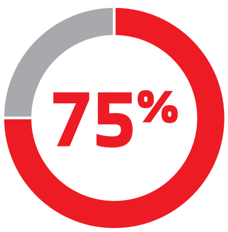
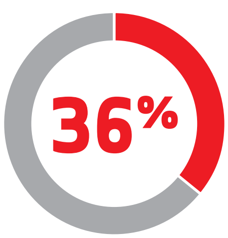
How technology is changing industries

FINANCIAL SERVICES

THE DIGITAL DIVIDEND: FIRST MOVER ADVANTAGE



OF FINANCIAL SERVICES RESPONDENTS SAID THEIR OFFERINGS HAD AT LEAST MODERATELY CHANGED AS A RESULT OF NEW TECHNOLOGY



OF FINANCIAL SERVICES RESPONDENTS SAID THEY WERE AHEAD OF THEIR COMPETITORS IN USE OF NEW TECHNOLOGIES

Technologies such as cloud, mobile, M2M, social and analytics are high on corporate agendas worldwide. But how do businesses really view these new technologies? And, more importantly, what effect are they having on how companies operate?

In a report sponsored by Verizon, Harvard Business Review Analytic Services surveyed 672 professionals about their views on technology. The respondents represented all key organizational functions, a broad range of business sizes, many countries around the world, and seven key vertical sectors. This document focuses on the 82 financial services respondents we spoke to, and how they compare with the rest.

ATTITUDES TOWARD TECHNOLOGY:

FAST FOLLOWERS

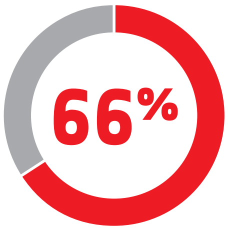
Financial services has a reputation for conservatism, and as one of the most highly regulated and security-conscious sectors, it's easy to see why. Yet in their adoption of technology, financial services firms show impressive agility.

Although most financial services respondents in our research are "fast followers", not pioneers, they embrace the technologies they adopt and make them central to the business. A full 36% said they were ahead of their competitors in use of new technologies, and 68% say they'd moderately, significantly or completely changed their core business strategy in the past three years.

Perhaps more tellingly, financial services firms are building new technologies directly into their products and services more than nearly any other sector. 75% of respondents said their offerings had at least moderately changed as a result of new technology within the past three years, compared to an average of 68%.

HOW HAVE YOUR CORE BUSINESS STRATEGY AND BUSINESS MODEL CHANGED?	ALL RESPONDENTS	FINANCIAL SERVICES
Completely transformed	6%	2%
Significantly changed	26%	29%
Moderately changed	34%	37%
Slightly changed	24%	26%
Not changed at all	11%	6%

WHERE TECHNOLOGY'S MAKING A DIFFERENCE



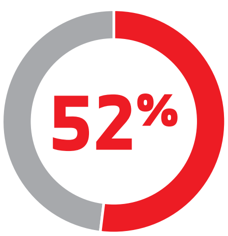
CITED CUSTOMER EXPECTATION AS THE PRIMARY DRIVER BEHIND TRANSFORMATIONS

Changing customer expectations are the primary driver behind these transformations, cited by two thirds (66%) of respondents. This outweighs the potentially dampening effect of the other two main drivers: increasing regulation (at 62%, nearly double that of the average) and cost savings (45%).

WHAT ARE THE PRIMARY FACTORS DRIVING CHANGE IN YOUR MARKET?	ALL RESPONDENTS	FINANCIAL SERVICES
Changing customer behavior and expectations	65%	66%
Commoditization/drive for cost saving	45%	45%
Increased regulation	33%	62%
Increased availability and use of market/customer data	29%	32%
Substitution of new products or services	23%	15%
Disruptive new entrants/fragmentation	23%	23%
Industry consolidation	22%	21%
Over-supply of products or services	13%	10%
Scarcity	5%	0%
Deregulation	5%	1%

Respondents say that technology is most likely to affect marketing and customer service functions, and less likely to affect R&D and supply chain — possibly reflecting the smaller role these functions have in the finance sector.

Given that technology has affected products and services, and marketing and customer service functions, it's no surprise that financial services respondents were more likely than average to report that technology has delivered positive effects in responsiveness to customers (78% vs 72%), market insight (67% vs 62%), and employee productivity (70% vs 65%).



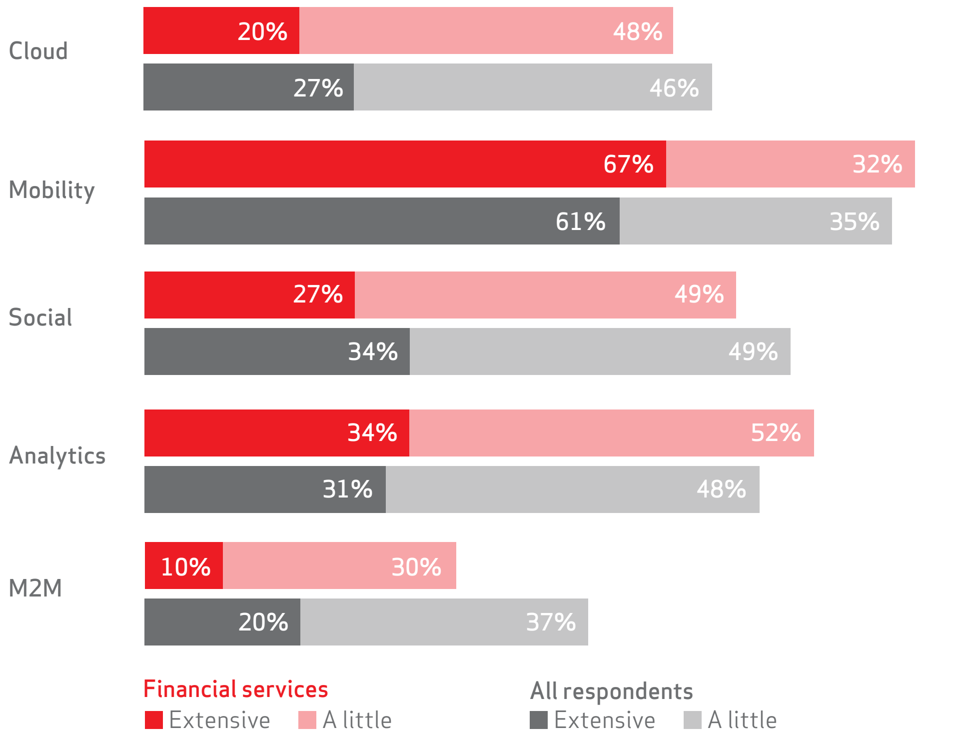
OF FINANCIAL SERVICES RESPONDENTS SAID THAT SOCIAL HAS AFFECTED CUSTOMER SERVICES

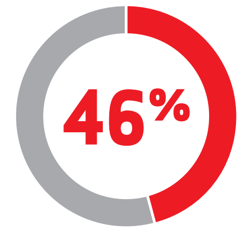
HAS YOUR USE OF NEW TECHNOLOGIES SOMEWHAT OR SIGNIFICANTLY INCREASED THE FOLLOWING?	ALL RESPONDENTS	FINANCIAL SERVICES
Responsiveness to customers	72%	78%
Collaboration within our business	65%	63%
Employee productivity	65%	70%
Market insight	62%	67%
Security of our data	61%	65%
Differentiation from competitors	54%	56%
Ability to access global markets	53%	50%

WHICH TECHNOLOGIES THEY'RE USING AND WHY

When it comes to specific adoption of new technologies, financial services is marginally ahead of the average in use of mobility and analytics, and behind the curve in cloud, social and M2M.

To what extent has your company adopted the following technologies?





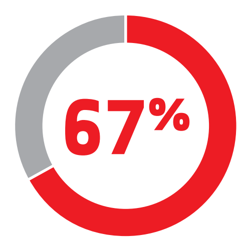
OF FINANCIAL SERVICES RESPONDENTS SAID LEGACY SYSTEMS ARE STOPPING THEM FROM ADOPTING NEW TECHNOLOGY

CLOUD:

USE LIMITED BY LEGACY AND REGULATION

Only 20% of financial services respondents make "extensive" use of cloud, and 29% don't use it at all — this is due to three main barriers.

- Financial services firms are often encumbered by legacy systems (46% cited it as the primary obstacle to taking advantage of new technology, compared to the average of 34%) — while cloud promises a way out, the actual migration, particularly of core production systems, can seem daunting.
- As we saw above, regulation, particularly around security and privacy, is a major driver in financial services. When asked, they were less likely than other sectors to say that cloud has a positive effect on data security. And 50% — the highest of any sector — say that they're not using cloud because it's "too risky".
- Lastly, there's the business case. 21% say it has no proven ROI. Given that 44% of financial services firms are fast followers, there's a significant element of "wait and see" at play here.

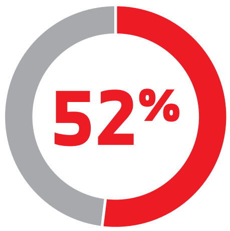


OF FINANCIAL SERVICES RESPONDENTS USE MOBILITY "EXTENSIVELY"

MOBILITY:

EXTENSIVE USE IN PRODUCTS AND CUSTOMER INTERACTIONS

More than two thirds of financial services respondents (67%) use mobility "extensively", compared to 61% average across all industries. Given that this sector's use of technology is often to support customer-facing functions, and its reliance on individual employees to build customer relationships and make expert decisions, mobility is a natural fit for financial services. In terms of individual business functions, 60% of financial services respondents said that marketing, sales and customer engagement had been significantly affected by mobile, ahead of the average of 50%. Mobile also plays a huge role in financial services products (for instance, mobile banking) — 47% cited this area of their business, much higher than any other industry.



OF FINANCIAL SERVICES FIRMS DON'T USE M2M AT ALL

SOCIAL:

USED FOR CUSTOMER SERVICE

22% of financial services respondents don't use social and collaboration technologies at all — the highest of any sector. When asked why, 50% cited cultural resistance to change. This is where we start to see financial services' conservative reputation at work. Yet where social is used, it's primarily in marketing, sales and customer services. 52% of financial services respondents say that social has affected customer services, vs 38% in all industries. Undoubtedly this will be driven by retail banking and insurance providers using social as part of a coordinated multichannel strategy. But interestingly social also plays a role in products — 34% vs 24% average — the highest of any sector. This may reflect social being used internally for collaboration, in partnership with mobility.

ANALYTICS:

INSIGHTS FOR CUSTOMER STRATEGY

Analytics plays a clear role in forecasting risk, customer profiling and other business decisions, whether in retail banks, insurers or trading. So it's no surprise that 34% of financial services firms already use advanced analytics "extensively". While this is slightly above the all-industry average, we expected it to be higher, especially since 32% of financial services respondents said that "increased availability of market/customer data" was a primary factor driving change in the market.

Financial services respondents say that analytics has affected marketing and customer engagement (51%) and product offerings (39%), both ahead of the all-industry average. Where financial services firms don't use analytics, 44% cite cost and 44% cite cultural resistance to change, both significantly ahead of the average. Importantly, no respondents said that analytics was inappropriate for their customers or markets — it's a case of when, not whether, to use it.

M2M:

EMERGING APPLICATIONS

A full 52% of financial services firms surveyed don't currently use M2M, compared to 34% across all industries. Why? 37% said that M2M was not appropriate for them, and a third said they didn't know why they weren't using M2M. M2M today is most established in areas such as security, asset tracking, vehicle fleet management, smart metering and management of industrial and supply chain assets. However, several M2M applications are gaining traction in specific segments of financial services — such as wireless ATMs, wireless branch back-up, mobile tablet-based integrated POS and payments solutions, proximity solutions, and Usage-Based Insurance.

Across all the technologies we researched, marketing, customer services and product offerings were the parts of the business most affected. The M2M applications listed above offer the promise of better customer engagement, improved customer service, product modernization and address the right priorities for financial institutions.

How we can help:

At Verizon we combine deep insights into your industry with a broad range of innovative solutions in technologies such as cloud, security, M2M, mobility and intelligent networks — helping you to achieve your potential.

NEXT STEPS

Our research makes it clear: across all sectors, technology pioneers outperform their competitors. If you're in the same position as many of the financial services companies we surveyed, you're unlikely to be a technology pioneer today, although you may be aware of the benefits technology brings.

If you're to realize greater benefits, there are barriers to overcome. 46% of those we surveyed said they were held back by legacy systems, and security concerns were cited by 24% of respondents. That's not surprising, given the nature of your industry.

Cultural changes can foster innovation and help manage the risks associated with new technology deployments. The results will sharpen your competitive edge.

To get a comprehensive picture of how organizations in all industries are using technology right now, download the full report: verizonenterprise.com/resources/insights/hbr

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