

#befutureready

Financial Services Industry Trends

Data Centers Enable Next-Gen
Customer Experiences

THE INTERSECTION OF **INTERCONNECTION**

Introduction

Financial services firms accelerated their efforts to modernize as much, if not more than, many other businesses in the past few years. More than half of C-level executives surveyed by fintech provider Broadridge agree that digital transformation is currently the most important strategic initiative for their company, and firms now spend around 27% of their overall IT budget on digital transformation initiatives, compared to only 11% in 2022.¹

Improving operational efficiency is one goal of digitization. However, what grows fintech revenue is the ability to deliver seamless customer experiences (CX), which are dependent on satisfying application performance expectations for mobile banking customers. Latency is critical; one study found that “nearly 90% of business leaders (including those in financial services organizations) need low latency of 10ms or less to ensure their applications’ success.”²

Financial enterprise decision-makers see more fintech in their futures to further modernize in order to retain customers and attract a share of the world’s 1.7 billion unbanked citizens, of which 66% own mobile phones.³ What are the initiatives in their sights?

- **Technology integration to streamline processes and enhance customer experiences**
- **Growth through geographic expansion and new services offerings**
- **Increased reliance on clouds**

While modernization plans differ for each firm, industry trends and infrastructure requirements are significant, common factors. This paper touches on these two factors and explains why financial services firms are partnering with colocation data centers to achieve their goals.

Trends Highlight Challenges and Opportunities

Some trends, like artificial intelligence/machine learning (AI/ML) adoption and mobile apps expansion, are not only essential to be competitive but are starting to pay dividends. AI/ML provides insights into customer behavior that help elevate customer experience today and guide process or service changes to constantly improve it.

Mobile apps reach customers who can't or don't want to participate in traditional banking systems and practices.



97%

One study reports: "A massive 97% of millennials use mobile banking" and a high percentage of Gen-Xers and Baby Boomers also see benefits of mobile banking."⁴

Decentralized Finance (DeFi)

DeFi is an alternative financial system that works on blockchain. It's designed to remove the "middleman" – the traditional, centralized banking system and even intermediaries such as PayPal. DeFi use cases include payment solutions, peer-to-peer lending, digital asset management and digital identities. Financial transactions involve digital exchanges, cryptocurrency, digital wallets and smart contracts. Users can expect to benefit from attractive interest rates and low fees compared to mainstream offers.

While DeFi doesn't pose an immediate threat, banks and other middlemen are paying attention. Some banks are investing in crypto and blockchain companies to take advantage of blockchain's speed, security, transparency

and tracking capabilities.⁵ Firms that reject blockchain or are slow to adopt it may find themselves at a competitive disadvantage – and risk alienating institutional trading partners as well as the digital natives (early fintech adopters and those born in the digital age) who make up a substantial percentage of their current and future customer base.

DeFi is disruptive, nascent, complicated and, many say, volatile. DeFi is riskier for those who don't fully understand how to navigate the process and technology. Further, questions persist about regulations, compliance and systems upkeep. Yet DeFi is progressing, and forward-looking firms are considering DeFi's role in their digital transformation plans.

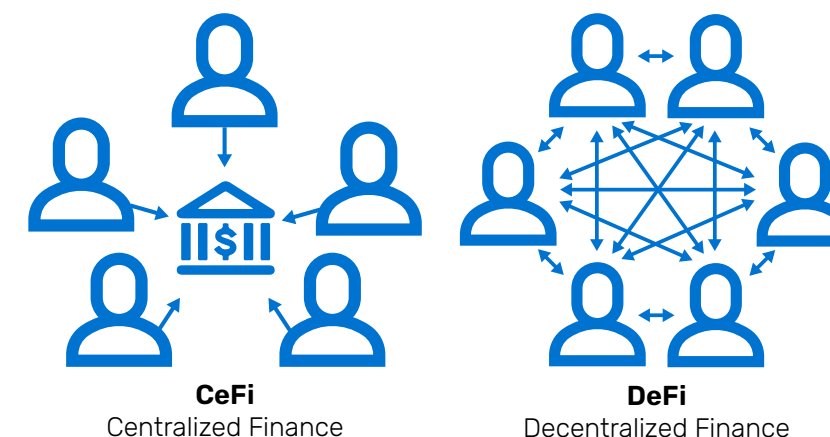


FIGURE 1: CeFi is the traditional financial system, in which a central body holds funds and oversees payments, provides loans, etc., and protects funds, for a fee. Services can include buying and earning interest on crypto currency.

DeFi eliminates a central body which holds assets and executes financial services processes. While DeFi entities can offer low fees and high interest rates, risk is also increased.

Embedded Finance

This trend involves financial products or services that are integrated into the offerings of non-financial third parties or platforms not hosted by financial institutions, although some banks are visible actors in an institution's digital ecosystem. This isn't a new concept – auto dealers have been facilitating loans for a long time – but it's a trend that's expected to pick up steam. Many third parties offer payment solutions; an example of far more ambitious strategy is the full-service banking offerings (loans, home equity lines of credit, savings accounts, CDs and more) promoted by the American Automobile Association (AAA) to its members.

Some banks are offering embedded financial services provided through third parties. For example, Lloyds, ING and others partner with Minna Technologies, a self-serve subscription management company. The service allows customers to manage their subscriptions (such

as Hulu, Amazon Prime or Chewy) through a bank app that also is a financial management tool. This is smart marketing to Gen-Zers, who each spend nearly \$380 a month on subscription services. Furthermore, 64% of Gen Z value personalized products and financial service recommendations from their bank.⁶

Embedded finance initiatives can improve overall customer experience and create revenue for financial firms while lowering the cost of new customer acquisition and retention. According to McKinsey, "What makes the next generation of embedded finance so powerful is the integration of financial products into digital interfaces that users interact with daily."⁷ Interfaces include customer loyalty apps, digital wallets and shopping cart platforms. FIS reports that 44% of survey respondents expect to invest significantly in developing embedded finance products with 12 months.⁸

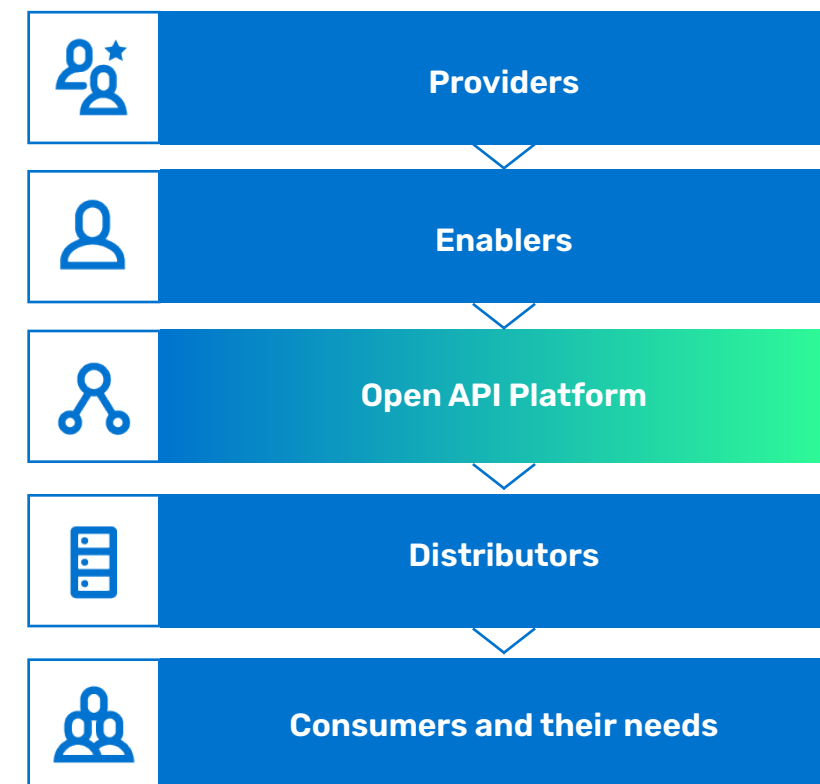


FIGURE 2: The embedded finance model gives non-financial entities the ability to offer a financial product in a customer experience leveraging an open API platform.

Cloud Adoption

Cloud is an IT modernization catalyst with business-wide implications. Benefits include:

Benefit	How it helps
Low Latency	Moving data and workloads closer to users cuts the number of network hops, helping to ensure application performance and excellent customer experience (CX).
Advanced Security	The major cloud service providers have delivered on many security measures and are doing more to bolster additional capabilities to satisfy regulations. The use of artificial intelligence/machine learning (AI/ML) insights across hybrid cloud and multicloud solutions assists with finding and stopping threats, reducing cyber risk.
Cost	Cloud enables firms to eliminate or downsize outdated data centers, reduce capital expenditure (CapEx) and management expenses and take advantage of pay-as-you-use pricing.
Go-to-Market Speed	Ready-to-use cloud services shorten launch timeframes of new digital applications, accelerating customer acquisition.
Innovation	Scalable compute power and speed, access to data analytics and lack of geographical constraints can inspire creative, out-of-the-box thinking.
Environmental, Social and Governance (ESG) Initiatives	When the sustainability policies of hyperscale cloud providers support ESG goals, internal efforts may be less time consuming and costly.

Myths vs. Facts About Cloud Adoption in Financial Services

Some decision-makers remain cautious. Certain myths slow cloud adoption in financial services, but the facts speak for themselves.⁹ Myths and facts serve not only to jumpstart transformation discussions but also to reinforce a Bob Dylan truism: “The times, they are a’changin.”







	 Customer protected data	 Regulatory compliance	 Vendor diversification	 Complexity management	 Scope of transformation	 Transformation journey
Myth	A lower standard of customer data protection	Harder to fully comply with evolving regulatory requirements	Vendor lock-in poor economics, and operational rigidity	Components in hybrid multicloud must be disconnected to limit complexity	Cloud is for the periphery, not for core systems	A step-by-step approach alone is the right path to cloud transformation
Fact	Compliant by design, at least as secure as most on-premises data; advanced analytics preserve confidentiality	Cloud may reduce the effort required to ensure ongoing compliance, through a scalable platform that is continuously updated	Possible to design architecture to reduce vendor dependency, maintaining high operational, data and software sovereignty	Unified frameworks can handle the complexity of multiple, interoperable architectures	Cloud-native core banking systems emerge as viable option for future-proofing the technology stack	A phased approach can succeed if it has a vision of the desired end state and the right organizational design

FIGURE 3: Firms that are transforming their businesses leveraging the cloud are further ahead in capitalizing on cloud advantages, particularly scalability, agility and responsiveness. Without these capabilities, firms will have a difficult if not impossible time keeping up with the expectations of their customers for online and mobile services.

Colocation Accelerates Digital Transformation Outcomes

Transformation journeys increasingly rely on hybrid IT infrastructure that supports modernization strategies and goals – and deliver the business outcomes you desire.

CoreSite provides customized hybrid IT solutions and modern, compliant data centers that offer 100% service level agreement (SLA) uptime while helping you optimize cost, dynamically scale, manage risk and extend your IT team.

Looking for more contributors to growth and customer experience? Colocation in a CoreSite data center enables:

- **Direct access to public cloud service providers, so you don't have to navigate ancillary connections and routes**
- **Private, automated connectivity that bypasses the public internet and supports low-latency, reliable and secure transactions and communications**
- **Tapping into a large ecosystem of companies with which you can partner to accomplish your transformation strategy**
- **Interconnection capabilities, a competitive advantage that allows you to easily reach new geographic markets**
- **Single pane of glass multicloud and hybrid IT management, enabled by a virtualized network services platform**

We'll take a moment to elaborate on the last bullet. The Open Cloud Exchange® is a software defined networking-platform that provides automated, enterprise-class network services within CoreSite data centers. With it, you can very quickly establish and deftly manage interconnection to public and private clouds, business partners and all of CoreSite's data centers.

Learn How We Can Help You Deliver Next-Gen Fintech Customer Experiences

Every financial services enterprise has unique business goals and technical challenges. When you are ready, talk to us about your digital transformation objectives. We can help you map out a hybrid IT strategy that immediately delivers measurable cost and productivity benefits and ensures your firm is future-ready.

[SPEAK WITH AN EXPERT](#)

1. Broadridge Study, Digital Transformation Enters a New Phase – Here's What Comes Next, 2023
2. Computer Weekly, Latency higher priority than speed as IT leaders look to gain edge, 2021
3. Forbes, The Five Biggest Financial Services Tech Trends in 2022, January 14, 2022
4. Insider Intelligence eMarketer, State of Mobile Banking in 2022: Top Apps, Features, Statistics and Market Trends, April 15, 2022
5. Blockdata, Top Banks Investing in Crypto and Blockchain, May 2022
6. Zayo, How Gen-Z Prefers to Bank, September 7, 2022
7. McKinsey, Embedded Finance: Who Will Lead the Next Payments Revolution?, October 13, 2022
8. FIS, Global Innovation Report, 2023
9. Bain & Company, Countering the Myths That Hinder Cloud Adoption in Financial Services, March 3, 2022

Join the Conversation



@CoreSite



www.linkedin.com/company/coresite/



#befutureready

About CoreSite, An American Tower Company

CoreSite, an American Tower Corporation subsidiary, provides hybrid IT solutions that empower enterprises, cloud, network, and IT service providers to monetize and future-proof their digital business. Our highly interconnected data center campuses offer a native digital supply chain featuring direct cloud onramps to enable our customers to build customized hybrid IT infrastructure and accelerate digital transformation. For more than 20 years, CoreSite's team of technical experts have partnered with customers to optimize operations, elevate customer experience, dynamically scale, and leverage data to gain competitive edge.