Addressing Financial Services Technology
Challenges During Growth

PANDUIT®

infrastructure for a connected world

Introduction:
Addressing **Financial Services Technology** Challenges During Growth

In a literal sense, consolidation and expansion seem to be opposing viewpoints. However, in the realm of financial services, both of these activities serve to enlarge an organization. When financial organizations consolidate, two – or more – companies merge to become one larger entity. And with expansion, an organization scales its territory, service offering, or operations, gaining organic market share.

Regardless of which method is used, the result is a growing number of financial services firms that are expanding their operations.

This growth

brings a myriad of challenges.
In this paper, we'll take a closer look at some of the common technology challenges that financial services firms face as they expand, whether that growth is organic or through mergers and acquisitions.

These themes include:

- Planning for consolidation of technologies before, during, and after M & A
- Managing resources in multiple locations, across multiple regulatory jurisdictions
- Delivering omni-channel customer experiences

Planning for Consolidation of Information Services Technologies **Before, During,** and **After** M & A

Anyone who has been involved in a **merger** and **acquisition** can attest: nothing about the process is smooth, easy, or fast. From initial conversations to post-merger implementation, the number of moving parts creates a logistical labyrinth to navigate.

A well-planned strategy for IT integration is foundational to success.

In their article "Understanding the Strategic Value of IT in M & A," Global Management Consulting Firm McKinsey & Company finds that more than half of the synergies that can be realized in a merger are strongly related to IT. These includes things like:

- Lower IT infrastructure costs
- Reduced IT head count
- Increased volume discounts for IT procurement
- Integrating functional systems to reduce finance and HR costs
- Route optimization to lower logistics costs
- Integrating customer data to improve cross-selling revenue

Within Financial Services, those factors account for 60 percent of the synergies. To make the most of these synergies, McKinsey & Company suggests that the foundation for IT success from M & A is flexible and streamlined IT architecture. Organization that have flexible IT systems in place are better positioned to capture the 10 – 15 percent cost savings that M & A can produce. Additionally, they can usually ramp up at a faster pace, so these savings begin sooner.

10 – 15% SAVINGS

How do you make sure you're setting your organization up for a successful integration?

Do the following

3

things right.

1. Get Your **Systems** in **Order**

Before you start pursuing any deals, take care of what's at home first.

- Advanced, service-oriented architectures are generally more flexible and adaptive, and better able to host a range of business applications
- Reduce the number of systems and create an IT model that meets the needs of the organization today and is flexible enough to absorb new data from the acquisition

2. Be **Diligent** About **Due Diligence**

Because so much can be gained from IT synergies, it is important that IT leaders have an early and equal seat at the table during due diligence.

- How compatible is the target organization’s technology? Will systems integrate smoothly? Will separate systems need to be maintained?
- What is managed in-house and what is outsourced?
- What operational IT strategies does the target organization utilize and how does that compare to the acquiring company? Do they have on-premise data centers? Do they use multi-tenant data centers or rely on cloud? Or, have they embraced a hybrid IT approach using all of the above?
- Consider not only the IT system itself, but also the functions that are enabled by IT
- Also consider factors like infrastructure and talent as part of this exercise; if the target organization is expected to migrate to new systems, will their existing infrastructure and personnel be able to support those changes?
- If infrastructure, equipment, or systems need to be updated, what is the price tag associated with those upgrades?

> *“Once the acquiring company has assessed the target’s technology, IT can help identify opportunities and estimate the costs associated with realizing them. By working with functional subteams, IT can understand the true impact of integration and form realistic estimates of its duration.”*
>
> – Understanding the Strategic Value of IT in M & A, McKinsey and Company

3. Prepare for Post-Merger

The acquiring company needs to develop a plan for what happens after the deal is signed. Integration work begins before the deal closes, so there is no disruption of service.

- What role will IT play? What resources are available? What is the timing for integration?
- Determine what systems will migrate and which will stay in place, as systems such as payroll, or which manage regulatory compliance are critical to the day-to-day functions of the organization

While full integration may be the ultimate goal, sometimes it makes sense to keep legacy systems in place for a period – whether that period is weeks, months, or even longer. Regulatory requirements that vary between countries or vast differences in customer demographics may make it harder to quickly integrate. In those cases, it may pay off in the long run to keep separate systems functional while a longterm plan is developed to fully integrate.

Similarly, consolidating network systems to common data centers is a task that shouldn't be taken lightly. The financial benefits of reducing co-location partners or eliminating stand-alone data centers can be valuable. But, making those moves without a long-term plan in place can backfire and cause system downtime that has a larger impact than managing duplicate systems for a time.

With increased reliance on information services within organizations, the role of IT in financial services mergers shouldn't be overlooked. It can make the difference in a successful deal.

Crossing Borders:
Managing **Resources** Across **Regulatory Jurisdictions**

As **consolidation** within financial services continues to take place, financial services firms are finding it more and more common that their operations cross regulatory jurisdictions, **requiring compliance** with multiple regulatory organizations.

In the US and Europe in particular, the past decade has seen a significant overhaul of financial regulations. While prevalent in those two regions, the restructuring has been mirrored in other countries. Today, Deloitte reports that "international consensus on regulatory reform is fraying. Political appetite for globalization is retreating, and trade tensions are mounting."

With less support from political leaders, global regulatory organizations have been slow to introduce new standards and political concerns are expected to mount if new regulations appear to stunt competition, lending, or investment. In the United States, authorities are taking a deregulatory stance and Deloitte predicts other countries could follow suit, with competitive deregulation possible. While deregulation could reduce compliance costs, global financial services firms will find the landscape to be more complex as standards diverge.

On the technology side, Deloitte says the regulatory debate is characterized by technology trends like artificial intelligence, cybersecurity, and digital ethics. While these are global issues, global alignment of regulatory approaches could be challenging.

"The growing evidence that ineffective implementation of technological change can increase cyber and operational risk is also attracting regulatory scrutiny," Deloitte reports. "International standard-setters will likely try to establish baseline common approaches for operational resilience, but we expect progress on cyber-resilience to be made mostly at the G7 and European levels."

This lack of global regulation around technology trends will affect firms' ability to implement programs across borders.

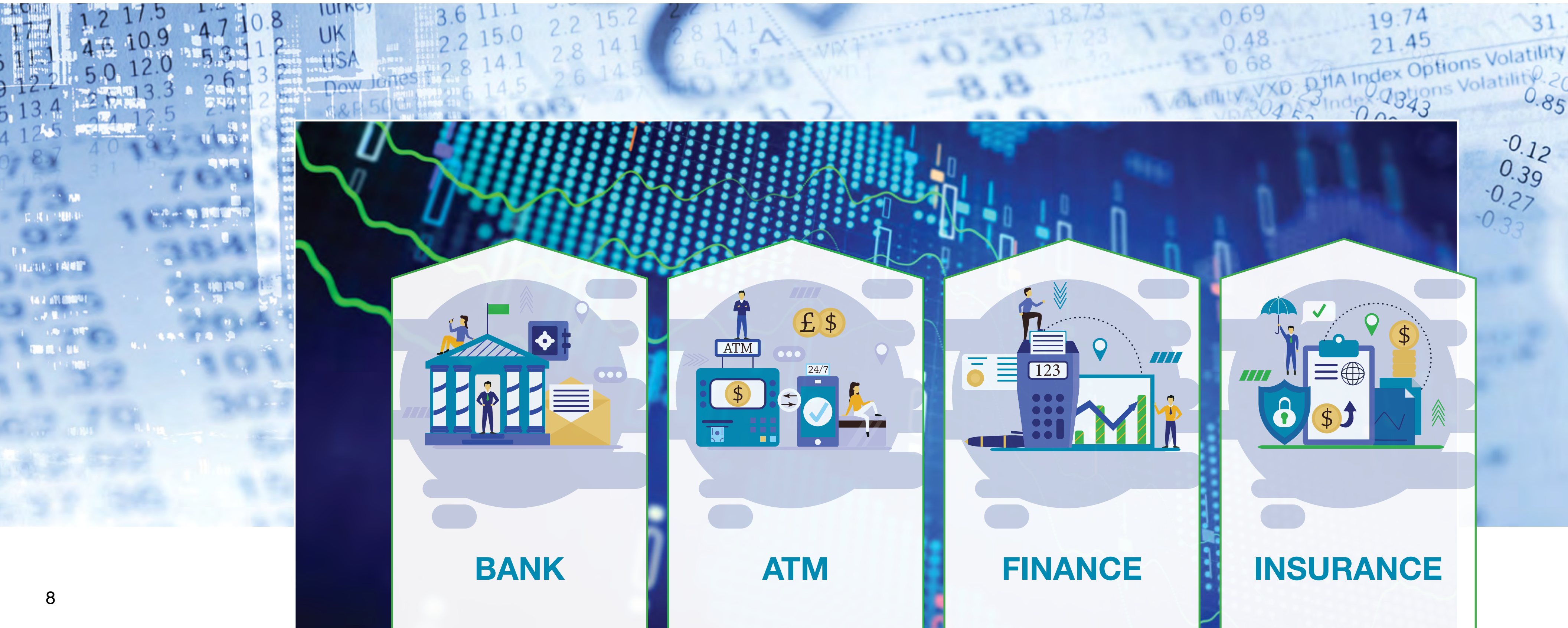
The growing dependence on data in the financial sector also plays into regulatory requirements. Regulators want data that is more granular and collected more frequently. Organizations are implementing solutions that preserve data quality for the firm's use as well as for reporting and regulatory requirements.

When consolidation is factored in, with varied legacy systems that are creating, collecting, managing, and storing data, the task grows in complexity. Data quality has never been more important, yet difficult to manage.

Meeting
Customer **Needs**

If financial services firms aren't growing through consolidation, then growth is coming organically. This could take the form of new branches opening in new markets, or new customers in existing markets. Regardless of which route it is, the ability to attract and retain new customers within any sector typically comes down to meeting customer needs.

Meeting customer needs can be a challenge because it is a moving target. It wasn't long ago that location was the driving factor in growth. Today, online services have made that neighborhood branch bank, investment firm, or insurance broker immaterial to technology savvy customers. In their article, "Rewriting the Rules in Retail Banking," McKinsey & Company reports that the top five US banks have seen a 15% decline in branches since 2008. At the same time, deposits at those same banks have increased by 257 percent. Retail-banking branch networks are shrinking throughout Europe, North America, and the United Kingdom.



The younger the customer, the greater the demand for online services.

In their article "How to Attract Millennial Customers in the Financial Sector," Bankingly shares, "The bank is often seen by millennials as a place to avoid: 71% prefer going to the dentist than going to their bank." Bankingly shares the following about millennials and their banking preferences:

- **53%** believe that bank offerings are all the same
- **33%** are open to change banks in the next three months
- **33%** believe they will not need a bank in five years
- **63%** do not have a credit card
- More than **70%** believe that the relationship with their bank is transactional only
- A growing number want to communicate with their bank through social media; among these people, **69%** expect to receive a response within one hour; **90%** considered it acceptable to receive a response on the same day; only **6%** would be satisfied if the answer arrives within 3 days

Customers today won't consider banking or investing with a company that doesn't offer the ability to complete transactions digitally – preferably with a smart phone app. Whether it is applying for a loan, depositing a check, modifying a stock portfolio, or updating insurance coverage, customers want to do it when and where they want – not at the local branch office.

How do financial services firms ensure they're capturing this valuable market?

Some steps are relatively simple to implement, while others require a more strategic, long-term effort.

The Role of **AR, VR** and **AI** in **Finance**

Tech trends like **artificial intelligence (AI), augmented reality (AR),** and **virtual reality (VR)** help finance companies **improve** their **customer-centric solutions**. Immersive technologies like AR and VR are in their infancy but are expected to help finance organizations improve customer satisfaction. Applications being implemented in the finance sector today include:

- Data visualization to help data analysts visualize complex data; this translates to applications that allow traders to more quickly analyze and comprehend stock data
- Virtual shopping, including product selection and payments, all done within a virtual space
- Virtual banking; Fintech Futures reports that Italian bank Widiba offers online banking via an app and VR glasses, which allows customers to visit a virtual branch to carry out transactions or talk with an advisor

Change Customer **Engagement**

Providing the ability for customers to complete transactions online is **more than** just developing a **mobile app** and creating **web** capabilities. Consumers desire a seamless experience that goes across channels. Regardless of whether they are using mobile or online tools or are in a physical location, the experience should be **intuitive, secure,** and **consistent.**

Data is at the heart of this cross-channel experience. McKinsey recommends that banks follow the lead of non-finance sectors with sophisticated digital marketing that optimizes each stage of the customer journey. “Most consumers already seek information on financial products on digital channels, but few institutions are highly effective at converting these inquiries into digital sales. Leading banks use firstand third-party data, a robust marketing technology stack, and an agile operating model. With these elements in place, progress can be rapid.”

Financial services organizations that are hampered by legacy IT infrastructures may find it more difficult to implement the changes needed to provide the omni-channel experience that customers demand. McKinsey analysis in the US shows that those banks that rank higher in customer experience are generating higher growth. “Highly satisfied customers are two and half times more likely to open new account/products with their existing bank than those who are merely satisfied,” McKinsey reports.

While financial services companies adapt to meet the needs of digitally savvy consumers, it is important that they maintain services for those customers who don’t self-select to digital channels, while they encourage these consumers to make the shift.

All these data-driven experiences require an infrastructure that will support new and growing applications. For an industry where latency and bandwidth are critical, infrastructure can have a positive impact in ensuring that the latest tech trends work as expected.

Conclusion:
Forming the **Right Partnership**

Regardless of how financial services organizations are expanding, technology is vital to that expansion and an automated, responsive, and robust IT infrastructure is at the heart of that technology. Whether you are consolidating IT operations or adding digital capabilities to fuel expansion, with the right infrastructure in place, finance organizations can position themselves for long-term growth.

Implementing such an infrastructure is easier said than done. And this is what makes partnerships with technology experts like Panduit an important part of the puzzle. We work closely with our clients, offering our expertise to help them

- Determine what to save, what to expand, and how to merge systems following a merger or acquisition
- Design a flexible, scalable, and secure hybrid platform that encompasses on-premise, colocation, and cloud architectures to support market expansion

Thanks to our fully trained and vetted ecosystem of cloud providers, technology firms, and multi-tenant data center partners, we can act as the conduit to a full, future-proofed IT infrastructure. Instead of having to source numerous vendors for a series of global deployments, Panduit will bring in the right partners to meet your requirements. In addition, our robust, preconfigured solutions provide consistently high levels of service across on premise, colocation, and cloud environments.

So, however your financial services organization is growing, working with Panduit today will enable you to future-proof your tomorrow.

PANDUIT®

www.panduit.com

CPEB06--SA-ENG
5/2020