

## IDC PERSPECTIVE

# Banking on the Cloud: Results from the 2020 CloudPath Survey

Jerry Silva

## EXECUTIVE SNAPSHOT

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### FIGURE 1

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#### Executive Snapshot: Transformation Through Crisis

IDC's 2020 *Worldwide Industrial CloudPath Survey* results for the global banking industry shows continued strong demand for public cloud services. In fact, both public and private cloud deployments continue to attract attention, and budget, over noncloud workload models. The COVID-19 pandemic in 2020 has only strengthened the commitment to cloud as a source of speed to market and added resiliency for the banking industry.

#### Key Takeaways

- COVID-19 stressed many of the platforms in the banking infrastructure, particularly in the digital channels and the lending systems for small business.
- Owing to the unstable economic situation worldwide, banks globally are hyperfocused on efficiencies and leveraging operational expense models to maintain capital reserves.
- Global bank IT spend through 2024, growing 5.9% annually, will drive an accelerated recovery and a fast return to a new normal, but spending on public cloud will grow at almost twice that rate, 10.9%, annually through the same time period, indicating an increased desire to leverage the benefits offered by public cloud.

#### Recommended Actions

- All banking regions need to focus on overcoming tactical challenges such as ensuring that consumers and businesses continue to have access to fast and efficient credit facilities. Cloud-based solutions from modern ISVs offer a way to bring transformation to market very quickly.
- 2021 budgeting, taking place at the time this document was written, must consider public cloud as a way to move capital expenditures to operational models to take advantage of public cloud offers' scalability.
- IDC's 2020 *Worldwide Industrial CloudPath Survey* also shows an increased willingness by banks to move even mission-critical workloads such as core banking systems to cloud. These strategies must be well thought out but represent the strength of cloud as an architecture and as a deployment model for transformation.

Source: IDC, 2020

## SITUATION OVERVIEW

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Public cloud deployment is no longer limited to non-mission critical software solutions at banks globally but is now considered a viable platform for more complex and critical workloads that have traditionally run on premises within the bank's own datacenters. The COVID-19 pandemic only strengthened the need for resilience, scalability, elasticity in demand, and operational efficiencies from the banks' technology platforms, all inherent characteristics of cloud computing. Software providers (ISVs) responded to the crisis in 2020 by offering cloud-based products that could be deployed in weeks or months instead of the traditional "build" approach that could take a year or more.

Notwithstanding the benefits of public cloud, IDC believes that banks worldwide are considering hybrid environments, consisting of public cloud, private cloud, and traditional on-premises solutions, as the best way to gain innovation and speed to market while maintaining governance, security, and risk and compliance to the enterprise, at least for a few more years.

IDC's 2020 *Worldwide Industry CloudPath Survey* provides deep insight into how global industries are moving to the cloud (both public and private). The survey covers eight major industries and 18 additional subindustry segments, 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)
- Media and entertainment
- Professional services

Coverage of the mind and journey of the cloud buyer includes overall adoption, application migration strategy and timing, drivers and inhibitors, budgets, purchasing preferences, attitude toward buying channels, vendor ratings and advocacy scores, behavioral trends, and cloud adoption and buying intentions for 200+ industry-specific applications.

This document reviews the findings of IDC's 2020 *Worldwide Industry CloudPath Survey* specifically for the banking industry. The survey included 173 institutions identifying 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, although the survey collected data for these industries as well.

### Cloud Becomes a Priority

In March 2020, IDC conducted one of its many surveys to industry executives about the COVID-19 pandemic and its effect on their IT investment priorities. There were a number of challenges that the banking industry saw during the initial impacts of the crisis:

- The move to remote workforce challenging both the ability to shift functionality to remote desktops and the ability to secure communications to/from staffers' homes
- The inability to respond to the need for increased credit by consumers and small businesses

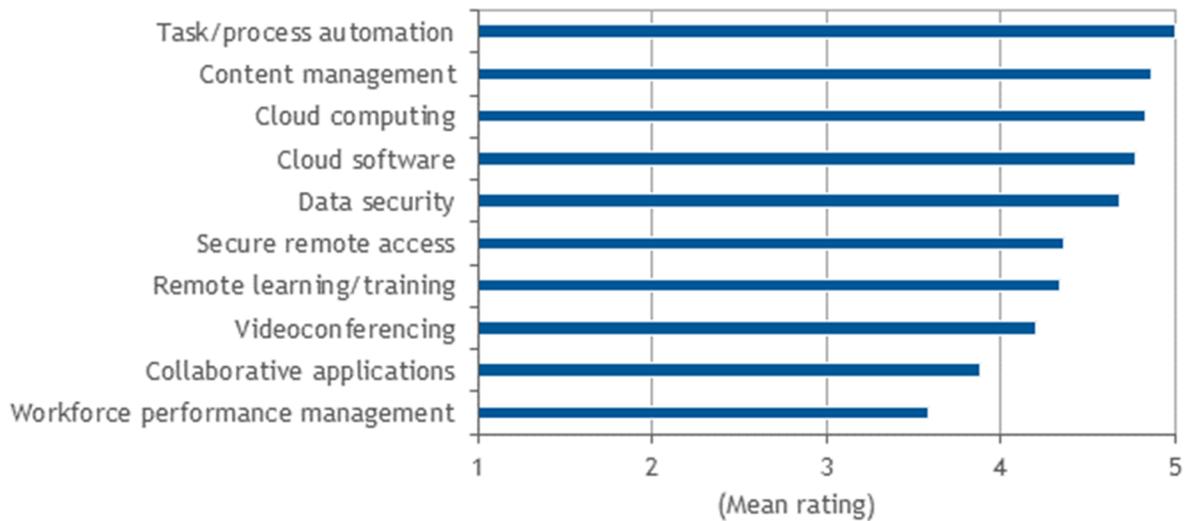
- The lack of scale needed to keep up with lending applications
- The increased fraud from card-not-present transactions as shopping moved from physical to digital

As a result of these challenges, executives in the banking industry worldwide reported that some technologies had risen in importance as the institutions struggled to recover and become more resilient to future disruptions. Figure 2 shows the technologies the banking executives reported as rising in importance.

**FIGURE 2**

**Technologies with Rising Importance**

*Q. Owing to COVID-19 and the need for new technology and changes to the working model of some organizations, for which of the following technology investments do you think demand will change?*



n = 110

Note: Data is based on a scale of 1 to 5 (1 = lowest and 5 = highest).

Source: IDC's *COVID-19 Impact on IT Spending Survey*, April 2020

Along with process automation and content management (natural outcomes of the failure of many legacy, manual systems and the lack of quality data with which to address customer concerns during the pandemic), cloud and security were ranked highly in terms of technologies that the industry feels will need positive change. This finding is consistent with IDC's estimates for IT spend in the banking industry over the next three years. IDC estimates that spend on cloud in 2021 will be \$44.6 billion, \$28.8 billion of that will be spent on public cloud specifically.

Overall IT spend in global banking is estimated to grow by 5.9% annually. But spending on cloud (private and public) is estimated to grow at nearly twice that rate globally, 10.9% annually through the next three years. From the perspective of public cloud alone, the growth rate in spending worldwide is

an astonishing 20.7% over the next five years (according to IDC's Worldwide 3rd Platform Spending Guide: Banking, published October 2020).

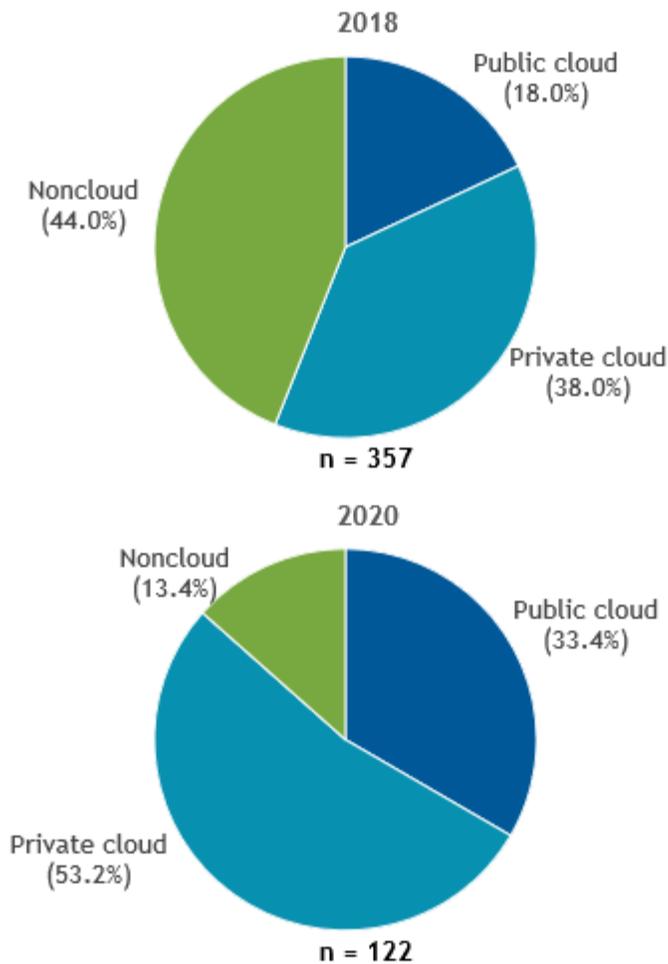
The relatively quick adoption of public cloud is not totally based on the pursuit of resiliency and scalability in crisis mode. Prior to 2020, the industry had been moving to public cloud as a viable deployment model. Figure 3 depicts a comparison of spending on cloud in banking worldwide as a percentage of total IT spend within the institution.

As Figure 3 shows, public cloud spending had been growing as a component of overall IT spend. By 2020, however, the spend on public versus noncloud (on premises and traditional outsourced) had flipped. As of May 2020, a third of all IT spend at the responding banks was allocated to public cloud. Private cloud, too, saw gains in its allocation of spend from 2018.

### FIGURE 3

#### Cloud Spend as a Percentage of Total IT Spend, 2018 and 2020

Q. For your organization's cloud deployment options, please estimate your cloud spend as a percentage of total IT spend.



Source: IDC's *Worldwide Industry CloudPath Survey*, April 2018 and May 2020

Much of the expansions in spend on public cloud stem from an increasing number of the types of workloads banks are entrusting to cloud technologies. 69% of banks report deploying some of their risk and compliance workloads on cloud (public and private), and 64% reported that some components of their core banking systems had moved to cloud (public and private).

### Triggers to Move to Cloud

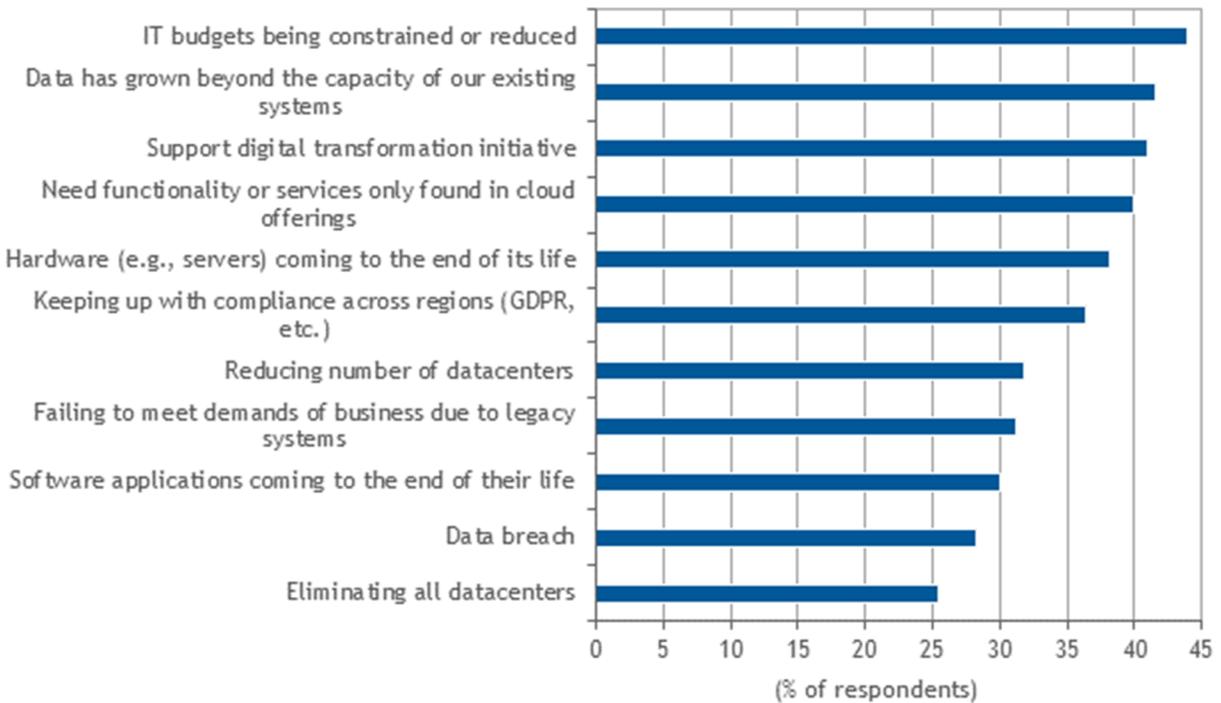
There are many reasons for institutions to move applications to cloud architectures and deployments, all as individual as the banks themselves. But the 2020 *Worldwide Industry CloudPath Survey* unearthed some themes, overall drivers, that triggered banks to move to cloud. Figure 4 shows the ranked list of reasons that drove banking institutions to adopt cloud.

Many of the triggers in Figure 4 seem natural based on the promised benefits of cloud; lower cost of operations, improved agility through transformation, and modernizing platforms and datacenters through legacy retirement.

**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 = 173

Source: IDC's *Worldwide Industry CloudPath Survey*, May 2020

## Data in the Cloud

One of the increasing interests in cloud, particularly public cloud, is in the sourcing of data from public cloud-based providers. The banking industry has always had challenges with a bank's ability to manage data and create enterprisewide capabilities given the rich amount of data within the institution. This, in addition to the desire to tap into external and alternate sources of data, has led to many institutions looking to cloud, as a source of data and as a source of analytics and functionality built on that data, and led to data being the second most often cited trigger for banks moving to cloud.

IDC believes this driver will grow in importance and in terms of supply as cloud providers and ISVs begin delivering data-centric offerings in the cloud. The challenges for those providers will be the same one facing banks today, maintaining high quality data and ensuring that those platforms maintain compliance, security, and privacy.

## ISVs Are Leading the Way

Another interesting result from the question of triggers for cloud adoption is that many banks cited new functionality that could only be found on cloud platforms. Many, if not all, ISVs in the financial services industry have been energetically modernizing their solutions to be cloud enabled, if not outright cloud native. Likewise, most, if not all, fintechs – those smaller start-ups supplying solutions to banks – are digital natives, using cloud platforms to quickly offer their platforms to the industry.

The summer of 2020 demonstrated a clear value of this trend as banks everywhere sought to transform their small business lending capabilities to more modern technology. In an age where loan origination was an often neglected area in the bank's operations, the possibility of modernizing "in place" by recoding legacy, COBOL-based systems was soon discarded. Instead, banks looked to ISVs to supply cloud-based lending origination platforms to bring capability to market faster and, at the same time, leverage cloud's inherent characteristics of scalability and resiliency to support the institution in an unprecedented time. Even after this global crisis is history, those solutions will continue to benefit the institution not only in speed, resiliency, and scalability but also in its ability to innovate faster and bring new products to market when they are needed.

## Concerns and Expectations

Every year, IDC's *Worldwide Industry CloudPath Survey* asks industry leaders for their concerns and expected benefits as they consider moving to cloud, public or private. Table 1 shows the top 3 concerns about and expected benefits from the move to cloud.

**TABLE 1**

**Top 3 Cloud Concerns and Expectations**

- Q. *While in the evaluation process, which of the following best described your organization's main concerns about cloud?*
- Q. *While in the evaluation process, which of the following benefits did you expect to achieve from your organization's cloud purchasing, usage, and strategy?*

	Concern	Concern	Concern	Benefit	Benefit	Benefit
Public cloud	Governance issues	Managing IT and integration	Security	Staff productivity	Improved security	Get new functionality faster
Private cloud	Security	Business interruption	Managing IT and integration	Improved security	Improve business agility	Standardize infrastructure

n = 173

Source: IDC's *Worldwide Industry CloudPath Survey*, May 2020

**Security**

Ironically, as what's been shown in previous years as well, security is cited as both an area of concern and an expected benefit. IDC believes this is attributed to a lack of trust, more than the capabilities of the cloud provider to ensure security. Bank leaders have often acknowledged that cloud providers have better security technologies and people than the institutions themselves, with few exceptions. But there are always the nagging concerns over potential breach of customer data and its impact on bank operations, liabilities, and regulatory response. That acknowledgment of the providers' security abilities translates into the expected benefit of improved security by moving to cloud.

**Operating a Hybrid Infrastructure**

What is not surprising are the other concerns of cloud adoption. "Difficulty in centrally managing IT systems, IoT services, and integration cloud services" has become a concern as institutions face the realities of operating across four different environments: traditional on premises, outsourced, public cloud, and private cloud. Concerns about governance, business continuity, and others can be combined as they represent a transformation to an infrastructure model with which few institutions are familiar.

The management and orchestration of the hybrid environment stresses the capabilities at most banks from a technology perspective, an operational perspective, and an organizational perspective. Many IT providers can help support the technologies needed to operate a hybrid infrastructure. Fewer can assist with the operational aspects, such as development operations, across such an environment. And very few IT partners can successfully guide banks through the organizational changes necessary not only to operate in a hybrid environment but also to take advantage of the benefits a hybrid environment could bring to the business.

Nonetheless, the interesting answer of "simplify and standardize IT infrastructure and applications platforms" as an expected benefit reflects the hope that the move to cloud will, in fact, improve the

simplification of many environments where hundreds and thousands of applications are run based on, at best, some unified IT strategy at the bank, and, at worst, a mixture of environments based on individual ISV-based platforms with different standards and requirements.

Another associated concern attributed to security is the bank's own ability (or lack thereof) of managing the compliance and security aspects of its ISV partners. Depending on the global region, regulations dictate what measures must be taken to safeguard customer data. In this respect, cloud is not a single thing. Rather, it represents a platform that must still be managed to comply with local regulations in addition to the institution's assurances to its customer base. For a bank with hundreds of software partners, this can be a daunting task in a hybrid environment.

IDC believes that hybrid infrastructure will rule the bank's IT strategy for some time. And it is incumbent on the industry to accelerate its ability to understand, govern, and operate under this flexible model to avoid challenges in the future and to create an agile and responsive architecture for business.

## Actual Benefits Reported in the Move to Cloud – Customers Win

Last, this document conveys the actual benefits of moving to cloud, as cited by the banking executives responding to IDC's 2020 *Worldwide Industry CloudPath Survey*. Figure 5 shows how the responding bank leaders ranked the actual benefits achieved as they moved to cloud (private and public).

Many of these benefits experienced by institutions moving to cloud should be expected. The agility of cloud-based operations inherently supports an agile platform to respond to market demands in near real time. The standardization of infrastructure is supported by internal IT development of solutions in cloud, as well as the hundreds of significant ISVs in financial services that have developed, or are transforming, modern business solutions in the cloud. Likewise, this result substantiates early claims of cloud deployment as a source of reduced operational expense and improved staff productivity.

After all of the discussion around the concerns for security, this too seems to be refuted to some extent by the responding banks citing improved security as a result of their move to cloud.

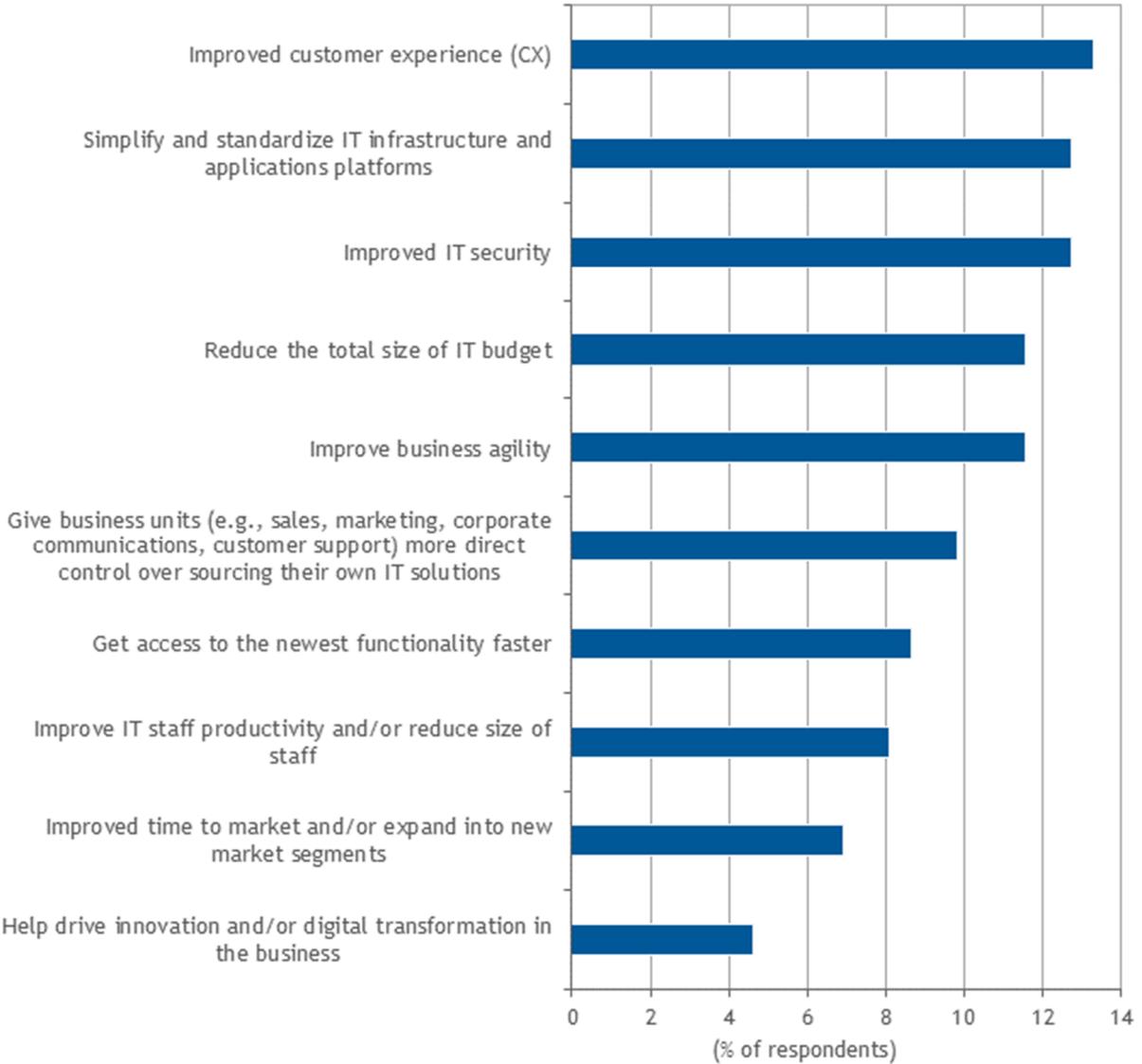
But perhaps the most stunning results of IDC's 2020 *Worldwide Industry CloudPath Survey* is that what is ostensibly an infrastructure transformation – the move to cloud as an architecture and deployment model – was credited for improving customer experience at the front line. This is an encouraging association that isn't immediately intuitive. Certainly, in the summer of 2020, as small business loans flooded the middle office of most banks, and as bank staff struggled to process what was still a paper-based operation for most institutions, the deployment of cloud-based lending platforms from ISVs that had developed those platforms to be cloud native immediately benefited the thousands of small business owners by improving the time to approval and funding during a crisis.

Aside from that single use case, it becomes clearer upon reflection that this link between cloud and customer experience is more demonstrable than many would have thought. For business leaders, the drive to cloud is based on their need to improve revenue through better customer experience and retention. They "selfishly" look to the ISV industry in financial services to quickly implement solutions that will support those goals. IT executives, on the other hand, are in the business of supporting and enabling business goals – agility, speed to market, and resiliency – as well as their own goals of efficiency, compliance, and risk management. The results of IDC's 2020 *Worldwide Industry CloudPath Survey* make it clear to this stakeholder that the steps they take to achieve their own goals directly and positively affects the "last mile" of customer experience.

**FIGURE 5**

**Actual Benefits of Moving to Cloud**

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



n = 173

Source: IDC's *Worldwide Industry CloudPath Survey*, May 2020

**ADVICE FOR THE TECHNOLOGY BUYER**

The move to cloud is no longer a question of "if" nor a deployment model suitable for non-mission critical workloads in banking. Large institutions such as Capital One and Standard Chartered are

essentially betting their businesses on the ability of cloud to help them grow and innovate while enjoying the benefits of more secure environment, standardized infrastructures, and the benefits of resiliency, scalability, and efficiency.

As IDC's 2020 *Worldwide Industry CloudPath Survey* shows, public cloud platforms are now in the mainstream of deployment alternatives not only for turnkey applications in relatively low-risk areas but also for more critical workloads. Banks report that cloud platforms are benefitting the institution in a number of ways:

- Improving the customer experience
- Improving business agility by getting access to the most advanced functionality
- Improving staff productivity and reducing costs
- Improving security
- Helping drive innovation and the creation of new products and services and getting access to new markets

## LEARN MORE

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### Related Research

- *IDC FutureScape Webcast: Worldwide Financial Services 2021 Predictions* (IDC #US47001020, November 2020)
- *COVID-19 Is Accelerating Transformation of the Global Banking Industry: Resiliency Becomes a Key to Success* (IDC #US46867420, September 2020)
- *Critical Banking Technologies for the 2020s* (IDC #US46413020, May 2020)

### Synopsis

This IDC Perspective reviews the findings of IDC's 2020 *Worldwide Industry CloudPath Survey* specifically for the banking industry. Cloud services, once limited as a deployment vehicle for software providers to offer their solutions in an efficient, low-cost managed model for the banking industry, is now considered a viable platform for more complex and critical workloads that have traditionally run on premises within the bank's own datacenters. As IDC's 2020 *Worldwide Industry CloudPath Survey* shows, public cloud platforms are now in the mainstream of deployment alternatives not only for turnkey applications in relatively low-risk areas but also for more critical workloads. Perhaps most importantly, and based on actual experiences from the banks responding to the survey, the move to cloud is achieving many of its promised benefits, efficiency, and security.

"Cloud is a critical component of a hybrid infrastructure strategy, and will be for 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 the banking industry is not only adopting but also accelerating its adoption of cloud based on real benefits proven in the market."

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## Global Headquarters

5 Speen Street  
Framingham, MA 01701  
USA  
508.872.8200  
Twitter: @IDC  
idc-community.com  
www.idc.com

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