

Big data and the South African financial services sector

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Changes in the way customers expect to engage with the financial services sector and increasing pressure from regulators is compelling financial services companies to come up with innovative ways to manage their data.



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Financial services businesses view information/data as a significant corporate asset. They are successfully mining data from customer interactions and from a wider pool of digitally-available information to create more relevant and sophisticated product offerings for their customers.

“Big data” is a term that describes the collection, organisation, processing and analysis of large volumes of structured and unstructured data, in real-time, to create real value for businesses. Big data can be described by the following key characteristics:

- **Volume**This refers to the quantity of data generated from a variety of sources including business transactions, social media and information from sensor or machine-to-machine data. This type of data cannot be reviewed by conventional software and is generally difficult to store.
- **Variety**The data ranges from structured, numeric data in traditional databases to unstructured text documents, emails, videos, audios and financial transactions.
- **Velocity**The data is created and updated frequently and can be analysed in real time.

The use of big data will become more established and entrenched as the amount of data generated in the financial services sector and the ability of businesses to glean useful insights from that data increases. In 2015, IBM reported that the world creates 2.5 quintillion/ 10¹⁸ bytes of data every day. It is also estimated that worldwide revenues for big data and analytics will exceed \$203bn in 2020. It is difficult to over-estimate the impact of big data on the financial services sector, as it is probably the most data-intensive sector in the global economy.

The real strategic value of big data lies in the insights it provides to organisations into the behaviour of customers and competitors' customers when developing, fine-tuning and pricing new products, which represents an opportunity to gain competitive advantage.

To unlock the value of the big data revolution, financial services businesses will need to partner with big data software specialists to properly analyse the right data faster and at lower costs. In the longer term, and as big data continues to inundate financial services businesses, IT infrastructure will need to be overhauled to maintain those businesses' ability to process high-volume, high-velocity and high-variety data in real time to add value.

Legal and commercial considerations

To properly leverage big data and continue to innovate in the financial services sector, financial services businesses must consider a number of legal and commercial considerations.

Financial services businesses globally have already been criticised for their use and commercialisation of big data and the impact this has had on privacy and data security. Since a large amount of the big data generated in the financial services sector contains personal information (of individual customers and businesses), it is essential for South African financial services businesses to ensure that the information/data collected, processed, transferred and/or stored will meet the thresholds prescribed by the Protection of Personal Information Act 4 of 2013.

It is also important for financial services businesses to take account of the considerations that apply to licensing software from third parties for the purposes of organising and analysing big data. When licensing this software, it is essential that the licence clearly sets out who will hold the licence to use and analyse the data and what the purpose of the licence is. In addition, it is important that the licence sets out an implementation schedule detailing the various milestones and acceptance criteria, which should be linked to the payment terms.

To take advantage of the assortment of big data created, it is not unusual for financial services businesses to combine their own data with data owned by third parties. In this event, the third party data must be properly licensed to the financial services businesses, taking into account the intended purpose of the licensed data and whether it is necessary for that data to be sublicensed to a third party software licensor.

It is also essential for all data licences to properly govern the ownership and use of the intellectual property rights in any new data that is created as a result of the data analysis process. Moreover, licences should contain specific warranties related to ownership and use where third party intellectual property rights have been used in the creation of new data.

To successfully compete in this consumer-centric environment, it is increasingly clear that businesses, including those in the financial services sector, must leverage their information/data assets in a lawful manner to gain a comprehensive understanding of markets, customers, products, competitors, employees and regulations. The businesses that master this, and get a firm hold on all the legal and regulatory compliance requirements, will set the trend in customer services, increase profitability and will be geared to adapt more efficiently to the ever-changing regulatory and competitive demands of the financial services industry.

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