

Cisco Internet Business Solutions Group, Financial Services Practice

Financial Services Community

Many financial services institutions (FSIs) are losing momentum in terms of growth and experiencing mounting liabilities. Traditional areas of revenue growth such as consumer credit, mortgages, and commercial real estate have become major liabilities.

According to the U.S. Federal Reserve Board, U.S. consumer credit has continued to contract year-over-year, as FSIs have become more conservative with lending. Many U.S. consumers are struggling to pay off current debts; in the case of an increasing percentage of mortgages, some are simply walking away.

In addition, public sentiment related to FSI bonuses could pressure governments to pursue more sweeping regulations. And, the interconnectedness of FSIs, made apparent by the bankruptcy of Lehman Brothers, put additional pressure on the financial system. Regulations increased following the U.S. government's commitment of more than \$750 billion to provide liquidity and capital to the financial services industry. Additional fee and interest rate regulations for the credit card industry are coming into effect, and new reporting and transparency regulations in the hedge fund industry are on the horizon.

Globalization is changing the landscape for FSIs in developed countries, providing unquestionable benefits. In BRIC (Brazil, Russia, India, and China) countries, for instance, enormous expansion of infrastructure is providing FSIs opportunities to finance large-scale projects. As the middle class in developed countries increases, so does FSIs' pool of customers, for everything from checking accounts to annuities.

The web is continuing to give FSI customers more choice and information—and, therefore, higher expectations when it comes to products and services. Free personal online financial services such as Mint.com could reduce FSIs' wallet share and customer loyalty by enabling customers to manage accounts and transactions from multiple institutions. Online comparison sites such as Bankrate.com and FindABetterBank.com are helping customers pick the best offer based on their priorities or on less-expensive alternatives.

Given this new landscape, FSIs that offer innovative services, while keeping costs low, will increase revenues and market share post-recession.



Cisco Internet Business Solutions Group (IBSG)

Opportunities for Financial Services Institutions

In 2009, financial services companies focused on reducing costs and risks. As the overall market begins to stabilize, the industry is at a crossroads where individual companies have to choose between continuing to focus on cost / risk reduction and identifying the best way to keep costs and risks under control while selectively placing bets to secure future competitiveness as the market returns. Winners will be FSIs that find the best way to successfully balance operations and innovations.

Based on engagements with leading financial services companies worldwide, the Cisco® Internet Business Solutions Group (IBSG) Financial Services Practice found that the most proactive companies focus on the following areas:

- Increasing productivity and cross-company collaboration enabled by new technologies
- Creating superior customer experience to keep current customers and win new ones in an increasingly competitive environment
- Selectively identifying new growth opportunities such as Generation X and Generation Y consumers, small and medium-sized businesses (SMBs), “Connected Commerce,” or a new approach to capital markets

How Cisco IBSG Is Helping Financial Services Institutions

Cisco IBSG’s Financial Services Practice helps customers identify new opportunities, customize business and operational strategies, and implement pilots that accelerate transformation initiatives while reducing risks. Our areas of focus are retail banking, insurance, corporate and investment banking, and capital markets. Within each segment, we use our deep industry experience to identify trends and new opportunities, and to provide relevant advice.

Retail Banking

- **Next Wave of Consumers**—According to an October 2009 Cisco IBSG Retail Banking Study, Generation Y has emerged as the new consumer market that will have a profound impact on retail banks, providing the next opportunity for revenue growth. The study surveyed a cross-section of U.S. consumers to better understand their financial priorities, service expectations, video adoption, and interaction preferences. Cisco IBSG estimates that banks can increase revenue 5 percent to 10 percent by delivering next-generation advisory services that use personal financial management (PFM) tools, video, and virtual communities of interest.
- **Connected Commerce**—Credit card companies have experienced numerous challenges: delinquencies are on the rise, driven by unemployment; fees and interest rates are subject to stricter regulations; and interchange fees are constantly under pressure. As a result, the industry must find new ways to grow. The Cisco IBSG Financial Services Practice has an ambitious and transformative value proposition that allows credit card companies benefit from revenue streams linked to in-store advertising and loyalty management to increase card usage and the customer experience—providing preference, comparison, and advice features available to FSI online shoppers.

- **Next-Generation Wealth Management**—In an environment where banks' overall brand value is often secondary to their relationships with individual advisers, the industry is constantly struggling with the best way to attract and retain high-net-worth customers, especially when involuntary adviser attrition often results in 70 percent of assets under management exiting the firm with the adviser. The "Virtual Family Office" provides wealth management firms a way to differentiate value by offering low- and mid-tier millionaires more complete services via video collaboration technologies. Our Practice's experts work with these firms on identifying opportunities to use video-based advisory services to forge strong one-on-one relationships with investors, while reducing operating costs.
- **Serving SMBs**—Many of the largest retail banks perceive businesses with less than \$30 million in revenue as more risky, less profitable, and less likely to benefit from sophisticated financial products. There is an opportunity, however, for large banks to provide SMBs with enterprise products and services cost effectively through mobile advisers. According to the Open University Business School's "100th Quarterly Survey of Small Business in Britain," 71 percent of small businesses want face-to-face contact for new advice and information, and are turning to other financial professionals such as accountants. Experts in IBSG's Financial Services Practice advise large banks on how to use remote collaboration technologies to create a community of interest to help address questions beyond the bank's expertise or staffing capacity.
- **Accelerating Growth in Emerging Countries**—Despite the global economic downturn, there is potential for growth in emerging countries, where the middle class is expanding. According to the World Bank, the number of middle-class consumers globally will grow from 430 million in 2007 to 1.2 billion in 2030, and developing countries will account for 93 percent of this growth. Our expert advisers work with emerging markets to identify innovative ways to radically change the banking system using mobile technology and social networks to support sales and service models.

Insurance

- **Solving the Distribution Challenge**—Many insurance carriers depend on external partners (banks, independent agents / brokers) for distribution of their products and services. With premiums under pressure, lower returns on funds invested, and regulators' scrutiny over the use of commissions, the ease of doing business with partners becomes critical. Our Practice's experts help carriers and distributors understand how using electronic wholesaling as an operating model that encompasses self-service, assisted marketing, virtual sales, and advice offered to smaller distributors will enable distributors to improve the sales process and favor the carrier's products when equally relevant for the end customer.
- **Adapting to the Needs of Aging Customers**—Many people close to retirement age collectively lost trillions of dollars due to the global economic crises. In addition to their savings shrinking, this age group is living longer, particularly in the United States, Europe, and parts of Asia. Because of this, significant health management (and funding) challenges will emerge, requiring the private sector to create new value propositions to bridge the gap between consumer needs and government social and medical programs. Our financial experts help insurance companies identify strategies that address this market, including transforming carriers' role and value proposition

through an ecosystem of services (including health, finance, and travel) that can be delivered to customers in the comfort of their homes through high-quality immersive teleconferencing systems such as consumer telepresence.

Corporate Banking, Investment Banking, and Capital Markets

- **Business-to-Business Distribution**—As banks struggle to retain and capture more business from larger clients, a major change is needed in the way bankers collaborate with external customers. Our expert advisers work with large banks to implement collaboration technologies that supplement in-person interactions with virtual ones, providing timely access to relevant experts, shortening sales and service cycles, and reducing costs and improving productivity. Based on internal best practices using Cisco TelePresence™ technology—an ultra-high-definition video collaboration system—to conduct a large debt offering, Cisco reduced the time it took to conduct the process from two months to two weeks, saving \$2 million in travel expenses.
- **New Trading Landscape**—Algorithmic and high-speed trading are accelerating as sources of competitive advantage. Additionally, the growing relevance of “dark pools”¹ as a viable alternative to established exchanges presents challenges in terms of connectivity, transparency, and trade execution. Our industry consultants help banks position themselves to take advantage of new competitive tools and approaches that can help FSIs capture significant value from both prop trading opportunities and prime brokerage customers.
- **New “Service Factories”**—As regulations on the asset and wealth management industries tighten, a large number of smaller firms could increase efficiency by outsourcing mid- and back-office capabilities (such as risk management and reporting, and asset valuation) to larger banks that can offer such capabilities as a service and, potentially, as an extension to existing prime brokerage services. Our experts advise industry executives on how to design and embed the latest communication and collaboration capabilities into their operating models to dramatically reduce the costs of serving a large number of disparate customers and improve interactions.
- **White-Label Approach to Globalization**—Distributing products on a white-label basis through smaller regional banks to corporate clients is a significant area of growth within treasury management and corporate banking. Our expert advisers help companies strategize on how to manage these relationships using enabling technologies such as electronic wholesaling to improve operating models.

The Cisco IBSG Financial Services Practice serves the fastest-growing industry, representing 7 percent of global GDP. We provide the world’s top 500 financial institutions strategic counsel focused on creating business growth enabled by innovative use of technology. For more information about the capabilities of the Cisco IBSG Financial Services Practice, please visit our [website](#), or contact:

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¹ “Dark pools” refers to the trading volume created from institutional orders, which are unavailable to the public.
http://www.investopedia.com/terms/d/dark_pool_liquidity.asp

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>.



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