Cloud Busting

Dispelling the Myths Surrounding the Future of Cloud in Financial Services

> **The three big cloud providers in Financial Services: Amazon Web Services, Google Cloud and Microsoft Azure are all fighting for market share.**

Introduction

Cloud has exploded into a fast growing $200bn industry in the last few years, and cloud innovation is where tech companies are now focusing a lot of their resources. The three big cloud providers in Financial Services: Amazon Web Services (AWS), Google Cloud and Microsoft Azure are all fighting for market share.

Cloud is still a relatively new phenomenon – and in Financial Services cloud maturity still has a way to go. Currently in Financial Services, cloud is bundled in with multi-billion transformation programmes as institutions try to pull themselves away from legacy infrastructure and software. Financial Institutions (FIs) are beginning to identify that certain applications and services are better suited to particular cloud providers. This means that strategic thinking around how to approach multi-cloud will be vital. Indeed, 94% of cloud decision makers from 200 institutions said they believed multi-cloud would save their organisation money.

Through YellowDog's own proprietary data, based on the responses of cloud decision-makers from large FIs across the UK and US, this white paper explores the current cloud landscape within Financial Services, the barriers to cloud adoption, and the solutions and opportunities it presents for both FIs and cloud providers.

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Executive Summary

Overall, the data suggests that cloud strategy within Financial Services is at a stage of testing and huge expansion, as large FIs are preparing to invest in multi-cloud and put hybrid solutions front and centre of their strategy.

Section 1 of this white paper, **The Cloud Landscape**, shows us that Financial Services must be wary of monopolisation. As the 'big 3' cloud providers battle for dominance, one is set to miss out as FIs forecast streamlining the number of cloud providers they use.

Meanwhile, there is a big opportunity for challenger cloud providers to penetrate the market, as the amount of companies transitioning to multi-cloud is set to grow; with the number of companies using 4+ providers set to double in the next 5 years.

Section 2, **Barriers to Effective Adoption of Multi-Cloud**, analyses what is preventing the wide-scale adoption of multi-cloud and hybrid solutions, and the problems that inadequate cloud management could bring. It finds that access to multiple clouds could nurture siloed cloud-use, instead of a clear multi-cloud strategy. We also explore the key practical barriers to implementation of effective multi-cloud strategies, such as cost and complexity of implementation.

The final section, **Solutions and Efficiencies**, explores how the Financial Services Industry might overcome some of the obstacles to adoption of multi-cloud, as well the reasons why multi-cloud and hybrid solutions are such a focus for FIs going forward. The findings show that by implementing specific long-term multi-cloud strategies, streamlining on premise infrastructure, and intelligently using multiple sources of compute, institutions could save tens of millions of pounds. This is achievable through, for example, faster and more efficient batch-processing while reducing the risk and costs of regulatory non-compliance. Reducing the cost base, achieving better performance and lowering risk is a veritable utopia for FIs.
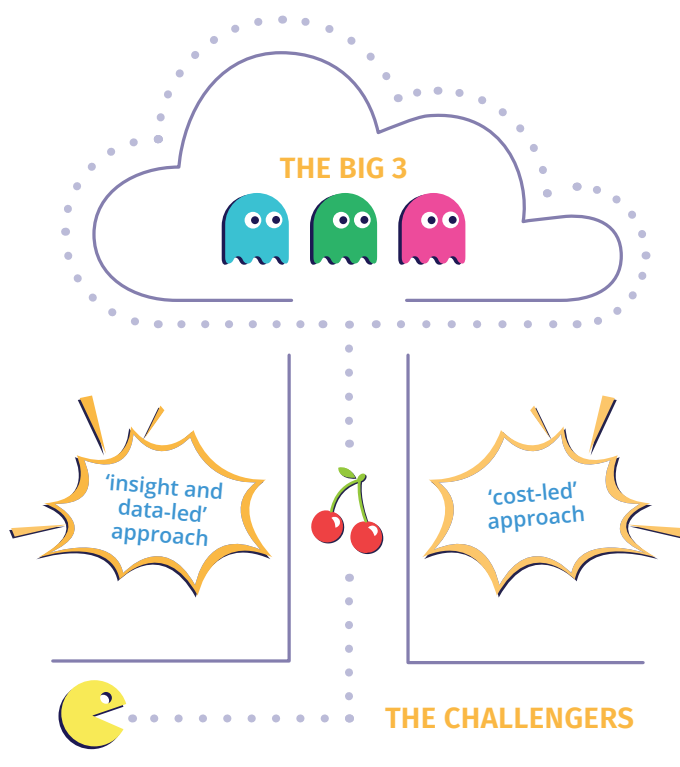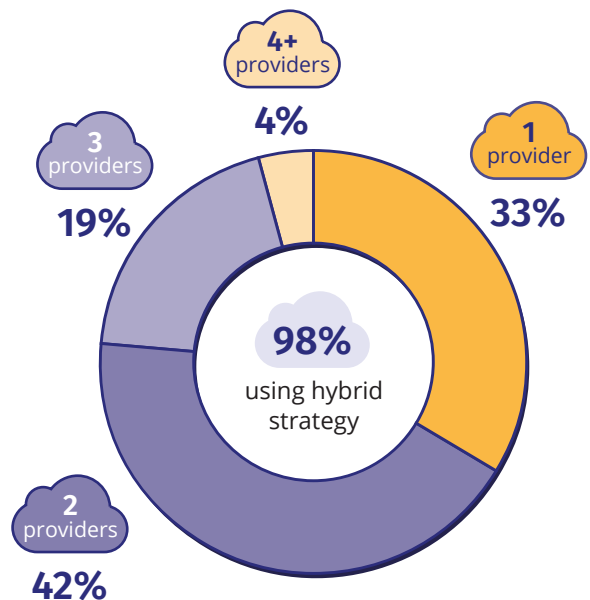
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Section 1:
The Cloud Landscape

What is the current cloud landscape in Financial Services?

YellowDog found that most FIs are currently developing a multi-cloud strategy, whilst all FIs are using at least one cloud today. This means that cloud adoption has reached an initial milestone as no FIs are still entirely reliant upon on premise infrastructure.
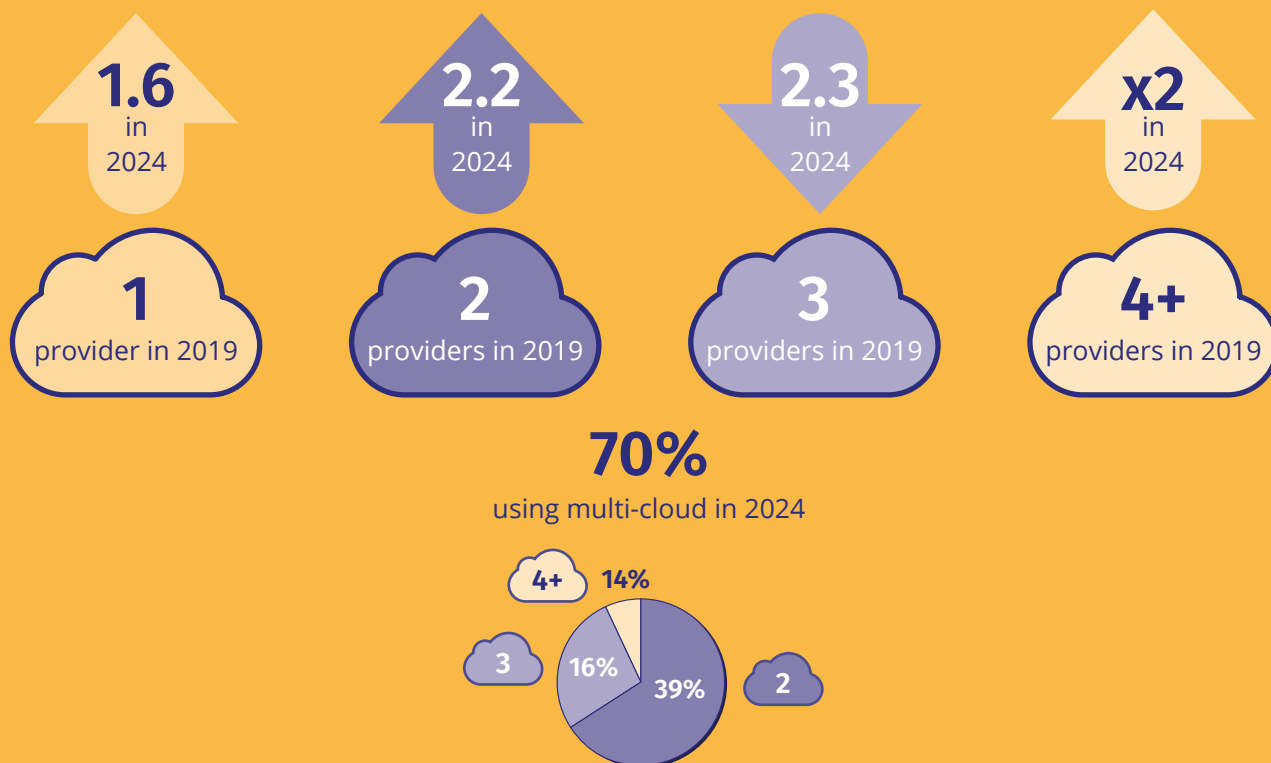
However, only 2% of companies are cloud-only. So, what we have is a landslide (98%) majority using a hybrid strategy of on premise hardware and the cloud.

4+ providers 4%

1 provider 33%

3 providers 19%

2 providers 42%

98% using hybrid strategy

THE BIG 3

'insight and data-led' approach

'cost-led' approach

THE CHALLENGERS

Interestingly, although AWS, Microsoft Azure and Google Cloud (the 'big 3') battle for market dominance, 81% of respondents described their company as 'cloud agnostic', meaning they have not set up their systems to suit any single provider in particular and are open to new cloud providers.

Additionally, the cloud provider itself is the least important aspect for decision-makers when selecting their cloud providers. Instead, 'insight and data-led' approaches are prioritised, followed by a 'cost-led' approach. This means that FIs are choosing cloud providers based on their performance, rather than their brand. This will give a boost to challenger clouds like Oracle Cloud, IBM Cloud, Alibaba Cloud and others. They will be encouraged that they can challenge the 'big 3' in Financial Services through the suitability of their offerings rather than legacy relationships.

1.6 in 2024

2.2 in 2024

2.3 in 2024

x2 in 2024

1 provider in 2019

2 providers in 2019

3 providers in 2019

4+ providers in 2019

70%
using multi-cloud in 2024

4+ **14%**

3

16%

39%

2

Where next? Are FIs preparing to move to more of a multi-cloud focus?

The proportion of companies using 4+ clouds looks set to double in the next five years, while those companies currently on 1 or 2 cloud providers will increase slightly to 1.6 and 2.2 respectively. Of those companies using 1 cloud provider today, only 40% expect to remain on a single cloud in 5 years, while almost 70% of all FIs expect to be using multi-cloud in five years time.

• 39% think they will have 2 public cloud providers

• 16% think 3

• 14% think 4 or more

However, for those companies currently using 3 clouds, the average will drop to 2.3 over the next five years. This suggests that one of the big 3 providers is set to lose out, as those companies currently using 3 or more providers look to consolidate their cloud strategy and drop back down to 2 to sit alongside their on premise infrastructure.

7% believe that they will never completely move away from on premise infrastructure. This belief is highest amongst companies with 5001+ employees (16%). Big legacy institutions might be cautious of letting go of on premise infrastructure to retain some control of the computing power they need in order to operate 24/7.

There are also some industries accelerating faster than others in cloud adoption. For instance, Insurance is moving at twice the pace of banking, with nearly 1 in 5 insurance companies being either cloud-only or indicating they will be within two years. This number in banking drops to 1 in 10.

1 in 5
insurance companies are cloud only

1 in 10
banking companies are cloud only

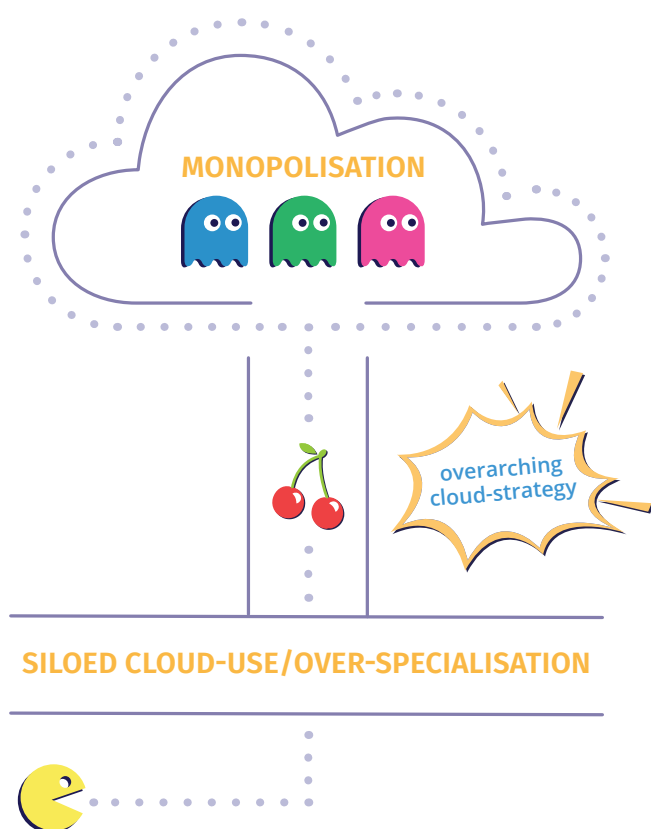# Section 2: What are the barriers to effective adoption of multi-cloud?

Although the appetite exists, several factors are preventing effective wide scale investment in multi-cloud and further cloud diversification – these barriers should be addressed to mitigate the monopolisation of cloud amongst the big providers.

Caution Ahead: Could cloud use promote siloed thinking?

FIs should be cautious of 'siloed' cloud-use. This is where multiple clouds are used, but without an overarching strategy. Though it is advisable to use different cloud providers for different functions within the business, as clouds should be picked on their suitability as the best source of compute, it is important to ensure they do not become siloed by working separately from one another.

Siloed cloud-use in a business is a result of a lack of an overarching cloud strategy; where companies use the cloud to deal with operations on a case by case basis. Siloed cloud is different from multi-cloud. Whilst the business may be using multiple clouds, they are operating separately from one another and not incorporated into an overall capacity plan. This fragments operational delivery within the business and makes cloud management difficult – particularly if there is a lack of transparency between departments.

Providers should note that almost two-thirds (63%) of respondents believe that siloed cloud use is due to 'over-specialisation' amongst cloud providers; FIs may often feel like they have no other choice than to bolt cloud onto their existing siloes.

MONOPOLISATION

overarching cloud-strategy

SILOED CLOUD-USE/OVER-SPECIALISATION

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What is stopping wholesale adoption of multi-cloud?

49% agree it costs too much

39% agree it's too complex to implement

46% say it takes too long to implement

29% believe there's no need for multi-cloud

The research also found that there was a split between those dealing with the technology on a day-to-day basis, and the decision makers who are a step removed. Top seniors (C-Suite) are most frustrated by cloud adoption.

What are the biggest concerns preventing wholesale adoption of multi-cloud?

The concerns which will prevent companies investing in multi-cloud vary across markets.

UK

The biggest concern for companies regarding multi-cloud is skills or 'internal IT ability'. In other words, C-suite and decision-makers are unsure whether their IT teams have the right skills to manage multi-cloud infrastructure across the business. This ties in with the earlier finding that C-suite are most frustrated with the cloud adoption. This has two significant implications; either:

1. The UK financial industry is lacking IT talent and losing out to other industries

AND/OR

2. There is a disconnect between the decision-makers at the top of FIs about what is possible and necessary, compared with the practical views of the IT professionals working with the technology.

Whichever one of the implications proves to be true (and it could be both), the UK's financial industry needs to better educate decision makers on the potential of the cloud to lower costs and reduce risk – and stress the necessity for hiring the right people to maximise this potential.

US

Comparatively, in the US, the biggest factor slowing down multi-cloud adoption is a perception that it introduces more risk. Overcoming these concerns is imperative for the US market where banks are increasingly under pressure to accelerate growth and improve margins. Respondents believe that Regulation (6%) and Cost (15%) are the lowest two barriers to adopting multi-cloud, these are two reasons which have historically been cited as blocker for cloud adoption.

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Section 3:
Solutions & Efficiencies

How can FIs overcome the challenges to ensure that multi-cloud is implemented effectively?

Multi-cloud is difficult to implement and executing the installations correctly takes skill and forethought. The most important thing is to develop a full and thorough long-term multi-cloud strategy. The more a business prepares for it, the more it can benefit. If the business drifts into multi-cloud without an overarching strategy, it is likely the business' multi-cloud potential will be un-fulfilled.

With a robust strategy in place, 94% of respondents said multi-cloud would save their organisation money.

Big batch processing is an area where the benefits of an effective cloud strategy is keenly felt, particularly the capability to more accurately measure timings and reduce failed processes. YellowDog's research shows that 86% of firms have lost money due to failed data processes in the last year. Several large FIs questioned by YellowDog predicted that they could save tens of millions of pounds through more reliable big batch data processes.

In a business with multiple clouds there is more cloud capacity available. And the more cloud capacity there is available, the more processes can be run simultaneously. This means processes can be tested more frequently; it is logical to assume that failure rate will increase in correlation with the increase in test frequency.

In fact, YellowDog's research found that for businesses that tested more often, there was actually a 3% decrease in overall failure rates. Fully utilising their increased cloud capacity to prepare and predict their systems more regularly helped them to decrease their failure rates.

Businesses using multi-cloud are those who typically experienced this failure rate decrease.

+3

multiple clouds
=
more cloud capacity

3%

businesses testing
more often

overall decrease
in failure rates
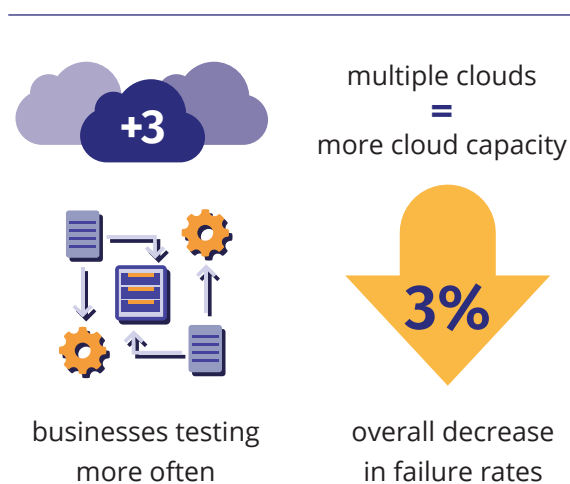
YellowDog's research also shows that 97% of cloud decision makers think that more accurate big batch processing timings would save their organisation money. An area where more accurate timings can really make the difference is in compliance. 88% of firms admitted that a missed deadline has caused a significant negative impact in the last year. 77% indicated that these impacts had been felt more than once. Through faster and more accurate batch processing, companies can make sure that they meet the regulatory deadlines required with plenty of time to spare.

> "A customised data-led multi-cloud strategy will lead to massive cost savings. It will streamline operations and reduce risk."

Conclusion

Digital transformation of any kind is not a simple or quick process.

Digital Transformation including multi-cloud strategy requires deep forethought and must be incorporated into an overarching business strategy. For FIs looking to transfer their processes, either partly or wholly, into the cloud, they need to bear this in mind.

FIs should embrace an intelligent multi-cloud strategy, and not fall into it accidentally bolting on additional cloud usage on an operational case by case basis. Cloud silos solving problems must be avoided at all costs. A customised data-led multi-cloud strategy will lead to massive cost savings. It will streamline operations and reduce risk. Ultimately, it will lead to improved decision making in the industry that will drive performance and innovation.

YELLOWDOG

Creating a world where people do more, create more,
discover more; unleashed from limited computing power.