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Data governance in the FinTech sector: A growing need

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Introduction

Over the past few years, India has emerged as a centre of innovation in the FinTech space. With over 3,800 FinTechs[1] providing tech-enabled services – with data and analytics as a key component – to consumers and businesses, consumption of data is increasing exponentially. Data is both a key input driver as well as a source of differentiation for the FinTech industry. As more and more adjacent sectors get digitised, there will be an explosion of both financial and non-financial data whose governance should be a top priority for both FinTechs as well as their partner financial services organisations.

Beyond technological innovation, the FinTech sector is also at the forefront of major shifts in regulation. Some of the key data regulations and laws include the EU's General Data Protection Regulation (GDPR), the California Consumer Privacy Act (CCPA) in the US, and India's Personal Data Protection (PDP) Bill. For the FinTech industry and the financial services industry in general, the GDPR presents a unique set of challenges. The industry needs to establish a robust data governance framework as players in the financial services space typically hold and process large amounts of wide-ranging customer data as a core part of their business.

A data governance (DG) framework covers every part of an organisation's data management process, data architecture and data models, and extends right down to individual technologies, databases and data repositories. Some of the widely used DG frameworks are:

Global data governance frameworks

DAMA
DMBOK (Data Management Body of Knowledge)

CMMI
(Capability Maturity Assessment Model)

ARMA
(Information Governance Maturity Model)

EDM Council-DCAM
(Data Capability Assessment Model)

The establishment of a proper data governance mechanism in the FinTech space is particularly relevant with the advent of and traction gained by new innovative business models. We look at some of the latest trends in the FinTech space and the need for a strong DG approach:

Secure point of sales enabled lending

Point of sale (PoS) enabled lending is a model wherein digital lenders partner with other ecosystem players (e-commerce companies, payment gateways, etc.) to finance users' online transactions by utilising a combination of conventional and unconventional data. With the partnership model at the core, FinTechs need to regulate the usage of data to process loans between different partners. Key DG domain areas to be considered include data privacy/security and creating appropriate data-sharing agreements and firewalls between the departments to ensure limited data access and sharing.

Usage of alternative data sources for lending is expected to multiply with the introduction of the new Open Credit Enablement Network (OCEN) framework by iSPIRT. As part of OCEN, lending companies can utilise flow-based data to provide loans to small businesses and individual borrowers. To effectively harvest and use data from varied data sources, governance controls related to data access, data security and data sharing, etc., would need to be implemented.

A leading private sector lender has built a well-governed and controlled ecosystem to manage its lending process. Key focus areas were the discovery and inventorying of the key personal identifiable information (PII) of customers, building of data lineage across all data sources, and definition of a new set of access policies and security controls. As a result, the company is now better equipped to support its internal business objectives and fulfil regulatory and compliance requirements.

1. https://tracxn.com/d/soonicorn-awards/top-startups-in-india-fintech-2020#:~:text=With%20over%203.8K%2B%20FinTech,world%20order%20of%20the%20millenium

Governing data usage in the gig economy model in insurance sector

The insurance sector has traditionally worked with independent insurance agents, who have played a crucial role in supporting customers in choosing the right coverage for their needs. A number of new age FinTechs have built upon this model by providing digital platforms to manage freelance agents. These platforms use multiple data-driven capabilities – from creating a holistic technology platform with tools for managing client relationships to providing opportunities for scaling up. At the same time, they also provide organisations with insights into managing the workforce and highlight failure points in the agent journey.

It would be crucial to implement DG frameworks covering key areas such as metadata management, data privacy and security, and data quality in this model. These frameworks would ensure regulated usage and sharing of data, maintain quality of data churned, and ensure that proper controls are implemented to maintain anonymity of user data.

Nowadays, many InsurTechs have become vigilant about sharing data with freelancers. Consent management tools are being discussed as the privacy expectations of consumers cannot be overlooked. And with new privacy regulations coming in, consumer privacy has become a primary concern before sharing data with anyone.

Regulating data usage in partnership-enabled neobanking model

The neobanking model is another FinTech model that has seen significant traction globally. In India, neobanks primarily operate in partnership with one or multiple banking partner(s). This leads to sharing of data between the two entities for multiple banking services provided to consumers.

To ensure regulated usage and security of customer data shared by banks with neobanks and vice versa, proper data security and access guidelines would need to be in place.

Other FinTech segments, including payments and WealthTech, also require strong DG frameworks to ensure compliance both within the organisation and across its partners.

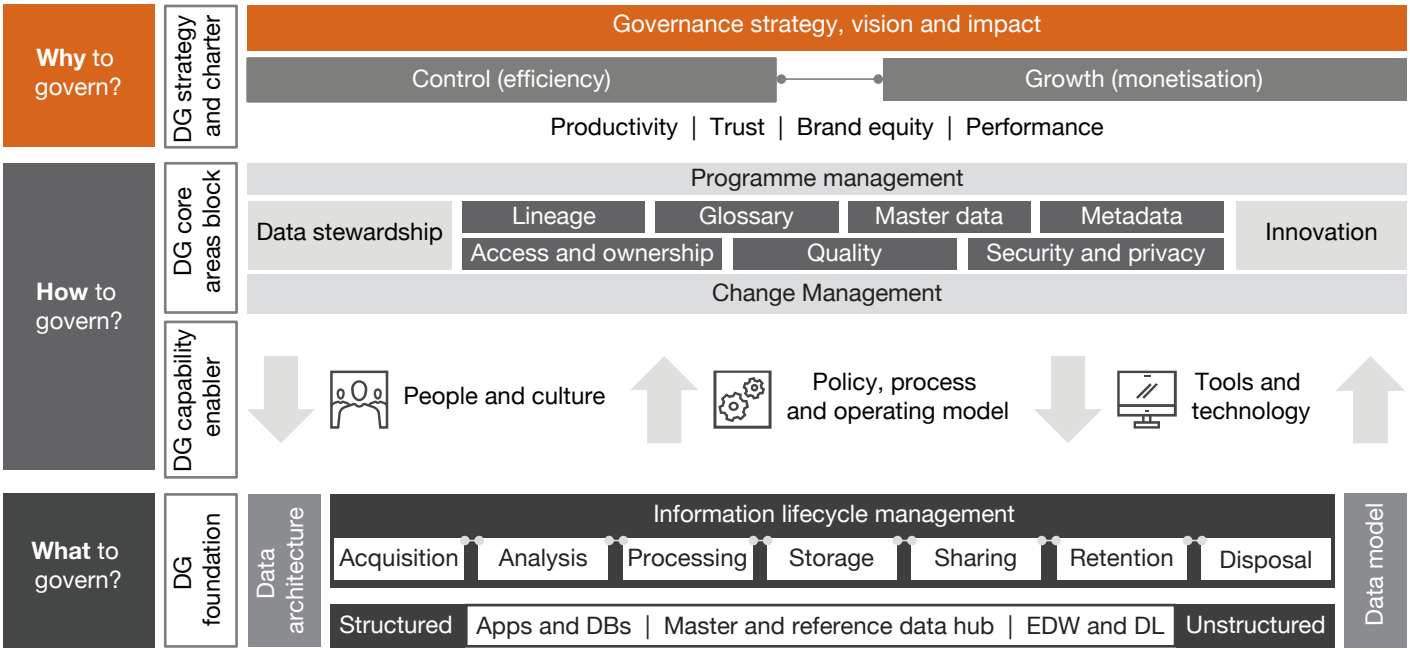
In recent times, the industry has seen the introduction of several data-related laws and regulations aimed at ensuring the privacy and security of an individual's PII and sensitive data. Some of the key focus areas include data sharing, data usage, consent and an individual's data rights. Hence, there is increasing pressure on companies to remain compliant while adopting rapidly evolving FinTech models.

Considering the changing regulatory landscape and requirements, some FinTech companies have already performed readiness assessments and have started to adopt an enterprise DG framework that would help them ensure effective data management, be compliant and continue to have opportunities for subsequent data monetisation.

PwC's Enterprise Data Governance (EDG) Framework

PwC's EDG Framework considers the current and next generation data lifecycle and architecture requirements and upcoming DG challenges.[2] This framework can be easily customised as per the data and technology requirements of FinTech firms.

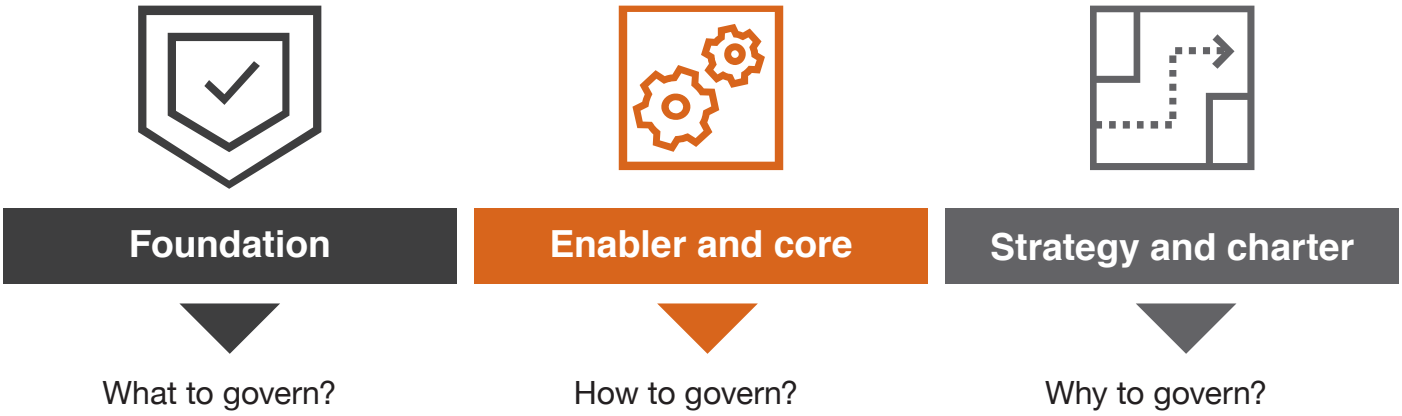
PwC's EDG Framework



2. https://www.pwc.in/consulting/technology/data-and-analytics/govern-your-data/insights/global-and-industry-frameworks-for-data-governance.html

PwC's EDG Framework answers three important aspects of DG:

EDG Framework blocks



- **DG strategy and charter:** This block identifies the business drivers, vision, mission and principles for DG, including readiness assessment, internal process discovery, and current issues or success criteria.
- **DG core areas:** It covers core areas which should be prioritised for the successful execution of any DG programme. This includes seven key domains and four interlocking areas:
  a. Key domain areas: Business glossary, Metadata catalogue, data lineage, data quality, master data, data privacy and security and data access and ownership. The domain areas can be prioritised as required.
  b. Interlock areas: Stewardship and workflow management, change management, programme management and innovative tech management
- **DG enablers:** This block helps in identifying the key capabilities required to operationalise all the other components of the EDG Framework. These critical enablers are people and culture, policy, process and operating model.
- **DG foundation:** It covers the data management design and operational functions (modelling, architecture, storage and operations, etc.) that are required to be implemented to support traditional uses of data (business intelligence and document and content management).

  Data trust and capability measurement models which help in demonstrating impact and maturity improvements across the programme lifecycle are additional benefits of the EDG Framework.

Conclusion

In the current landscape, where FinTechs continue to leverage ecosystem digitisation strategies, innovative data and analytics techniques, and multi-organisation partnerships to grow and provide focused services, management of data and ensuring proper compliances become increasingly important. Adopting a robust enterprise DG framework will enable FinTechs to accommodate the changing data requirements both from a business and regulatory point of view, and ensure data privacy and security. A trusted FinTech data ecosystem is thus essential and the need of the hour.

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