

Market Commentary

Reaping the real benefits of data sharing

Sharing data may be nothing new, but the real benefits it brings to financial institutions, fintechs and their customers are only just beginning to emerge.

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This is partly because the Covid-19 pandemic - and the social distancing and remote working that have ensued - is accelerating the need to digitize processes, creating whole new business models and ways of working for banks.

Of course change was underway before the crisis, driven by the open banking movement and the availability of platforms with open application interfaces (APIs) that enabled financial institutions to partner with fintechs and provide the products and services customers want to use.

Those initiatives are now ramping up as banks embrace digitization in line with temporary branch closures.

Defining data sharing

As a general business principle, data sharing can be defined as a consent-based approach to providing access to a relevant data set in order to facilitate a transaction or form of commerce. The word 'consent' is important since banks and their partners have a responsibility to manage customer data safely and securely, within the bounds of relevant privacy and protection regulations.

About the Author



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Amber has more than 16 years of experience in marketing and product management and over 9 years of industry experience in data, analytics, and financial services. As Head of Data and Analytics at Finastra, she is focused on developing and launching new data products and scaling the Finastra business for data partnering and data commercialization. She loves working with the Finastra Innovation team to develop data-driven proof of concepts and turning those into production-ready solutions to drive business results for clients.

For example, if a bank wants to offer its clients a new product or service on top of their existing checking account, such as a budgeting app, then customers will need to give their permission for their data to be shared. The same can be said for a loan application process for SMEs, or a cash modelling system offered to corporates. Companies as well as consumers must opt into having their data shared.

There are exceptions, notably where anonymized data is shared. An add-on application that enables banks to analyze whole portfolios to uncover the factors that make customers churn could be based on anonymized data, for example.

Benefits for banks and fintechs

Data sharing opens up huge possibilities for banks to offer customers the products and services they want, thereby reducing the risk that consumers or businesses will take their accounts elsewhere. By listening to customers and understanding what would add the most value for them, banks can 'connect the dots' by bringing in partners who can provide the right capabilities.

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Traditionally, banks have been able to maintain loyal customer bases due to personal relationships established through local retail branches. However, churn rates are on the rise. Fintechs and challenger banks with digital first strategies have picked up significant numbers of new relationships as consumers and businesses seek more desirable products and a better customer experience.

The advantage of data sharing is that traditional banks can offer a similar one-stop approach to that delivered by fintechs.

Data sharing enables banks to more effectively serve customers across the lifecycle by providing additional services such as insurance, retail investment, bill payments, cross-border payments and share trading.

These services can be offered under one brand, making it easier for consumers and businesses to manage every aspect of their financial lives while creating new revenue streams for the bank.

Data sharing with customers can bring its own benefits, particularly when banks are considering lending to SMEs. By accessing the SME's balance sheet and order book directly, a bank can build a more accurate, dynamic picture of their fiscal position than using traditional methods such as looking at the past three years' financial statements.

This is not just about partnering with fintechs to add new products and services, but also to add value or security to existing services. For example, a bank could connect with a fintech to automate savings from current or checking accounts, or to enhance security through biometric authentication or in-session fraud monitoring.

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It also creates new opportunities to use data analytics to understand more about how customers are behaving, when and why they buy products and services, and what they are likely to be looking for in the future.

For fintechs, data sharing opens up new markets in the form of banks' customer bases for their products. Time to market is reduced and income volumes are increased significantly when compared to going solo.

Potential hurdles

Financial institutions have a trusted relationship with their customers, so any partners they plan to share data with must be carefully investigated and managed within a strict code of governance.

That includes ensuring that the partner is using the latest and best technology to tokenise, encrypt and protect sensitive data. All relevant teams within a bank should be involved in this process, including risk, IT infrastructure, security and data governance groups.

Finastra's open innovation platform, [FusionFabric.cloud](https://fusionfabric.cloud), has been designed with governance and security in mind from the beginning. Our platform facilitates access to relevant data, provides the ability to share data with partners and enables the analytics banks need to create visibility into the inner workings of their functions and processes.

A data driven future

The whole world has shifted because of the Covid-19 pandemic. It is impossible to know exactly what the impact of the crisis will have in the coming years. Rapid acceleration of digital enablement, an emphasis on revised risk management practices and policies and optimized customer experiences will be necessary to survive and compete.

New data sharing processes that seemed far away from the norm just a year ago, such as facial recognition in payments, will arrive more quickly than predicted.

Preparing for the unknown may be difficult, but financial institutions that embrace fast, secure data sharing and all of the benefits that it brings to customers will be in the best position to adapt to the new market conditions that eventually emerge.

To learn how Finastra can help you innovate faster and smarter with data-sharing capabilities, visit fusionfabric.cloud



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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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