Financial Institutions and the cloud: moving from BAU to business transformation
Summary

Catalyst
The role of cloud technology among banks and insurers has been hotly debated over the last 5 years, creating a huge amount of marketing hype in the process. While some continue to see IaaS primarily as a means to reduce costs, others are grasping the opportunity to support wider business transformation. With financial services players in Europe now starting to invest again in business growth, understanding FI pain points and future plans around the cloud are of critical importance to the industry as a whole.

Ovum view
We are witnessing a major shift in cloud purchasing priorities. The benefits realized from existing implementations, specifically around improvements to processes and wider business agility, are validating the use of different cloud types for different workloads. In the process, the use of IaaS is moving from being a driver of efficiency first and foremost and becoming a platform to support wider business transformation. The use of cloud is very much part of the business as usual for the majority of European financial institutions, and is set to grow in importance over the coming 2-3 years.

However, there are challenges to be overcome. Financial services is a highly regulated industry, and one that is consequently very risk averse. Concerns around compliance and data security will remain central to developments in this space, creating opportunities for providers with the right competencies and experience to take advantage. In addition, there are signs of an emerging skills crunch. Managing multiple clouds requires governance models and capabilities which some banks and insurers report that they don’t have in high enough supply. This may limit the reach of cloud technology within some institutions and will ultimately feed through into supplier shortlists.

Key findings
- Cloud is business as usual for financial institutions in Europe. Over 80% run at least some business critical applications on private or public clouds.
- Investment is poised to grow over the next two years, with the growing use of the public cloud a focus for many FIs.
- Multiple private and public clouds are actively in use. While private clouds remain the preferred choice for European FIs, 20% expect to manage a hybrid multi-cloud environment within the next two years.
- Supplier preferences are shifting: nine out of 10 European FIs now favor cloud service providers that can orchestrate end-to-end management across data centers and networks.
- One in five European financial institutions are unhappy with their cloud service provider, largely due to poor service performance, and lack of personalized support.
- European FIs face challenges in realizing their cloud ambitions due to concerns over compliance and a lack of the required internal skills.
Cloud computing: BAU for financial institutions

The use of cloud technology among banks and insurers in Europe today is widespread. No longer viewed as bleeding-edge or a case of vendor hype, cloud has matured into a technology that even the (necessarily) risk-averse financial services industry has adopted enthusiastically. Over 80% of the IT decision makers surveyed by Ovum for this study reported the use of some form of cloud technology to support business critical functions.

While cost advantages remain the most commonly felt benefit to financial institutions (FIs), cloud technology is increasingly being used to drive business agility. Banks and insurers in Europe are now looking once again to invest to drive revenue growth, with enhancements to product and service delivery particularly prominent among retail banks. When asked about the most important benefits achieved by IaaS, cost savings were the most frequently referenced (40%), with greater speed to deploy new applications (33%) and improved business processes (33%) also highlighted.

The clearest indication of the importance of IaaS to the IT infrastructure of FIs is the expected growth in cloud budgets. More than half of European banks and insurers plan to increase their expenditure on data center infrastructure and services over the next 12 months, with close to 1 in 5 planning to see investment grow by over 10%. At present, it is a series of permutations of private cloud which dominate the landscape, but FIs plan to invest heavily to deliver new implementations of public, private and hybrid cloud projects over the coming 24 months (see Figure 1).

Figure 1: What IaaS has your company implemented and which do you expect to have implemented within two years?

<table>
<thead>
<tr>
<th>IaaS Type</th>
<th>Implemented now</th>
<th>Expect to implement within the next two years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid cloud (an integrated solution using both private cloud and public cloud services)</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Public cloud</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>Virtual private cloud (private dedicated resources on public cloud infrastructure)</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>Private cloud, externally hosted and managed by a 3rd party</td>
<td>26%</td>
<td>23%</td>
</tr>
<tr>
<td>Private cloud, hosted in own datacenter, managed by a 3rd party</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Private cloud, hosted in own datacenter, managed internally</td>
<td>49%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Ovum
The degree to which banks and insurers are driving benefits from cloud can also be seen in the range of different applications supported by IaaS. The use of private clouds is already mature for most horizontal business functions, with BI and storage/backup seeing particularly high usage (see Figure 1). In addition, public cloud environments are being used to deliver a large minority of dev/test and CRM workloads.

Attitudes to public clouds in particular are growing ever more positive. Many banks and insurers in Europe plan to push a greater share of their workload to public clouds over the coming 12-18 months, with much of this being shifted from private cloud platforms. In the case of BI, storage/backup and CRM, the IT decision makers surveyed all expect to have over 50% of their workload in these areas on public clouds in 2016.

**Figure 2: What types of workload do you currently deliver from IaaS cloud?**

Source: Ovum
However, there remain important challenges

The majority of European FIs will be investing in new and/or additional IaaS projects over the next two years, aiming to drive both cost benefits but also to support revenue growth. While this creates clear opportunities for the vendors, telecoms operators and other providers delivering these services, there remain a number of important obstacles to be overcome.

Overcoming risk remains the central challenge, and is particularly acute in the financial services industry. Concerns over security and compliance remain the single greatest barrier to the wider use of IaaS, with just over 44% of survey respondents highlighting the management of increased compliance and data security requirements as an obstacle to future cloud projects. The migration of workloads into hybrid or public clouds itself brings risks too, and this will play a role in shaping expectations and requirements around supplier choice. The practicalities of meeting internal performance requirements in a cloud environment are also seen as problematic, with real-time services and mobile delivery becoming increasingly widely expected, and the ability of providers to support this will form an important element of any future selection process (see Figure 3).

Figure 3: Which of the following do you regard as important future challenges for cloud computing in your company?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Proportion of respondents (n=247)</th>
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<tbody>
<tr>
<td>Managing and coordinating the use of multiple cloud suppliers and service types</td>
<td>23%</td>
</tr>
<tr>
<td>Processing data from sensors and connected devices (&quot;Internet of Things&quot;)</td>
<td>26%</td>
</tr>
<tr>
<td>Controlling 'shadow IT' i.e. business units implementing cloud services locally</td>
<td>28%</td>
</tr>
<tr>
<td>Moving workloads between different providers or cloud types</td>
<td>29%</td>
</tr>
<tr>
<td>Finding a strategic cloud partner that we can work with as our cloud requirements evolve</td>
<td>32%</td>
</tr>
<tr>
<td>Migrating legacy applications to the cloud</td>
<td>36%</td>
</tr>
<tr>
<td>Meeting internal business unit and user demands e.g. application-specific performance commitments</td>
<td>36%</td>
</tr>
<tr>
<td>Managing increased compliance / data security requirements</td>
<td>44%</td>
</tr>
</tbody>
</table>

Source: Ovum

Also a high priority is managing the complexity around migrating legacy applications to a cloud environment. To do this, bank and insurer IT departments must demonstrate a deeper understanding of application-specific performance needs; a perennial challenge. This is linked to how and where
employees work, as well as the tools that they and customers want to use to consume and share business intelligence and digital services. Maintaining application performance can be tough to do well whether an application is in the cloud or not, and impaired application performance is almost as damaging to business productivity as an actual outage. Exacerbating this problem is a shortage of cloud computing skills, with 36% of FIs reporting that this knowledge gap has caused difficulties in evaluating opportunities and scoping IaaS requirements.

Ultimately, this means that bank and insurer IT functions must conduct a more in-depth assessment and right-sizing of their (public) network infrastructure in conjunction with non-trivial data centre centric issues. This is resulting in a notable shift in the capabilities valued among cloud suppliers. Almost half (46%) of European FIs now say that end-to-end management and SLAs across data centre and network environments would be of considerable benefit to them when looking to deploy cloud services. Equally, FIs identify networked IT service providers and system integrators as their most preferred partners to design, implement and manage private cloud environments, typically where their most sensitive and valuable corporate assets are held.

Suppliers must also raise their game. Just over 20% of FIs are dissatisfied with their cloud services provider, with performance issues cited as an area in which 29% of dissatisfied respondents expect to see improvement. Given the reputational risk that FIs in particular face from service outage, this issue is critical.

What Financial Institutions must do

While designed with the best intentions, European Union efforts to codify cloud SLAs, establish standards for supplier accountability, and bring greater professionalism into the cloud computing market will not address all the challenges identified here.

In terms of choosing cloud suppliers, FIs are still largely on their own. However, they should shortlist suppliers that:

- **Speak the language**: Financial services faces a number of specific data compliance and security challenges, not to mention complexities surrounding legacy infrastructure. Seek suppliers that demonstrate specific vertical expertise and can partner through multi-year and multi-cloud digital transformation projects.

- **Offer cloud choice**: This is an evolving landscape, but delivering transformative projects and more varied workloads will increasingly see a push out from private into hybrid and public cloud environments. This can be achieved with suppliers that can broker between private and public cloud environments without prejudice, and have the consulting skills to determine which configurations are best for the project in question.

- **Bridge the IT and network divide**: While there is no cloud without a network as well as a data center, supplier competences are often polarized within the data center. In today’s increasingly mobile and connected world, customer and employee consumption patterns are changing. As a result, connectivity issues will become more important.
Appendix

Methodology

Ovum conducted an online survey of 247 European Financial Institutions between July and August 2014. This survey was sponsored by BT and Cisco Systems, and conducted independently by Ovum. The sample included enterprises based in the UK, France, Germany, Italy, Spain, the Netherlands and Belgium. Demographically, 68% of FIs surveyed had 1,000 or more employees, while banks and insurers with 250–999 employees accounted for the remainder of the sample.

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum’s consulting team may be able to help you. For more information about Ovum’s consulting capabilities, please contact us directly at consulting@ovum.com.

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