

Why Video is Strategic in Financial Services - Today

SPECIAL REPORT #



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IN THIS SPECIAL REPORT

Financial Services Relationships and Communications Will Change Significantly Over the Next Five Years

There is compelling evidence that there is a communications technology shift in financial services that will have a significant impact on how relationships are built and maintained. This effect will be analogous to the introduction of email. Just as email completely changed the way Financial Institutions communicate with their customers, their partners, and within their organizations, the coming video revolution will disrupt sales, marketing, product development, and other fundamental business processes.

Not all firms will embrace the change equally, and there will be consequences. Firms looking for the optimal time to video-enable their enterprise must realize that the window is now open. The “bleeding edge” experimentation and technological stabilization are over. Large video enablement implementations are underway at capital markets, banking, and insurance enterprises around the globe – all with clear business cases attached. The billions in enterprise value created by online trading were built on a communications technology that redirected business processes, shifted market share, and created new leaders. It’s about to happen again.

This research identifies the social trends, technical drivers, and business drivers that are leading Financial Institutions around the world to adopt videoconferencing strategies – today.

Video is Desirable - and Inevitable

No executive can deny the power of the "face-to-face." Whether it's a crucial sales presentation, issuing directives to an employee, or a "sit-down" to work out departmental differences, effective communication in critical business situations is intensely personal. Those that manage these situations best manage their businesses best. What if firms could increase the frequency of critical face-to-face interactions in their business? This business imperative is at the heart of why the adoption of video in financial services is strategic and timely.

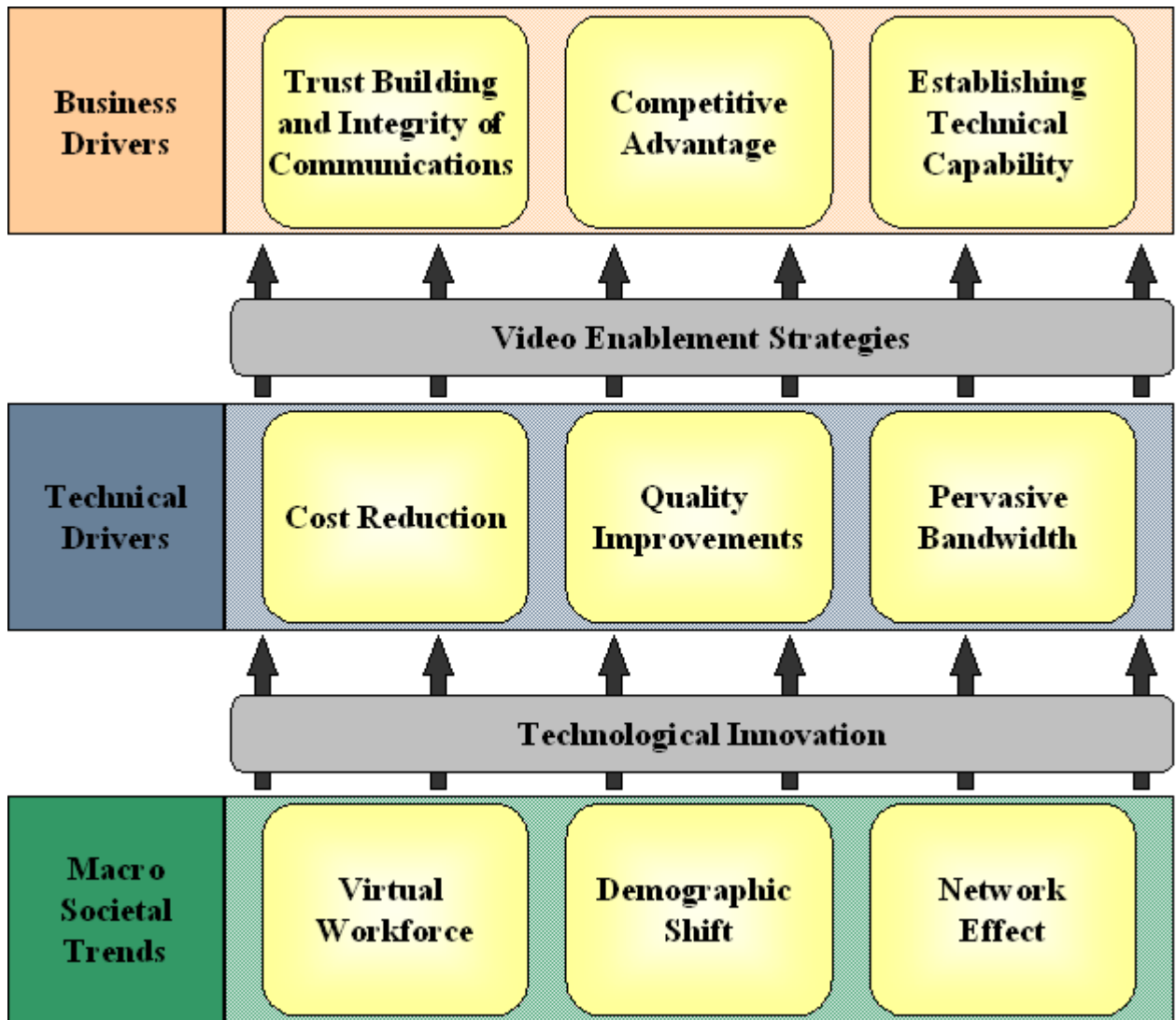
Financial Insights research reveals that in Financial Services the rapid rate of change in market structure, competitive landscape, and customer relationships has thrown significant market share up for grabs. As firms make their bid for growth, and scale their operations, technology plays a critical role in facilitating the mission-critical business processes that drive business. The challenge is not only to preserve, but to enhance both collaboration and the relationship, whether that is with staff, partners or customers.

Broader trends in society, business, and technology adoption (see Figure 1) provide fertile ground for video adoption to accelerate in earnest, and to play an increasing role in business:

- 1. Virtual workforce** -- The geographical disbursement of employees all over the world is making companies increasingly virtual. Workplace trends, such as increases in telecommuting and off-shoring, as well as reductions in travel, are contributing to videoconferencing's popularity.
- 2. Demographic shift** – Generation X and Generation Y (the under-40 groups) have grown up with video and are very comfortable and receptive to using video in their personal lives. A few examples of this are camera phones, DVRs, YouTube, and web 2.0 applications.
- 3. Network effect** – The “network effect” of the fax machine and email started off slowly. Video's position on its life cycle curve appears to be on the cusp of its own accelerating network effect.

FIGURE 1

Trends and Drivers Accelerating Video Adoption



Source: Financial Insights, 2007

Advances in Communication Technology Help Businesses Operate and Compete

Financial Institutions have long been characterized as early adopters of technology. Furthermore, they are among the most technology-dependent industries, investing in technology not just for growth, but often for survival. Few industries have been more receptive to technology-based solutions for competitive advantage.

Timely adoption of video capabilities is strategic to senior executives across financial services for:

1. Trust Building and Integrity of Communications -- Poor communication or lack of clear communication is among the biggest challenges a corporation faces. Videoconferencing enables people to clearly and frequently communicate. Communication is even more vital in the financial services industry, where trust is essential, and clear communication is at the base of productive relationships. While email has increased the frequency of communication, it has also increased the risk and incidence of misconstrued communications, and cannot be the sole platform for important relationships.

2. Competitive Advantage -- Video is happening, but in early stages, allowing separation in the market to occur. Several top 10 banks are using videoconferencing to link customers from a branch with remote subject matter experts. Other companies go beyond reaching out to customers and are communicating virtually with suppliers and vendors. Boeing has made extensive use of video in building the state of the art Dreamliner plane. Corporations that wait to understand how video can affect their processes and relationships risk being at a disadvantage in the market.

3. Establishing Technical Capability -- The advent of standards for videoconferencing has eased the required technical knowledge needed to video enable an enterprise. It is comparable to enabling blackberry devices to sync with corporate email. As videoconferencing becomes mission-critical, corporate executives will demand that IT be prepared with the technical skills and knowledge necessary to seamlessly connect their executive peers, staff, partners and customers. The technology advances and solutions availability make it attractive to enter the market now for firms seeking competitive advantage.

Customers Embrace New Ways of Interacting

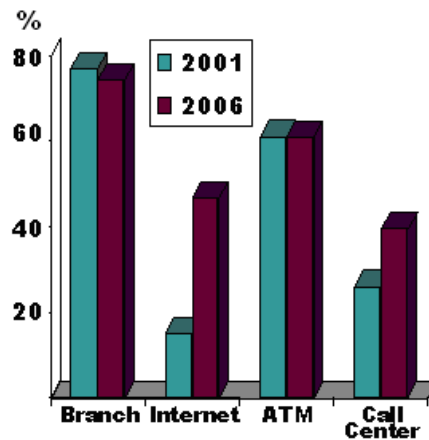
Enhancing collaboration and relationship has become a more complex challenge. Technology innovation in Financial Services has unleashed a torrent of new capabilities, relationships, and interactions. The frequency with which customers access their Financial Institution has skyrocketed, first with ATMs for banks and then the Internet for all (see Figure 2), and is high across all touch points. The notion that a brokerage relationship is comprised of a monthly statement, a quarterly call, and an annual visit is outdated.

There is a need to enhance frequent, asynchronous interaction with the high-touch relationship-building that comes from face-to-face interactions in both internal and external business encounters. Financial Insights believes that the timing, technology, and business imperatives are all aligned to make real-time video communication and collaboration become more pervasive in all facets of financial services.

FIGURE 2

Retail Banking Channel Usage 2001-2006

Retail Banking Channel Usage
Financial Insights Consumer Surveys



Source: Financial Insights, 2007

Ideal Conditions Are In Place For Video Communications

In any discussion of how video adoption will accelerate, we must note the significant technical obstacles that have been overcome by the industry to get to this point. Specifically, the breakthroughs in the area of compression technology and the negotiation of corporate firewalls have contributed greatly to the video opportunity.

Most executives who experienced videoconferencing in the early 1990s were dissatisfied with the older systems that used dedicated phone lines (ISDN), had poor audio and video quality, and poor reliability. The big breakthroughs since then have been: (1) moving the technology from a phone line based system to IP based systems; and, (2) improved compression capability, due to a new standard that

allows the videoconferencing user to receive twice the quality in video and audio using the same bandwidth.

Moving to IP based systems opens the connectivity options up to the 99.9% of Financial Institutions that have an IP network. However, driving wide adoption across the employees, partners, and customers and achieving lower costs by utilizing an IP network requires a secure way to navigate through corporate firewalls. In response, the videoconferencing industry has developed a standard that allows secure, IP based connectivity between different companies and different network providers. Even better, as with email “domains,” firms can use existing networking directories to easily video-connect internal employees, outside partners and customers.

Today, three primary factors are present that were absent in the past, making acceleration of video adoption possible:

1. Cost Reduction -- The cost of video communication has gone down dramatically. This cost reduction is in hardware, bandwidth, and available services.

2. Quality Improvements -- The picture quality of the video technology itself has recently dramatically improved. The once choppy and unclear static images of videoconferencing have today gone well past the “good enough” level. There is even High Definition videoconferencing that streams over the Internet.

3. Pervasive Bandwidth -- Videoconferencing can run on the back of a company’s existing network (WAN), making ISDN obsolete. IP can support high-resolution video, and broadband Internet connectivity is affordable and practical. The substantial percentage of workers with the ability to videoconference using the Internet creates an ideal environment for video to enter, proliferate and dramatically impact the landscape.

The Time Is Now For Video In Financial Services

There is a confluence of trends at work here: the virtualized workforce, pervasiveness of high-bandwidth environments, technical advances and demographic shifts. Combined with the business need to build trust and maintain the integrity of communication, videoconferencing is becoming increasingly important in financial services today. But what business processes are being “video enabled?” How can video improve the quality and cost structure of Business-to-Employee, Business-to-Business (suppliers, partners, outsourcing) and Business-to-Client interactions?

FIGURE 3

Video Enabled Enterprise



Source: Financial Insights, 2007

Financial Insights has identified five important business objectives (see Figure 3) where real-time video communication and collaboration can make significant improvement in supporting processes.

1. Customer Acquisition -- Financial Institutions are looking outward again and aggressively developing and marketing products to a wider and wider set of prospective customers. Video makes a “face-to-face” with product specialists a reality and increases success rates.

2. Customer Retention -- The ability to offer clients access to knowledgeable service representatives in remote areas introduces a personal touch necessary to improve customer confidence in the relationship and an added stickiness.

3. Knowledge-worker collaboration -- The evolution of decentralized teams requires that workers develop relationships without water coolers or conference rooms to promote interaction. While email, collaboration tools and conference calls facilitate exchange of data and information, only video can create long-distance rich communication necessary for team success.

4. Cost Reduction -- Even though reducing costs is no longer the lead story, it remains an important discipline in well-run organizations. With travel costs moving in the opposite direction as telecommunications, real-time video is a very attractive option that saves time, money, and wear and tear on a firm’s staff.

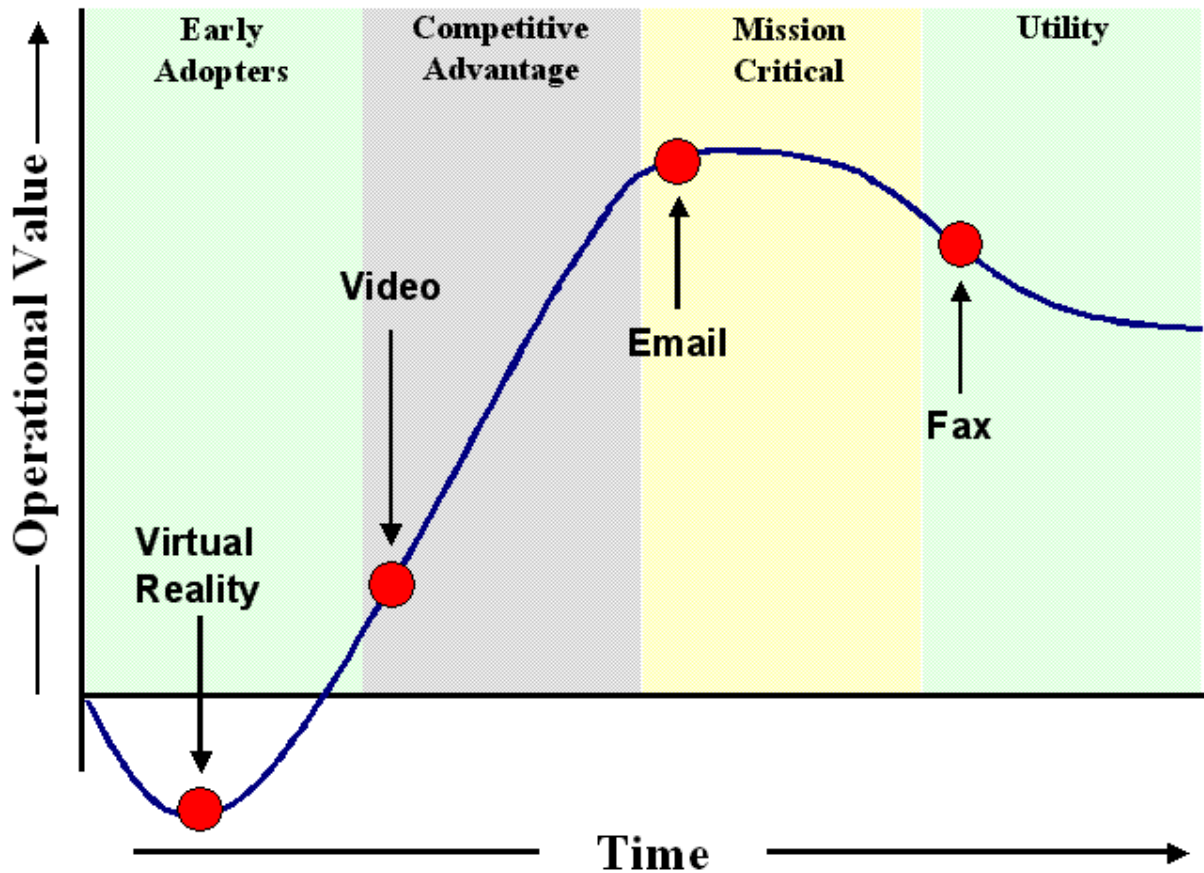
5. Carbon Footprint reduction -- Environmental concerns, Board of Directors imperatives to become “carbon neutral”, and rising energy costs all call for a reduction in environmentally damaging business practices. Video plays a significant role in reducing travel, saving time, and improving operational efficiency, making video solutions “green” in more than one sense.

It is based on these inexorable trends and pressing business needs that video in financial services will accelerate its growth (see Figure 4). Firms that move quickly will enjoy the elusive benefits of competitive advantage for which they strive.

Our guidance to Financial Institutions is to develop a video enablement strategy now and begin the process of analyzing the potential positive impact on processes throughout the organization. Executives must ensure that there is a plan in development that charts the path to competency in video communications.

FIGURE 4

Technology Lifecycle Stages



Source: Financial Insights, 2007

LEARN MORE

- Global Capital Markets 2Q07 Update (Financial Insights # FIN208029, August 2007)
- Financial Services Industry Update, 2Q07 (Financial Insights # FIN207979, August 2007)

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