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Making a Move

The financial services and insurance sector and the cloud.

Cloud survey report:
Sector experts explore
the current and planned cloud
adoption strategies of senior
IT professionals.

Researched by
Longitude | THOUGHT LEADERSHIP SPECIALISTS

Introduction.

Many industries have seen the move to digital models disrupt and transform their way of doing business. Financial services and insurance companies, until recently, have been able to take the best aspects of these models and incorporate them into their customer-facing operations without needing to reimagine their processes and practices wholesale.

However, a combination of factors has signalled that the financial services and insurance sectors are ripe for fundamental change. The rise of internet giants proves that digital can work at scale. Europe is pushing toward open banking, there is growing competition and collaboration from fintechs, and new technology, such as blockchain, is reshaping processes and systems. The need to modernize and increase revenue means digital disruption is heading toward traditional financial services operations at speed.

As financial services companies turn to hosted infrastructure and services, cloud will be a key element of their transformation. It will become a platform for developing new innovations and providing additional channels for marketing and delivery models.

This report is based on the responses of 162 senior IT leaders within the financial services and insurance sectors. The research was conducted by Longitude Research in late summer 2017 as part of a larger survey of 730 senior IT leaders in 13 countries and across nine sectors.

64%
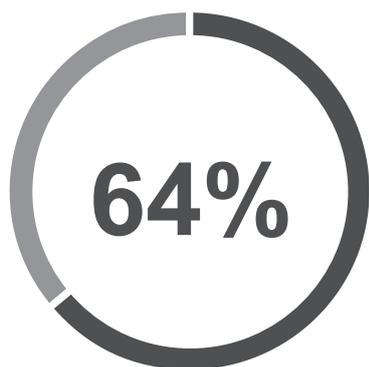
agree that the cloud provides greater scalability and agility to change according to business needs.

61%
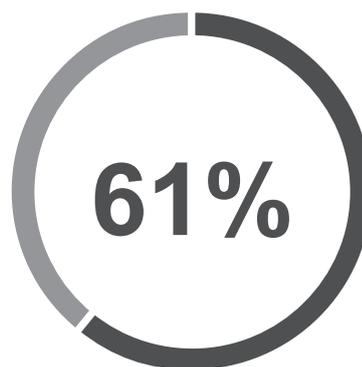
agree that moving to the cloud will allow them to better meet their customers' needs.

Cloud's promise of reduced operating costs will also be welcomed by businesses looking to improve margins. 60% agree there are clear financial benefits in moving IT and application development to the cloud.

Cloud or on-premises systems?

Previously, a significant proportion of companies in retail banking and in asset and wealth management relied heavily on mainframe-based environments. As a result, the financial services and insurance sector, as a whole, has adopted cloud at a relatively relaxed pace. While replacing legacy on-premises systems was considered complex and costly, moving to the cloud was not high on the agenda of more conservative CIOs.

While the sector's technology environment may have been characterized by a slow move to the cloud, accelerated transformations are now the order of the day. Research by Roubini ThoughtLab suggests that 53% of financial services providers plan to use a cloud platform to replace their legacy systems.[1]

Among the companies surveyed by Longitude that have moved toward cloud services, the most popular motivations for doing so were to improve IT resource management, update the infrastructure, and save on IT costs.

Forward-looking IT chiefs are exploring where else they can add cloud systems to take advantage of the benefits available. And the move toward cloud as a competitive differentiator is underway. Indeed, Roubini ThoughtLab research suggests that over the next five years, cloud migration will help companies support customer centricity, reduce operating costs, accelerate time to market, and drive innovation.[1]

What were/are the key motivators behind your organization's move to the cloud?

1 Improve IT resource management

2 Update our IT infrastructure

3 Save on IT costs

4 Improve speed of innovation

5 Compete more strongly

*Respondents chose up to three of 12 potential options.

[1]http://www.oracle.com/us/products/applications/wealth-report-summary-3941744.pdf

Risks and priorities.

Nearly half (47%) of financial services and insurance organizations say cybersecurity is one of their highest IT priorities. And holistic security is one of the top three requirements for those companies that have already moved, or are planning to move, to the cloud.

Over time, many banking operations have adapted their existing systems to cope with incredibly high transaction volumes. Consequently, CIOs have voiced concerns about how downtime and transaction throughput may be affected by moving to the cloud. Security gaps when migrating is also reported as a key challenge. Those doubts, however, are likely to fade as education around public cloud's security capabilities increases.

Internet giants have shown that it's possible to have robust, secure cloud platforms that transact huge volumes of data while maintaining a culture of innovation. With digital disruption sweeping through the financial services sector, pressure is mounting on companies in the sector to show they can do the same.

Competing requirements—the desire to retain the most sensitive data in on-premises systems, while using the cloud to expand existing service offerings and develop new ones—are affecting which workloads and applications are prioritized for cloud migration.

What types of application are you prioritizing for migration to the cloud?

1. Big data
2. Customer-facing mobile apps
3. Marketing/CRM apps

This may reflect the more active role that some lines of business are taking in cloud adoption. While CIOs may be constrained by legacy environments, other departments have different challenges and a different perspective on adopting technology. Under constant pressure, and with tight margins, some functions are looking at how to create sustainable digital revenue streams—a challenge that cloud can meet.

Cloud-first app development.

The benefits of cloud development are clear to financial services and insurance companies. According to 57% of businesses, cloud-first development will make/has made them more innovative, while 48% believe it will make/has made them more competitive.

Despite actively recruiting top talent, and the rise of born-in-the-cloud products, the sector still has a degree of concern around security and skills. The most commonly cited challenges to cloud-app development are a perception that it makes companies more susceptible to cyberattacks, and that there is a shortage of in-house developers with the right skills.

Over time, cloud development and migration are both expected to increase. Within three years, financial services and insurance companies expect to run more than a quarter of apps developed in the cloud, while just under a third of apps will have been migrated.

It's a trend that's likely to accelerate. Demographic shifts are putting greater wealth in the hands of consumers who have grown up with Apple, Amazon, and Google, and who expect digital services to be seamless, mobile-friendly, and responsive.

Many in the sector have been using cloud to innovate in CRM, social, and marketing applications, but they will soon need to connect legacy core infrastructure with these more up-to-date areas of business. Innovating on the fringes will no longer be enough. The ability to move from rigid and costly on-premises environments to more agile cloud platforms will be critical for the long-term economic viability of the sector.

And, with open banking pushing financial services organizations to make infrastructure more transparent and available, integration is likely to figure higher on technology agendas. The cloud will be at the heart of the move. Just under half (48%) of companies in financial services and insurance believe that cloud migration will improve application integration.

What features are most important to you regarding application development tools?

1 Automation capabilities

2 Multiplatform capabilities

3 APIs and microservices

4 Open languages

5 AI/machine learning capabilities

Analytics for the future.

The number of financial services and insurance companies already using the cloud for analytics is higher than in many other industries, at 51%. Big data and advanced analytics are among the workloads most often prioritized for cloud migration, along with databases and data warehouses. Financial services companies are clearly using the cloud to get more from their data. The most commonly cited reason for moving to cloud-based data management is to improve data-analytics capabilities.

Cloud analytics will help the sector lay a foundation today that can inform strategy tomorrow. By upgrading analytics capabilities, companies will be able to use the data they hold to understand customers' needs in a richer, more meaningful way, and to develop products that more exactly cater to those needs.

The value of data and analytics is most likely to be felt in insurance, where new data sources—such as wearables or connected vehicles—can be fed into existing systems to allow offers to be more precisely refined. In the future, extra layers of intelligence, expanded datasets, and data sources built into its analytics systems, will enable the insurance sector to diversify its revenue streams.

Embracing change.

Some CIOs are held back from cloud adoption by their attachment to, and reliance on, the status quo. Other lines of business and fintech startups are showing how cloud services and infrastructure can be used to create new services and deliver the type of digital-first products that younger—and millennial users—expect.

The sector now understands the need for, and importance of, wholesale change, driven by technology innovation. Keeping cloud-led innovation on the fringes of a business while the core is powered by legacy technology may have once been the norm. Now, however, businesses have moved from debating the timescale for cloud migrations to debating why they didn't move sooner.

Companies from outside the sector have begun to offer payment services and to disintermediate traditional players, providing a taste of what's to come. As the shake-up of the sector continues, the pace of cloud adoption will accelerate over the next three years. And as with other transformations the sector has experienced, there will be winners and those that get left behind.

Making it happen.

To migrate effectively to the cloud, companies need a strategy that encompasses multiple ingredients: from the underlying platform and applications to integration capability. Above all, they need flexibility—to be able to build a custom migration plan that works for them.

For further information, visit:
oracle.com/industries/financial-services

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