

Banking
Cloud

Altimeter

Volume 6

Have some banks
taken off into the cloud
without a flight plan?

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Almost all medium-sized and large banks have cleared the runway when it comes to their journey to the cloud. Most have started gaining some altitude, but few seem to have a complete flight path mapped out. Fast-changing technology and regulatory uncertainty make it difficult for banks to plan in detail how they will reach their operational destination. A wait-and-see approach is costing banks time and money. The time has come to map out a comprehensive flight plan and start to fly at speed.

To track the progress and challenges that banks are experiencing on their journey, Accenture launched the Banking Cloud Rotation Index. It provides a snapshot of where banks are in their journey to the cloud, including both the level of cloud adoption and the speed of change. Each year, we check on banks' progress and pain points, breaking down our findings by functional area and region, to explore how they can make the transition smoother and faster. Our 2022 results reveal that many banks are trying to fully develop the business case that will provide thrust along a particular path to the cloud.

Banks are making steady progress, but their business units are expecting faster results that improve the bottom line. Because these results are not materializing as quickly as they expected, the value of the cloud is being challenged.

Despite a substantial increase in the level of cloud adoption, banks are still facing large-scale challenges that make it difficult for them to fully unlock the benefits in terms of speed and agility, scalability, cost savings, innovation and talent development.

In this issue of the Banking Cloud Altimeter, we're examining the results of our research in detail to see how banks can get a clear view of the path ahead, and rise higher and faster on the journey to the cloud. We'll also hear from Accenture's Global Banking Cloud Lead, Avinash Rao, in a Q&A in which he discusses the emergence of industry cloud and how it will affect banks as they attempt to speed up their cloud migration.

Uneven adoption and major challenges take the shine off banks' progress on their journey to the cloud

After a cautious beginning, we are now seeing more banks hit the accelerator on their journey to the cloud.

Our 2022 Banking Cloud Rotation Index, which gathered information on almost 100 banks, revealed that workloads have nearly doubled in almost every category since 2021, and more than doubled when it comes to core workloads.

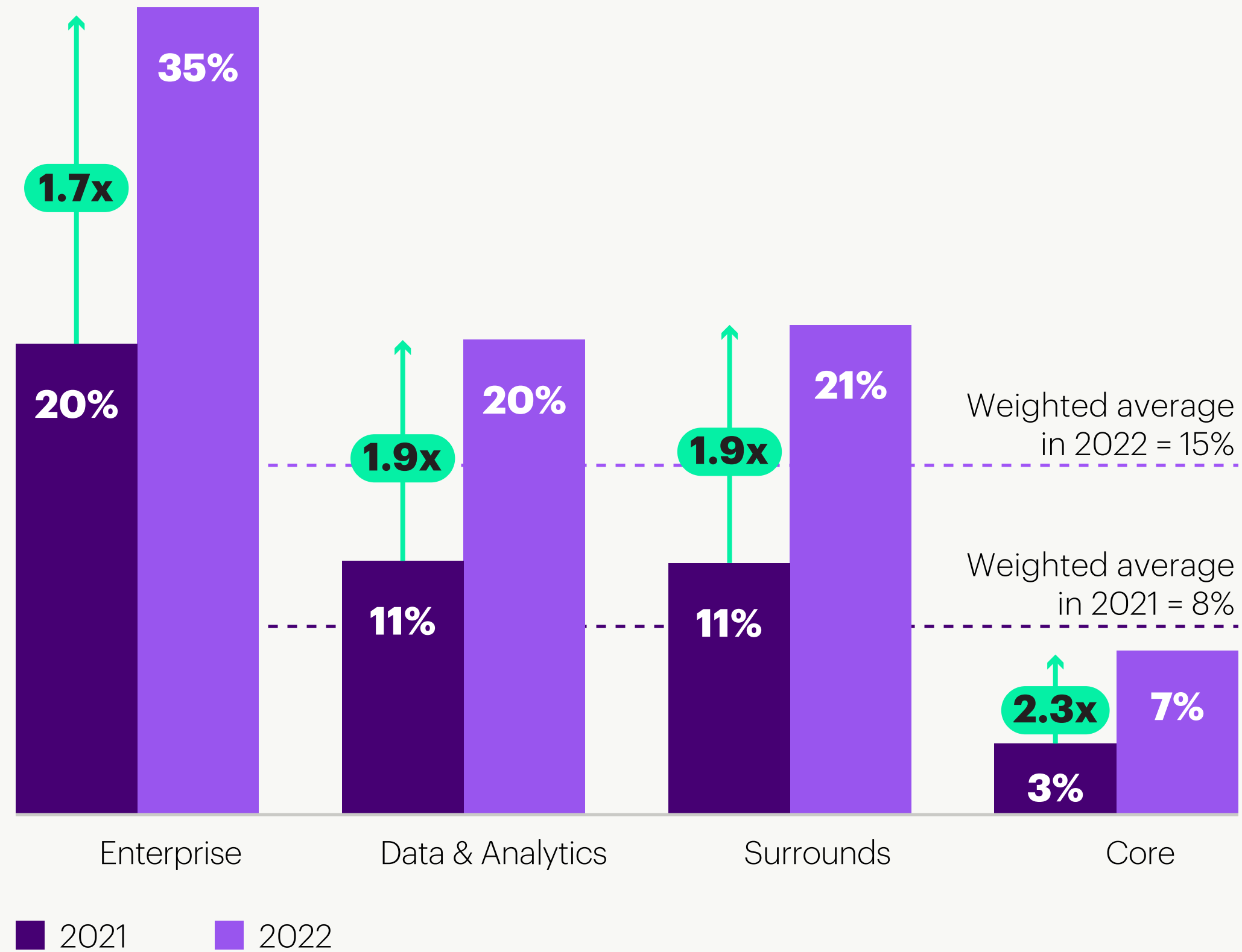
We saw the percentage of total workloads in the cloud increase from a weighted average of 8% to 15% in just one year. However, those workloads represent the “easy wins” that were relatively straightforward for banks to achieve.

The remaining 85% of workloads that have not yet been migrated will be much harder to move. They represent the more complex workloads that remain trapped in legacy systems. Clearly, there are still significant challenges and banks need to carefully calibrate their flight path in order to avoid being stuck in a circling pattern.

Our research identified significant regional differences in cloud adoption across the various functional areas (see next page). North America is the leading region in terms of data and analytics, surrounds and core migration. Across all functions, there appear to be very few banks in the region that are not planning to move their workloads to the cloud.

On the other hand, Europe is leading the pack in the enterprise functional area. But North American banks have plans to expand this area, and many of those in growth markets indicated in our survey that they are planning to move most of their workloads in that area. North America has the most ambitious migration plans when it comes to core applications, while Europe has its sights on migrating data & analytics and growth markets are focusing significant effort on surrounds.

Banks' workloads in the cloud, by functional area (%)

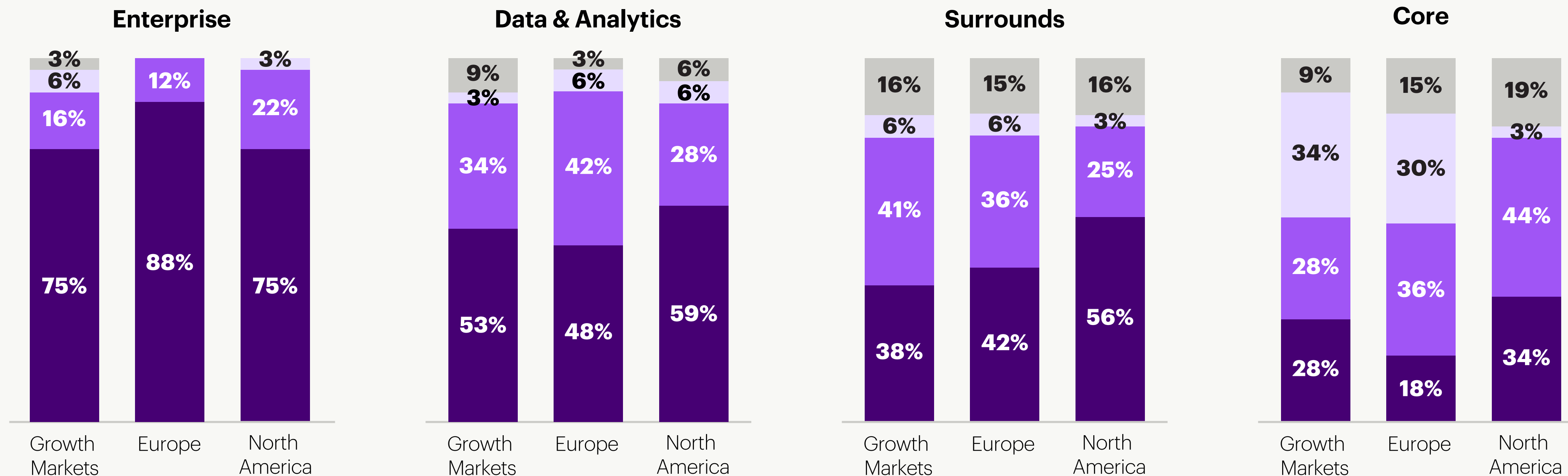


Source: Accenture Research based on Banking Cloud Rotation Index 2022, Banking Cloud Rotation Index 2021

Banks' cloud adoption by functional area and region

Question: Have you entirely or partially migrated your workloads in the following functional areas to the cloud, or are you planning to do so?

■ Yes / Partial ■ Planning to ■ No ■ NA



Source: Accenture Research based on Banking Cloud Rotation Index 2022

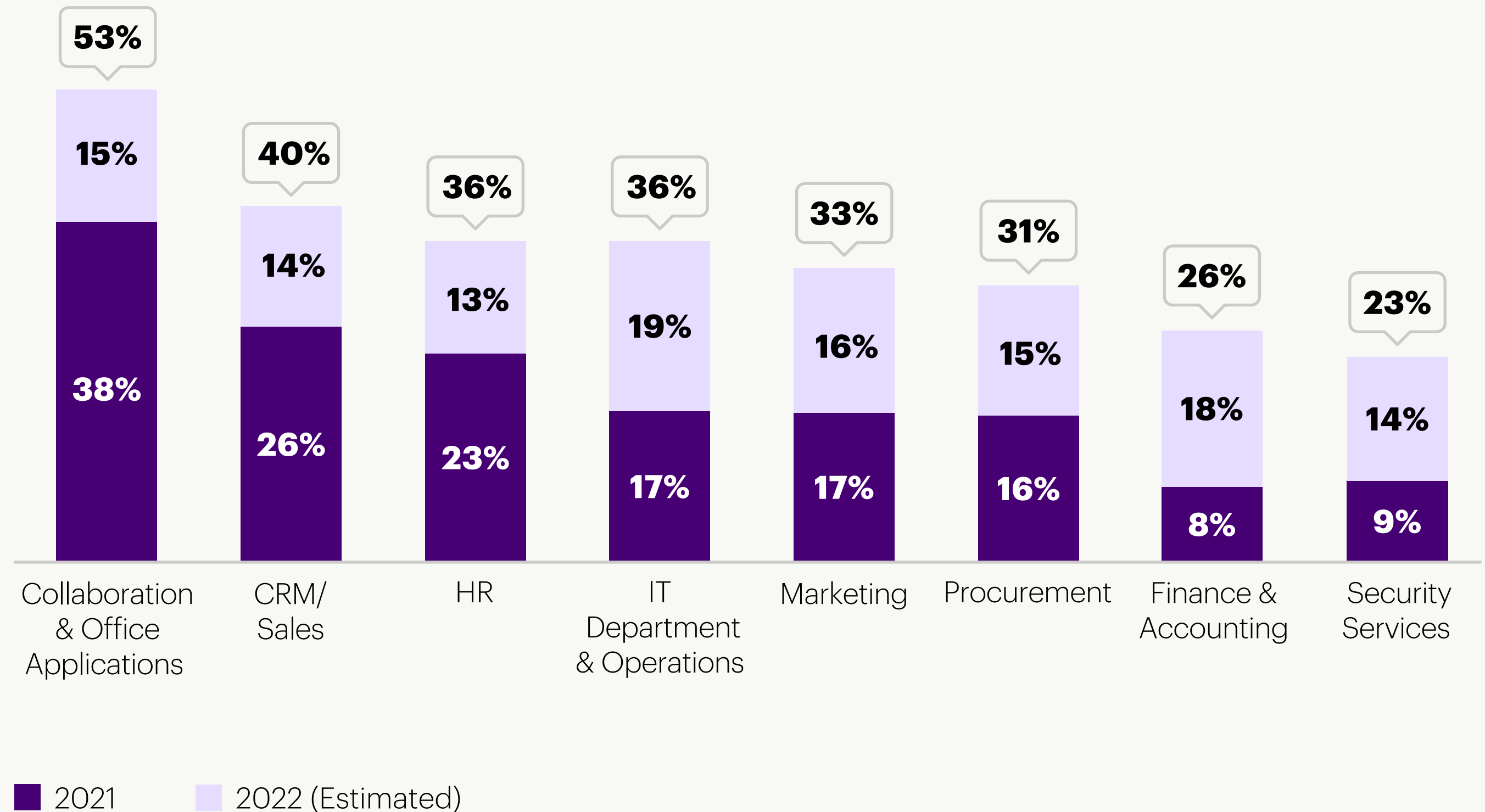
Some functions will reach their destination later than others

Let's take a closer look at what's happening in each functional area to see where banks' challenges are slowing progress.

Enterprise

A lot of the workloads that have already been moved to the cloud fall into the enterprise category, and are some of the easiest to move. It's the most advanced of the functional areas: around 79% of the banks in our research have at least partially migrated their enterprise applications to the cloud. These include systems for IT, collaboration, operations, sales and marketing, human resources and finance. Third-party cloud-based providers are used extensively in many of these areas, which means that the bank has little or no development work to do when it chooses to move its workloads.

The percentage of banks' enterprise workloads migrated to the cloud in 2021 and 2022



Source: Accenture Research based on Banking Cloud Rotation Index 2022

Collaboration & office applications continues to be the leading enterprise segment in terms of workloads migrated to the cloud at 53%, an increase of 15 percentage points since 2021. However, IT & operations has seen the largest year-on-year increase, growing by 16 percentage points to 36%.

Our survey showed that although there are significant enterprise workloads in the cloud, banks are still working on moving these into the public cloud from private and hybrid environments. While 36% of banks we looked at are currently using the public cloud, it is expected that 60% will be operating there in the near future. This demonstrates that even workloads that have already been migrated to the cloud may not yet be in their optimal operating environment.

Data & analytics

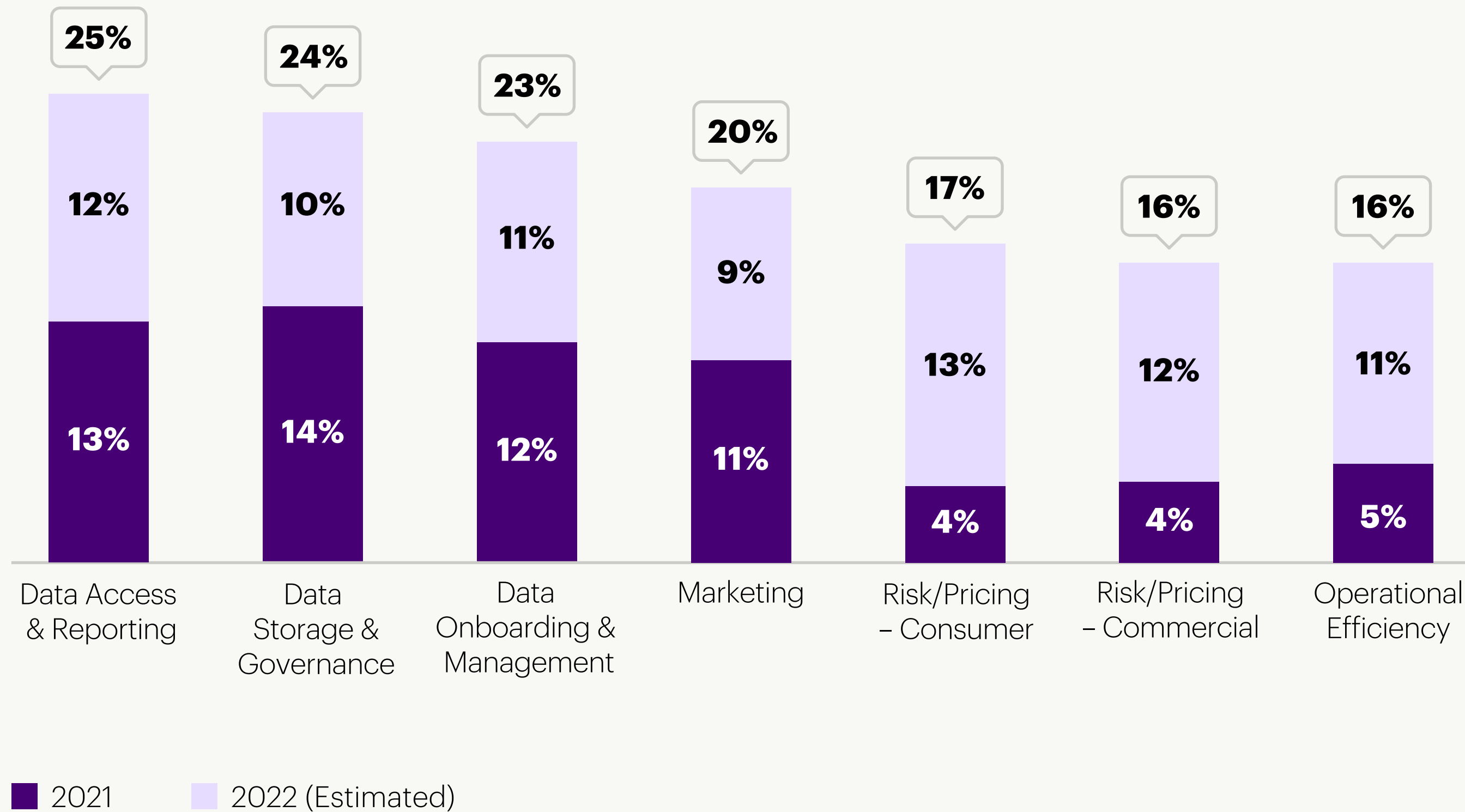
Many banks are prioritizing the move of their data & analytics functions to the cloud because of its strong potential to support revenue growth, which is why it is the second-most migrated functional area after enterprise. Moving data workloads allows banks to optimize their use of machine learning and AI for product customization, which can drive revenue and profit. Although data security and regulatory hurdles remain a concern in some regions, many banks are moving forward and shifting more of their data workloads to the cloud.

Data access & reporting has become the most migrated segment of data & analytics, with 25% of workloads moved to the cloud. This represents an increase of 12 percentage points over last year.

Data storage & governance, as well as data onboarding & management, are close behind, with more than 20% of workloads migrated to the cloud in each area.

However, our survey reveals that only 20% of total data workloads have been migrated so far. Because data privacy is a major issue for banks, 33% of respondents are currently using the private cloud for data workloads and 42% are using hybrid cloud. Banks would like to see this change—it is expected that 53% of respondents will eventually migrate their data workloads to a hybrid cloud and just 4% will remain in a private cloud.

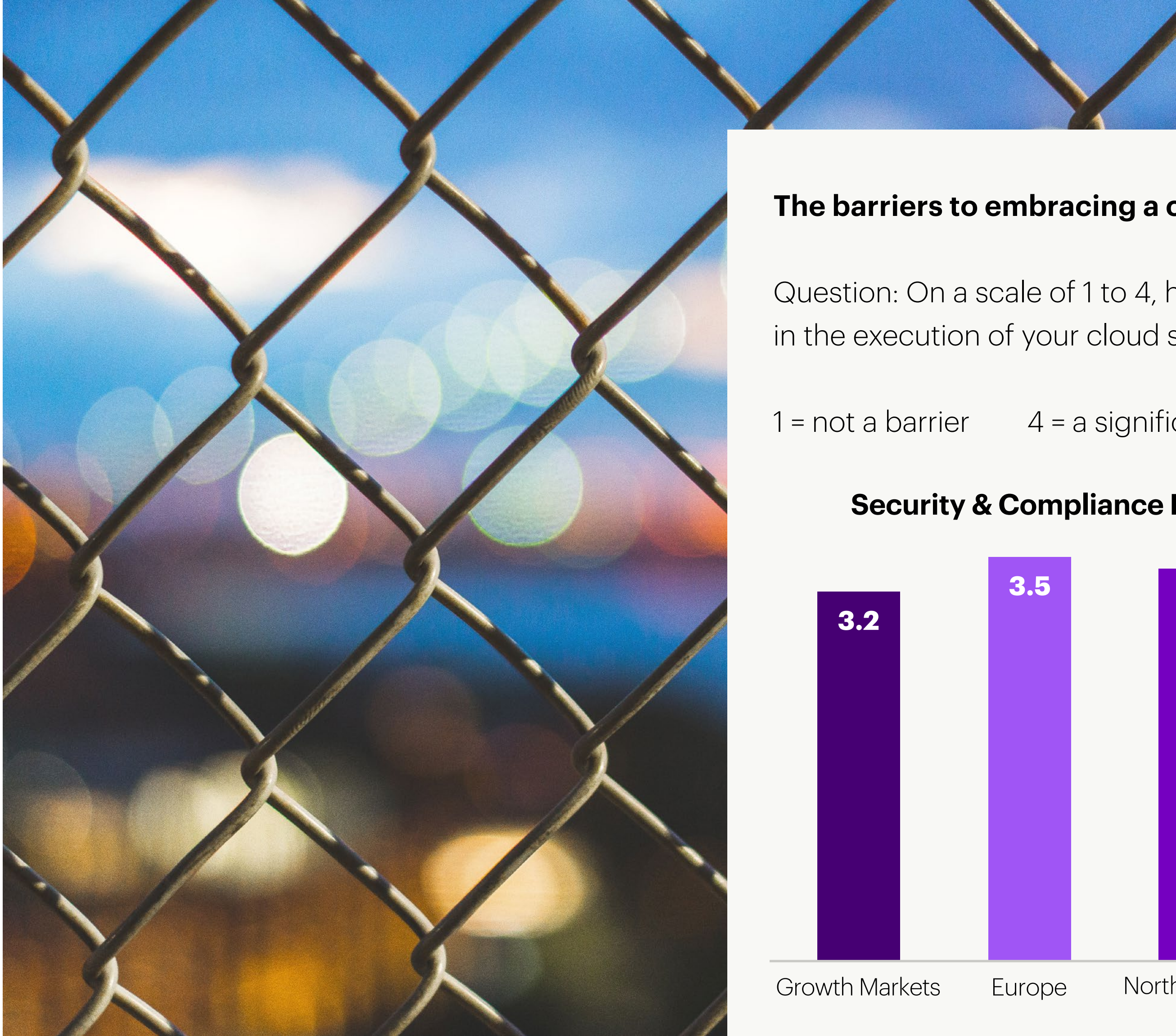
The percentage of banks' data & analytics workloads migrated to the cloud in 2021 and 2022



Source: Accenture Research based on Banking Cloud Rotation Index 2022

The survey results also make it clear that regulatory challenges are slowing the migration of data workloads in certain regions. Europe is trailing North America by 9 percentage points and growth markets by 12 percentage points due to the EU's tight data privacy regulations.

In addition to regulatory hurdles, our survey identified the complexities of organizational change as one of the biggest challenges to embracing a cloud strategy. Tackling the complexity of the bank-wide culture shift required to make full use of data & analytics has to begin with the bank's leadership and should be approached as a change management project.

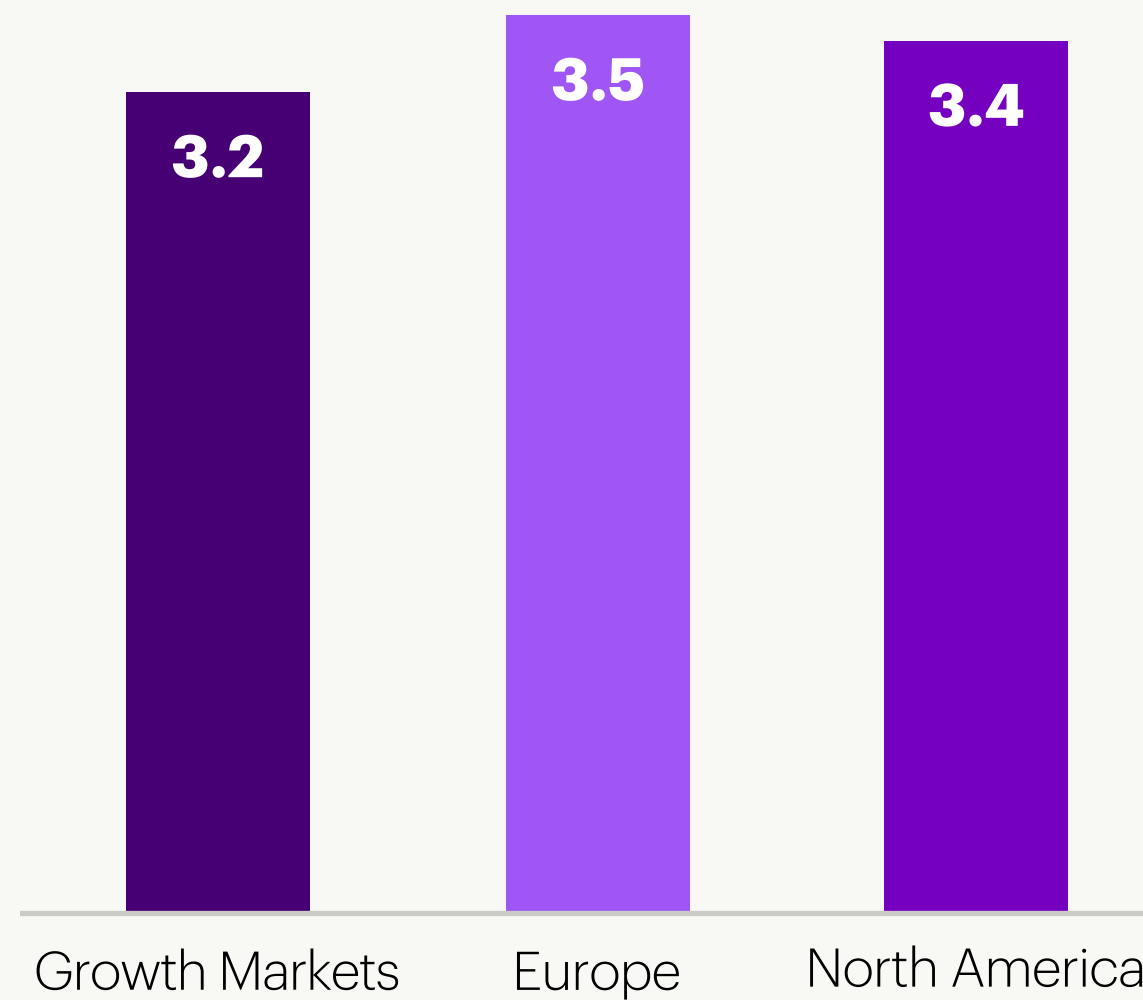


The barriers to embracing a cloud strategy

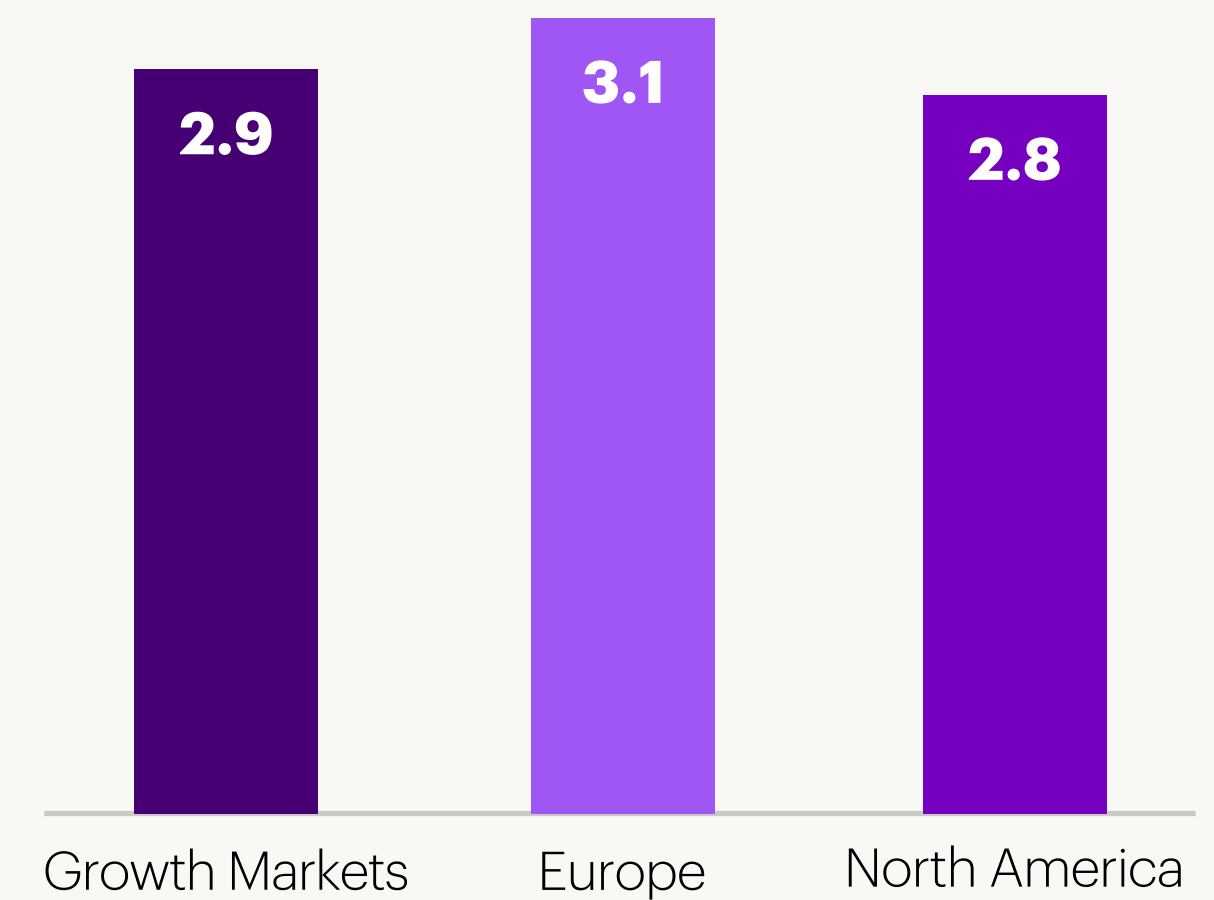
Question: On a scale of 1 to 4, how serious a barrier are the following two issues in the execution of your cloud strategy?

1 = not a barrier 4 = a significant barrier

Security & Compliance Risk



Data Sovereignty Concerns, Privacy and Regulations



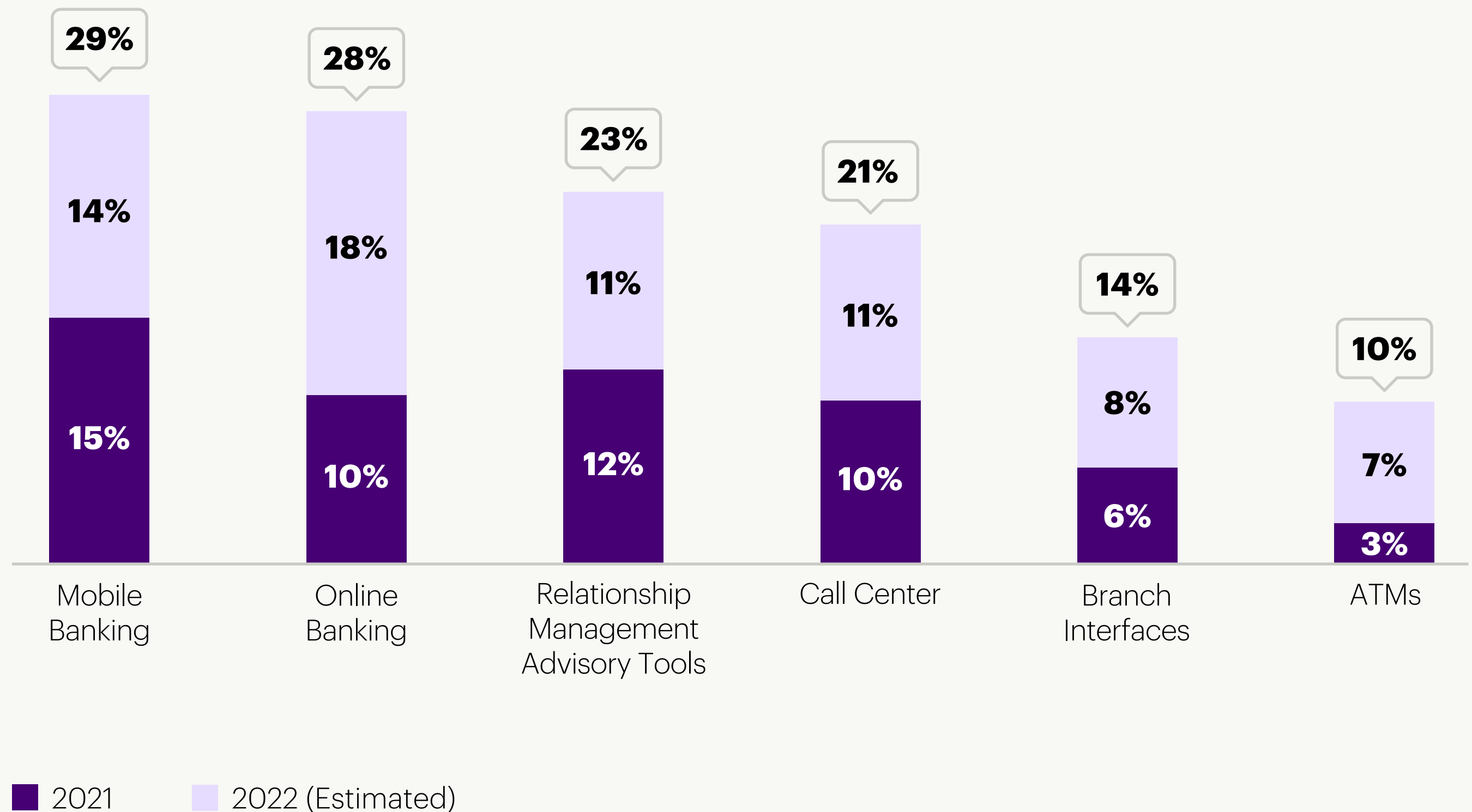
Source: Accenture Research based on Banking Cloud Rotation Index 2022

Surrounds

The migration of workloads connected to surrounds—that is, the technology for customer interactions such as ATMs, online banking, mobile banking, call centers and relationship management tools—is progressing at roughly the same rate as data & analytics. Many banks pushed forward more aggressively with this transition over the past couple of years to serve customers better during the pandemic, but the complexity of migrating surrounds functions without risking customer down-time presents a challenge to banks.

Mobile banking is leading the charge in the surrounds functional area, with 29% of workloads already migrated to the cloud, closely followed by online banking. Both of these segments also show large increases in workloads migrated in comparison to 2021, growing by 14 and 18 percentage points respectively.

The percentage of banks' surrounds workloads migrated to the cloud in 2021 and 2022



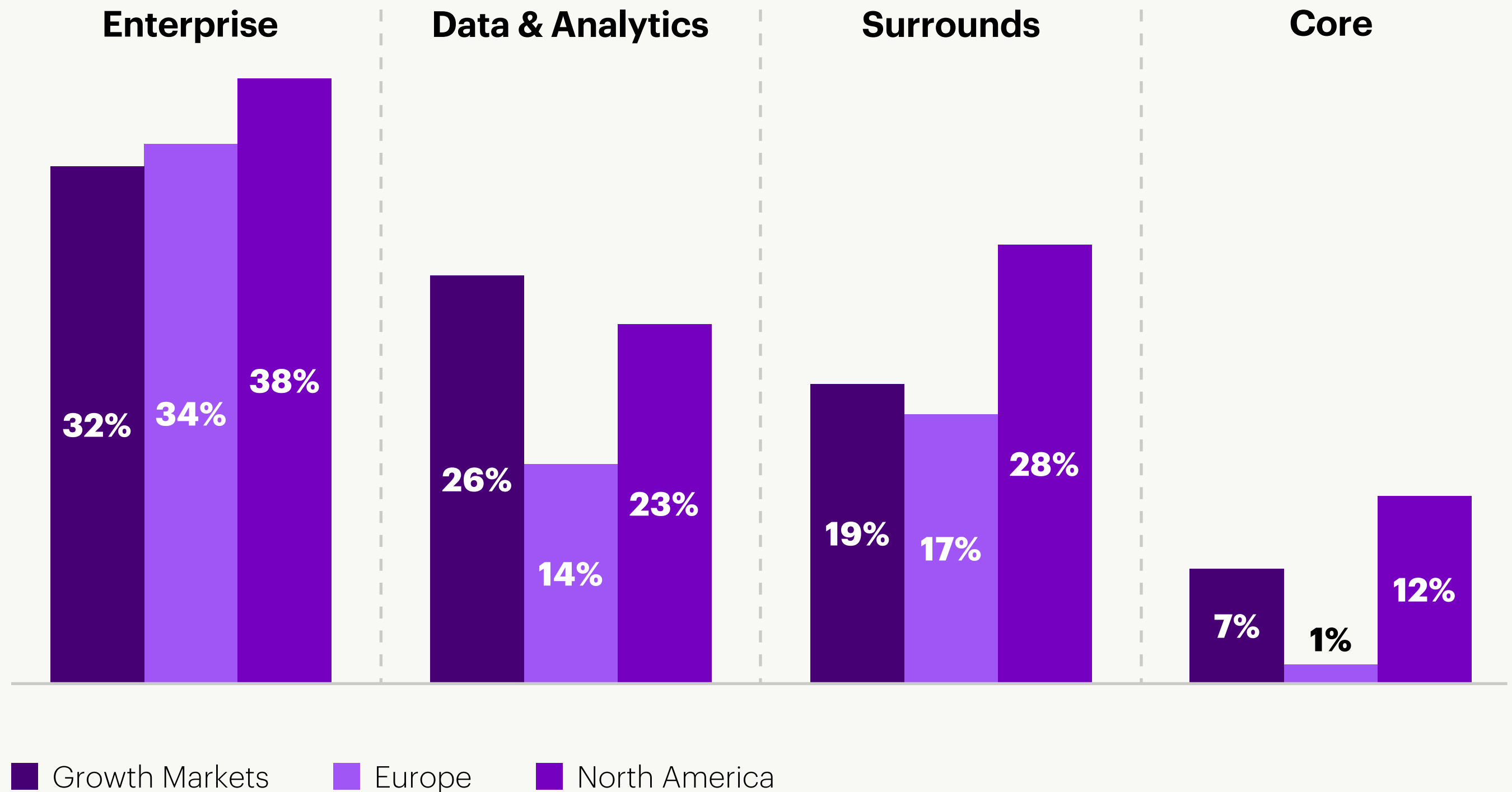
Source: Accenture Research based on Banking Cloud Rotation Index 2022

Our survey found that the banks still waiting to undertake this migration are hesitant to take the plunge. Almost two-thirds of respondents (65%) have a planned timeline for the migration of surrounds that is longer than 12 months away. A mere 7% were planning to move ahead in 6 months or less.

Core

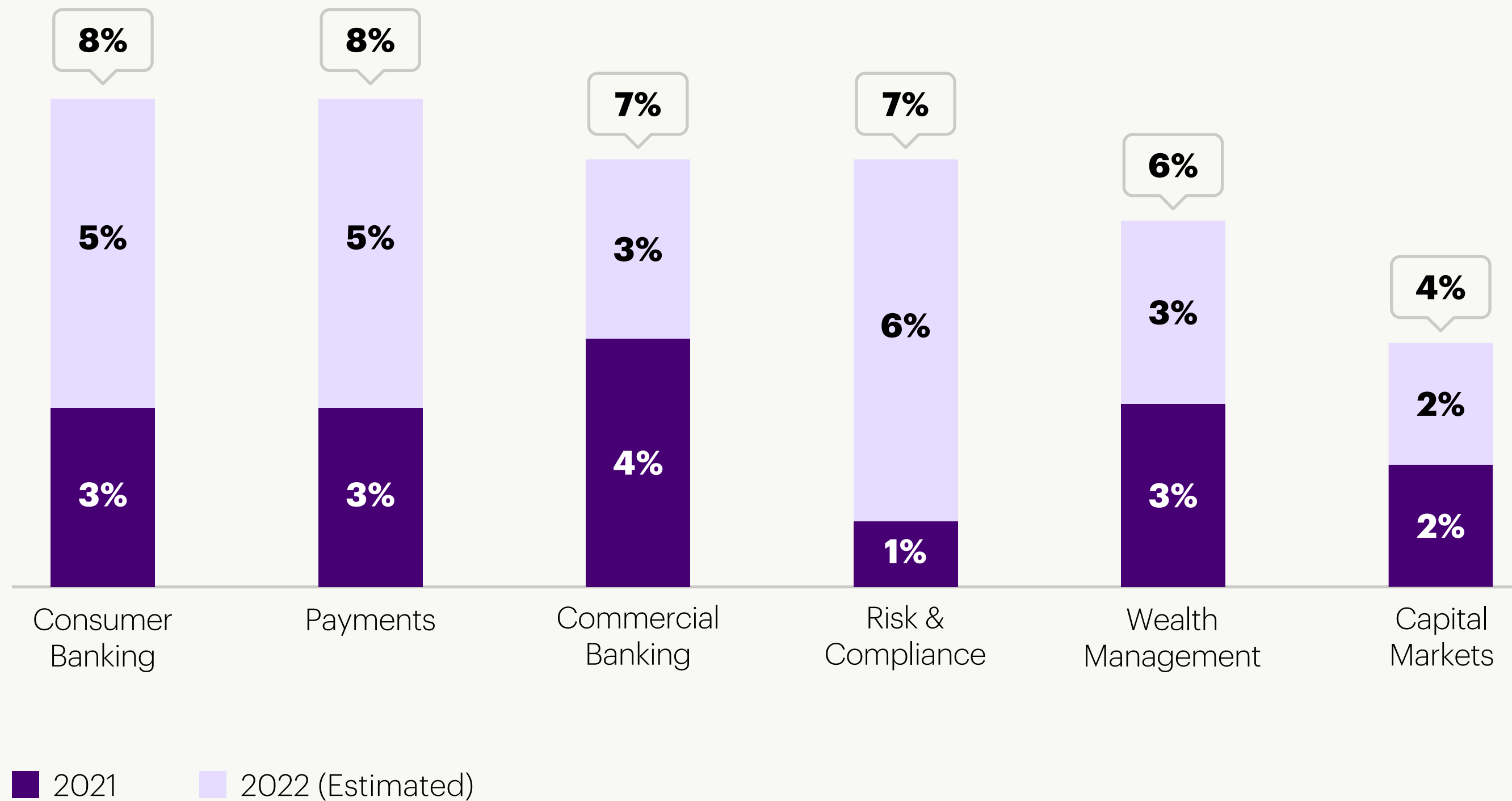
Bank leadership continues to demonstrate a low appetite for risk. Core migration is perceived to be high-risk for several reasons: a lack of staff with cloud expertise to manage these core functions and the difficulty of recruiting the required skills in the current environment; a high level of integration between core applications and other legacy systems that makes the transition complex; the serious implications of any disruption of core functions during the migration; and security issues around protecting core functions that are not on the bank's premises.

The percentage of banks' workloads migrated to the cloud by 2022, by functional area



Source: Accenture Research based on Banking Cloud Rotation Index 2022

The percentage of banks' core workloads migrated to the cloud in 2021 and 2022 by functional area



Source: Accenture Research based on Banking Cloud Rotation Index 2022

Our survey reveals that legacy infrastructure is one of the biggest barriers to embracing a cloud strategy, reflecting the barriers that are specific to core migration. Although impressive progress was made over the past year in moving core workloads to the cloud, this area remains the most challenging for banks: only 7% of core workloads globally are currently in the cloud. In Europe, the figure is only 1%.

These regional differences are driven partly by banks' level of investment in core migration over the last year, but also because banks in North America and Asia are less constrained by data privacy, cyber security and knowledge transfer regulations than their peers in Europe.

Consumer banking and payments stand out as the core segments with the most workloads migrated to the cloud, averaging 8% of workloads in both areas. However, risk & compliance has seen the largest annual increase—6 percentage points in the last year.

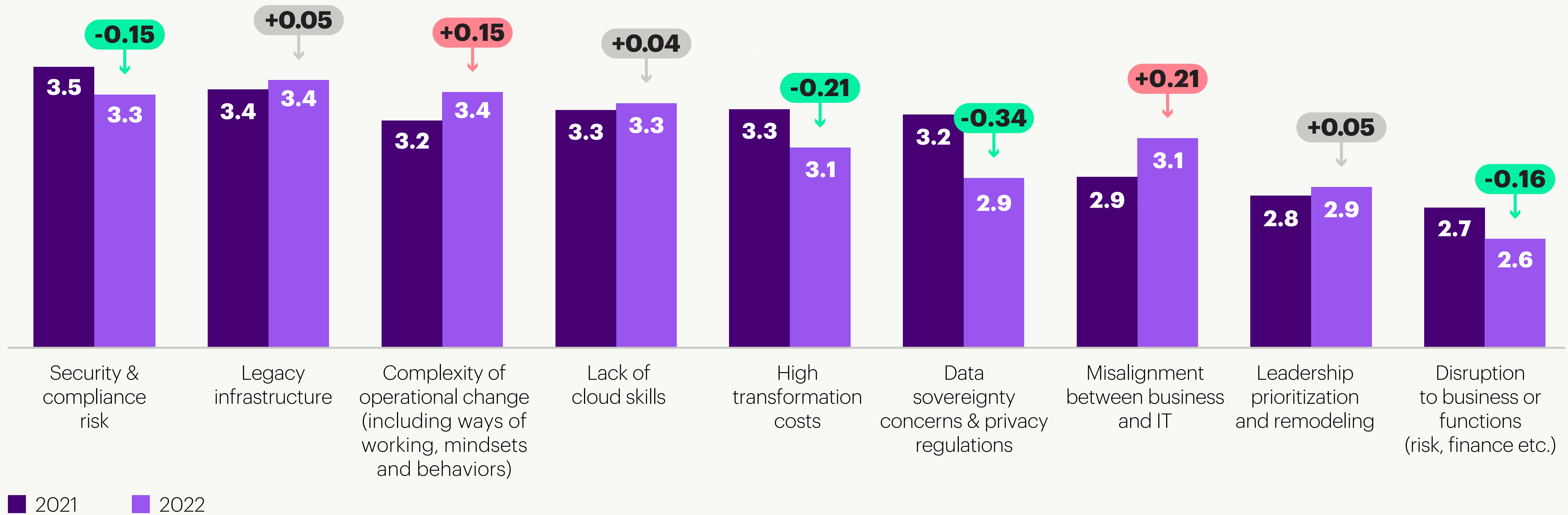
Barriers continue to cause turbulence

While you might assume that the barriers facing banks in their cloud journey would generally decrease year on year as more banks get a handle on them, this is not what we've found in our survey.

Of the nine challenges we asked about, only four showed a measurable decrease from 2021 to 2022. Of the remaining five challenges, three stayed essentially unchanged and two actually became more of an issue.

The barriers to embracing a cloud strategy

Question: On a scale of 1 to 4, how serious a barrier are the following issues in the execution of your cloud strategy?
 1 = not a barrier 4 = a significant barrier



Source: Accenture Research based on Banking Cloud Rotation Index 2022

However, our survey revealed that the cost of transformation is becoming less of a barrier for banks. In today's higher-interest-rate environment, we expect banks to have more money available to put toward the transition to cloud. This should help them hit the accelerator in areas where the main hurdles have been cleared. New tools are also emerging to help make the journey to cloud smoother and faster for banks.

Unfortunately, just throwing money at the remaining barriers isn't going to fix them. Proper planning is needed to navigate the issues and shift banks' cloud migration into high gear.

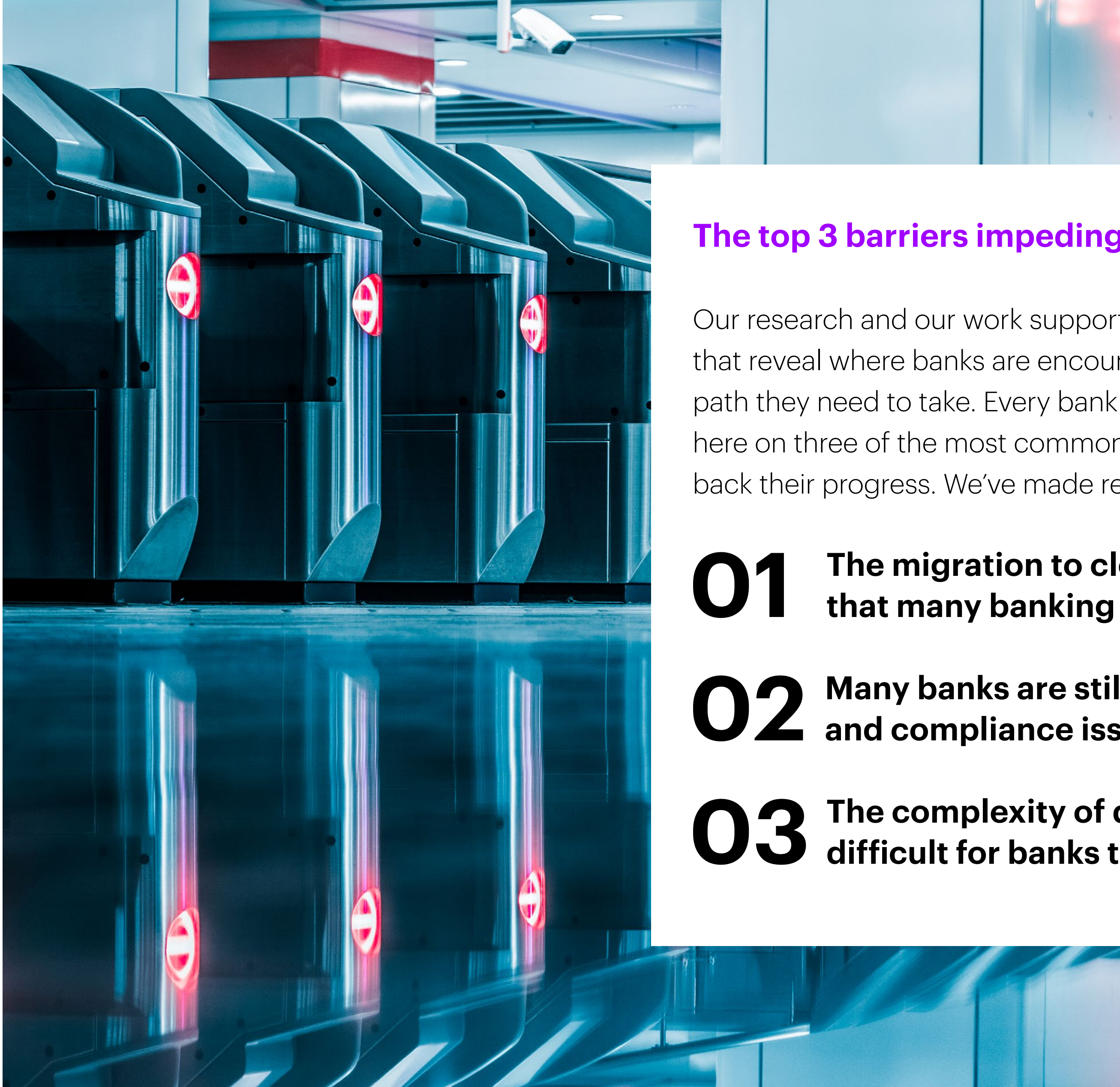
Overall, we're seeing more banks accelerate their move to the cloud, and we expect the speed to continue increasing as more banks commit to a fully developed transformation plan. This, in turn, should fuel innovation and facilitate new channels for banks' business.

According to our survey, banks are looking to the cloud to increase their speed and agility, save them money and facilitate innovation and improvements to their customer experience. But for now, progress remains slower than banks might have hoped. To move forward at speed, they need to overcome some key challenges that are causing turbulence and proving difficult to navigate.

“Time spent on detailed scenario mapping and on an intelligent strategy before making the leap can pay major dividends.”

Mike Abbott

Accenture Global Banking Lead



The top 3 barriers impeding cloud migration

Our research and our work supporting clients on this journey have identified patterns that reveal where banks are encountering roadblocks or struggling to clearly see the path they need to take. Every bank has unique needs and issues, but we've focused here on three of the most common challenges that banks identified as holding back their progress. We've made recommendations to address each one.

- 01 The migration to cloud has been progressing so slowly that many banking leaders struggle to see the business value**
- 02 Many banks are still struggling with security and compliance issues**
- 03 The complexity of distributed cloud systems is proving difficult for banks to effectively monitor and control**

01 The migration to cloud has been progressing so slowly that many banking leaders struggle to see the business value

If business units within the bank can't see the full value they will get from moving workloads to the cloud, there is little incentive to commit more resources to accelerating the migration. That's why it's so important to frame the journey to cloud as a project led by business value, with the technology following suit, to achieve the bank's business goals. All too often it's the other way around, with infrastructure decisions determining what's available to business units.

As banks discuss the journey to cloud at the C-suite level, every business unit must be provided with a clear picture of the additional functionality, speed and efficiency that will be unlocked when their workloads are migrated to the cloud. Banks that develop a broad and aspirational vision of their future productivity, products and

services will find it easier to get bank-wide commitment to a faster migration to cloud.

57% of survey respondents said that revenue growth was a motivating factor for them to move their data functions to the cloud.

64% said that cost reduction was a motivating factor for them to move their core to the cloud.

Banks will only gain the full benefit of moving more workloads to the cloud if they then transform their front office and reimagine everything they do, from product innovation to servicing and distribution. Operating in the cloud can help banks break down their monolithic systems and make their

services available to anyone, anywhere, anytime. Bank branches, websites and apps are considered too limiting for customers—they want to buy, save, invest and borrow in super-apps, on gaming platforms, in the metaverse and anywhere else they choose. Rather than requiring customers to come to them, banks that have embraced the full capabilities of the cloud can meet their customers wherever they prefer.

Recommendation

Reframe the case for a timely migration to cloud as an opportunity to maximize business value. Banks that modernize their legacy platforms should be able to speed up innovation and optimize their use of data to personalize more of their offerings.

02 Many banks are still struggling with security and compliance issues

Data sovereignty, regulatory compliance and other risk issues are slowing banks down when it comes to migrating workloads, and in some cases preventing them from making any meaningful progress on their cloud migration. The reason is that they lack the necessary security controls.

Solving for security must start at the earliest stages of planning a cloud migration, with leaders making fundamental choices about the system and structure that will smooth their road to compliance. This requires decisive action driven by purpose, rather than debating the options in an open-ended way. Otherwise, the planning stages can drag on for years.

Implementing embedded and automated controls can create a safe environment for mass consumption by the bank's development community. With the right controls in place, innovation won't be constrained or slowed by security issues. This is critical in an environment where talent is scarce, and banks need new developers to quickly become productive using their systems.

These concerns are gradually becoming less of an obstacle for banks as pre-made security solutions are improved. In 2021, security and compliance risk was the single biggest barrier identified by banks, but in 2022 it fell back to third place. Nonetheless, it remains a significant issue.

Recommendation

Establish a developer experience platform that provides a safe environment for the creation of cloud services and products.

03 The complexity of distributed cloud systems is proving difficult for banks to effectively monitor and control

Observability is proving a challenge for many banks as they replace on-prem mainframes with cloud-based alternatives. The distributed and heterogenous nature of cloud services can make it more difficult to see clearly what kinds of cause and effect are taking place across the back end.

This in turn can make it difficult to pinpoint where issues or failures are originating. Our survey identified the complexity of operational change as one of the top challenges for banks as they move workloads into the cloud, and one of the two challenges that became a bigger barrier in 2022 than it was in 2021.

70%
of banks have a multi-cloud strategy

Recommendation

Banks can implement “observability by design” by using tools that allow them to watch and understand what’s happening throughout their cloud-based systems, and to pinpoint problems quickly and precisely. By building in observability from the beginning, banks can make their systems provably resilient. Doing this will require monitoring beyond the bank’s infrastructure to include all applications and business processes across multiple cloud providers and on-site systems.

Navigating through turbulence in the cloud to reach cruising speed

Which flight paths are leading banks in the right direction?

A decisive, well-planned cloud journey should act as a powerful accelerant that can transform the entire banking value chain. Banks that are getting it right are focusing on unlocking that business value by leveraging the cloud to reimagine their business in three areas: distribution, product innovation and servicing models.



Distribution

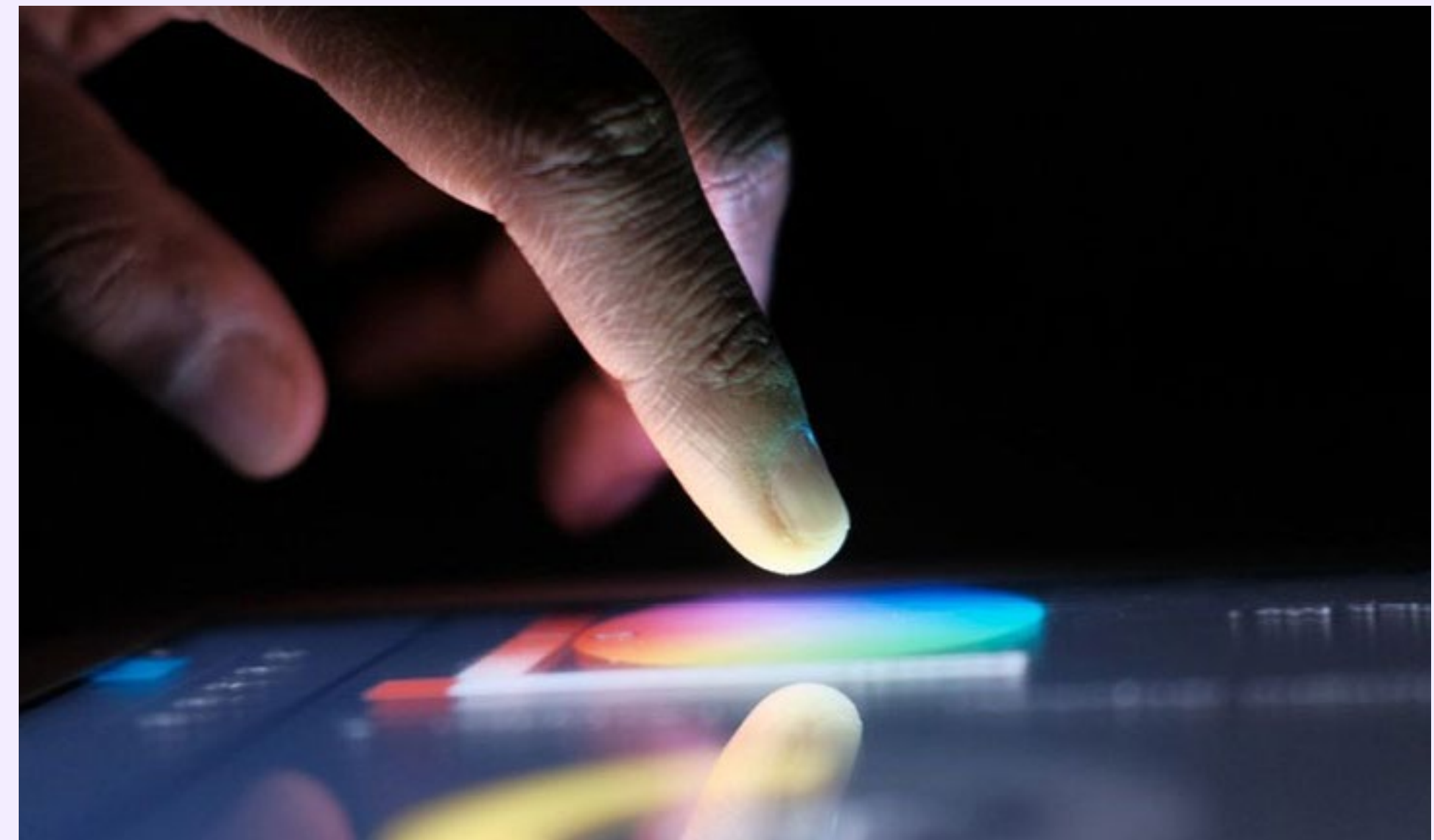
Customer expectations have evolved quickly over the past few years, and new competitors are taking advantage of slow-moving incumbents to grab customer share by being in the right place at the right time with the right offer.

Banks that offer truly digital, embedded banking that goes beyond the bank's own branded channels will be able to meet customers where they are, with offers and services that are relevant in each specific context. Basically, banks need to predict the needs of customers and present the right solution at the right moment.

These new distribution channels will be easier to access for banks that have focused their cloud migration on easily integrated surrounds and started taking advantage of industry cloud applications that are compatible with a wide array of platforms.

CASE STUDY

A financial services brand looked to Accenture for help in creating a rewards and loyalty application. In less than three months, the brand was able to launch its first customer-facing application, helping to expand its reach and representing the future of its digital banking proposition.



 **Product innovation**

One-size-fits-all banking products are not good enough in today's market. It's more important than ever to know your customer, and to offer a customized product to meet their individual needs. Products that are highly personalized, and offers that are convenient and timely for the customer, can drive revenue growth through monetization.

Banks that focus on migrating their data & analytics workloads and applying the right AI tools are making this personalization possible. They will have a better chance of attracting and retaining customers in this competitive environment.

CASE STUDY

Siam Commercial Bank undertook a multi-year transformation journey to jumpstart its business. It used a constant stream of data-derived insights to reinvent its approach and customer experience. Migrating its data lake to the cloud reduced the bank's data storage costs while enabling specific functions for retail banking to apply customer insights to serve their individual needs. Centralizing institutional knowledge also supported knowledge retention and continuous improvement.

In the bank's unsecured lending business, data-driven digital marketing generated 10% more campaign responses and a threefold improvement on their model. Automation reduced manual processes by 40%, improved accuracy and accelerated loan approvals and processing, securing higher customer satisfaction while effectively managing risks.



01 Servicing models

Legacy servicing models can make an investment in new technology seem like wasted money. To gain business value from a cloud migration, banks must change the way their people work: make the most of automation, real-time data and other new functionality. By upskilling their employees to use new dashboards and other cloud-based tools, banks will benefit from enhanced productivity and the ability to serve customers better.

Automating more processes will also help employees to focus their attention on adding value rather than getting bogged down in repetitive tasks.

02 CASE STUDY

A bank was locked in to a limited set of mainframe vendors and a shrinking labor pool of mainframe architects and engineers, restricting its ability to create new products and services at speed.

The bank is migrating its core to its private cloud, while preserving the existing application code, data model and mainframe functionalities. In addition to gaining the typical benefits of cloud—flexibility, resilience and efficiency (including a 40% reduction in TCO)—the bank expects to make better use of its data and to ease its shortage of skilled personnel, while maintaining the foundation of its core applications.

How “industry cloud” will shift the journey to cloud into high gear

The way banks approach their journey to cloud is evolving. We spoke with Avinash Rao, the global lead for Accenture’s Cloud First business in Banking & Financial Services, about the emergence of industry cloud and how it will affect banks as they attempt to speed up their cloud migration.



Avinash Rao
Managing Director –
Global Banking Cloud Lead,
Accenture

Avi advises senior executives on digital and technology-enabled transformation in financial services. He considers the cloud re-platforming event to be a once in a generation opportunity to unbundle the firm and reimagine how it serves its customers.

Q: What is industry cloud, and how does it apply to the banking industry?

A: Industry cloud simply means cloud-based services that are pre-configured to meet the needs of a particular industry—in this case, banking and other financial services.

Q: How is industry cloud different from the cloud service providers (CSPs) that banks have been using?

A: Most banks have acquired public or private cloud servers that provide a foundation for storing data and making computation power available as needed. Their own developers then build systems and applications on top of that foundation, which requires time and very specific skills (which have been hard to find and recruit). Industry cloud provides pre-made applications that are closer to “plug and play” functionality for banking, making them available directly through the CSP.

Q: What are the advantages of using industry cloud solutions?

A: Instead of each bank trying to reinvent the wheel with its own applications, common functions can be purchased ready to use. This helps banks in several ways:

- 1. It saves time**, since they don't need to develop their solutions from scratch.
- 2. It overcomes the shortage of cloud-experienced talent**, since they won't need as many developers.
- 3. It saves money**, because premade solutions are generally less expensive to implement and maintain than bespoke solutions. The development cost is spread across all the businesses using the solution, rather than falling on one bank.

Q: What kinds of applications are going to be available to banks through industry cloud?

A: We're already seeing commonly needed applications like payments as a service,

know-your-customer as a service, platform as a service and other solutions being offered as business building blocks within a banking cloud ecosystem. This ecosystem will continue to grow and develop, and banks can help create the flight path for these applications from the demand side—the sky's the limit!

Q: What's the timeline for this transition from mainly custom builds to widespread use of industry cloud ecosystems for banking?

A: We expect the shift to happen within the next three years. We are already seeing the first steps in this direction, and things are going to move very quickly toward industry cloud. We can already see the hyper-scalers heading this way. Microsoft Azure now offers a financial services cloud plug-in, for example. Google and AWS are heading in a similar direction.



Ultimate guide to banking in the cloud

Nicole Lanza, Accenture’s North America Banking Cloud Lead, offers a crash course on the journey to cloud, all in one place. Banks that are pulling together their master plans for migration to the cloud will find answers to their most pressing questions.

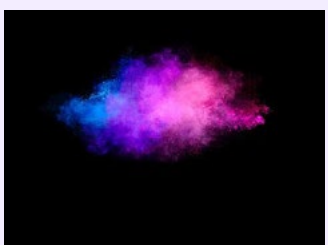
[Read the guide here](#)



Four steps for a cloud-ready talent system in banking

A shortage of talent with cloud skills is one of the key factors slowing the journey to cloud. In her recent blog post, Dr. Bridie Fanning discusses how banks can approach the talent challenge to avoid technological transformation being held back by staffing shortages.

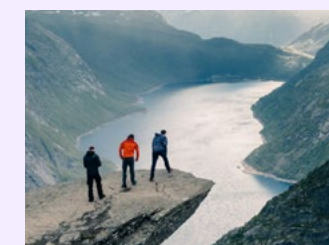
[Read about it here](#)



Top 10 cloud transformation lessons for 2022

Michael Abbott, Accenture’s Global Banking Lead, presents lessons learned from helping banks all over the world unleash the full potential of the cloud.

[Read about it here](#)



Closing the cloud value gap with FinOps

Kamran Ikram discusses the importance of Cloud FinOps and its impact on organizations trying to realize value from their cloud investments.

[Read about it here](#)



Avinash Rao

Managing Director –
Global Banking Cloud Lead,
Accenture



Nicole Lanza

Managing Director –
Banking Cloud Lead,
North America, Accenture



Frédéric Brunier

Managing Director –
Banking Cloud Lead,
Europe, Accenture



Bhupendra Warathe

Managing Director –
Banking Cloud Lead,
Growth Markets, Accenture



Alejandro Borgo

Accenture Research Lead –
Banking Cloud

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