

In the financial services industry, transformation is happening in the name of long-term adaptability, which requires that networks and connectivity be prioritized as the digital infrastructure is modernized.

Adapting to Change: Increasing Agility in Financial Services Requires an Innovative and Connected Business Strategy

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Introduction

The disruptions of the past few years have caused financial institutions to make a major shift. Today, the financial services industry is focused on adapting to current and future business changes to ensure resilience in business processes, interactions, and transactions. Weaknesses in financial services technology platforms, particularly in areas of scalability and resiliency, combined with changing customer and employee behaviors and preferences have caused financial institutions to rethink their approach to infrastructure to ensure future resiliency against disruption and to become more agile with regard to location independence for both customers and employees.

Financial services organizations are focused on a return to innovation, accelerating time to value, driving customer satisfaction, and enabling the connected employee to drive change across the entire industry. In IDC's *Future Enterprise Resiliency and Spending Survey* (January 2022), customer satisfaction (51%), operational efficiency (44%) and employee productivity (36%) topped the list of business priorities for financial institutions.

In an effort to recast a bank's ability to support transformation, the institution's infrastructure is expanding beyond the walls of the traditional on-premises datacenter to include an environment made up of applications that span multiple cloud providers, other third-party partners, secure corporate and external networks, edge devices in the hands of customers and at physical employee locations, and a growing interest in participating in external ecosystems. This expansion encompasses an environment IDC calls the digital infrastructure.

Transformation is all being done in the name of long-term adaptability, which requires that networks and connectivity be prioritized as the digital infrastructure is modernized and, in some cases, built from the ground up.

AT A GLANCE

KEY STATS

According to IDC:

- » Overall IT spend in financial services is estimated to grow at 7.3% CAGR through 2025.
- » Spending on public cloud services and security is estimated to grow at a CAGR of 22.1% and 9.6%, respectively, through 2025.
- » Public cloud spend constitutes 16% of total spend in financial services in 2022 and will grow to 23% of total spend through 2025.
- » 51% of financial institutions cited customer satisfaction as their top business priority.

WHAT'S IMPORTANT

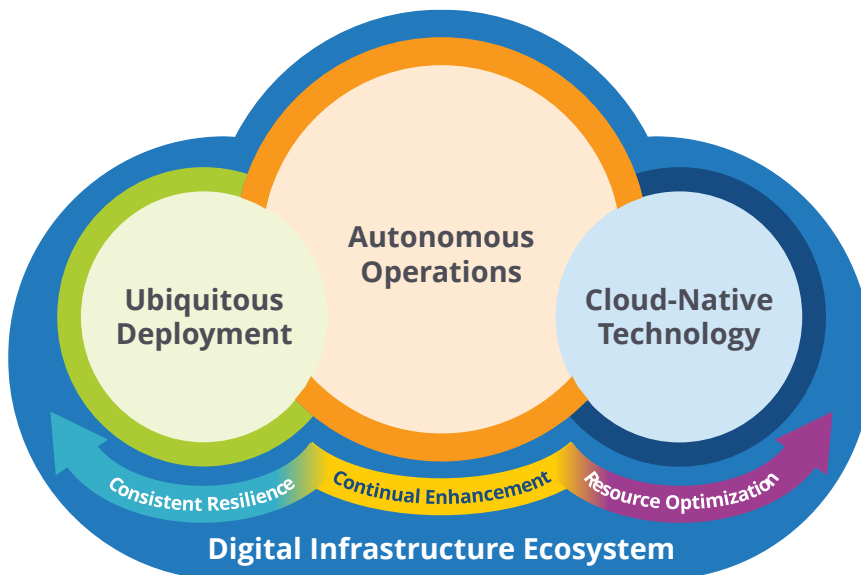
To drive change across the entire industry, financial services organizations are focused on a return to innovation, accelerating time to value, driving customer satisfaction, and enabling the connected employee.

Transforming Financial Services Organizations into Adaptable Enterprises

In IDC's 2021 *Worldwide Industry CloudPath Survey*, 35% of financial organizations cited current use of a hybrid cloud model, with another 50% citing plans to adopt hybrid cloud within 24 months. The workloads moving to cloud span everything from critical applications such as payments processing and risk management and compliance to customer-facing applications such as mobile banking and claims initiation. This movement underscores a growing trend toward working with external partners to supply an increasing amount of support for an institution's operations.

Two particular areas of investment further emphasize the need to expand beyond the walls of an institution's datacenter. While overall IT spend in financial services in APJ, North America, and EMEA is estimated to grow at a 7.3% CAGR through 2025, spend on public cloud services in those regions is projected to grow three times as quickly at a 22.1% CAGR. Public cloud spend constitutes 16% of total spend in financial services in 2022 and will grow to 23% of total spend by 2025. Security spending is also outpacing overall IT spend and is estimated to grow at a 9.6% CAGR through 2025. This investment is driven by two factors: the need to improve areas of cybersecurity that failed in 2020, including fraud, and the need to ensure security in the expanding infrastructure. Figure 1 depicts the emerging digital infrastructure.

FIGURE 1: *The Digital Infrastructure*



Source: IDC, 2022

These shifts in the infrastructure are necessary to adapt to market changes and disruptions and enable institutions to become more agile. However, just as important is how these transformations affect lines of business, customers, and staff. Customer satisfaction has emerged as a critical business priority for financial institutions. While it is safe to say that customer experience and customer satisfaction have been priorities in the past, given the disruptions in recent years, they have gained strength as strategic goals.

Less familiar as priorities are the need to enable an institution's own staff to work from anywhere as required as well as the need to create a hybrid environment with both remote and local staff who have a direct impact on operations and customer experience. Unfortunately, two out of three financial institutions reported that they had minimal, limited, or

reactive connectedness internally (IDC's *Future Enterprise Resiliency and Spending Survey*, October 2021). Only 14% of survey respondents reported having extensive connectedness, defined as intelligent and self-aware connectivity across cloud applications, open data models, data sharing, and artificial intelligence/machine learning (AI/ML)-based decision making. The remaining respondents were proactive in their goals to reach extensive connectedness.

In a future where a hybrid work model is a given, connectedness within the enterprise — spanning the operation from the digital infrastructure where the workloads, platforms, and data live all the way to the employees responsible for operations and customer interaction — can't be an afterthought. And because of the specific nature of financial services as a risk-based, regulated industry that arguably bases its value on trust, connectedness is not a trivial task, but it must nonetheless be "baked into" digital transformation.

These "latest" developments and shifts have to be seen in the context of challenges that the financial services industry has had to face for over a decade already. Starting in 2009–2010, a confluence of mistrust in financial institutions, increased power of mobility and mobile devices, and the emergence of fintech companies — small, nimble, and modern firms offering point financial services such as payments and lending — created a dynamic environment where fintechs began to compete against traditional institutions for share of wallet using convenience and usability as tools. Traditional institutions lagged behind those smaller firms due to legacy platforms and siloed, disconnected, and complex technology environments.

As the industry began embracing digital transformation as a strategy around 2015–2016, early adopters of infrastructure modernization began gaining competitive ground against not only the fintech organizations but also other traditional institutions that either had decided against transformation or couldn't keep pace with the leaders for other reasons (organizational, budgetary, etc.).

IDC's June 2021 *Future Enterprise Resiliency and Spending Survey* showed that institutions that had invested in digital transformation initiatives prior to 2020 experienced real improvements in multiple key measurements *during* the crisis in 2020, in areas such as profit, time to market, customer satisfaction, and operational efficiency. But while the benefits of transformation have been borne out in real life and institutions acknowledge the need to modernize to a connected enterprise environment, they must do so using the critical metrics of security, compliance, cost, resilience, scalability, and governance as guidelines to transformation.

Benefits

To be clear, much has been already written about the benefits of digital transformation. However, a separate initiative, or strategy, that includes connectivity as a foundational component of infrastructure transformation is beneficial on its own. Benefits of such initiatives, in addition to scale and resiliency, include the following:

- » **Improved employee productivity.** During the initial phases of disruption in March 2020, financial services executives feared a drop in productivity more than any other outcome as employees started working from home. A survey in August 2020, however, showed that institutions actually saw an improvement of productivity from the remote workforce. Anecdotally, executives also noted that employees tended to work longer hours, were more motivated, took shorter breaks from work, and so forth. Although this productivity boost came as a bit of surprise, it was encouraging to know that remote or hybrid work environments could serve to the benefit of institutions.

- » **Increased business agility.** Digital transformation is all about improving the ability for institutions to quickly respond to changing market needs and protect against disruptions. To do so, the industry is investing heavily in the transformation of its infrastructure. This is demonstrated by key investments in areas such as cloud, security, big data and analytics, and artificial intelligence; the growth of investments in these technology areas is two to three times the growth of investments in financial services technology. By including a connectivity strategy as an inherent part of the transformation strategy, an institution is more likely to follow a journey to transformation that improves the business' ability to innovate, protect, and change as trends change.
- » **Secure, real-time insights.** Analytics has become an important tool on the road to transformation. IDC estimates that spending on big data and analytics projects will grow at a 14% CAGR through 2025. Even more interesting, spend on AI/ML during that time is estimated to grow more than 24%. As more data is created — and used — at the edge, it is key that the communications mesh that spans an institution's infrastructure is secure, compliant, and fast.

Considering Lumen

United States-based Lumen supports communications needs across multiple industries. The company's services include security, cloud, voice, and managed communication. The company supports enterprise customers in the Americas, EMEA, and Asia/Pacific. Among Lumen's customer base are many of the world's largest financial institutions, and the company partners with managed services providers, expanding its indirect reach in the industry.

Lumen provides the following capabilities to the financial services industry:

- » A hybrid and adaptive network, offering intelligent automation, real-time performance data, and dynamic bandwidth scalability
- » Cloud enablement and edge computing services that enable hybrid environments centering on the latency and security needs of the application
- » Integrated technology, application, and data solutions
- » Analytics and advanced threat management allowing for proactive response to threats and potential security issues
- » Network and on-premises security services including DDoS mitigation and managed firewall solutions
- » Content delivery services enabling reliable global delivery of content
- » Managed services and consulting

Lumen has most visibly worked in edge transformation in branch banking, including an edge computing model that enables facial recognition in real time to authenticate customers. The edge computing model also enables improvements in operational efficiencies and costs, security and compliance, and customer satisfaction.

Challenges

The breadth of services offered by Lumen may be overlooked as the firm may be known primarily as a network provider. Even its most recent promotion of edge transformation is only part of Lumen's total capabilities. The company may be challenged by a lack of focus in one — or a few — areas where it can leverage its strengths against competitors.

It would be easy to note that Lumen, like some companies before it, may be trying to "boil the ocean" by indicating that it can support any initiative an institution may need. This approach means that Lumen may face a variety of disparate competitors when vying for business.

Additionally, where many of Lumen's competitors focus on direct business impact, which appeals to line-of-business executives as opposed to IT groups, Lumen may be known better in the technology departments at an institution, or at best, within the office of the senior architect.

Yet, if Lumen distills its value proposition to one of a provider of fundamental connection services, encompassing every aspect of connection from the digital infrastructure all the way to the edge and doing so while providing security, compliance, scale, and resiliency, that succinct message will resonate with financial institutions. Adding the impact of customer satisfaction, innovation, and business agility will open the doors further to support from an institution's line of business.

Conclusion

As the financial industry pivots from recovery to innovation, customer satisfaction and employee productivity have become top priorities. These goals have driven the need for financial institutions to reinvent their operating environments to what IDC calls the digital infrastructure. Investments in, and adoption of, 3rd Platform technologies such as cloud and big data and analytics as well as next-generation security and edge are outpacing overall investments in other areas, particularly in legacy platforms and systems.

The modernization of an institution's infrastructure requires a connectivity strategy that is embedded in every transformation project being considered and implemented. The danger is that the financial services industry may recreate the same disconnected, siloed environments that evolved in the 1970s, 1980s, and 1990s — a complex and unworkable infrastructure that failed many institutions during the recent years of disruption.

Financial institutions are including connectedness as a primary consideration during transformation. The new architectures that result will enable business agility, lower operational costs, reduce risks, improve security and compliance, and ultimately deliver greatly improved customer satisfaction and employee productivity. These benefits in turn will enable new levels of innovation without conceding performance, security, or compliance.

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About the Analyst



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Jerry Silva is Vice President for IDC Financial Insights responsible for the global retail banking practice. Jerry's research focuses on technology trends and customer expectations and behaviors in retail banking worldwide. Jerry draws upon over 35 years of experience in the financial services industry to cover a variety of topics, from the back office, to customer channels, to governance in the technology shops at financial institutions. His work for both institutions and vendors gives Jerry a broad perspective in technology strategies.

MESSAGE FROM THE SPONSOR

About Lumen

Lumen is a technology company that enables organizations to benefit from emerging applications that power the 4th Industrial Revolution. We provide the fastest, most secure platform for next-gen applications and data that integrates network infrastructure, cloud connectivity, edge computing, connected security, voice, collaboration, and enterprise-class services into an advanced application architecture across industries. As data is dramatically shaping the future of all humankind, Lumen is working to relentlessly unleash the potential of data, leading to more capable and efficient edge computing and pervasive technologies across devices, systems, and workloads.

For more information, please visit: [Lumen.com/financial-services](https://lumen.com/financial-services).



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