

REPORT REPRINT

Financial services in the public cloud: How three hyperscalers are tackling the growing opportunity

OCTOBER 01 2020

By **Nicole Henderson, Jordan McKee, Melanie Posey**

Hyperscalers have built versatile public clouds designed to serve various industry sectors but are using specific tactics to target financial services. Participation of industry players and collaboration with partner ecosystems will be key in advancing public cloud maturation in financial services.

THIS REPORT, LICENSED TO ORCA SECURITY, DEVELOPED AND AS PROVIDED BY 451 RESEARCH, LLC, WAS PUBLISHED AS PART OF OUR SYNDICATED MARKET INSIGHT SUBSCRIPTION SERVICE. IT SHALL BE OWNED IN ITS ENTIRETY BY 451 RESEARCH, LLC. THIS REPORT IS SOLELY INTENDED FOR USE BY THE RECIPIENT AND MAY NOT BE REPRODUCED OR RE-POSTED, IN WHOLE OR IN PART, BY THE RECIPIENT WITHOUT EXPRESS PERMISSION FROM 451 RESEARCH.



S&P Global Market Intelligence

Introduction

There are many factors that give rise to financial services companies' adoption of public cloud, including pressure from internal and external customers to digitize processes while maintaining strict security and compliance controls. Microsoft, IBM and AWS are taking distinct approaches in targeting this market, leveraging financial services customers, partners and acquisitions to build out public clouds that address key hurdles for companies in banking, payments, capital markets and insurance. However, the competitive landscape is complicated further by the rise of embedded finance, which means some of the cloud's biggest users are becoming financial services companies, an interesting development that will make this a segment to watch for cloud service providers, investors and financial services firms in the coming months.

451 TAKE

Pressure has been mounting on the financial services industry to reduce datacenter footprints, use modern analytics tools to extract insights from data and embrace cloud services to deliver digital experiences to customers. 451 Research's Voice of the Customer: Macroeconomic Outlook, Corporate IT Spending 2020 shows that 52% of respondents are increasing digital customer engagement due to the coronavirus outbreak. When the pandemic hit, digital transformation for financial services became an imperative as consumers abruptly shifted spending online amid lockdown orders, and as a new normal emerges, we anticipate long-term, and in some cases permanent, changes to consumer behavior. To meet these demands, financial services firms are eyeing public cloud and associated cloud services, working with hyperscalers to develop digital transformation strategies. Hyperscalers have built extensible and versatile public clouds designed to serve various industry sectors but are using specific tactics to target financial services and demonstrate how public cloud can handle the mission-critical and regulated workloads inherent to this sector. Participation of industry players and collaboration with partner ecosystems will be key drivers of success in advancing public cloud maturation in financial services.

Market challenges increase the appeal of the cloud in financial services

Incumbent financial services providers face a growing list of challenges. The examples here are many and include the unbundling of their core business by agile fintechs, a complex and evolving regulatory landscape and rising customer demands pertaining to digital experiences. Many banks and legacy payment providers we speak with recognize that their ability to effectively respond to these shifts is being throttled by their outdated IT infrastructure. Consider that nearly half (46%) of financial services respondents to our Voice of the Enterprise: Digital Pulse, Organizational Dynamics 2020 survey said 'over-reliance on legacy technology and processes' is a major organizational challenge in the way their company delivers IT – the highest of any vertical in our survey.

The public cloud has become an increasingly attractive avenue for financial services providers to attain the agility and flexibility needed to adapt to the changing landscape they find themselves in. Recent months have seen large financial institutions including HSBC, BNP Paribas, Bank of America and Banco Safra make moves to the cloud, and our surveys indicate that COVID-19 could further accelerate this trend. Nearly 1 in 4 (23%) financial services respondents to our June 2020 Voice of the Enterprise: Digital Pulse, Coronavirus Flash Survey indicated that they've accelerated their digital transformation initiatives as a result of the pandemic, while 1 in 10 said they had accelerated their migration of workloads to the cloud.

Microsoft, IBM and AWS have emerged as the key players serving the financial services segment. Below, we discuss their distinct approaches in targeting this market.

Microsoft Azure: the partner approach

Microsoft has made significant investments in supporting partners as they help organizations move from on-premises environments to public and hybrid cloud. Its partner ecosystem is a key factor in its delivery of cloud services for the financial sector as SIs and ISVs provide support around cloud deployments and migration, managed services and integrate vertical approaches with Microsoft Azure. For example, ISV partner and payments infrastructure provider ACI Worldwide enables its Universal Payments technology to be licensed by customers via Azure.

Microsoft is relying on its reputation among businesses that Azure is enterprise-grade, and partners seem to drive a lot of development around specific use cases for this market. For instance, Microsoft announced it is working with financial services software provider (and ACI Worldwide competitor) Finastra in a multi-year agreement to migrate applications to Azure, deliver end-to-end offerings for customers and engage with Finastra's ecosystem of partners, exposing Microsoft to more customers in this segment, beyond the 3,000 banks and financial institutions already supported by both companies.

It is possible that Microsoft could evolve its partner-centric approach to a dedicated industry cloud service as it has created in the healthcare vertical. At its Build conference in June, Microsoft announced Cloud for Healthcare as the first of multiple industry-specific cloud services, which delivers capabilities from Office 365, Dynamics, Power Platform and Azure. Customers will need support in using the broad set of tools available in the cloud to realize the full benefits of public cloud, and partners can be a valuable resource in achieving this outcome in regulated industries such as healthcare or finance.

IBM Cloud for Financial Services: the industry approach

IBM is working with some of its long-term outsourcing customers in financial services to inform its industry approach as it looks to set the standard on how banks can use public cloud to pursue digital reinvention. IBM, in collaboration with Bank of America, developed a framework that runs on its public cloud infrastructure and offers built-in risk management and compliance controls. Called IBM Cloud for Financial Services, the framework includes integrated security capabilities that monitor and enforce policy-based compliance postures across workloads and automate security and compliance checks which speeds time to market for customers. Supported by its acquisition of SaaS startup Spanugo, security and compliance controls are embedded within its framework. Security is a key capability that may be the ammunition IBM needs as it approaches financial services clients that are still concerned the public cloud is not the right environment for sensitive or mission-critical workloads in production.

Since its strategy centers on its industry-informed approach, IBM anchor clients Bank of America and BNP Paribas are critical partners that will help the company drive further momentum within its target market of Tier 1 regulated financial institutions and develop its ecosystem of ISV and SaaS partners that offer both horizontal and vertical approaches. IBM has a strong footing in financial services from its legacy offerings but will need to clearly demonstrate how its customers are using its industry cloud to deliver innovative products.

Industry-specific cloud offerings are not a new concept – examples from the early 2010s include GE Digital's Predix platform (industrial IoT) and Illumina's platform for genomics. However, activity in the financial services sector started to heat up in recent years as technology vendors threw their hats in the ring – for example, with Oracle's introduction of its Financial Services Cloud five years ago. There is more pressure than ever on financial services companies to shift from capex to opex models, embrace digital services delivery for both internal and external customers, enable the innovation needed for

competitive differentiation, nurture partnerships and develop ecosystems to streamline industry workflows and facilitate new commercial opportunities – not to mention a growing list of compliance and regulatory demands as more transactions move online. The public cloud may provide an answer to these challenges, and IBM hopes its industry-specific approach will ease the transition for banks that seek to leverage the agility and flexibility of public cloud in the evolution of their businesses.

AWS: the experience approach

AWS has seen a strong uptake among financial services companies, from banks like Capital One to startups like Stripe. It targets customers that want access to cloud-native capabilities, databases and storage, in addition to tools for data analytics, machine learning and artificial intelligence that help them extract insights from valuable data. In its pitch to financial services companies, AWS leads with its 14 years of financial services cloud migration experience and its industry-specific modernization and digital user-engagement capabilities. AWS provides design and reference architectures via the Financial Services Industry Lens for the Well-Architected Framework, which it says helps financial services customers improve security, resiliency and operational efficiency, and helps to meet regulatory and compliance obligations.

Like its peers, AWS has partners that serve the financial services industry with cloud-based offerings targeted at banks, insurance companies, capital market firms and payment processors. AWS Financial Services Competency Partners are APN Consulting and Technology Partners that fall into categories including core systems, data management and risk management. There is also AWS Marketplace, a digital catalog with more than over 4,8000 software listings (including 126 that are specific to the financial services industry), where users can find, test, buy and deploy software that runs on AWS.

AWS Outposts has significant potential in financial services. The hardware sits in clients' on-premises environments and is managed in the same console as public cloud resources, enabling hybrid environments that are suited for latency-sensitive or legacy workloads, and workloads that are subject to data sovereignty requirements. This strategy enables customers to lift-and-shift certain workloads to public cloud and manage those resources along with on-premises workloads from a central location, which is a compelling pitch for financial services customers that are looking to maintain some control over sensitive workloads while taking advantage of the flexibility and agility of public cloud.

Conclusion

Incumbent financial services providers face a range of challenges – from a growing list of compliance and regulatory mandates to meeting customer expectations around digital experiences. Hyperscalers that are attuned to these issues will be well positioned to meet the unique needs of the financial services industry and demonstrate how public cloud services can deliver the agility, flexibility and scalability that will enable customers to differentiate their core businesses in a highly competitive and rapidly evolving market.