

White Paper

Crisis Is Accelerating Digital Transformation in Banking, Again

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EXECUTIVE SUMMARY

The banking industry has been on a steady pace of digital transformation since the economic crisis of 2008, focusing on risk management, compliance, and customer-facing digital front office to address the challenges of that period. Now, as the industry is responding to another crisis and the tactical challenges facing the business, banks should focus on fundamental changes at the infrastructure, building resiliency into their critical back-office systems all the way to the very core systems, in order to return to innovation while withstanding any future disruptions.

IDC's COVID-19 Recovery Cycle Model and subsequent survey data have defined and quantified the steps institutions are taking to recover from the tactical challenges and how they're preparing for a post-COVID-19 world. The survey data shows that for a small number of institutions that had already invested in technologies like cloud, open API architectures, AI, security, and mobility, those investments are allowing them to weather the COVID-19 storm better than their peers and recover more quickly. For banks that are not in this position, the digital divide represents, at best, a threat to their market share and, at worst, a threat to their very existence from the banks that had already progressed further on their transformational journeys.

Among the technologies emerging as critical to future transformation and supporting the increasingly important role of resiliency in transformational strategy, there is a growing overall acknowledgement in the ability of cloud to add resiliency and efficiency to the bank's operations. Adoption of public and hybrid cloud environments is growing, and 2021 will see an accelerated modernization of infrastructure, including an accelerated adoption of the cloud platform by institutions that want to maintain relevance in markets where the gap between modern institutions and lagging institutions will have serious implications on the latter bank's future.

The road ahead is not without challenges, but what IDC calls the future enterprise will be one marked by a cohesive, business-focused architecture consisting of a hybrid, location-independent infrastructure, with workloads existing on a variety of platforms on premises and off premises, managed and orchestrated by automated tools and supported by strategic partners that understand and align to modern paradigms and practices.

INDUSTRY DRIVERS FOR BANKING ENTERPRISE APPLICATION MODERNIZATION

Responding to Crisis – Part 1: Transformation Pre-2020

Immediately after the economic crisis of 2008-2009, the banking industry worldwide became vulnerable to a number of threats that ensued: increased regulatory scrutiny, a dissatisfied customer base, and improved mobile devices and bandwidth that enabled a new type of firm, the fintech, to capture market share through improved experiences and threatened the traditional banking relationship with its customers. Banks were challenged with responding to new regulatory requirements and new vectors of competition.

The ensuing years saw the banking industry investing heavily in risk management, compliance, and customer-facing (front-office) solutions to address the new threats. Over the years, cloud became an increasingly important part of the front-office response as a way to quickly implement changes to existing functionality and to bring about new capabilities in a faster way than was possible before. New generations of the mobile banking platform, for example, were introduced to improve customer needs for digital interaction and to keep up with fintech competitors. Development cycles were shortened; software as a service (SaaS) became a viable alternative for many areas in banking, especially in areas not deemed critical by the bank; and the needed expense to implement change using public cloud and SaaS often came out of the operational budget of the institution, as opposed to incurring capital expenses.

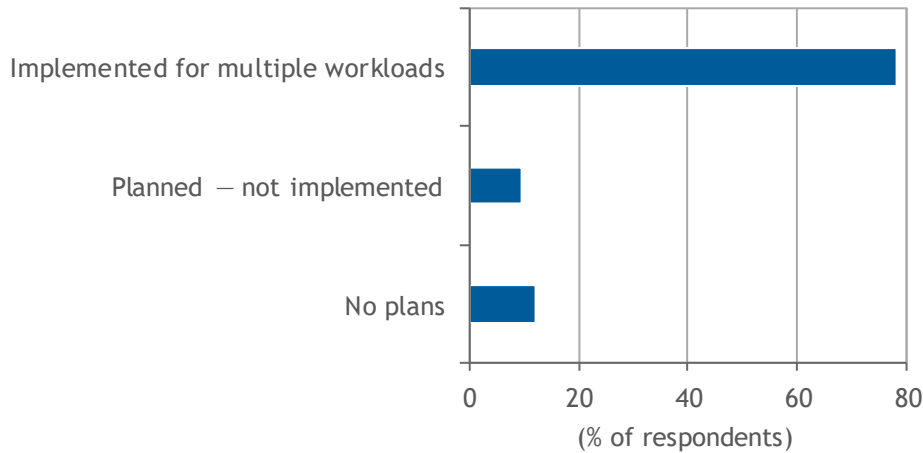
For the most part, this response accomplished the immediate and high-priority goals with regard to compliance and customer experience. But as the years went by, it became clear that a more strategic response was necessary to not only build on the tactical solutions that the industry was working on but also ensure that the industry could parlay the investments into a more competitive enterprise. Digital transformation (DX) was born. By 2017, 100% of banks surveyed by IDC reported that DX was a priority for their organization (see IDC's March 2017 *Digital Transformation (DX) Leader Sentiment Survey*). Along with better customer experience – chosen as the first priority by 60% of those banks – half of the banks viewed DX as a way to create new business models through innovation.

Responding to Crisis – Part 2: Resiliency and Future of Industry Beyond 2020

Transformation in banking has been progressing at a steady pace since the crisis of 2008. As banks realized that more of the institution's critical systems, the "back office," needed modernization, some investments were focused on transforming those areas. Until 2020, this had been happening at a relatively slow, yet steady, pace because of concerns about security and risk in technologies like cloud, microservices, and open APIs that weren't always completely understood by the bank's IT groups. In addition, new business requirements, like the open payments standards in Europe (PSD2) and privacy laws in the same region (GDPR), redirected some of the resources to more tactical initiatives driven by regulatory changes. Nonetheless, progress has been made. For instance, in IDC's April 2019 *Worldwide Industry CloudPath Survey*, 88% of the responding banks indicated they had plans to adopt public cloud for some workloads. Although the workloads that were being moved to cloud deployments were often limited to less critical functions at the institution, and even before the COVID-19 crisis in 2020, many institutions (predominantly smaller banks) had begun considering moving even critical core systems to public cloud (see Figure 1).

FIGURE 1

Adoption of Cloud in Banking



Source: IDC's *Worldwide Industry CloudPath Survey*, April 2019

Adoption of public cloud has been slow but steady. The most significant impact of the pandemic has been the interest in public cloud for critical banking systems to improve resiliency and agility to respond to market needs.

COVID-19 Exposed Serious Weaknesses

Then came the COVID-19 pandemic. Around the world, the impact of the pandemic was felt across multiple lines of business and by the entire enterprise. Further:

- **58% of consumers in the United States purposely avoided visiting a branch due to the pandemic, placing an enormous burden on the contact center, which itself had moved to work-from-home environments (see IDC Insights' March 2020 *Cross-Industry Consumer Response to COVID-19 Survey*).** This change in behavior equally affected other regions across the globe as shelter-in-place and quarantine orders were enacted globally.
 - **Impact:** Digital channels were stressed as customers relied more on online and mobile banking to interact with the bank. Contact center functionality, technology, security, and workforce optimization all strained the bank's ability to maintain good customer experience as customers required answers to complex questions stemming from the pandemic.
- **Payments volume declined as retailers were forced to shut their doors.** The overall payments volume worldwide declined, resulting in a decline in interchange revenue for bank issuers. Spending moved significantly to digital channels, but not enough to replace the in-person spending prior to the crisis.
 - **Impact:** With payments revenue falling, institutions had to limit the amount of discretionary spending they had planned. In addition, the move to digital spending meant an almost 50% increase in card-not-present transactions as a percentage of overall payments volume from 2019 and that transactions are riskier and generated increased cases of payments fraud (see U.S. Census Bureau Quarterly Retail e-Commerce Sales 2nd Quarter 2020). Real-time payments, already a major trend globally prior to 2020, takes on

renewed importance in a post-COVID-19 world, as does the need for real-time fraud detection in payments.

- **Credit needs increased.** Particularly, small and medium-sized enterprises (SMEs) were significantly affected by the pandemic and the ensuing loss of business. While governments stepped in to protect payroll, banks were challenged to respond by implementing new lending capabilities and the unprecedented number of applications that followed due to the relatively inflexible legacy systems in place.
 - **Impact:** Small business lending has become a priority for many banks, along with the move of the contact center to remote environments and struggles with payments fraud. For those banks that will limp with less-than-ideal lending solutions, digital lending platforms, based on SaaS, will remain on the high-priority list as the industry moves through recovery and acceleration.
- **Loan losses are inevitable.** Early on in the pandemic, institutions took a lead in helping their customers with amnesty programs targeting forgiveness or delays of payments on loans and credit card balances. As the crisis intensified, banks realized that large portions of their loan portfolios, particularly for loans given to business, would be unrecoverable.
 - **Impact:** This is having a large impact on the willingness to spend discretionary budget on anything outside of immediate need in the context of an uncertain economic environment (true everywhere but in Asia/Pacific and China, where the recovery is further along). There will be a larger focus on technology solutions that can move spending from capital budgets to operational expense.

Five Phases of Recovery and Digital Transformational Acceleration

Although transformational progress had been steady, the global pandemic has brought with it another era of challenges to banking that will require immediate and tactical attention and another round of strategic thinking about what DX means in the new normal that is emerging. IDC created a way of thinking of the impact of the crisis, the industry's recovery from tactical challenges, and the strategic planning of future acceleration of investments beyond the crisis in five phases (see Figure 2):

- **Business continuity.** In this initial phase, institutions are challenged with a number of immediate impacts from changes in customer behaviors and the realities of working in virtual environments, including, but not limited to the following:
 - Contact centers become a focal point for customer service reliability, and availability of contact centers, especially in 24 x 7 global operations, is critical.
 - Fraud increases as in-person commerce moves to digital channels.
 - New products (like the payroll protection program) can't be deployed quickly enough.
 - Revenue drops from a decrease in payments volume.
 - Loan loss reserves are endangered by the increased credit demands during an economic downcycle.

These factors have led to a limiting of discretionary spending for projects that do not further the tactical response to these challenges.

- **ROI focus.** While the immediate challenges from phase 1 are being addressed, institutions start to look to invest in transformation initiatives that make sense from a value and efficiency perspective. In the longer term, strategic projects will be put on hold as banks continue to address short-term needs, but with an expectation that these will be long-term solutions. In another IDC survey, bank executives listed areas of technology that will demand increased prioritization going forward (see IDC's April 2020 COVID-19 Impact on IT Spending Survey):
 - Task/process automation
 - Content management
 - Cloud computing and cloud software
 - Data security and remote access security

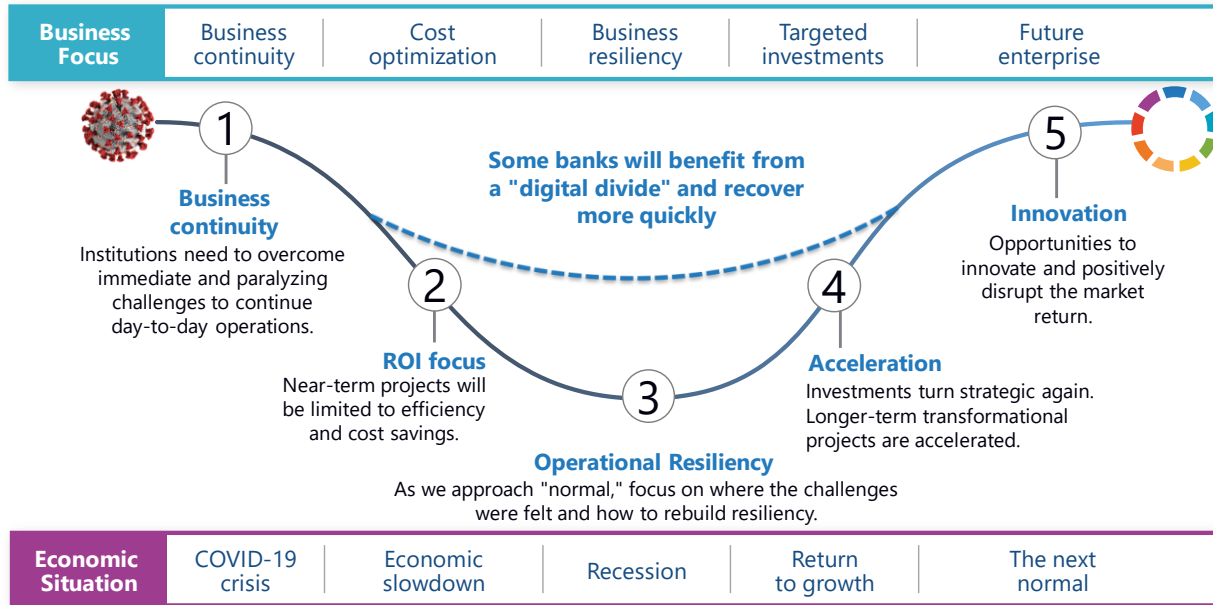
Having steadily adopted cloud for some areas of bank operations, it is clear that institutions not only are comfortable with moving more critical functions to public cloud but also are counting on software-as-a-service and platform-as-a-service (PaaS) solutions to quickly address weaknesses exposed by the market impacts of the pandemic. The same IDC's *CloudPath Survey* conducted in 2020, and conducted during the height of the crisis, showed that 91% of banks had plans to move to public cloud, an increase from the 88% response in 2019 (see IDC's May 2020 *Worldwide Industry CloudPath Survey*). The increase in usage and planned migration to cloud represent an acknowledgement in the ability of cloud to add resiliency and efficiency to the bank's operations.

- **Operational resiliency.** As banks overcome the challenges in phase 1 and have implemented solutions driven by phase 2, Phase 3, likely to happen in the fourth quarter of 2020 or the first quarter of 2021, depending on the state of the economy, will be a critical time for institutions to stop and rethink their transformational strategies. This is going to be the most important phase in the recovery cycle and will dictate the institution's direction for years to come, in some cases redefining the bank's fundamental business model. This phase is marked by words like "resiliency" and "elasticity" with regard to the bank's ability to withstand future disruption. The items listed in phase 2 previously will rise to the top of the priority list as banks plan to emerge from 2020 in stronger positions than they began the year. This phase will set the direction of spending on technology for the next five years.
- **Acceleration.** Because of the timing of the pandemic as it swept around the globe, most institutions in Asia/Pacific and China have already gone through phases 1-3 and are currently in this phase and phase 5. Tactical challenges have been met, efficiencies have been gained to the extent allowable by restricted spending, DX strategies have been reformulated to add resiliency as a key component of technology strategy, and the markets have stabilized. At this stage, institutions worldwide will accelerate their investments in longer-term transformational technologies to create – or advance – the bank's ability to withstand future negative disruption. Funding for projects like using AI for business intelligence, customer "next best action," product innovation, core infrastructure modernization, and participation in external ecosystems to create non-financial specific experiences will resume in preparation for the next phase, the future enterprise.
- **Innovation.** The "next normal," or "future enterprise," marks the beginning of the next era in banking. The industry comes back to a refocus on customer experience, efficiency, and innovation. An institution in this phase is defined by an organization that can not only create positive competitive disruption through innovation, and drive customer experience to increased excellence, but does so with a resilient infrastructure characterized by an agile and flexible architecture that is location independent based on public, private, and hybrid cloud and one that is managed, secured, and governed within the policies of the institution and the local regulatory environment. This future enterprise is better able to not only withstand disruptions,

whether market or environmental in nature, global or local, but also, to some extent, predict potential disorder and its impact on the organization based on a data-centric business model. Resiliency and agility become key enablers of innovation for the future enterprise.

FIGURE 2

COVID-19 Recovery Phases



Source: IDC, 2020

The Digital Divide – Aka the Predatory Gap

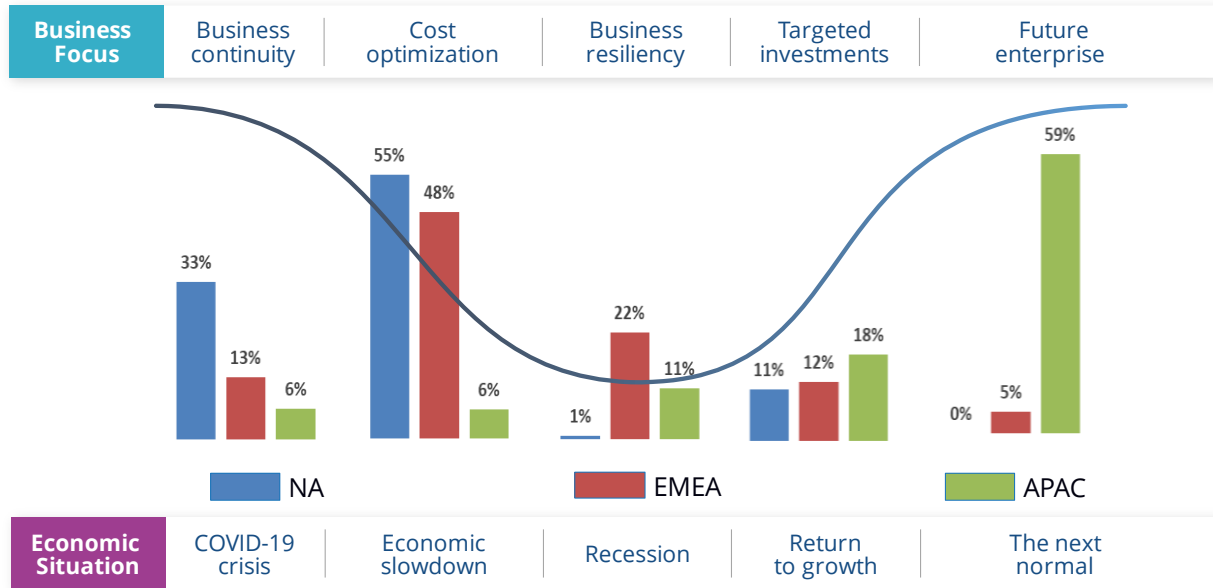
In the description of the recovery phases mentioned previously (refer back to Figure 2), a number of institutions that had already progressed quite far into digital transformation will "jump the gap" between Phases 1/2 and Phases 4/5. These are banks that had invested in technologies like cloud, open API architectures, AI, security, and mobility that allowed them to weather the COVID-19 storm better than their peers and recover more quickly. For banks that are not in this position, the digital divide represents, at best, a threat to their market share and, at worst, a threat to their very existence from the banks that had already progressed further on their transformational journeys.

Figure 3 shows the results of an IDC survey performed in July 2020 and depicts the state of banking progress in the recovery from the pandemic and subsequent acceleration across institutions in North America, EMEA, and Asia/Pacific (including China). It depicts self-reported evaluations from industry institutions on which recovery phase they find themselves in. This information represents the enterprise view, and individual lines of business within the enterprise may be in different phases of recovery than the overall phase reported by the organization.

FIGURE 3

Progress of Recovery and Transformation Acceleration in Banking by Region

Q. Of the following choices, which one best describes where your organization currently is?



Note: The survey was conducted during July 7-20, 2020.

Source: IDC's COVID-19 Impact on IT Spending Survey, July 2020

THE TECHNOLOGIES THAT SUPPORT RECOVERY AND THE FUTURE ENTERPRISE

Modernization of Applications Through Open API and Microservices

Even before the crisis in 2020, forward-thinking banks had started migrating workloads to more open environments using open APIs, microservices, containers, and agile development methods. In 2019, 60% of financial institutions reported using microservices architectures across the entire enterprise in the development of custom applications to manage their cloud environments. Another 36% had done so across multiple groups, but not yet across the institution (see IDC's April 2019 *Worldwide Industry CloudPath Survey*).

The aim of this modernization was to aid in open banking, a key characteristic of a transformed enterprise, which was to address some issues, to open some opportunities, and inherently focused on enabling the business:

- Modernizing to overcome the challenges associated with aging legacy solutions that were difficult to maintain and creating open platforms on which to more quickly develop new functionality (Open architectures allow for faster development and deployment of new products and services.)

- Creating a more business-led approach to innovation by simplifying and componentizing platform functionality in a way that was more approachable while maintaining governance and security
- Supporting participation in external ecosystems as needed to innovate beyond the bank's own walls (In Europe, this was led by the PSD2 regulation that required banks to share customer data with third-party payments processors and has led to exploration of other opportunities that such sharing capabilities could bring globally.)
- Creating flexibility to position workloads on location-independent platforms based as much on business requirements and strategies as on IT needs (Workloads could be deployed on premises in the bank's datacenter, on private clouds within or outside the walls of the institution, or in colocation services in the public cloud.)

Although many banks have temporarily halted such work as they address more tactical challenges, especially in North America and EMEA, much of this modernization work continues today in the face of the crisis. This is already happening at near full speed in the Asia/Pacific region, including China, due to the region's earlier recovery from COVID-19; will happen as early as the fourth quarter of 2020 at some institutions in North America and EMEA; and will happen in most of the markets by the middle of 2021.

Cloud as a Deployment Model

Throughout the 2000s, cloud, particularly public cloud, has risen in adoption in financial services from its relatively limited role hosting productivity tools (e.g., Google's G Suite) to an enterprise-class platform that is capable of supporting the bank's most critical workloads, whether omni-channel engagement systems, payments platforms, or core banking systems. Although the banking industry worldwide first adopted private cloud models as a way of managing the perceived risks associated with off-premises platforms at the time, public cloud deployments are quickly gaining in popularity, especially as banks move more of their applications to SaaS providers. In IDC's 2020 survey on cloud adoption, banks reported that 45% of their IT budgets support private cloud workloads, but 33% of their IT budgets are allocated to public cloud deployments, a percentage that has been increasing every year. Spending on noncloud deployments meanwhile has fallen to 13% of the institution's total budget (see IDC's May 2020 *Worldwide Industry CloudPath Survey*).

These findings reveal an important key to understanding the role of cloud in the acceleration of transformation. That is the use of cloud *as an architecture* to create flexibility of deployment across multiple models that may all be used simultaneously. There are still challenges, real and perceived, by banks worldwide that may prevent the migration of some workloads to public cloud platforms. For instance, some countries forbid the location of bank customer data on public cloud infrastructures.

For this reason, institutions will seek out hybrid environments that include a mixture of private cloud, public cloud, and on-premises computing platforms. In addition, many banks have recently been investigating cloud environments that mirror their current business continuity strategies of multilocation, active-active synchronized datacenters across multiple cloud providers to protect against the admittedly rare situation where a third-party cloud provider's environment fails.

In IDC's 2020 *CloudPath Survey*, 89% of banks reported operating with, or planning to operate with, such hybrid cloud strategies. Necessary for this strategy that enables flexibility of deployment alternatives once operating on a microservices-based, containerized architecture is the new requirement of orchestration and management across these heterogenous environments. Orchestration tools have become critical components of any application modernization initiative in the

back office as a few monolithic workloads are transitioned to multiple microservices. Likewise, application management tools are required to allocate those workloads – whether microservices running in containers or VM environments – across the "virtual" datacenter that is physically composed of both on-premises and off-premises resources. These tools allow the enterprise to make technology decisions based on business needs that are driven by market requirements.

Moving to Public Cloud – The Benefits

As banks progress through the journey of an agile infrastructure based on open architectures running in virtual environments irrespective of physical location, they are learning that public cloud represents some fundamental benefits to the organization. IDC research has uncovered what banks expect to gain from their soon-to-be-accelerated pace of adoption of public cloud (from IDC's May 2020 *Worldwide Industry CloudPath Survey*).

Public Cloud

- **Improved staff productivity.** Banks expect to gain efficiencies as more workloads move to public cloud, particularly as more workloads migrate to SaaS platforms that require fewer internal staff to operate.
- **Improved IT security.** Security has always been top of mind at financial institutions. But this expertise is sadly lacking at all but the largest banks. Market competition means that security professionals are difficult to find and retain in a banking enterprise for all but the largest of institutions. By moving workloads to cloud, especially to public cloud providers, banks are signaling that they believe cloud platform providers can do a better job than they could. This is also a strong indicator that financial institutions are more and more considering the migration of mission-critical applications to public cloud.
- **Improved customer experience and quicker innovation.** These two aspects go hand in hand when respondents are asked about the expected benefits from public cloud. SaaS solutions again will bring best-of-breed functionality to the bank's portfolio from partners that specialize in customer experience and leverage cloud's architecture for rapid and open application development.

Moving to Cloud – The Challenges

Despite the clear benefits banks anticipate in their migration to cloud, there are still concerns that many banks have.

Public Cloud

- **Governance.** Cloud operations fall outside of the traditional governance models in place for on-premises platforms. There is also uncertainty as regulation around public cloud operations isn't necessarily clear from region to region.
- **Centrally managing IT.** This refers back to the points made about hybrid environments and the need to not only orchestrate at the operational level but address new challenges around security, governance, compliance, performance, and risk.
- **Security.** Paradoxically, while listed as an expected benefit, security is still a top concern for banks as they consider cloud-based operations, according to the same *Worldwide Industry CloudPath Survey*. This stems from both a lack of education on the security capabilities of cloud platforms and a general concern, regardless of the safeguards in place, for the impact of any event, as unlikely as it may be, of a breach of security in a public cloud setting.

Many, if not all, of these concerns stem from both a relative inexperience operating in a modern infrastructure paradigm and from the inherently risk-averse attitude that defines financial services. Still, adoption of private, public, and hybrid cloud environments is growing, and 2021 will see an accelerated modernization of infrastructure, including an accelerated adoption of the cloud platform by institutions that want to maintain relevance in markets where the gap between modern institutions and lagging institutions will have serious implications on the latter bank's future.

HOW BUSINESS BENEFITS FROM AN AGILE AND RESILIENT INFRASTRUCTURE

This white paper has laid out the history of modernization, before and after the COVID-19 crisis of 2020, to make the point that transformation is not new and has been progressing for over 10 years. The COVID-19 crisis did not create a need for transformation but will act as an agent of acceleration. While the pandemic has curtailed much of the transformational investments, particularly in North America and EMEA, IDC anticipates a return and acceleration of these investments in 2021.

Modernizing the Core

Importantly, at the heart of the bank's operation is the core platform, the engine that drives every transaction at the institution. The core banking system is alternatively defined as the system of record, or the deposits platform, sometimes including lending, sometimes payments, and sometimes the accounting, product definition, pricing, and interest calculation engines. These are systems that can, at times, be decades old, written in COBOL and dating back to the 1970s. These platforms have a number of beneficial characteristics, chiefly speed of processing and reliability. But they lack the agility that was required to implement new functionality – as was the case with so many banks unable to implement the Payroll Protection Program. In addition, maintenance costs have steadily increased and are out of line with the value they bring to the bank. Staff needed to maintain these systems is also declining to the point where it is almost impossible to find COBOL programmers, who, if found, cost more than the same level of expertise in more modern languages like Java.

As a result, many banks are beginning to consider, and move to, open architectures for their most vital core systems. The limits of these legacy core systems were exposed even before 2020, and some banks undertook efforts to modernize the back office to eliminate the hurdles imposed by inflexible core platforms. The COVID-19 crisis and the growing trust in cloud architectures and providers will serve to accelerate core transformation worldwide. Banks are using a number of approaches to core modernization:

- **Modernize in place.** This concept uses an approach of progressive modernization that seeks to modernize the core system over time, recoding components based on business functionality and replatforming the resulting workloads in a microservices environment. Deployment of these functions (private cloud, public cloud, etc.) can then be decided as it fits best with business strategy.
- **Digital twin.** In this approach, the bank modernizes a significant portion of the core system (or all of it) and operates it completely. At that point, the bank can use the modernized platform to create a digital bank and bring new customers onboard and/or move existing customers to the modern platform over time. The twin platform can be deployed on premises or, increasingly, on a public cloud platform, depending on the institution's strategy and/or the solution provider's system.

- **Big bang.** An approach that has been around for years, this creates a new core platform, either developed in-house or acquired from a third-party provider, and moves the bank's customers to the new platform all at once.

There are various hybrid approaches that fit somewhere between these models, and all of these approaches have their set of characteristics that dictate the speed, cost, and risk of each approach. The choice of approach depends on the individual institution. But what they all have in common is the migration to a state-of-the-art architecture that will define the banking industry for the next decade or two.

What a Transformed Institution Looks Like

Transformation is a process that will last beyond the next few years as banks modernize their core infrastructures. But future transformation will be more about business innovation than about technology modernization, if the bank can accelerate its transformation strategy today. The bank that results will have these characteristics:

- **Better customer experiences.** Eliminating the roadblocks represented by the legacy core platforms allows the bank to deliver exceptional experiences not only based on the bank's own products and services but by partnering with nonfinancial firms that provide value adjacent to the customer's lifestyle. Real-time systems lead to real-time experiences, effectively competing against other providers vying for the customer's loyalty. AI-based analytics run against a well-managed and virtual data environment provides timely support and "next best action" advice to the customer (e.g., deferring loan payments due to COVID-19 and not just trying to sell the "next best product"), whether that is a consumer, small business, or corporate client. Innovation comes quickly, in response to, if not in anticipation of, customer and market demand.
- **Efficient operations.** The modern bank is able to operate and pivot with minimal effort and disruption in response to the market. Automation will allow the bank and its staff to focus on their core business. Management of business and IT operations is focused more on innovation than on compliance and error reduction. Costs are also minimized, leading to low efficiency ratios and better profitability.
- **Resilient infrastructure.** Above all, the ideal modern bank has created an operational platform that is able to withstand disruption by minimizing the risk of internal disruption (a phenomenon seen too often these days) and shielding the institution from external disruption as well. The agility, flexibility, and elasticity of capacity allow the bank to nimbly reconfigure its computing, data, and communication networks to align with the current business needs of the market.

CONCLUSION

2020 has proved to be a challenging year for the financial services industry, and particularly for the retail banking industry, which is making every attempt to maintain the levels of security, service, and trust for its consumer and small business customers. Since the economic crisis of 2008, banks worldwide have been making strides toward transformation of the banking business, governed and sometimes limited by regulatory requirements and the market environment. At first, banks were focused on compliance requirements and improving their digital reach with customers at the front office. Since then, and slowly, the industry had been adopting both cloud as a technology architecture and public cloud as a viable deployment model; the industry has been focused on strengthening its security posture and was on its way to using innovative technologies like AI to increase the

effectiveness of everything from customer intimacy to better fraud detection and prevention capabilities.

However, when COVID-19 came along, one glaring weakness seemed to catch even large institutions off guard – resiliency. Banks were overwhelmed by the number of credit applications they suddenly had to process (and the ensuing risk of nonperforming loans that will impact the industry for years) and the failure of still-manual processes that delay the decisioning for that much-needed credit. Branches were closed due to social distancing mandates, placing pressure on digital channels and overwhelming those digital systems at some banks and increasing the stresses on the institution's contact centers, which themselves had to transform into work-from-home environments. Meanwhile, the sudden increase of card-not-present payments transactions fostered an increase in fraud potential.

It's not unreasonable, then, to understand that the first acts of recovery for the industry worldwide were to get to a state of "minimum viable service" in order to maintain business continuity. This included implementing new lending programs, for example, or delivering technology to the homes of contact center agents to continue to do business. While discretionary spending has been curtailed given the uncertain economic conditions, investments in technology continued, but with a focus on projects that returned immediate business value, like automating business operations in areas such as lending or acquiring SaaS solutions from public cloud-based providers that could deploy quickly and move spending from capital budgets to operational expense.

These actions are defined as phases 1 and 2 in IDC's five phases of recovery from COVID-19 and represent the immediate actions the industry has had to take to recover. Banks in Asia/Pacific have, for the most part, already achieved these phases of the recovery and have moved on to the next phases of accelerated transformation and the future enterprise. For banks everywhere else, phase 3, business resiliency, is an important phase that will determine not only how quickly the institution will recover but also how it will emerge from the 2020 crisis. In this phase, banks will determine how resiliency, scalability, elasticity, and agility factor into their business models; their ability to operate in challenging situations; and how modern technologies will support their business strategies and ultimately decide their long-term survivability in the face of future disruptions.

Given the pace of recovery in North America and EMEA indicated by IDC surveys, IDC believes that the majority of institutions in EMEA will be in phase 3 of the recovery – reviewing and recasting transformation strategies – by the fourth quarter of 2020 and begin their own accelerated pace of investment in transformational technologies through 2021. North America will follow in the first quarter of 2021 with strategic review and accelerate investments through the last three quarters of the year.

CALL TO ACTION

Evaluate

For banks in EMEA and North America, evaluation of the weaknesses exposed during the crisis, and what technologies and operational processes (or policies) need reviewing, is an exercise that should take place as soon as possible, even as the organization still struggles to address tactical problems. Priorities need to be established, technology road maps developed, and partnerships aligned to the long-term transformational goals. The transformation road map that emerges from this work needs to be aligned and communicated with the individual lines of business to ensure that transformation becomes as much a cultural change as a technological change.

Accelerate

Based on what financial services executives have told IDC, the technologies that will be critical to recovery and continued transformation are:

- **Process automation.** Efficiency and speed will be important hallmarks of the future enterprise. Manual processes historically associated with areas like lending are no longer viable in the context of disruption.
- **Security.** Every area of the institution should look to build in the various aspects of security into its operations. Whether addressing payments fraud, remote workforce, or digital customer engagement, security should be treated as a critical aspect of the institution's operational and business resilience.
- **Cloud.** Public cloud, in addition to addressing the previous capabilities of automated processes and built-in security, represents a component of the institution's architecture that brings speed of deployment, elasticity of demand, a shift from capital expense to operational expense, and a simplification of operational management. As IDC surveys have shown, adoption of public cloud as a platform has grown but will accelerate in its growth even faster as a result of the COVID-19 pandemic and the need to significantly improve resiliency in its wake. Not every area of the bank's infrastructure is ready to move to cloud as a deployment model, but 2021 will be marked by the use of public cloud as a competitive advantage for those institutions that accelerate its inclusion as part of their future architecture, which will include public, private, and hybrid cloud deployments in addition to traditional on-premises platforms.

Along with the accelerated investments in technology, institutions will want to review the technology partners with which they do business. Not all IT providers have kept up with their own investments in modernization. For the future enterprise, strategic partners need to be defined by their strategies of cloud deployment; orchestration; ability to manage hybrid environments; alignment with open API, microservices, containers, and agile or low-code/no-code paradigms; inherent security; business continuity; and AI-based automation, to name a few characteristics.

Innovate

The ultimate goal of transformation, with or without crisis, is to enable innovation and positive disruption in the industry through new products and services, excellent customer experiences, and efficient operations. Throughout Asia/Pacific, including China, the acceleration of investments in these areas is already creating competitive pressures between banks that have accomplished transformation and those that haven't started or are struggling to achieve it.

In North America and EMEA, that competitive pressure is – thankfully for some – not here yet. But 2021 will be different. Institutions that can overcome the tactical challenges in 2020 and can assess and realign their transformational strategies with resiliency in mind will create the same competitive pressures in their respective markets as soon as mid-2021.

Now is the time to prepare to come out of a challenging year and leverage modern technologies and operational models to set the course for what will hopefully be smoother sailing in the coming years while making sure that the future enterprise becomes capable of handling any future storms that may blow our way.

MESSAGE FROM THE SPONSORS

Google Cloud provides organizations with leading infrastructure, platform capabilities and industry solutions that leverage Google's cutting-edge technology to help companies operate more efficiently and adapt to changing needs. With Anthos, institutions can leverage a consistent platform to build and manage cloud-native, containerized, and classic enterprise applications across hybrid and multi-cloud environments.

Intel is a technology leader focused on unleashing the potential of data to unlock value for people, business, and society on a global scale. Intel technologies empower the datacenter and cloud, enabling data to be moved, stored and processed faster and more securely than ever before to deliver greater insights.

Google Cloud and Intel collaborate on Anthos to help customers leverage existing on-premises investments while providing a clear path to move to the cloud.

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