

IDC PERSPECTIVE

Banking on the Cloud: Results from the 2021 CloudPath Survey

Jerry Silva

Karen Augustine

EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Cloud Strategy Is Essential

IDC's 2021 *Industrial Worldwide CloudPath Survey* results for the global banking industry highlight the growing reliance on cloud-based services to lead business innovation and digital transformation and reduce operational costs. Successful cloud implementations in response to the COVID-19 pandemic has validated the platform as an enabler for banks to become more resilient, enhance customer experience, and improve operational efficiency.

Key Takeaways

- CIOs now recognize that cloud deployment is essential to stay competitive and meet customer experience and convenience expectations while providing resiliency, scalability, and efficiency.
- Public cloud investment is expected to grow at 16.2% a year through 2024, or 3.5 times that of the banking industry's overall IT budget, which is forecast to grow at 4.5% a year through 2024.
- Greater agility, innovation, and the ability to quickly offer new products and services to meet changing customer demands have proven to be the top benefits of the cloud.
- Tighter IT budgets are cited as a key driver to cloud use, but increased IT productivity is blurred by the extra management layer needed to orchestrate their growing hybrid digital infrastructure.

Recommended Actions

- Develop a robust cloud strategy in a staged approach with hybrid cloud management, as banks strengthen their digital infrastructure and shift to more autonomous operations for better resiliency, flexibility, and cost efficiency.
- Retrain your organization's IT executive staff to recognize that they will be building less of their own applications and orchestrating partnerships with multiple vendors in a hybrid approach toward a digital infrastructure.
- Partner with firms with deep experience in financial services to help with the orchestration, resiliency, and security of banks' growing digital infrastructure.

Source: IDC, 2021

SITUATION OVERVIEW

Cloud deployment is now an essential component of IT strategy for banks, whether large or small, in the United States or abroad. Cloud services were instrumental in supporting the infrastructure needed to support a remote workforce, maintain global supply chains, and shift business models all in a matter of weeks to operate successfully during the COVID-19 pandemic. Banking was no exception. The shift toward cloud services was progressing at a healthy pace prior to the pandemic, but business demands for resiliency, scalability, elasticity of demand, and operational efficiency resulting from the pandemic-accelerated cloud adoption, exposing the agility of cloud adopters compared with those that resisted or underfunded cloud services and, therefore, lacked the digital tools and services needed to survive in this new era. As a result, nearly all banks have adopted cloud services in one form or another.

Software providers (ISVs) responded to the pandemic by offering cloud-based products that could be deployed in weeks or months instead of the traditional "build" approach that typically takes a year or more to implement. While many of these services employ the public cloud, most banks are adopting a hybrid or blended approach, as banks look to maintain the breadth of services from public cloud, private cloud, and traditional on-premises solutions as the optimal way to gain innovation and speed to market for newer features while maintaining governance, security, and risk and compliance to the enterprise.

IDC's *2021 Worldwide Industry CloudPath Survey* provides deep insight into how global industries move to public and private cloud services, their buying process, and brand perceptions. The survey focuses on 25 industry segments in 13 countries, including:

- Healthcare (payers, providers, and life sciences)
- Manufacturing (discrete, process, high-tech, automotive, A&D, CPG, chemicals, and wholesale distribution)
- Financial services (banking, insurance, and capital markets)
- Retail
- Energy (oil and gas and utilities)
- Government (federal, state, and local)
- Telecommunications
- Media and entertainment
- Professional services

Highlights of the survey include the decision to move to the cloud, key applications, workloads and/or functions moving to cloud, application migration strategy and timing, the types of cloud services used, drivers and inhibitors to adoption, budgets, purchasing preferences, attitude toward buying channels, vendor's customer-satisfaction ratings and advocacy scores, behavioral trends, cloud adoption, and buying intentions for 200+ industry-specific applications.

This document reviews the findings of IDC's *2021 Worldwide Industry CloudPath Survey*, specifically for the global banking industry. In 2021, 100 banking executives worldwide responded to the survey, each of whom identified themselves as primarily retail, consumer, small business, and/or corporate banks, including institutions in North and Latin America, Europe, and Asia/Pacific. This document does not cover the capital markets or insurance industries, but these industries were also included in the survey.

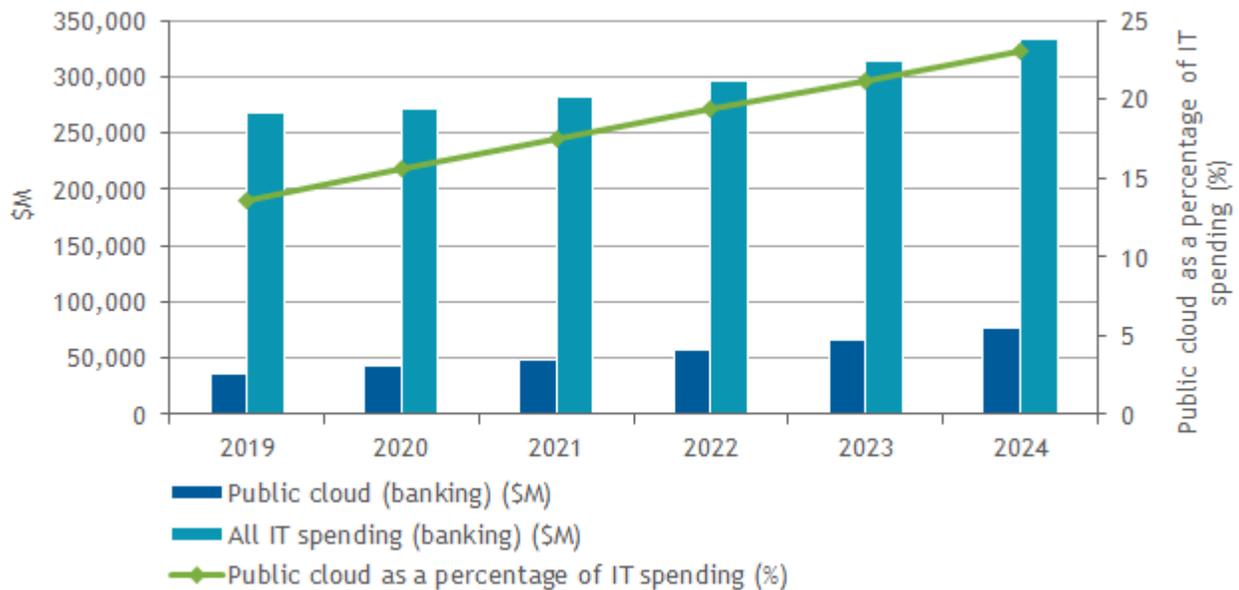
Cloud Is Gaining Share of Banks' IT Budgets

Successful cloud implementation during the pandemic bolstered the already fast-paced growth of cloud services, enabling CIOs to overcome a prior reluctance to move mission-critical workloads from on premises to cloud. Now reliance exclusively on centralized datacenters is becoming less appealing, as cloud services allowed for faster, more cost-effective adoption of much-needed digital services to support the new economy in a pandemic. Cloud services enabled businesses to adapt to the new digital environment, with new omni-channel type services for customers to limit exposure to in-branch services while supporting a remote workforce to minimize their business disruption. Cloud services enable greater agility for banks to take advantage of emerging technology such as AI/ML and Internet of Things, as they address more complex use cases that would otherwise be much more difficult to implement. Furthermore, these new applications and workloads will generate even more cloud spending to manage it. In this way, cloud spending is growing across all segments, from the largest software as a service to infrastructure as a service and platform as a service as well as cloud management and security services.

In Figure 2, IDC forecasts worldwide overall IT spending among banks to grow at a 4.5% CAGR during the five years of 2019-2024, while public cloud services are expected to grow 3.5 times faster at a rate of 16.2% CAGR over the same five-year period, gaining a larger share of banks' IT budgets. At this rate, banks will be spending nearly one-quarter of their IT budgets on public cloud services by 2024.

FIGURE 2

Worldwide Banking IT Spending and Public Cloud Share, 2019-2024



Note: Public cloud will reach \$77 billion with 16% CAGR as cloud gains a larger share of banks' IT budgets.

Source: IDC's Worldwide 3rd Platform Spending Guide: Banking, June V1, 2021 and IDC's Worldwide Public Cloud Services Spending Guide, June V2, 2021

IDC estimates that spend on cloud in 2021 will be \$44.6 billion, two-thirds of that will be spent on the public cloud compared with private cloud, as banks adopt a hybrid approach to the cloud. In fact, banks are more likely than ever to consider a cloud provider that offers both public and private cloud services, as banks report this to be the most important factor when considering a cloud provider. Banks recognize that the public cloud may offer more cost-effective and scalable solutions than a private cloud, but private cloud may be desired for certain workflows, to support compliance with industry and geographic regulations and, potentially, for added security when migrating more sensitive applications to the cloud.

Interestingly, banks are more likely to expect improved security when moving to private clouds, their top benefit, but fewer say so for public clouds. Security is also by far the top leading factor in determining which applications to keep on premises and which to move to the public cloud. Private clouds are dedicated for use by a single organization without sharing resources with any other organization, and whether hosted on premises or remotely, these services are provided by a secure, private network rather than the internet, enhancing its perception of security. Security continues to be mentioned as the primary concern among current private cloud users, but not among public cloud users where IT governance and IT and cloud management are far more pressing. Since banks are moving their most critical applications to private cloud, security remains the top concern, probably due to the impact of a potential data breach on their operations and whether they have adequate internal resources to prevent such an occurrence. Banks are unequivocally concerned about security issues no matter where the applications reside.

Banks Use Multiple Types of Cloud Services

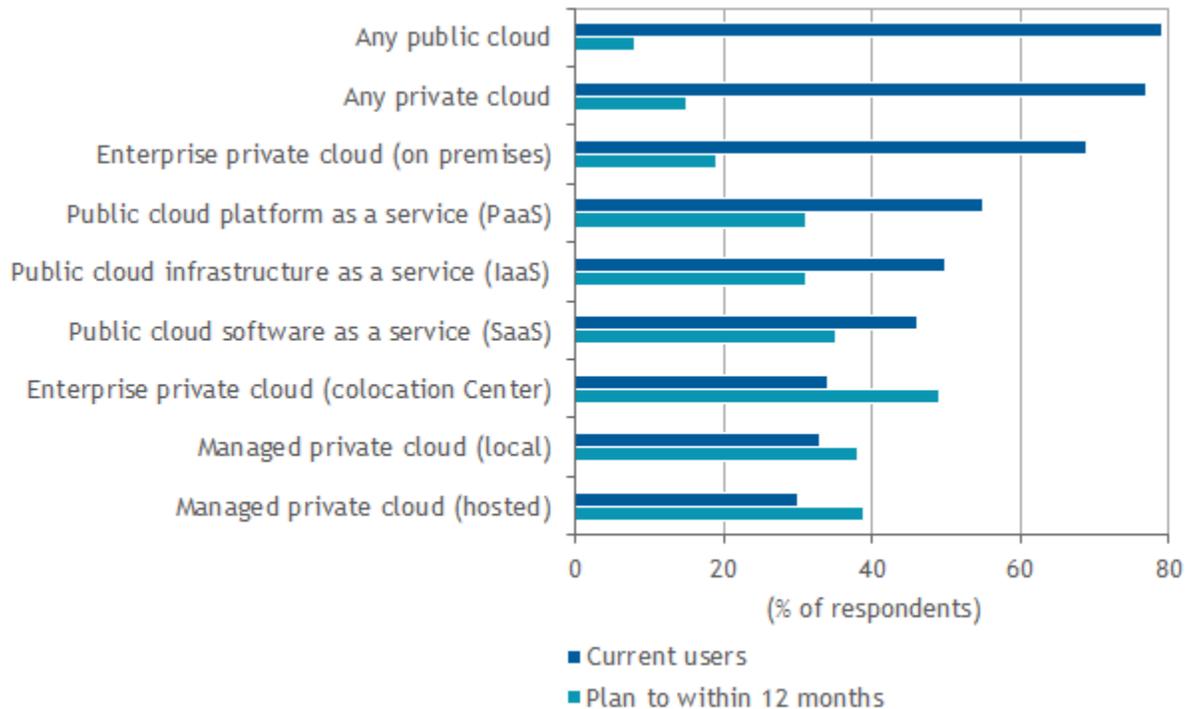
Cloud services can take on many different forms, creating a complexity that nearly always requires some type of cloud management. And this challenge is multiplied as the institution embarks on its journey to a digital infrastructure, encompassing everything from on-premises datacenters to a hybrid and multicloud environment, incorporating edge computing to form an infrastructure that offers greater visibility with frictionless connectivity. Very few only have one type of cloud service, as 79% of the worldwide bank executives surveyed claim to be currently using public cloud and 77% indicate using private cloud services, even if only for one or two applications.

Worldwide banks are deploying cloud services in a variety of ways, from private clouds hosted on premises to a hosted, managed private cloud and public clouds as a platform, infrastructure, or simply, software as a service (see Figure 3).

FIGURE 3

Current and Planned Use of Cloud Services in Next 12 Months

Q. Please describe your organization's current or near-term plans for cloud deployment services.



n = 100

Source: IDC's *Worldwide Industrial CloudPath Survey*, 2021

Banks deploy a variety of cloud models to accommodate the needs of specific workloads or environments based upon a number of factors including speed to implement, cost, scalability, system control, security, and governance. For example, SaaS public clouds have enabled many banks to gain faster access to new capabilities such as virtual assistants or customer experience enhancements and deploy them faster and more cost effectively than they could on their own. Yet enterprise private cloud on premises may be selected for mission-critical workloads that require utmost security with more system control than public cloud can offer. The biggest shift in cloud use from 2020 was a rise in the use of public cloud and a shift away from enterprise private cloud colocation and managed private cloud hosted by vendor (used by less than one in three banks). Public cloud was important in 2020 to react more quickly to bring needed capabilities to market in the shortest time possible to avoid disruption from the pandemic. Much of the reason for using private cloud is to gain more system control and security. Colocation and a vendor-hosted environment reduce bank control and may call into question some level of security for many banks.

Triggers to Move to Cloud

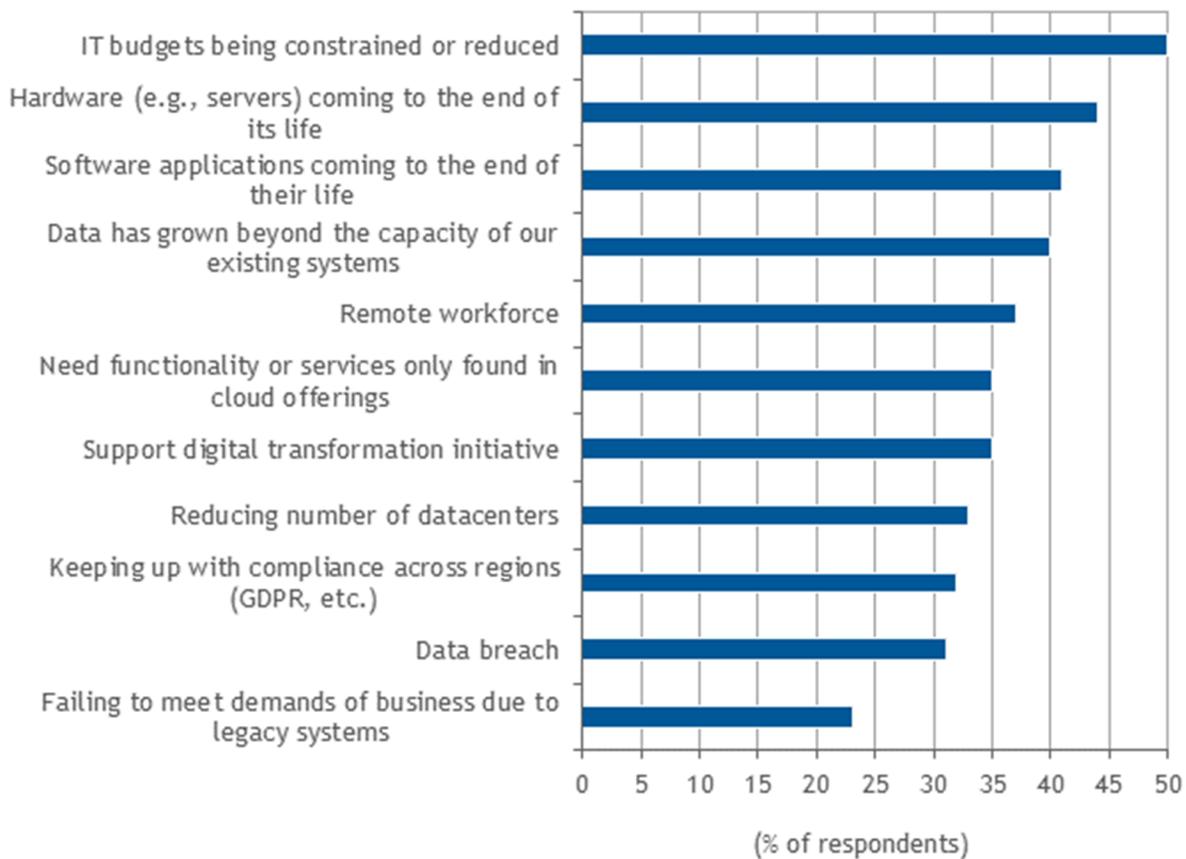
Banking institutions are moving applications to the cloud for a variety of reasons. The 2021 *Worldwide Industry CloudPath Survey* identifies the most important factors that triggered this move.

Figure 4 shows a ranked list of the most important factors that drove banking institutions to adopt cloud services based on the results from our 2021 survey. As you can see, the overwhelming factor, even more important in 2021 is the tightening of the IT budgets followed by banks' sunsetting of legacy systems, both hardware and software that are finally incapable of efficiently supporting today's banking environment. Banking institutions have had to increase IT spending to fund a number of initiatives to respond to the changing customer demands brought upon by the pandemic. Namely, banks were forced to fund the digital transformation required to support the changes in the remote workforce and enhancements to digital banking to accommodate the greater use accelerated by the pandemic. Consequently, banks have been forced to find ways to reduce their IT spending and work within tighter budgets without additional head count, making cloud services much more feasible. Cloud deployment was particularly beneficial when banks were forced to nearly instantaneously support a remote workforce at the start of the pandemic.

FIGURE 4

Most Important Trigger Events Leading to Cloud

Q. Which of the following "trigger events" have been most important in leading you to use cloud services?



n = 100

Source: IDC's *Worldwide Industrial CloudPath Survey*, 2021

Although banks cite tight budgets as a key factor in moving to cloud, cost isn't the most important factor that banks mentioned when choosing a cloud provider. Data growing beyond the capacity of our existing systems is another top trigger to adopt cloud services. Data sourcing and analytics platforms are a fast growing and top use of the public cloud across all industries, including banking. The banking industry has always been challenged by data management and creating enterprisewide capabilities using rich data from multiple touch points within the institution. This, in addition to the desire to tap into external and alternate sources of data, has led banking institutions to find cloud-based services as a new source of data and/or analytics based on their own data. In fact, advanced or predictive analytics, along with conversational AI chatbots or virtual assistants are the top innovative technologies that banks used to select a cloud provider, each mentioned by three-quarters of the bank executives surveyed.

IDC believes this driver will grow in importance as banks generate more customer-focused data from machine learning, AI, natural language processing, and other new delivery channels. These data offerings are proliferating as cloud providers and ISVs begin delivering data-centric offerings in the cloud. The challenge in adopting cloud-based data sources and analytics is ensuring the accuracy and quality of the data while maintaining compliance, security, and privacy on those platforms.

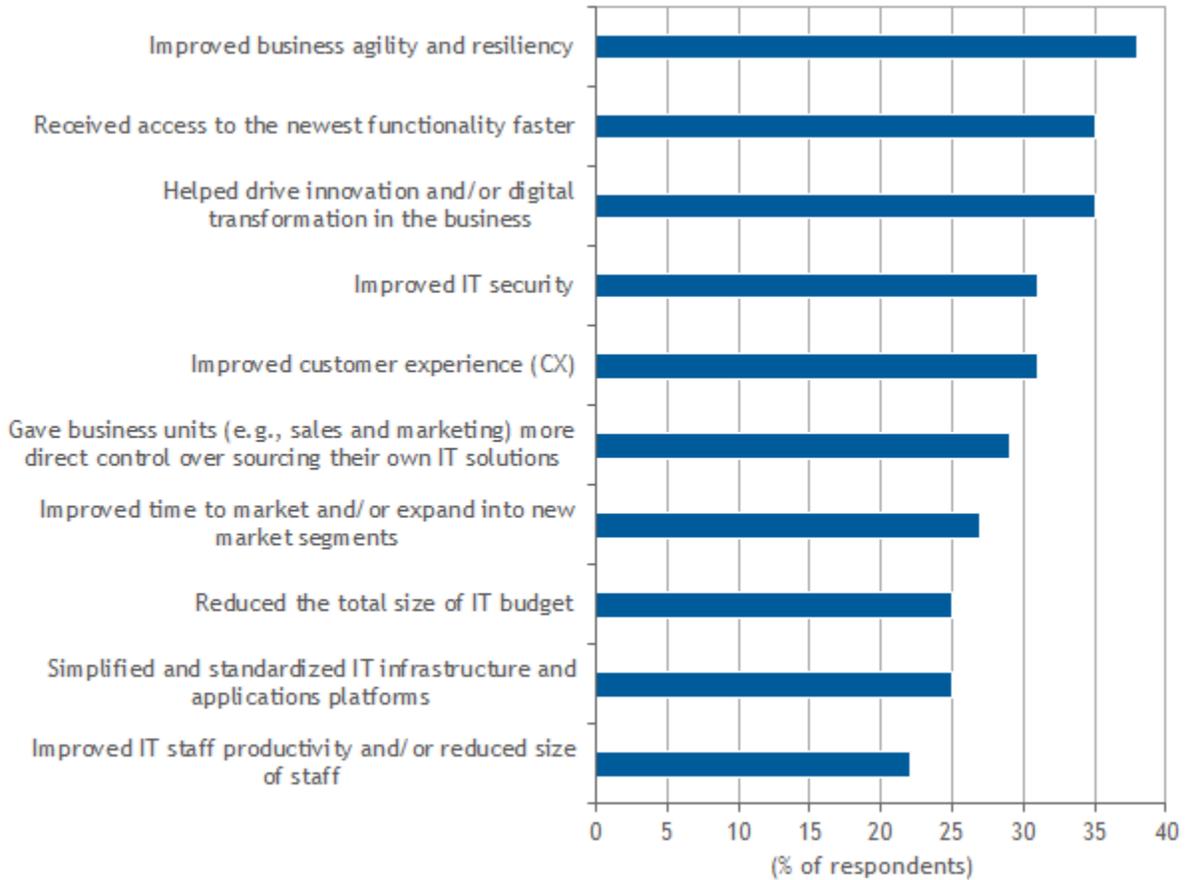
Actual Benefits from Cloud – Banks Are More Innovative and Customers Win

Actual benefits of moving to the cloud are cited by the banking executives' response to IDC's 2021 *Worldwide Industry CloudPath Survey* as banks become more familiar with cloud use. Figure 5 shows how the bank leaders surveyed ranked the actual benefits achieved as they moved to cloud (private and public) in 2021.

FIGURE 5

Actual Benefits of Moving to Cloud

Q. Where have you seen the greatest benefits in your cloud journey?



n = 100

Source: IDC's *Worldwide Industrial CloudPath Survey*, 2021

Although it may have taken some time, bank executives are now, more than ever, seeing the real benefits of cloud-based operations in terms of its greater business agility and resiliency to respond to market demands by implementing new functionality faster that enables banks to drive innovation and digital transformation more quickly and comprehensively than they ever thought possible. Greater agility, driving business innovation and/or a digital transformation, and faster access to new functionality are now the top 3 benefits that banks have noticed using the cloud, each mentioned by nearly two in five bank respondents. Cloud-based operations inherently support an agile platform to respond to market demands in near real time with a plethora of modern business solutions to enhance the customer experience with new functionalities that can also deliver greater operational efficiencies. Improved security is another bonus that banks found using cloud, though they are still a bit wary. And moving to the cloud is also seen as a way to improve the customer experience, as many of the new

functionalities to improve customer experience and ultimately satisfaction can be deployed faster, easier, and more efficiently using cloud software and services.

After another year of cloud implementation, bank executives are no longer just viewing cloud deployment as a source of reduced IT operational expense and improved IT staff productivity, the most important trigger leading to cloud adoption this year. The proliferation of cloud software, services, and new functionalities in the cloud are enabling banks to offer more services than they would have otherwise offered.

While bank executives may have been driven to the cloud because of expected IT productivity or cost improvements, they are overwhelmingly impressed with the cloud's ability to drive innovation and transform their business to respond to changing market demands.

Note: All numbers in this document may not be exact due to rounding.

ADVICE FOR THE TECHNOLOGY BUYER

Cloud Is an Engine for Innovation and Improved Productivity

CIOs and corporate board members increasingly recognize that cloud is more than mere technology – it is an engine for banks to quickly build new capabilities and services in innovative ways to improve business performance and shareholder returns. Leading public cloud providers offer a plethora of services that help transform the business – and many widely used solutions are already cloud-based such as customer relationship management systems and enterprise resource management systems designed to optimize the sales cycle and business operations. Cloud-delivered solutions can drive customer insights, improve their experience, define relevant offers, identify and onboard better talent, and even meet the constantly changing regulatory reporting requirements in multiple jurisdictions to support cross-border payments and provide more consistent operating platforms that can grow revenue at lower costs. Cloud is an essential component of banking's growing digital infrastructure.

Develop a Robust Cloud Strategy and Digital Infrastructure Management

A comprehensive cloud strategy will lay the foundation for optimizing not only digital infrastructure but also business performance. Developing a cloud strategy is not just an IT strategy but rather a business strategy to take advantage of new capabilities that can transform your business. A cloud strategy is fast becoming a foundation for differentiation and business innovation to meet changing customer demands. Banking institutions should prioritize their business objectives, anticipate market movements, and create successful plans outlining their expectations for agility and speed to market for each capability. Integral to this cloud strategy is to continuously reassess workloads to evaluate if their implementation and execution meet business objectives while analyzing the migration of alternative models by value and risk.

To manage multicloud environments, CIOs need to develop a common understanding of system architectural elements and governance strategy to optimize the environment. Take advantage of the native toolset of your cloud environment to monitor consumption of cloud services by provider and assess the functionality of each. It is important to continuously evaluate your requirements, assess your current capabilities, and compare them with other solutions.

Another component of this strategy is to retrain the IT staff to support this hybrid digital infrastructure. In this new digital era, IT staff will be forced to build fewer of their own applications, and, instead,

strengthen partnerships with multiple vendors in a hybrid approach needed for the digital infrastructure required to remain competitive.

IDC acknowledges that managing diverse cloud resources and data sets pose among the most critical IT challenges. An effective cloud management strategy with a transparent road map is key to gaining a competitive advantage and boosting profitable growth.

Partner with Providers That Have Deep Financial Services Experience

Partner with cloud providers that offer deep experience in financial services to help with the orchestration, resiliency, and security of banks' growing digital infrastructure built within a hybrid environment. In fact, having deep technical experience in my industry sector was among the top 2 most important factors in choosing a cloud provider among banks surveyed. Industry-focused vendors will be more knowledgeable of specific regulatory or compliance needs, niche applications, and use cases to optimize the environment.

LEARN MORE

Related Research

- *Worldwide Future of Digital Infrastructure Resiliency Challenges Shape Strategic Deployment Priorities* (IDC #US47596221, May 2021)
- *IDC Market Glance: Future of Digital Infrastructure Ecosystem, 2Q21* (IDC #US47596121, May 2021)
- *IDC FutureScape: Worldwide Cloud 2021 Predictions* (IDC #US46420120, December 2020)

Synopsis

This IDC Perspective reviews the findings of IDC's 2021 *Worldwide Industry CloudPath Survey*, specifically for the banking industry. Cloud services are becoming essential to bank survival in a post-pandemic world where customers are demanding greater convenience and more capabilities. As IDC's *2021 Worldwide Industry CloudPath Survey* shows, nearly all banks are using public and private cloud platforms. And the top cloud applications are mission-critical workflows such as online and digital banking and payment processing. Banking executives are reaping the benefits of cloud deployment by noting that they are better able to provide enhanced products and services faster to market with greater agility and efficiency and, in many cases, with improved security.

"Cloud is a growing component of infrastructure strategy, as banks incorporate more of their workflows into a variety of cloud environments in the foreseeable future," says Jerry Silva, vice president, IDC Financial Insights' Global Retail Banking program. "This year's *Worldwide Industry CloudPath Survey* shows us that cloud deployment really is essential to the banking industry, which is further accelerating its adoption of cloud based on real benefits proven in the market."

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

140 Kendrick Street
Building B
Needham, MA 02494
USA
508.872.8200
Twitter: @IDC
blogs.idc.com
www.idc.com

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or web rights.

Copyright 2021 IDC. Reproduction is forbidden unless authorized. All rights reserved.

