

Two Years On: The Financial Services Landscape

Is your organisation super-powered?



shaping tomorrow with you

Missed opportunities?

The technology divide in financial services



Introduction

For the second time in two years, Fujitsu has conducted a major piece of research evaluating the thinking of IT “decision makers” (i.e. those with responsibility for making or shaping major IT purchases) within the UK financial services sector.

The first survey - run in summer 2012 - told the story of a sector in the midst of significant change. Still coming to terms with a world in which budget reductions and efficiency measures ruled, the financial services (FS) industry seemed to find itself with myriad new technology options to contemplate too. From Cloud to mobile, new tools presented opportunity and challenge in equal measure.

Two years on, this report revisits those issues. It builds on the findings of the 2012 report, and serves as a benchmark for the adoption of Cloud, mobile and big data within FS. It reveals much on attitudes towards those technologies, as well as the benefits they deliver and the barriers that prevent them from being implemented more broadly.

As we will come to see, while much progress has been made, organisations continue to miss out on the plentiful opportunities that these technologies present. From better customer experiences to reduced costs, how many FS companies are failing to capitalise on benefits that are becoming commonplace in other fields?

Who, then, is leading the charge; standing head and shoulders above the rest and embracing technology to deliver more for their organisations and customers? What technologies could make you a superhero in financial services IT?



Cloud: silver linings or brewing storm?



Cloud presents a range of possibilities and benefits to organisations of all kinds. For those in the FS sector, Cloud provides the opportunity to draw on greater powers to aid in the running of any number of resource intensive applications and services at lower cost. Cloud can also present the opportunity to centralise risk management and improve resilience and security.

And there seems to be clear hunger for this power, too; independent research cited by *The Economist* in July 2013 suggests that financial services firms could spend as much as \$26bn on Cloud offerings by 2015¹. Little wonder that Alan Grogan, chief analytics officer at RBS has called for an overall "FS Cloud" in the UK, making it easier for those organisations to draw on its power².

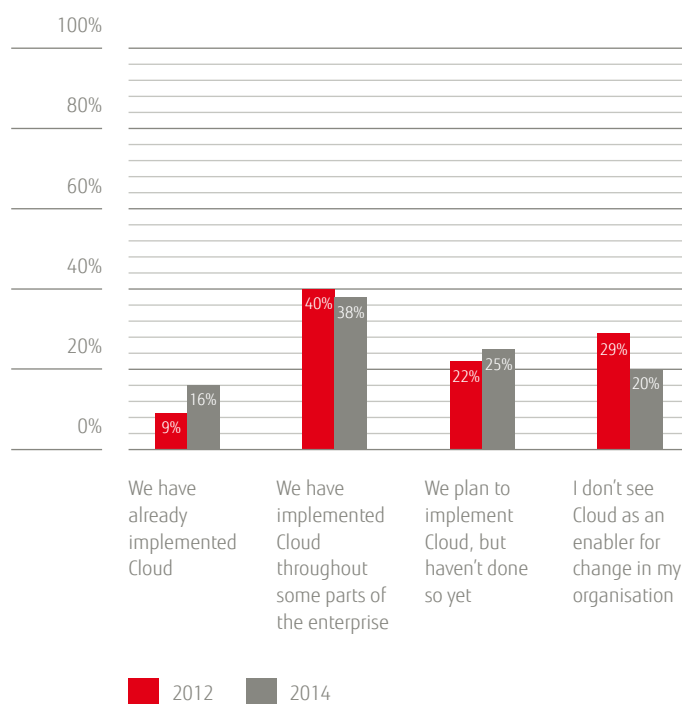
Have all FS organisations seen that potential, though? To find out, we asked them whether or not they had implemented it in their organisation.

Responses were mixed. While the number of respondents saying that they have implemented Cloud across their organisation has nearly doubled since 2012, in real terms this only represents an increase from 9% to 16%. Elsewhere, those who have implemented Cloud through part of their organisation has actually dwindled, falling from 40% in 2012 to 38% today, though this is likely the result of the increase amongst those with Cloud implemented.

Cloud, like many overarching technologies, can be an amorphous term. For the purposes of this research, and to help define it in the minds of our audience, we framed Cloud as "a flexible, scalable, pay-per-use model for the way IT services are delivered and consumed, including business processes, corporate data, applications, servers & storage".

While there are promising signs – the number of those who *don't* see Cloud as an enabler for change dropping from almost 30% in 2012 to 20% now – there is an inescapable sense of stagnation in Cloud adoption. Despite the numerous benefits it presents, and the increased recognition of those benefits, Cloud adoption appears to be slow with the FS sector. Even over a two year period, gains have been slight. Overall, Cloud appears to have stalled.

Q. If you view Cloud computing as a key enabler of change within your organisation, please select one of the following.



What's standing in the way of complete Cloud cover?

Cloud seems to be an increasingly attractive proposition for some FS organisations, but even two years on from our last survey, less than a quarter of FS firms have implemented it throughout their business. What is holding them back?

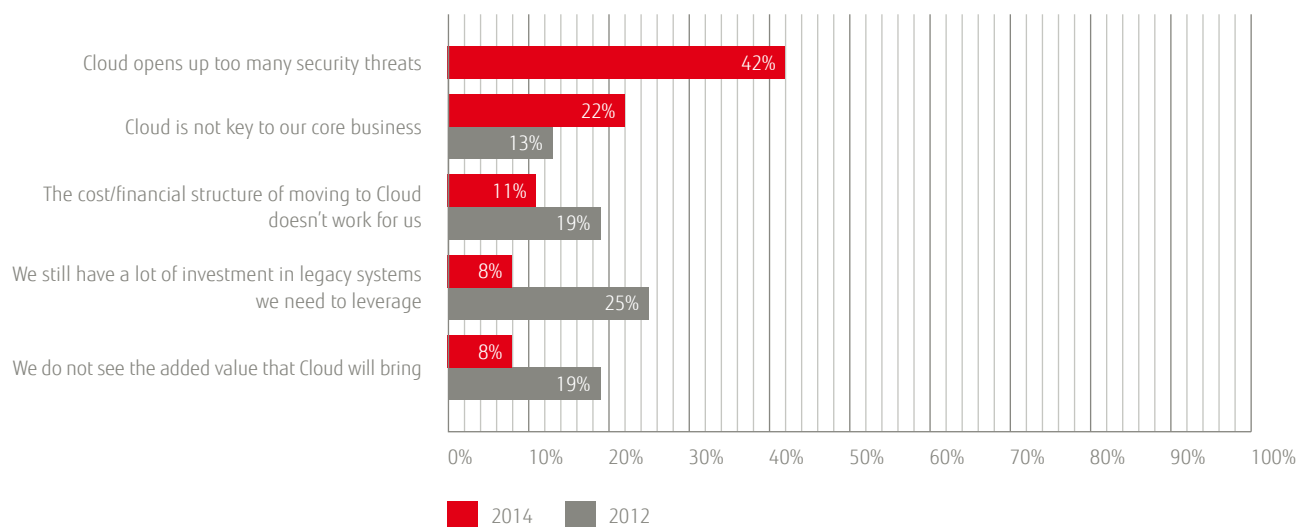
While there are regulatory issues at play – FS organisations needing to comply not only with the FCA and PRA but with MiFID rules too – the major issue seems to be not one of compliance, but of security.

Of those who neither use Cloud today nor are planning to in the future, nearly half said that they believe that it opens up too many security threats. And this was by far the dominant concern. While around a fifth suggest that Cloud isn't key to their core business, concerns over cost, legacy systems or "added value" were of little importance, cited by just 10% of the survey.

This presents cause for concern. While security should be a priority for any IT deployment, it shouldn't be the blocker standing in the way of a technology with the vast potential of something such as Cloud. When it comes to Cloud security, a CIO's objective remains the same as ever: to understand and manage risk. But perhaps the biggest risk of all is not embracing the opportunities Cloud has to offer.



Q. Please select a statement below as to why you do not see Cloud as an enabler for change in your organisation.





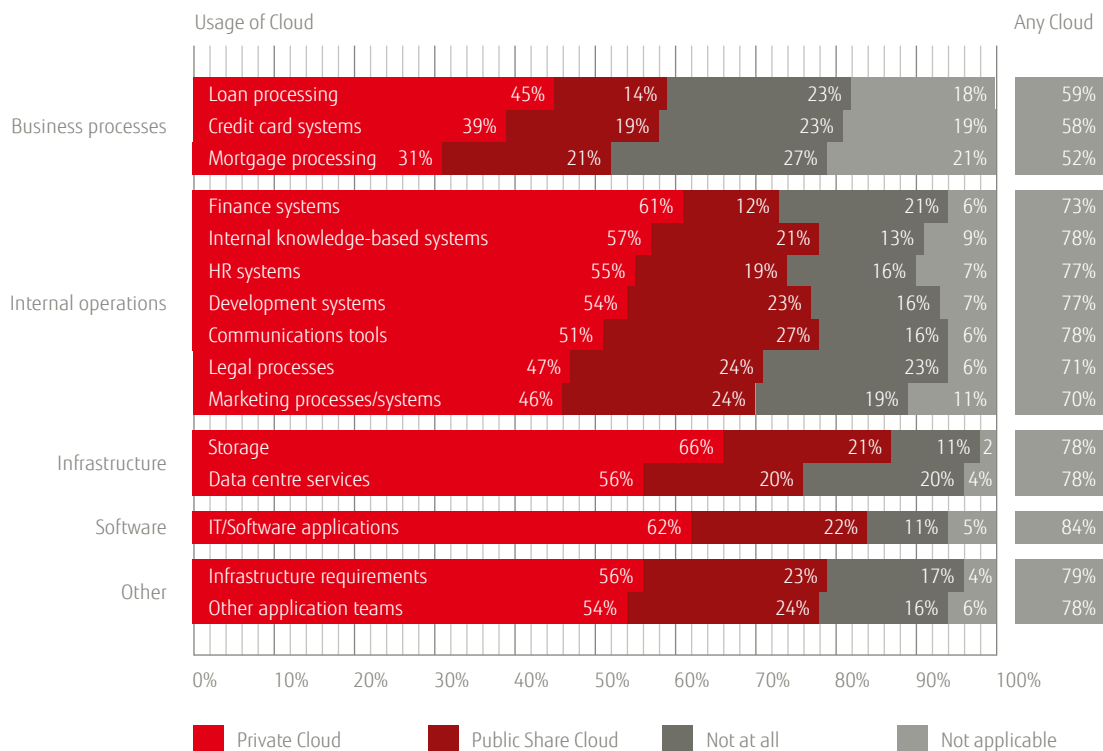
How is Cloud used?

Amongst those already using Cloud – or planning to do so in the future – we examined which processes, operations or other services are organisations choosing to run via Cloud.

As could be expected – and in line with concerns over security – it tends to be the non-customer centric processes that make their way Cloudwards. Around three quarters of those using Cloud do so for internal operations – from finance systems to marketing processes – whether via private or public platforms. The number of organisations with Cloud deployments of storage and software is higher still, pushing towards 90% utilisation.

At the other end of the spectrum, less than two thirds of financial services organisations put any critical customer services into the Cloud. Loan processing, credit card systems and mortgage processing all score poorly for Cloud adoption. Utilisation of public shared Cloud is notably lower here too.

Q. Please illustrate where you plan to/are using Cloud for various parts of your business.



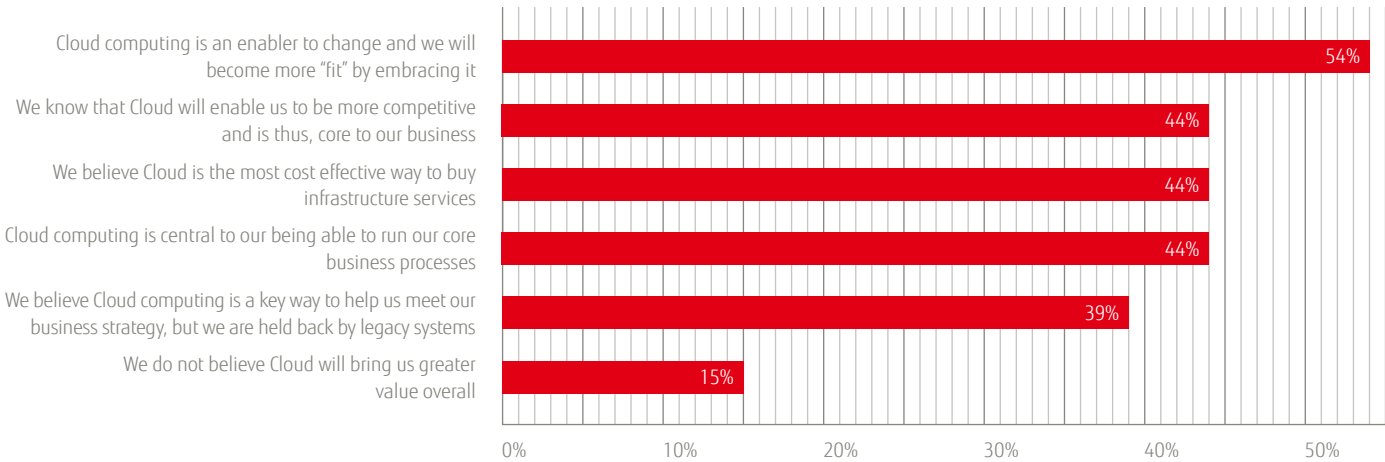
Missing out on a range of benefits

There is a strong perception that those yet to embrace Cloud are missing out. Questioned on the benefits that Cloud offers, around half of respondents noted that Cloud enables them to be more competitive, that it is a cost efficient way of buying services, is central to core business processes and even key to delivering on business strategy.

This clear perception as to the benefits that Cloud can bring provides a very real indication of the sense of missed opportunity felt by those who find themselves unable to move their business into that space and, of course, a very real fear that competitors will get their first.



Please select which of the following statements you agree with.



Mobile: left to our own devices?



Mobile apps and services present banks, insurance companies and their customers with an enticing range of new options. For the companies involved, mobile can be an innovative way of reaching out to customers on the move, putting their services – literally – in their customer's pockets. For the customer, it provides a convenient and fast way of accessing services wherever they are.

That convenience is seriously attractive, according to statistics released earlier this year by Mintel – more than a third of UK adults stating that they are interested in making payments via their mobile phone³. Indeed, statistics from an independent piece of research suggest that more than half of 18-34 year olds say they have accessed banking on smartphone or tablet, either via app or mobile web⁴.

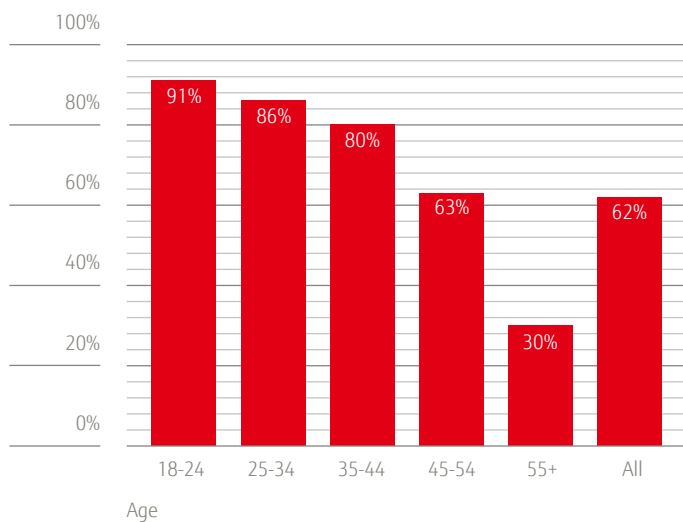
As with Cloud, mobile is a broad term and may relate to any number of services. In the instance of this research, mobile relates not to a device strategy for the organisation in question (i.e. an approach to BYOD in FS), but services, products and applications offered to customers via mobile device. In many ways, questions here also cover the organisation's "digital" strategy, as they relate specifically to mobile services delivered via the internet.



That trend could gather pace in the coming years, too. Smartphone penetration in the UK stands at 62% of the population, according to statistics from the Mobile Marketing Association-backed *Our Mobile Planet*.



Smartphone penetration in the UK, 2013 (*Our Mobile Planet*)



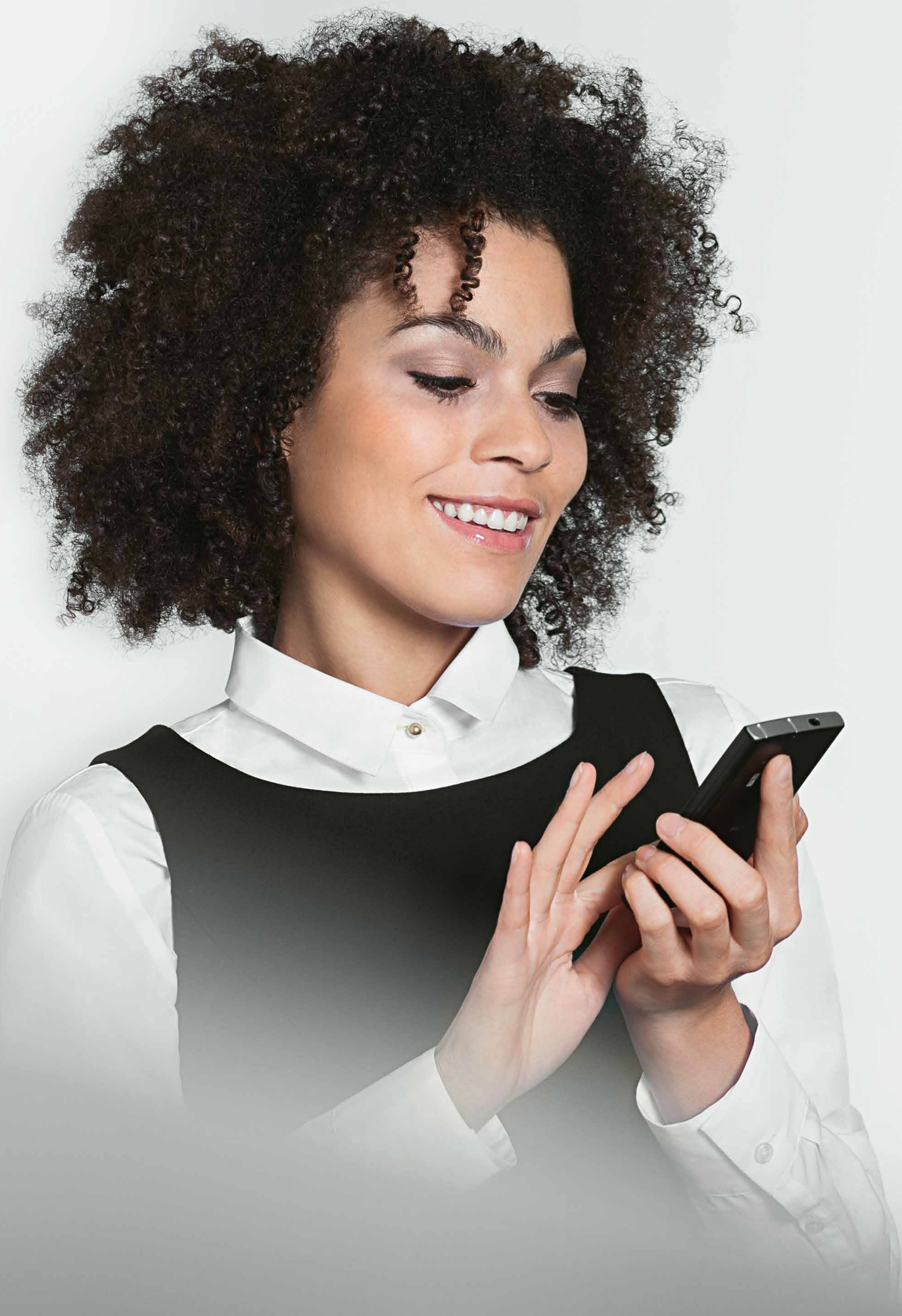
That statistic is heightened considerably by the 91% of 18-24 year-olds and 86% of 25-34 year-olds currently in possession of a smartphone.

The launch of services like Paym are undoubtedly founded on the expectation that the younger generation will look to their phones for financial services in the future. How well equipped – or, indeed, how willing – are FS organisations to rise to that demand?

The answer, as could be expected, tends to vary considerably depending on the turnover and, sometimes, size of the organisation in question. In the highest bracket, for instance (organisations with a turnover exceeding £5bn), almost three quarters have a mobile strategy in place (71%). For those at the lowest end of the scale (turnover under £100m), this dwindles to just 46%.

When taking turnover out of the equation though, it becomes difficult to ignore the finding that almost half of UK FS organisations say that they do not currently have a strategy to invest in the development of mobile offerings. That percentage has in fact risen since our 2012 survey, up to 48% now from 44% then.

With demand beginning to surge for mobile services, those businesses not pursuing it run the risk of failing to give their customers what they want. And, once again, security lies at the heart of the problem.





Security heads the agenda again

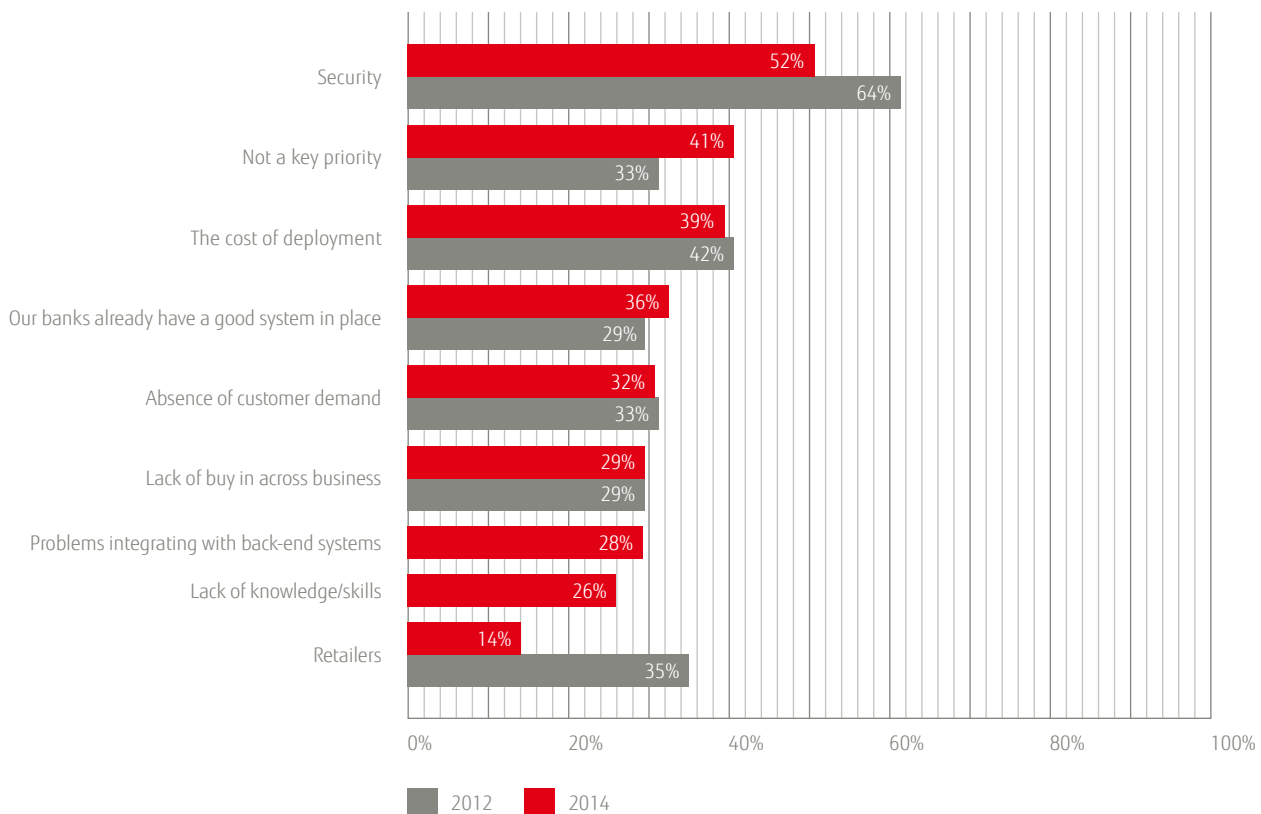
Security concerns are a major blocker on the path to mobile adoption. More than half of those surveyed cite security as an issue. While there has been progress since 2012 (security concerns dropping from 64% then to 52% today), it seems that more needs to be done to prove the security of corporate content viewed from outside business IT boundaries in the mobile world.

As with Cloud, this is worrying. Two years on from our previous research, we had expected to see greater strides taken in the adoption of a technology that can offer significant gains to FS firms of all kinds. Security is seen as more of a problem than the cost of deployment, lack of knowledge or skills and even issues integrating with back-end systems, all issues that we would have expected to place higher on the list of worries when it comes to mobile.

While the number of those concerned about mobile security has actually fallen in the past two years (down to 52% from 64% in 2012), we believe that given the innovation and introduction of new technologies over recent years, particularly in areas such as virtualisation and centralisation, this figure is still too high.

As with any kind of technology deployment, security should be the safety net on which it's based – not the web that stands in the way of embracing it. Perhaps the biggest risk of all is that existing customer engagement models will no longer be relevant to a generation demanding the instant access to services that mobile technologies can offer.

Q. What are the biggest barriers to deploying a successful mobile offering?





Gathering pace, but more to be done

While security is the dominant barrier in mobile, there are also suggestions that mobile might not be a key priority, or that customers simply don't want it. These thoughts seem to be misplaced. Beyond the figures cited previously relating to mobile banking adoption amongst the young, our own findings reveal that some of the greatest benefits of a mobile strategy lie in the customer experience.

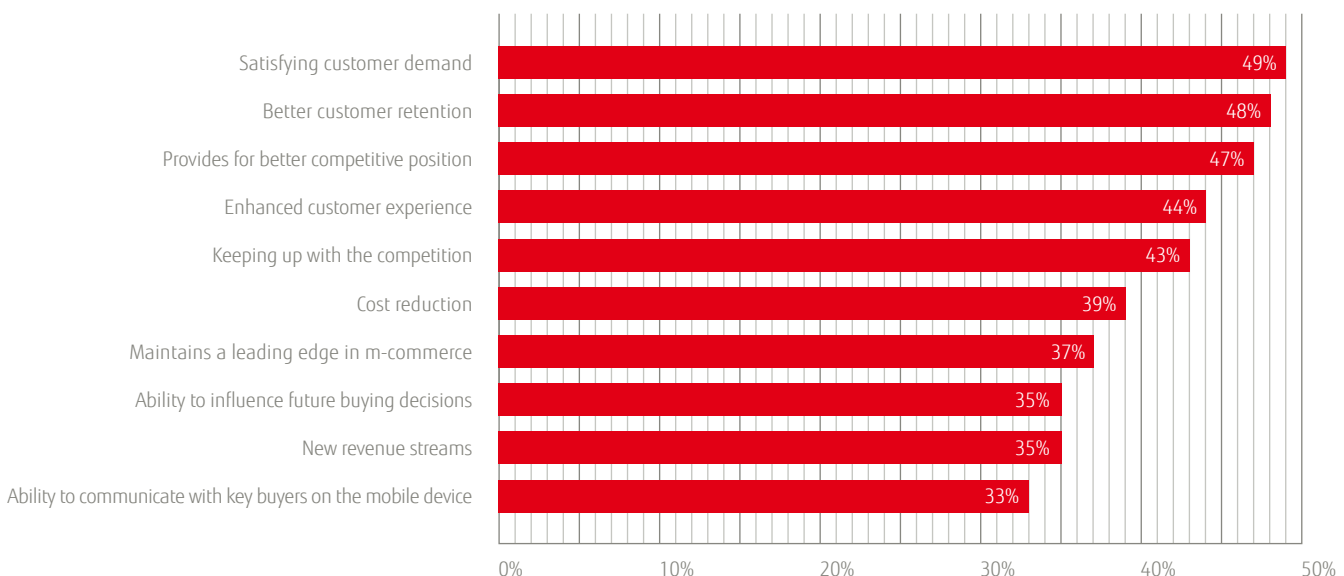
Around half of those surveyed said that mobile helps to satisfy customer demand, with a similar number saying the same of customer retention, an improved competitive position and an enhanced customer experience. There seems to be little doubt as to what mobile can offer, so where does the disconnect lie?

Primarily, we believe, it is an issue of pace. Echoing some of the trends around Cloud, adoption of mobile apps and services by financial services organisations has occurred more slowly than was perhaps expected. At the same time, every indication points to mobile being a generation-led technology, with younger, smartphone-wielding customers expecting to be able to access financial services on the device of their choice.

This will only become more important. A 2012 Ernst & Young report⁵ suggested that 12% of consumers worldwide would like their bank to improve online and mobile facilities in order to improve their satisfaction – second only to changes to fee and charging structures, at 22%. Put simply, mobile and digital has become a decision making factor for financial services customers.

As that trend gathers pace, the onus will fall on financial services organisations to overcome issues around security, cost, integration and any other factors restricting them from making mobile an integral part of their customer offering. Insight and understanding are essential to tackling all of the above factors, with better knowledge of the mobile ecosystem – from mobile operators and retailers – likely to bear dividends.

Q. What do you believe to be the major benefits to your organisation being involved in mobile?



Big Data, small returns?



Big Data and financial services go hand in hand. While the rest of the world has gradually been getting up to speed with the zettabytes of data that are transacted over the internet, FS organisations have been crunching numbers in massive volumes on a daily basis.

Of course, it isn't just *financial* data that those organisations need to be able to deal with today. Big Data comes in all shapes and sizes, each new node and point creating a potential opportunity that can be exploited for the purpose of everything from service differentiation to risk mitigation. But are financial services companies making best use of that data? Do they have a strategy for handling and maximising it?

The answer is mixed. While a quarter of respondents have a Big Data strategy underway and more than a third are looking at creating a strategy, almost 40% remain unconvinced as to the value that Big Data can provide – holding off on the development of a strategy, or putting plans on ice altogether.

Big Data, big cost?

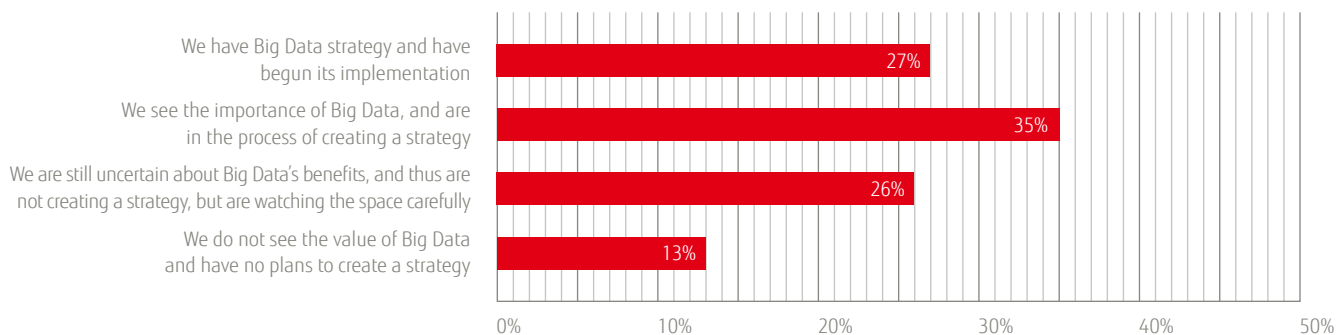
To delve deeper into the Big Data conundrum, we also wanted to investigate where some of the data that financial services organisations work with originates, and how it is used. Vitally, much of the data used in improving an organisation's offering to its customers appears to be drawn from external sources.

Although almost three quarters (71%) of financial services organisations claim that they make "full" use of customer data to improve their offering, this suggestion conflicts with the 54% who note that their business purchases supplementary data from third parties. If "full" use were being made, we wonder, would it be necessary for so many to invest in extra information to boost those datasets?

There are, of course, stringent regulations in effect as to how customer data is stored, processed and shared by financial services organisations, and these may impact on the ability of those organisations to share data and the extent to which they can make use of it. But it is hard to shake the feeling that greater focus on data strategy could rationalise storage requirements, counter some of the costs associated with purchasing data from third parties and release some of the value that integrated and well-analysed data can bring.

Developing a strategy to deal with Big Data, and ensuring that the whole organisation is included on that strategy, will be vital in completing the customer picture.

Q. Please indicate which of the following statements best details where you are in your Big Data strategy.



Security: a final word



We've already seen the extent to which concerns over security can stand in the way of potentially transformational tools like Cloud and mobile. Cited as the major blocker to both, security is high on the agenda of FS IT professionals and not limited only to those areas.

Numerous instances of technology outages in retail banking have been reported in recent years. From glitches that have prevented customers from accessing their accounts to server failures that saw debit card payments declined for customers across the country, the sector has seen repeated instances of technology outages causing chaos.

How prepared, then, are our respondents for a similar crisis? To what extent can financial services organisations withstand a failure within their mission critical IT systems? More importantly, what facilities could they continue to offer customers in the event of a major outage?

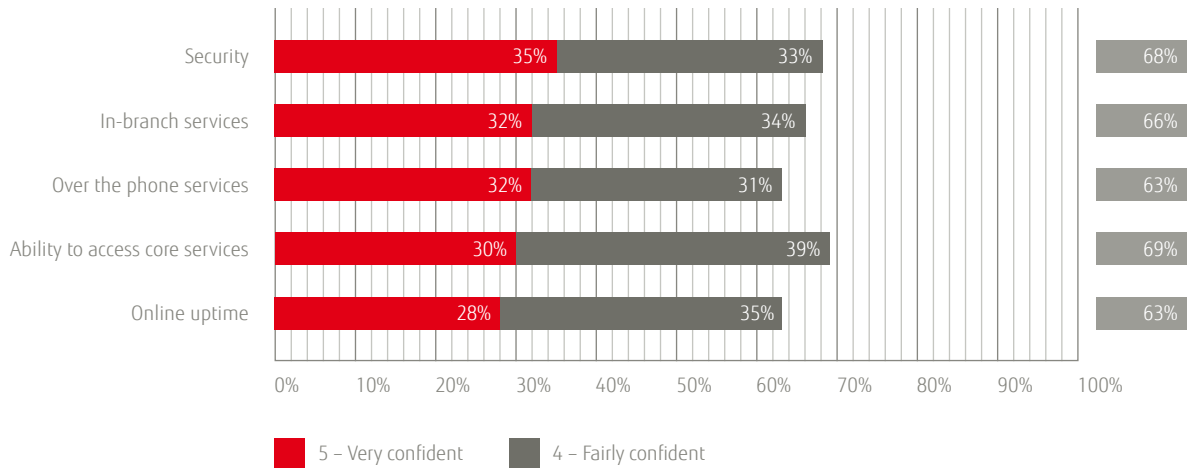
While there is broad confidence around their ability to maintain in-branch services (66%), over the phone services (63%), access to core services (69%) and online uptime (63%), one figure relating to IT failures stands out. Only a third of financial services organisations (35%) are "very" confident that they would be able to guarantee security measures in the event of an IT collapse.

Considering the heightened concerns around security seen above in relation to Cloud and mobile, this figure serves as cause for alarm. While the loss of customer-facing services could be expected to some degree in the event of a systems outage – despite causing some degree of embarrassment and possible financial consequences – financial services organisations are right in their assessment that the loss of customer data – or other high-value information – could cause serious damage to customer confidence.

Indeed, findings from a corresponding piece of research conducted by Fujitsu in late 2013⁶ suggested that while British consumers place a huge amount of trust in financial services organisations to store their data securely, 43% said that a security breach in which their personal data was lost would prompt them to seriously consider changing provider. Conversely, only 26% said the same of an ATM failure.



Q. On a scale of 1-5 (where 1 is "not at all confident" and 5 is "very confident"), how would you rate your organisation's ability to offer the following customer services during a major systems outage?



While we see some progress in other areas of FS technology, the continued dominance of security as an issue suggests that there are significant background issues relating to the technology security strategy for the sector. That it continues to hold FS organisations back in so many ways would indicate that these organisations would be well served with an underlying strategy that can ensure that stability not just of core services but of emerging platforms like Cloud and mobile too.



Conclusion

Attitudes towards new technology in financial services are changing, but they are doing so slowly. While this steady progress is reflective of an industry in which regulatory control is stringent and steps towards innovation are made only with certainty that they will not jeopardise either customer experience or the bottom line, persistent concerns over security may be leaving many counting the cost of missed opportunities.

While businesses in other industries continue to move ahead apace with the adoption of technology that can help them outmanoeuvre their competition, there is a very real sense that those within FS can be resistant to drive towards those options that they feel bear an inherent risk.

That leads us to three conclusions for financial services organisations.

1. Security should be a constant priority

Concerns over security continue to hold financial services organisations back. The primary objection to potentially game-changing innovations like Cloud and mobile is the perception that they are insecure. These worries prevent those companies from accessing technology that could help them become more cost-efficient, customer focused and – ultimately – more competitive.

While security may not be as simple as flicking a switch from off to on, it nonetheless requires serious attention. The best recommendation here is that FS organisations need to stay abreast of the threats and security challenges facing them, and strive to maintain – or exceed – the pace of those who are engineering those threats.

2. The pace of new tech adoption needs to gain speed

Strategically address security concerns, and Cloud and mobile seem to stand at a tipping point – and not a moment too soon. The lack of progress in both areas since our last study is noticeable, and we expected to see greater strides taken towards these influential and transformative technologies.

Many FS organisations know they are missing out – on everything from cost efficiencies to customer loyalty improvements. Unless security issues are dealt with, and these “new” technologies begin to become standard, they will continue to miss out in future too. As the FS business becomes more competitive, and customers more difficult to entice, every opportunity to delight and retain them should be striven for.

3. A strategic approach to data could grow revenues and cut costs

Knowledge and confidence around customer data and how it is used for maximum impact seems to be high amongst financial services organisations. At the same time, the number of organisations without a defined Big Data strategy and who purchase data from external sources tells a different story.

Customer data should present financial services organisations with a compelling way to differentiate and refine their customer offering. Putting a dedicated strategy around this will no doubt help to mitigate spend on information sourced from other parties, and ensure that an organisation knows the characteristics of not just customers, but importantly, its customers.

The implementation of these technologies is within the power of IT departments; and their use can enable IT decision makers to not only ‘save the day’, but secure the future of their organisation.

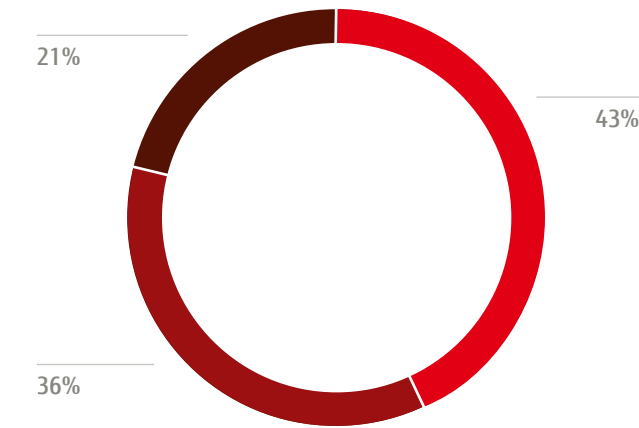
Research Methodology

Fujitsu commissioned an independent research agency to conduct this study in March/April 2014 as a repeat of the study conducted in 2012. In 2014 the study was extended to further understand the market but also enabled comparisons and contrasts to 2012.

Respondent Base

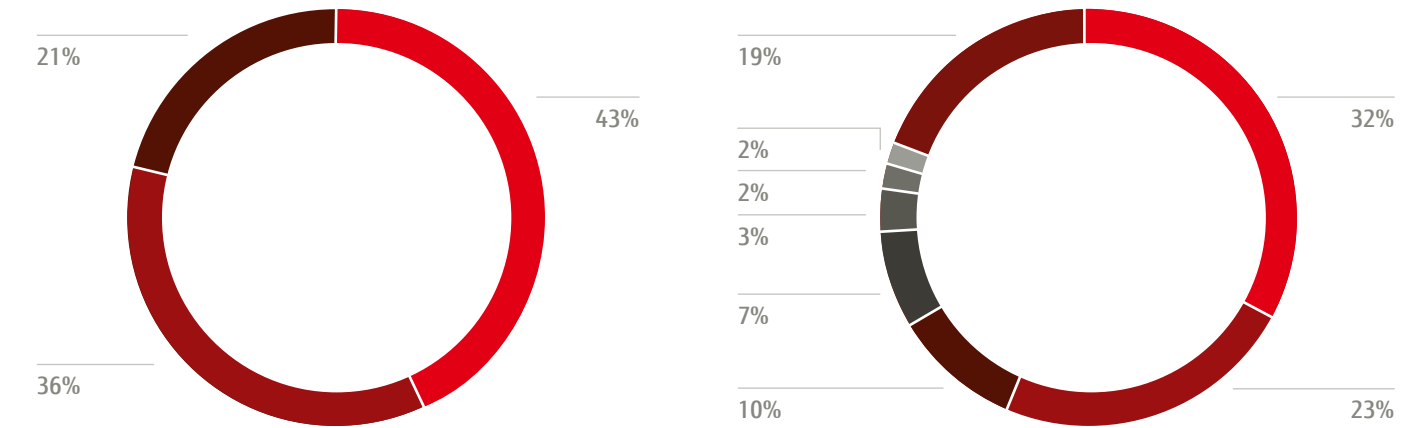
176 interviews with CIOs, IT Directors and/or Heads of IT, Heads of IT Strategy, CTOs and other members of the IT function, all with involvement in IT solutions and purchases, were conducted by telephone with companies in the UK and Ireland.

S1. Which of the following best describes your company's type of business?



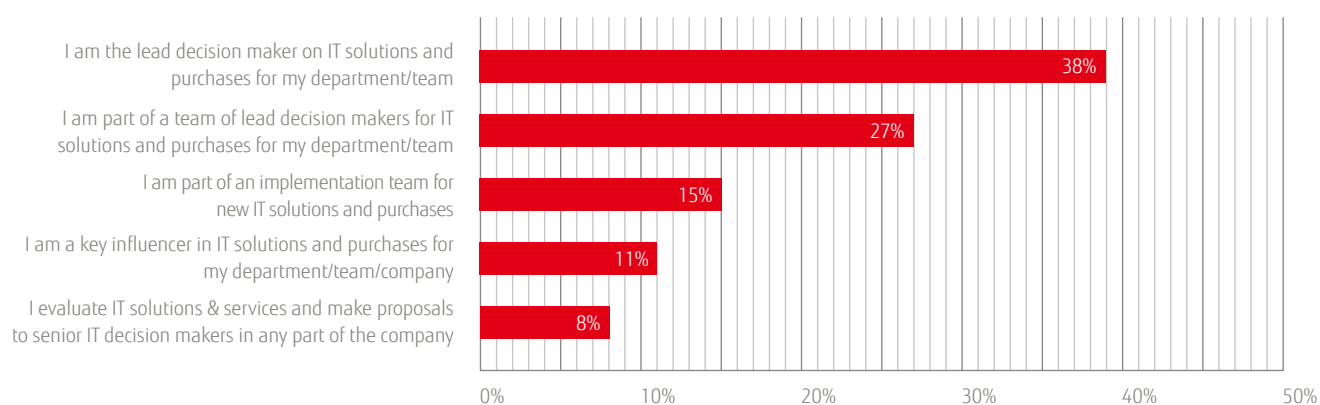
- Retail - banking/financial services
- Insurance
- Investment banking

S2. Which of the following best describes your job title?

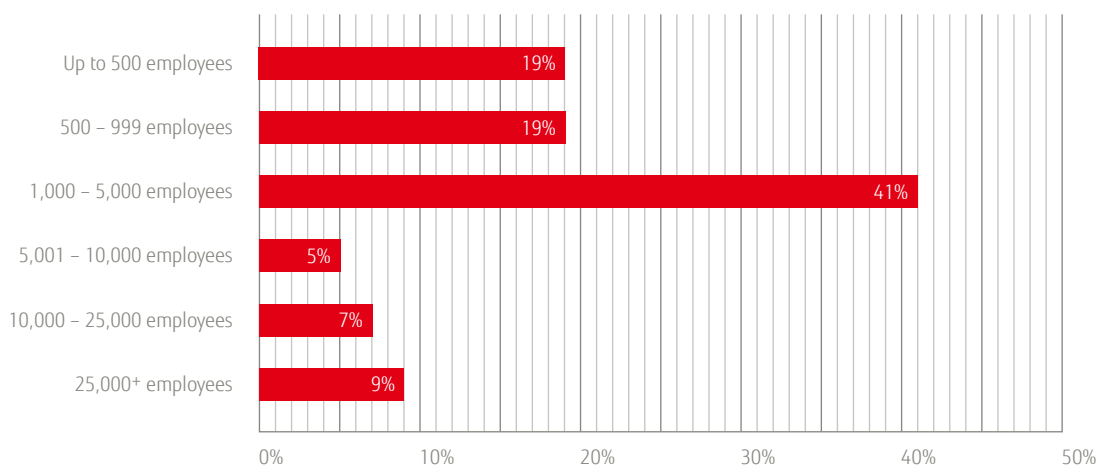


- Manager/Assistant Manager
- Head of IT
- Senior Manager
- CIO
- Head of Network Operations (equates to CTO)
- Head of IT Strategy
- Other
- CTO

S3. Please select which of the following statements best describes your role/responsibility.



S4. What is the size of your organisation in terms of number of employees?



Sources and References

¹ The IT Cloud: Silver Linings – The Economist, July 20th 2013

² RBS chief analytics officer calls for 'UK financial services Cloud' – Computing, March 17th 2014

³ One in five of us prefers to go cashless:

Study finds more than a third are interested in using mobile phones to make payments – Daily Mail, January 31st 2014

⁴ Stats: Mobile money trends in the UK – Econsultancy, January 15th 2013

⁵ Global Consumer Banking Survey 2012 – Ernst & Young

⁶ Dataheaven vs. Datageddon – Fujitsu

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Fujitsu is the leading Japanese information and communication technology (ICT) company offering a full range of technology products, solutions and services. Approximately 162,000 Fujitsu people support customers in more than 100 countries. We use our experience and the power of ICT to shape the future of society with our customers.

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