportunity. For the world's most valuable resource is no longer oil, but data.

About the Author



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Akshay has over 14 years of experience in the Banking and Financial Services domain, with significant experience in Consumer Banking and Digital Payments. He has worked in multiple roles across Pre-Sales and Process & Domain Consulting.

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