Guarding against complacency: Why financial services need to keep up with the data literacy pace

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While it may be as buffeted and disrupted by digitalization as other sectors, in many ways the financial services industry is better placed to evolve and adapt. Why? Because banks, insurance providers and wealth managers traditionally have a much stronger understanding of the power of data than other sectors.

Data has long been at the heart of financial services. Indeed, unlike many other industries, the majority of its products and services are intangible and ultimately dependent on data. For example, a bank account is a computerized ledger that creates a new data point every time you interact with it, whether via an ATM machine, a credit card, or online payment portal.

It's therefore no surprise to see the financial services industry perform so well in the Data Literacy Index: financial services scored in the top three industries for corporate data literacy, beaten only by facilities management and hospitality businesses.

This is being driven by sector leaders having a higher appreciation for the use of data to make decisions. Some 75 per cent of respondents reported that it is very important (compared to a cross-industry average of 61 per cent). They also understand the value of having employees that are data literate, with over half (54 per cent) believing that those workers are very important for their company.

But why do financial services firms appreciate data literacy? In short, they are already seeing the benefits. In addition to the immense insights it can provide into customers, enabling them to build and offer services of greater relevance, firms with greater data literacy levels see an increase in enterprise value of between three and five per cent.

With a large number of financial services companies already reaping the rewards from their data literacy investments, it's important that the rest of the industry – and beyond – understands how they achieved it and what they need to do to keep up in this disruptive, competitive market.

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Education, education, education

The definition of data literacy at a business level is 'the ability of an organization to read, analyze, utilize for decisions, argue with and communicate data throughout the organization.' While this requires technology to facilitate and indeed present data in a usable form, the importance of employee data literacy skills should not be underestimated. In financial services, time and time again the emphasis on training came up. Eighty-eight per cent of sector leaders, surveyed for the Data Literacy Index, believe the data skills of core employees facilitates critical decision-making, while 90 per cent linked the data literacy training of core employees with the ability of make critical decisions.

They are backing this up with a commitment to invest in the future. Two thirds are planning on increasing the number of data literate employees in their organization, while 87 per cent say data literacy is important when hiring, either through previous experience or specification certifications. And they are prepared to put their money where their mouths are as well – 40 per cent said they would pay data literate employees more, a significantly greater proportion than industries like commercial (17 per cent) and heavy industries (26 per cent). As well as attracting talent, this can also act as an incentive to upskill.

Many are also introducing their own training programs. While the overall number of organizations may not be as high (47 per cent), when compared with other sectors (34 per cent cross-industry), it's clear that financial service providers are looking at all their options to improve data literacy in their organization.

Getting more from their data

That said, there is more they can do. While many are investing in better understanding in the power and potential of data at a faster rate than other sectors, that hasn't translated to significantly changing the way they use information.

Of those financial services companies surveyed for the Data Literacy Index, very few had made significant changes in the way that they use data over the past five years. Their use of data tools (such as visualization, business intelligence (BI) and data processing) is also at a similar rate to other industries – although they do appear to be slightly ahead of the curve in the use of advanced analytics (73 per cent against a cross-industry average of 64 per cent). However, with the investment in people and their skills, it is clear financial services have an opportunity to work their data harder.

Sweating those data assets can generate significant rewards. A bank in the USA used data visualization to remove paper and Excel based reports from the business. By giving staff training in these dashboards, the business was able to empower employees to find information and answer their own data questions themselves, without the need to speak to the business intelligence teams. In doing so, the data and BI teams have saved 36,000 hours a year, freeing up time to focus on more complex and valuable tasks for the bank.

In another instance, a Spanish bank trained staff on a data tool and the sources of data, which allowed the fraud team to see where card skimming readers had been fitted to ATM machines. This was done by correlating instances of account fraud with ATM locations. The same approach was able to identify 4G mobile card readers being used to auto debit money from customer cards. Through this use of data, the team was able to dramatically reduce the amount of cash and card fraud the bank had to pay out.

Two very different uses of data, both combining powerful tools with data literacy to deliver results for financial service providers.

Ensuring a long-term relationship doesn't become complacent

The industry may have a long relationship with data, but it must ensure that this does not turn into complacency. Currently, many providers understand that being data literate supports better company performance, but as other sectors wake up to the benefit, attracting and retaining talent will become even harder.

Investing in staff and finding new ways to get the most out of their data sources will be vital to the financial services industry: not just to maintain the industry's position as a leader in data literacy, but also empowering providers to thrive and survive in this disruptive market.