

# Challenges in AI adoption

EBA Virtual Workshop | Keynote Speech

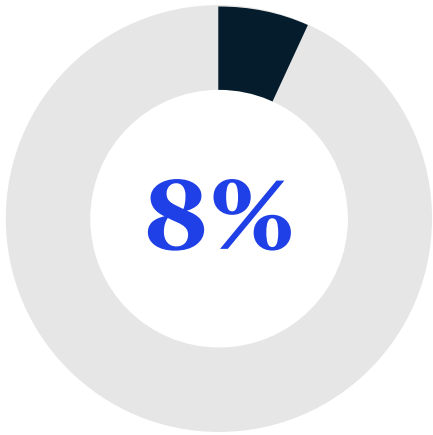
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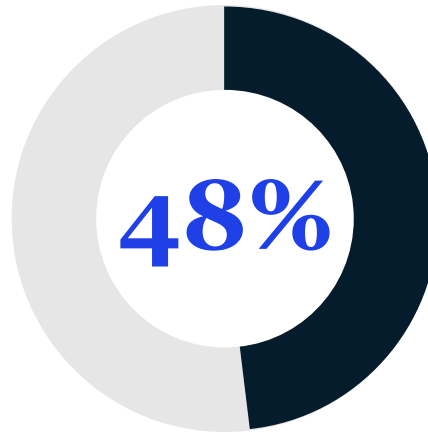
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# Many organizations, including leaders, are falling short of their goals of obtaining value from Big Data and Advanced Analytics

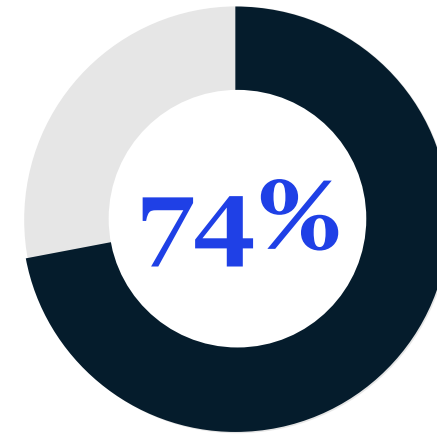
☐ Detailed next



Only 8% of organizations recently surveyed<sup>1</sup> said they are “very effective” at reaching their primary objectives on data and analytics



... and a staggering 48% said they are neutral or ineffective<sup>1</sup>



Among leading organizations across industries, 72% noted managing data among the top challenges preventing them from scaling data and analytics impact<sup>2</sup>

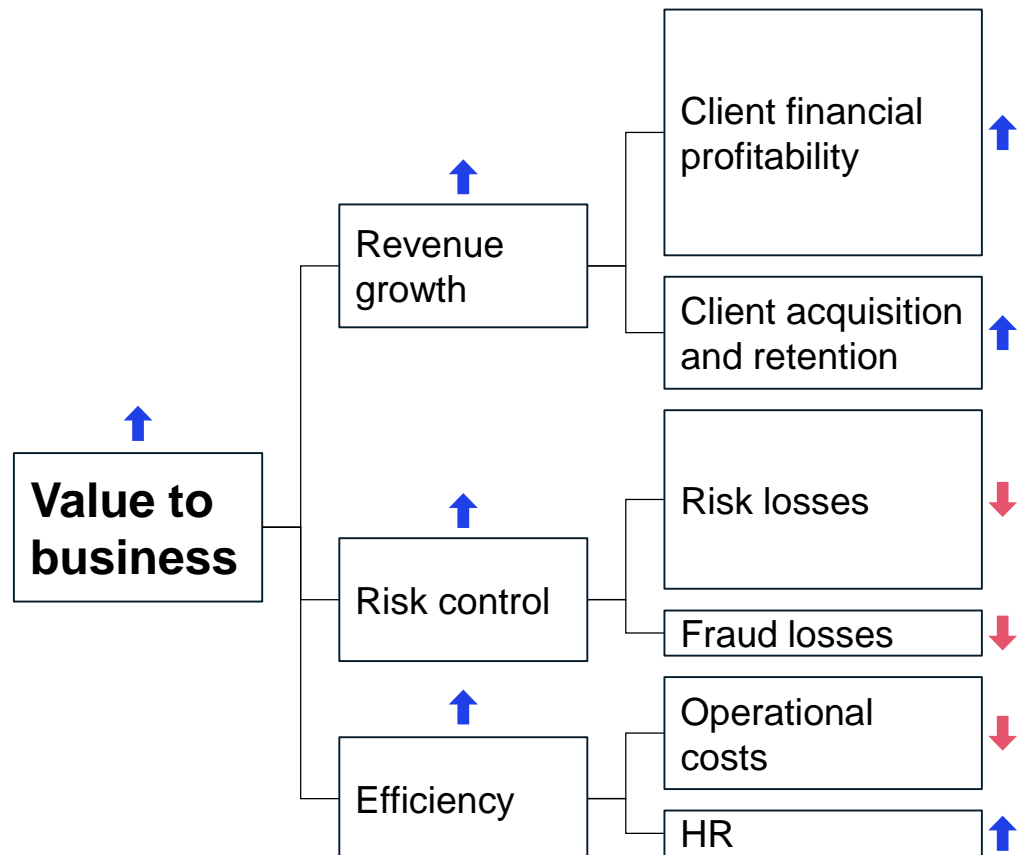
**Managing data and its supporting technology is one of the top barriers organizations are facing – Value quantification is key to prioritize activities**

1. McKinsey Quarterly survey in March 2019: “How effective has your organization been at reaching the primary objective of its data and analytics activities?”

2. Survey of members invited to McKinsey’s Advanced Data and Analytics Roundtable in October 2019

# The potential of Big Data and AA is enormous at banks

## Value tree



## Use cases

## Typical Impact

Next product to buy	<b>+30%</b>	Sales uptick
1-to-1 pricing	<b>+50 bps</b>	Deposit margin
Leakage reduction	<b>+5-7%</b>	Fee income
Pricing for wholesale	<b>+10%</b>	EVA
Churn reduction analytics	<b>-20%</b>	Churn rate
Customer experience	<b>+5 pp</b>	CSAT score
Collateral sampling	<b>+20%</b>	Equity
Early warning systems	<b>-25%</b>	Gross NPL inflow
Credit collection	<b>2%</b>	Increased recovery for NPL loans
Fraud detection	<b>+15%</b>	Fraud detection
Geospatial analytics	<b>-10%</b>	Location costs
Robotics optimization	<b>-20%</b>	Back office costs
Predictive HR	<b>2x</b>	Motivation score

# COVID-19 crisis has even accelerated their deployment to propel banks to growth

Six imperatives financial institutions are reflecting on

## Follow the customer

1



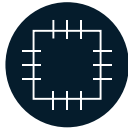
**Innovate new products and propositions**

Launch propositions around new customer needs

Explore new sources of fee revenue

Build new digital businesses

2



**Lock in the shift to digital sales & service, and reshape physical distribution**

Pivot to a digital-first model for sales & service

Scale up remote advice in complex retail, wealth and commercial

Reshape physical distribution

## Get fitter for tough times

3



**Create a structurally leaner and scalable cost base**

Drive a 20 to 30 percent net-cost saving

Make costs more flexible to cope with volatility

Zero-base the business

4



**Reset the organization and technology for speed**

Organize as a portfolio of internal start-ups

Create more flexibility in the workforce

Bite the bullet on core technology modernization

## Protect (and grow) the bank

5



**Double down on risk and capital management**

Minimize risk cost by proactively managing NPLs

Strategically steer through the coming recapitalization wave

6



**Rebalance the business mix and seek targeted M&A deals**

Carve out noncore assets

Seek M&A for cost synergies or capabilities

## ... plus one reflection



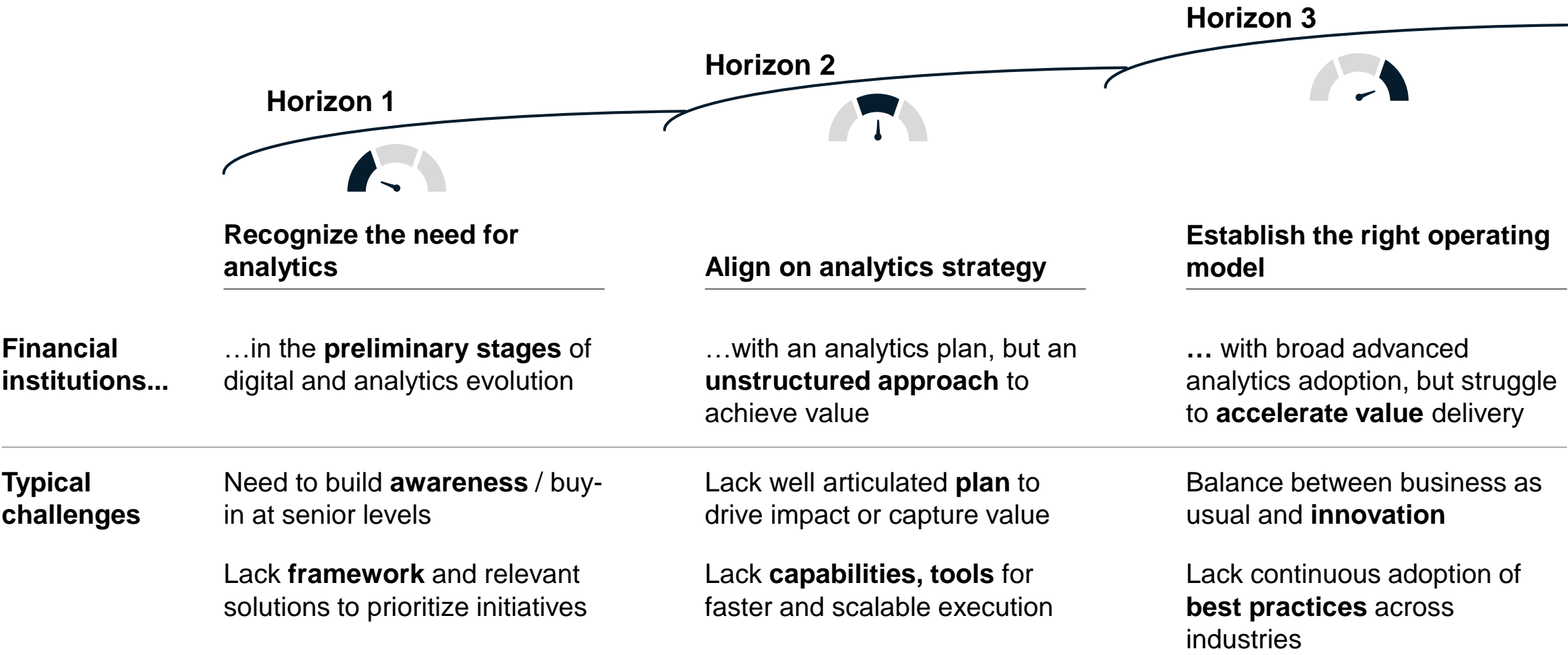
**Make purpose-driven business choices**

Pioneer new social contract

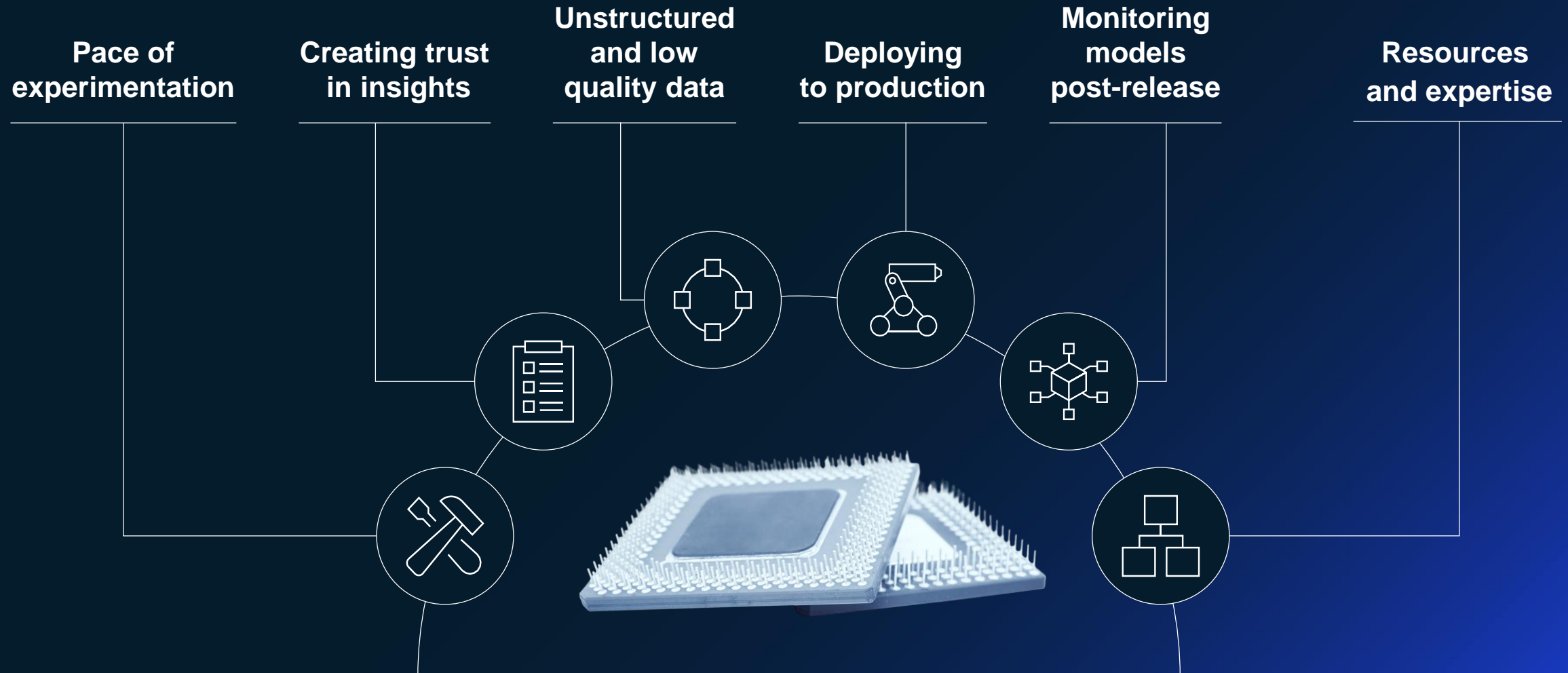
Reflect values in the business and operating model

Steer through culture

# Most financial institutions are situated on one of three horizons in terms of their analytics journey



# Organizations often face common pain points on their journey to analytics impact at scale ...



**... and tend to overlook  
significant unintended  
(or maliciously  
intended) consequences**



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## Individuals

Physical safety

Digital safety

Equity and fair treatment



Privacy and reputation

Financial health

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## Organizations

Financial performance

Legal and compliance



Non-financial performance

Reputational integrity

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## Society

National security

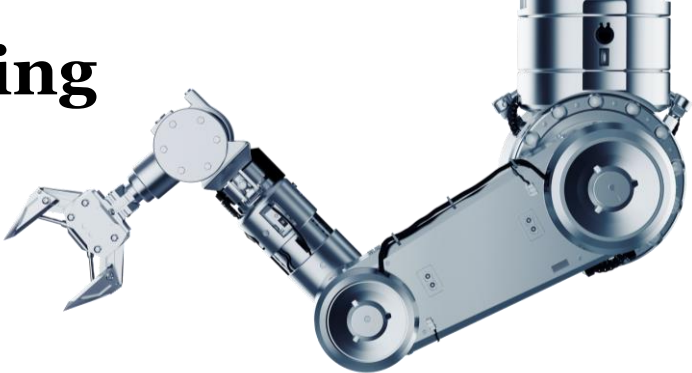
Economic stability



Political stability

Infrastructure integrity

# Big Data and Advanced Analytics are transforming the risk landscape



Illustrative Example

Impact category

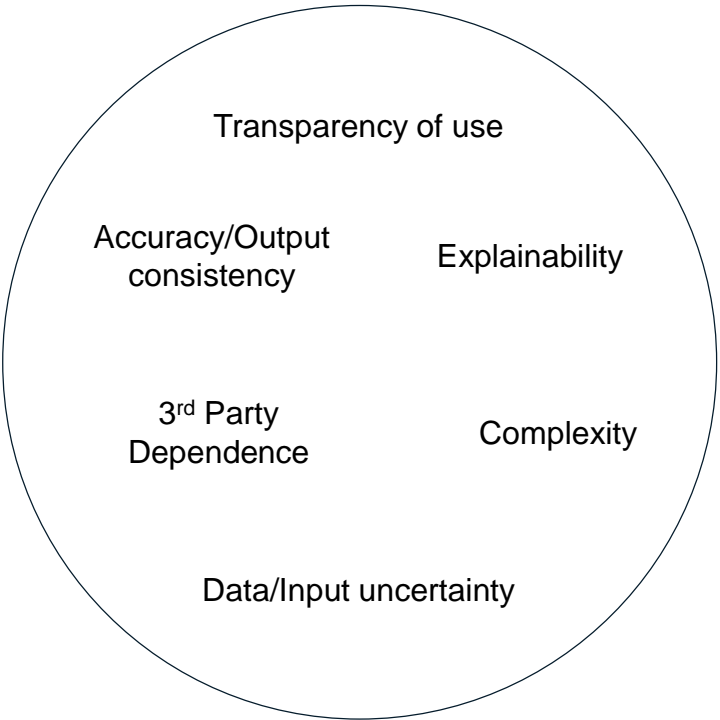
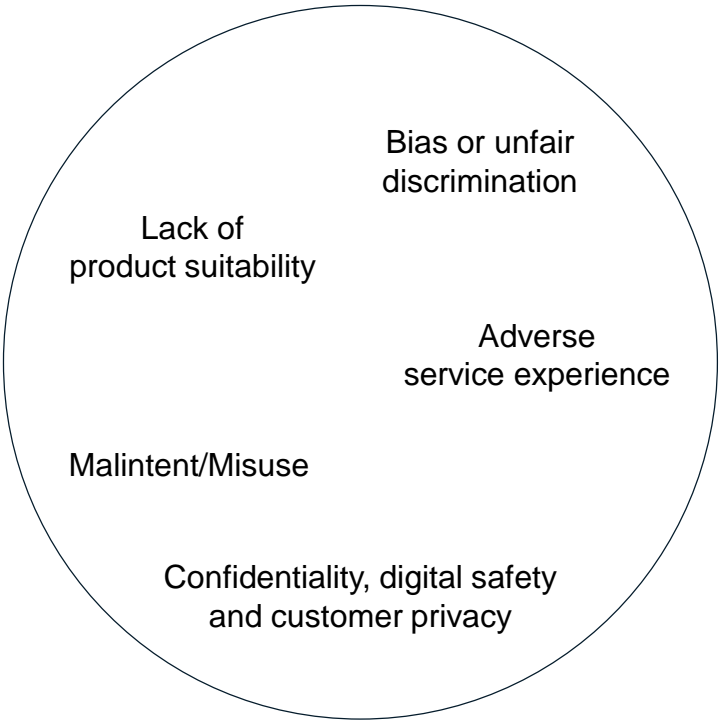


Different way and scale of manifestation for existing risk types



Increasing importance of new risk types

Relevant risk types





# Hence, the deployment of Big Data and Advanced Analytics requires fundamental actions

## Illustrative Examples



### **Vision and strategy**

Develop an overall vision and ambition, underpinned with a simple strategy, as well as a clear and prioritized roadmap for execution



### **Risk oversight framework**

Develop a thorough risk management framework to assess and oversee data and AA risks, without creating a new roadblock for innovation  
Set the principles for ethical use of AA ... and operationalise it



### **Engagement model**

Define "Compliance by design" approach for AA development; incorporating required controls/testing as part of the data and AA lifecycles  
Design processes so they explicitly address ethical issues  
Reshape business and control function oversight engagement model in an 'agile' context



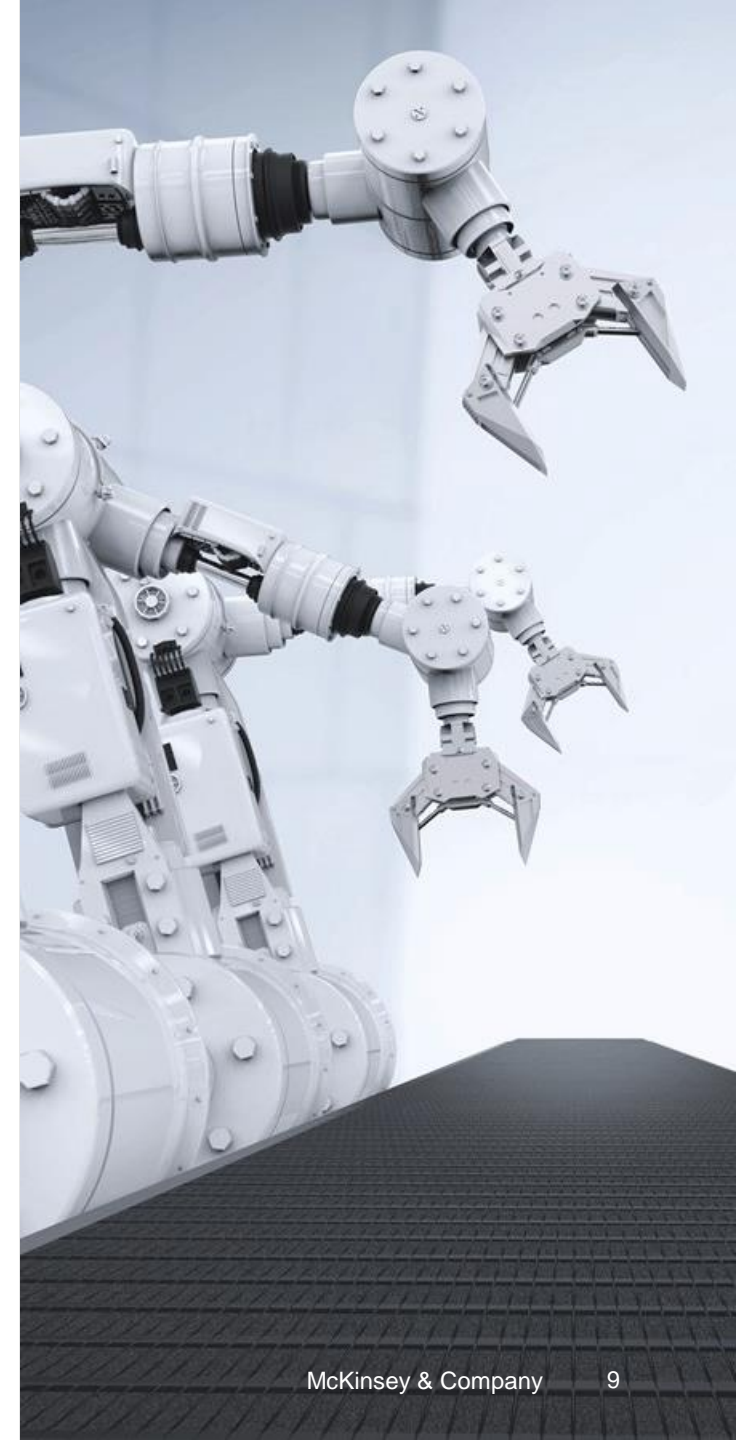
### **Capabilities and tooling**

Build analytical capabilities in the business and control function teams (both in 1st and 2nd LOD teams), source talents  
Adapt validation framework to address AA model risks



### **Culture**

Build ethical training into all the roles in the development process  
Communicate expectations for ethical use of data and AA





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Frédéric is a Partner in McKinsey's Brussels office and has more than 20 years of experience in banking and risk management. As a core leader of the firm's Risk and Resilience Practice in France and Benelux, he has led numerous engagements serving global financial institutions, focusing on strategy and risk transformation programs, digital innovation, analytics, leadership, and organization.

Frédéric is also a leader of Risk Dynamics, the risk analytics arm of McKinsey worldwide. Over the past decade, he has been instrumental in Risk Dynamics' growth across European and Middle Eastern markets and recently created the Risk Dynamics hub in Paris.

A core member of the McKinsey Public Sector Institutions Group, Frederic serves national and supranational institutions, and contributes to public debates on financial stability. He regularly facilitates executive trainings and is a speaker at key industry events, including Risk Minds International and the G-20Y Summit.

His recent work and research relate to de-risking analytics transformation, protecting financial institutions from risks posed by the increased use of big data and advanced analytics, and advising public authorities on the topic given the exponential growth of analytics adoption.

Frédéric holds a master's degree in business administration from Louvain School of Management, a master's degree in financial risk management from Université Saint-Louis - Bruxelles, a master's degree in enterprise resource planning from Solvay Brussels School of Economics and Management, and a bachelor's degree in philosophy from Université Saint-Louis, Bruxelles.