

451 Research

S&P Global

Market Intelligence **Special Report**

Banking on the Hybrid Cloud

COMMISSIONED BY

kyndrylTM

MAY 2021

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Eric Hanselman is the Principal Research Analyst at 451 Research, a part of S&P Global Market Intelligence. He has an extensive, hands-on understanding of a broad range of IT subject areas, having direct experience in the areas of security, networks, application and infrastructure transformation and semiconductors. He coordinates industry analysis across the broad portfolio of 451 Research disciplines, contributes to the Information Security and Cloud Native Channels, and is a member of the Center of Excellence for Quantum Technologies.

Executive Summary

The banking industry is undergoing significant technological change, and successful organizations will have to innovate to keep their businesses healthy. A path that many are considering is to expand their resources and leverage hybrid-cloud-based infrastructure to gain the flexibility and efficiency required to excel in their markets. Many organizations on this journey are looking to partners to help them target and achieve their goals.

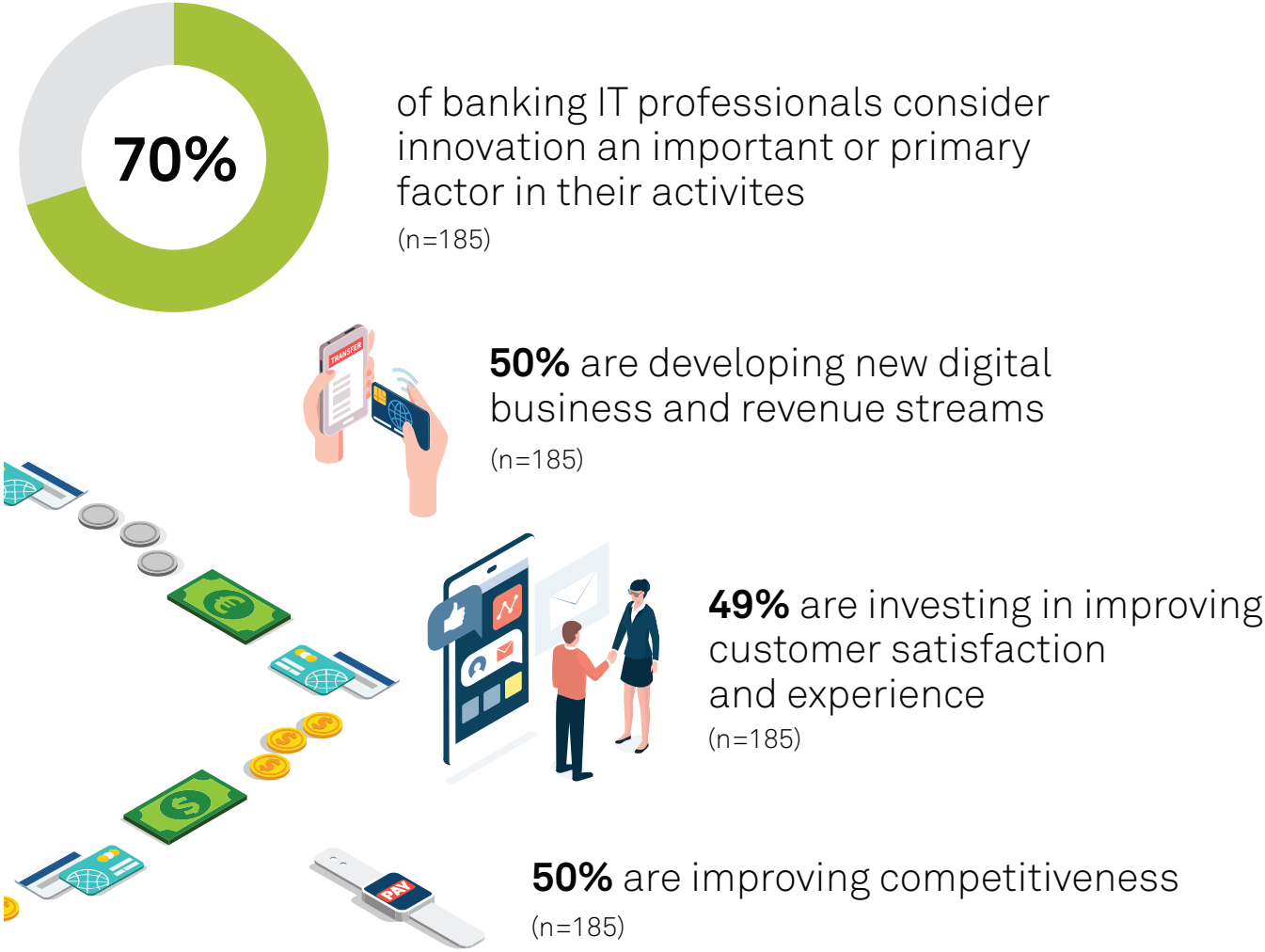
Introduction

IT departments at retail and commercial banks are challenged to keep up with the increasing expectations of their customers while at the same time, a more challenging financial market is applying additional pressure on their operations. To succeed in this complex environment, IT teams need the right infrastructure and management tools to help them control costs and accelerate key digital initiatives. A 451 Research study, commissioned by Kyndryl, formerly IBM Infrastructure Services, looked at attitudes, expectations and current state for infrastructure transformation in the banking industry. The results offer insights into pathways to improvement and suggestions for gaining the upper hand in this process.

Innovation as a Driver

The banking world has seen a wave of new market participants, like digital-only banks and merchant direct applications, that are challenging the traditional relationships with customers. At the same time, banks face greater regulatory scrutiny and increasingly sophisticated threats from fraud and cyberattacks. To a greater degree than those in many other vertical industries in the study, banking technology teams focus on innovation. Nearly three-quarters (70%) of banking IT professionals (second only to retail), said they consider innovation an important or primary consideration in enabling their business activities. This carried through to the level at which they expect to support opportunities for innovation (68%) in their businesses. These responses indicate that banking IT professionals see themselves as active participants in differentiating their products and services in the marketplace. The data showed other aspects that could be driving this push.

Figure 1: Innovation Is Essential in Banking
Source: 451 Research and Kyndryl custom survey



Prioritizing Customer Experience

There are a number of initiatives that IT teams in banking identified as being driven by the needs of their business environments. About half (50%) are seeing requirements directed at them to develop new digital business and revenue streams. At the same time, 49% are investing to improve customer satisfaction and experience. Half of the respondents (50%) also indicated that they're being tasked to improve competitiveness. This combination suggests that banking organizations see a need to prioritize customer experience and technologies for customer engagement as a key to their success. Whether through mobile applications, greater digitization or other means of customer experience improvement, banking IT teams need infrastructure that can make these improvements possible.

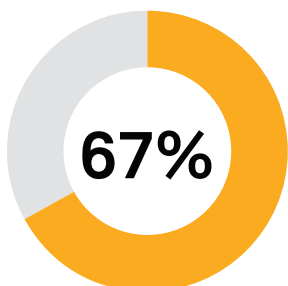
Current Infrastructure Needs Improvement

In exploring thoughts about their infrastructure plans, the study looked at how IT professionals in banking characterize the condition of their current resources and operational practices. Respondents weren't confident in the ability of their existing systems to respond to the needs of their business. Just over two-thirds (67%) believe that their current infrastructure can support less than half of their modern business needs. That's an indication that they expect a significant amount of transformation and improvement to accomplish what's needed to keep their businesses competitive. Banking IT professionals understand how much innovation could do to improve their businesses, but it looks like their infrastructure will hold them back if they're unable to make needed improvements.

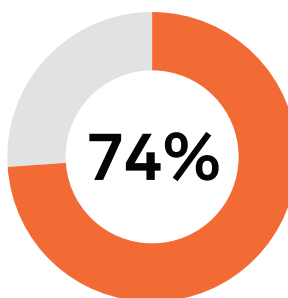
Figure 2: Much Work Is Still Needed to Modernize Banking Environments

Source: 451 Research and Kyndryl custom survey

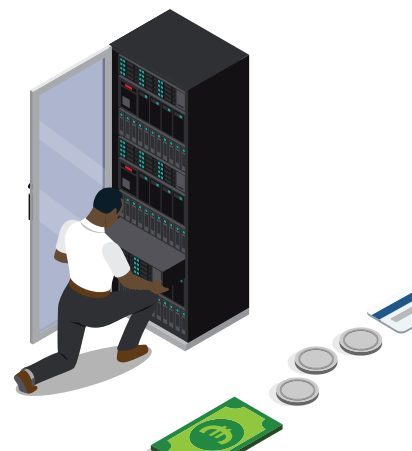
66% of banking IT professionals indicated they require significant levels of transformation to modernize their banking environments



say that their existing IT infrastructure meets less than half of their modern business needs
(n=200)



say that their IT systems could be managed more or much more effectively
(n=200)



The study addressed operational practices, and there were concerns in this area as well. Almost three-quarters (74%) reported that their IT systems could be managed more or much more effectively. That raises questions not only about the quality of their infrastructure, but the management systems and procedures that are in place. It could also be an area where operational complexity could hold back needed technology and infrastructure improvements. Simply adding new capacity or technologies is not enough to improve an organization's capabilities if its management capabilities aren't able to put those new elements to work.

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Challenging Hybrid Journeys

Banking IT professionals in the study were more likely (55%) than most to say they have a hybrid cloud environment in place. However, the lead in hybrid use didn't translate into their infrastructure being significantly more ready to support their businesses. **This is an indication that they're not making the best use of the potential of hybrid cloud.**

This is a situation that can occur when hybrid environments aren't well coordinated. The cause is often project-specific cloud deployments that don't integrate with broader management systems. For example, a bank may develop a mobile banking app, but the infrastructure supporting it may lie outside the core management system. When a deployment is a special case, management overhead increases as each environment requires independent management efforts. More complex management also increases operational risk. Banking respondents rated infrastructure resilience as their second biggest challenge (after security, one of the most common for all) more often (29%) than any other industry vertical. Management environments that aren't well integrated have the potential to be fragile and susceptible to operational errors.

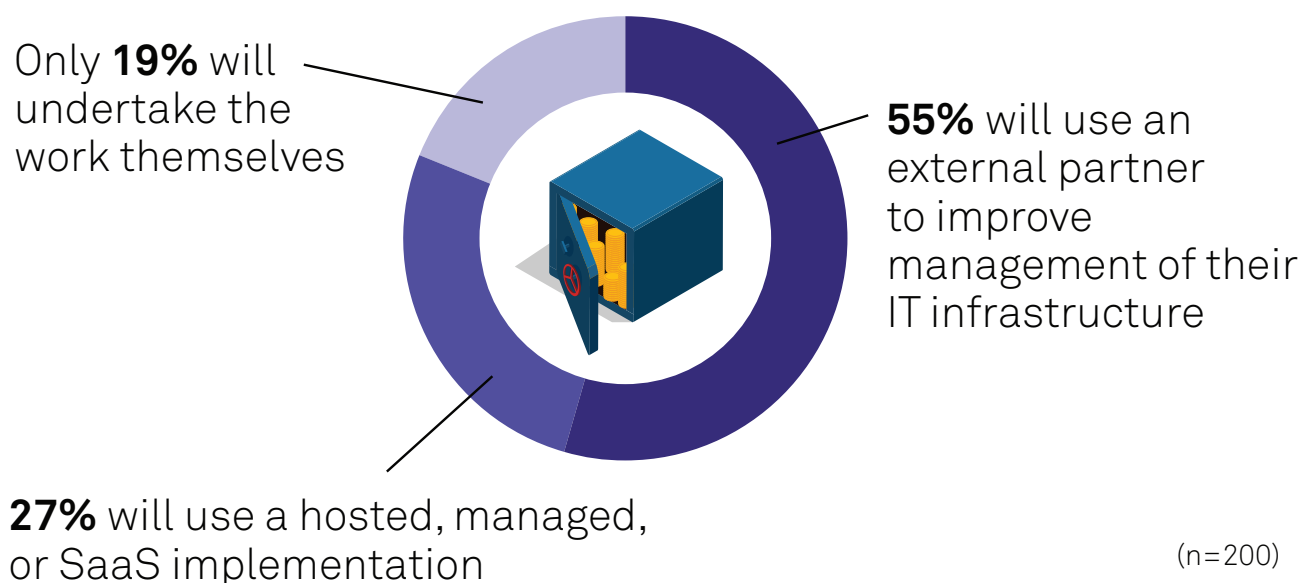
To get to greater operational efficiency, IT teams need to integrate management in ways that bridge across their infrastructure, wherever it's located. That can lead to greater efficiency and better cost management, two keys to greater competitiveness.

Turning to Partners for Help

The level of concern that respondents have about infrastructure readiness, management effectiveness and infrastructure resilience should be a call to action for banking IT teams. While all IT teams face challenges, the banking industry faces notably greater threats from technology-driven competitors. That could place a much greater emphasis on ensuring that infrastructure is able to support initiatives that could contribute to business success.

Figure 3: Banking IT Leaders Are Turning to Partners for Help

Source: 451 Research and Kyndryl custom survey



The study looked at how respondents expect to overcome the challenges that they face. Banking IT professionals reported a mix of approaches to address their needs for management improvement. Just 19% indicated that they would undertake the work themselves. Slightly over a quarter said they expect to move a business function to a hosted, managed or SaaS implementation. That's a move that places some of the operational burden on a partner but raises concerns about the extent to which they can achieve meaningful service differentiation where they don't have direct control over the development of new service functionality. More than half (55%) reported that they plan to use a partner to improve the management of their infrastructure. Having an outside perspective on systems and process improvements can bring new insights that are often hard to achieve internally.

Banks face the dual challenges of rising customer expectations and increasing competition. They're innovating to address those challenges by developing new products and services and are planning to deploy several technologies to improve their customers' experiences. At the same time, they need to increase their operational effectiveness and efficiency to achieve the speed and scale required to fuel their innovation efforts. The data shows that they know their existing infrastructure isn't where they need it to be. Hybrid is an attractive option as they look to blend resources and approaches. That's an area where the majority's investment in partners to help them master the complexities of hybrid environments could truly pay off.



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