Risk Practice

COVID-19: Briefing note #61, June 30, 2021

How do we make technology rise to our aspirations?
Part of the great reset, as companies and countries envision a post-COVID-19 future, is rethinking how technology can serve our needs. Science-fiction scenarios may depict computers developing minds of their own, but the work of updating algorithms, adjusting risk models, and deciding how data will be leveraged is still very much a human job. This week, McKinsey made the case for why open-data ecosystems for finance is the next frontier and examined the technology rethink required in retail, insurance, banking, automotive, photonics, and biotech.

Robust digital financial infrastructure proved its worth during the COVID-19-crisis, helping governments cushion people and businesses from the economic shock. The McKinsey Global Institute discusses the next step: economies that embrace data sharing for finance could see GDP gains of between 1 and 5 percent by 2030, with benefits flowing to both consumers and financial institutions. The research examines 24 use cases in banking and payments, focusing on the European Union, United States, United Kingdom, and India (exhibit).

Exhibit
Open-financial-data ecosystems can scale to create significant potential economic gains.

<table>
<thead>
<tr>
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<th>Largest potential gains</th>
</tr>
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<tbody>
<tr>
<td>India</td>
<td>31</td>
</tr>
<tr>
<td>UK</td>
<td>27</td>
</tr>
<tr>
<td>US</td>
<td>39</td>
</tr>
<tr>
<td>EU</td>
<td>19</td>
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</tbody>
</table>

Note: Estimated potential value assumes standardization and breadth of sharing of financial data as well as robust data privacy and consent frameworks, widespread access to digital financial infrastructure including digital ID, and regulations enabling strong product innovation.

1Micro, small, and medium-size enterprises, defined by the International Finance Corporation (IFC) as enterprises with sales and/or assets less than $15 million and/or with fewer than 300 employees.
2Know your customer data.
3Customer relationship management.
Source: Experian; Glassdoor; IFC; International Monetary Fund; OECD; Refinitiv KYC survey; various national sources and databases; World Bank Global Findex database; Zillow; McKinsey Global Institute analysis

Estimates of potential gains from open data for finance by 2030

<table>
<thead>
<tr>
<th></th>
<th>Increase in individuals receiving credit, thousand individuals</th>
<th>Time saved by MSMEs¹ through automated KYC,² million hours per year</th>
<th>Increased deposit yields through easier account switching, $ per account per year</th>
<th>Cost reduction from streamlined data entry into CRM³ systems, % of financial-sector revenue</th>
<th>Fraud cost savings, % of banking revenue</th>
<th>Targeting of collections teams toward high-risk borrowers, thousand hours saved per year</th>
<th>Reduction in total ad impression costs for financial services, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>12,800</td>
<td>175</td>
<td>2</td>
<td>2.0</td>
<td>3.8</td>
<td>60</td>
<td>31</td>
</tr>
<tr>
<td>UK</td>
<td>640</td>
<td>1</td>
<td>133</td>
<td>3.3</td>
<td>0.7</td>
<td>92</td>
<td>27</td>
</tr>
<tr>
<td>US</td>
<td>4,025</td>
<td>29</td>
<td>87</td>
<td>5.6</td>
<td>1.2</td>
<td>495</td>
<td>39</td>
</tr>
<tr>
<td>EU</td>
<td>20</td>
<td>9</td>
<td>126</td>
<td>2.9</td>
<td>0.9</td>
<td>24</td>
<td>19</td>
</tr>
</tbody>
</table>

Increased access to financial services
Greater user convenience
Improved product options
Increased operational efficiency
Better fraud protection
Improved workforce allocation
Reduced friction in data intermediation

Note: Estimated potential value assumes standardization and breadth of sharing of financial data as well as robust data privacy and consent frameworks, widespread access to digital financial infrastructure including digital ID, and regulations enabling strong product innovation.
The retailer of the future will harness the power of data, quantum computing, artificial intelligence, and augmented reality, says serial entrepreneur and senior adviser to McKinsey John Straw on the McKinsey on Consumer and Retail podcast. The biggest mistake retail companies make? Unwillingness to invest in something that doesn’t automatically feed the bottom line. The biggest win: using cutting-edge technology to give consumers a way of envisioning their lives if they go ahead and buy.

In a McKinsey Quarterly interview, Bart Schlatmann, the CEO of Allianz Direct, discusses how to build a scalable, new, digital business inside of an older, more established company. The direct-to-consumer insurance business inside financial-services giant Allianz serves multiple European markets on a single platform. The CEO’s first move was to put himself under pressure: with approximately 70 engineers, he promised to launch a business in two markets within 18 months.

The COVID-19 pandemic created significant challenges for financial institutions in both modeling and model-risk management. Institutions should use six strategies to update their models, including using agile modeling, upgrading data architecture, and embracing automation.

Batteries and fuel cells get the attention, but hydrogen combustion is a nascent zero-emissions technology that some automotive OEMs, component suppliers, and start-ups are reconsidering. Low capital-expenditure requirements for combustion engines, decreasing hydrogen prices, and the relative efficiency of some types of vehicles are making this technology, once considered too expensive, increasingly relevant.

Another technology ripe for reinvention is photonics. Although the laser market has steadily increased since the 1970s, innovation and revenue growth have slowed over the past decade. The creation of integrated devices combining lasers, sensors, and optics could usher in a new age of opportunity. Europe's biotech industry has remained resilient through one of the worst economic crises in decades. Despite a brief downturn in 2020, share-price evolution has been positive overall since the beginning of the pandemic, and funding continues to grow at a record rate. Future success will depend on improving the translation of research into new companies, raising more capital, cultivating entrepreneurial talent, and building global networks.

Here are some other key findings from our sector research this week:

— A McKinsey Global Institute survey of 18,000 people in 15 counties identified 56 foundational skills that can help future-proof workforces. One revelation: though numerous skills are associated with having a university degree, for “self-confidence,” “courage and risk-taking,” and “empathy,” there is no such association. Scholars can puzzle over this: more education was associated with lower proficiency of some valuable traits, such as “humility.”

— The combination of increased burnout among women and the hold placed on diversity and inclusion initiatives has put consumer-goods and retail companies at a greater risk of losing diverse talent. Companies should ensure flexible work and employee well-being and create programs to promote diverse hiring and promotion.

Our most recent edition of McKinsey for Kids introduces younger audiences to mangrove forests and explains why building a business case for mangroves can help protect Bengal tigers and king cobras. For more perspectives, please see the full collection of our coronavirus-related content, visual insights from our “chart of the day,” a curated collection of our first 100 articles relating to the coronavirus, our suite of tools to help leaders respond to the pandemic, and how our editors choose images that help readers visualize the impact of an invisible threat.