



# DIGITAL TRANSFORMATION IS CHANGING THE FINANCIAL SERVICES INDUSTRY

Technology is fundamentally changing the financial services industry. The ability to utilize the latest technology effectively will determine what firms are digital predators and which ones are digital prey. As Jamie Dimon, CEO of J.P. Morgan [notes](#),

“[J.P. Morgan] spent more than \$9.5 billion in 2016 on technology, of which about \$3 billion went toward new projects; of this amount, \$600 million was spent on emerging fintech solutions.”

As a leader in the financial services market, this organization is a prime example of how substantial investments are being made in fintech. Offering innovative new services and implementing new business processes are essential to remaining a viable institution. Among the most important transformational initiatives are:

- **Up-to-the-minute risk management** — The pressure on financial institutions to effectively manage risk requires that risk assessment be done on a continual basis. Meeting this demand necessitates the latest technology that can process large amounts of data in real time.
- **Meeting the needs of the digital customer** — The pervasive nature of digital consumer devices has spilled over into financial services, and the new generation of digital customer requires access from anywhere; up-to-the-minute, accurate information on their accounts; and the ability to customize the services they use.
- **New, digital-only financial services competitors** — Perhaps the most troubling change for traditional financial services is the rise of “digital-only” financial service apps or firms that are picking off pieces of the business. Competing with Venmo, Ally Bank, and Square requires commitment to digital transformation.

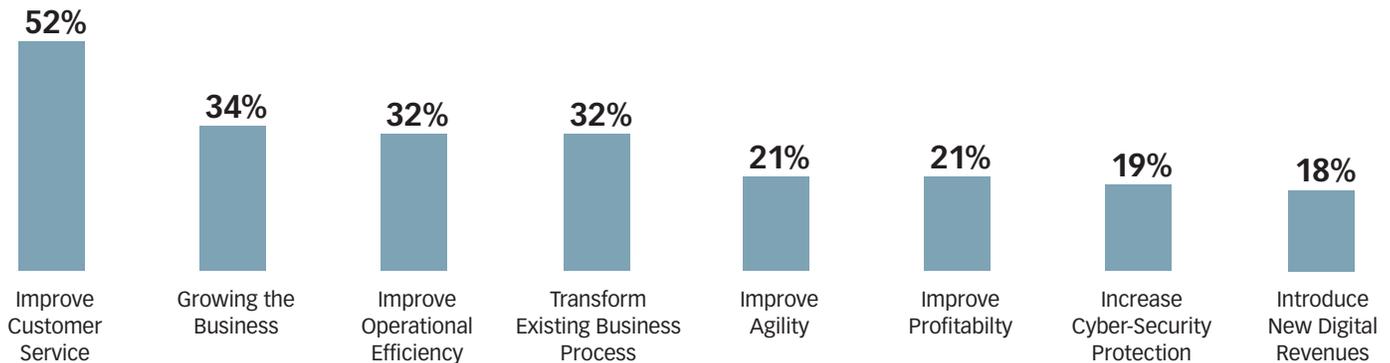
- **Data-driven product development** — Using big data and modern analytics, financial services firms are identifying trends that will lead them to offer new products directly aligned to customers’ needs. Succeeding at this task is critical to growth.
- **Security** — Financial institutions are in the crosshairs of every hacker. Not only is the customer data stored in their systems very attractive, but the ability to redirect payments or funds to hackers’ accounts is another rewarding activity. The importance of cybersecurity cannot be underestimated as a substantial breach is a devastating reputational event.

## LEADING THE DIGITAL TRANSFORMATION EFFORT

The specific knowledge and experience of the CIO and senior IT management are critical to a successful transformation. One of the most important tasks for this team is to implement the foundational technologies that will underpin the transformation process. It has become clear that legacy IT systems and processes will not be able to meet the challenges of the future.

Increasingly, internal IT groups are leveraging the skills and capabilities of managed service providers to support the new requirements of the organization. The most common partners are cloud service/technology suppliers. We have already seen how leveraging cloud infrastructure and platforms provides greater flexibility and scalability, while allowing IT groups to deploy solutions faster than ever before.

Another important technology partner is the software-as-a-service (SaaS) provider. The ability to leverage proven applications or components provides the twin benefits of faster time to solution and lower costs.

FIGURE 1: **Business Drivers for Tech Investments In Financial Services** *IDG State of the CIO Survey 2017*

Managed service providers have recently become a much more important partner for financial services firms. As the IT “footprint” grows, especially around new technologies, hiring your own skilled staff for new technologies is difficult, and there is also a time penalty that results from the learning curve. Allowing a trusted partner to effectively manage a component of your infrastructure, such as the network, is a good way to leverage both technology and the operational expertise.

### FOCUSING ON BUSINESS DRIVERS FOR TECHNOLOGY INVESTMENTS

In the recent *2017 IDG State of the CIO* survey, the focus of the CIO’s efforts for financial services firms is quite clear. Figure 1 shows that tech investments are aimed at meeting the demands of the digital customer. It is important to note that improving operational efficiency stands out as a different challenge—one that IT must be involved with.

### ENSURING THE NETWORK ENABLES EFFICIENCY AND GROWTH

In many ways, the network that supports a financial services firm is the backbone of operations. Large banks may have thousands of physical locations, all requiring up-to-the-minute information and the ability to transmit transactions and information to the data centers in real time. Yet, this is just the starting point.

As fintech initiatives demand more—and larger—data sets that are going to be integrated across multiple data centers, the network will experience unprecedented demands. Indeed, as PWC Consulting notes in its report, *2017 Financial Services Trends*, “The days of the old-fashioned centralized IT department are numbered.” Compute is being pushed to the network’s edge and there is a growing number of geographically dispersed offices and employees that the network must support.

### ENCORE CAPITAL: SUPPORTING TRANSFORMATION BY PARTNERING WITH MASERGY

Encore Capital Group is an international specialty finance company with operations in 15 countries, deploying \$3 billion in capital per year. Subsidiaries purchase portfolios of consumer receivables from major banks, credit unions, utility providers, and municipalities, then partner with individuals as they repay their obligations and work toward financial recovery.

Carl Eberling, CIO of Encore Capital, knows and understands the pressure to achieve the goal of transforming the organization. A key objective is to deploy flexible platforms that can meet the internal demands and the ever-changing regulatory requirements. Encore has partnered with Masergy for managed network services.

Eberling notes, “If we’re spending our time worrying about email or voicemail servers or network services, then we are really not fulfilling our obligations to the business. I want my people spending less time on things we can rely on service partners to deliver, and more time on being strategically engaged with the business.” Using a managed service provider allows Encore to benefit from optimized network services, with far less demand on its internal IT resources. Instead, IT can focus on activities that deliver real business differentiation.

### SUMMARY

Digital transformation is changing the face of financial services. New products, breakthrough internal processes, and satisfying the digital customer of tomorrow all require fundamental change. The job of making the right technology choices and implementing the changes will fall to the CIO and IT. These decisions will lead to growth through both innovation and greater efficiency.