



REGION FOCUS: WORLDWIDE

# Banks Worldwide Give Five Reasons to Move to Cloud Now



**Jerry Sliva**  
Program Vice President, IDC

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# IDC Opinion

Banks globally have unquestionably recognized the critical importance of migrating to the cloud. Cloud services are helping build the foundation for creating banks' digital business by modernizing legacy architecture for greater agility, scalability, and resilience to disruption, whether from local and global disasters, geopolitical unrest, or economic instability. Using cloud services, particularly public cloud, banks can bring new services to the market faster and more powerfully by accessing the latest functionalities provided by the cloud-based software market and by better leveraging enterprise-wide data and analytics.

The adoption of cloud has become a critical strategy to overcome many challenges, including:

- Difficulty in acquiring and keeping technology skills at the institution
- Advanced and evolving security threats
- Limits on the pace of change due to legacy infrastructures
- The inability to solve data and analytics challenges
- Unstable economic conditions that can negatively affect an institution's cost to operate its infrastructure

**According to IDC's IT spending forecasts, cloud's share of total IT investments in worldwide banking will increase from 26% of total IT spend in 2023 to 30% of total IT spend by 2026.**

In IDC's November 2022 *Future Enterprise Resiliency and Spending Survey*, financial institutions strongly agreed that they look to their strategic vendors (infrastructure, software, and services) to take administrative and operational responsibility for infrastructure so internal staff can focus on the business. This is an important component of the move to cloud, as hyperscalers have come to the fore in creating partnerships with banks and with the software and services markets to play a role in supporting the institutions' new digital infrastructure.

While technology investments in banking worldwide are expected to grow at a very healthy 8.8% through 2026 (surpassing the pre-pandemic growth rate), spending on cloud hardware, software, and services will outpace overall IT spend growth at 14.4% through 2026, demonstrating that cloud is becoming a larger share of banks' total investments (source: IDC's *Worldwide 3rd Platform Spending Guide: Banking*, November 2022).

IDC's annual *Worldwide Industry CloudPath Survey* indicates that more and more critical banking workloads are being shifted to cloud, underscoring IDC's opinion that the growth of migration of bank operations to cloud shows no sign of slowing down and, in fact, is being increasingly used for critical banking workloads.



# In This White Paper

This white paper looks at five reasons banks should move to cloud now, based on current trends in cloud adoption, the growth of cloud investments worldwide, and, most important, what banks are reporting as the biggest benefits from the move to cloud. Financial institutions are telling IDC that they are investing in the continued adoption of cloud for even the most critical workloads at their institutions.

This data comes from IDC's annual *Worldwide Industry CloudPath Survey* reporting from 100 banking institutions worldwide. (Capital market firms and insurance companies were included in the survey but are not represented in this white paper.)

This white paper conveys the reasons banks have moved to cloud, the real benefits they have derived from these migrations, and IDC's opinion on why these factors point to an increased need for the banking industry to move to cloud.

# Situation Overview

Every financial institution is unique in its challenges and opportunities. But there are some consistent truths that have emerged in the past three years in the global banking industry:



**Market dynamics are changing faster than bank infrastructure can keep up.**

The disruptions of 2020 were marked by a lack of scale in critical areas such as lending and remote work. New market needs often were not met due to legacy applications and infrastructure. These challenges were not specific to 2020 but reflected an inherent inability of the banking industry to react quickly to disruption and opportunities.



**Maintenance costs are increasing out of line with the value of many legacy platforms.**

While it is true that institutions are concerned about the impact of inflation on the cost of services like cloud, these digital infrastructures (and the modern software that leverages the scalability of cloud) are more efficient in running existing workloads and offer much more open architectures that enable the implementation of new business platforms with less need for specialized and additive hardware and specialized IT staff.



**The increased interest in open banking, embedded finance, and industry ecosystems is creating challenges in security, risk, and compliance.**

Geopolitical events are also generating new threats in cybersecurity stacks, data breaches, and ransomware.



**The IT staff required to transform to a digital business is increasingly difficult to source.** This staffing challenge is made more acute by the need to accelerate the pace of transformation and the journey to becoming a digital business.

For these fundamental reasons, banks have relied more and more on cloud infrastructure providers and the software and services industries to accelerate their move to modern infrastructure, operations, and functionality in order to anticipate and meet the market demands of tomorrow.



## Why Should Banks Move to Cloud?

IDC fields the *Worldwide Industry CloudPath Survey* every year. In 2022, 100 banks worldwide responded to a series of questions about their adoption of cloud, including factors that triggered their move to cloud, the criteria that they used to move workloads to the cloud, and the anticipated benefits of adopting cloud.

### What Is Triggering the Move to Cloud?

Two responses in the survey represent the same dynamic (see **Figure 1**, next page). “*Failing to keep up with demands of business due to legacy systems*” and “*need functionality or services only found in cloud offerings*” represent two sides of the same coin: demand and supply. Banks are struggling to maintain relevancy in a global market that demands change more often than ever, driven by changing customer behavior and the threat from nontraditional financial providers. And when the banking institution looks for technology to enable it to respond to these challenges, it often finds it in the cloud.

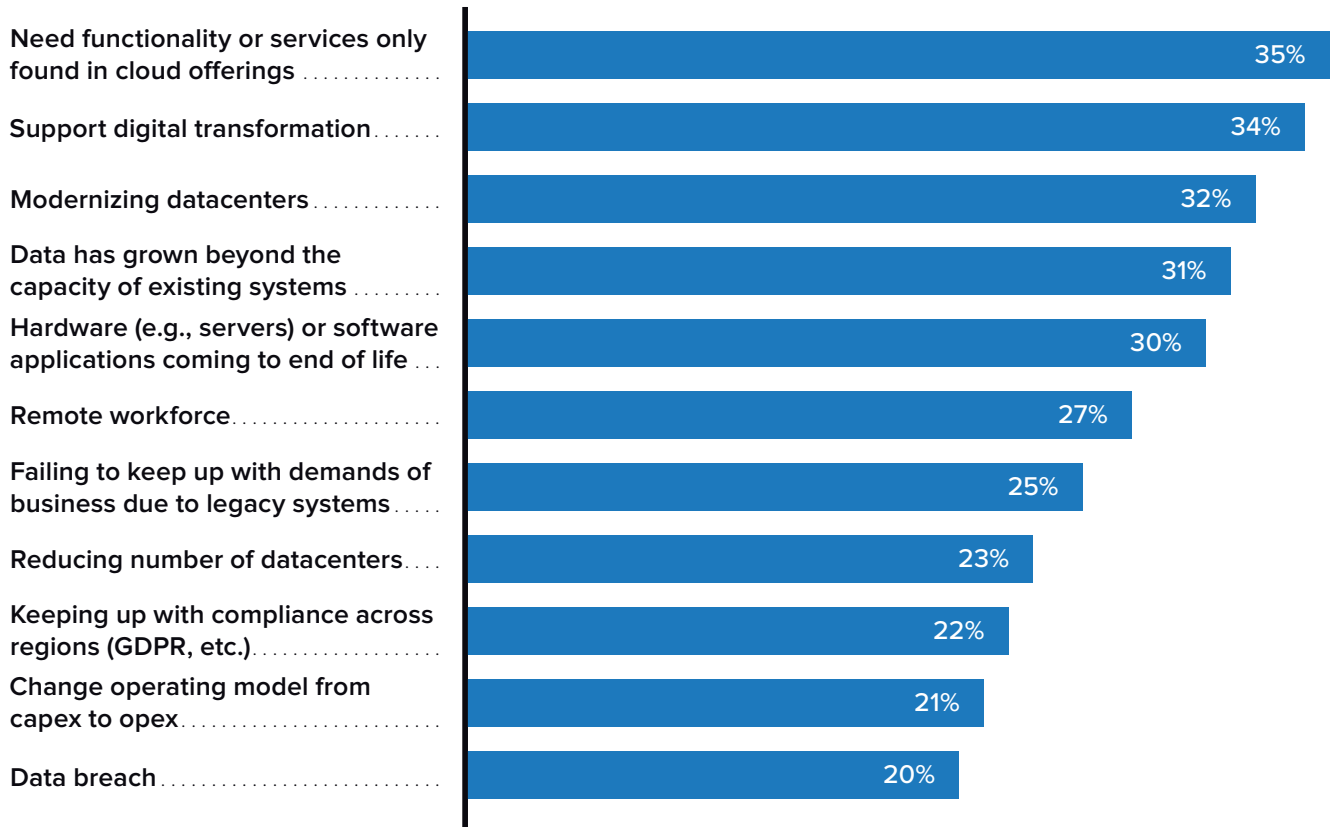
#### The responses to the question of what caused financial institutions to move to cloud are telling:

- Market dynamics are forcing banks to respond to changes, disruptions, and opportunities faster than ever. This is causing friction when a bank is attempting to be agile with an infrastructure built, in some cases, 20 or 30 years ago.
- The software market is ahead of the banks in developing modern solutions and platforms that are cloud native. In most cases, these solutions are open, flexible, and scalable, allowing institutions to deploy a platform more quickly in response to market needs and avoid the months-long process of developing functionality on a bespoke basis. And more often than not, modern software is extensible enough to allow for competitive differentiation, which historically has been the reason banks have undertaken lengthy and costly private development.

FIGURE 1

Triggers for Moving to Cloud

Which of the following “trigger” events have been most important in leading you to use cloud services? (% of respondents)



n = 100 banks worldwide; Source: IDC's Worldwide Industry CloudPath Survey, June 2022



Most of the other triggers cited by banks are operational in nature, including supporting transformation to a digital business, overcoming new challenges like a remote workforce, reducing or reallocating expenses, and tactical concerns like hardware and software coming to end of life. These triggers can be found in most surveys prior to 2020 as the top responses. But the increased importance of business functionality as a primary driver really arose from the disruption of the COVID-19 pandemic and is seen as a safeguard against future disruptions.

## What Kind of Real Benefits Did Banks Get from the Move to Cloud?

In IDC's 2022 *Worldwide Industry CloudPath Survey*, the top benefit experienced by banks aligns perfectly with the top trigger for moving to cloud in the first place. Banks reported that the new functionality they need is found in the cloud. As shown in **Figure 2** (next page), *"Give business units more control over sourcing IT solutions"* tied for the number 1 benefit from the move to cloud, along with improving IT staff productivity and/or reducing IT staffing. *"Access the newest functionality faster"* was also cited as a benefit. This is a significant finding as, historically, banks have sought to reduce costs or improve scalability after moving to cloud. While these factors remain important, the need to improve market response and agility has become even more important.

Worth noting are some of the other benefits derived from the adoption of cloud. The number 3 benefit reported by banks worldwide is the improvement of IT security, in spite of the fact that security is often cited as a concern in the migration to cloud. Improved regulatory compliance was also reported as a top benefit, as was improved business agility and resiliency.



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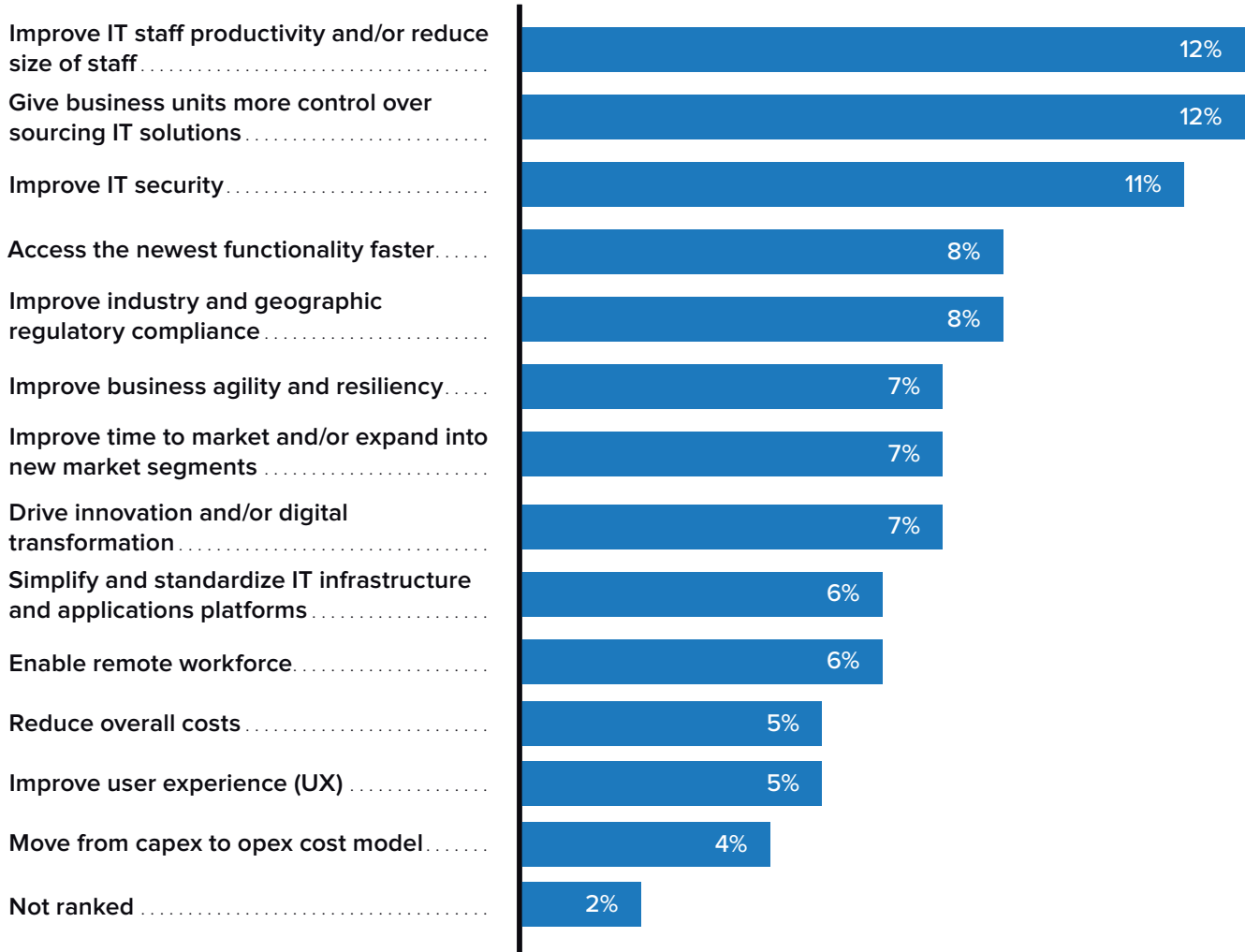


**FIGURE 2**

**Real Benefits from Cloud Adoption**

Where have you experienced the greatest benefits in your cloud journey?

(% of respondents)



n = 100 banks worldwide; Source: IDC's *Worldwide Industry CloudPath Survey*, June 2022



## The Top 5 Reasons Banks Should Move to the Cloud Now

Based on the findings from IDC's *Worldwide Industry CloudPath Survey* and conversations between IDC and banking executives (from both the lines of business and the technology and operational groups), IDC has distilled current trends, the maturity of the cloud market, and the potential for continued disruptions into a "top 5" list that argues for the immediate planning for or continued movement toward cloud as a strategic technology in banks' digital infrastructure.

1

### Accelerate the Journey to Digital Business

A number of benefits emerged from the responses to the 2022 survey related to becoming more responsive to changing market dynamics. IDC would argue that the benefits cited by the banks all lead to the same conclusion: that cloud is a critical component of the transformation to digital business.

#### The characteristics of a digital business, as enabled by the adoption of cloud, include:

- Agile deployment of market-driven solutions
- An infrastructure that enables speed and openness

In large part, the global software market has driven the transformation to digital business in banking by using a cloud-first approach. What used to be considered "shadow IT" in the eyes of the CIO is now considered a smart strategy to allow the business leaders at an institution to provision the solutions they need, when they need them, because more often than not new functionality is deployed on public cloud. The resulting software environment, operating on cloud, is the cornerstone of the digital bank.

2

## Overcome Staffing Hurdles

Cited as often as the ability of cloud to improve business transformation, improve IT staff productivity and/or reduce size of staff was a clear benefit of the move to cloud. The challenges that banks face in evolving their IT staff to support everything from open architectures to security are well documented.

It is clear that shifting workloads to cloud, particularly public cloud environments, will benefit institutions that can't or won't acquire new IT talent or skills to create and/or support modern platforms, merely by shifting to an external operating model. A more nuanced interpretation of this is that the modern workloads and platforms delivered as a service are almost always an improvement over their legacy antecedents. In this sense, cloud-based platforms take advantage of other modern technologies like microservices, containers, artificial intelligence/machine learning (AI/ML), and automation, making the existing bank IT staff more productive and/or enabling a shift of staff to new roles in operating a digital infrastructure, including governance and third-party risk management.

This result is indicative of a larger shift in staffing at banking institutions that is described in the “Challenges/Opportunities” section of this white paper — that is, the execution of the organizational changes necessary to operate and control an expanded digital infrastructure.

3

## Improve IT Security and Compliance

Cited as the third and fourth biggest benefits of the move to cloud, improved IT security and improved regulatory compliance very closely followed improved business agility and staff productivity in IDC's 2022 *Worldwide Industry CloudPath Survey*. In fact, nearly three of every four banks reported that they either were already operating cybersecurity functions on cloud or were planning to do so in the next 12 months. Roughly the same number also reported that they either had already deployed components of compliance and regulatory reporting on cloud or were planning to do so within the 12 months following the survey. This is a clear proof point that banks are operating even their most critical workloads on cloud or are considering moving them to cloud.

Anecdotally, bank technology executives who spoke with IDC freely admitted that in most cases, cloud providers can find and retain security expertise better than the institutions can. Data, in terms of both its expansion and the management of it, emerged as one of the top drivers to cloud, according to banks worldwide, making the need for improved security a cloud imperative.

Cloud providers understand that the nature of the banking industry requires digital trust and stewardship to be table stakes in any architecture. Data sensitivity was cited as the most important criterion a bank uses when deciding which workloads to move to cloud and if those workloads should move to cloud. For this reason, cloud providers leverage their ability to assemble the best security teams and technologies to embed security across the entire cloud architecture.

4

## Move to a Digital Infrastructure

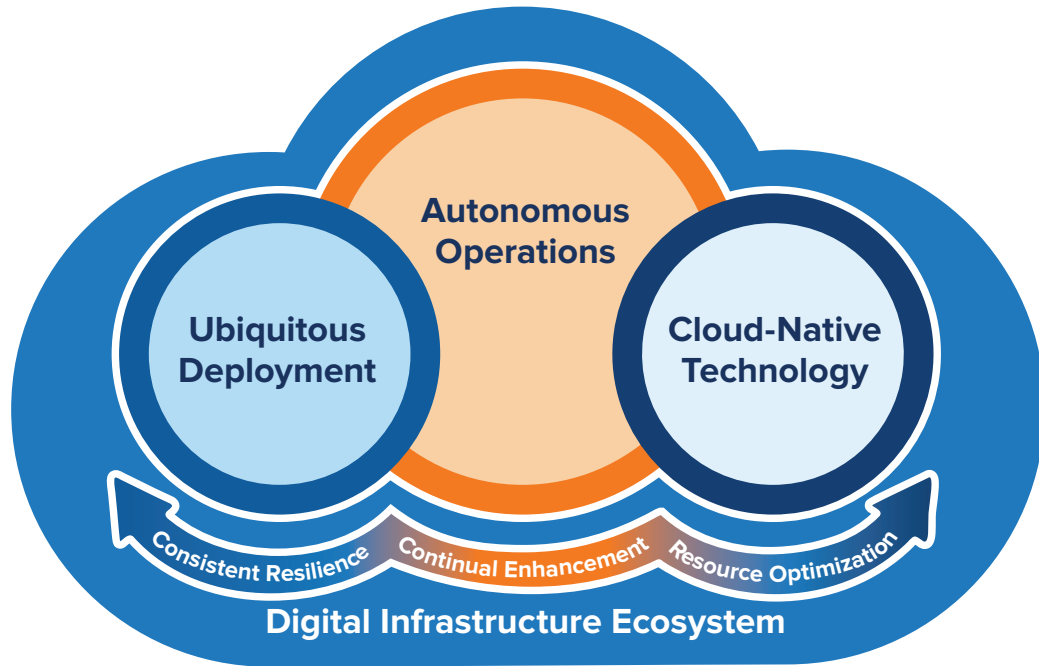
Creating a banking infrastructure that is open, agile, secure, and compliant is a complex undertaking that takes years to accomplish, but one that is as strategically important as the institution's business strategy. If one were to make a case for calling the collection of legacy systems at many banks an "infrastructure," it would not be as an evolution of a single strategy but rather an aggregation of disconnected platforms that were linked over decades, often using proprietary technology, to make the bank's systems appear to operate as one.

The underpinning technological strategy behind modernization is the move to a more standard and interoperable way to create a digital infrastructure that can evolve over time with less effort while ensuring resilience and ease of management. Listed just behind security as a top benefit of the move to cloud, Simplify and standardize IT infrastructure and applications platforms demonstrates the ability of a cloud environment to help IT executives by replacing the proprietary tech stacks that hinder the ability of a bank to respond to market changes.

Several drivers to cloud associated with digital infrastructure emerged from the triggers to move to cloud, including reaching end of life for some platforms, modernizing datacenters, and more generally supporting digital transformation (refer back to **Figure 1**, page 7).

The digital infrastructure, perforce, comprises existing platforms and systems, including on-premises mainframes — something IDC calls the "transformative mainframe" — as well as, typically, multiple cloud instances, network and security providers, third-party service providers (e.g., authentication services for a mobile banking platform), and edge devices and applications. The characteristics in **Figure 3** (next page), indicate that the digital infrastructure taken as a whole, including cloud, should embody the concepts of ubiquitous deployment and autonomous operations.

**FIGURE 3**  
The Digital Infrastructure



Source: IDC, 2023

## 5 Improve Business Value

The banks responding to the survey cited a number of reasons for moving to cloud that can be collectively described as improving business value. Expanding data that has outgrown the capacity of existing systems, reducing the number of datacenters, and changing the financial operating model from capital expenditures to operational costs were all listed as triggers in the banks' move to cloud. In 2022, concerns about the impact of inflation and the possible emergence of a recession made the goal of improving business value more acutely necessary as institutions feared the impact of rising costs on their operations. Here, again, cloud proves to be an important technology in its ability to provide scale (both up and down, in line with demand), shift costs to operating expenses, and reduce overall costs of operation. All of these benefits were reported by the banks responding to IDC's *Worldwide Industry CloudPath Survey*.

Further, the banks' increased ability to respond quickly to market dynamics, whether from disruption or opportunity, improves the return on investment for the transformation of infrastructure and the modernization of business platforms. The benefits of this empowered architecture include improved customer experience, new products, and participation in open ecosystems (embedded finance).

# Challenges and Opportunities

While the results of IDC's 2022 *Worldwide Industry CloudPath Survey* show the clear benefits experienced by banks globally, it is not a trivial process to develop a digital infrastructure that includes cloud. There are a number of challenges facing institutions, particularly those that have not yet ventured to move their workloads to cloud:



**The internal organization needs to adapt to a digital infrastructure that includes cloud.** There are areas of governance, risk management, third-party risk, security, and compliance that will be new to some institutions.



**Different skills need to be fostered in IT groups.** Cloud technology management, operations, automation, and other skills associated with managing the resilience of an expanded digital infrastructure that goes all the way out to the edge will challenge many institutions.



**As a risk-based and regulated industry, banks have a responsibility to manage the migration of workloads to cloud.** Which applications will move to cloud and which will stay in their current environments are choices unique to each individual institution, based on its risk profile, business strategy, and the technological maturity and skills of its staff.



## The Increasing Importance of Partner Ecosystems in Overcoming Challenges

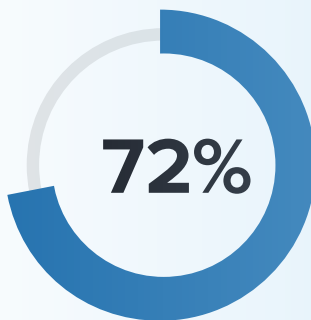
While IDC has identified challenges in the transformational journey to becoming a digital bank, one of the approaches to overcoming these challenges is increasingly successful: the leveraging of partner ecosystems to support the bank.

In IDC's November 2022 *Future Enterprise Resiliency and Spending Survey*, 72% of financial institutions reported that they want their strategic vendors to take administrative and operational responsibility for infrastructure so internal staff can focus on the business. These strategic partners are also creating ecosystems within themselves, with more and more infrastructure providers (like hyperscalers) partnering with software vendors to support banks' transformation to digital business.

### This benefits the banks in multiple ways, including:

- Easing the pressure to hire internal IT staff
- Improving their security and compliance posture
- Improving the operational management of their infrastructure

By leveraging these partner ecosystems, banks will reap the benefits of moving to a digital infrastructure, including cloud, and avoid many of the challenges that befell the industry in the past.



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# Conclusion

Year after year, the respondents to IDC's *Worldwide Industry CloudPath Survey* cite a myriad of benefits gained by adopting cloud across all workload types, including critical core systems. The growth of investment in cloud software and services and the rate at which these investments outpace overall IT spend underscore the trust that financial institutions have in cloud as a viable platform that can overcome the challenges of legacy infrastructure and software platforms.



Any hurdles to increasing the pace of adoption should be analyzed.

The bank that can adopt a cloud-forward digital infrastructure will be able not only to overcome the limitations of a legacy environment but also to open new opportunities safely in evolving markets and enable its participation in new opportunities like embedded finance and industry ecosystems.

For banks already on the path to a digital business that incorporates cloud into more and more of the infrastructure, any hurdles to increasing the pace of adoption should be analyzed and overcome. For banks that still haven't moved any workloads to cloud, work should begin immediately (barring any regulatory challenges) to catch up to the leading banks that are already overcoming legacy challenges and reaping benefits from their move to cloud.

IDC believes that while the move to cloud can be challenging — particularly for those banks that haven't done so with an enterprise strategic plan in place — the challenges can be overcome. Smaller institutions should seek out partners that are experts in cloud strategies, architectures, and deployment. Larger institutions, especially those with complex infrastructures, should curate cloud and services partner ecosystems to create a digital infrastructure road map that simultaneously works with the lines of business to drive digital business transformation and ensures trust and stewardship for the enterprise.



# About the IDC Analyst



**Jerry Silva**  
Program Vice President, IDC

Jerry Silva is vice president for IDC Financial Insights, responsible for the global retail banking practice. Jerry's research focuses on technology trends and customer expectations and behaviors in retail banking worldwide. Jerry draws on over 35 years of experience in the financial services industry to cover a variety of topics, from the back office to customer channels to governance in the technology shops at financial institutions. His work for both institutions and vendors gives Jerry a broad perspective in technology strategies.

[More about Jerry Silva](#)



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IDC Research, Inc.  
140 Kendrick Street, Building B, Needham, MA 02494, USA  
T +1 508 872 8200



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