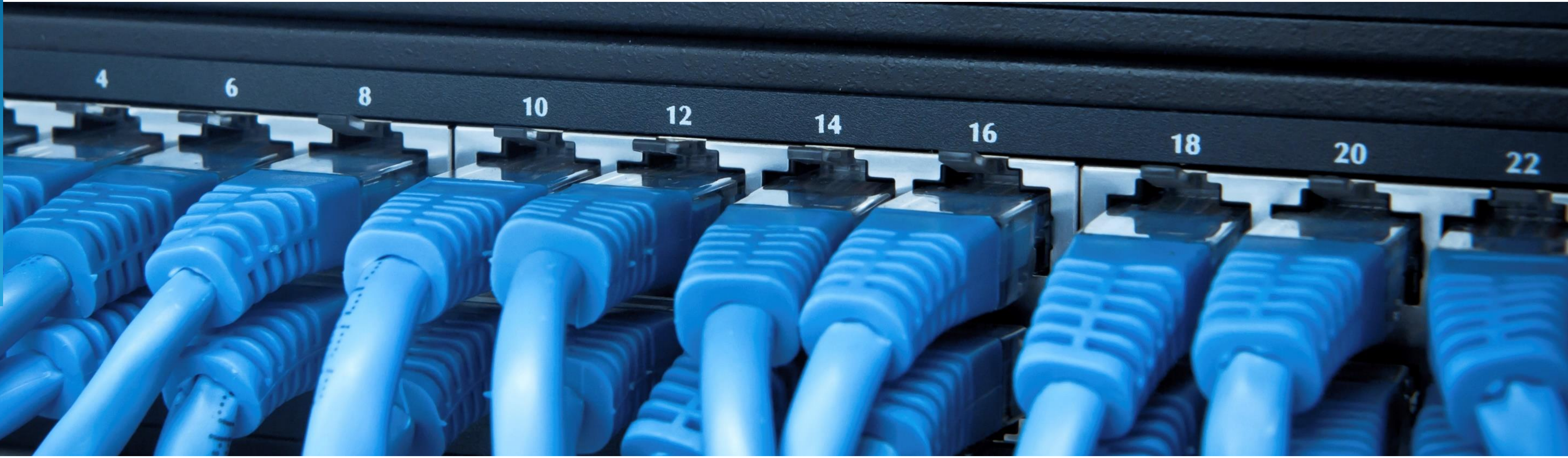
Everest Group®

Market Report | Cloud and Infrastructure Services

Cloud Adoption in Banking: Imperative Role of Hyperscalers

July 2023



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Background of the research

- With the looming macroeconomic uncertainties and cost pressures, the banking industry is experiencing a period of cautious optimism. Rising focus on secure and resilient operations, along with the need to maintain a competitive edge and innovate, has made it impossible for IT leaders to delay critical cloud-related decisions
- While application modernization, need for better customer experience, and use cases around AI/ML and blockchain continue to drive the overall cloud adoption in the banking industry, rise in demand for scalability, agility, and innovation considerations have bolstered demand for cloud services in the recent times
- Public cloud continues to consume a solid portion of the enterprise IT spend despite the increased emphasis on sovereign cloud, private cloud, security, and complex regulations and compliance requirements
- This report provides an outlook on the hyperscalers' current capabilities in the banking segment along with their future vision, partnership ecosystem, deal wins, and current market standing
- It will also focus on cloud attractiveness and hyperscaler preference in various key use cases in three subsegments in the banking space, namely retail banking, commercial banking and mortgages, and treasury and payments
- The analysis is based on Everest Group's annual RFI process, interactions with leading cloud service providers, client reference checks, enterprise interactions, and ongoing analysis of the cloud services market

Scope of this report

Geography
Global

Industry
Banking

Services
Cloud services

Overview and abbreviated summary of key messages

This report examines the state of cloud services in the banking industry, including key drivers, adoption trends, as well as the critical role of hyperscalers in terms of offerings, market messaging, and strategic priorities. It also focuses on cloud attractiveness and hyperscaler preference in various key use cases in three subsegments in the banking space.

Some of the findings in this report, among others, are:

Public cloud adoption in banking

- High level of competition from FinTechs, need for quick product launches, and growing concerns over cost have made cloud an indispensable part of banking enterprises' IT strategy
- Need for increased reliability and availability, operational agility, and advanced AI/ML computational power is driving the demand for public cloud in banking
- Due to varied overall market messaging and strength areas, each hyperscaler differs in terms of breadth, depth, and maturity of vertical-specific solutioning in the banking space

Hyperscaler relevance in banking sub-segments

- Retail banking remains a fair playing ground for AWS and Azure; ability to offer personalized user experience across the customer life cycle will prove to be a long-term differentiator
- Azure is the dominant player in the commercial banking and treasury space due to its ecosystem offerings; focus on reduction of operational challenges and digitization of loan processes through analytics and automation remain key drivers
- AWS has augmented its position as a leader in the payments and mortgages market through its ecosystem solutions and partnerships; cost, security, and scalability are the key propositions

Implications for enterprises and service providers

- Banks should evaluate their public cloud investments through the lens of business outcomes such as customer experience and omnichannel integration as well as factors such as security, reliability, and value realization
- Leveraging a partnership ecosystem to bring cloud, data, and core package capabilities together can strengthen service providers' position as a one-stop shop for cloud-enabled product and experience transformation

This study offers three distinct chapters providing a deep dive into key aspects of public cloud adoption in banking; below are four charts to illustrate the depth of the report

Role of public cloud in banking

Key segments within the banking industry

- Retail banking
- Commercial banking and treasury
- Payments and mortgages

Key drivers for public cloud adoption in banking[1]
Percentage of respondents; 2022

78% Increased reliability and availability	67% Business/operational agility	56% Need for advanced AI/ML computational power
44% Need for scalable compute	44% RoI compared to other optiions	11% Availability of vertical-specific offerings by public cloud providers

Current cloud adoption trends in banking

- Being early adopters of cloud, enterprises from the banking and financial sector have moved many workloads to cloud. The mismatch in cloud cost expectations has now shifted their attention toward optimization and value in cloud.
- Despite recessionary headwinds and spend hesitation among banking enterprises, cloud adoption has been on the rise as reduced time-to-market for new products and cost to serve/acquire customers are becoming key differentiators.
- As more and more enterprises are realizing the value of data, hyperscalers are leveraging AI and analytics and focusing on reimagining channel experiences to embed their banking offerings at the point of need for customers.

1 Based on a survey with participants covering enterprise executives across banking subsegments to understand cloud adoption themes and trends

AWS' capabilities in the banking segment

Rating: Low, Medium-low, Medium, Medium-high, High

Vision clarity	Medium	• Through its offerings in the banking space, AWS aims to accelerate revenue growth, improve customer experience, reduce costs, and ensure regulatory and security compliance • It wishes to help enterprises improve their value chain by streamlining processes and embedding automation, implement new capabilities quickly with core systems modernization, and leverage data, analytics, AI, and ML to deliver personalized customer experience
Solutions and services maturity	Medium-high	• Amazon Comprehend: uses ML to uncover valuable insights and connections in text • AWS Step Functions: builds distributed applications, automates processes, orchestrates microservices, and creates data and ML pipelines • Amazon Textract: extracts text, handwriting, and data from scanned documents
Relevant logos	High	judo bank, TNEX, trust, Starling Bank, WeLab Bank

Despite the current macro-economic environment, AWS has been able to land core banking- and digital banking-based deals by leveraging its extensive partnership ecosystem and solution developments.

Hyperscaler relevance in key use cases in retail banking

Retail banking remains a fair playing ground for AWS and Azure; ability to offer personalized user experience across the customer life cycle will prove to be a long-term differentiator

Rating: Low, Medium-low, Medium, Medium-high, High

Retail banking use cases	**Cloud attractiveness**	**Preferred public cloud partner**
Customer onboarding	Medium-high	Azure
Customer CRM / 360-degree solution	High	aws
Customer servicing and management	Medium	Azure
Retail loan origination	High	Azure
E2E digital bank setup	High	aws, Google Cloud

- Customer acquisition and retention challenges are driving digitalization and insights generation initiatives in the retail banking space
- Despite the presence of customer engagement and onboarding in Microsoft Cloud for Financial Services, hyperscalers do not have focused value proposition and messaging for the consumer loan origination space
- While Azure is popular for Dynamics 365, AWS is leading the market for 360-degree solutions as it hosts a lot of CRM solutions on its marketplace and is known for its robust partnership with Salesforce
- SaaS on cloud is a prominent model for retail loan origination (e.g., Finastra on Azure, FICO on Azure, and LoanPro on AWS)

Implications for enterprises

- Being in a highly regulated industry, transformation efforts should involve data security and business reliability as unassailable business objectives. AWS and Azure have maintained strong market credibility, with GCP slowly catching up by increasing investments
- Engaging with hyperscalers can be highly beneficial in helping large banks look toward building their own platforms to drive differentiation, while service providers can help in assembling best-of-breed solutions to drive business growth
- As the banking space continues to evolve, banks must address respective cloud sovereignty requirements by taking an industry-aligned and a workload-focused approach. Leveraging hyperscalers' expertise and regional nuances can be relevant

Research calendar
Cloud and Infrastructure Services

Published | Planned | Current release

Reports title	Release date
System Integration (SI) Capabilities on Microsoft Azure PEAK Matrix® Assessment 2022	August 2022
System Integration (SI) Capabilities on Amazon Web Services (AWS) Provider Compendium 2022	September 2022
System Integration (SI) Capabilities on Microsoft Azure Provider Compendium 2022	September 2022
System Integration (SI) Capabilities on Google Cloud Platform (GCP) PEAK Matrix® Assessment 2022	November 2022
Network Transformation Services PEAK Matrix® Assessment – Focus on Communication Service Providers 2022	December 2022
Cloud Revolution in Banking: Imperative Role of Hyperscalers	**July 2023**
Navigating the Cloudscape: Unveiling Enterprise Adoption of Google Cloud Services	Q3 2023
Cloud Services PEAK Matrix® Assessment 2023 – North America	Q3 2023
Cloud Services PEAK Matrix® Assessment 2023 – Europe	Q3 2023
Cloud Services Provider Compendium 2023 – North America	Q3 2023
Cloud Services Provider Compendium 2023 – Europe	Q3 2023
Network Transformation and Managed Services (Focus on SIs) PEAK Matrix® Assessment 2023	Q3 2023
Network Transformation and Managed Services (Focus on SIs) Provider Compendium 2023	Q3 2023
Amazon Web Services (AWS) State of the Market 2023	Q3 2023

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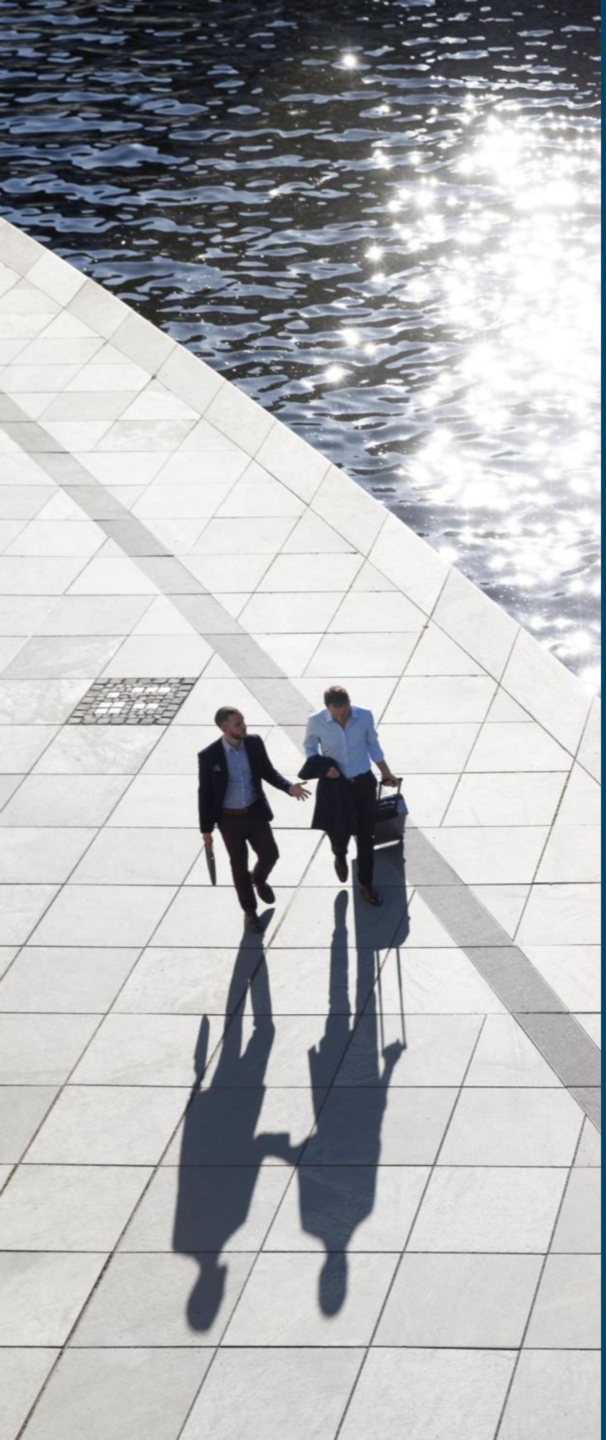

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