Data strategy needs a new mindset

Interview with Takehiko Nagumo, Executive Officer and General Manager of the Corporate Data Management Division, Mitsubishi UFJ Financial Group.

The ‘principles for effective risk data aggregation and risk reporting (BCBS239)’ of the Basel Committee of Banking Supervision has caused a fundamental change in the data strategies, which support business strategies, of the leading global financial institutions. Data strategy is now moving to the ‘offense’ phase to create added value through data utilization from the ‘defensive’ phase where compliance with regulations was the main focus. Mr. Takehiko Nagumo, Executive Officer and General Manager of the Mitsubishi UFJ Financial Group Corporate Data Management Division who is responsible for implementing data management for the group and is an executive board member of Japan Data Management Consortium provides Frontiers in Finance an exclusive interview about the company’s past efforts and his insight about the future.

"'Business innovation through digitization’ was set in your group business strategy,” MUFG Re-creation Initiative announced in May 2017.

Kiyomi Uchi
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Top executives acknowledging the business environment

How has the business environment and your data strategies changed before and after the implementation of BCBS239? What is your perspective as a person responsible for data governance and data management?

The importance of data in banks’ overall business management functions changed dramatically after the global financial crisis in 2008. If the underlying data was incorrect, it would be impossible to make correct calculations (e.g. capital required to cover the corresponding risks taken by the bank). And if the calculations were incorrect, executives would not be able to make appropriate business decisions. This could lead to systemic risks for financial authorities. BCBS239 was developed on the premise that this data is important.

From the ‘defense’ perspective, a variety of regulations, such as regulatory reporting, stress testing, recovery and resolution plans (RRPs), personal information protection and anti-money laundering (AML) are driven by data and have evolved. This evolution has taken place in various countries simultaneously. Financial institutions must recognize that the time to utilize data for compliance has come.

From the ‘offense’ perspective, there are also newly emerging opportunities to generate revenue by utilizing data. It’s about understanding customers to develop new products and services using technologies such as artificial intelligence (AI) on the unstructured data and big data that, previously, have not been fully utilized.

What were the triggers of top executives’ acknowledgement on the value of data and significance of investments in data?

There are two factors. The first one has to do with negative interest rates introduced by BOJ. Cutting costs and improving efficiencies of business has become more important than ever before. We now realize that various processes can be streamlined by using data and technologies well.

The second factor relates to the emergence of new technologies such as fintech and regtech. These new technologies cannot work without data. The more we consider this digital transformation, the more we realize the importance of data. We are encountering the word ‘data’ more frequently at our executive meetings. Executives are now aware that we cannot develop and implement smart strategies unless we manage the data appropriately.

Teamwork solves the shortage of data experts

“Business innovation through digitization” was set in your group business strategy,” MUFG Re-creation Initiative announced in May 2017. What initiative will be implemented, and what will be your role therein?

In our next business strategy, we have transformed our organization from ‘entity-driven’ to ‘entity-crossover’. That is, a customer- and business segment-driven business operation. In line with this, the management and utilization of data will be changed from entities (e.g. bank, trust bank and securities company) to the business segments. One of our roles will be to develop data architecture for the group to enable the utilization of the data in this manner.

As information is digitalized, it is imperative to develop an architecture in which data flows from the upstream to the downstream of business processes. The data architecture of this new era needs to take an ‘offense’ role, in which the data can add value by using AI while, at the same time, meet the conventional ‘defense’ requirements, including data governance and management. Another role that will be required is the research and development of the data architecture in this new era.

What are your biggest data governance and management challenges in support of the transformation of your business and operational models?

One of the challenges we’re wrestling with is how to visualize a data model that sits between the business model and IT. And, related to that, how do we go about reinforcing the importance of data models in the minds of company executives? Going forward, these matters will be the biggest challenges.

Unfortunately, there is a shortage of human resources that can implement data models immediately. One way to address this is to establish what I call a ‘data culture’. It will take more time. And it needs to be a widespread effort. Doing this in one division alone simply won’t work.

Also, generally speaking, Japanese companies lack an awareness of the importance of data. This is a significant challenge for establishing a data culture.

Our approach combines raising these skills in-house as well as hiring from the outside in order to expand our data-related human resources. However, the Japanese labor market is not particularly deep when it comes to data professionals. Therefore, we need to raise our skills in-house to a respectable degree. And when we hire and utilize them from outside, we also need to develop a Silicon Valley type culture that will allow failures or introducing an agile type way of thinking instead of a waterfall type. When it comes to data scientists, they need to have deep knowledge of our business, IT, mathematics and programming. However, it is very difficult to find personnel who possess these skillsets. So, it is indispensable for all financial institutions to work as a team. Teamwork is one of our true strong points in Japan. I believe there will be a chance for Japan to win if we can develop business models in which companies can compete in the skills arena the same way runners do in a 400-meter relay race, handing off the baton to one another.
It is desirable to cooperate, not compete in the ‘defense’ area of data, and it is also desirable to have a movement to develop a social infrastructure, through collaboration between governments, financial institutions, consulting companies and vendors.
Data protection and regulation

What impacts will the regulations related to the data protection such as the EU General Data Protection Regulation (GDPR) have on data governance and management?

The more corporations are global companies, the more important it will be for us to take actions in the future. The GDPR is a regulation that is creating a fresh stir, in that it requires extraterritorial application. The wave of data protection and privacy protection regulation might be spreading to other countries. If everybody moves towards protectionism, such as the relationships between protection trade and free trade, the whole value of data would be decreased; as a result, the usefulness of that data would also decrease. Although small countries tend to move towards protectionism, if they were aware of the decreasing value of their data and its usefulness by introducing the protectionism, they might reconsider free trade to increase the whole value of data.

The retail business is the most affected business in the financial institution. As we are not providing the retail service in Europe, GDPR will not affect us directly. I believe that we could overcome this by establishing an infrastructure to deal with the issues, even though we anticipate some impacts in some areas such as employees' data and entity representatives' data. As such, we carefully need to monitor these trends going forward.

What data management opportunities do you see in Japan?

Now, each company is developing data management frameworks through their own efforts and at their own expense. This is too inefficient. If we could develop something like accounting standards in the data management world, we could utilize them as a public good. It is desirable to cooperate, not compete in the 'defense' area of data, and it is also desirable to have a movement to develop a social infrastructure, through collaboration between governments, financial institutions, consulting companies and vendors. Many stakeholders would also benefit if the cost of the social infrastructure could be lowered, and competition should be focused in the areas where intelligence is required.

There are only three megabanks in Japan. If those three megabanks cooperate together and develop public goods such as data management framework and framework for standards, we could put them into practical use ahead of European and American countries. We would like to find a good solution through discussions with stakeholders.

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